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ADR AND INTELLECTUAL PROPERTY: A PRUDENT OPTION

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I. HISTORICAL PERSPECTIVE

Intellectual property cases are relatively new to the world of alternative dispute resolution, commonly known as ADR. The exclusion of intellectual property from ADR was originally by design, rather than by accident. For various public policy reasons, intellectual property cases could not be resolved using ADR. [n.1] Until 1982, when Congress passed legislation which permitted arbitration of patent disputes, most attorneys believed that intellectual property cases could only be resolved through litigation. [n.2]

By the 1990s, the courts actively encouraged the use of ADR to resolve disputes. The Civil Justice Reform Act of 1990, [n.3] encourages courts to consider "inexpensive resolution of disputes," and the Administrative Dispute Resolution Act of 1990, [n.4] requires all federal agencies to use ADR. These two pieces of legislation completed the foundation for widespread use of ADR.

*602 International ADR is rapidly gaining acceptance as more intellectual property organizations embrace these processes. Although the American Intellectual Property Law Association (AIPLA) and the World Intellectual Property Organization (WIPO) are relative newcomers to ADR, and their rules are still in the evolutionary stages, both endorse the ADR process through their education programs and encourage attorneys to use ADR.

ADR has been used by many cultures throughout history. For hundreds of years, Native American tribes have utilized peace counsels, which bear a strong resemblance to present day mediation. Various forms of other ADR processes have roots which extend into the colonial period. George Washington's will contained an arbitration clause to resolve any dispute which might arise from distribution of the proceeds of his estate. In Europe, ADR's roots go back to the thirteenth century where a form of mediation was used to resolve community conflicts in medieval France. In Asia and various Pacific Rim countries, ADR has roots that go back many centuries. The Chinese have used mediation to resolve most interpersonal disputes for nearly 2000 years.

II. POPULAR ADR PROCESSES SUITED FOR INTELLECTUAL PROPERTY DISPUTES

There are well over sixteen distinct ADR processes currently in use. [n.5] Many of these processes have been developed as hybrids from three basic models: processes involving only the disputing parties (negotiation), processes involving a neutral, non-decision-maker (mediation), and processes involving a decision-maker (arbitration).

III. NEGOTIATION

Negotiation is always available to participants in a dispute, and is often an excellent process. Negotiation may enable disputing parties to construct an agreement without using any other form of ADR or finding it necessary to file a lawsuit. Negotiation skills are used on a daily basis by most intellectual property attorneys. This process provides an orderly method of defining a problem, outlining the interests which must be met, and persuading others to agree to a resolution.

*603 IV. MEDIATION

Mediation, which is derived from the Latin medius, or middle, is a facilitated negotiation. A neutral third party, the mediator, creates a productive environment for negotiation. "Often, parties who would not settle on their own come to a resolution because a neutral person, uninvolved emotionally, manages the process." [n.6] A skilled mediator knows how to promote communication and break impasse. Unlike a conciliator, who is not necessarily neutral, a mediator must always remain impartial. Mediation is appropriate for most intellectual property cases; especially those where benefits for maintaining ongoing business relationships are important, such as in most licensing situations.

Mediators' styles can vary greatly; some are skilled at empowering the parties to develop their own creative and meaningful solutions, while other mediators are directive and permit little face-to-face negotiation between the parties. Since there are few skilled mediators who are fluent in current technology areas and who have an appreciation or understanding of the applicable intellectual property law, it is often appropriate to use the co- mediation model. This model enables the parties to enjoy the benefit of the neutrals being skilled, experienced, and informed with respect to the mediation process, the technology area, and the applicable law. Although the hourly rate is higher for co-mediation, the process often takes less time, and results in a lower total cost.

V. MINITRIAL

A minitrial is a mediation derivative, and is not an actual trial. This process is ideally suited for disputes between business entities involving patents, licensing, trademarks, trade dress, or copyright issues. One corporate decision-maker from each side of the dispute (e.g. a CEO, President or CFO) listens to presentations. The neutral third party, referred to as an advisor, manages the process. The corporate decision-makers and the advisor listen to abbreviated presentations and evidence summaries from each side. "Following all of the presentations, direct negotiations take place between the executives during which the advisor may or may not be present. The advisor may manage the negotiation process, and failing agreement between the parties, may be asked to give an opinion." [n.7] "It is not uncommon for the parties then to negotiate *604 further and on the strength of the advisor's opinion, to reach settlement." [n.8]

VI. ARBITRATION

Arbitration is the most formal of the many different ADR processes. Although the traditional rules of evidence are relaxed at an arbitration, the parties attempt to convince the arbitrator or arbitrators of the merit of their positions. Decisions by the arbitrator may be either non-binding (advisory) or binding. Binding decisions have the same effect as a decision by the court. In fact, an arbitrator's decision may have more impact than a judge's ruling. A judge's decision may be overturned for a variety of reasons, but an arbitrator's decision can only be overturned on limited grounds. [n.9] A mistake in fact or law by the arbitrator is insufficient grounds to overturn an award.

VII. BENEFITS TO INTELLECTUAL PROPERTY CASES

Traditionally, most forms of ADR are considered faster and more cost effective than going to trial. These processes facilitate settlement before hostilities escalate and litigation is initiated. In some instances, arbitration of minitrials or large, complex, multiparty or international cases, may not be inexpensive, but this by no means should be considered an indictment against ADR. It does mean that individuals recommending or considering ADR must have a sufficient understanding before venturing into a particular process. [n.10] For intellectual property disputes, the most significant benefits often are conservation of resources, confidentiality, control over selecting and tailoring the process, selecting the neutral, and determining the outcome.

VIII. CONSERVATION OF RESOURCES

The costs involved in litigating complex intellectual property cases, especially patent infringement cases, can be significant for a client. Litigation costs related to attorney fees can exceed $1,000,000, as determined from a review of decisions on patent damages reported during *605 the years 1982-1992. [n.11] By educating clients on the various ADR processes, attorneys may significantly affect the cost of resolving their client's disputes. Because of crowded court dockets in United States District Courts, it may take a

long time for intellectual property cases to reach final disposal. [n.12] This time delay is compounded by extensive discovery that is needed to uncover all of the facts related to a dispute. A client's business is likely to be adversely affected by these delays, especially when issues of infringement are present. The longer an infringing competitor's product remains on the market, the greater the potential impact to the client's profits.

IX. CONFIDENTIALITY

Unlike trials, most ADR processes are confidential. In a mediation situation, any evidence produced for the mediation may not be used in a subsequent proceeding involving the same parties, except for evidence that would be discoverable and admissible at trial regardless of the mediation proceeding. This is of great benefit for those intellectual property cases involving trade secrets, such as business or technical information, or for corporations wishing to avoid negative publicity.

X. PROCESS TAILORING

Unlike a trial and its attendant, rigid rules, most ADR processes can be tailored or customized to meet the unique needs of the participants. Savvy attorneys are drafting ADR clauses for inclusion in contracts, so that if disputes were to arise in the future, the ADR process selected will be appropriate for the participants. Under the United States Arbitration Act, written agreements to arbitrate certain disputes are enforceable in court. [n.13] Under the Patent Arbitration Act, agreements to arbitrate "a contract involving a patent or any right under a patent" and disputes "relating to validity or infringement" are enforceable. [n.14] Issues such as discovery, venue, and timing are often negotiated and specifically delineated in the ADR clause.

*606 XI. NEUTRALS

Since parties are notfree to select the judge of their choice in litigation, ADR has the benefit of allowing the parties to select a mutually acceptable neutral. A case that undergoes litigation may also be decided by a jury. Attorneys have expressed fear that a jury may not be able to understand complicated cases. [n.15] The participants in ADR usually select a neutral who has a specific understanding of the issues involved in the particular case. In addition, those selecting the neutral use impartiality, training in and experience with a specific ADR process, availability, and cost as selection criteria.

XII. OUTCOME

The more consensual types of ADR, such as mediation and the minitrial, leave the outcome up to the parties. This allows the parties some flexibility in devising solutions that advance their respective interests. This is in stark contrast to resolving issues by

using predefined legal remedies such as injunctions, money damages, recision, restitution, etc. If the parties do not agree on the terms of a settlement, they are free to pursue the matter in another forum, and that is why mediation is such a satisfying process. Parties who enjoy the freedom of creating a settlement which meets their interests are more likely to honor those agreements. When people are told what to do, such as by a judge or arbitrator, they are often dissatisfied with the outcome, and either do not honor it, or try to get the award changed by using either the appeal process or by filing for a new trial.

XIII. CONCLUSION

In addition to the many benefits that ADR provides to an attorney's clients, judges are seriously looking for new ways to reduce their case loads and are turning to ADR to assist with case management. Referring a case to ADR means that between sixty to eighty percent of the time the case will settle, thus relieving the judge's caseload. Also, many judges who may not have the subject- matter expertise required for intellectual property matters are assigning these cases to neutrals who possess the requisite knowledge. Under the American Bar Association Model Rules of Professional Responsibility, a lawyer "shall explain a *607 matter to the extent reasonably necessary to permit the client to make informed decisions regarding the representation." [n.16] This rule may require a lawyer to explain available ADR processes to a client. To paraphrase Tom Arnold, a dispute is a problem to be solved, rather than a contest to be won. [n.17] ADR, especially mediation, may be the best way to accomplish this goal.

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[n.1]. M. W. Tupman, Arbitration of Intellectual Property Disputes Under U.S. Law, THE ARBITRATION JOURNAL, Dec. 1987 at 3.

[n.2]. 35 U.S.C. § 294 (1994), which authorizes arbitration of patent disputes and requires that notice of any award be given to the Patent Commissioner.

[n.3]. See 28 U.S.C. § § 471-482 (1990).

[n.4]. See 5 U.S.C. § § 564-581 (1990).

[n.5]. Nancy Neal Yeend and John Paul Jones, Making Sense Out Of ADR Alphabet Soup, ORANGE COUNTY LAWYER, August, 1994 at 31.

[n.6]. Id. at 33.

[n.7]. Thomas J. Klitgaard & William E. Mussman, III, High Technology Disputes: The Minitrial as the Emerging Solution, 8 SANTA CLARA COMP. & HIGH TECH. L. J. 1 (1992) (This is one of the clearest articles describing the use of minitrials for resolution of intellectual property matters).

[n.8]. Yeend & Jones, supra note 5, at 33.

[n.9]. United States Arbitration Act, 9 U.S.C. § 10 (1994).

[n.10]. Yeend & Jones, supra note 5, at 31.

[n.11]. Ronald B. Coolley, Overview and Statistical Study of the Law on Patent Damages, 75 J. PAT. & TRADEMARK OFF. SOC'Y 515 (1993).

[n.12]. Tupman, supra note 1.

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[n.15]. Richard B. Schmitt, Juries' Role in Patent Cases Reconsidered, WALL STREET JOURNAL, Feb. 18, 1994, at B6.

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