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Resume
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He has written, spoken and led workshops on ADR issues in the U.S., Canada, Europe, Japan, Australia, Africa, and South America. Among his publications are Resolving International Intellectual Property Disputes, ICC 1999 (author), Guide To ADR For IP Disputes, AIPLA 1995 (editor), ADR International Applications, *ADR in the United States of America*, ICC 2001, and various other chapters in texts and articles in journals.

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Alternative Dispute Resolution

David Plant

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Contents

ACKNOWLEDGMENTS 7

INTRODUCTION 8
Intellectual property and international disputes 8
The structure of this book 10

CHAPTER ONE
An overview of intellectual property and alternative dispute resolution 11
The nature of intellectual property disputes 11
The nature of arbitration and mediation 14
1. Arbitration 14
2. Mediation 19
3. Variations on the theme 23
FOOTNOTES 25

CHAPTER TWO
Arbitration 26
Significant issues in arbitrating intellectual property disputes 26
1. Agreeing to arbitrate 26
2. Arbitrability of the dispute and enforceability of the award 30
a) The New York Convention 30
b) Various rights in various jurisdictions 32
i. Trade secrets
ii. Licensing
iii. Ownership
iv. Scope and infringement of patents, copyrights and trademarks
v. Validity and enforceability of patents, copyrights and trademarks
vi. Suggested contract language for arbitrability and enforceability
c) Summary thoughts 38

Page 3/4 Jun-14-00 6:44; 6035262654; ent By: DAVIDWPLANT;

3. Provisional relief 39
   a) Arbitral law 40
   b) Arbitral rules 40
   c) Some illustrative solutions 41
4. Privacy and confidentiality 42
   a) Post-award cracks in the walls 42
   b) Confidentiality and privacy during arbitral proceedings 44
5. Multi-party proceedings 46
6. Multiple proceedings 47

Other issues 48
1. Governing law and rules 49
   a) Arbitral law 49
   b) Arbitral rules 50
   c) Substantive law 50
2. Administered or ad hoc arbitration 51
3. Issues to be arbitrated 52
4. The arbitral tribunal 53
5. Party-appointed arbitrators 55
6. The site of the arbitration 56
7. Schedule 58
8. Pre-hearing information exchanges 59
9. The evidentiary hearing 61
10. Expert witnesses 64
11. A party's confidential information 67
12. Remedies available 67
   a) Monetary relief 68
   b) Equitable relief 68
   c) Enhanced damages and sanctions 68
   d) Appellate relief 69
13. Form of the award 70

Arbitral institutions 71
1. ADR providers 71
2. Established intellectual property organizations 73
3. Informal, ad hoc organizations 73

FOOTNOTES 74

CHAPTER THREE
Mediation 78

Significant issues in mediating intellectual property disputes 78
1. Getting to the table 78
2. Preparation for mediation 80
3. The mediator 83
4. The mediator's job 86
5. Professional responsibility and the mediator 89
   a) Impartiality 89
   b) Fees 91
   c) Power imbalance 92
   d) Confidentiality 93
   e) The process 93
   f) The mediator as arbitrator 93
   g) Danger, danger, danger! 95
6. Counsel's role in mediation 95
7. Principal's role in mediation 96
8. Confidentiality 98
9. The end game 99

Creating value through mediation 100
1. Control 101
2. Real interests and needs 101
3. Relationships 101

Barriers to mediation and to resolution 101

Multi-jurisdictional litigation 102

Enhanced alternatives 103

FOOTNOTES 104

CHAPTER FOUR
The arbitrator as settlement facilitator 105

Some questions 105

Some observations 106
1. The debate 106
2. The vocabulary 106

Some practical considerations 108
1. The dilemma 108
2. The substantive dispute 109
3. Cultural and experiential factors 109
4. Timing 110

What is the arbitrator's role in settlement discussions? 110

What is going on in intellectual property arbitration, anyway? 111

Two illustrative situations 112

ent By: DAVIDWPLANT; 6035262654; Jun-14-00 6:44; Page 4/4

Some ground rules 113
Some additional thoughts 114
FOOTNOTES 115

CHAPTER FIVE
End notes 116

APPENDICES
Appendix A: The New York Convention 117
Appendix B: ICC Arbitration Rules 121
Appendix C: WIPO Arbitration Rules 134
Appendix D: UNCITRAL Arbitration Rules 154
Appendix E: AAA International Arbitration Rules 167
Appendix F: CPR International Arbitration Rules 179
Appendix G: WIPO Mediation Rules 197

ICC AT A GLANCE 203

SELECTED ICC PUBLICATIONS 204

Notes Re Alternative Dispute Resolution And IP Licensing

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July 1998

I. OVERVIEW

A. What Is ADR?

B. What Are Its Forms?

C. Where Is ADR Applicable?

D. What Are Its Advantages And Disadvantages?

E. What Should Parties To An IP Contract Consider And Provide For?

F. Whither ADR?

II. WHAT IS ADR?

Alternative Dispute Resolution embraces all forms of dispute resolution other than conventional litigation.

III. WHAT ARE ADR's FORMS?

A. ADR encompasses an infinite number of forms. It is helpful to consider three generic categories.

B. Adjudicative Forms.

1. A conventional adjudicative form is binding arbitration.

2. Non-binding arbitration may also be an adjudicative process.

3. Another form is the use of a Court-appointed Special Master.

4. In some jurisdictions, "Rent-a-Judge" procedures are available.

5. A 3d party renders or imposes on the contestants a decision -- based on (a) issues formally defined, (b) sophisticated positions, and (c) evidence and legal authorities.

C. Non-adjudicative Forms.

1. Negotiation.

2. Mediation.

3. Mini-trial.

4. Early Neutral Evaluation.

5. Summary Jury Trial.

6. Each of these is directed to enabling the parties themselves to solve their problems. Not limited by formal pleadings, carefully adduced evidence or legal authorities.

D. Hybrid Forms.

1. Hybrid forms stretch the spectrum of forms to infinity.

2. Negotiation, followed by mediation, followed by arbitration is becoming popular.

3. Mediation followed by last offer arbitration is effective.

4. Early neutral evaluation coupled with mediation has worked.

5. Ex parte, non-binding arbitration has succeeded where the parties do not want to exchange sensitive information.

6. Creativity is the key. Must fit the forum to the fuss.

E. More thorough discussions and elaborations regarding the forms of ADR appear in, inter alia -

1. Plant, "Overview of ADR Procedures", AIPLA Alternative Dispute Resolution Guide, 1995 p. 3. (A copy of this chapter appears at Appendix A to these notes.)

2. Arnold, "A Better Mousetrap: ADR", Les Nouvelles, Vol. XXX, No. 1, March 1995, p. 31.

3. Arnold, Patent Alternative Dispute Handbook, Clark, Boardman, Callaghan 1991.

IV. WHERE IS ADR APPLICABLE?

A. ADR is applicable to almost any intellectual property dispute -- even where injunctive relief seems necessary.

B. ADR may not be applicable where --

a. A counterfeiter must be nipped in the bud.

b. A trade secret must be preserved.

c. Legal precedent is needed.

d. EMOTIONS are out of control -- ADR may be applicable but extraordinarily difficult to apply.

C. Specific examples will be discussed. These will include:

1. Binding arbitration

2. Non-binding arbitration

3. Mini-trial

4. Mediation

V. WHAT ARE ADR's ADVANTAGES AND DISADVANTAGES?

A. Advantages.

1. The parties create and control the solution to their problem. In any ADR proceeding other than a binding adjudicative procedure, the solution is not imposed by a third person who is bound by narrow pleadings. But even in binding arbitration, parties' agreement re process controls the process.

2. The parties preserve old, or create new, business relationships, or both.

3. Often time and money are saved.

4. Cultural differences may be better accommodated, or reconciled.

B. Disadvantages.

1. If poorly constructed or managed, ADR may be counterproductive.

2. Badly planned and managed ADR may inflate expenditure of time and money and may yield unsatisfactory substantive results.

3. May be undermined by party not acting in good faith. But even then, other party (or both parties) may acquire better understanding of issues, risks, rewards.

VI. WHAT SHOULD PARTIES TO AN IP CONTRACT CONSIDER AND PROVIDE FOR?

Some Key Issues

1st Arbitration

2d Mediation

A. Arbitration.

1. Arbitrability and Enforceability

a. U.S.

(1) Virtually all IP issues are arbitrable.

(2) Query increased damages.

(3) Plant "Intellectual Property: Arbitrating Disputes in the United States", Dispute Resolution Journal of the American Arbitration Association, July-September 1995, p. 8 (A copy of this paper appears as Appendix B to these notes.)

b. Elsewhere.

(1) Important to understand local laws, local public policy and the New York Convention.*

---

* Art. V.2. of the 1958 Convention On The Recognition And Enforcement Of Foreign Arbitral Awards (the "New York Convention") provides:

> "Recognition and enforcement of an arbitral award may also be refused if the competent authority in the country where recognition and enforcement is sought finds that:
>
> "(a) the subject matter of the difference is not capable of settlement by arbitration under

(continued...)

(2) Important to distinguish between (a) government granted or registered rights and (b) private rights.

(3) consider an arbitration clause that focuses on --

(a) Private rights

(b) International Commerce

(c) Arbitrator may consider [IP issue] but is not empowered to declare whether IP valid or not valid, enforceable or not enforceable, etc.

(d) Neither the award nor any statement by the arbitrator shall be regarded as a declaration of validity or invalidity, etc.

(e) Award may determine what acts one party may or may not undertake vis-a-vis any other party, but not re a non-party.

(4) See discussion in Plant, "Drafting for Confidentiality, Arbitrability and Enforceability in Intellectual Property Agreements," ALI-ABA Course Materials Journal, June 1997, p. 51 (A copy of this article appears at Appendix C.)

---

*(...continued)

the law of that country; or

"(b) the recognition or enforcement of the award would be contrary to the public policy of that country."

2. Arbitration provisions to consider.*

a. Administered v. ad hoc arbitration.

b. Issues to be resolved.

(1) IP issues.

(2) Related issues.

c. Arbitrator(s).

(1) Number.

(2) Qualifications.

(3) Selection process.

(4) Party-appointed.

(a) interview process

(b) neutrality

d. Schedule; commitment

e. Venue.

(1) Neutrality.

(a) transnational disputes

(b) cultural differences

(2) Availability of witnesses and documents.

---

* These and other provisions are discussed in various places in the literature, e.g., Plant, "Arbitration And Intellectual Property Disputes", Euromoney Publications PLC, Managing Intellectual Property, June 1996 (a copy of this paper appears at Appendix D); Arnold, "A Better Mousetrap: ADR", supra; Plant, "Arbitration And Arbitration Clauses," Intellectual Property Counselling And Litigation, Vol. 2, Ch. 20, Matthew Bender, 1994; CPR, Arbitration, 1994; CPR, Model ADR Procedures, "Alternative Dispute Resolution In Technology Disputes," 1993.

f. Discovery.

g. Confidentiality.

(1) During proceeding.

(a) Rules

(b) Parties' agreement

(c) Award enforced as Protective Order

(2) Post-proceeding.

(a) Enforcement of arbitration award

(b) § 294(d) & (e)

h. Remedies.

(1) Monetary.

(a) Compensatory.

(b) Punitive.

(c) Currency

(2) Other.

(a) Injunction.

(b) Specific performance.

(c) Provisional.

(i) Emergency relief an issue in IP matters.

(ii) Most arbitral administrative organizations cannot constitute a panel on the required short notice

(iii) U.S.: ancillary aid of Court

(iv) WIPO: contemplating "24 hour" service

i. Applicable rules.

j. Governing law.

(1) Arbitral.

(2) Substantive.

k. Language.

l. Form of award.

(1) Win/lose.

(2) Reasoned.

(a) Collateral estoppel and res judicata

(b) § 294(c) re modification

(c) Motions to vacate or modify

(d) Road map

m. Recourse.

(1) Enforceability.

(2) Challenge.

(3) Modification.

3. U.S. arbitration law.

a. U.S. Arbitration Act, 9 U.S.C. §§ 1 et seq.

b. Uniform Arbitration Act enacted in a large majority of states.

c. State statutes re international arbitration.

d. 35 U.S.C. § 294.*

(1) § 294(a).

(2) § 294(b).

(3) § 294(c).

(4) § 294(d) and (e).

e. 35 U.S.C. § 135(d).**

4. Various rules.***

a. AAA.

(1) Patent.

(2) Commercial.

(3) Large, complex.

(4) International.

b. CPR.

(1) Rules For Non-Administered Arbitration Of Patent And Trade Secret Disputes.

(2) Model Agreement For Ex Parte Adjudication of Trade Secret Misappropriation And/Or Patent Disputes.

(3) Non-Administered Arbitration Rules And Commentary.

---

* 35 U.S.C. § 294 is reproduced in Appendix E.

** 35 U.S.C. § 135(d) is reproduced in Appendix F.

*** Specimens of some rules will be available at the lecture.

(4) Model Procedure For Mediation Of a Business Dispute.

(5) Model Minitrial Procedure.

c. WIPO.

(1) Mediation Rules.

(2) Arbitration Rules.

(3) Expedited Arbitration Rules.

(4) 24 hour rules under consideration.

d. ICC.

(1) Rules of Conciliation.

(2) Rules of Arbitration.

Revised effective January 1, 1998

(3) Pre-Arbitral Referral Procedure.

Not adequate for emergency relief

e. LCIA

(1) Arbitration Under LCIA Rules.

Under revision

(2) Arbitration Under UNCITRAL Rules.

(3) Conciliation under UNCITRAL Rules.

f. UNCITRAL

(1) Model law adopted in various countries.

(2) Non-administered arbitration.

g. U.S. Courts.

(4) Each U.S. District Court has ADR rules or practices.

(5) Vary from court to court, e.g.

(a) SDNY: rules re mediation.

(b) EDNY: rules re arbitration, mediation, early neutral evaluation.

(c) DNH: ADR considered at preliminary pretrial conference; various ADR procedures available. Not formalized in local rules.

(d) See tabulation in AIPLA ADR Guide, 1995.

B. Mediation

1. U.S. v. elsewhere.

a. Mediation.

b. Conciliation.

c. Mini-trial.

2. Six phases.

a. Getting to the table.

b. Preparation.

c. Initial sessions.

(1) Joint session.

(2) Private caucus.

d. Subsequent sessions.

e. The "End Game".

f. Post-mediation.

3. A more detailed outline appears at Appendix G to these notes.

VII. WHITHER ADR?

A. In the United States, the impetus to apply ADR stems from many quarters --

1. Courts.

2. Clients.

3. Legislation.

4. Professional responsibility.

B. Elsewhere in the world, the impetus varies --

1. Arbitration in international commercial disputes.

2. Conciliation in Asia.

3. Mediation in Europe.

C. Disputants will increasingly enjoy the benefits of ADR if it is understood, constructed and utilized intelligently.

D. ADR will wither if not understood, constructed or utilized intelligently.

E. Many matters must be litigated.

1. But statistics show more than 90%, maybe more than 95%, of IP lawsuits are settled before trial.

2. With this fact, together with the high cost of litigation in terms of $, emotion, time and other resources, it makes eminent sense to consider ADR earlier rather than later, and to encourage the parties to put their dispute behind them and get on with their customary businesses.

3. As counsel we must be informed AND we must be ready and able to recommend and to utilize ADR.

OVERVIEW OF ADR PROCEDURES

I. INTRODUCTION

Alternative Dispute Resolution (ADR) techniques generally fall into two categories: (1) adjudicative and (2) non-adjudicative. These are not crisp categories, because often the process of finding a solution to a problem will embrace both categories -- typically, when the process flows from a non-adjudicative state to an adjudicative state or vice versa -- resulting in a hybrid process.

This short overview touches on some issues that deserve attention in respect of a few specific ADR techniques.

II. ADJUDICATIVE PROCESSES

A. Arbitration

Among adjudicative ADR techniques, arbitration usually rises to the top of the list. For many years, arbitration has been utilized in the United States to resolve licensing disputes concerning intellectual property rights. Of course, since 1983, binding arbitration of all issues relating to United States patents, under appropriate circumstances, has been sanctioned under 35 U.S.C. § 294. Arbitration of other intellectual property issues, including validity and enforceability, seems to be generally sanctioned by the judiciary, absent specific contractual or legislative restrictions to the contrary.[1]

Arbitration may be binding or non-binding. (Non-binding arbitration, while adjudicative insofar as the specific arbitration proceeding is concerned, may be part of a larger non-adjudicative process.) Arbitration may be the result of an agreement between the parties, or of an initiative by a court. Arbitration may be administered by an institution and subject to the institution's rules[2], or it may be administered by the parties subject to rules the parties create, or it may reflect elements of both. Even in administered arbitrations, it is not unusual for the parties and the arbitrator to agree to depart from the administrative institution's published rules.

An arbitrator's decision is embodied in an award. If a party is concerned about collateral estoppel effects of an award or other adverse commercial effects (e.g., providing a road map as to how not to infringe), a reasoned award may not be desired. Also, conventional wisdom suggests that a reasoned award may be more susceptible to modification or vacation by a court than a bare "win-lose" award.

Because arbitration is usually the product of an agreement between the parties, the parties can set the course of the proceedings, specify issues, fix time limits and define the scope of the arbitrator's authority. A full understanding by counsel and client, and the arbitrator, of these dimensions and their implications is necessary to the efficient, expeditious and equitable use of arbitration.

The right to appeal an arbitration award is limited by legislation and by judicial opinion[3]. That right may be modified by the parties, e.g., enlarged so that the Court performs a more typical role in ascertaining whether findings of fact are clearly erroneous or conclusions of law are correct.[4]

Many of us on many occasions have urged that a fundamental requisite of arbitration is a seasoned arbitrator, available when needed, willing and able to move the proceedings forward, and dedicated to efficiency and fairness. Arbitration has sometimes received bad press, occasionally because an arbitrator appeared to split the baby (perhaps an exaggerated impression in many cases). But a more severe drawback may be an arbitrator's permitting the proceeding to expand and to absorb as much time, energy and money as the complex litigation it was expected to supplant (a matter of substantial concern and severe consequence). Fortunately, this result is not at all inevitable or even likely if the arbitrator is selected with care.

The disclosure requirements of 35 U.S.C. § 294(d) and (e) have sometimes been invoked as discouraging the use of arbitration to resolve patent disputes. This does not seem entirely sound in light of the need to file in court an arbitration award whenever the award is challenged or judgment is sought on the award.

Arbitration has worked, and efficiently and effectively so, in intellectual property disputes. It has been utilized in lieu of litigation and in lieu of Patent Office adjudication. It can continue to work, especially if counsel and clients recognize that arbitration can be tailored to fit their specific needs.

B. Other Techniques

A neutral fact finder or a neutral legal expert may be engaged to rule on a specific issue. As with an arbitrator, the terms and conditions on which the neutral's work is undertaken are negotiated by the parties and the neutral.

Also, a private trial ("rent-a-judge") may be agreed upon. Here, a "judge" (often a former jurist) presides and judgment is ultimately entered in a court. Where sanctioned by local legislation, the private judgment may be subject to appeal in the local court system.

Another technique is a proceeding before a special master appointed by a court pursuant to Rule 53, F.R.Civ.P. Substantial intellectual property disputes have been presided over by special masters.

III. NON-ADJUDICATIVE PROCESSES

Non-adjudicative processes typically focus on aiding the parties themselves to find a solution to a problem. Flexibility, participation and control by *the parties themselves* are hallmarks of such processes. Importantly, the opportunity to preserve or to create business relationships is presented by non-adjudicative processes.

Among the non-adjudicative processes employed in intellectual property disputes are mediation, mini-trial, early neutral evaluation, summary jury trial, and many variants on these themes. Each of these is a form of facilitated negotiation in which the parties participate directly. (Of course negotiation itself is a non-adjudicative dispute resolution process. Negotiation per se is not explored in depth in this Guide.)

Each of the four processes we discuss here has been used so often that counsel and clients need not reinvent the wheel. Many forms of model rules and actual agreements have been drafted and disseminated.

A. Mediation

In mediation, a neutral mediator facilitates communication, negotiation and resolution by the parties. The mediator attempts to help the parties understand their own and their adversary's real needs and real interests, articulate those needs and interests, and create a mutually beneficial formula for meeting the needs and interests.

The mediator may express a view on the merits if requested by the parties. However, many practitioners are concerned that in so doing the mediator may appear to have compromised the mediator's ability to facilitate problem solving in an even-handed manner.

Also, the mediator may caucus privately with each party and shuttle between the parties. In so doing, it is imperative that the mediator preserve in confidence any information learned from a party which the party does not want disclosed. Because some practitioners view private caucuses as creating concern in the absent party as to whether the mediator is somehow being tainted by the adverse party's private remarks, some mediators attempt to conduct the entire mediation without private caucuses, i.e. with all substantive communications between the mediator and a party occurring in the presence of all parties.

It is critically important that a representative of each party with authority to settle (i.e. an individual party or an officer of a corporation) be present throughout the mediation. This includes, importantly, interested but unnamed parties, such as an insurance carrier or a licensee. Mediation will hardly ever be successful if this condition is not satisfied.

Finally, the background, training and experience of a mediator is important. Mediators are not born. Litigators and judges may be skilled at litigating and judging, but not always at mediating. Training is a virtual necessity to enable a mediator to perform competently. The mediation process is so different and so fluid in comparison with an adjudicative process, the mediator must have training so as to be fully prepared to assist the parties.

Mediation has worked effectively in resolving intellectual property disputes. It has worked in large, complex cases and in smaller cases. It has worked early in the life of a dispute as well as later in full-blown litigation. It appears to be burgeoning as a well accepted alternative to full-time, all-out litigation.[3]

B. Minitrial

Minitrials are well-known in the intellectual property field. Indeed, the very first minitrial in the United States is widely regarded has having occurred in 1978 in a patent infringement dispute between TRW and Telecredit.

A minitrial is a kind of facilitated negotiation in which a panel, comprising party representatives authorized to settle and (usually) a neutral, hears arguments by each party's counsel and immediately confers in an attempt to settle the matter. The settlement discussions are facilitated by the neutral who acts very much like a mediator. The presence of a neutral is usually a plus, if not a *sine qua non*. The presence of authorized representatives of all interested parties is essential.

C. *Early Neutral Evaluation*

Early neutral evaluation is usually a court-annexed procedure. Invented in the Northern District of California, this procedure has enjoyed commercial success in various other courts.

Typically, after the pleadings are closed, a respected neutral hears argument by counsel, attempts to assist the parties in negotiating a settlement, renders an opinion on the merits, and in the absence of settlement, assists in working out a pretrial schedule. Like mediation and minitrials, it is imperative that a representative from each interested party with authority to settle attend early neutral evaluation sessions.

Early neutral evaluation has been successful both in settling intellectual property disputes and in assisting parties and courts in developing and implementing discovery schedules.[6]

D. *Summary Jury Trial*

Summary jury trials also have been useful in assisting parties to intellectual property actions resolve their differences. Judge Thomas Lambros in the Northern District of Ohio is credited with originating this process. It has been used hundreds of times in that district and elsewhere.

The same cast of characters as in a minitrial participates -- plus a judge and an empaneled jury. Counsel argue to the jury, and the jury deliberates and renders a verdict, all in a short time (e.g. a day). Immediately upon hearing the jury's verdict, the parties confer with the objective of resolving the dispute.

Summary jury trials often occur on the eve of a long jury trial in a large, complex case.

IV. *END NOTES*

A. *Hybrid Processes*

Many combinations of the foregoing processes, and variants of the processes, have been utilized in resolving intellectual property disputes. Parties have provided for negotiation, followed by mediation, followed by arbitration. Parties have agreed to mediation, and having mediated to close to a solution, have agreed to put the remaining issues to an arbitrator.

The literature is rich, as is the experience of some practitioners, with creative techniques for encouraging and enabling parties to solve their problems.[7]

B. *Getting To The Table*

Persuading parties to talk has been a recurring issue. A pre-dispute ADR clause has posed little problem. A post-dispute suggestion of ADR may once have posed a far more serious problem. But that day is almost over.

No longer does a proposal of ADR by one party to another signal weakness or lack of confidence. ADR is too well-known. Hundreds of corporations have signed the CPR

corporate pledge. Hundreds of law firms have signed the CPR law firm pledge. Professional associations encourage, if not compel, counsel to be familiar with and to consider ADR. Every United States District Court provides for some form of ADR in its rules or its procedures[8]. It is simply a matter of fundamental professional responsibility for counsel to consider ADR without fear of waiving the white flag and without inferring an adversary who proposes ADR is waiving that flag.

So with the psychological barriers receding, what does counsel or a party do absent a court order? Counsel can call counsel, simply as a matter of professional responsibility, to explore the prospects of ADR. Management can call management, because both know the cost of litigation, or because both know the court will encourage, if not order, ADR. These communications can occur at any time -- e.g. during early negotiations, when a complaint is filed, on the eve of arguing a motion, on the eve of trial, during trial or after trial.

Of course, if it is a bet-your-business case, emotions are running high, a precedent is needed, a licensing program is to be protected, truly irreparable harm is about to occur, or strategic litigation is otherwise an imperative, the parties may never get to the table. Some issues must be litigated. ADR will not solve every problem between all parties.

C. Finding A Neutral

The importance of engaging a competent neutral shines through the fabric of each ADR process. How to find such a neutral is thus a critical question.

At the outset the parties must understand the issues on which they disagree and must become informed as to the pros and cons of various procedures (including litigation) for resolving those issues. If an adjudicative process other than litigation is settled on, one kind of neutral should be considered. If a non-adjudicative process is chosen, another kind of neutral should be considered. The adjudicator is the decisionmaker. In contrast, a mediator is a facilitator of decisions made by the parties, not by the mediator.

Training and experience are important in all cases. Although it may be (and has been) possible for a litigating attorney or a retired judge to serve effectively as an arbitrator without training, it is imperative that a mediator or other facilitator have been trained.

Various organizations, e.g. AAA, CPR and WIPO, maintain rosters of potential neutrals. The organizations cited keep themselves informed as to the background and experience of each person on their rosters. It is usually salutary for a party and its counsel to communicate with more than one such organization as to the people that organization would suggest as qualified. It is always important for client and counsel to investigate thoroughly the training and experience of a potential candidate.

Also, it is imperative that each potential neutral commit himself or herself to discharging the duties and responsibilities of the engagement in timely fashion.

D. Whither ADR And Intellectual Property?

Since the 1978 TRW - Telecredit minitrial in our field, ADR has been tentatively explored here and skeptically utilized there, until perhaps the last half dozen years during which many forms of ADR have been enthusiastically explored and confidently utilized. The signs of the times suggest even wider and more creative applications of ADR. We should all be fully prepared.

End Notes

1. Plant, "Arbitrability of Intellectual Property Issues in the United States, *"Worldwide Forum On the Arbitrability of Intellectual Property Disputes"*, WIPO, 1994.

2. E.g., AAA Patent Arbitration Rules, AAA Commercial Arbitration Rules, AAA Supplementary Procedures For Large, Complex Cases, WIPO Arbitration Rules, ICC Rules of Conciliation And Arbitration. All of these Rules are reproduced in the Appendix to this *Guide*. In addition to the many sets of rules just mentioned, CPR Institute for Dispute Resolution has formulated model rules for arbitrating technology disputes. By way of example, CPR Rules For Non-Administered Arbitration Of Patent And Trade Secret Disputes are reproduced in the Appendix. In contrast to the AAA and others, CPR does not administer arbitrations conducted pursuant to its model rules. CPR does, however, assist parties in formulating ADR procedures, selecting neutrals, and the like. A comparison of AAA Patent Arbitration Rules and CPR Rules For Non-Administered Arbitration can be found in Plant, "Binding Arbitration Of U.S. Patents", *Journal Of International Arbitration*, Vol. 10, No. 3, p. 79 (1993).

3. Plant, "Arbitration and Arbitration Clauses", *Intellectual Property Counselling and Litigation*, Matthew Bender & Co. (1991), p. 20-1 (currently being revised).

4. *Fils et Cables D'Aciet de Lens* v. *Midland Metals Corp.*, 584 F.Supp. 240 (S.D.N.Y. 1984).

5. Many organizations have formulated terms and conditions for mediation, e.g. CPR Model Procedure for Mediation of Business Disputes, AAA Commercial Mediation Rules, WIPO Mediation Rules. All of these are reproduced in the Appendix.

6. See Kenneth Adamo's and Deborah Rodewig's tabulation of ADR aspects of the rules of the 94 United States District Courts appearing in the Appendix.

7. A modest bibliography of informative books and handbooks follows:

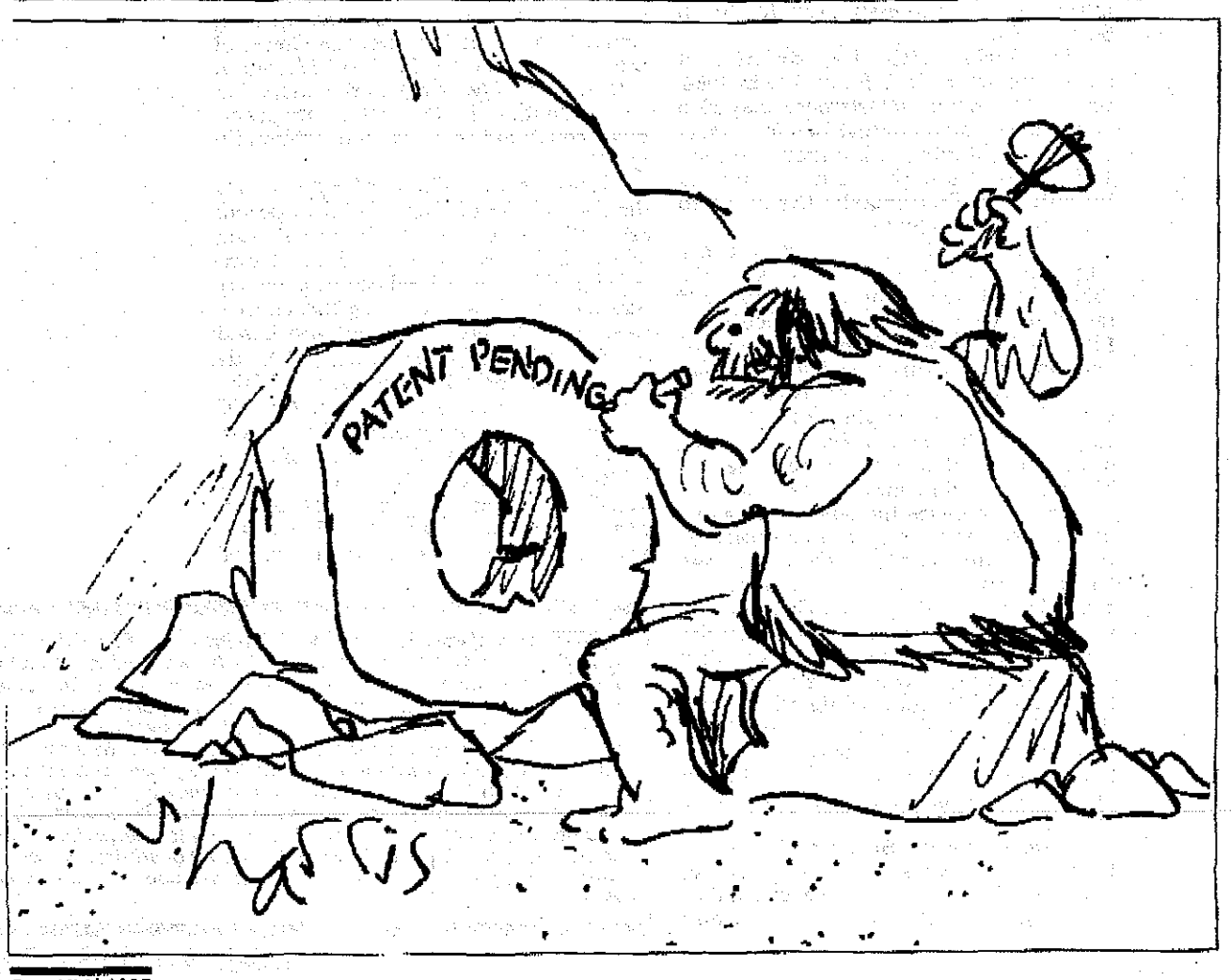
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Wilkinson, *Donovan Leisure Newton & Irvine ADR Practice Book* (1990, 1992 Suppl.)

A more extensive bibliography appears in the Appendix.

8. See n.6, supra.

INTELLECTUAL PROPERTY

Arbitrating Disputes in the United States



8 JULY 1995

APPENDIX B

In the absence of contract language to the contrary, all intellectual property issues appear to be the proper subject of binding arbitration in the United States.

This article will discuss such subjects as patents, copyrights, trademarks and federal antitrust and securities laws pertaining to these issues.

By David Plant

The author is the chairman of the ADR Committee of the American Intellectual Property Law Association and a partner at the New York firm of Fish & Neave. This article is an updated and revised version of a longer paper presented at the Worldwide Forum on the Arbitration of Intellectual Property Disputes, held in Geneva.

Patent Arbitration

Until 1983, U.S. courts generally refused to order binding arbitration of issues as to patent validity and enforceability. Such patent law issues were said to be "inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents."[1] However, with the enactment of 35 U.S.C. § 294 (effective February 27, 1983), the arbitrability of patent disputes under U.S. law is no longer in question on this ground. Voluntary, binding arbitration of patent validity, enforceability and infringement is expressly provided for in Section 294.

Similarly, with the addition of Subsection (d) to 35 U.S.C. § 135 in 1984, parties to a patent interference may also "determine such contest or any aspect thereof by [binding] arbitration." Section 135(d) reserves to the Commissioner of Patents and Trademarks the right to determine patentability.

Section 294(b) provides *inter alia* that all patent defenses under 35 U.S.C. § 282 "shall be considered by the arbitrator if raised by any party to the proceeding."[2] Express inclusion of these defenses in Section 294 has foreclosed any serious question as to the scope of patent issues properly subject to binding arbitration. In short, virtually every defense to a claim under a U.S. patent may be the subject of binding arbitration under Section 294.

These defenses include issues as to title, as well as validity and enforceability, including unenforceability issues based on patent misuse or other antitrust grounds. As for title, in *Scan-Graphics, Inc. v. Photomatrix Corporation*,[3] the district court noted, without reservation or other comment, that it was "likely that the California arbitrators, while addressing the validity and scope of the 1987 Agreement, will also address whether there has been a transfer of rights to one or more claims of the patent by virtue of the agreement."

Interestingly, Section 294 was invoked in *Warner & Swasey Co. v. Salvagnini Transferica*.[4] An exclusive licensing agreement provided that any action for breach of contract would be brought in Italy. The District Court cited Section 294 in rejecting plaintiff's contention that patent infringment claims may be heard only by U.S. district courts.[5]

The Court of Appeals for the Federal Circuit appears to favor arbitration, in general. In *In re Medical Engineering Corporation*,[6] the court of appeals upheld a district court order staying a patent infringement action in favor of arbitration. Earlier in *Rhone-Poulenc Specialties Chimiques v. SCM Corp.*,[7] the court of appeals construed an arbitration clause in a patent license agreement to include issues as to the scope of the claims of the licensed patent as well as infringement issues.[8] In *Rhone-Poulenc*, the Court of Appeals invoked *Mitsubishi Motors v. Soler Chrysler-Plymouth*,[9] to the effect that the " 'intentions [of the parties] are generously construed as to issues of arbitrability.' "[10]

However, the Court of Appeals for the Federal Circuit has refused to permit arbitration to supersede the jurisdiction of the U.S. International Trade Commission (ITC) over intellectual property issues arising in a 19 U.S.C. § 1337(a) proceeding.[11] The ITC complaint was based on alleged misappropriation of trade secrets, trademark infringement and false representations as to source. An ITC Administrative Law Judge had terminated the proceeding on the ground of (1) an arbitration clause,[12] (2) a previous ITC decision terminating a proceeding in light of an arbitration agreement, and (3) a federal district court decision that Farrel

Legal history is replete with illustrations of how the evolution of the modern-day system of arbitration of commercial and labor disputes was met with resistance by the court system. Arbitration in its application to intellectual property issues also followed a long and difficult road to acceptance by the courts, says the author. That has, for the most part, changed. Now, he says, "all intellectual property issues appear to be the proper subject of binding arbitration." This is not to assert that there are no substantive intellectual property policy issues remaining to be addressed, of course. Matters of arbitrability remain open to interpretation by the courts, though careful tailoring of the terms of arbitration can do much to clarify any controversy and move disputes swiftly to resolution.

must pursue its claims before an ITC arbitration panel.[13] The Commission agreed with the ALJ and cited *Mitsubishi Motors*[14] in support of its view that

> " 'a party to an international transaction will be required to honor its agreement to arbitrate disputes involving statutory claims under U.S. law when the arbitration agreement reaches the statutory issues and when there are no legal constraints external to the agreement which foreclose arbitration of such claims.' "[15]

The Court of Appeals for the Federal Circuit found such a "legal constraint [ ] . . . which foreclose[s] arbitration" and reversed on the grounds that (1) the directions of 19 U.S.C. § 1337(b)(1) and (c) are mandatory (*i.e.*, the Commission "shall investigate" and "shall determine" whether or not there is a violation) and (2) the narrow exceptions of Section 337(c) to the statutory mandate do not embrace a private agreement to arbitrate.[16]

The court noted that *Mitsubishi*'s reasoning was confined to judicial proceedings, did not extend to administrative proceedings, and thus was consistent with the court of appeals' ruling. The court invoked *Mitsubishi*'s statement that not "all controversies implicating statutory rights are suitable for arbitration . . . . [I]t is the congressional intention expressed in some other statute on which the courts must rely to identify any category of claims as to which agreements to arbitrate will be held unenforceable."[17] The court also cited *Gilmer* v. *Interstate/Johnson Lane Corp.*,[18] where an arbitration agreement operated as a waiver of access only to a judicial forum and not an administrative forum.

Thus, it appears that, notwithstanding an otherwise binding and enforceable agreement to arbitrate, a party to such agreement may attempt to persuade the ITC to investigate and determine whether or not there is a violation of Section 337(a), and if successful, may abort arbitration.

The *Farrel* decision is directed to the impact of a prior agreement to arbitrate *after* an ITC investigation has commenced. Query whether a party who wishes that the otherwise agreed to arbitration go forward may successfully enjoin the potential ITC complainant from requesting that the ITC initiate an investigation.[19] Also, the court of appeals acknowledged the possibility that the Commission can consider remedies ordered by an arbitral tribunal.[20]

A similar situation may obtain with the United States Federal Trade Commission (FTC), the domestic analog to the ITC. The FTC is empowered and directed by 15 U.S.C. § 45(a)(2) to prevent the use of "unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce." 15 U.S.C. § 45(b) requires an investigation by the FTC where "the Commission shall have reason to believe" there is a violation or where it "shall appear to the Commission that a proceeding by it . . . would be to the interest of the public . . . ." In the event the FTC does initiate an investigation, 15 U.S.C. § 45(a) provides that (1) the FTC *shall* issue and serve a complaint, and (2) the person charged *shall* have the right to appear and show cause why an order should not be entered against the person. Thus, once an FTC investigation commences, a party to an arbitration agreement may invoke such an event in line with *Farrel* to abort the arbitration.

We are unaware of any case like *Farrel* having arisen in the FTC context. If *Farrel* were urged in an FTC context, the differences between the sections enabling the FTC and the ITC might afford a persuasive argument that binding arbitration may properly be used to prevent the use of unfair methods of competition over which the FTC would otherwise have jurisdiction.

The net of the foregoing is that an arbitration clause may permit resolution of patent (or other intellectual property) issues by way of binding arbitration in lieu of a proceeding before a U.S. court, but not always in lieu of a proceeding before a U.S. administrative agency, especially the ITC and perhaps the FTC.

Turning now to patent interferences, there is doubt as to the value of arbitration of an interference (as provided for in 35 U.S.C. § 135(d)) because the Patent and Trademark Office is not bound as to any issue of patentability.[21] Nevertheless, arbitration of interference issues has been undertaken on more than one occasion and has been reported in at least one case. In *Utter* v. *Hiraga*,[22] the parties to an interference entered into an arbitration agreement to

> " 'avoid the delay and expense associated with formal interference proceedings in the [PTO] and in the Courts of the United States. . . . ' "[23]

The arbitrator decided the issue of priority but declined to decide matters of

Intellectual Property Seminar Set For NYC

Arbitration and mediation of intellectual property disputes will be the focus of a seminar to be sponsored by the Association of the Bar of the City of New York on Oct. 24.

Speakers will discuss the differences in ADR practices in the United States, Europe and Asia. David W. Plant, chair of the association's Committee on Arbitration, will serve as moderator.

The speakers are: James E. Brumm, executive vice president, director and general counsel of Mitsubishi International Corp.; Deborah Enix-Ross, legal affairs director of the U.S. Council for International Business; Francis Gurry, director/advisor, World Intellectual Property Organization Arbitration Center, Geneva; Dr. Julian Lew, partner, Herbert Smith, London.

For more information, call Karen H. Milton, ABCNY director of education and training, at (212) 382-6619. ■

patentability which he submitted to the U.S. Patent & Trademark Office.

But the express language of Section 135(d) provides only that the Commissioner is not precluded from determining patentability. It does not preclude an arbitrator from making such a determination subject to the Commissioner's review.

Arbitration of patent issues may be possible even apart from Section 294. If the arbitration arises out of a contract dispute (*e.g.*, whether or not royalties are due under a patent license agreement), validity may not be in issue and Section 294 may play no role, especially if the contract limits the arbitrator's powers in this regard.[24] The Court of Appeals for the Federal Circuit has endorsed a district court's characterization of the arbitrator's powers:

> " 'The court holds that the arbitrators in this case did not imperfectly execute their powers by refusing to invalidate Wright's patents. The arbitrators' "powers" in this case were derived from the agreement of the parties and the governing federal law. Those powers were limited primarily to construing the contract between the parties to determine whether or not certain technology came within the scope of the parties' agreement. The arbitrators did not have any power to invalidate patents, since the parties never agreed to arbitrate the validity of Wright's patents, nor does federal law give arbitrators an independent power to invalidate patents.' "[25]

Further, if a patent issue is amenable to resolution in a non-federal forum, such as a state court, then it should also be subject to resolution by arbitration wholly apart from Section 294. For example, in a dispute as to whether a state court was the proper forum to decide "rights" between the parties to a patent and how those rights relate to the parties' financial rights and obligations under a purchase agreement, the Court of Appeals for the Federal Circuit affirmed a district court's decision to dismiss for lack of subject matter jurisdiction under 28 U.S.C. § 1338(a).[26] The court of appeals found that an evaluation of the validity or "true" value of the patent would be only an element of a defense to the contract action and held that

> "the fact that patent issues are relevant under state contract law to the resolution of a contract dispute 'cannot possibly convert a suit for breach of contract into one "arising under" the patent laws as required to render the jurisdiction of the district court based on section 1338.' "[27]

However, *Additive Controls & Measurements Sys.* v. *Flowdata*,[28] held that, in the context of a state law business disparagement claim originally brought in state court, the dispute belonged in federal court because plaintiff's right to relief necessarily depended on resolution of a substantial question of patent law, viz. the falsity of defendant's accusations of patent infringement. In *Additive Controls*, the Court of Appeals for the Federal Circuit distinguished other opinions on the ground that in those cases plaintiff's right to relief did not depend upon resolution of a substantial question of patent law.

The net of the Federal Circuit opinions discussed above is that—in light of the recent trend encouraging arbitration in fields previously reserved for resolution in the courts, the lack of express preemptive language in the statute or legislative history of 35 U.S.C. § 294, and the Supreme Court's willingness to allow parties to choose the law governing arbitration, and absent contractual or statutory limitations to the contrary—issues of patent validity, enforceability and infringement may be subject to binding arbitration outside the scope of 35 U.S.C. § 294.

Virtually every defense to a claim under a United States patent may be the subject of binding arbitration under Section 294.

Copyright Issues

Although Congress has authorized arbitration for patent disputes, it has not done so for copyright disputes.[29] Nevertheless, copyright license agreements may properly provide for binding arbitration of disputes arising out of the agreement. These agreements have been challenged under 28 U.S.C. § 1338(a), which gives federal district courts "original jurisdiction" of actions for copyright infringement as well as for patent infringement. In addition, as was the case in patent disputes before 1983, it has been argued that public policy prohibits the submission of copyright claims to arbitration—or at the least, precludes arbitrators from determining the validity of copyrights. These arguments have generally not been successful.

In *Kamakazi Music Corp.* v. *Robbins Music Corp.*,[30] the Court of Appeals endorsed the arbitrability of copyright

infringement claims where copyright validity was not in issue. Kamakazi sued for copyright infringement after a license had expired, because Robbins continued to print and sell the copyrighted works. Robbins contended that Kamakazi's suit was for breach of contract and the district court lacked jurisdiction. In the alternative, Robbins sought arbitration pursuant to the license agreement. The district court ruled that the suit was for copyright infringement and the court had jurisdiction, and ordered the case to arbitration. Thereafter, the arbitrator rendered an award in favor of Kamakazi, basing his remedies on the U.S. Copyright Act, *i.e.*, statutory damages and attorney's fees. Robbins appealed to the U.S. Court of Appeals for the Second Circuit, arguing that the arbitrator had exceeded his authority in applying the Copyright Act in the arbitration proceeding.

The court of appeals held that public policy does not prohibit the submission of copyright infringement claims to arbitration.

The Court of Appeals for the Second Circuit made it plain that the claim sent to arbitration was for copyright infringement. In "the circumstances of this case, the arbitrator had jurisdiction to make an award under the Copyright Act," and "the arbitration clause was broad enough to encompass Copyright Act claims which required interpretation of the contract."[31]

The court of appeals held that public policy does not prohibit the submission of copyright infringement claims to arbitration. "The only 'public interest' in a copyright claim concerns the monopoly [created by] a valid copyright."[32] However, the court did not have to face that issue, because the validity of the copyright was not at issue in the arbitration. (In fact, this issue was decided by a district court.) Without any such public policy concern the court of appeals found no reason to prohibit the arbitration of copyright infringement. Thus, *Kamakazi* left open the question of whether the validity of a copyright is arbitrable.

In *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*,[33] the Court of Appeals for the Seventh Circuit held that an arbitrator may determine the validity of a copyright when the issue arises in a copyright license lawsuit. After the licensing agreement between the two parties had expired, Post filed an action, charging copyright infringement and seeking arbitration. Rumbleseat argued that Post's copyrights were invalid and opposed arbitration on the ground that Congress' decision to give federal courts exclusive jurisdiction over copyright actions in 28 U.S.C. § 1338(a) implicitly precluded arbitration of disputes over the validity of a copyright.

The Court of Appeals for the Seventh Circuit rejected this argument where validity is at issue in a contract dispute, noting that "a dispute over the terms of a copyright license is not deemed to arise under the Copyright Act" because it is "too remote from the federal grant (the copyright)."[34]

The court stated that because the arbitration of a dispute involving an economic monopoly (*i.e.*, antitrust) was not considered a threat to public policy by the Supreme Court, the arbitration of a dispute involving a considerably less dangerous legal monopoly (*i.e.*, copyright) that could easily be circumvented by the creation of close substitutes presented even less of a threat to public policy. Also, the public policy danger was further lessened by the fact that the decisions of arbitrators are binding only on the parties involved and have no value as a precedent. Finally, and of special interest, the court noted that the danger of monopoly is "more acutely posed by patents," yet Congress had passed 35 U.S.C. § 294 expressly authorizing the arbitration of patent validity issues.

More recently, in an action involving multiple claims of breach of contract and copyright infringement, the Court of Appeals for the Fourth Circuit held that the Federal Arbitration Act requires that the non-arbitrable issue (according to the arbitration agreement) of the royalty amount be separated from the arbitrable issues (which included copyright infringement, conspiracy to commit copyright infringement, fraud and RICO claims), and that litigation should be stayed pending such arbitration.[35]

Public policy is not likely to continue as the primary concern in copyright validity arbitration cases. It is more likely that future decisions regarding the arbitrability of copyright validity issues will depend upon the manner in which the courts choose to interpret the arbitration clause.

Trademark Issues

In contrast to patent rights and copyrights, rights in a trademark in the U.S. arise primarily under the common law as the result of appropriate use of the mark. Such rights may be augmented by registration pursuant to the Federal Trademark (Lanham) Act of 1946, or by registration pursuant to one or more state trademark acts, or both.

It appears that trademark issues are arbitrable, depending upon how generously the courts choose to interpret the arbitration agreement and related statutes. Given the courts' current attitudes toward arbitration, and assuming a broad arbitration clause in effect at the time of the dispute, trademark claims based on or issues arising out of a license agreement, rather than federal trademark statute, would likely be arbitrable—notwithstanding older authority to the contrary. The same may be concluded with respect to all issues arising in a trademark dispute even without a pre-dispute arbitration provision.



"'Season's Greetings' looks OK to me. Let's run it by the legal department."

One case in which arbitration was denied is *Wyatt Earp Enterprises* v. *Sackman, Inc.*[36] In this case, Wyatt Earp claimed trademark infringement after the expiration of the license agreement between the two parties. Reflecting an inhospitable view toward arbitration, the district court interpreted the arbitration clause to apply only to contract disputes arising directly out of the licensing agreement prior to its expiration:

> "Whether or not defendant has competed unfairly with the plaintiff presents an issue far transcending one merely 'arising out of or relating to' the contract between the parties, and it is inconceivable that they intended such a dispute to be settled by arbitration."[37]

Consequently, the court decided that, because the claim was a tort cause of action rather than a contract dispute, it was not covered under the arbitration agreement.

Three years later, the same district court (but a different judge) distinguished *Wyatt Earp*. In *Saucy Susan Products, Inc.* v. *Allied Old English, Inc.*,[38] the court ruled that disputes involving trademarks and trade names were arbitrable. Allied had commenced arbitration proceedings against Saucy Susan. Promptly thereafter Saucy Susan commenced an action in the district court against Allied for trademark infringement and unfair competition. Allied moved to stay the district court action and to compel arbitration.

The district court ruled that the trademark and unfair competition issues were subject to an arbitration agreement. The court distinguished *Wyatt Earp* by noting that, in contrast to *Saucy Susan*, the *Wyatt Earp* licensing agreement containing the arbitration clause had expired, and the acts complained of by plaintiff had occurred after the expiration date. The court took into consideration decisions of the U.S. Court of Appeals for the Second Circuit favoring a more liberal construction of arbitration agreements, and on this basis, was not persuaded by the distinction between tort and contract law expounded in *Wyatt Earp*. Significantly, the court noted that Saucy Susan did not argue that public policy weighed against arbitrating claims of trademark infringement and unfair competition. At the same time, the district court stated that "it does not appear that an agreement to arbitrate future disputes would thwart Congressional policy."[39] As a result, the district court decided that the trademark issues were arbitrable under federal law.

Subsequently, in *Homewood Industries, Inc.* v. *Caldwell*, a district court in Illinois embraced the older view and decided that trademark infringement claims were not arbitrable.[40] Homewood sued Caldwell for trademark infringement, unfair competition and patent infringement after Homewood had terminated a franchise agreement between the two parties, and Caldwell had continued to promote the trademarked and patented products. Caldwell moved to compel arbitration pursuant to the laws of Illinois under a provision in the franchise agreement.

AAA Rules and Procedures For Handling Intellectual Property Cases

The use of alternative dispute resolution (ADR) processes in resolving intellectual property disputes is increasing as technology rapidly advances and businesses strive for global manufacturing and marketing advantages.

ADR methods have proven particularly effective in the complex, fast-paced environment of high-technology, entertainment and information industries.

Parties to these disputes look to the rules and procedures developed by the American Arbitration Association for the administration of intellectual property disputes, including the Patent Arbitration Rules, the Commercial Arbitration and Mediation Rules, and the Supplementary Procedures for Large, Complex Disputes.

In addition to panelists with intellectual property expertise on the AAA's commercial panel, the select, nationwide panel for the AAA's Large, Complex Case Program (LCCP) has 46 arbitrators and mediators specializing in the field of intellectual property. Their backgrounds and professional experience cover such areas as patent and trademark litigation, trade secret, copyright law, complex technology and contract issues, copyright and trademark registration and licensing, foreign patents, data rights, software protection, and transfer of intellectual property rights. The panelists provide technical expertise in such areas as data communications, computer and computer peripherals, medical devices and technology, microcircuit and microcomputer hardware. All LCCP panelists also participate in special training in the objectives, procedures, issues, ethics and skills involved in managing a large, complex arbitration or mediation.

There were 13,192 business disputes filed with the AAA in 1994, with claims and counterclaims reaching $5.1 billion. This includes 394 patent, licensing, trademark and computer cases with claims and counterclaims totalling $881.3 million. ■

Homewood opposed, contending that the federal courts had original jurisdiction over federal trademark and patent issues.

Thus, 10 years before Section 294 became effective, the court held that claims for infringement of a federally registered trademark (as well as patent claims) were not arbitrable because the jurisdiction of the district courts over a cause of action arising under the federal trademark (and patent) laws was exclusive pursuant to 28 U.S.C. § 1338. The *Homewood* court did recognize, however, that under some circumstances arbitration might be appropriate:

> "However, should it develop from future pleadings and/or pre-trial discovery that the instant action is in reality an action on the Franchise Agreement, this Court does not intend that this ruling should be a bar to arbitration if arbitration is appropriate."[41]

In *U.S. Diversified Industries, Inc.* v. *Barrier Coatings Corporation*,[42] an action for breach of contract and trademark infringement, defendant moved to stay proceedings in court pending arbitration. The arbitration clause was broad:

> " 'Any dispute arising hereunder shall be settled by arbitration . . . according to the commercial arbitration rules of the American Arbitration Association and any award therein may be entered in any court having jurisdiction.' "

The district court found that the trademark infringement issue was within the scope of the broad arbitration agreement and granted defendant's motion.

The foregoing authorities center on the effect of an arbitration clause in a predispute agreement and manifest the need for care in drafting such clauses to effect the parties' intent. The issue not yet definitively resolved is whether or not a naked claim for trademark infringement under the Lanham Act is properly the subject of binding arbitration. In light of the recent judicial trend, the answer is likely to be in the affirmative.

Federal Antitrust and Securities Laws

The more recent decisions concerning the arbitrability of issues under U.S. antitrust laws and securities laws are likely to weigh heavily in future decisions in favor of the arbitrability of intellectual property issues. As with intellectual property claims, United States courts once generally held that claims arising under the federal antitrust, securities, and RICO laws were not arbitrable for public policy reasons.[43] Recent Supreme Court decisions, however, have rejected public policy as a justification for holding federal antitrust, securities, and RICO claims nonarbitrable.[44]

In *Scherk* v. *Alberto-Culver Co.*,[45] the Supreme Court upheld the arbitrability, with respect to an international arbitration agreement, of claims based on allegations of fraudulent representations as to the status of trademarks, and arising under Section 10(b) of the Securities Exchange Act of 1934. The court found that public policy mandates this result because without a "contractual provision specifying in advance the forum in which disputes shall be litigated and the law to be applied," the "orderliness and predictability essential to any international business transaction" would be impossible to achieve.[46] The dissent rejected arbitration for Section 10(b) on statutory and

public policy grounds, but interestingly, stated that "[i]f a question of trademarks were the only one involved, the principle of *The Bremen* v. *Zapata Off-Shore Co.*,[47] (favoring forum selection), would be controlling," *i.e.*, arbitration would be allowed.[48]

In *Mitsubishi*,[49] the Supreme Court held that public policy did not preclude arbitration of a dispute arising under the United States antitrust laws, at least in the international context. The *Mitsubishi* court did not address the arbitrability, in the U.S., of domestic antitrust claims. This left at least three public policy-based issues unresolved: (1) whether the availability of treble damages in domestic antitrust actions would preclude arbitration; (2) whether upholding pre-dispute agreements to arbitrate domestic disputes would violate public policy; and (3) whether "the pervasive public interest in enforcement of the antitrust laws," and previously uniformly followed by the Courts of Appeals, would continue to preclude arbitration of domestic antitrust claims in general. Each of these questions has been addressed by U.S. courts.

• *Treble Damages.* In *Mitsubishi*, the Supreme Court ruled that, even with the availability of treble damages, international antitrust claims were arbitrable. The court emphasized the compensatory function of treble damages in antitrust cases over the penalizing and deterrent function of such damages. The court concluded that "so long as the prospective litigant effectively may vindicate its statutory cause of action in the arbitral forum, the statute will continue to serve both its remedial and deterrent function."[50]

In later decisions, the Supreme Court and other courts have extended the reasoning of *Mitsubishi* to the domestic context. In *McMahon*, the Supreme Court addressed the arbitrability of a RICO claim, in light of the treble damages available under RICO. The court found nothing in the RICO statute or legislative history excluding RICO claims from the Federal Arbitration Act. The court invoked *Mitsubishi* and rejected the contention that public policy precluded arbitrating RICO claims. The court noted that the RICO treble damages provisions were modeled on the antitrust statutes and saw no reason to preclude an arbitrator from awarding treble damages, or to allow the treble damages provision of RICO to preclude arbitration of RICO claims.

Treble damages appear to be arbitrable in domestic antitrust arbitrations as well. In *Kerr-McGee Refining Corp.* v. *M/T Triumph*,[51] the Court of Appeals for the Second Circuit stated in the context of a RICO arbitration that the arbitrators could treble their award if they found an antitrust violation. Indeed the court went further and stated that in an appropriate case arbitrators could enhance their award by punitive damages.

• *Pre-dispute Agreements to Arbitrate.* Prior to *Mitsubishi*, U.S. courts had enforced post-dispute agreements to arbitrate antitrust issues. The courts analogized these agreements to settlement agreements, finding they did not violate public policy. On the contrary, prior to *Mitsubishi*, United States courts had often refused to enforce pre-dispute agreements to arbitrate on the ground that they violated public policy.[52]

The *Mitsubishi* Court, in the context of that international antitrust claim, enforced a pre-dispute agreement to arbitrate, finding that it did not violate public policy. This left the question of whether domestic antitrust claims could be arbitrated under pre-dispute agreements to arbitrate.

Since *Mitsubishi*, U.S. courts have permitted arbitration of similar disputes under pre-dispute agreements. Thus, the Supreme Court has upheld the validity of pre-dispute agreements to arbitrate RICO claims, securities claims, and Age Discrimination Employment Act (ADEA) claims. Appellate courts have upheld such agreements involving Employee Retirement Income Security Act (ERISA) claims.[53]

• *The Public Interest.* In 1968, the Second Circuit in *American Safety*[54] precluded arbitration of domestic antitrust issues. Since *Mitsubishi*, in 1985, both district and appellate courts in the U.S. have questioned the continued applicability of the *American Safety* doctrine with respect to the arbitrability of domestic antitrust disputes.

The courts in *GKG Caribe, Inc.* v. *Nokia-Mobira, Inc.*,[55] and *Gemco Latinoamerica, Inc.* v. *Seiko Time Corp.*,[56] rejected the *American Safety* doctrine and allowed the arbitration of domestic antitrust issues after reviewing the Supreme Court's decisions in *Mitsubishi* and *McMahon*. The *GKG Caribe* court stated that the Supreme Court "if confronted squarely with the issue of its [the *American Safety* doctrine's] continued applicability, would most certainly discard said doctrine."[57] The *Gemco* opinion is to the same effect.

Dicta of U.S. courts of appeals are in accord. In *Kowalski* v. *Chicago Tribune*

Future arbitration decisions regarding the arbitrability of copyright validity issues will depend upon the manner in which the courts choose to interpret the arbitration clause.

The issue not yet definitively resolved is whether or not a naked claim for trademark infringement under the Lanham Act is properly the subject of binding arbitration.

Co.,[58] the Court of Appeals for the Seventh Circuit stated that "it seems unlikely after *McMahon* that the principle of *Mitsubishi* can be confined to international transactions." The Court of Appeals for the Eighth Circuit has stated that *Mitsubishi* and *McMahon* "may indicate" that antitrust claims can be made the subject of arbitration between agreeing parties.[59] The dissent was more outspoken, stating that *McMahon* and *Mitsubishi*, buttressed by *Gilmer*,[60] "dictate" that the antitrust claims of appellees are subject to arbitration.[60]

Each of these opinions acknowledges the arbitrability of pre-dispute agreements to arbitrate, rendering public policy grounds for precluding arbitration of domestic antitrust issues moribund. Accordingly, it is likely that in the future, courts in the U.S. will find domestic antitrust claims arbitrable. ■

ENDNOTES

[1] *Beckman Instruments, Inc. v. Technical Develop. Corp.*, 433 F.2d 55, 63 (7th Cir. 1970). In contrast, disputes as to whether or not a product was within the scope of patent claims and thus subject to royalty pursuant to a license agreement *had* been regarded as the proper subject of binding arbitration under either federal law or state law.

[2] Section 282 of the Patent Act provides expressly that *inter alia* noninfringement, absence of liability for infringement, unenforceability, and invalidity shall be defenses in any action concerning the validity or infringement of a patent.

[3] 1992 WL 2231 at *1 (E.D.Pa. January 2, 1992).

[4] 633 F. Supp. 1209 (W.D.N.Y. 1986), aff'd 806 F.2d 1045 (Fed.Cir. 1986).

[5] *Id.* at 1212.

[6] 976 F.2d 746 (Fed.Cir. 1992), reported in full at 1992 WL 217763.

[7] 769 F.2d 1569 (Fed.Cir. 1985).

[8] The arbitration clause invoked the rules of the International Chamber of Commerce.

[9] 473 U.S. 614, 626 (1985).

[10] *Supra*, note 7, at 1572.

[11] *Farrel Corp. v. U.S. Intern. Trade Com'n*, 949 F.2d 1147 (Fed.Cir.1991).

[12] This clause also invoked the rules of the International Chamber of Commerce.

[13] *Supra*, note 11, at 1150.

[14] *Supra*, note 9, at 628.

[15] *Supra*, note 11, at 1150-51.

[16] *Id.* at 1150-51, 1152-54.

[17] *Supra*, note 9, at 627.

[18] 500 U.S. 20, 111 S.Ct. 1647, 1653 (1991).

[19] *Supra*, note 9, at 1153, n. 6.

[20] *Id.* at 1154, n. 8.

[21] Chisum, *Patents*, sec. 10.09 at 10-219 (1978, revised 1993).

[22] 845 F.2d 993 (Fed.Cir. 1988).

[23] *Id.* at 995.

[24] *Bullard Medical Products v. Wright*, 823 F.2d 527, 531 (Fed.Cir. 1987).

[25] *Id.* at 531.

[26] *Speedco, Inc. v. Estes*, 853 F.2d 909, 911, 913-14 (Fed.Cir. 1988).

[27] *Id.* at 913.

[28] 986 F.2d 476, 479 (Fed.Cir. 1993).

[29] Chapter 9 of Title 17 of the U.S. Code provides for the protection of semiconductor chip designs. Of particular interest is sec. 907, which provides that an innocent purchaser of an infringing semiconductor chip is liable only for a reasonable royalty, the amount to be "determined by the court in a civil action for infringement unless the parties resolve the issue by voluntary negotiation, mediation, or binding arbitration." 17 U.S.C. sec. 907(b).

[30] 684 F.2d 228 (2nd Cir. 1982).

[31] *Id.* at 230-31.

[32] *Id.* at 231.

[33] 816 F.2d 1191, 1198-99 (7th Cir. 1987).

[34] *Id.* at 1194.

[35] *Summer Rain v. Donning Company/Publishers, Inc.*, 964 F.2d 1455, 1460-61 (4th Cir. 1992).

[36] 157 F.Supp. 621 (S.D.N.Y. 1958).

[37] *Id.* at 627.

[38] 200 F.Supp. 724 (S.D.N.Y. 1961).

[39] *Id.* at 728.

[40] 360 F.Supp. 1201 (N.D. Ill. 1973).

[41] *Id.* at 1204. In 1992, the same district court affirmed an arbitrator's ruling that the licensee under a terminated agreement must change its corporate name to minimize confusion. Federal trademark rights apparently were not in issue. *Engis Corp. v. Engis Ltd.*, 800 F.Supp. 627, 629030 (N.D. Ill. 1992).

[42] Civil No. 83-2124-T (D.Mass. October 18, 1982).

[43] *Wilko v. Swan*, 346 U.S. 427 (1953)(claims under the Securities Act of 1933 nonarbitrable for public policy reasons); *McMahon v. Shearson/American Exp., Inc.*, 788 F.2d 94 (2nd Cir. 1986)(RICO claims and claims under the Securities Exchange Act of 1934 nonarbitrable for public policy reasons), reversed at 482 U.S. 220 (1987); *American Safety Equipment Corp. v. J.P. Maguire & Co.*, 391 F.2d 821 (2nd Cir. 1968)(antitrust issues nonarbitrable).

[44] *Mitsubishi, supra*, note 9, at 614 (public policy does not preclude arbitration of antitrust issues in international context); *Rodriguez de Quijas v. Shearson/Am. Exp.*, 490 U.S. 477 (1989)(expressly overruling *Wilko* and finding claims under the Securities Act of 1933 arbitrable); *Shearson/American Express Inc. v. McMahon* (hereinafter *McMahon*), 482 U.S. 220 (1987)(finding claims under RICO and under the Securities Exchange Act of 1934 arbitrable).

[45] 417 U.S. 506 (1974).

[46] *Id.* at 516.

[47] 407 U.S. 1.

[48] *Supra*, note 45, at 522.

[49] *Supra*, note 9.

[50] *Id.* at 637.

[51] 924 F.2d 467, 470 (2nd Cir. 1991).

[52] For example, *Cobb v. Lewis*, 488 F.2d 41 (5th Cir. 1974)("as a general matter, antitrust claims are not appropriate subjects of arbitration...[except] 'when the agreement to arbitrate is made *after* the dispute arises.' ") 339 F.Supp. 99.

[53] *Pritzker v. Merrill Lynch, Pierce, Fenner & Smith*, 7 F.3d 1110, 1111-12 (3rd Cir. 1993); *Bird v. Shearson Lehman/American Exp., Inc.*, 926 F.2d 116, 121 (2nd Cir. 1991).

[54] *Supra*, note 43.

[55] 725 F.Supp. 109, 110-113 (D.P.R. 1989).

[56] 671 F.Supp. 972, 979 (S.D.N.Y. 1987)

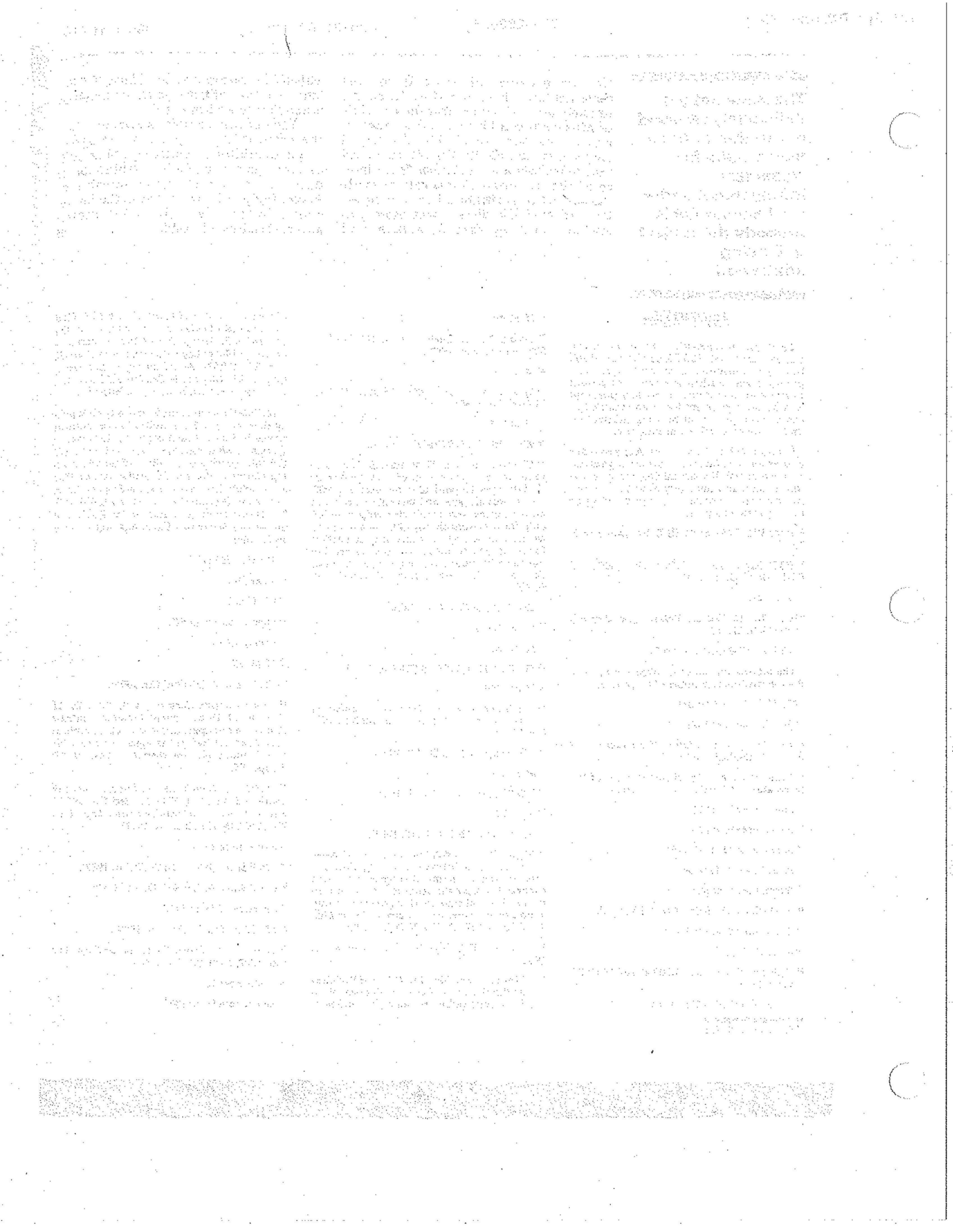
[57] *Supra*, note 55, at 111.

[58] 854 F.2d 168, 173 (7th Cir. 1988).

[59] *Swenson's Ice Cream Co. v. Corsair Corp.*, 942 F.2d 1307, 1310 (8th Cir. 1991).

[60] *Supra*, note 18.

[61] *Supra*, note 59, at 1311.



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Intermediate Sanctions: New Public Charity Rules for Insider Transactions
Robert A. Boisture
5

Federal and State Warranty Laws
Michael F. Brockmeyer and F. Joseph Gormley
23

The Commencement of a Business Bankruptcy Case
Richard F. Broude
31

Drafting for Confidentiality, Arbitrability, and Enforceability in Intellectual Property Agreements (with Form)
David W. Plant
51

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Drafting for Confidentiality, Arbitrability, and Enforceability in Intellectual Property Agreements (with Form)

by David W. Plant

"ADR" refers to alternative dispute resolution; "IP," to intellectual property; "AAA," to the American Arbitration Association; "ICC," to the International Chamber of Commerce; "WIPO," to the World Intellectual Property Organization; "CPR," to the Center for Public Resources ("CPR") Institute for Dispute Resolution; and "The New York Convention of 1958," to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, T.I.A.S. No. 6997, 330 U.N.T.S. 38.

A. Introduction

1. Alternatives to conventional litigation can be advantageous in protecting confidential information. Various techniques, when used under the proper circumstances, have proven effective in this regard. However, a technique that is effective in resolving the underlying dispute may not necessarily provide long-term protection of confidential information, and thus in this respect may not prove advantageous over litigation.

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2. Similarly, a technique that offers some protection of confidential information may not satisfactorily resolve the underlying dispute. For example, when considering arbitration as the dispute resolution process, you must be concerned about what issues (especially intellectual property issues) may properly be arbitrated and whether the award may be enforced. If arbitrability and enforceability are not ensured, investments of resources in arbitration may yield disappointing results.

B. Confidentiality

1. Confidential information may include substantive information on technology, manufacturing recipes and processes, ways of doing business, customer lists, financial information, business plans and strategies, and the like. It may also include the fact that a dispute exists, its subject matter, the status of the dispute, and the terms on which the dispute was resolved.

   a. The advantages of ADR in protecting confidential information vary from technique to technique.

   b. Understanding those variations will go a long way in helping business people and their counsel select and implement an appropriate process.

2. *Adjudicative Alternatives to Litigation.* In adjudicative alternatives to formal litigation, e.g., arbitration, proceedings through filing of a final arbitral award may be confidential. This protects the parties vis-a-vis the general public, but it does not inherently protect one party's confidential information from disclosure to another party to the proceeding. On this score, a stipulation between the parties, or an order from the tribunal, or even an order from a court in an ancillary proceeding will be necessary.

   a. Whether such an order may be issued by an arbitral tribunal is not a certainty. The parties must be fully aware not only of the institutional rules under which they are arbitrating, but also of the arbitral law governing the proceeding. For example, for institutional rules:

      i. Article 52 of the WIPO Arbitration Rules provides for a relatively elaborate procedure for protecting confidential information, including in exceptional circumstances the appointment of a "confidentiality advisor." Also, Articles 73-76 provide for the confidential treatment of all aspects of an arbitration.

ii. Rule 17 of the CPR Rules For Non-Administered Arbitration of Patent and Trade Secret Disputes contains detailed provisions regarding confidentiality, including authorizing the tribunal to issue an appropriate order (Rule 17.6).

iii. Rule 33 of the AAA Patent Arbitration Rules provides only in terse terms for the issuance by the arbitrator of an order to protect confidential information.

iv. Rule 34 of the AAA Commercial Arbitration Rules appears to authorize the arbitrator to issue an award "to safeguard the property that is the subject matter of the arbitration."

v. The current ICC Rules of Conciliation and Arbitration are silent on this subject, although they may soon be revised in this respect as well as others.

b. In addition, regardless of the provisions of the applicable rules, the cultural or experiential background of the arbitral tribunal may play a decisive role in resolving the question of how far the tribunal will go in endorsing a protective order. This is especially true in multi-national and multi-cultural arbitration.

c. Importantly, post-arbitral proceedings often leave otherwise protected information vulnerable as far as public scrutiny is concerned.

i. This is true because to enforce an arbitral award against a recalcitrant loser it is necessary to go to court to seek a judgment on the award. In doing so, the record of the arbitral proceeding, especially the award itself and often the entire record, may not be under seal.

ii. Specific steps must be taken to seek protection from the court in which enforcement (or vacatur) is sought. This is not always available.

d. Of special interest with respect to patents is section 294(d) and (e) of the U.S. Patent Act (35 U.S.C. §294(d) and (e)). Section 294(d) and (e) require that an award in an arbitration pursuant to section 294 is not enforceable until the award has been filed with the Commissioner of Patents. This, of course, is not consistent with a desire to maintain confidentiality.

e. Also of interest is 35 U.S.C. §294(c). That section provides, subject to agreement by the parties, for modification of an arbitral award of patent validity, enforceability or infringement in the event of a subsequent judgment of invalidity or unenforceability with respect to the same patent. Thus, a court is charged under section 294(c) with the duty of examining the original arbitral award for purposes of determining whether or not it ought to be set aside. This, of course, provides further opportunity for public scrutiny of information the parties thought was secure in the original arbitration.

3. Also of concern is the prospect of a third party's relying on an earlier award in an arbitration of a United States patent for its estoppel effect under *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 402 U.S. 313 (1971).

a. Additionally, a party to the earlier arbitration may rely on an arbitral award for its res judicata effect in later litigation.

b. Here, also, you must ask to what extent the earlier arbitration record and arbitral award are entitled to protection.

4. *Non-Adjudicative Alternatives.* With non-adjudicative alternatives to litigation, the parties have far more control over their problem, its solution, and how the procedure of solving their problem will be formulated. Critically important is the fact that no public tribunal need play a role in crafting the solution. The solution is customarily in the form of a private agreement between or among the parties. Usually, it needs no court endorsement (although in the event of a breach, intervention by a court may be required). An exception is, of course, a dispute embracing antitrust or other public interest issues that may require court review. But this does not mean that all confidential information of one party or another that might have been of record in a litigation need be reviewed by the court or otherwise made available to the public in connection with judicial consideration of a settlement agreement.

a. Normally, in non-adjudicative procedures (e.g., mediation), all discussions between the parties, and among the parties and the neutral, are regarded as privileged, i.e. within the protection afforded settlement discussions. Also, frequently, the parties need not share with one another their confidential business information, except with respect to specific issues.

b. Thus, non-adjudicative proceedings are much less likely to be the subject of public scrutiny, and are less likely to put confidential information on the table.

5. Consider some specific situations.

a. *Conventional Mediation.* Customarily, all communications between the parties and among the parties and the mediator are confidential in mediation. This includes information shared in joint caucuses and transmitted to the neutral in private caucuses.

i. Ordinarily, the mediator and the parties expressly agree at the outset of the mediation that all communications will be confidential, unless expressly agreed otherwise. Also, various organizations' mediation rules provide for confidentiality. (E.g., Articles 14-17 of the WIPO Mediation Rules, Section A.7 and 8 of the CPR Model Procedure for Mediation of Business Disputes, Rules 11, 12 and 13 of the AAA Commercial Mediation Rules, and Article 11 of the ICC Rules of Optional Conciliation.)

ii. The normal aspects of the mediation process go a long way toward insulating a party's confidential information from disclosure to third parties. However, it may not go all the way. If mediation results in a resolution of a dispute, the resolution and the factors that led up to it may be the subject of legitimate discovery in ensuing litigation. But the fact that this non-adjudicative process occurred is not in and of itself likely to permit a third party to penetrate the immunity that would otherwise protect a party's confidential information.

b. *Court-Annexed Non-Adjudicative Proceedings.* Court-annexed mediation and neutral evaluation proceed in the same manner as voluntary mediation and neutral evaluation. The same safeguards obtain. Indeed, the judge assigned to the case may not even know the mediator's or neutral's identity (but when the judge orders that a specific neutral be appointed, the judge will of course know the neutral's identity). In any event, the substance of what transpires during a mediation or evaluation is confidential and is not disclosed to the judge, except to the extent of advising the judge that the proceeding occurred, whether or not the parties participated and the result.

c. *Summary Jury Trials.* In summary jury trials, the problem of confidentiality is more complex because of the presence of the jury and the

courtroom staff. Thus, this ADR technique cannot be easily viewed as consistent with the protection of confidential information.

d. *Ex Parte Submissions to a Neutral.* In actual practice, when each party to a trade secret misappropriation and patent infringement dispute has not wanted the other party to continue to be exposed to fresh proprietary information of the party, the parties and the neutral (the author) have worked out a procedure whereby the neutral received ex parte submissions from each party on a confidential basis, with neither party being privy to what the other party had submitted to the neutral. This included both oral and written submissions. CPR's Model Agreement for Ex Parte Adjudication of Trade Secret Misappropriation and Patent Disputes is based on this predicate.

6. *Interested Non-Parties.* Often overlooked is the fact that many non-parties may have a legitimate interest in the existence of the dispute and its outcome, whether adjudicative or non-adjudicative.

a. Non-parties that may have a legitimate interest in the existence of the dispute are:

i. Parent corporations, subsidiaries and divisions;

ii. Principal investors and potential investors;

iii. Indemnitors and insurers;

iv. Vendors and customers;

v. Partners;

vi. Licensors and licensees;

vii. Potential infringers;

viii. Government regulatory and taxing agencies;

ix. Creditors; and

x. Parties to similar disputes.

b. It is not difficult to envision one or more of those non-parties applying to a court for access to an arbitration award, the underlying arbitration

record, or a settlement agreement resulting from a non-adjudicative ADR process. If the court grants the application, confidentiality may be compromised.

C. Arbitrability and Enforceability in Arbitration

1. In disputes concerning international commerce, arbitration has many advantages. But arbitration is valuable only to the extent that the agreement to arbitrate can be implemented and the resulting award can be enforced. A very important question in international commercial arbitration is whether an arbitral award will be enforced in all relevant countries, including the site of the arbitration and countries other than the country whose legal system governed the proceedings and the resolution of substantial issues.

2. *The New York Convention.* The New York Convention of 1958 provides the structure to frame that question, but it does little to answer the question with respect to the arbitrability of intellectual property disputes—a particularly difficult problem.

   a. The New York Convention establishes a unified legal framework for the fair and efficient settlement of disputes arising in international commercial relations. More than 100 countries are parties to the Convention, including most important socialist and capitalist trading nations and an increasing number of developing countries.

   b. The New York Convention focuses on two essential elements of international arbitration:

      i. The enforcement of arbitration agreements and the enforcement of foreign arbitral awards. It applies to arbitral awards rendered in any country other than that of enforcement or otherwise not considered domestic in the country in which enforcement is sought. New York Convention, Article I(1). However, under Article V of the Convention, an appropriate court of a member country may deny recognition and enforcement of a foreign arbitral award.

      ii. Article V sets out seven grounds for denying recognition and enforcement of a foreign arbitral award. New York Convention, Article V. Two of those in Article V(2) are especially relevant to arbitration of intellectual property disputes. Under Article V(2)(a) recognition and

enforcement of an award may be refused by competent authority (i.e., an appropriate court) in the country where recognition and enforcement are sought if that authority finds that the subject matter in dispute is not arbitrable in the country. Under Article V(2)(b), that authority may refuse recognition and enforcement of an award if that would be contrary to the public policy of the country.

iii. It has been argued that an arbitral award that cannot be enforced because of violation of public policy is also a matter that is not capable of arbitration under Article II. *See, Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth Inc.*, 723 F.2d 155, 164 (1st Cir. 1983), *rev'd in part*, 473 U.S. 614 (1985). When the challenge is to the enforceability of the award, the public policy ground is asserted after the arbitral award has been rendered. Jay R. Sever, Comment, *The Relaxation of Inarbitrability and Public Policy Checks on U.S. and Foreign Arbitration: Arbitration Out of Control?*, 65 Tul. L. Rev. 1661 (1991).

c. Article V(2) is relevant to intellectual property disputes because significant intellectual property rights are granted, sometimes after examination, by public authorities. Even in countries where there is no examination, such rights are nevertheless granted by a public authority. When intellectual property affords the owner the right to exclude the public from unauthorized use of the property, the intellectual property is manifestly imbued with the public interest.

i. Thus, Article V provides courts of member countries grounds to refuse to give effect to an agreement to arbitrate intellectual property disputes and to deny recognition and enforcement of a foreign arbitral award resolving such disputes—at least when the intellectual property rights were granted by or registered with a governmental agency of the member country.

ii. As a result, there is troublesome uncertainty about the arbitrability of disputes where intellectual property rights are at issue—especially when different rights granted by different authorities are concerned.

3. *Rights in Various Countries.* New York convention countries have applied Article V(2). to intellectual property rights such as ownership, validity, infringement, and licensing with various results.

a. *Trade Secrets.* Disputes regarding trade secrets, know-how or confidential information are proper subject matter for arbitration in virtually all

member countries. Ordinarily, these rights do not arise out of public registration or examination.

i. These disputes are usually private in nature, arising from breach of contract or breach of a duty of confidentiality between private parties.

ii. However, if injunctive relief is sought in a trade secret action, as is often the case, the public interest will typically be involved. In this situation, parties to the dispute must be informed as to the propriety of an arbitration tribunal awarding that relief—both in the country of the arbitration and in countries where a party may wish to enforce the award.

b. *Licensing*. Generally, disputes affecting licensing or other contract rights in which only damages are claimed may be referred to arbitration. Contractual disputes between parties to an intellectual property agreement are typically arbitrable provided that resolution of the dispute does not affect third parties. Questions of interpretation of an agreement, breach of the agreement, and amounts owed under the agreement are arbitrable. This includes most disputes that may arise in relation to the licensing or other transfer of intellectual property rights, including royalty disputes, between private parties. However, resolution of a dispute over the validity of a licensed patent, for example, may not be arbitrable in many countries, and thus an award purporting to resolve such an issue may not be enforceable.

i. A licensing dispute to which a government is a party requires special consideration. Concern for the public interest may be heightened when a government is on one side of a dispute.

ii. Finally, when injunctive relief is sought against a licensee in default, the public interest (as in the trade secret situation) may affect both arbitrability and enforceability.

c. *Ownership*. When an intellectual property right is granted by or registered with a public authority, questions concerning ownership of that right may embrace public interest issues. Thus, the arbitrability of questions concerning ownership of an intellectual property right has been treated differently in different countries. When the intellectual property right at issue is not registered with a public authority, the issue of ownership may be arbitrable if it is not otherwise affected with the public interest.

d. *Scope and Infringement of Patents and Trademarks.* Questions concerning scope and infringement of intellectual property rights such as patents and trademarks often include matters extending beyond the private interests of the parties to the dispute. Thus, in many countries, disputes over the scope and infringement of a patent or trademark are not proper subjects of arbitration. Disputes over the scope and infringement of intellectual property rights that are not registered with a public authority are arbitrable if the public interest or public policy does not mandate otherwise.

e. *Validity and Enforceability of Patents and Trademarks.* Questions regarding the validity or enforceability of an intellectual property right such as a patent or a trademark is a matter in which the public has an interest. When a competent court decides that a patent or trademark is invalid or unenforceable, the pertinent official register reflects that decision to provide notice to the interested segment of the public.

4. *Suggested Contract Language.* In countries where the arbitrability of intellectual property issues is limited, not favored, or otherwise in doubt, the prospects of enforcing an award that in fact determines only private, commercial rights between the parties, notwithstanding an underlying intellectual property dispute, may be enhanced if no purported determination of any potentially non-arbitrable issue is made by the arbitrator. Accordingly, the contract language appended to this outline may increase the likelihood of enforcing arbitral awards relating to intellectual property rights.

D. Conclusion

1. With foresight and care, you can adopt an appropriate ADR procedure that will not only achieve the primary goal of expeditious and fair resolution of a dispute, but also provide reasonable assurances of protecting confidential information.

2. What that procedure should be poses an interesting challenge that deserves your full attention.

APPENDIX

Model Intellectual Property Dispute Resolution Clause

1. This dispute is a private commercial dispute between the parties and affects international commerce. [Pre-dispute clause: Any dispute arising hereunder is likely to be a private commercial dispute between the parties and to affect international commerce.]

2. The parties agree that this dispute and all aspects of this dispute shall be resolved by binding arbitration solely for the rights of the parties with respect to one another.

3. If the determination of this dispute necessitates the Arbitrator's consideration of any issue relevant to the validity, enforceability, or infringement of any [IP right] of any party with respect to another party, the Arbitrator shall have the authority to consider all such issues and to express a view on all such issues. The parties expressly agree that the Arbitrator shall not have authority to declare any such [IP right] valid or not valid, enforceable, or not enforceable or infringed or not infringed, provided, however, that the Arbitrator may express a non-binding view for the parties on whether in the Arbitrator's view a court or other government agency of competent jurisdiction would uphold the validity, enforceability or infringement of any such [IP right]. The Arbitrator shall specify [may state] the Arbitrator's reasons underlying that view. However, neither the view of nor the statement of reasons by the Arbitrator shall be regarded by any party or any other entity as a declaration of validity or invalidity, enforceability or unenforceability, or infringement or non-infringement of any such [IP right].

4. The Arbitrator's award:

a. Shall state what acts, if any, a party may or may not undertake with respect to any other party;

b. Shall be final, binding and effective only between or among the parties;

c. Shall not be appealable by any party; and

d. Shall not be regarded or asserted by any party as having any effect on any person or entity not a party.

5. The parties expressly agree that judgment based on the Arbitrator's award may be entered in favor of, or against, any party in any jurisdiction that the Arbitrator determines to be appropriate under the circumstances, and each party against whom any such judgment may be entered hereby agrees to and shall make itself subject to the jurisdiction of any court in which that judgment is entered.

6. The parties agree to incorporate the terms of the award into [an underlying or related technology transfer, license, etc. agreement] as a binding amendment to the agreement and enforceable as such, effective as of the date of the award.

ARBITRATION AND INTELLECTUAL PROPERTY DISPUTES

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June 1996

I. INTRODUCTION

Arbitration is an adjudicative process for resolving disputes. In lieu of a judge or jury in a court room, one or more (usually, three) private citizens selected to serve as the arbitral tribunal receive evidence and hear argument in a conference room or similar venue, and render a decision, viz. the award.

Arbitration may be binding or non-binding. Non-binding arbitration, while adjudicative insofar as the specific arbitration proceeding is concerned, may be part of a larger non-adjudicative process. Arbitration usually is the result of an agreement between the parties, but it may also stem from an initiative by a court. (Courts usually order only non-binding arbitration.) Arbitration may be administered by an institution and subject to the institution's rules, or it may be administered by the parties themselves subject to rules the parties create, or it may reflect elements of both. Even in institutionally administered arbitrations, it is not unusual for the parties and the arbitrator to agree to depart from the administrative institution's published rules.

An arbitrator's decision is embodied in an award. If a party is concerned about collateral estoppel effects of a binding arbitral award or other adverse commercial effects (e.g., revealing confidential information or providing a road map as to how not to infringe), a reasoned award may not be desired. Also, conventional wisdom in the United

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States suggests that a reasoned award may be more susceptible to modification or vacation by a court than a bare "win-lose" award.

Because arbitration is usually the product of an agreement between the parties (especially, binding arbitration), the parties can set the course of the proceedings, agree upon governing law and applicable rules, specify issues, fix time limits and define the scope of the arbitrators' authority. A full understanding by counsel and client, and the arbitrator, of these dimensions and their implications is necessary to the efficient, expeditious and equitable use of arbitration.

The right to appeal a binding arbitration award is severely limited by legislation and by judicial opinion. Under some circumstances in the United States, that right may be modified by the parties, -- e.g., enlarged so that a court or another tribunal may perform a more typical role in ascertaining whether an arbitrator's findings of fact are clearly erroneous or conclusions of law are correct.

A fundamental requisite of arbitration is a seasoned arbitrator, available when needed, willing and able to move the proceedings forward, even-handed, and dedicated to efficiency and fairness. Arbitration has sometimes received bad press, occasionally because an arbitrator appeared to split the baby (an exaggerated impression in many cases). But a more severe drawback may be an arbitrator's permitting the proceeding to expand and to absorb as much time, energy and money as the complex litigation it was expected to supplant (a matter of substantial concern and severe

consequence). Fortunately, this result is not at all inevitable or even likely if the arbitrator is selected with care.

Arbitration has proved to be practicable, and efficiently and effectively so, in resolving intellectual property disputes. It has been utilized in lieu of litigation world-wide, and in the United States, in lieu of Patent Office adjudication. It can continue to work, especially if counsel and clients recognize that arbitration not only can be, but should be, tailored to fit their specific needs.

II. WHEN IS ARBITRATION APPROPRIATE?

Arbitration of intellectual property disputes is appropriate under many circumstances. They include licensor-licensee disputes, joint venture disputes, technology transfer disputes, infringement disputes and the like. This is true whether the arbitration is binding or non-binding.

Arbitration is not suitable in counterfeit situations or other circumstances where immediate injunctive relief is needed, or in situations where a legal precedent is necessary, or where other strategic considerations compel litigation.

In a domestic situation, the local courts may be the preferred recourse and may be wholly effective. However, in an international situation, local courts may or may not be available, and if available, judgments they render may not be enforceable as a practical matter.

It is worthy of note that the World Intellectual Property Organization's Arbitration and Mediation Centre in Geneva is currently circulating for comment draft rules intended to provide for immediate (i.e. "24 hour") interim relief in binding arbitration of intellectual property disputes. Other arbitration institutions are also considering this issue. It is likely that the WIPO rules will be in place in 1997. What is not clear is whether or not they will be utilized, and if so, whether or not they prove to be practicable. Clients and counsel should keep an eye on developments on this front and give thorough consideration to utilizing the WIPO immediate interim relief procedure in situations where it may be efficacious. Even while promulgation of the WIPO rules is pending, clients and counsel can use the proposed rules as a model for their own agreement providing for immediate interim relief.

In binding arbitration of international intellectual property disputes, attention must be paid to whether or not the subject matter to be arbitrated is indeed arbitrable, and to whether or not an arbitral award with respect to that subject matter will be enforceable in relevant jurisdictions. In the United States, statutory authority permits binding arbitration of virtually all issues relating to United States patents (35 U.S.C. § 294; also, § 135(d)). There are exceptions, but they are rare -- although the parties themselves may agree to exclude certain issues from the binding arbitration. Judicial opinion in the United States has assured that all other intellectual property issues (e.g. trade mark, copyright, trade secret) are also the proper subject of binding arbitration. However, such overall authorization of binding arbitration of all intellectual property

issues is plainly not a universal phenomenon. Accordingly, clients and counsel must be fully informed as to the law and the public policy in relevant jurisdictions regarding arbitrability of intellectual property issues that may, or in fact do, confront them.

Thus, absent compelling commercial circumstances (e.g. the need for immediate injunctive relief) or legal barriers (e.g. patent validity is not arbitrable in a relevant jurisdiction), arbitration is abundantly appropriate in connection with intellectual property disputes. Among its virtues, is the ability of the parties to select the arbitral tribunal, the arbitral rules under which they will proceed, the schedule on which they will proceed, the venue for the proceedings, the issues to be arbitrated, the power and authority of the arbitrator and post-arbitration procedures.

Also, the New York Convention (The Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, T.I.A.S. No. 6997, 330 U.N.T.S. 38) establishes a unified legal framework for the fair and efficient settlement of disputes arising in international commercial relations. Approximately 120 countries are signatories to the New York Convention. The Convention provides a vehicle for enforcing binding arbitral awards that court judgments do not enjoy. Accordingly, it is attractive for nationals of signatory countries to arbitrate rather than litigate international commercial disputes, because (assuming arbitrability and enforceability in the relevant jurisdictions) the arbitral award may be readily enforced in signatory jurisdictions in addition to the jurisdiction in which the award is rendered.

Lastly, arbitration can and should be considered both before an intellectual property dispute matures and after the dispute matures. Arbitration clauses in agreements relating to intellectual property transactions are commonplace, especially in international transactions. And arbitration after a dispute arises, if properly designed and conducted, is often a salutary way to resolve differences.

III. SOME CONSIDERATIONS WITH RESPECT TO ARBITRATION CLAUSES

Arbitration clauses in international commercial contracts, or in domestic contracts, relating to intellectual property matters are typically among the last to be considered, negotiated and agreed upon. Accordingly, such clauses often suffer from short shrift. While an arbitration clause ought not to be a deal breaker, a thorough understanding of arbitration and its applicability to the potential dispute can enhance the prospects of settling on an arbitration clause that effectively leads to resolution of the potential dispute with a minimum of ancillary proceedings and a maximum of satisfaction (at least with the proceeding itself, if not -- from the loser's perspective -- the outcome).

Post-dispute arbitration agreements stand in vivid contrast to pre-dispute arbitration clauses in agreements with respect to which dispute resolution is a tertiary concern. In post-dispute situations, the primary object of the agreement is to fashion a workable dispute resolution mechanism. However, because the emotional environment may be super charged as result of the dispute having matured, negotiating a post-dispute clause carries difficulties of its own.

In any event, clients and counsel should have in mind points of substantial significance when negotiating an arbitration clause, whether post-dispute or pre-dispute. Some of those points are referred to below, primarily in connection with binding arbitration.

First, what rules are to govern the proceeding? This is among the most important considerations, because in pre-dispute clauses there is a tendency to use a boiler plate clause that leaves to specified institutional rules the entire burden of shaping the procedure--from commencement of the arbitration through final award. This may be entirely satisfactory in some circumstances, but clients and counsel should be thoroughly familiar with the rules invoked and thoroughly aware of what they are agreeing to.

Second, should the arbitration be administered by an arbitral institution? Should it be ad hoc? Should it be a hybrid? For the less sophisticated users, administered arbitrations probably serve useful functions. For the more sophisticated users, it may be more appropriate for clients and counsel to fashion their own procedure, rules, schedules and the like.

Third, what issues are to be resolved by the arbitral tribunal? It is especially important to understand whether the arbitral clause is confined to contract issues relating only to breach of the contract in issue, or whether the clause is framed so as to embrace all issues arising out of any transaction related to the contract -- including tort causes of action. It may also be salutary to give thought to whether the dispute can be resolved by arbitrating fewer than all possible issues, thus focussing on a specified,

dispositive issue requiring less time and less expense for resolution than an all-out arbitral war would engender.

Fourth, how many arbitrators should there be and who should they be? A seasoned, dedicated, even-handed, available tribunal is critical to the success of the process. Thus, clients and counsel should consider assuming full control of the selection of arbitrators, leaving to an institution or other entity the power to select only in the event of intractable disagreement between the parties. Indeed, as the author's own experience confirms, selection of the arbitrators can be the subject of a separate mediation process where necessary (e.g. two party appointed arbitrators can mediate with clients and counsel the selection of the chair). On this score, it is important to anticipate the difficulties posed by multiple party arbitration and the appointment of party appointed arbitrators. The parties should agree as to the alignment of groups of parties for purposes of selecting party-appointed arbitrators, or if agreement is not possible, leave appointment of all arbitrators to an arbitral institution.

Fifth, are party appointed arbitrators to be neutral and independent? In international commercial arbitration, the custom is that all arbitrators are neutral and independent of the appointing party. Of course, there are exceptions. Also, in domestic arbitration in the United States, it may be perfectly acceptable, indeed expected, for a party appointed arbitrator to act as an advocate for the appointing party. Thus, clients and counsel must be very clear on the ground rules that will govern conduct of party appointed arbitrators. This begins with the selection process and continues through

rendering of the final award. For example, candidates for appointment by a party must be very circumspect in pre-appointment interviews. And after appointment, the arbitrator and all others concerned must be very clear on the party appointed arbitrators rights and obligations vis-a-vis the appointing party.

Sixth, where is the arbitration to be held? A country whose laws and practices are hospitable to arbitration should be selected as the situs. Cultural considerations may dictate situating the arbitration in a country different from any country of which a party is a national. This may pose nice issues with respect to multi-national corporations. Often, the site of the arbitration it is simply a matter of convenience for the parties, witnesses and arbitrators (and sometimes, counsel). The law of the situs is not to be overlooked. If the arbitration clause or agreement is silent as to governing arbitral law, the law of the situs will usually control.

Seventh, what will the schedule be, and may it be modified? There should be a schedule. If there is none, the arbitration may unexpectedly extend far into the future. Some arbitral institutions and some institutional rules specify the schedule. Others are silent. Typically, it is up to the parties -- arbitration is a creature of agreement -- and the parties can fix and can modify the schedule. Not only the parties but also the arbitral tribunal should agree to the schedule. An open-ended approach, especially without written commitment from the tribunal, may lead to interminable proceedings, uncontrollable expense, and justified frustration on the parts of the parties.

Eighth, what information will be exchanged before the evidentiary hearing? United States counsel are accustomed to extensive discovery. Counsel in other countries are not. The parties and their counsel should understand fully what will occur on this score, and what the consequences will be of failure to provide information called for. One consequence may be that the arbitral tribunal will draw inferences adverse to a party that fails to produce such information. Also, the clients and counsel should understand that the applicable arbitral law, the composition of the tribunal and the customs of the jurisdictions in which counsel normally practice all may lend a specific and special character to arbitral proceedings. That is, the same arbitration under the same arbitral rules may be entirely different procedurally, depending on the composition of the tribunal and the backgrounds of counsel. For example, a tribunal with Swiss national as chair may be far less generous in permitting pre-hearing discovery than a tribunal with an American chair.

Ninth, what will happen at the evidentiary hearing? Clients and counsel should understand that in some proceedings direct testimony is taken only on written statement, followed by cross-examination by counsel, or followed only by inquisition by the tribunal. They should understand also how much time will be allocated to the evidentiary hearing, and also whether pre-hearing briefs, post-hearing briefs or oral argument will be permitted.

Tenth, what about confidentiality? The prevailing view seems to be that arbitration proceedings, the record, the award and even the existence of the proceeding

itself are confidential. This view is not altogether sound. Arbitration proceedings are usually private. The parties can enter into agreements to preserve the confidential character of proprietary information that one party may disclose to another. A tribunal may refuse to order disclosure of one party's confidential information to another party. But what about the outside world if the award is to be taken into court to be enforced? It is entirely likely that the award will be a matter of public record. (Under 35 U.S.C. § 294(d) and (e), an award in an arbitration under Section 294 is not enforceable until it is deposited with the United State Patent and Trademark Office.) And what about interested non-parties? Non-party licensees, competitors, vendors, customers and future litigants may have a legitimate interest in learning the outcome of the arbitration. So may government agencies (e.g. antitrust authorities, tax authorities, other regulatory authorities), indemnitors, private investors and related companies, such as parents. In short, clients and counsel can take steps to insure protection of confidential information between the parties, but they should not count on the award or the record of the proceeding remaining out of the public's reach.

Eleventh, what remedies will be available? Those who have followed reported judicial opinions in the United States will know that there is a vigorous debate in some of the 50 states as to whether an arbitral tribunal has power to award punitive damages. This question arises in other jurisdictions also. But what are punitive damages? In the United States, simply because damages may be increased (typically, up to three times), it does not follow that the increased damages are punitive. The United

States Supreme Court has emphasized the compensating function of increased damages in antitrust matters, over their punitive and deterrent function. Also, depending on the United States intellectual property right in question, enhanced damages may or may not be regarded as punitive (e.g. increased damages under the patent act are punitive; increased damages are awarded in trademark cases under the Lanham Act only if not punitive; enhanced statutory damages in copyright infringement actions embody both components). In addition, clients and counsel must be alert to the forms of relief that may or may not be available under specific rules or specific governing law. Monetary damages may have to be awarded in a specific currency. Only limited forms of equitable relief (e.g. permanent injunctions, specific performance) may be available.

Twelfth, what form should the award take? In the United States, many binding arbitration awards have been naked win-lose awards, without reasons. In international arbitration, a reasoned award is more likely to be rendered. In complex intellectual property disputes, the parties may want a reasoned award. However, there are circumstances in which a reasoned award may be manifestly undesirable. For example, a patent owner may not want the reasoned award to provide a roadmap for designing a non-infringing product, neither party may want to risk collateral estoppel effects of a reasoned awarded, and neither party may want the award to reveal confidential information, if through judicial enforcement proceedings or otherwise it becomes available to non-parties.

Thirteenth, what other elements of an arbitration might be addressed in an arbitration clause or agreement? The answer is any number. Examples are the language of the arbitration, governing law on the merits, governing arbitral law, specific procedures for enforcement of the award, specific procedures for seeking relief from the award, recourse the parties may have if an arbitrator does not participate, the consequences of a party's failure to appear at a hearing, etc.

IV. IS ARBITRATION UTILIZED IN INTELLECTUAL PROPERTY DISPUTES?

The answer is an unqualified yes.

Clearly, litigation is the preferred, and sometimes only, route for resolving intellectual property disputes. Also, other ADR mechanisms, such as mediation, are becoming increasingly attractive. Nevertheless, both administered and ad hoc arbitration have been, and are being, utilized.

It is difficult to assess the number of intellectual property disputes that are the subject of arbitration. One reason is the confidentiality that shrouds such proceedings--at least up to a point. Another reason is the difficulty arbitral institutions experience in attempting to classify arbitrations initiated under their auspices. Notwithstanding this situation, it seems fair to say that substantial numbers of intellectual property disputes have been the subject of arbitration proceedings in recent years. The number is likely to be significantly larger than institutional statistics would suggest,

because intellectual property issues are often a component of international commercial disputes that are not classified by institutions as "intellectual property" disputes.

This returns us to the point made in Section II. regarding arbitrability and unenforceability. Even though a dispute being arbitrated appears to include an intellectual property issue as a minor component, clients and counsel should be aware of the potential impact on the enforceability of the award overall. For example, if the arbitral tribunal rules -- as a part of a larger award -- that a government granted intellectual property right (e.g. a patent, a registered trademark) is not valid or otherwise is not enforceable, all concerned must be alert to the impact on the award if that intellectual property ruling is held by a court to have been outside the power of the arbitrators under the arbitral law governing the arbitration, or is held by a court to be unenforceable in the jurisdiction in which enforcement of the award is attempted.

V. WHAT SERVICES DO VARIOUS INSTITUTIONS OFFER?

We consider here two categories of institution: (1) ADR providers and (2) intellectual property organizations.

ADR providers in the United States include organizations such as the American Arbitration Association, CPR Institute for Dispute Resolution and JAMS/Endispute, and elsewhere in the world, such organizations as the International Chamber of Commerce in Paris, the London Court of International Arbitration, Chartered Institute of Arbitrators and Centre For Dispute Resolution in London, the British

Columbia International Commercial Arbitration Center in Vancouver, and others such as the Stockholm Chamber of Commerce, China International Economic and Trade Arbitration Commission, and International Arbitral Centre of the Federal Economic Chamber in Vienna. Among these organizations, only the AAA and CPR seem to have promulgated rules, or model rules, directed specifically at arbitration of intellectual property disputes (e.g. AAA Patent Arbitration Rules, CPR Rules for Non-Administered Arbitration of Patent and Trade Secret Disputes, CPR Model Agreement for Ex Parte Adjudication of Trade Secret Misappropriation And/Or Patent Disputes). This is not necessarily of high moment. All ADR providers are aware of and are considering special issues associated with intellectual property disputes and are prepared to provide arbitration services of such disputes under one set of their rules or another. Even with organizations like the AAA and CPR, many intellectual property disputes are arbitrated under more general rules such as the AAA Commercial Arbitration Rules, the AAA International Arbitration Rules, and the CPR Non-Administered Arbitration Rules.

The CPR Model Agreement for Ex Parte Adjudication of Trade Secret Misappropriation And/Or Patent Disputes is of especial interest in connection with non-binding arbitration of disputes in which each party desires to insulate its proprietary information from the other party. This model agreement may illustrate useful procedures not typically employed, but nevertheless of real practicability.

As for intellectual property organizations, the World Intellectual Property Organization seems to be the only organization to have established an arbitration and

mediation center and promulgated rules for the purpose of providing ADR services specifically for the intellectual property community. The WIPO Arbitration and Mediation Centre came on line in October 1994. Its director, Dr. Francis Gurry, has assembled a panel of potential neutrals numbering over 400 persons from around the world. While at this writing WIPO Arbitration Rules may not have governed any specific proceeding, those rules have been incorporated into dispute resolution clauses in international agreements and will in due course be applied. At the same time, the WIPO Centre has consulted with and provided informal services to many disputants around the world.

Other intellectual property organizations have assembled lists of potential neutrals. For example, in conjunction with CPR, the International Trademark Association has developed a panel of potential neutrals with expertise in trademark law and related subjects. And the American Intellectual Property Law Association has assembled a list of more than 100 potential neutrals, together with background information about each. Neither the CPR/INTA panel nor the AIPLA list is meant to imply that either INTA or AIPLA will themselves administer arbitrations.

VI. CONCLUSION

We have skimmed the surface in this introductory piece, leaving many issues unmentioned and many questions unanswered.

But perhaps enough has been written to suggest that arbitration, if well designed and properly implemented, is indeed alive and well as an intellectual property dispute resolution mechanism. On those occasions where arbitration has gone astray procedurally, the blame should not be placed on any inherent unsuitability of arbitration in this field. Rather, other circumstances have led to the bad press arbitration sometimes receives -- albeit circumstances that may sometimes have been in the parties' control.

Arbitration, as we have seen, is the product of the parties' agreement. The parties are free to design a procedure that will prove to be satisfactory. Whether or not they realize that goal is a function of the thoroughness of their understanding of the nuances and their willingness to address those nuances in their arbitration clause or their arbitration agreement, and then to implement that clause or agreement in a rational way.

35 U.S.C. § 294. Voluntary arbitration

(a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court to competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed

with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

(e) The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner.

35 U.S.C. § 135. Interferences

(d) Parties to a patent interference, within such time as may be specified by the commissioner by regulation, may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of title 9 to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Commissioner, and such award shall, as between the parties to the arbitration, be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Commissioner from determining patentability of the invention involved in the interference.

WIPO
Wine Law Association

The Mediation Process
And Intellectual Property Disputes

David W. Plant
Fish & Neave
New York, New York
1998

Mediation is a facilitated negotiation, in which a neutral (the mediator) attempts to assist the parties in finding their own solution to their own problem.

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I. SIX PHASES OF THE MEDIATION PROCESS

A. Getting to the table.

B. Preparing for the process.

C. Initial sessions.

1. First joint session.

2. First private session.

D. Subsequent sessions.

E. Closure, viz. "End Game".

F. Post-Mediation.

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II. GETTING TO THE TABLE

A. Preparation

1. Know all parties' real interests and real needs.

2. Know your BATNA, and the other parties' BATNA's.

3. A dispute is an opportunity to create value.

4. Know the ADR menu.

5. Be creative; fit the process to the fuss.

6. Post-dispute more difficult than pre-dispute.

B. How to break the ice.

1. Court rules.

2. Professional responsibility.

3. Clients' pledges and commitments.

4. Client's policy.

5. Common sense.

6. Who?

   a. Party to party.

   b. Lawyer to lawyer.

   c. Neutral good offices.

7. Your adversary must be your partner.

III. PREPARING FOR MEDIATION

A. The parties have agreed to (pre-dispute or post-dispute), or a Court has ordered (post-dispute). mediation.

B. The mediator.

1. Parties and counsel jointly select the mediator (desirable); or Court or other institution selects the mediator (not desirable).

2. Know your mediator.

a. Reputation.

b. Some characteristics.

(1) Patient

(2) Diligent

(3) Sensitive

(4) Flexible

(5) Creative

(6) Trustworthy

(7) Authoritative

(8) Even-handed

c. Competence.

(1) Subject matter.

(2) Process

(a) Experience.

(b) Training.

d. Style.

(1) Facilitative.

(2) Pro-active and evaluative.

e. How does the mediator manage personal interaction?

f. Sources of information.

(1) Institutions.

(2) Colleagues.

C. The mediator communicates.

1. Joint telephone conference with counsel.

2. Emphasizes that whatever is in dispute, this is a problem to be solved as partners, not a war to be won as adversaries.

3. Continues transformation of adversaries into partners.

a. Fundamental shift in viewpoint.

b. At least in formulating and proceeding through the mediation process.

4. Explains process.

a. Process.

b. Journey.

c. Negotiation.

5. Is alert to semantic issues.

a. E.g. "binding" mediation.

b. E.g. mediator will decide what's right for the parties.

6. Participants to negotiate in good faith and with candor.

7. Explain who must be present and their roles.

   a. Parties -- principals; authority to settle.

   b. Counsel -- counselors; not necessarily litigators.

   c. Third parties -- insurers; indemnitors; partners.

8. Schedule.

9. Confidentiality.

10. Pre-session Submissions -- briefs.

   a. Positions.

   b. Real interests and needs.

      (1) BATNA

      (2) Be creative and be objective.

      (3) Do you need litigation?

      (4) Is there a business relationship to be preserved or created?

      (5) Are there political reasons, internal or external, motivating settlement?

      (6) Are there personal needs?

   c. Understand and account for the other side's interests and needs.

   d. Look beyond the present dispute to overall relationships.

      (1) Subject matter.

      (2) Time.

e. Assess the strengths and weaknesses of both sides' positions.

f. Conduct an objective litigation risk analysis.

g. Include the few material exhibits.

h. Clarify whether briefs are in confidence and ex parte to mediator, or are exchanged.

11. Court-annexed aspects.

a. Understand duties and responsibilities of the mediator.

b. Comply with the schedule.

c. Understand the information to be reported to the judge.

12. Mediator's fee.

13. Written agreement.

a. Deal with these and other issues.

b. Parties' consent to mediator.

D. Ethics -- Responsibilities of The Mediator

1. No conflicts of interest!

a. Actual.

b. Apparent.

c. Must immediately notify of <u>any</u> change in situation.

2. Rights and obligations of the mediator vis-à-vis the parties.

a. Past engagements.

b. Present engagements.

c. Future engagements

d. Firm's engagements

(1) CPR model agreement.

(2) Other Clauses.

e. Fees

(1) Hourly.

(2) Lump sum -- approximate value of case.

(3) Who pays? When?

f. Power imbalance.

(1) Large v. small.

(2) Party represented by counsel v. pro se.

(3) Wealthy v. poor.

(4) Sophisticated v. unsophisticated.

(5) Eastern v. Western.

(6) European v. U.S.

g. Not judge.

h. Not a party's attorney.

i. Not party to a crime or fraud.

j. All information confidential.

3. Immunity.

a. Suit.

b. Subpoena.

4. Mediator to manage process.

a. Substantive problem is the parties' problem to be solved by the parties.

b. Mediator has to guide and keep on track the problem solving process; does not solve the substantive problem.

c. May have to mediate re the mediation process.

5. Mediator as arbitrator.

a. This process.

b. Later dispute.

6. Arbitrator as mediator.

7. Mediator will withdraw.

a. If conflict of interest.

b. If parties not participating in good faith.

c. If clear mediation will not be successful.

d. If mediator would be party to a crime or fraud.

E. Role of Counsel and Parties in Preparation.

1. Must understand mediation -- know what to expect.

a. The variations on the themes.

b. The pros & cons.

2. Understand all counsel's and all parties' negotiating techniques.

   a. Principled.

   b. Scorched earth.

3. Beware misconceptions.

   a. Mediator's power -- not a judge.

   b. Injunction needed -- still can settle.

   c. Intellectual property right invalid or unenforceable - still can settle.

   d. Intractable parties -- still can settle.

   e. One party seeking discovery -- still can settle.

   f. One party signaling weakness -- still can mediate fairly.

IV. THE FIRST JOINT SESSION

A. Amenities.

1. Rooms.

2. Coffee.

3. Telephones.

4. Meals.

5. The table.

6. Courthouse v. private office.

B. Introductions.

1. Everyone present.

2. Parties seated next to mediator; counsel not next to mediator.

3. First names.

a. Usually.

b. Eventually.

c. Even mediator.

C. Mediator explains process.

1. Repeats essence of preliminary telephone conference.

2. Necessary because new participants, viz. the parties.

3. Emphasizes problem to be solved by parties working together.

4. Confidential.

a. The process.

b. Mediator's notes.

5. Off-the-record settlement discussion.

6. Mediator is neutral; no substantive judgment; no substantive power.

7. Mediator facilitates; not evaluates, unless jointly requested and appropriate.

8. Explains joint and private caucuses.

   a. Emphasizes confidentiality.

   b. Especially in private caucus.

9. Frankness and openness are requisites.

10. Good faith negotiations are required.

11. The principals (e.g. executives) must be prepared to participate.

12. Solutions to difficult problems call for creativity.

13. If court-annexed, court will not know what said by any party.

   a. Mediator simply reports that parties met and settled or did not settle.

   b. If early neutral evaluation is combined with mediation, mediator/evaluator will report on discovery needed, for example.

14. Ground rules.

   a. This is the parties' (more specifically, the principals') process.

   b. Challenge positions, not persons.

   c. Always focus on potential solution.

d. The mediator will manage the process.

(1) Interruptions not be permitted.

(2) Each party may be asked to restate other party's position and other party's real interests and needs.

(3) Explore options; brainstorm without judgments.

D. Emotion

1. Can run deep.

a. Anger -- other party is unfair, immoral and vindictive.

b. Distrust -- other party is liar; has breached a contract; has betrayed a trust; has failed to pay.

c. Dislike -- personal animosity; can't stand to be in the same room.

d. Strategic -- for competitive purposes; anger as a negotiating tactic.

2. Expressed in challenges to

a. Past and present positions.

b. Other principal's or counsel's integrity.

c. Other principal's or counsel's good faith.

d. Past sins of omission and commission.

3. Mediator's role.

a. Listen.

b. Express understanding.

c. Expect emotion at every session.

d. Let parties air out, then

(1) Deflect anger.

(2) Encourage civilized dialogue.

(3) Move to private caucus.

(4) Point out more progress if parties focus energies on finding solution.

(5) Ask other party to state its understanding of basis for angry party's emotion.

E. Which party speaks first?

1. Usually claimant or claimant's counsel speaks first.

2. But defendant may request to speak first.

3. May be the party who last proposed a resolution.

4. Or the party who proposed mediation.

5. May be party selected ad hoc by the mediator based on mediator's instincts.

6. Mediator will assure other parties that all will have an opportunity to speak.

F. Usually, counsel opens with a statement of client's position.

1. Counsel should address the other side's representatives, not the mediator.

2. 5-10 minutes; if complex, longer.

3. Typically, more detail or changed position later.

4. Purpose: to persuade other party of

a. Your bona fides.

b. Strength of your position.

c. Weakness of other party's position.

d. The need to settle; overlap of interests and needs.

e. A rational basis for settlement.

G. Next, other counsel will state their client's position.

H. Mediator's role.

1. Asks questions to assure mediator and parties understand --

a. Parties' positions.

b. Status of settlement talks.

c. Status of pending or proposed litigation.

d. Interests of others not present

2. Kinds of questions --

a. Open-ended.

b. Hypothetical.

c. Seeks help in understanding.

3. Restates a party's position to assure clarity.

4. Asks counsel to restate adversary's position.

5. After hearing parties' positions stated by counsel, mediator may ask each party to begin to articulate real interests and needs.

V. MEDIATOR'S JOB AT ALL SESSIONS

A. Be patient.

B. Remain neutral.

C. Listen and understand.

D. Facilitate.

1. Communication.

2. Understanding.

E. Always optimistic; never pessimistic.

F. Assure that everyone is heard and understood.

G. Form no judgment; be flexible; beware of unspoken solution that seems obvious to mediator.

H. Engender trust and confidence.

I. Seek broad views from parties first; details, second.

J. Understand the emotional roller coaster; weather it.

K. After counsel and parties have spoken in each other's presence.

1. Mediator may suggest private caucus, or one party may request a private caucus; in either case, mediator checks if OK with other party.

OR

2. Mediator stays with joint session and begins to explore

a. What each party needs.

b. What each party expects.

c. What each party sees as a practicable process for achieving a joint solution.

L. Usually, a mediator's evaluation should be deferred until late in the process, and often, never given at all.

1. An early evaluation may

   a. Indicate that mediator is biased.

   b. Harden positions.

2. Mediator's evaluation may be essential to reality testing.

3. Proper timing is vital.

VI. COUNSEL'S JOB AT ALL SESSIONS

A. Be prepared -- as if final argument.

B. But this is not final argument.

C. Counsel's job is to counsel and to help client find a solution; strident advocacy usually inappropriate and counter-productive.

1. Understand client's BATNA.

2. Understand client's real interests and needs.

3. Ascertain other side's BATNA and real interests and needs.

D. Beware of Rambo litigator tendencies.

E. Persuade other side's representatives, not the mediator.

F. Persuade other side that --

1. Other side's position, however attractive to other side, is weak.

2. Client's position, however difficult for other side to accept, is strong.

3. Client's position is direct out-growth of client's real interests and needs.

4. Other side's position is not consistent with other side's real interests and needs.

5. Notwithstanding differences re positions, parties' real interests and needs may overlap and may suggest a solution.

6. Important to client that both sides' real interests and needs are satisfied.

VII. PRINCIPAL'S JOB AT ALL SESSIONS

A. Be prepared to participate fully, and increasingly as the mediation proceeds.

B. Be prepared to talk more than your lawyer.

C. Talk with the other party.

D. Be creative.

1. Know your BATNA.

2. Understand thoroughly and describe own interests and needs.

3. Listen and try to understand thoroughly other side's BATNA, interests and needs.

4. Objectively assess value of case to each party.

5. Objectively assess risks of not settling to each party.

6. Avoid ad hominem attacks.

7. Explore ways to share important information with other side -- even confidential information.

E. Be prepared to share views -- even highly sensitive and confidential information -- with mediator.

1. Mediator will ask what the party wanted out of the deal now in dispute.

2. Mediator will ask what the party's goal is today.

F. Express emotion.

G. But be controlled, be firm, be informed, be objective and be confident.

VIII. FIRST PRIVATE CAUCUS

A. The party not caucusing.

1. Mediator must reassure.

2. Should have own room.

3. Amenities.

4. Homework -- what mediator will be asking; focus on real interests/needs of all parties.

B. Caucusing party

1. Mediator must reassure party that all aspects of private caucus will remain confidential, unless party expressly authorizes disclosure of a specific aspect.

   a. Mediator will take notes to keep important points in mind and to assure confidential information is segregated from non-confidential information.

   b. At end of private caucus, mediator will double check on what mediator can and cannot say to other side.

2. Mediator will gather information.

   a. Will start on positive note, viz. what is important to caucusing party.

   b. Full story is not likely to unfold in first caucus; more will be revealed later.

   c. Mediator will seek the real story.

      (1) Party's perceptions.

      (2) Party's dislikes.

      (3) Party's understanding of the differences separating the parties.

(4) Bases for distrust.

(5) Relevant history.

(6) Party's previously unstated concerns, fears, motives, needs.

3. Mediator will have principals talk.

4. Mediator will encourage the party to focus on its needs.

5. Both counsel and the principal must be prepared to disclose real interests, real needs, real value of case.

6. Mediator may inquire as to party's further understanding of the other party's real interests, real needs, perceptions, fears, etc.

7. Mediator is likely to --

a. Ask open ended questions.

b. Ask hypothetical questions.

c. Avoid confrontation.

d. Eschew reality testing in early caucus.

e. Try to listen with open mind.

f. Express no judgment and no recommendations.

g. Wonder whether the mediator's patience will endure.

h. Wonder whether the mediator has the requisite skills to assist the parties.

8. Before private caucus concludes, mediator will ask party whether there is any message the mediator should transmit to the other side. Anything I cannot say?

   a. Mediator will distinguish clearly between what mediator can say and cannot say on behalf of caucusing party to the other party.

   b. The mediator can frame hypothetical questions to other side, e.g. "What if..."; "Have you considered..."; "Would it be possible to..."; "If we could persuade the other side..."

IX. FIRST PRIVATE CAUCUS WITH THE OTHER PARTY

A. Same process as in preceding Section VIII.

B. Mediator is likely to (i.e. should) listen before delivering a message.

1. Before stating first party's offer, and

2. Before asking "what if... "

3. Let this party tell its story.

C. The mediator should understand the second party's interests and needs before revealing anything about first party's caucus.

D. Mediator will begin to isolate real issues in light of unspoken information from first private caucus.

E. The mediator will attempt to find an issue on which to begin to facilitate negotiation.

F. Is the mediator obligated to deliver the first party's message regardless of what the mediator learns in the second party's private caucus?

X. THE MEDIATOR AND PRIVATE CAUCUSES IN GENERAL

A. The mediator will hear diametrically opposed accounts.

1. Unalterable anger.

2. Eternal dislike.

3. Solidified distrust.

4. The other side's misconduct is the sole cause of the dispute.

5. Hopeless deadlock.

B. The mediator is likely to want to throw in the towel. DON'T!

1. Find one potentially resolvable issue out of the two or three real issues.

   a. Not positions.

   b. Real issues.

2. Explore ways to find common ground on that issue.

   a. Brainstorm options.

   b. Move outside parameters of dispute as currently framed.

      (1) Another relationship?

      (2) Goods for money?

      (3) Another player?

   c. Prioritize.

3. Take it a step at a time.

XI. DANGER, DANGER, DANGER!

A. A solution may be immediately and luminously clear to the mediator.

B. The mediator's perceived solution may be objectively sound, all encompassing, profitable to all, efficient, and eminently fair.

C. But it is highly unlikely that any party sees it now, or will see it later, as the mediator see it!

D. The parties have own agendas: the mediator is not likely to be privy to or to understand all the agendas.

E. The mediator should let the parties explore and propose the solutions!

F. It's their problem; the solution is within their grasp.

G. The solution will be durable if the parties create it and own it.

XII. SUBSEQUENT SESSIONS

A. Joint.

1. Joint sessions should be frequent; interspersed among private caucuses.

2. Parties together can sum up.

3. Parties together can reach a common understanding.

4. Parties together can discuss possible solutions.

5. Avoid the negatives associated with hidden conversations with the mediator.

6. Avoid misstatements or misunderstanding when mediator is shuttle diplomacy messenger.

7. Joint caucuses may engender confidence and good will.

   a. After abrasive emotions have subsided.

   b. But abrasive emotions may never subside, and joint caucuses may be difficult.

8. Entirely new perspectives may be difficult to acknowledge in joint caucus, but joint exploration of a solution to a relatively easy issue may be salutary.

9. If the parties can make progress in small steps in joint caucus, this will build confidence in

   a. The parties themselves.

   b. The process.

   c. The prospects of finding a solution.

B. Private caucuses may continue to be necessary to provide the environment to get to real interests and real needs.

C. Caucuses on different days.

1. Fatigue is an important factor; parties have to stand back and reflect.

2. Incentive to continue wanes if intense caucusing seems to yield only negative results.

3. Homework may be necessary to break a logjam before negotiations resume.

4. Another party (e.g. insurer) may have to participate.

XIII. END GAME

A. Breaking an impasse.

1. Reality testing.

a. Mediator may question soundness of positions.

b. Mediator may inquire as to cost of litigation.

c. Mediator may ask parties to list the real rewards of litigation v. costs.

d. The mediator may ask a party to tabulate the pros and cons of another alternative to potentially available terms and conditions.

e. Mediator may take parties through litigation risk decision tree.

2. Mediator may explore creating other relationships.

3. Mediator may ask each party what the party would do if it owned both sides of this problem.

4. Mediator may explore with one party what that party can give up that is of little value to it but of relatively larger value to the other side.

5. The mediator may serve as an arbitrator.

a. The mediation may render a binding decision on a final issue.

(1) Money.

(2) Design.

b. The mediator may evaluate each party's chances in litigation.

(1) Privately.

(2) Jointly.

6. Parties may not be influenced by mediator's judgment because it is demonstratively correct; rather, because of their confidence in the mediator.

7. Mediator may provide short term solution followed by continued monitoring.

8. Mediator's expression of an opinion may adversely affect mediator's ability to act as a neutral in the future on the specific matter.

B. Don't Let Parties Leave The Session!

1. Parties can quit any time. It's their process.

2. But it is more difficult for a party to quit forever if the mediator is present.

3. Mediator will discourage quitting if progress apparent and end in sight.

4. Mediator may let party walk out, and before other party leaves, get the walking party back in the room.

C. It is imperative that the mediator be

1. Eternally optimistic -- must point frequently to progress.

2. Confident.

3. Experienced.

4. Trusted.

5. An authority figure.

D. Don't let the parties leave with a handshake; there must be a written agreement signed by all concerned.

1. Counsel, not the mediator, should dictate or draft.

2. Will reveal and clarify misunderstandings.

3. Will minimize chances of immediate rekindling of impasse.

4. Counsel and parties execute.

5. Even if only some issues settled; agreement may outline process for resolving future issues.

E. If no agreement is possible.

1. Parties should expressly acknowledge no agreement.

2. Parties should state why.

3. Parties should acknowledge room for further progress, if any.

4. Parties should explore what to do next.

5. Court-annexed mediation.

a. Mediator may give an evaluation.

b. Mediator may suggest that parties report to Court on their views of the mediation.

c. Mediator may suggest to the ADR administrator that the Court's intervention is necessary to break a logjam.

XIV. POST-MEDIATION

A. Mediator will destroy documents submitted to mediator, as well as mediator's notes.

B. If the mediator is subpoenaed, or if a party is subpoenaed,

1. Notice must be given to all concerned.

2. Mediator must invoke the privilege.

C. If court-annexed, mediator will report to Court.

1. Bare bones report.

2. May include evaluation.

3. May outline discovery issues to be tried, etc.

D. Mediator should write to parties.

1. Confirming the outcome.

2. Including post-mediation reflections.

3. Expressing thanks.