Alternatives in ADR for IP Litigation

By Ira M. Schwartz
DeConcini McDonald Yetwin & Lacy, P.C.

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Introduction

Most lawyers are familiar with the concept of Alternative Dispute Resolution ("ADR") procedures. However, to most lawyers, ADR boils down simply to mediation or arbitration. While traditional mediation and arbitration are certainly the most common types of ADR, there are other alternative methods for dispute resolution beyond mediation and arbitration. These methods, in certain circumstances, can provide preferable ways of resolving disputes. This article will discuss some of the less frequently used ADR techniques and the advantages and disadvantages of these techniques for resolving intellectual property disputes.

I. Combined Mediation and Arbitration – aka Med/Arb

This is a process where traditional mediation and arbitration practices are combined. Usually the parties to the dispute hire a neutral third party to mediate a dispute with the understanding that if the parties reach an impasse, then the neutral is empowered to decide any remaining issues.[1]

One commonly used variation of this is that a single neutral, usually a trusted lawyer with experience in the intellectual property issue in question, will serve as mediator to try to help the parties reach a settlement of the matter. Typically a time limit is set for the mediation portion, such as one day, with the understanding that if there are still remaining issues on which the

[1] Med-Arb Process Can Help Settle Disagreements, Lawrence R. Mills and Thomas J. Brewer,Puget Sound Business Journal, available at <http://www.bizjournals.com/seattle/stories/1999/12/06/focus11.html?page=all>

parties cannot agree, then at the end of the day the mediator will switch hats and make a binding ruling on the remaining issues in his capacity as an arbitrator. The benefits of this combined Med/Arb procedure is that the parties retain much of their independence to negotiate a solution, but also know that at the end of the day, one way or another, the issue will be finally resolved.

The perceived benefits are that the parties will have a substantial chance to resolve the conflict by mediation, thereby giving the parties substantial control over both the process and hopefully the outcome. The other perceived benefit is that there is a guarantee that the process will be completed by a certain date, usually ensuring a quick resolution. When the parties believe that they can resolve the matter, or at least most of the issues with the help of a mediator, this will allow the neutral to complete the process in the event that there are any final issues the parties cannot resolve through mediation.

There are several potential drawbacks to this process. The first is that the neutral is both facilitator and determiner. This sometimes leads to posturing in the mediation process in a hope to influence the end result arbitration decision. Related to this is the tendency of some parties to minimize their cooperation in the mediation process since they know they can just await the final determination. Another potential drawback is the process itself. In one form of this process, the parties merely present whatever information they want during the informal mediation process, often in caucuses. If there remain issues at the end of the day, the neutral merely makes a decision based on what he heard during the mediation process on the final issues that need to be resolved. The weakness to this informal process is that there is no chance for a party to challenge the other party's factual assertions.

In a different type of the process, if there are issues remaining after the mediation process, then the parties have a formal arbitration hearing. The drawback with this process is that the process is significantly redundant since the neutral must now hear much of the same information he has already heard informally during the mediation process. On top of that there is the risk that the neutral will be influenced (maybe even subconsciously) by a party's demeanor in the mediation process while making decisions at the arbitration hearing.

However, in situations where the primary information comes directly from the parties and both parties desire quick finality, this type of solution may work well.

II. High/Low Agreements

This is the "hedge-your-bets" alternative to arbitration. The concept of this type of agreement is simple. The parties agree to have an arbitrator make a final determination of the matter. However, the parties separately agree, prior to the arbitration hearing that, no matter the arbitrator's ruling, the maximum amount paid shall be no more than some agreed upon ceiling amount and no less than some agreed upon floor amount. This high/low agreement caps one party's exposure in the lawsuit while, at the same time, assuring the other party at least a minimal recovery.

The benefits of this type of agreement are easily seen by both parties, since each party can minimize the risks of litigation. The concern is, of course, it requires that the parties at least have some level of communication and the ability to reach an agreement on the upper and lower limits of the case. Often times it is difficult to get the parties to reach even that common ground. However, in situations where the parties can resolve some, but not all of the issues, this will allow the parties to settle what issues they can but still get a quasi-judicial determination of those issues they cannot resolve.

The other drawback to this type of arrangement is the time and effort involved. The parties must invest significant effort to negotiate the maximum and minimum amounts and still go through a full hearing process.

III. Early Neutral Evaluation (ENE)

Early Neutral Evaluation is precisely what the name says it is. It is simply a process in which the disputing parties agree to submit their dispute to a neutral early in the process to get the neutral's evaluation of each parties' position.[2] Usually this is not a binding determination by the neutral, but merely a third party's take on a dispute. The benefit of this is that each party receives the benefit of an independent evaluation. Also, since the process, by definition, occurs early in the dispute, it hopefully takes place before either party's position has become inflexible.

[2] Early Neutral Evaluation: Getting An Expert's Assessment, American Arbitration Association, January 1, 2010, <http://www.adr.org/sp.asp?id=35761#Intro>

This type of evaluation has several obvious benefits. First, the parties get to hear an unbiased evaluation of the dispute before they have gone too far in the litigation process. This means that this occurs before the parties have spent significant amounts on legal fees and have invested significant effort in the dispute. The goal is to "short-circuit" the litigation process and get the parties to a resolution more quickly than they would with traditional litigation. Usually this process would be used when the issues are fairly narrow and settlement discussions are underway, or at least the parties, with or without a mediator, are trying to find ways to resolve the matter.

There are some circumstances where this process can be very helpful. The first is where there is only one or a very narrow range of issues to be resolved and the parties believe that, with input on those issues, they could resolve the problems. A second scenario where the process works well is when a lawyer has a difficult client who needs to hear from a third party the risks of a position, especially when the client does not wish to accept the evaluation counsel has presented to his or her client. This can sometimes be used effectively when there are multiple parties and multiple issues in a dispute and a neutral evaluation will help the parties understand which are the predominate issues and how those issues might be decided. This process can also be used very effectively in situations where a party defending a claim is insured, but the party and his or her insurance carrier have different evaluations of the risk of litigation.

One of the key ways that ENE can be used in a non-traditional, but effective manner in IP disputes is when there are technical issues in dispute. In those instances a neutral evaluator, who has technical, but not necessarily legal expertise, can be used to give a technical evaluation to the parties. In this way the parties can get the benefit of a "third opinion" (assuming each party already has their own expert) and this may affect how the parties would evaluate a case turning on a technical issue.

The primary drawback to ENE is that it is designed to occur early in the litigation process. This means that the evaluation may be made before the facts are fully developed. If the facts developed in discovery differ from those on which the ENE is based, it will call the whole evaluation into question.

IV. Independent Third-Party Investigation and Determination

This is something akin to what many civil law countries would be familiar with. In this variation on arbitration, the parties to the dispute would each submit either a complaint and an answer or a written narrative outlining the dispute and their respective positions to the third party investigator.[3] Following this, the parties would select a neutral that would be empowered to perform his own independent investigation into the matter, including obtaining any records he deems appropriate from either of the parties, or even third parties if necessary and to interview the parties and any other witnesses. The neutral then does whatever further independent investigation he determines to be appropriate, makes whatever findings he determines necessary to resolve the dispute and then issues a report detailing his findings and legal conclusions and making an award he determines appropriate to resolve the dispute.

Of course, there are many variations on this and the parties and their counsel can have some input into the investigation and procedures used by the neutral. (ENE is a type of this process.) Typical variations would be to have the parties submit suggested lists of witnesses for the investigator to talk to; have the neutral periodically report the status of his investigation so that the parties can suggest other issues or facts that need further investigation; or to point out potential areas of concern that can be addressed by the neutral prior to the report being finalized. Another option is to have all the witnesses testify at a hearing, where all (or most) of the questioning is done by the neutral, but the attorneys would at least have the option of suggesting questions to be asked by the neutral of the witness.

One of the key potential benefits is that once the process is started, the majority of the investigation would be done by the neutral thus eliminating or substantially reducing what would normally be the costs of discovery by both parties to obtain the same information, which would then have to be separately presented to the court.

The concept of an independent third party investigation is becoming more common in the United States, at least in certain contexts. Specifically, it is not uncommon for a large public company or public university to hire a neutral third party to perform an investigation in cases involving

[3] Fact-Finding: An Independent Third-Party Investigation, American Arbitration Association, January 1, 2010, <http://www.adr.org/sp.asp?id=35765#overview>.

allegations of high level misconduct, such as sexual harassment by a senior level executive or cases where racial discrimination might be involved.[4] However, the typical U.S. matter involves hiring the independent investigator to do the factual investigation with the factual findings then being reported to the Board of Directors or some other similar authority for a determination of what to do based on the facts determined by the investigator. In cases involving legal disputes, it may also be appropriate to let the neutral third party be both the factual investigator and legal arbiter.

V. Last Offer Arbitration aka "Baseball" arbitration.

Last Offer Arbitration **–** This is a variation on traditional arbitration. Each party presents its position to the arbitrator and then the arbitrator makes a final determination in favor of one party or the other. However, during the presentation process, in addition to presenting the facts and the party's legal position, each party will also present its final settlement offer to the arbitrator. The arbitrator is bound when making his decision to select one of the parties' final settlement offers, which then becomes the binding decision in the matter. This process requires each party to make the most reasonable offer possible because of the risk that if their final offer is not deemed the most reasonable by the arbitrator, it will be the losing offer.

The perceived benefit is that this process is the most likely to encourage the parties to reach common ground themselves. Typically this process is used as part of an abbreviated arbitration process and the result is usually achieved quickly. It is also a commonly held belief that this type of process helps to preserve the relationship between the parties when they have an ongoing relationship. This type of dispute resolution works well when there are a narrow range of issues to be resolved.

This process is frequently referred to as "Baseball Arbitration" since it is the process used by Major League Baseball to resolve salary issues between certain players and teams.[5]

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[4] For an example of independent investigations see How NYU Chose Columbia over Coke, Bloomburg Business Week, Jan. 23, 2006, <http://www.businessweek.com/magazine/content/06_04/b3968078.htm>

[5] How Baseball Arbitration Works, James Lincoln Ray, Baseball @ Suite 101, Feb. 23, 2008, <http://jameslincolnray.suite101.com/how-baseball-arbitration-works-a45599>

Night Baseball Arbitration – This is a variation on typical Last Offer Arbitration. In this type of process, the parties submit their dispute in the same manner as in regular baseball arbitration, except that the parties do not submit their final offers as part of the submission to the arbitrator. Rather, with each party's submission, they submit a sealed envelope containing their final offer. The arbitrator makes a determination based on the submissions without opening the sealed bids. After the arbitrator's award, the arbitrator opens the sealed bids and the submitted bid which is closest to the arbitrator's independent award, becomes the final and binding decision.

The perceived benefit of this variation is that the arbitrator will not be influenced by the parties' offers in making his final rulings. However, from the author's perspective, the risk that the arbitrator would be significantly influenced by the offers is minimal if the parties carefully select a qualified arbitrator. Further, it would be difficult to use this variation in any situation where the dispute involves anything other than a monetary award, since in any other situation it could be difficult to determine which offer was closest to the arbitrator's determination.

VI. Customized Arbitration

Since arbitration is a matter of agreement by the parties, if the parties agree, it can be customized in a variety of ways to effectively resolve a variety of disputes. A few recognized variations are discussed below.

Single Issue Expedited Arbitration – Most arbitration providers have a procedure for expedited arbitration for certain matters. This process can be used especially effectively when there is a single issue for determination. In some cases, the parties can provide a system of solely paper-based submissions addressing the single issue to be resolved and for a summary decision of that issue by the arbitrator. The primary drawback to this procedure is that it is only available for limited issues.

Short Trial/Summary Trial – This is another variation of expedited arbitration. While the procedures may vary, the key component is that the determination is made in a speedy manner. Often in a summary trial, legal counsel for the parties will summarize the evidence that a witness or witnesses would present and then the parties submit arguments based on those summaries. In another variation, the summaries are used for all, but one witness per side. The testifying

witnesses are then limited to testifying only about the key factual issues in dispute, with all other information being submitted in a summary fashion by counsel. The benefit is the short time frame for presenting the case. However, this is not suited to cases where there are substantial factual issues in dispute or where expert testimony on complex issues is required.

Chess-Clock Arbitration - This is an alternative strategy to limit the time spent trying a case. In short, each side is given a limited amount of time to present its case. This time can be used by a party for any purpose it chooses, whether presenting direct examination, cross-examination, documents or arguments. The goal is however, that once a side uses up its limited time, its case is over. This is one way to make the parties focus on what is truly important in each case and to limit the amount of time spent trying a case.

A similar approach can be used if discovery is permitted in arbitration with each side being given a limited total amount of time to depose witnesses. This would force the depositions, and therefore the expenses, to be limited.

This method can be used in combination with many of the other ADR alternatives.

Arbitration by a Non-Lawyer Expert - When a dispute arises, most parties seek the advice of their legal counsel to determine their legal rights in the situation and to get advice on ways to resolve the situation. While this is frequently the proper step, not all legal disputes must be resolved by lawyers (or judges). This can be especially the case where, at its core, the dispute is really a technical or factual dispute.

For instance, in many patent infringement disputes the patent laws are well known and not in dispute. The matter turns upon the definition of a technical term in a patent. Having an arbitrator who is an expert in the technical field in question making the determination may give a quicker and equally well justified resolution compared to having a non-technical judge determine the meaning of a highly specialized technical term. Additionally, the advantage of the technical expert determination is that little time needs to be spent during the arbitration hearing educating the arbitrator on the technology involved.

It should be noted that the flexibility of many procedural arbitration rules permit two expert witnesses to testify simultaneously. Thus, while not yet common, it is possible in an arbitration

hearing to have both sides' expert witnesses simultaneously explain their position and opinion with each side's expert questioning the other. If this is done before a well qualified technical arbitrator, this is more akin to a technical symposium than a formal legal proceeding. If the dispute centers on a technical issue, and the determination is being made by a technical expert, the results can quickly become a correct technical decision that will also resolve the legal issues. In certain cases this may be preferable than a drawn out legal proceeding to resolve the same technical issue.

Arbitration with Appeal Panel – One of the drawbacks frequently discussed about arbitration is the lack of a right to appeal. However, this problem can be solved by providing for arbitration with a right to an appeal in the arbitration agreement. This can be structured in any way the parties may agree. One frequent provision is to provide for arbitration by one arbitrator with the right of the parties to appeal any legal issues to a three arbitrator panel. The appeal right can be as narrow or as broad as the parties may agree. One of the concerns is that the purpose of arbitration is to allow for a quick definitive resolution of a dispute, and that providing for an appellate arbitration panel seems to be contrary to the purpose of providing for a quick resolution. In contrast, this does provide some protection against the risk of an arbitrator with a ruling contrary to the parties expectations based on their understanding of applicable law.

"Traditional" Arbitration

I present this as another alternative. When arbitration was initially adopted as an ADR technique, it was thought of as an alternative to traditional litigation. In that regard, it was common for the arbitration process to be: the filing of a written or narrative complaint, or demand for arbitration; followed by a written narrative response. After this stage, there was a preliminary call between the parties and the arbitrator to discuss the issues and the procedure for the arbitration hearing. Typically documents were exchanged but discovery was severely limited with most arbitrators prohibiting depositions or limiting depositions to one party representative. As arbitration evolved, more parties requested Federal Rules type discovery and arbitrators, recognizing that arbitration was by consent, would allow more discovery, especially where both parties requested it or at least consented to it. More recently, there has been discussion about how

much discovery should be allowed in arbitration.[6] However, it is clear that if the parties provide for only limited discovery in their arbitration agreements, those limitations will be enforced. For this reason, the parties may wish to identify in their arbitration agreements exactly what type of discovery (and other arbitration) procedures the parties desire.

VII. Informal Techniques

Elder Statesman - In some cases, a matter can be resolved by bringing in a third party to resolve the dispute whose determination will be final. Often times this neutral person can decide the matter simply because of the status in which he is held by both parties. While this could be considered a variation of mediation, I believe this classification is different, as the neutral in this situation is resolving the dispute because of his standing in a particular organization or community rather than because of his mediation or legal skills. This type of resolution can occur in many situations where the disputants are the members of the same community. One example where this type of resolution works is in ending legal disputes among family members in a family owned business. There the dispute is resolved by referring the matter to a more senior family member. On an IP basis, one could foresee resolution of a business dispute by referring the matter to the well respected (by both parties) head of a technical organization, where both parties were members of the organization. Again, the resolution works primarily because of the clout and standing of the senior level person asked to resolve the dispute.

Outside the Box Business Solutions - Lawyers tend to think of traditional methods of resolving legal problems. These generally include lawsuits and traditional settlements; usually consisting of one party paying the other money. Other normal business arrangements, such as licensing agreements and other more traditional business contractual type arrangements, are fairly normal and often generally considered by parties and their lawyers. However, there are times when more dramatic business alternatives may make sense. These can include things like one company purchasing the other party to a lawsuit; finding some way to leverage the lawsuit as an opportunity to get media attention or publicity for your client or an issue that is important to your client (see below); using the lawsuit to bring attention to some other issue, such as a catalyst to lobby for legislative changes; or finding some way to get some other benefit out of the lawsuit.

[6] See JAMS Recommended Arbitration Discovery Protocols For Domestic Commercial Cases, January 6, 2010 www.jamsadr.com/discovery-arbitration-protocols.

Arm Wrestling, Flip A Coin, Etc. - In a well-known story involving Herb Kelleher, the chairman of Southwest Airlines at the time, a trademark infringement case involving the right to use the slogan, "Just Plane Smart" was determined by an arm-wrestling match. The dispute arose when Southwest Airlines started using the slogan after, it was claimed, Stevens Aviation had begun using the same slogan with its services. Rather than litigate the matter, Herb Kelleher challenged Kurt Herwald, the chairman of Stevens Aviation, to an arm wrestling match. The challenge and event were well publicized and the money raised from the event was donated to local charities. While Herb Kelleher lost the arm wrestling match, the publicity generated benefited both companies (and, of course, the charities) and Stevens Aviation, following the event, allowed Southwest to keep using the slogan.[7] Other similar games of chance have been used to determine other disputes over the years.[8] This method would have particular appeal in a dispute where the costs each side would pay to seek a legal resolution would far exceed the expected benefit of a win to either side and the need for a quick and final resolution was paramount. In order to be effective, however, both parties must have some risk tolerance for this type of resolution and the idea must be presented early in the process so that each side sees the costs savings of avoiding the dispute resolution process. This can be used as a final resolution step, but again it only works if each side's assessment of the risk of litigation shows that there is substantial risk in trying the case. In other words, if each side sees the case as a "proverbial coin flip" then the parties may buy into the concept of just deciding the case with a literal "coin flip."

Game Theory Mathematical Solutions – Game Theory, a sophisticated branch of mathematics used to find sophisticated solutions to real world problems, may offer alternative ways to find "fair" solutions to complex business issues. There are many real world problems that have been studied using game theory to find sophisticated solutions that may be applicable to solve financial or even legal problems. These types of mathematical solutions can be incorporated into complex business deals in order to implement a private solution to a problem that would otherwise turn into a drawn out legal battle. Some of these are already well known among lawyers. For instance, many partnership agreements include a provision for a buy or sell option,

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[7] Herb Kelleher – An Inspirational Story and A Symbol of Freedom, <http://www.financial-inspiration.com/herb-kelleher.html>, accessed on Nov. 17, 2010.

[8] Arizona elections have been decided by drawing cards. See Election at a Draw, Arizona Town Cuts a Deck, Randall C. Archibald, The New York Times, June 16, 2009. <http://www.nytimes.com/2009/06/17/us/17cavecreek.html>.

where one party to a partnership in a dispute proposes a buyout number to the other partner, and the partner receiving the buyout number has the option of either purchasing the other partner's interest for that price or selling his interest to the partner at that price. More complex game theory solutions may be available for other financial disputes.[9]

Conclusion

Alternative Dispute Resolution refers to a large variety of methods to resolve disputes, not just mediation and arbitration. While mediation and arbitration are wonderful tools to resolve disputes, those variations and other methods discussed above should also be considered in appropriate circumstances. In addition, new methods of resolving disputes continue to be developed. As lawyers or ADR practitioners we should continue to expand the range of alternative that we can use to solve our client's disputes.

Ira M. Schwartz is a partner in the Phoenix, Arizona office of DeConcini McDonald Yetwin & Lacy, P.C., where he heads the firm's intellectual property practice. He can be reached at (602) 282-0500 or ischwartz@dmylphx.com.

[9] See Charles v. Bagli, "Flipping A Coin, Dividing An Empire," The New York Times, Nov. 1, 2009 at <http://www.nytimes.com/2009/11/01/business/01real.html?_r=1> (discussing a process to divide a three way real estate partnership, by having each party bid on a value for 1/3 of the assets, and then having the low bidder be responsible for dividing all the real estate holdings into three "piles" with the high bidder getting to select his pile first and the low bidder being assigned the last remaining pile).