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*271 WHEN THE DEAL GOES SOUTH: DISPUTE NEGOTIATION AND ADR

Michael A. Lampert
Saul Ewing LLP
Princeton, New Jersey

***273** During the romance no one wants to contemplate divorce, but experience teaches that antenuptial agreements may save stress later. So, too, no one negotiating a business deal wants to contemplate what will happen if the deal goes south, but some time spent discussing the issues in advance may save shouting over the issues later. Moreover, because license agreements are often negotiated as a way to settle an existing intellectual property dispute, the prospect of further contentiousness is all too real.

I. The Default: How Disputes Get Resolved When the Deal is Silent

Typically when a dispute about the meaning or effect of a license agreement occurs, the parties try to work it out. Negotiations between business people are less expensive than if lawyers are involved. Negotiations between business people or business lawyers are usually less acrimonious than if litigators are involved and more likely to produce a new acceptable business arrangement.

If negotiations fail, and the license agreement does not provide otherwise, the parties go to court. Which court depends on the kind of intellectual property and the kind of dispute.

Both patent and copyright disputes lie within the exclusive jurisdiction of the federal courts. But here's a surprise: disputes about patent or copyright *licenses* are not patent or copyright disputes. They are contract disputes. Absent diversity jurisdiction or an argument that the conduct took the dispute entirely out of the agreement, the federal courts are closed to such disputes. For federal trademark disputes there is concurrent ***274** jurisdiction in state and federal courts; for disputes about state trademarks only state courts are open, absent diversity.

Where there is an agreement, it will often be a basis to argue that money damages are adequate and capable of computation by reference to the parties' own agreement. This availability of an adequate remedy at law is usually a bar to injunctive relief. A provision in the agreement stating that money damages are inadequate and permitting injunctive relief is evidence, but does not bind a court to that conclusion.

Absent an expediting order or a basis to seek injunctive relief, the case will become mired in the docket delay of the local court. In federal district court in 2002 the median time from filing to disposition nationally was 8.7 months for civil cases of all types; it was 20.8 months from filing to trial for all types of federal cases. IP cases being more complex than diversity car accidents, they probably usually take longer than these overall medians. State court delays vary widely. Full discovery under the applicable rules will be available and lawyers' fees will accrue at the rate of the second hand on the clock.

In most jurisdictions, at some point, there will be an effort to settle the case. Whether that takes the form of a conference with a judge (magistrate or district) or a court annexed mediation or arbitration is very much a matter of local practice.

Ultimately a jury, if requested, or if not a judge, will hear evidence at a trial and resolve the dispute. There is a right of appeal to a Court of Appeals from a final judgment, and a very slim chance the Supreme Court might grant certiorari.

In both court and private dispute resolution the parties pay counsel. But in private dispute resolution filing fees to the forum

are dramatically more expensive. The daily rate ***275** of arbitrators is either paid jointly by the parties or assessed against the loser, while the taxpayers pay for a judicial decision-maker.

II. Negotiation Between the Parties

Although common sense would suggest that the parties should first try to work out their problems by themselves without third party intervention, emotion often gets in the way of common sense. Thus, it may be prudent to require this common sense step when the deal is negotiated, before emotion reigns.
As John Connor (Sean Connery) notes in the movie Rising Sun "Americans like to fix the blame. The Japanese fix the problem." This procedure is designed to fix the problem, not the blame.
The CPR Institute for Dispute Resolution (described in more detail below) has some proposed alternative language to achieve this goal:

• NEGOTIATION BETWEEN EXECUTIVES

(a) The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between executives who have authority to settle the controversy and who are at a higher level of management than the persons with direct responsibility for administration of this contract. Any party may give the other party written notice of any dispute not resolved in the normal course of business. Within [30] days after delivery of the notice, the receiving party may submit to the other a written response. The notice and the response can include (a) a short statement of each party's position and a summary of arguments supporting that position, and (b) the name and title of the executive who will represent that party and of any other person who will accompany the executive. Within [60] days after delivery of the disputing party's notice, the executives of both parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to attempt to resolve the dispute. All reasonable requests for information made by one party to the other will be honored.
(b) All negotiations pursuant to this clause are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of confidentiality, evidence and professional secrecy.

***276 Commentary**

Negotiation is, of course, the time-honored initial step in attempting to resolve disputes. However, because it can be difficult for the representatives of the parties who are directly involved in a dispute to resolve it, this clause requires, in the event of impasse between the initial negotiators, that the dispute be referred to senior executives of the parties whose presumably greater objectivity may make a successful resolution more likely.

• STEP NEGOTIATIONS

A variant of the ongoing negotiation procedure is the "step negotiation" technique under which the intermediate executives to whom the dispute has been referred will be required, if they are unsuccessful in resolving the problem, to refer the problem to more senior executives. A step negotiation clause would have the same text as Clause 2.2 (a) above, and would add at the end of paragraph (a):
If the matter has not been resolved by these persons within [45] days of the disputing party's notice, the dispute shall be referred to more senior executives of both parties who have authority to settle the dispute and who shall likewise meet to attempt to resolve the dispute.

• ABBREVIATED NEGOTIATION CLAUSE

The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between executives.

Commentary

In simple agreements such as those typically used for routine spot transactions, the parties may prefer a short-form

negotiation clause.
Additional analysis by CPR is available at http://www.cpradr.org. For a British alternative, see http://www.cedr.co.uk/index.php?location=/ library/documents/*.

III. Non-Binding Mediation

Beyond negotiation between the parties directly, often the intercession of a neutral intermediary can help facilitate a negotiation. Since at latest World War II, there have provisions for trained governmental mediators to enter labor negotiations if invited by the parties or directed by a governmental officer. Within the last few years trained private ***277** mediators have begun to become available for a broader range of disputes, including intellectual property disputes. Mediators do not decide anything; rather they act as honest brokers or go-betweens for the parties. They may (but may not, if that's the parties preference) try to suggest innovative middle grounds not obvious to the party. They may (but may not, if that's the parties preference) offer informal opinions about the strengths and weaknesses of each side's positions. They facilitate parties agreeing to resolve the dispute; they do not resolve it for them.
When drafting an agreement, the parties can provide for a required period of negotiation just between the parties, or with a mediator, or both, before resort to binding dispute resolution in court or arbitration. While this may be cost effective and useful in most cases, where the conduct of one party is outrageous, the other party will surely feel frustrated by the delay such a provision will cause.
For example, the American Institute of Architects standard form contract B141 proposes the following language to require mediation, which should be easily adaptable to an IP license:

1.3.4 MEDIATION

1.3.4.1 Any claim, dispute or other matter in question arising out of or related to this Agreement shall be subject to mediation as a condition precedent to arbitration or the institution of legal or equitable proceedings by either party. If such matter relates to or is the subject of a lien arising out of the Architect's services, the Architect may proceed in accordance with applicable law to comply with the lien notice or filing deadlines prior to resolution of the matter by mediation or by arbitration.
1.3.4.2 The Owner and Architect shall endeavor to resolve claims, disputes and other matters in question between them by mediation which, unless the parties mutually agree otherwise, shall be in accordance with the Construction Industry Mediation Rules of the American Association currently in effect. Request for mediation ***278** shall be filed in writing with the other party to this Agreement and the American Arbitration Association. The request may be concurrently with the filing of a demand for arbitration but, in such event, mediation shall proceed in advance of arbitration or legal or equitable proceedings, which shall be stayed pending mediation for a period of 60 days from the date of filing, unless stayed for a longer period by agreement of the parties or court order.
1.3.4.3 The parties share the mediator's fee and any filing fees equally. The mediation shall be held in the place where the Project is located, unless another location is mutually agreed upon. Agreements reached in mediation shall be enforceable as settlement agreements in any court having jurisdiction thereof.

How and where the parties find a mediator will be discussed below, because the available means are similar to those for finding arbitrators.

IV. Binding Arbitration.

Arbitration comes in many flavors: single member, panel, "umpired", moderated, unmoderated, baseball and others. In certain jurisdictions, agreeing to arbitration may mean forsaking certain remedies, such as punitive damages and injunctive relief. A brief outline of the drafting choices follows.
An early issue is how many arbitrators there will be. Providing for a single arbitrator means the parties are subject to the vagaries of that person's view. At common law, three person arbitration meant each party picked an arbitrator, and the two chosen arbitrators picked a "neutral" umpire. A number of organizations providing moderated arbitration (in which the organization, such as the AAA, JAMS, NASD, etc., provide staff support for the arbitration) send the parties a list of potential arbitrators, allow the parties to strike some and rank the rest, and select three arbitrators from the proposed panel based on this.

***279** How the arbitrators will be chosen is a topic the agreement can address directly, either by expressly naming the arbitrators, providing a contractual mechanism to choose arbitrators or by adopting the procedures in one of the moderating organization's rules.

The agreement can also specify whether a moderating organization will be used, and if so, which one. Organizations such as JAMS (http:// www.jamsadr.com) and the American Arbitration Association (http://www.adr.org) have panels of trained arbitrators (and mediators, see above) with backgrounds in various areas of the law, including IP. Two JAMS panelists recently served on a copyright royalty tribunal panel. These organizations also have sets of rules of procedure that can be incorporated by reference. (http:// www.jamsadr.com/rules/comprehensive.asp; http://www.adr.org/index2.1.jsp?JSPssid=15747&JSPsrc=upload_LIVESITE_Rules_Procedures_National_ International_.._.._focusArea_commercial\AAA133current.htm). They have forms of model arbitration provisions for license and other agreements and arbitration pleadings to start the proceedings.

In addition, both of these organizations have professional, full time staffs and offices that provide logistic support. They will create proposed panel lists for arbitrator selection; they will forward communications to prevent ex parte communication; they will provide places for the arbitration to take place and arrange for receipt and storage of exhibits, etc.

About 1979, to further promote alternative dispute resolution a number of large businesses founded the Center for Public Resources. http:// www.cpradr.org/. An attribute of its membership was agreement to ADR, eliminating the need for deal by deal ADR clauses (just as membership in the securities industry self regulatory organizations like ***280** the NASD and the stock exchanges required an advance general agreement to arbitrate certain disputes). It created model rules for dispute resolution; it identified trained mediators and arbitrators, and later provided staff support. Unlike JAMS and AAA, it unbundled these activities; the parties get to choose whether they follow CPR's rules; select a CPR panelist as the mediator or arbitrator; and get CPR staff support. Choosing JAMS or AAA buys these as a package. Thus, if the parties agree, a CPR arbitration can take place anywhere and not have an assigned staff person. Like JAMS and AAA it has specialists in technology, patent and trademark areas.

The parties in their agreement may define the scope of the arbitrator's power. For example, the parties can adopt the so-called "baseball" style arbitration agreement, modeled after the agreement between the baseball union and the owners. In it the parties have a defined period to negotiate; on a date certain they make their last, best offer. If the other side does not accept it, they make brief written submissions to the arbitrator explaining why their number is more reasonable than the other side's. The arbitrator must pick someone's last number. This system promotes a negotiated agreement (if everybody wants to look reasonable to a third party, that should drive the parties together). It lets everybody know his or her worst case in advance. It limits the arbitrator's authority (no split the baby results are allowed). But it only works for a purely monetary dispute.

In many jurisdictions, arbitrators may award attorneys' fees only if the parties expressly so provide. In some states, arbitrators may not award punitive damages; in others and under federal law they may. In general the award of injunctive relief requires express authorization in the agreement or the rules of the arbitral forum, but that again varies among jurisdictions. In most jurisdictions, if urgent injunctive relief (temporary ***281** restraints or a preliminary injunction) is needed before the arbitrators can be convened, resort to a court is allowed without waiving the right to have the merits decided by arbitrators.

In general, pre-hearing discovery is not available unless the parties' agreement or the arbitral rules provide for it. For example, securities industry rules provide for requests for and disclosure of documents and information (somewhat like interrogatories).

Choice of law in the contract may have significant effects on the arbitration provisions. There is a Federal Arbitration Act, 9 U.S.C § 1, et seq., ("FAA") that governs most arbitrations affecting interstate commerce. In *Volt Information Sciences, Inc*. v. *Board of Trustees of Leland Stanford Junior Univ*., 489 U.S. 468 (1989) the Supreme Court concluded that a choice of law provision making California law applicable to a contract and disputes under it displaced not only the law of other states, but also federal law, making the California, not Federal, arbitration act applicable to the dispute.

There is a Uniform Arbitration Act adopted by the Commissioners on Uniform State Law and implemented in many states. http:// www.law.upenn.edu/bll/ulc/uarba/arbitrat1213.htm. Cornell Law School provides on line a mini-adr library, including a table of the arbitration statutes in each state. http://www4.law.cornell.edu/cgibin/htm_hl?DB=topics&STEMMER=en&WORDS=arbitr+&COLOUR=Red&STYLE=s&URL=http://wwwsecure.law.cornell.edu/topics/adr.html#muscat_highlighter_first_match. A private company has a page of ADR websites, including other providers. http:// www.attorneyshoppinglinks.com/law_05.html. The FAA and Uniform Act provide for subpoenaing witnesses and other procedural safeguards.

***282** Arbitration usually results in an award deciding who wins, who loses and what they win or lose. Unless the parties

agree otherwise, or the forum's rules require it, a reasoned opinion is not produced.

Arbitral awards are not self-executing, nor do any of the arbitration organizations above have hired guns to enforce their awards. So if a party does not comply voluntarily, or if it seeks to overturn an award, the parties go to court. Oddly, whether the contract, arbitration and award are governed by state or federal arbitration acts as nothing to do with whether the court is state or federal. The Federal Arbitration Act provides, § 9, that "If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award." Absent the agreement providing that a court may enter a judgment on the award, courts are not empowered to do so, meaning poor drafting can lead to unenforceable awards.

While the agreement can provide for an appeal of an arbitral award, absent that provision there is no appeal. If the parties decide to provide for appeal, they should also require a reasoned opinion. If they require a reasoned opinion, they increase the chances that a court will, in fact, broaden its review of the award even if the agreement doesn't expressly provide for it.

While there is some variation between the Federal and Uniform Acts (and among state statutes) the grounds for a court to vacate an award are usually limited to demonstrable undisclosed bias or prejudice by the arbitrator or a serious unremedied procedural error that might have affected the outcome. See FAA § 10; Uniform Act § 23.

***283** While the parties can agree to mediation or arbitration or both after a dispute arises, often addressing these questions in advance, while drafting the original license agreement, leads to a less emotional, more rational, result.

SL035 ALI-ABA 271

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