ADR in Innovation and Technology Cases: Are Tech Cases Special? What You Need to Know

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Topics for interactive discussion:

I. The benefits of ADR for Innovation and tech cases generally.

- Are these cases different?
- The special benefits of ADR.
- Background and experience of arbitrator or mediator.
- Issues with presenting a case to an arbitrator or mediator with no background in underlying industry, relevant science, engineering, software, patents, trade secrets

II. Mediating innovation and tech cases

- Selecting mediators:
  - General qualities of effective mediators.
  - Use of proper selection criteria Is there a benefit to a mediator with a science/engineering/software background?
  - Is there a benefit to mediator with knowledge or background in the particular industry?
  - Co-mediation. Is it really helpful? If so, where?
- Who should attend?
  - Are there different considerations than in in other mediations?
  - Should each side have technical people in addition to the business decision maker(s)?
  - Is it helpful for the lawyer to also have a tech background? What if he or she does not?
  - Would it be helpful for the experts (internal or external) to participate?
- Structuring the mediation process (e.g., pre-mediation submissions, in-person meetings and calls, combined sessions, caucuses, only tech people talking)
  - to identify undisputed/disputed issues, options and party-perceived obstacles to settlement
  - to assess whether parties need additional information on disputed issues

- to do reality testing on disputed technical issues
- To acquaint the mediator (even knowledgeable one) with the technology at issue (e.g. a tutorial), specific tech, business or industry issues
- To discuss design arounds
- To reach, through pre-session activities (calls, preliminary in-person meetings with each side) any initial agreements or simplifications that will save time at mediation session, and give "homework" assignments to each side to catalyze further thinking by that side and better prepare it for mediation session that will follow

- Opportunities to collectively solve the technical/engineering issues before addressing possible settlement structure. (not sure what is meant?)

III. Arbitrating Innovation Industry and Technology Cases

- Selecting the arbitrator(s)
  - Is there a benefit to a panel of three?
  - Use of proper selection criteria
  - What expertise can and should you expect the neutral(s) to bring to the table?
  - Should they be able to employ their own knowledge of the science, or must they rely on the experts?
  - What about a mixed panel, i.e. one or two with and one or two without technical expertise.
  - Non lawyer ,technically competent panelists, with or without expert knowledge in the technology in dispute.
  - Industry expertise, rather than pure technical expertise.
- The Hearing
  - Are there special considerations for tech case, (presenting technical evidence, use of tutorial, claim construction in patent cases)?
  - Can or should an arbitrator, with special expertise, do anything when he or she believes that the expert is either wrong or is not discussing what he or she believes to be the key technical issues relating to causation?
  - Use of a panel appointed expert, such as common in international cases
  - Hot tubbing experts.
  - To what extent should or may the arbitrator(s) examine the experts.

- To what extent is the arbitrator interfering with the party's/lawyer's case.
- Is a tech arbitration about determining the best scientifically defensible result, i.e. finding truth, or is it limited to deciding between the parties' positions, whether or not the arbitrator believes them to be scientifically correct?

The proposed program will be an interactive discussion of the topics. The panel members backgrounds and practice areas include experience as practitioners, in house general counsel, and neutrals. Their practice areas focused on different industries from software, pharmaceuticals, and various engineering disciplines. Some have engineering degrees while others have liberal arts degrees but their practice focused on technology industries.

It is expected that the attendees will have as much to offer to the program as the panel. Many lawyers and neutrals have strong feelings as to whether specialized science or engineering education or significant industry experience is necessary or beneficial for mediators or arbitrators in tech cases. The purpose of the program will be to share and explore these issues and garner various viewpoints.

LIST OF MATERIALS FOR
ADR IN INNOVATION AND TECHNOLOGY CASES:
ARE TECH CASES SPECIAL? WHAT YOU NEED TO KNOW

1. ADR Technology and Applied Science Cases: A Better Way

2. Arbitration's 800-pound Gorilla

3. Halket and Nycum, The Arbitration Agreement (cite only)

4. Patent Arbitration: It Still Makes Good Sense

5. Enhancing Arbitrator Selection: Using Personality Screening to Supplement Conventional Selection Criteria for Tripartite Arbitration Tribunals

6. Chartered Institute of Arbitrators
Practice and Standards Committee
Arbitration Sub-Committee
Practice Guideline 16: The Interviewing of Prospective Arbitrators

7. How to Select an Arbitrator

8. Enhanced Neutral Selection Process

9. ADR Advocacy, Strategies, and Practice for Intellectual Property Cases

10. Report of the CPR Patent Mediation Task Force Effective Practices Protocol

1. ADR TECHNOLOGY AND APPLIED SCIENCE CASES: A BETTER WAY

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ADR IN TECHNOLOGY AND APPLIED SCIENCE CASES: A BETTER WAY

Michael H. Diamant[*]

Disputes where issues of science and technology are central are particularly well suited, and I would argue, best suited for ADR. Consider the lawyer drafting a contract involving complex technology. Both counsel and the client often justifiably fear that if a dispute were to arise, explaining the technology to a judge or a jury would be a daunting task. Many disputes today turn on issues of complex chemistry, electronics, fluids, aerodynamics, or computer programming, to name only a few examples. Most judges have neither science degrees, nor even took a science course in college, but rather, understandably, studied history, political science, English, economics or business. Of course, there are jurists with a science background, but they are a small minority, and with random draw systems, there is no assurance of drawing one. While it is possible that one or more jurors in a case may have some advanced science education, that too is rare. ADR enables parties to select a mediator or arbitrator(s) with the specific applicable technical education and/or experience to provide a more effective and reliable means of resolving these disputes.

In common parlance, "technology" has come to refer only to computers and software, and the term "technology litigation" is often assumed to mean only patent litigation. The term "technology" is far broader and refers to all of the applied sciences. And, "technology disputes" encompass far more than just patent and other intellectual property ("IP") disputes. Rather, the terms also apply to disputes where the application of scientific principles, i.e. physics, chemistry, biology, electronics, mechanics, etc., are required to determine whether there was compliance with a contract, the cause of a device,

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system, or material failure, or patent or other intellectual property rights. I submit that ADR, whether mediation or arbitration, generally can provide a more cost efficient and predictable means of resolving these disputes than court proceedings.

MEDIATION

Mediation is becoming more and more accepted in the business community as a more cost effective and generally mutually beneficial means of settling all types of disputes than submitting the dispute to a court or an arbitrator to decide. As mediators like to say, "All cases are settled." In mediation, the parties agree on the settlement, while in arbitration or court action, the settlement is imposed on the parties by a third party by means of a court judgment or arbitration award. This is particularly significant in disputes between businesses centering on technology. Disputes in these contexts often arise from a technical problem that needs to be solved or a technical question that needs to be answered rather than just a monetary dispute.

While technology cases can involve the emotions and egos of the participants, when it gets down to the science and engineering issues, scientists and engineers will focus on problem solving. Of course, even in technology disputes, there often are emotions and egos involved, which a trained and experienced mediator needs to defuse before the technology issues can be addressed productively. But, scientists and engineers are basically problem solvers. That is how they were educated; and that is what they do professionally. The job of the mediator is to take the parties from a confrontational mode to problem solving. If the mediator has the scientific/engineering knowledge to identify and understand the underlying technology issues the mediator can focus the parties on identifying the specific problems that need to be resolved and assist them in developing a methodology to solve those problems.

Resolving the underlying issues may involve developing an agreed testing protocol to determine causation or finding a fix to a system, component, or product issue. If the mediator is able assist the parties in solving the technical problems, the parties can then focus on whatever financial and/or legal issues remain. Rather than only focusing on negotiating a settlement payment, the parties may be able

to negotiate an arrangement to restart a suspended and seeming failed project or business relationship or create a new mutually beneficial relationship. Even where there is no ongoing relationship to be had, reaching an understanding of the real engineering problems can lead to a more focused and productive financial negotiation.

An effective mediator must gain the respect and trust of the participants. In a technology dispute, while the mediator may be trusted as a person, the process is greatly benefited, and the likelihood of success is enhanced, if parties trust that the mediator understands, not only the technical language, but the underlying technology itself. If the dispute involves patents and their potential infringement, then a mediator also familiar with the intricacies of patent law and patent interpretation would be most effective.

The mediator's job is to facilitate the negotiation of the parties to more efficiently and expeditiously reach a mutually satisfactory resolution. If the mediator does not understand the science or engineering at issue, the mediator may be asking the parties to negotiate in a context where one side or both may be basing their positions on issues that are not relevant to the dispute or, at worst, not based on sound science or engineering. A party may truly not understand or simply be trying to bluff the other party. The mediator needs to be able to perceive when a position asserted has no scientific/engineering merit or where a party is missing the real issue. More importantly, if the mediator understands the industry and can understand the problems faced by both sides on a sophisticated level, the mediator can more effectively assist the parties to "think outside the box" and develop a business and/or engineering solution with a "win-win."

In addition, if the dispute will or is likely to involve a court action or an arbitration, the mediator who also has litigation and/or arbitration experience can often be more effective by being able to assist the parties and counsel to realistically discuss what is likely to happen in a court or before an arbitration panel, if the matter is not settled in mediation. Often parties, and sometimes counsel, do not have a realistic understanding of likely time required for a trial or arbitration, the types of evidence or witnesses that will be persuasive, the costs of litigation, or the likely range of, rather than the maximum potential, judgment or award.

Good mediators also need to be trained and skilled in dispute resolution and experienced in the process of mediation. A good mediator must understand the human factors at play and be skilled at employing appropriate mediation techniques using his or her own style.

Selecting a mediator can and should be a key focus of counsel when the parties agree to mediation. Mediation involves a significant commitment of time and money. It is in all parties' best interest that mediation be success and result in a resolution of the dispute. The right mediator will improve the chances of success. Mediators can be engaged independently or through an ADR organization such as those discussed below regarding arbitrators. These organizations, as well as the ABA, numerous state, local and specialty bar associations, professional organizations, legal continuing education providers, and universities have mediation training programs and, in some cases, issue certifications.

ARBITRATION

Where a technology dispute is not or cannot be resolved by negotiation, mediation or otherwise, arbitration, I submit, is generally preferable to a court trial. The most common complaints from lawyers and clients alike regarding court trials of technology cases are twofold.

First, educating a judge or a jury about the underlying science greatly increases preparation and trial time and costs. Additional teaching time to provide the trier of fact with the applicable basic science/engineering principles, testing methodologies, and data analysis, among other things, quickly increases lawyers' and expert fees. Often it is necessary to engage additional experts for trial just to provide the basic science background to the trier of fact, in addition to the experts who will render the ultimate opinion evidence. Even if the same experts are used both for background and ultimate analysis and opinion, often a multi-day, or even multi-week, basic science course has to be taught through expert testimony. Creating demonstrative exhibits to assist in teaching the relevant basic science further increases costs.

Second, even with the expenditure of additional time and money, clients and counsel often fear that the judge and/or jury will not fully understand the science or engineering and will reach conclusions based on the personality of the witnesses, the glitz of the presentation, or their gut feeling, rather than accepted scientific principles and good engineering analysis. Whether or not well-founded, these perceptions may undermine the client's and the public's confidence in the entire legal process.

One can argue that Daubert[1] and its progeny provide a means of keeping "junk science" out of the court room. However, in complex technology cases, it simply is neither fair nor reasonable to expect many, if not most, judges, without scientific training, to be able to determine when "scientific opinions," presented by articulate and apparently well-credentialed "experts," are or are not based on good science, supported by appropriate testing, sufficient data, and rigorous analysis. Even if the "science" presented by the expert witness is uncontestably good and well accepted, it still may have no relevance to the real issues that should be determinative of the dispute.

Unlike court proceedings, in arbitration, parties can specify the qualifications of the trier of fact. All dispute resolution provisions, no matter the context, should be carefully drafted, with among other considerations, the qualifications of the arbitrator(s). This is particularly true for contracts where the likely disputes will involve science, engineering or computer software or patent issues. These provisions can specify that the mediator and/or arbitrator(s) be lawyer(s) with background and experience in the relevant field of science or engineering, and/or the particular industry, e.g. electronics, aircraft design, chemistry, polymers, bio-technology, pharmaceuticals, structural design, software, geology, mining, mechanical design, computer software and/or hardware, medical devices, pharmaceuticals, etc. It often is not necessarily important or even practical to specify a very narrow industry or discipline for the lawyer arbitrators, as engineering, chemistry, electronics, mining, etc. could be sufficient. What is important is that the arbitrator has the relevant education and experience to understand the science or technology issues and the types of evidence that likely would be

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[1] *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993).

presented in any dispute. When there is a panel, often one or more of the panelists may be a non-lawyer professional with in depth subject matter knowledge. Of course, where patent issues are involved, the arbitrator(s) should be knowledgeable in patent law.

An arbitration turning on sophisticated science or engineering, likely will be a somewhat complex procedure. So, as important as having the relevant engineering and/or science background, the sole arbitrator or panel chair, should also be trained and experienced in adjudicatory proceedings and, in particular, administering complex arbitrations. In my opinion, where there will be legal issues involved, and that is true in almost all such cases, the sole arbitrator or panel chair should always be a lawyer skilled at determining and applying the appropriate governing law.

However, describing the background of the arbitrator is not always enough. Once a dispute arises, there must be a quick and efficient means of obtaining the described arbitrator(s). A third party administering organization such as the American Arbitration Association (AAA), International Institute for Conflict Prevention and Resolution (CPR), JAMS, or specific industry organizations provides these services. For international disputes, there are numerous choices including the International Centre for Dispute Resolution (ICDR), CPR, International Chamber of Commerce (ICC), and many more. These organizations all maintain lists of pre-vetted qualified arbitrators with detailed resumes listing their areas of special training and experience. A new organization, the Silicon Valley Arbitration and Mediation Center (SVAMC) limits it list only to neutrals highly experienced in resolving technology disputes.

An administrating organization also serves as a buffer between counsel and the arbitrators, and handles such issues as possible conflicts arising after appointment, scheduling, and collecting and escrowing the arbitrator(s) fees. Each organization has its own set of rules that govern the arbitration unless modified by agreement of the parties. Consequently, before selecting an organization its rules should be reviewed for suitability. Where there is a special need or desire for special procedures or time limits, the arbitration agreement can delineate the procedures and rules that will govern, often stating procedures in detail.

Generally it is the transaction lawyer who drafts the business agreement who also drafts the arbitration clause. Unfortunately, that clause often is lifted either from another transaction document or from a form, with consideration or understanding as to whether the mandated procedure is either appropriate. It is better practice for the transaction lawyer to consult a litigator experienced in arbitrations to assure that the arbitration procedures mandated establish a cost effective and realistically implementable process.

When drafting an arbitration clause and specifying an administering organization or requiring the use of arbitrators from an organization's list, it is important to investigate whether that organization has arbitrators with the requisite background, rather than learning after a dispute arises, that they do not.

Advanced training for arbitrators is available from the various arbitration administering organizations, bar associations, CLE organizations, and numerous educational institutions, among others. All arbitration organizations are now focusing their training on methodologies for controlling costs. Most of these organizations, including AAA, ICDR, CPR and ICC, have recently amended their rules to provide arbitrators with the authority to manage arbitrations in a cost effective manner, while providing each party with the opportunity to fairly present its case. Selecting arbitrators trained and experienced in administering cost effective proceedings should be a focus of the selection process, not only for technology cases, but for all complex cases.

A skilled arbitrator, with background in the technology involved, will enable the parties to present their evidence and testimony going directly to the ultimate facts, rather than spending time explaining the basics of science or engineering. The experts can present their methodologies, data, conclusions, and opinions. They will be testifying before arbitrators familiar with their language and the underlying scientific principles upon which they base their testimony. They will not have to simplify their testimony as to scientific or engineering issues, fearing that the judge or jury will be unable to fully understand the science behind their testing, analysis, and/or opinions.

The discussion above applies equally well to other areas involving highly specialized knowledge, such as securities, banking, construction, and professional sports leagues, among others. As a result, many industries established highly specialized ADR organizations with panels of qualified arbitrators or mediators. Various traditional ADR organizations may also maintain lists of arbitrators and mediators with highly specialized industry experience.

In conclusion, while it is certainly possible to have a full and fair trial in a technology case with a judge and/or jury, ADR, with the properly selected mediator or arbitrator(s) is generally better suited to providing an efficient and cost effective means of dispute resolution. Having technology disputes mediated or adjudicated by professionals knowledgeable in the underlying science and/or engineering generally provides the parties with the confidence and security that the facts and evidence will be understood and that the outcome, whether a mediated settlement or an arbitration award, resulted from a fair and thoughtful process.

2. ARBITRATION'S 800-POUND GORILLA

eDiscovery

Arbitration's 800-pound Gorilla

By Susan H. Nycum

Information technology has burst into arbitration with the force of a fire hose. It has changed paper documents into electronic form and has changed the way much information is originally collected and maintained.

Arbitrators dealing with US-style discovery are on the front line of coping with the effects of the electronic storage of information (ESI) on dispute resolution. The goal of this article is to identify the sound benchmarks and reliable sources available to practitioners. Regrettably, the field has not yet developed definitive rules or practices. Organizations, groups, and individuals, however, are ahead of the curve, and formal efforts are underway to provide guidance and direction. I will address what arbitrators need to know and how they can apply these principles in practice.

The Education Phase

eDiscovery has spawned a host of new issues and concerns for the arbitration tribunal. Arbitrators need to know the basics of the applicable technology, and they need to know the current status of the evolving laws and rules governing eDiscovery.

Technology

Arbitrators must know enough about the technology to conduct the case effectively. The first step is to gain a rudimentary understanding of the language of ESI. There is no *Black's Law Dictionary* for this field, but helpful, up-to-date online resources now explicate electronic information storage and electronic discovery.[1] See the box on the right for a few commonly used terms.

Once the arbitrator understands the vocabulary, he or she should know the basics of how the relevant information technology works. Print media and e-books offer guidance at various levels of sophistication. Arbitrators need to know how ESI is stored and retrieved, the nature of that retrieval, the relative costs of retrieval, and the reliability of the results. Arbitrators who do not know the useful and appropriate techniques run the risk of the process being overrun by costs, delays, irrelevant search procedures, and other costly and inefficient matters relating to ESI.

BYOD or intimate devices: the small personal devices such as smartphones and tablets that individuals tend to have at hand and carry from home to business when permitted by their employer.

Cloud: the shared networks, servers, storage applications, and services available over the internet that can be rapidly provisioned and released under minimal management effort or service provider interaction. Clouds are often provided by independent third parties.

Metadata: the data that provide information about other data such as the history of a document, including changes to it and records of accesses to it; a digital record of what was done to the data and by whom it was accessed. eDiscovery requests frequently include both the document and its metadata.

Mirror images: when an exact replica of a file is required, without any changes made to it, a mirror image of the original hard drive is requested.

Native format: the format in which the file was created. Not all native formats are equally discernible. Some company data, particularly in a multi-facility environment, may be in several incompatible formats.

Predictive coding: the use of artificial intelligence software that trains the computer to refine the search algorithms to narrow the search terms to those that automatically produce the most useful results.

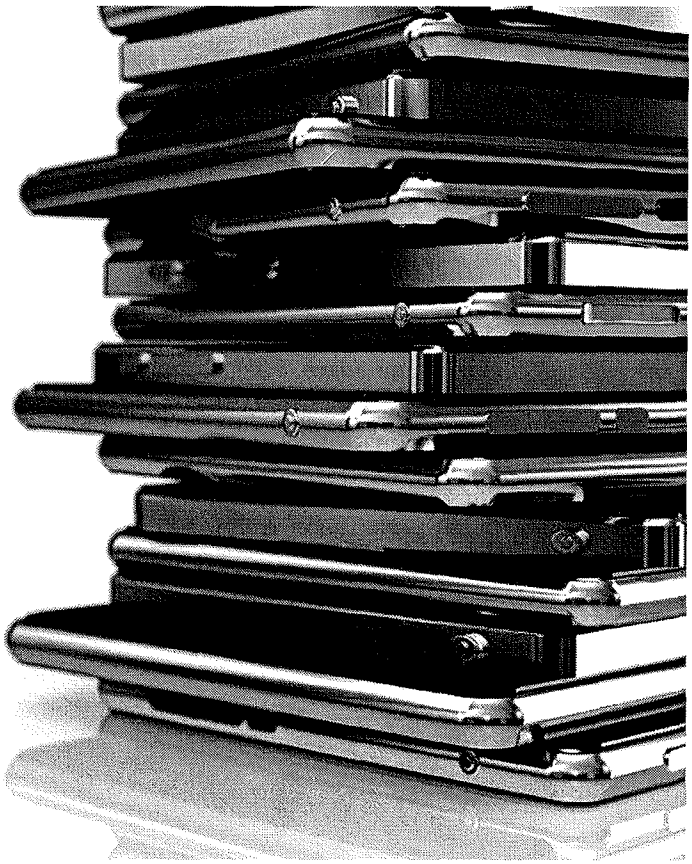
The Law

The second step in the education phase is to learn how ESI is addressed by the courts, arbitration providers, and eDiscovery experts. The United States federal courts are the leaders in applying the US law to eDiscovery, and those rules and decisions are often relied upon in arbitration. The Federal Rules are often cited and discussed in reported case law and thus generally available to the bar, whereas arbitral decisions are confidential unless brought before the courts for *vacatur* or other purposes not usually related to ESI. The proposed amendments to the Federal Rules of Civil Procedure on Discovery are on track for implementation by December 1, 2015.[2] These amendments should facilitate cost-effective and reliable eDiscovery and improve present practice. I believe that the approaches taken in two of these proposed amendments should be adopted by arbitrators now.

Proportionality

Proportionality is a concept that is embodied in federal practice, but its boundaries in eDiscovery have been unclear. Proposed Rule 26(b)(1) would require the following:

> Parties may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense and proportional to the needs of the case considering the importance of the issues at stake in the action, the amount in controversy, the parties' relative access to relevant information, the parties' resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.



I believe that among the permitted considerations listed in the proposed rule, arbitrators will find one or more that help reach a fair balance in the matters before them.

Sanctions

Arbitrators have been unclear whether they could order sanctions at all and, if so, the nature and extent of appropriate sanctions. Arbitration rules now provide for sanctions (See, e.g., AAA Rules R-23(d) and R-58) but still lack the helpful, more detailed guidance of Proposed Rule 37(e), which specifically addresses sanctions:

> If electronically stored information that should have been preserved in the anticipation of litigation is lost because a party failed to take reasonable steps to preserve the information, and the information cannot be restored or replaced through additional discovery, the court may:
>
> (1) Upon a finding of prejudice to another party from the loss of the information, order measures no greater than necessary to cure the prejudice;
>
> (2) Only upon a finding that the party acted with the intent to deprive another party of the information's use in the litigation,
>
> (A) presume that the lost information was unfavorable to the party;
>
> (B) instruct the jury that it may or must presume the information was unfavorable to the party; or
>
> (C) dismiss the action or enter a default judgment.

Other Rules

Arbitrators should also be familiar with the rules of the national providers related to eDiscovery. The American Arbitration Association[3] and JAMS[4] have rules that specifically apply to eDiscovery; CPR Administered Arbitration Rule 11 is generally applicable.[5] The *Sedona Principles: Best Practices, Recommendations & Principles for Addressing Electronic Document Production*, crafted by thought leaders from a variety of perspectives in the field of eDiscovery, offer sound and flexible principles of practice.[6] These principles are reviewed and continuously revised by working groups. The Chartered Institute of

Arbitrators issued protocols that address eDiscovery,[7] and the College of Commercial Arbitrators' *Guide to Best Practices in Commercial Arbitration* provides specific guidance for best practices in eDiscovery.[8]

The Application Phase

When a case is accepted for arbitration, the arbitrator must at once take charge and set forth the directions consistent with the party's agreement and the applicable law to find a fair, efficient, and cost-effective resolution of eDiscovery matters.

This begins with the agenda for the preliminary hearing. The agenda for the preliminary hearing should include discussion and determination of whether and to what extent parties will exchange ESI, what that ESI consists of, the form in which the ESI will be exchanged, reasonable search parameters, and how the costs of ESI searches will be allocated. The agenda should also provide for an arbitration hold on destruction of ESI and a method of resolving discovery disputes.

With respect to "holds," experience indicates that parties may now be going too far in preserving electronic information from destruction in the normal course of business. The proposed amendments to the Federal Rules of Civil Procedure reasonably relax the requirements and provide a good model. One caveat, however, is that the ESI residing in third-party Clouds may have a different, perhaps shorter retention period than that of the party's own. Educational programs for the in-house IT and legal professionals should address the issue of litigation and arbitration holds. Holds should also be discussed at the preliminary hearing to assure that appropriate procedures are put in place.

I suggest that when eDiscovery is anticipated, the preliminary hearing should be attended not only by counsel but by party representatives, including those who are proficient in ESI. The resulting order[9] should memorialize the agreements reached with respect to the eDiscovery in the case and the method for resolving disputes related thereto.

During the discovery period, any eDiscovery disputes that arise should be addressed promptly to save time and money. The arbitrator should first work with the parties to construct cooperative search techniques or other approaches, and failing a resolution, appoint a special independent ESI-proficient examiner to examine the subject ESI *in camera* and advise the arbitrator, who then can resolve the dispute. As appropriate, the arbitrator may impose sanctions.

Continuing Education

Arbitrators and advocates who cannot understand the basics of data storage and searches or do not have some familiarity with the current state of the applicable law may soon be wondering why their phones are not ringing. To be a competent practitioner, one must master the basics of eDiscovery. And then there is the challenge of staying current with ever-changing technology, not to mention the "advanced" issues of privilege, privacy and security and the uses of encryption, just to name a few. ◆

Endnotes

1 The web site of EDRM, a coalition of consumers and providers working to create practical resources to improve eDiscovery and information governance, available at http://www.edrm.net/resources/glossaries, has a highly regarded glossary with definitions that address most questions. Wikipedia is also a readable and reliable source for a more encyclopedia-like discussion of the area.

2 See JUDICIAL CONFERENCE OF THE US, REPORT OF ADVISORY COMMITTEE ON CIVIL RULES (May 2, 2014) for a discussion of the process, the debate, and the results of the discussion, plus notes as to the outstanding remaining issues.

3 American Arbitration Association [AAA], COMMERCIAL ARBITRATION RULES AND MEDIATION PROCEDURES, R-21, R-22(b)(iv), P-2(a)(vii), (ix), R-23(b).

4 JAMS, JAMS COMPREHENSIVE ARBITRATION RULES & PROCEDURES, Rules 16 and 17.

5 *See* AAA *supra* note 3, at Rules R-23(d), R-58; JAMS, *supra* note 4, at Rule 29; International Institute for Conflict Prevention & Resolution [CPR], CPR ADMINISTERED ARBITRATION RULES, Rule 16.

6 *See generally* THE SEDONA PRINCIPLES: BEST PRACTICES, RECOMMENDATIONS & PRINCIPLES FOR ADDRESSING ELECTRONIC DOCUMENT PRODUCTION (2007).

7 *See, e.g.*, The Chartered Institute of Arbitrators, *Protocol for E-Disclosure in Arbitration* (2008), *available at* http://www.ciarb.org/information-and-resources/E-Discolusure%20in%20Arbitration.pdf

8 THE COLLEGE OF COMMERCIAL ARBITRATORS GUIDE TO BEST PRACTICES IN COMMERCIAL ARBITRATION (James M. Gaitis et al. eds., 3rd ed. 2013).

9 See Federal Judicial Center, MANUAL FOR COMPLEX LITIGATION, FOURTH, Section 40.25 (Interim Order Regarding Preservation), *available at* http://www.fjc.gov/public/home.nsf/autoframe?openform&url_l=/public/home.nsf/inavgeneral?openpage&url_r=/public/home.nsf/pages/524 for a listing of typical commercial ESI locations and a suggested format for a Preservation Order.

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3. HALKET AND NYCUM, THE ARBITRATION AGREEMENT (CITE ONLY)

Halket and Nycum, The Arbitration Agreement, in Arbitration of International IP Disputes, Chapter 3, (Thomas D. Halket ed., 2012)

4. PATENT ARBITRATION: IT STILL MAKES GOOD SENSE

Submitted on 1/20/15 to ABA IPL Section LANDSLIDE for publication

Patent Arbitration: It Still Makes Good Sense

Peter L. Michaelson, Esq.[1]

"Reports of my death have been greatly exaggerated."[2] So it is with patent arbitration.

Dire predictions have recently been made by commentators pondering the future of patent arbitration in light of the new PTO post-grant trial proceedings (post-grant review (PGR) and inter-partes review (IPR)) implemented by the Leahy-Smith America Invents Act (AIA).[3] Contrary to those views, patent arbitration is still very much alive, widely used and, where employed in appropriate situations and structured properly, will likely see increasing use.

This article first considers post-grant proceedings as being complementary to patent arbitration and then discusses how arbitration can be structured to be an effective litigation alternative for resolving patent-related disputes.

A. Post-grant proceedings and patent arbitration are complementary processes

Post-grant proceedings, while certainly expeditious and cost-effective, are strictly limited by statute to validity challenges.[4] As any experienced patent practitioner appreciates, disputes involving patents extend well beyond validity and present issues lying outside the narrow jurisdiction of the US PTO -- but, pursuant to 35 USC § 294[5], well within the realm of arbitration. The purpose and inherent characteristics of these proceedings so fundamentally differentiate them from arbitration that they are not arbitration-substitutes and thus not likely to adversely affect the future use of arbitration to any significant extent.

Frequently, alleged infringers settled patent infringement litigation early on just to avoid a prospect of incurring significant legal expenses over a prolonged period even if they were likely to ultimately succeed in their defense. This was particularly true in actions brought by assertion entities where those entities broadly construed the claims at issue to such an extent that they were of rather questionable validity but were willing to settle for less than the litigation costs which the alleged infringer would otherwise incur. Such disputes frequently arose in situations where no arbitration agreement existed between the parties and one or both parties would not agree to arbitrate, thus leaving the parties to litigate their dispute.

Post-grant proceedings drastically "leveled the playing field" by providing a third party with an administrative opportunity to effectively and efficiently challenge validity in the US PTO of any patent claim(s) by filing a petition to initiate an appropriate proceeding. Such a proceeding is a trial process before the Patent Trial and Appeal Board (PTAB) with a statutory 1 year pendency from its date of initiation. It is much faster and less expensive than litigation[6]. The proceeding itself is public; its results have public affect[7].

Not surprisingly, post-grant proceedings have proven rather popular. As of August 31, 2014, approximately 1700 petitions to initiate such proceedings have been cumulatively filed with the PTAB and at an average monthly rate of approximately 50-100 petitions[8]. Anecdotally, initiating a proceeding and, often, just a credible threat of doing so, presented alleged infringers,

who have potentially invalidating prior art to rather broadly asserted claims, with an effective "club" to reach early settlements of infringement disputes at markedly less cost than they would otherwise have incurred through litigation and at more favorable terms.

Where patent validity is the dispositive issue in dispute, the relative low cost and quick pendency of a post-grant proceeding make it a rather attractive litigation substitute. However, the likely effects of a public decision of invalidity flowing from such a proceeding, including all potentially adverse consequences, must be recognized, understood and carefully evaluated in deciding whether to institute it -- as those effects may be worse than the ensuing benefits. Hence, a potential challenger must carefully and strategically delineate and evaluate not only the likely legal consequences but also all ensuing business consequences that will likely flow from public invalidation of the patent, and particularly those which might ultimately redound to its own detriment. This includes, e.g., any adverse effect on: (a) its own position in the marketplace vis-à-vis its own competitors -- some of whom may now or later be paying royalties under the patent but for the finding of invalidity, (b) its business relationship with the patent owner/licensor -- which may be compromised or destroyed, and (c) any effect on the owner/licensor itself, including likely changes to the owner's/licensor's own position in the marketplace. While these considerations may be difficult to quantify, their likely impact may nevertheless prove significant to that alleged infringer's future business and should not be ignored.

Where those considerations implicate serious business concerns or critical patent-related issues exist in a dispute that extend beyond validity, patent arbitration, offering private resolution, may well be a much better alternative to litigation than a post-grant proceeding. Nevertheless, where these factors do not exist, such a proceeding may be ideal.

Rather than patent arbitration being displaced by post-grant proceedings -- as some commentators have opined, both processes, effectuating different purposes, will likely see increasing use as the number of patent-related disputes continues to rise.

B. Properly structuring patent arbitration: Fit the process to the fuss

Patent litigation uniquely offers various advantages unobtainable through any other resolution mechanism, chief among them: a public forum which, in the context of a finding of patent invalidity or unenforceability, provides a decision binding on all third parties; a public result which may serve as a deterrent either against future patent infringement by others (if, e.g., a relatively large sum is awarded in damages) or patent enforcement against others (if, e.g., the claims are narrowly constructed so as not to capture allegedly infringing activity of commercial significance); and potentially an award of sanctions under F.R.C.P. 11 and attorney's fees for instituting meritless litigation. Yet, far more often than not, these advantages are grossly out-weighed by the deficiencies inherent in litigation, principally: substantial cost, significant delay and exhaustive discovery.

In its default mode, patent arbitration closely mirrors litigation with all its principal deficiencies. This concern underlies nearly all complaints about patent arbitration.

Yet, once properly configured, an arbitral process can yield substantial cost and time efficiencies, along with other benefits unavailable through litigation. But, for it to do so, the parties must sufficiently adapt (fit) the process, radically if necessary, to conform it to the specific characteristics of the dispute ("fuss"). While this should always occur in practice; all too often it does not. Where superfluous, time-consuming and expensive trial elements are imported into an arbitral process, the ensuing process just wastes valuable resources to the detriment of the parties.

What surprises this author is just how little is known by the practicing bar about the flexibility and advantages of arbitration and how extensive their misconceptions about the process are.

Arbitration does not follow a one-size-fits-all litigation template strictly mandated by the Federal Rules of Civil Procedure supplemented by local court patent rules. Rather, an arbitral process is remarkably open-ended and relatively informal: a blank canvas on which parties can collectively create the exact process they need and no more. Parties are completely free and have total autonomy, under the rule sets of arbitral institutions, to decide what specific steps they will use and when, and all related aspects, subject only to affording mutual due process. These rule sets, while sufficiently definite and inclusive to define a minimal but essential framework of an arbitral process that can yield a legally binding award, are intentionally very broad and quite malleable to provide parties with sufficient latitude to exquisitely adapt the process to fit the characteristics of their dispute. Such flexibility and party autonomy are entirely absent in litigation.

To aid the practicing bar, professional organizations and arbitral institutions have recently promulgated guidelines and protocols that provide process enhancements designed to streamline all phases of an arbitral proceeding. Parties can incorporate appropriate enhancements into their arbitration provisions during contract formation or can separately agree, post-dispute, on their use.

The *Protocols for Expeditious, Cost-Effective Commercial Arbitration*[9], developed by the College of Commercial Arbitrators (CCA), identifies four stakeholder groups in arbitration: business users and in-house counsel, outside counsel, arbitrators, and institutions; and delineates various process-enhancing techniques applicable to each group. For example, for outside counsel, the Protocols illustratively recommend: memorializing early assessment of a case including realistic estimates of the time and cost involved in arbitrating the matter at various levels of depth and detail, and reaching a written understanding with their client regarding the specific approach to be taken, including nature and extent of discovery; selecting arbitrators with proven management ability and setting forth expectations to the arbitrators for an efficient and speedy process; cooperating to the fullest extent with opposing counsel on procedural matters; limiting discovery consistent with their client's goals and cooperating with the tribunal and opposing counsel in finding appropriate ways to do so; considering billing alternatives that incentivize reduced cycle time or net costs of dispute resolution; recognizing and exploiting differences between arbitration and litigation (such as the absence of a jury, limitations on motion practice, relaxed evidentiary standards which preclude a need for repeated objections as to form and hearsay); and keeping the tribunal informed of any problems and concerns, including

discovery, scheduling and other procedural aspects, as soon as they arise, and empowering and then enlisting the tribunal chair to quickly address and resolve these matters so as to minimally impact the remainder of the process.

The report *Techniques for Controlling Time and Costs in Arbitration*, produced by the International Chamber of Commerce (ICC), also specifies a number of process-enhancing techniques. Based on statistics provided by the ICC International Court of Arbitration, the report noted that only 18% of the total costs of an ICC arbitration are for administrative fees and arbitrator's fees and expenses[10] -- an amount that could be easily recouped through use of appropriate efficiency enhancing techniques.

Specifically, discovery, usually the highest cost driver, can be drastically limited in arbitration. Arbitration rules regarding discovery are very simple, as evident in Rule R-34(a) of the 2010 AAA Commercial Rules:

> "The parties may offer such evidence as is relevant and material to the dispute and shall produce such evidence as the arbitrator may deem necessary to an understanding and determination of the dispute. Conformity to the legal rules of evidence shall not be necessary".

The arbitrator controls discovery; the parties agree on its extent. Parties can agree to a joint, sharply focused exchange of only those documents on which each intends to rely, nothing more: no interrogatories, no depositions, no other discovery. Should the parties need a greater degree of discovery, including e-discovery, they can choose that instead. CPR recently promulgated a protocol providing multiple levels of increasingly extensive discovery of physical and electronic documents to which parties can mutually agree to use a particular level during arbitration.

Efficient, cost-effective modalities can be used to receive witness testimony, such as, e.g., pre-filed direct testimony, witness statements, deposition testimony (with limits on their length and number), "hot-tubbing" opposing expert witnesses and video-linked testimony.

Motion practice provides further opportunities to achieve efficiencies. Arbitrators exercise considerable discretion in deciding if and when to accept motions, as reflected in Rule R-32(b) of the 2010 AAA Commercial Rules:

> "The arbitrator, exercising his or her discretion, shall conduct the proceedings with a view to expediting the resolution of the dispute ...".

An arbitrator often prevents the filing of futile motions and eliminates the attendant expense by requiring a requesting party to first justify its motion through a 3-5 page pre-motion letter brief, which includes not only supporting law and facts underlying the motion but also a showing of why the tribunal is more likely than not to grant the motion. Based on the letter briefs of the requestor and responder, the arbitrator then grants the requestor leave to file the motion or not. Certain motions, when interposed early and particularly those which do not implicate extensive discovery, presentation of evidence or fact-finding, such as to bifurcate or for partial summary judgment, can advantageously eliminate issues from the proceeding or parse threshold issues out for early disposition. These issues include contractual limitations on damages, statutory remedies, statutes of limitations and claim construction. Through such motions, the remainder of the proceeding can often be simplified yielding cost savings far greater than the cumulative expense of the motion. Further, granting such a motion at an early stage in a proceeding may:

(a) motivate the parties to initiate or re-convene settlement discussions rather than bear the time and expense of pursing a claim that has suddenly lost its appeal, or (b) enhance the likelihood that later activities will foster settlement.[11] The use and timing of such motions is typically discussed with the arbitrator during a preliminary scheduling conference.

Parties can dramatically compress an entire arbitral process by appropriately limiting the available time each side has to present its case at a merits hearing. Knowing this limit at the inception of the proceeding forces counsel to sharply concentrate their efforts from the onset on the core issue(s) in contention, excluding all secondary and tangential issues from discovery, briefing, motions and the hearing itself. Illustratively, in an arbitration of a large, complex pharmaceutical patent licensing dispute, the parties, in their arbitration agreement limited each side, at the hearing, to only 2 hours to present its arguments and another 30 minutes for rebuttal.[12]

Further complaints about patent arbitration often center around: a perceived risk due to no appeal on the merits to an errant arbitration award, and concerns that arbitrators tend to compromise and not follow legal norms.

Contrary to those perceptions, appellate arbitration proceedings have been in effect for some time. The Federal Arbitration Act (FAA) provides the exclusive grounds for challenging an arbitral award in federal court.[13] Those grounds are limited to specific procedural infirmities and certain transgressions by the tribunal. Parties cannot contractually provide for federal judicial review of an award.[14] However, arbitral institutions have expanded their rule sets to include an optional appellate procedure, for adoption by all the parties, through which an award can be comprehensively reviewed by a second, i.e., appellate, arbitral tribunal.[15] In essence, the award rendered by a first arbitration panel is not viewed as being final, for purposes of the FAA, while it is under appeal.

Concerns about arbitrators' conformance to legal norms and any perceived tendency to compromise can be readily addressed by selecting experienced lawyers or former judges as arbitrators, choosing counsel sufficiently well-versed in arbitration and imposing contractual standards for award-writing in conformity with applicable law.[16]

Further, patent litigation suffers from a relatively high historic reversal rate on appeal in the Federal Circuit of claim construction (Markman) rulings often issued very early in a litigation. A substantial amount of time and cost has often been invested prior to and at trial by patent disputants, predicated on a particular construction governing the litigation, only to be subsequently negated on appeal, thus wasting most of the investment. Some commentators estimate the reversal rate in the neighborhood of 50% (basically a coin flip) though others lately view the rate lower at approximately 25-30%[17]. Recent studies conclude that: (1) Federal Circuit judges remain divided on how to approach the task of claim construction, and (2) reversals of district courts generally resulted from their misapplication of settled principles of claim construction.[18] The finality of an arbitration award under the FAA eliminates all possibilities of such reversals. Moreover, in arbitration, parties can agree to use a predefined construction (one to which they specifically agreed by themselves or resulted from a prior ruling of a district court or an arbitral tribunal) or, should an appellate process be used, to constrain the appellate tribunal

from reviewing the construction adopted by the first panel.

Moreover, arbitration provides further significant benefits that are simply unavailable in litigation, including: avoidance of excessive or emotionally driven jury awards; ability to choose arbitrators with particular qualifications to cope with daunting and specialized issues of law and technology; avoidance of establishing legal precedents; relative confidentiality of the entire process and privacy of any award.

Further, arbitral institutions have recently supplemented their rule sets to implement emergency and expedited procedures. Emergency arbitrations are highly compressed, extremely efficient proceedings designed to urgently provide interim relief to a requesting party.[19] As of September 15, 2014, the ICDR (the international arm of the AAA) has administered 40 emergency arbitrations with an average pendency of just three weeks -- starting from the time a request is made to the AAA/ICDR to initiate the procedure to the time an award is rendered.[20] Where urgent relief is not required but transaction cost and pendency time are still of primary concern, an expedited arbitration proceeding, similar to emergency arbitration, features deadlines that are significantly relaxed over those in emergency arbitration but still considerably shorter than in a standard arbitration.[21]

In the international arena, arbitration can be far more advantageous than national litigation. Arbitration provides a neutral forum, predicated on the parties: (a) having selected arbitrators from neutral nationalities or of recognized neutrality who are independent of the parties, their home governments and national courts, and (b) using substantive law of a chosen jurisdiction together with institutional arbitration rules that ensure requisite neutrality and due process. This eliminates a source of potential bias and provides assurance that the rule of law will be followed. Further, international arbitration circumvents national court delays, which in some jurisdictions can readily exceed 5-10 years. Most importantly, arbitration awards are internationally enforceable by convention. As of September 25, 2014, 152 countries have ratified the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral awards (the "New York Convention"). Through Article III of the Convention, an arbitral award, conforming to the formal requirements of the Convention, issued in any one member country is entitled to reciprocal enforcement, as binding, in any other member country to the same extent as a domestic arbitration award. Article V of the Convention sets forth narrow grounds on which recognition and enforcement of foreign awards may be refused by a national court. In stark contrast, judicial awards are only enforceable in other countries through comity, which renders cross-border enforcement subject to wide discretion of the enforcing court with the outcome thus being subject to considerable uncertainty and risk.

Furthermore, international patent litigation often involves parallel judicial proceedings simultaneously occurring in multiple national courts. Such an approach is extraordinarily costly and very risky. National courts often have differing views that lead to inconsistent results. The patent owner may prevail on its lawsuit or just one or more of its contentions in some forums, but not in others. In contrast, at considerably less cost and time, a single arbitration before a single tribunal chosen by the parties and using substantive law of a jurisdiction specifically chosen by the parties can often address the entire dispute with a single award given affect, through the New York Convention, across many, if not all, jurisdictions at issue.[22]

In 2014, Prof. Thomas Stipanowich conducted a survey, through the Straus Institute at Pepperdine University School of Law, of approximately 140 Fellows of the CCA, all of whom were highly experienced commercial arbitrators, regarding their practices in promoting settlement through arbitration. The resulting insights -- though not surprising at all for those, like this author, who regularly sit as arbitrators -- shatter many arbitral myths widely held by counsel. These insights include: 83% of surveyed arbitrators believed they played a beneficial role in settling a case prior to its merits hearing; less than 1% refuse to rule on motions for summary judgment; 70% say they "readily" rule on dispositive motions and 80% of those motions may have prompted informal settlement of the entire case; 91% work with counsel to limit discovery and 94% encourage the parties to limit the scope of discovery; 75% generally "receive virtually all non-privileged evidence and discourage traditional objections (hearsay, foundation, etc.)"; and 87% always try to follow the applicable law in rendering an award;. Also, experienced arbitrators proactively manage their cases in various ways, with the great majority requiring parties to submit a core collection of joint exhibits for the merits hearing, limiting duplicative testimony, and telling counsel when a point has been understood so "they can move on". Approximately 65% of the surveyed arbitrators believed that excessive, inappropriate or mismanaged motion practice contributed to inefficiencies, excess cost and time.[23]

Yet, in spite of a wide array of available process enhancements, patent disputants still routinely settle for a default "litigation-like" arbitral process. Why?

Generally because they either inadvertently or intentionally gave no forethought, either at contractual formation or after a dispute arises, to using process enhancing techniques or were unable or just did not attempt to reach agreement on their use.[24] This typically results from: (a) inexperience or just ignorance of the parties and their counsel regarding arbitration; (b) outside counsels' marked tendency, owing to their own core competencies and focused career experiences in non-arbitral settings, to resolve every adversarial dispute through litigation or litigation-like proceedings regardless of its suitability; or (c) a counsel's or party's prior experience with arbitration that was so poor as to profoundly prejudice that individual or his organization against using arbitration at all, regardless of its benefits. Consequently, patent disputants effectively deny themselves the substantial time and cost efficiencies that arbitration can readily provide and which would ultimately boost their bottom line.

With all that arbitration offers, it seems axiomatic that, when a dispute arises which requires a third party fact-finder to resolve it, counsel would eagerly devise an arbitral process that efficiently does so. Yet, few do. Professor Frank Sander, then with Harvard Law School, recognized this fallacy by stating in 2007: "The theoretical advantages of arbitration over court adjudication are manifold... These theoretical advantages [however] are not always fully realized."[25] Nevertheless, when arbitration is used to resolve intellectual property disputes[26], its resulting savings over litigation have proven to be considerable: according to a 2013 WIPO survey, more than 60% in time and up to 55% in costs.[27]

Parties, which seek private resolution, can readily exploit the inherent flexibility of arbitration -- as now evident -- to tailor an arbitral process to closely mimic a post-grant

proceeding, with its inherent time- and cost-efficiencies and even including an appellate process, and with a crucial additional advantage not afforded by the US PTO: the complete freedom to choose their arbitrator(s). A properly configured-arbitral process can be a very effective substitute for a post-grant proceeding, though a post-grant proceeding, while being a viable litigation alternative in certain instances, is not a realistic substitute for arbitration.

Yet, the full advantages and efficiencies of arbitration will not arise merely because parties chose to arbitrate a patent-related dispute or even just a validity challenge in a post-grant proceeding look-alike; the parties and their counsel must thoroughly, thoughtfully but deliberately "fit the process to the fuss". They need the motivation to do it, and the will to get it done. Once accomplished, they may be astonished at the extent and breadth of the efficiencies they achieve -- realizing that arbitrating patent disputes still makes good sense as a truly effective alternative to litigation and very likely always will.

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[2] Common misquotation of "The report of my death was an exaggeration." in a letter written by Marc Twain and which appeared in the *New York Journal* of June 2, 1897 (from *Oxford Dictionary of Quotations, 8th Ed.*).

[3] See, e.g., "C. Shifley, "Goodbye Patent Arbitration?", *Corporate Counsel*, October 13, 2014.

[4] For IPR and PGR, see 35 USC § § 311(b) and 321(b), respectively.

[5] 35 USC § 294(a) states, in pertinent part: "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."

[6] See 35 USC §316(a)(11) and 35 USC §§326(a)(11) for IPR and PGR, respectively, both of which provide the PTO with discretion to grant, on due cause shown, extensions up to 6 months.

[7] See §§318(a)-(b) and 328(a)-(b) respectively for the public effect of IPR and PGR decisions; and 35 USC §§316(a)(1) and 326(a)(1) which provide exceptions in IPR and PGR proceedings, respectively, for materials filed under seal.

[8] See http://www.uspto.gov/aia_implementation/statistics.jsp.

[9] Accessible at www.thecca.net/cca-protocols-expeditious-cost-effective-commercial-arbitration . Also see J. Gaitis et al, Eds., *The College of Commercial Arbitrators - Guide to Best Practices in Commercial Arbitration 3rd Ed.* (©2014, JurisNet, LLC).

[10] *Techniques for Controlling time and Costs In Arbitration,* Report from the ICC Commission on Arbitration, ICC, Publication 843, 2007.

[11] T. Stipanowich et al, "Commercial Arbitration and Settlement: Empirical Insights into the Roles Arbitrators Play", *Penn State Yearbook on Arbitration and Mediation*, Vol. 6, No. 1, 2014, p. 7, 24 and 29.

[12] P. Michaelson, "Demystifying Commercial Arbitration: It's Much better Than You Think!", *NJ Law Journal*, Vol. 216, No.7 (May 26, 2014), p. S-2.

[13] 9 USC §10(a).

[14] Hall Street Assoc. v. Mattel Inc., 128 S. Ct. 1396 (US Sup. Ct. 2008).

[15] "Optional Appellate Arbitration Rules", AAA; "CPR Arbitration Appeal Procedure", CPR; "JAMS Optional Arbitration Appeal Procedure", JAMS.

[16] T. Stipanowich et al, "Living with ADR: Evolving Perceptions and Use of Mediation, Arbitration, and Conflict Management in Fortune 100 Corporations", *Harvard Negotiation Law Review*, Vol. 19, No. 1, 2014, p. 64.

[17] T. Krause et al, "What Reversals and Close Cases Reveal About Claim Construction: The Sequel", *J. Marshal Rev. Intell. Prop. Law*, p. 525-554 (2014), particularly p. 530.

[18] "Studying the Mongrel: Why Teva v. Sandoz Won't Solve Claim Construction", *Patently-O*, July 15, 2014.

[19] See, e.g., Rule 38, AAA Commercial Arbitration Rules.

[20] "A Guide to the New ICDR Procedures", *ICDR webinar*, September 23, 2014.

[21] See, e.g., Rules E-1 through E-10, AAA Commercial Arbitration Rules. Also, see P. Michaelson, "When Speed and Cost Matter: Emergency and Expedited Arbitration", *New Jersey Law Journal*, Vol. 218, No. 4 (October 27, 2014), p. 50.

[22] In some countries, as a matter of public policy, certain IP issues, such as patent validity, either may not be arbitrable at all or of limited arbitrability. Thus, an award exceeding those bounds may not be wholly or partially enforceable there. See K. Adamo, "Overview of International Arbitration in the Intellectual Property Context", International Arbitration: Practice and Modern Developments, *Cleveland - Marshall College of Law 2011 Global Business Law Review Symposium*, 2011.

[23] T. J. Stipanowich et al, "Commercial Arbitration and Settlement: Empirical Insights into the Roles Arbitrators Play", *Penn State Yearbook on Arbitration and Mediation*, Vol. 6, pp. 1-31 (2014). Also see, L. Kramer, "New Survey dispels common myths about arbitration", *Arbitration Nation (blog)*, November 20, 2014.

[24] T. Stipanowich et al, "Living with ADR: Evolving Perceptions and Use of Mediation, Arbitration, and Conflict Management in Fortune 100 Corporations", *Harvard Negotiation Law Review*, Vol. 19, No. 1, 2014, p. 68.

[25] "CIArb Costs of International Arbitration Survey 2011", *Chartered Institute of Arbitrators*, p. ii..
[26] L. Shuchman, "Tech Sector Coming Around to IP Arbitration", *Corporate Counsel*, December 10, 2014.
[27] "Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions", *WIPO Arbitration and Mediation Center*, March 2013.

5. ENHANCING ARBITRATOR SELECTION: USING PERSONALITY SCREENING TO SUPPLEMENT CONVENTIONAL SELECTION CRITERIA FOR TRIPARTITE ARBITRATION TRIBUNALS

Enhancing Arbitrator Selection: Using Personality Screening to Supplement Conventional Selection Criteria for Tripartite Arbitration Tribunals

by PETER L. MICHAELSON

1. INTRODUCTION

I have experienced the joy and profound satisfaction of arbitration by serving on tripartite panels where the three panellists were so compatible with each other that the process proceeded extraordinarily effectively and efficiently to conclusion—and the aggravation where they were not. Personality clashes can exist within a panel. When clashes arise, internal strife may occur which causes the arbitrators to needlessly squabble with each other, often over just seemingly petty, innocuous matters.

Where these clashes intensify and repeatedly occur, the panel wastes valuable time and runs a real risk of unduly delaying the proceeding and needlessly incurring significant added costs to the parties. Should such clashes become sufficiently severe, the result can be similarly extreme: all hell breaks loose with the arbitrators clawing at each other like a bunch of cats, all the while accomplishing nothing of any real use. Gridlock becomes a distinct possibility.

Very often, arbitrators will be selected to serve on a tripartite panel because of their credentials but without any familiarity with—let alone any prior experience of serving with—their co-panellists. Three people, with little—and, more often than not, no—working knowledge of each other are basically thrown together to fully function as a cohesive unit. Aside from feeling honoured and even humbled by the opportunity, are those arbitrators then the least bit concerned that their personalities may clash with those of their co-panellists? At that point, probably not. In reality, they should.

2. ARBITRATOR SELECTION: ACQUIESCENCE THROUGH THE "ARBITRATOR ASSUMPTION"

At its crux, the quality of an arbitration is directly governed by the quality of the arbitrators.[1] If for whatever reason the wrong arbitrators are selected, the arbitral process is likely to be problematic and ultimately unsatisfying for the parties.

The ability of a party to select its arbitrator, in light of whatever qualifications it deems essential, is crucial: a key advantage that markedly distinguishes arbitration from litigation. As wisely noted by a pair of commentators[2]:

> "Each side's selection of 'its' arbitrator is perhaps the single most determinative step in the arbitration. The ability to appoint one of the decision-makers is a defining aspect of the arbitral system and provides a powerful instrument when used wisely by a party."

[1] "It is above all the quality of the arbitral tribunal that makes or breaks the process." Alan Redfern and Martin Hunter, *Law and Practice of International Commercial Arbitration*, 3rd edn (London: Sweet and Maxwell, 1999), p.190. "The arbitrator is the *sine qua non* of the arbitral process. The process cannot rise above the quality of the arbitrator." J.D.M. Lew, L.A. Mistelis and S.M. Kroll, *Comparative International Commercial Arbitration* (The Hague: Kluwer Law International, 2003), p.223.

[2] Doak Bishop and Lucy Reed, "Practical Guidelines for Interviewing, Selecting and Challenging Party-Appointed Arbitrators in International Commercial Arbitration" (1998) 14 *Arbitration International* 395. Though this statement was made in the context of international arbitration, I believe it is equally applicable in domestic arbitration.

Yet, for all its obvious benefits, arbitrator selection carries considerable risk: risk that doing so will consume excess time and, of greater concern, risk that the wrong person will be chosen. The former will just delay the process, sometimes significantly, but the latter can seriously jeopardise the entire arbitration.

Arbitrators are professionals. One does not rise to the level of serving as an arbitrator—and justly command the respect, admiration and trust of disputants, colleagues in the legal field and society in general—without first attaining a high level of experience, expertise, competence and training, coupled with a comparable reputation.

Often, in selecting panels, each of two opposing parties designates one arbitrator, with those two arbitrators then choosing the chair of the tribunal[3] or, as a default measure, an institution doing so.[4] Variations include situations where the parties give discretion to an institution to choose all three panellists, including instances where more than two claimants (or respondents) are involved; an institution permits all claimants (likewise respondents) to collectively choose a panellist[5]; and where the parties themselves choose all the panellists.[6]

One recurring truism of arbitration, frequently encountered in practice, is that selecting a proper tripartite panel with the requisite experience, expertise, availability and freedom from conflicts, even with assistance of an institution, can be difficult, time-consuming and problematic. Perhaps in recognition of this, I have frequently observed a seemingly self-serving, historically-rooted and deeply-entrenched assumption that appears to be repeatedly and widely invoked by parties, counsel and institutions: once competent arbitrators are selected, no matter who they are, then, just because they are professionals, they can work together—the arbitrator assumption. In practice, when an inquiry is made regarding temperament of a candidate arbitrator, it is reflexively met by the target of the inquiry simply stating the arbitrator assumption. All those concerned with the task of selecting the arbitrators then readily accept the statement. That immediately terminates any further inquiry into temperament. The parties implicitly agree that nothing further needs to be asked on this issue, so nothing more is. To my knowledge, there is no actual, underlying causality that links an arbitrator, by virtue of merely being a "professional", with a demonstrated ability of not experiencing sufficiently serious inter-personal clashes with any other such individual which would otherwise frustrate their collaboration. Thus, the arbitrator assumption seems misguided. Yet, it is apparently still widely used and followed. Why? Perhaps: (a) arbitration counsel inferentially draw from experiential and anecdotal evidence—both theirs and of their colleagues—that the likelihood of an arbitration panel being so dysfunctional, perhaps to the point of being stymied, is so low that, for all practical purposes, the risk can be ignored; and/or (b) accurately assessing soft-qualities of any individual candidate, while obviously

[3] Commercial Arbitration Rules and Mediation Procedures, American Arbitration Association (AAA) rr.12 and 13 (*http://www.adr.org/sp.asp?id=22440* [Accessed December 4, 2009]) (AAA Rules); Judicial Arbitration and Mediation Services (JAMS) (*http://www.jamsadr.com/rules-comprehensive-arbitration/* [Accessed December 4, 2009]) (JAMS Rules) r.15(c), "Arbitrator Selection and Replacement"; International Institute for Conflict Prevention and Resolution, 2007 Rules for Non-Administered Arbitration (*http://www.cpradr.org/ClausesRules/2007CPRRulesforNonAdministeredArbitration/tabid/125/Default.aspx* [Accessed December 4, 2009]) (CPR Rules) r.5.2.

[4] ICC Rules of Arbitration art.8(4) in effect as of January 1, 1998 (ICC Rules) (*http://www.iccwbo.org/uploadedFiles/Court/Arbitration/other/rules_arb_english.pdf* [Accessed December 4, 2009]).

[5] ICC Rules art.10(1).

[6] AAA Rules r.11(c) CPR Rules r.5.1. See also, rr.7 and 8, LCIA Arbitration Rules, January 1, 1998 (*http://www.lcia-arbitration.com/ARB_folder/ arb_english_main.htm* [Accessed December 4, 2009]). For a succinct summary of approaches in selecting three-person tribunals, see Lew, Mistelis and Kroll, *Comparative International Commercial Arbitration*, 2003, para.4.2, pp.248–252.

useful and desirable,[7] is nevertheless difficult in practice. Consequently, whatever "soft" information can be obtained for a candidate tends to be anecdotal perceptions of someone who previously appeared before that arbitrator. In light of a current growing pool of candidates who can hear a matter, as well as counsel having little or no prior arbitration experience in a given substantive and/or geographic area, counsel making inquiry about an arbitrator often has no personal experience of that arbitrator and consequently solicits the perceptions of another counsel who has. Not only is the resulting evidence rather subjective but also it becomes progressively more unreliable as the connection between the two counsel becomes increasingly distant. By eliminating any need for the parties or their counsel to consider personality and inter-personal compatibility issues, the arbitrator assumption simplifies and expedites selecting and constituting the panel, so that the arbitration can move forward to the next phase.

Yet, just because arbitrators are human, can we really work effectively and efficiently with every one of our peers no matter who that person is? Each of us has his or her own unique set of foibles, personality traits, temperament and character flaws, some readily apparent, others latent, that collectively define us: we are individuals. And yet it is just that individuality which—during the course of a relationship—can lead to unexpected interpersonal conflict and tension, possibly to the point of destroying the relationship. Society sees this across the entire spectrum of multi-person activity. Are arbitrators somehow shielded simply because they are "professionals"? Hardly. We are no more or less human than anyone else and thus subject to the same psychological characteristics and consequences. Thus—in light of human nature—should the risk of a dysfunctional panel be ignored, particularly in a high-stakes dispute where any appreciable delay—let alone that occasioned by totally re-starting the arbitration with a replacement panel—is met with additional cost and disruption and delay?

But, how can parties and counsel ameliorate the risk? Not through institutional selection rules. They appear to implicitly accept, on face value, that the risk of a dysfunctional panel is negligible and go no further. This reinforces and perpetuates the validity and reliability of the arbitrator assumption to both counsel and parties alike. And that is where the problem lies.

3. INSTITUTIONS—OUTWARDLY OBLIVIOUS

In conjunction with its "Enhanced Neutral Selection Process for Large, Complex Cases", the American Arbitration Association (AAA) currently offers the following interview-based service for use in selecting arbitrators[8]:

> "The AAA case manager will work with the parties to develop an interview protocol in order for the parties to have an opportunity to present questions to potential arbitrator candidates, either through a telephone conference or in writing. Examples of interview question topics might include: industry expertise, relative experience in similar disputes, the arbitrator's procedural handling practices, and any other questions that the parties would find helpful to the selection process."

[7] R.G. Bender Jr, "Critical First Steps in Complex Commercial Arbitration" (2009) *Dispute Resolution Journal* 28, 32: "their demeanor should be professional at all times. Arbitrators, like judges, should possess a 'judicial temperament'" defined, by the AAA (citing *ABA Standing Committee on the Federal Judiciary: What it is and How it Works* (ABA, 2007), p.4), as "compassion, decisiveness, open-mindedness, courtesy, patience, freedom from bias and commitment to equal justice under the law". Arbitration providers are emphasising the need for case management skills and organisational and diplomatic skills, a calm demeanour and understanding of human behaviour and the ability to be creative and flexible, *ABA Standing Committee on the Federal Judiciary: What it is and How it Works*, 2007, p.33.

[8] American Arbitration Association, "Fact Sheet for Enhanced Neutral Selection Process for Large Complex Cases", current as of June 2009.

Once the parties—in conjunction with the case manager—determine a set of appropriate arbitrator qualifications, an AAA case manager will then select candidates from AAA panels, for those matching the set and then screen all of them for conflicts, availability or both,[9] with presumably the panel ultimately being chosen from those candidates who pass the screening process.

There is no mention of personality types, issues of interpersonal compatibility, or generally any salient psychological characteristic reflective of whether a candidate is likely to be able to work with any other candidate. Certainly, parties have leeway under the enhanced neutral selection process to make such inquiries but—since no suggestion along those lines expressly appears—it is unlikely that any party will do so. Hence, neither the resulting panel nor the parties will benefit from any responses which candidates would have made to any such inquiry.

While the CIArb approves interviewing prospective arbitrators, its recently issued guidelines—which contain express references to discussing arbitrator experience and expertise and other permitted topics during an interview—do not mention psychological selection factors.[10]

JAMS r.15(b) for default arbitrator selection is more succinct than the AAA[11]:

> "If the Parties do not agree on an Arbitrator, JAMS shall send the Parties a list of... ten Arbitrator candidates in the case of a tripartite panel. JAMS shall also provide each Party with a brief description of the background and experience of each Arbitrator candidate."

As is CPR in its r.6.4(b) of its non-administered arbitration rules[12]:

> "CPR shall submit to the parties a list, from the CPR Panels, ... of not less than seven candidates if two or three arbitrators are to be selected. Each list shall include a brief statement of each candidate's qualifications."

WIPO art.19(b)(i) utilises a similar list-based selection process to JAMS and CPR and—somewhat similar to the CIArb—invites parties to specify desired candidate qualifications but provides no guidance as to the nature of those qualifications, let alone whether they involve use of any psychological factor[13]:

> "The Center shall send to each party an identical list of candidates... The list shall include or be accompanied by a brief statement of each candidate's qualifications. If the parties have agreed on any particular qualifications, the list shall contain only the names of candidates that satisfy those qualifications."

Simpler yet, both the LCIA and ICC leave the default method of selection to the discretion of the parties, though, where appropriate, party nationality, language and other salient factors are taken into account[14]:

[9] American Arbitration Association, "Fact Sheet for Enhanced Neutral Selection Process for Large Complex Cases", current as of June 2009.

[10] "Practice Guideline 16: The Interviewing of Prospective Arbitrators" (June 19, 2006) available at *http://www.ciarb.org/information-and-resources/16 The Interviewing of Prospective Arbitrators.pdf* [Accessed December 4, 2009]; discussed in H.R. Dundas, "Guidelines for Interviewing Prospective Arbitrators" (2009) 2 *NYSBA New York Dispute Resolution Lawyer* 33 but which similarly omits mention of any such factors.

[11] JAMS r.15(b).

[12] CPR r.6.4(b).

[13] WIPO Arbitration Rules art.19(b)(i).

[14] LCIA r.5.5.

> "The LCIA Court will appoint arbitrators with due regard for any particular method or criteria of selection agreed in writing by the parties. In selecting arbitrators consideration will be given to the nature of the transaction, the nature and circumstances of the dispute, the nationality, location and languages of the parties and (if more than two) the number of parties."

ICC Rules art.9:

> "1. In confirming or appointing arbitrators, the Court shall consider the prospective arbitrator's nationality, residence and other relationships with the countries of which the parties or the other arbitrators are nationals and the prospective arbitrator's availability and ability to conduct the arbitration in accordance with these Rules....
> 2. The Secretary General may confirm as co-arbitrators, sole arbitrators and chairmen of Arbitral Tribunals persons nominated by the parties or pursuant to their particular agreements, provided they have filed a statement of independence without qualification or a qualified statement of independence has not given rise to objections."

Hence, to the extent various institutions specify specific selection processes, such as the AAA, CPR and WIPO, or guidelines, such as the Chartered Institute, those focus on substantive expertise and arbitration experience; while others, such as the LCIA and ICC, basically delegate the entire process to the parties.

The former approach is deficient in that it fails to expressly mention any issue of consideration of interpersonal compatibility, leaving the parties to raise the issue during discussions with the institution. The latter approach, similarly deficient, leaves the entire process to the parties. Regardless of which approach is followed—even if the issue were to be raised by either of the parties or its counsel—doing so is likely to be met by the arbitrator assumption and dropped.

What is missing is consideration of any psychological characteristic reflective of whether a candidate is likely to be able to work with any other candidate arbitrator under consideration. So, what to do?

4. RECOGNITION OF THE PROBLEM BUT NOT THE SOLUTION

The problem has undoubtedly existed for millennia: probably for as long as arbitration itself has been practised. In 1994, one commentator recognised it, though rather superficially[15]:

> "All arbitrators of course should be intelligent, experienced in resolving disputes and fair minded. However, there are other important attributes. When selecting a party appointee who will serve with two other arbitrators... the appointee should be a person with an ego and temperament compatible with the task of working effectively with other arbitrators."

The commentator posed one solution by simply excluding from selection those with temperaments he viewed as "dangerous":[16]

> "[T]he 'Ego-Tripper' likely to treat the office as an opportunity to 'flex some muscle' in support of his or her own pet views; the 'Superbarrister' who may be unable to resist the temptation to take over the advocacy role for one side (or even both); the 'Superjudge' who was a bully on the bench and has learned to like the taste of it, often causing counsel to jump through unnecessary hoops of the arbitrator's creation; the 'White Knight' on a

[15] LCIA r.5.5.

[16] J.H. Carter, "The Selection of Arbitrators" at the WIPO Worldwide Forum on the Arbitration of Intellectual Property Disputes (Geneva: WIPO, March 3–4, 1994), available at *http://www.wipo.int/amc/en/events/conferences/1994/carter.html* [Accessed December 4, 2009].

> quest for justice and truth, whether or not it is to be found within the applicable procedural framework, who may inject issues the parties have intentionally excluded or decide on the basis of matters not discussed with the parties; the 'Whimp' who is unwilling or unable to keep a sufficiently firm hand on the proceedings to make them run smoothly; and the 'Unemployed Timeserver' who may have the ability but lacks the inclination to bring matters to a close; after all, he or she may have nothing else as interesting or remunerative to return to doing."

Having delineated those individuals to exclude from the entire universe of prospective arbitrators, how does counsel then select proper candidates from those who remain? Ultimately, that commentator advocated nothing more than relying on anecdotal evidence from others in practice, nothing more than what has traditionally occurred in practice:

> "With these many dangerous types to avoid, how can parties find the right arbitrators?... Consult widely and think carefully about what is said by those who know the candidate and have seen him or her in action lately."

Anecdotal evidence can be rather problematic; it may not exist and, when it does, depending on its ultimate source it may be suspect.

In late 2008, another author acknowledged the general need to include "soft qualities and skills" of candidates and extended this to selecting international mediators[17]:

> "Unfortunately for parties, the identification of suitable candidates and agreement on the appointment of mediators (and arbitrators for that matter) remains firmly embedded in pre-20th century technology: imperfect information transmitted by word of mouth, and what can be gleaned from a curriculum vitae or an initial discussion with the candidate... As with the appointment of arbitrators, what parties really hope to identify in candidates are the soft qualities and skills that are not readily apparent from a curriculum vitae or public listing of the mediator's name and general qualifications."

However, an analogy with arbitration has limits. In providing a checklist of what the author proposed as desirable qualities and skills, classified into "The Mediator's credentials", "The Mediator's preferred procedural approaches" and "The Mediator's cultural preferences", he omits mention of individual temperament, personality, interpersonal compatibility and other pertinent psychological characteristics. That omission may be warranted since—for the most part—mediation is conducted before sole mediators, with co-mediation rare, particularly in an international context. Psychological characteristics, indicative of whether members of a tribunal can effectively work together and which should influence selection of the arbitrators who will constitute that tribunal are irrelevant to selection of a sole mediator.

So how can the risk associated with relying on anecdotal evidence of such psychological characteristics be reduced?

5. TWO POSSIBLE SOLUTIONS

Two approaches come to mind: first, change the source of the information to one that is sufficiently reliable; secondly, rely on prior successes; the first through personality-type screening and compatibility matching, the second through selection of proven panels.

[17] Michael McIlwrath, "Finding an International Mediator: Identifying Suitable Candidates to Mediate an International Commercial Dispute—a knol by Michael McIlwrath", December 9, 2008, at *http://knol.google.com/k/michael-mcilwrath/finding-an-international-mediator/3ennbsc25u4ay/2#* [Accessed June 4, 2009].

Personality-type screening and compatibility matching

Fortunately, a number of personality screens have been developed to discern general personality-type and to group individuals with compatible types. Once a sufficient pool of candidates has been determined using traditional arbitrator selection criteria, then—through use of a suitable screen—that pool can be further refined down to three individuals with seemingly compatible personalities and temperaments. By so supplementing traditional selection-criteria, the parties may significantly reduce the risk of constituting a panel that may experience interpersonal conflict and tension which might thwart collaboration and effectively frustrate its operation.

A rather simplistic, but nevertheless instructive, classification based on three distinct conflict-handling modes (negotiating styles) is often used to describe behaviour of negotiators faced with conflict: a person competes, accommodates or avoids.[18] Some degree of interpersonal conflict is required for two individuals to fully engage with each other and, by doing so, sufficiently advocate their respective positions and create and capture sufficient value through suitable compromises from whatever is then at stake, so that their respective interests are sufficiently satisfied. Individual negotiating styles can adversely interfere with this process.

To appreciate this, first consider how each of these three modes manifests itself.

Competitors want to win and enjoy feeling purposeful and in control. Competitive negotiators exude eagerness, enthusiasm and impatience. Typically they seek to control an agenda and frame the issues. They stake out an ambitious position and stick to it, and fight back when they are bullied or intimidated in order to get "the biggest slice of the pie".[19]

Accommodators value good relationships and want to feel appreciated. They exude concern, compassion and understanding. Worried that conflict will disrupt relationships, they negotiate—in a smooth fashion—to quickly resolve whatever differences arise. They listen well but may be too quick to give up on their own interests when they fear their relationship may be damaged.[20]

Avoiders believe that conflict is unproductive. They feel uncomfortable with explicit—especially emotional—disagreement. Whenever they are faced with conflict, avoiders do not compete or accommodate: they disengage. They tend not to seek control of an agenda or to frame issues. They deflect efforts to focus on solutions, appearing detached, unenthusiastic, or uninterested. Though avoidance behaviour has advantages at times—such as commanding attention of others when an avoider finally does speak up—nevertheless, they often shun opportunities to use conflict to solve problems and thus refrain from asserting and advocating their own interests or forcing out those of another side. Like competitors, avoiders may have problems in sustaining strong interpersonal working relationships with others.[21]

These modes interact, sometimes with disastrous results. Two competitors will produce an energetic negotiation, making offers and counteroffers, arguments and counterarguments, and enjoy bargaining just for its sheer fun. But, since both are primarily focused on winning, they are likely to reach a stalemate—or an outright blow-up—because neither is listening to the other. Two competitors need to find ways of framing acceptable compromises.[22]

A far different dynamic occurs when a competitor negotiates with an avoider: they infuriate each other. By refusing to engage, an avoider thwarts the competitor's need for control and totally frustrates the competitor. A competitor, when frustrated, may offer an avoider a concession just to get the latter to negotiate at all.[23]

[18] R.H. Mnookin, S.R. Peppet and A.S. Tulumello, *Beyond Winning—Negotiating to Create Value in Deals and Disputes* (Boston: Harvard University Press, 2000), p.51.
[19] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.51.
[20] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.52.
[21] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, pp.52–53.
[22] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.53.
[23] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.54.

The situation is not any better when a competitor negotiates with an accommodator. Accommodators may make significant concessions if only to preserve a relationship and minimise interpersonal disagreements, tension and strife, thus opening themselves to significant exploitation by a competitor.[24]

When two accommodators negotiate, each will be precisely attuned to the other's need to protect their relationship. But, in doing so, each may fail to sufficiently assert his or her own interests and thus avoid value-creating opportunities that arise out of conflict.[25]

When an accommodator and an avoider negotiate, little, if anything, results. Should the accommodator accommodate the avoider, both will simply avoid the problem. A negotiation might still succeed if the accommodator could sufficiently restrain his or her emotions to engage the avoider.[26]

Lastly, if two avoiders attempt to negotiate, both will tend to avoid any interpersonal conflict, thus reducing the possibility of achieving a creative integration of ideas and outcomes.

Why are negotiating styles pertinent to tripartite arbitral tribunals? A panel of three engages in joint problem-solving by negotiating with each other in closed-door deliberations to reach a consensus decision on a procedural or substantive issue. Parties choose tripartite tribunals and incur the substantial added expense because—given the finality of arbitration—they want results that survive a process of intellectual distillation, brought about by vigorous internal debate and testing amongst the panellists, as a sufficient safeguard against an aberrant decision of an arbitrator acting alone. While three-person panels are far from perfect, strength lies in numbers. Panellists negotiate to either persuade their fellow panellists of the correctness of their own views and thus bring either or both of the latter to their side, or allow themselves to be persuaded by their peers. In my experience, at times and just due to human nature, these negotiations can get heated and generate interpersonal conflict and tension, depending on how deeply seated an arbitrator's views and those of the others. Ideally, a skilled arbitrator should focus on the issue, negotiate strongly but remain open to persuasion and, once a consensus is ultimately reached, immediately let the tension and inter-personal conflict dissipate and move on as a united panel to consider the next issue. But, in reality, different negotiating styles can complicate the deliberative process, possibly even frustrate it.

Consider what may result if a tribunal were composed of a competitor, an accommodator and an avoider. The competitor would seek to take command, force his or her agenda on the others, rapidly analyse the issues, decide them all and single-mindedly fight for his or her decisions. The avoider would probably wait, in spite of whatever protestations the competitor might raise, hoping that, through the passage of time, the issues would disappear and thus he or she could avoid deciding the issues altogether. The accommodator, seeking to find agreement with the competitor and/or the avoider, if only to reduce the interpersonal conflict between the other two, would be frustrated by the split between them and, by being forced to take sides with one or the other and at the expense of increasing rather than decreasing conflict, would probably elect to side with neither and do nothing or spend time and energy trying to reconcile the disparate positions—perhaps to the point of jeopardising a productive outcome in order to salvage the relationship. The tribunal would not be able to reach consensus and would be totally stymied.

Would these clashing negotiating styles be revealed through curricula vitae? No. Through candidate interviews centring on substantive and arbitral experience and expertise? No. Through anecdotal assessments of those who have appeared before a candidate arbitrator? No. Why? For the most part, these styles would manifest themselves only during panel deliberations. Deliberations are highly confidential without either counsel or the parties having access. Outside the deliberations, a tribunal—being a master of disguise—takes on

[24] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.54.
[25] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.54.
[26] Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, p.54.

a stoic and cohesive appearance to hide any indications of internal strife, lest they alarm counsel who appointed them. Would these clashing styles be revealed through a suitable personality screen and then avoided by seeking arbitrators with compatible temperaments and negotiating styles? Quite possibly.

Psychology literature teaches a rich variety of personality assessment techniques (sometimes referred to as "personality tests") aimed at discerning personality type. This article reflects on four instruments (tools) which appear relatively benign in their approach and application, and thus suited for use in screening candidate arbitrators. These screens, while not completely free of professional controversy,[27] are the Myers-Briggs Type Indicator (MBTI), Keirsey Temperament Sorter, Thomas-Kilman Conflict Mode Instrument (TKI) and DiSC Classic.

In essence, theories of personality type describe various ways people differ in their preferred approaches to acquiring information, using that information to make decisions and interacting with their external environments.[28] People are not monolithic—not entirely consistent or predictable in their responses. Every individual exhibits different character traits at different times depending on the situation. During a negotiation, each of us can exhibit traits of a competitor, an accommodator or an avoider depending on our perceptions, moods and social context. Hence, personality type cannot be accurately determined merely by assessing an individual's response to one situation. However, over an extended period, general tendencies in personality type tend to predominate over others and may be well revealed by a carefully designed and properly interpreted screen.

Myers-Briggs Type Indicator (MBTI)

The MBTI was developed in the 1940s by Katharine Cook Briggs and her daughter Isabel Briggs Myers. This assessment is predicated on a theory devised by psychologist Carl G. Jung which posits that seemingly random variation in human behaviour is actually quite orderly and consistent due to variations in the way individuals perceive and judge the world around them. Perception involves all the ways of becoming aware of things, people, happenings or ideas. Judgment involves all the ways of reaching conclusions about what has been perceived. If people differ systematically in what they perceive and in how they reach conclusions, then it is only reasonable for them to differ considerably in their interests, reactions, values and skills.[29]

The MBTI contains four bi-polar indices which reflect the extent to which four basic human preferences affect a person's use of perception and judgment. These indices indicate what people prefer to do in given situations and how they prefer to draw conclusions from what they perceive. The four scales are:

(a) Sensing-Intuition (SN), whether in acquiring information a person prefers to rely primarily on sensing or a process of intuition. A sensing preference signals primary reliance on observable facts or happenings. An intuitive preference focuses on patterns, possibilities and multiple meanings when attending to or gathering information.

[27] See, e.g. Mnookin, Peppet and Tulumello, *Beyond Winning*, 2000, pp.327–328 and "Personality Assessment" in *New World Encyclopedia* particularly its extensive reference section (last modified April 3, 2008) at *http://www.newworldencyclopedia.org/entry/Personality_assessment?oldid=687307* [Accessed September 13, 2009].

[28] Don Peters and M.M. Peters, "Maybe That's Why I Do That: Psychological Type Theory, the Myers-Briggs Type Indicator, and Learning Legal Interviewing" (1990) 35 N. Y. L. Sch. L. Rev. 169, 173.

[29] Isabel Briggs Myers, *Introduction to Type*, 6th edn (New York: Consulting Psychologists P., 1998), p.15; see also The Myers & Briggs Foundation, "MBTI Basics" at *http://www.myersbriggs.org/my-mbti-personality-type/mbti-basics* [Accessed August 15, 2009].

(b) Thinking-Feeling (TF), whether in making judgments a person prefers to rely on impersonal logical consequences, or personal or social values.
(c) Extroversion-Introversion (EI), whether a person focuses attention and derives energy from external objects and people or prefers to focus on internal processes. Extroverted people tend to prefer active involvement with others, think best when talking, tend to be action-oriented and prone to leap into tasks with little preparation or planning. Introverted people enjoy solitude, introspection, and engage in careful planning before acting and focus inward on their own thoughts and ideas.
(d) Judging-Perceiving (JP), whether a person, in making decisions affecting his or her external world, prefers a process of structured decision making, seeking closure, planning and goal-setting (collectively judging), or an unstructured, flexible, possibly spontaneous approach including postponing decisions to continue observing and receiving information.[30]

The primary purpose of the MBTI is to measure a person's aggregate preferences along the SN, TF, EI and JP indices. These preferences merely reflect habitual choices between rival alternatives. At various times and depending on given situations, individuals can display opposite personality traits as measured by each scale. However, over time an individual's overall habitual preferences—much like left-handedness or right-handedness in a non-handicapped individual—will predominate.[31]

The MBTI screening-process involves presenting a series of questions of which there is no right or wrong answer, each requiring a choice between two seemingly inconsequential, normal events. Through appropriate scoring of the responses, the resulting MBTI indicator yields a combination of four letters—e.g. ESTP or ISTJ—which indicates a person's preference along each of the four indices, yielding 16 possible different outcomes, i.e. personality type preferences[32]: ISTJ, ISFJ, INFJ, INTJ, ISTP, ISFP, INFP, INTP, ESTP, ESFP, ENFP, ENTP, ESTJ, ESFJ, ENFJ and ENTJ. All these types are equal; no one type is better than any other.[33]

Individuals exhibiting certain MBTI types are likely to be more compatible with and complement each other.[34] Correlatively, those exhibiting other types are not. I surmise that MBTI-type information can be used in selecting appropriate arbitrators. Consider the following process. Once the pool of qualified candidates is identified through use of conventional selection metrics, a first arbitrator is selected. Then, a second arbitrator is identified not only through the same metrics but also through MBTI-type determination and selection. The second arbitrator would be one of the candidates whose MBTI personality-type indicates that their personality is likely to be compatible with and/or appropriately complement that of the first arbitrator. Similarly, the third arbitrator would be selected from amongst the remaining candidates in the pool as one whose MBTI-type indicates a compatible and/or complementary personality with the two previously selected arbitrators. If no one is found to be compatible with or complementary to the first and/or second arbitrators, then another candidate(s) can be substituted for either or both of those arbitrators, and so forth, until an appropriate panel all having suitable personalities has been selected.

[30] Peters et al., "Maybe That's Why I Do That" (1990) 35 N. Y. L. Sch. L. Rev. 169, 175–177, Briggs, *Introduction to Type*, 1998, pp.9–29.
[31] Peters et al., "Maybe That's Why I Do That" (1990) 35 N. Y. L. Sch. L. Rev. 169, 178.
[32] Peters et al., "Maybe That's Why I Do That" (1990) 35 N. Y. L. Sch. L. Rev. 169, 178.
[33] The Myers & Briggs Foundation, "MBTI Basics" at *http://www.myersbriggs.org/my-mbti-personality-type/mbti-basics* [Accessed August 15, 2009].
[34] Briggs *Introduction to Type*, 1998, pp.38–39.

Keirsey Temperament Sorter

In 1978, David Keirsey and Marilyn Bates, building on the MBTI, found that correlations resulting from combining the Myers-Briggs "intuition" with "judging" functions, NT and NF, and "sensing" with "perceiving" functions, SJ and SP, lead to four temperaments: artisan, guardian, rational and idealist.[35] Keirsey defines temperament as a configuration of observable personality traits, such as habits of communication, patterns of action, and sets of characteristic attitudes, values and talents. A temperament encompasses personal needs, kinds of contributions an individual makes in a workplace and roles which that individual plays in society.[36] More generally, temperament is "that which places a signature or thumbprint on each of one's actions, making it recognizably one's own"[37] in essence a "configuration of inclinations", pre-disposition, or simply "the inborn form of human nature".[38]

Individuals can determine which one of the four temperaments they tend to exhibit—and more specifically one of four underlying character types for each temperament—by taking a multi-question test, the "Keirsey Temperament Sorter", which, similar to the MBTI, sorts through four pairs of bi-polar personality preferences: extroversion/introversion, sensing/intuiting, thinking/feeling and judging/perceiving.[39]

Thomas-Kilman Conflict Mode Instrument (TKI)

Kenneth W. Thomas and Ralph H. Kilman developed the TKI in the early 1970s. It is based on theoretical refinements made by Thomas of a model of management conflict styles dating back to the 1960s.[40] It broadens the rather simplistic though generalised three-style model of conflict-handling in negotiation from one involving just competitors, avoiders and accommodators to one encompassing two additional styles: collaborator and compromiser. The five modes, for any individual, are measured along two orthogonal dimensions: assertiveness and cooperativeness. A competitor takes, is assertive and uncooperative, and tries to satisfy his or her own concerns at the expense of someone else. A collaborator is both assertive and co-operative and tries to find a win-win solution that completely satisfies the concerns of those involved. A compromiser, being somewhat assertive and somewhat co-operative, attempts, by both "giving and taking", to find an acceptable solution that only partially satisfies those concerns. An avoider is both unassertive and uncooperative, preferring to avoid conflict without satisfying anyone's concern. An accommodator is unassertive but co-operative, and attempts "by giving" to satisfy the other people's concerns at his or her own expense.[41]

This model accommodates the extent of joint satisfaction, i.e. the "pie". When competing, compromising or accommodating, the pie is generally large enough to satisfy the interest of one side or partially that of both. Hence, one side claims value at the expense of the other:

[35] David Keirsey and Marilyn Bates, *Please Understand Me: Character and Temperament Types*, 5th edn (Gnosology Books, 1984), p.28 and in more detail pp.30–66; and David Keirsey, *Please Understand Me II: Temperament, Character, Intelligence* (Prometheus Nemesis, 1998), pp.18–20 and 26.

[36] "About 4 Temperaments" available at *http://www.keirsey.com/handler.aspx?s=keirsey&f=fourtemps&tab=1&c=overview* [Accessed September 13, 2009]. See also, Keirsey and Bates, *Please Understand Me*, 1984, pp.27–28 and Briggs *Introduction to Type*, 1998, p.34.

[37] Keirsey and Bates, *Please Understand Me*, 1984, p.27.

[38] Keirsey, *Please Understand Me II*, 1998, p.20.

[39] "The Keirsey Temperament Sorter (KTS-II)" available at *http://www.keirsey.com/aboutkts2.aspx* [Accessed September 13, 2009]. See also, Keirsey, *Please Understand Me II*, 1998, pp.4–12 and Keirsey and Bates, *Please Understand Me*, 1984, pp.5–13.

[40] K.W. Thomas, *Introduction to Conflict Management: Improving Performance Using the TKI* (Consulting Psychologists P., 2002), p.1.

[41] Thomas, *Introduction to Conflict Management*, 2002, pp.7–8 and 11.

a classic distributive "zero sum", "win-lose", situation. Collaboration often expands the size of the pie so that more value can be claimed by each side, thus affording "win-win".[42] Here too, individuals, through their behaviour, exhibit characteristics, either consciously (when it is perceived to be advantageous to do so[43]) or unconsciously, of each of the five modes as a given situation warrants. Nevertheless, over an extended time a person's behaviour will indicate a preference for one of these modes. Personality clashes can arise between people exhibiting markedly different TKI preferences.

Since the way arbitrators handle conflict and divergent opinions to resolve an issue might well be the most critical aspect of their own interaction, the TKI may be the most efficacious of the four tools. An extreme competitor would probably impede resolution, while a compromiser might facilitate positive outcomes.[44]

DiSC Classic

This is a further personality assessment tool, based on the work of psychologist William Moulton Marston in the late 1920s and early 1930s. It measures characteristic ways people behave in particular environments, i.e. "surface traits". By contrast, the MBTI describes how people approach their environment intellectually and attitudinally and how they process information.[45]

The DiSC Classic test attempts to classify individuals in a four-dimensional model of human behaviour as exhibiting: dominance (D) which produces activity in an antagonistic environment; inducement or influence (I) which produces activity in a favourable environment; steadiness (S) which produces passivity in a favourable environment; or compliance or conscientiousness (C) which produces passivity in an antagonistic environment.[46] The dimensions are grouped in a grid, with D and I sharing the top row and representing extroverted aspects of personality and C and S below representing introverted aspects. D and C then share the left column and represent task-focused aspects; I and S share the right column and represent social aspects. Through this scheme, an individual can exhibit a combination of these types, e.g. a predominant D trait with a strong I trait, and so forth. The test instrument, similar to the MBTI and Keirsey Temperament Sorter, requires a participant to select an answer from a series of questions.[47]

Each of the four assessment tools is administered through a test consisting of a series of multiple-choice questions followed by a report interpreting the results. An on-line self-administered version of each test is available through which one can take the test and receive a corresponding report at a modest cost,[48] typically less than US $200 and often much less,

[42] Thomas, *Introduction to Conflict Management*, 2002, p.9.

[43] Thomas, *Introduction to Conflict Management*, 2002, pp.12–16.

[44] Private email with Dr Yona Shulman.

[45] *A Comparison of DiSC Classic and the Myers-Briggs Type Indicator—Research Report* (Inscape, 1996), pp.1–2, at *http://www.inspiringsolutions.com/content/assocmat/Disc_vs._Myers_Brigs.pdf* [Accessed September 22, 2009].

[46] *DiSC Classic and Models of Personality—Research Report* (Inscape, 1996), p.5 at *http://www.intelitechgroup.com/assets/pdf%20download%20files/white%20papers/PPSMOPO-232.pdf* [Accessed September 22, 2009].

[47] *New World Encyclopedia* (last modified April 3, 2008).

[48] As of September 16, 2009, a personal on-line assessment, including taking the tool and receiving an associated report using the MBTI can be accessed via The Consulting Psychologists Press (CPP) website (approximately US $55), at *https://www.cpp.com/en/mbtiproducts.aspx?pc=157* [Accessed December 4, 2009], the Center for Application of Psychological Type (US $150 or $175 depending on applicant's location), at *http://www.capt.org/take-mbti-assessment/mbti.htm* [Accessed December 4, 2009] and The Resource Connection (TRC) (approximately US $60), at *http://www.resourceconnection.com/mbti-complete.html* [Accessed December 4, 2009]; the Keirsey Temperament Sorter (approximately US $30) via

though the comprehensiveness of the report will obviously vary from one provider to the next.

A major drawback of these tools is that they rely on candid self-reporting, i.e. they require the test-taker to candidly provide answers to the questions so that the results are valid and truly descriptive of the personality style and preferences of that individual. However, if the test-taker believes that certain responses would be more "socially desirable" than others—i.e. to reflect one personality type over others and hence permit that person to be matched with certain individuals of given personality types over others than would otherwise occur—then that person may provide false answers to deliberately skew the results. To reduce this concern, these tools include a so-called "lie scale" which detects inconsistencies in the responses which might reflect their deliberate manipulation.[49] Though obviously a candidate arbitrator could attempt such manipulation, the likelihood is quite low. Since arbitrators closely work together and often for a considerable time, they should realise that it is in their best interest to be candid and thereby matched with someone with whom they are more likely to be compatible.

Personality type should never be the sole or even predominant metric for arbitrator selection. Yet screening and compatibility matching based on type, though not foolproof, may provide insights and reduce the risk of inadvertently selecting incompatible panellists. Having a qualified industrial psychologist administer the test to a modestly-sized pool, interpret the resulting scores and provide assistance in screening the candidates may cost several thousand dollars.[50] Alternatively, a face-to-face interview of a candidate by such a professional will yield more person-specific data and at a greater depth and sophistication than any of the personality assessment tools.[51] However, that would incur time and professional fees. The nature of a dispute, including the ramifications of its resolution, will determine whether they are warranted. Where a large amount is in dispute or the issues are sufficiently important to the parties (and possibly to non-party public constituencies in investment treaty arbitrations involving a government entity), then the additional information provided by personal interviews may well lead to increased confidence in selecting compatible panellists that justifies the increased cost.

With claims, particularly in international and increasingly in domestic disputes, now routinely running in the hundreds of millions of dollars and sometimes billions, the consequences of selecting what ultimately becomes a dysfunctional panel can be devastating. Consequently, the need to employ personality screening—whether through these tools or personal assessment interviews—has never been more critical and will become more so in the future. Yet, in the overall cost structure of a major commercial arbitration, their cost is miniscule. Personality screening just makes good sense. But how to best proceed?

Institutions could collect personality data of all arbitrators on their respective rosters and appropriately supplement each arbitrator's biographical information. During the selection process, they could supply that information to counsel, who in turn should use all the information, including personality type data, in selecting arbitrators. First, institutions could ask all the panellists on their rosters for their type data. Alternatively, they could query each candidate panellist, on its roster, as that person is being considered for a given proceeding and during the associated selection process, with either the institution administering the

the Keirsey.com website, *http://www.keirsey.com/sorter/register.aspx* [Accessed December 4, 2009]; the TKI can be accessed (approximately $15) via the CCP website, *https://www.cpp.com/en/tkiproducts.aspx?pc=142* [Accessed December 4, 2009] and at the TRC website (approximately $30), *http://www.resourceconnection.com/tki.html* [Accessed December 4, 2009]; the DiSC Classic can be accessed (approximately US $20) at the TRC website, specifically at *http://www.resourceconnection.com/disc-classic.html* [Accessed December 4, 2009], and at the Corexcel website (approximately $30), *http://www.corexcel.com/html/disc-profile.htm* [Accessed December 4, 2009].

[49] Private email with Dr Yona Shulman.

[50] Private email with Dr Yona Shulman.

[51] Private email with Dr Yona Shulman.

screening tool or through a suitable professional hired by counsel, to obtain the candidate's type information and then supplement that candidate's profile accordingly. For those seeking entry to a roster, an institution could supplement its panellist questionnaire to include a response field for each applicant. If the MBTI data is being used, then soliciting type data can entail nothing more than providing a grid or list of the 16 MBTI types with a check box next to each one and a request to the applicant to check off the box, or simply providing an appropriate line on the questionnaire on which applicants fill in their type.

Since type data is based on personality preferences over time, this data is not likely to change appreciably. Since it is in their own interest to work with others with whom they are likely to be compatible or complementary, then little if any incentive exists for candidates to lie about or modify type information from the original assessment. As to timing, an institution can collect type information on its existing panellists: by querying en masse, whether by email or post, all members of its roster; through testing at a suitable conference sponsored by the institution which members of its roster are likely to attend; or during a selection process.

The advantage in using type data accrues not only to the parties and counsel in reducing the potential for incompatibility, but also to the tribunal itself in constituting it with arbitrators able to work effectively with each other. Moreover, the advantages are not confined to tripartite panels. Benefits flow from incorporating that data into the selection of sole arbitrators and even mediators by increasing the likelihood that, selected in part on such data, they will exhibit a suitable personality and temperament compatible with the parties, counsel and their needs.

To adequately safeguard each arbitrator's privacy, obtaining and disseminating personality type data (or the results of any other suitable personality assessment tool which provides insight to that person's psychological nature) for any candidate or an existing panellist, must be consensual and not a mandatory requirement for admission to or continued inclusion on any roster.

Collecting and using such data to match candidates should not to provide another excuse for parties and counsel to use to their own advantage but rather should improve the entire arbitral process by enhancing the likelihood that compatible arbitrators will be selected.

Selection of Proven Panels

Once a tribunal has demonstrated its ability to meet the expectations of counsel, parties and an institution, that institution should not only recommend each panellist on the tribunal for reappointment but also reappointment of the panel. Nominations should not just be of individual panellists but of entire tripartite panels which, by their prior actions, have established their own competence and the ability of members to work together. They have shown the desirable psychological traits of open-mindedness, intellectual flexibility, good listening and a sustained ability to constructively and effectively channel discrete episodes of inter-personal conflict—resulting from candid and often intense debate of different issues which arise over the course of an arbitration—into corresponding instances of problem-solving and ultimately resolution.

Traditionally, institutions appear to have focused on appointing individual arbitrators regardless of whether they have served together or not, but apparently have paid little attention, if any, to reappointing proven panels. Selecting an entire panel might initially be thought to entail added obstacles, inasmuch as the panel as an entity needs to address its ability to serve whether as a result of conflicts in time, subject matter, prior relationships or other. However, since these tasks need to be independently performed by each of the panel members, which is what occurs with conventional selection of three individual arbitrators, there should be no additional burden or delay. Personality assessment tools have inherent errors and do not completely remove the risk of incompatibilities inherent in selecting

individual panellists who have no experience in having worked together but that risk may be reduced by reappointing a proven panel.

In the mid-2000s, I served on a tripartite panel convened by CPR to handle a large domestic patent dispute concerning coronary stents. It lasted 18 months and necessitated substantial interaction amongst the panellists. On several occasions, we exhibited considerable differences of opinion, some strongly held. Nevertheless, all of us efficiently, diligently and thoughtfully worked through each of those differences to arrive at a unanimous decision, supported by rigorous logic, analysis and mental testing. Right after closing arguments, leading counsel for both sides approached us and complimented us. Moreover, not only did we work well together, the three of us emerged as friends. A couple of years later, I had a chance encounter at a CPR Annual Meeting with in-house counsel for one of the parties. I recounted my experience and asked whether the parties employed some type of psychological screening, though none had been apparent to me during the interview. Counsel replied: "Yes, we did." I was not surprised.

6. CONCLUSION

Many businesses use personality testing as part of their hiring processes. People use personality testing to evaluate business partners. Even lawyers use personality testing to analyse criminal behaviour, undertake litigation profiling, witness examination and jury selection.[52] Why not do so of candidate arbitrators? Selecting tripartite tribunal members, using traditional criteria supplemented by personality screening, should increase the likelihood of appointing a panel of compatible arbitrators that ultimately contributes to an efficient, high-quality arbitral process which completely satisfies the needs of the parties. The time to do so has clearly arrived.

[52] Irene Leonard, "Personality Assessment: What About Them?" (King County Bar Association, April 2008), *http://www.kcba.org/newsevents/barbulletin/archive/2008/08-04/article14.aspx* [Accessed September 13, 2009].

6. CHARTERED INSTITUTE OF ARBITRATORS
PRACTICE AND STANDARDS COMMITTEE
ARBITRATION SUB-COMMITTEE

PRACTICE GUIDELINE 16: THE INTERVIEWING OF PROSPECTIVE ARBITRATORS

CHARTERED INSTITUTE OF ARBITRATORS

PRACTICE AND STANDARDS COMMITTEE

Arbitration Sub-Committee

Practice Guideline 16: The Interviewing of Prospective Arbitrators

Introduction

1 It is part of the widely-accepted principle of party autonomy in arbitration that the parties may, subject to any constraints imposed by applicable rules and/or the arbitral law at the seat (legal place) of the arbitration, agree their [sole] arbitrator or, in the case of a tribunal of three, each choose a member of that tribunal (a party-appointed arbitrator – "PAA"). A number of different appointment mechanisms are encountered in practice and, self-evidently, certain constraints exist and there are procedures contained in arbitral rules or in statute to challenge appointments.

2 The choice of PAA is an important, even critical, yet delicate task. He/she has a vital contribution to play in the effective conduct of the proceedings and the determination of the merits of the case; this is not because a PAA should advocate his/her appointing party's case (this practice is, worldwide, prohibited or, as a minimum, disapproved of) but because the PAAs:

(a) choose the third, presiding, arbitrator, and

(b) play a role in ensuring that both parties' cases and legal cultures are given appropriate consideration during the procedural stages of the arbitration and when the merits are discussed.

3 Given that substantial sums of money might rest in the hands of the tribunal, and given the right of each party to choose its PAA, should a party make such choice based solely on CVs, websites or word-of-mouth recommendations? Necessarily, these might not give a complete picture of the appointee and it is common practice, in some jurisdictions but not in others, that the appointor interviews a list of prospective PAAs prior to making the appointment. Such a practice undoubtedly carries certain risks but practical experience shows that a comprehensive interview can be conducted without jeopardising the PAA's neutrality, independence or impartiality. However, there appear to be no institutional ground rules addressing the interview process although the distinguished US arbitrator, Gerald Aksen, has made suggestions which have been incorporated into these Guidelines.

4 In preparing these Guidelines, the Chartered Institute has consulted widely across many jurisdictions and different legal cultures. While there have been statements of strong opposition to the principle of the interview process and, therefore, to there being any Guidelines at all, the overwhelming majority of responses have been very supportive, a common theme being that, since the interview process is not only not well understood as regards the right/wrong approach but is also open to abuse and manipulation, the publication of a Guideline will bring much-needed light where there is presently only murk.

5 For the avoidance of doubt, this Guideline does not seek to address partisan behaviour where either the appointor looks for a hired-gun/closet advocate as PAA or where the PAA, consciously or otherwise, acts in a partisan manner. Challenge procedures (e.g. Articles 12 and 13 of the Model Law or equivalents in other laws or in arbitral rules) exist to deal with such circumstances.

6 The Guidelines also apply to the interviewing of prospective sole arbitrators and prospective chairs and include specific safe guards in relation to these (less common) situations.

Why Interview ?

7 In an article "Practical Guidelines for Interviewing, Selecting and Challenging Party-appointed Arbitrators in International Commercial Arbitration" (Bishop/Reed in "Arbitration International" Vol. 14 №.4 at 395), the authors state:

"The ability to appoint one of the decision-makers is a defining aspect of the arbitral system and provides a powerful instrument when used wisely by a party. It is also a truism that a party will strive to select an arbitrator who has some inclination or predisposition to favour that party's side of the case such as by sharing the appointing party's legal or cultural background or by holding doctrinal views that, fortuitously, coincide with a party's case. Provided the arbitrator does not "allow this shared outlook to override his conscience and professional judgment" (Redfern & Hunter) this need carry no suggestion of disqualifying partiality. This is a natural and unexceptional aspect of the party appointment system in international arbitration. There is a distinction to be drawn, however, between a general sympathy or predisposition and a positive bias or prejudice. Bias in favour of, or prejudice against, the party or its case encompasses a willingness to decide a case in favour of the appointing party regardless of the merits or without critical examination of the merits."

8 A US perspective is:

"If... one of the principal functions of a party-appointed arbitrator is to give confidence in the process to the parties and their counsel, some basis for that confidence needs to be established. Sometimes that confidence can be based on mutual acquaintances, without direct personal contact; some potential arbitrators become well known through published writings, lectures, committee work or public office. Others are not so well-known, and I understand that lawyers or clients or both want to have a first-hand look. I think, however, that some restraint should be so shown by both sides." ("The Party-Appointed Arbitrator in International Controversies: Some Reflections" (Professor Lowenfeld) [1995] 30 Texas Int. Law Journal at 59).

9 Redfern & Hunter state:

"However, it is hard to perceive the practice [i.e. of interviews] as being objectionable in principle, provided that it is not done in a secretive way and that the scope of the discussion is appropriately restricted." (Law & Practice of International Commercial Arbitration"; 4th ed. at §4-50)

10 The ABA's "Code of Ethics for Arbitrators in Commercial Disputes" (9th February 2004) appears to be the only formal regulatory document which addresses the interview process; it states as follows:

"When the appointment of a prospective arbitrator is being considered, the prospective arbitrator: (a) may ask about the identities of the parties, and the general nature of the case; and (b) may respond to inquiries from a party or its counsel designed to determine his or her suitability and availability for the appointment. In any such dialogue, the prospective arbitrator may receive information from the party or its counsel disclosing the general nature of the dispute but should not permit them to discuss the merits of the case." (Canon III Paragraph B(1))

11 Certain information must in any event be disclosed by the prospective appointor before the arbitrator can contemplate accepting the appointment: the names of the parties in the dispute and any third parties involved must be disclosed in order for the arbitrator to assess his position with regard to conflicts and it may be necessary for the prospective appointor to disclose the names of other dramatis personae. Some information about the nature of the dispute must be disclosed: for example, there is a substantial difference between expertise in building (i) billion-dollar offshore construction platforms (ii) LNG carriers and (ii) petrochemical refineries although all three might be seen as "oil & gas construction". It is

also reasonable that the location of the project be disclosed since the conduct of business varies in different parts of the world and the US business environment is not the same as that in South Asia, West Africa or England.

Preamble to the Guidelines

12 These Guidelines are available for use in any applicable circumstance in any jurisdiction and may be used both by those who are members of the Chartered Institute and by those who are not. It is expected that members of the Chartered Institute will adhere to these Guidelines, whether in the capacity of interviewee arbitrator or as interviewer. Where prospective arbitrators are contacted or are to be contacted by telephone with what is intended as a routine availability/fees enquiry, both contactor and contactee may wish to bear these Guidelines in mind.

The Guidelines

13 The following guidelines are to be considered as recommendations and do not carry any implication of being mandatory.

(1) In agreeing to be interviewed, the prospective arbitrator should make the basis upon which the interview is to be conducted, whether such is to be these Guidelines or otherwise, wholly clear and in writing to the interviewing party, whether that be the party itself, its legal advisers, or both.

(2) These Guidelines may, by agreement, serve as the basis upon which the interview is to be conducted, with such additional restraints and safeguards, whether suggested by interviewer or interviewee and as agreed between them in advance, as may be appropriate in individual circumstances.

(3) It should be clearly understood that appointment as arbitrator does not carry with it any obligations to the appointing party except the generally-accepted obligations of all arbitrators of ensuring (i) that (where provided for) an appropriate chair/presiding arbitrator is selected and (ii) that the parties' cases are both understood and fully considered in the tribunal's deliberations - this is wholly different to arguing a party's case.

(4) Where there is to be a sole arbitrator, he/she should not be interviewed except by the parties jointly or, if one of the parties wishes to conduct an interview and the other party does not, the interview should proceed with a representative of the latter in attendance as observer; the latter party should not unreasonably refuse to co-operate.

(5) The interviewee arbitrator should be permitted to be accompanied by a secretary or pupil or other assistant to take a note of proceedings.

(6) The constitution of the interviewing team should be made known to the prospective arbitrator in advance and, at the outset of the interview, it should be made clear who will lead it and how it will be conducted. The interview should normally be led by a senior representative of the interviewing party's external lawyers.

(7) Either a tape recording or a detailed arbitrator's file note should be made of the interview and the tape or the file note disclosed to the other side in the dispute, and to the appointing body, at the earliest available opportunity.

(8) The mere fact of there having been an interview should not, per se, be a ground for challenge.

(9) The following may not be discussed either directly or indirectly:

- (i) the specific circumstances or facts giving rise to the dispute
- (ii) the positions or arguments of the parties
- (iii) the merits of the case.

(10) Subject always to the overriding provisions of Guideline 9, in order for the interviewee's suitability (expertise, experience, language proficiency and conflict status) to be assessed the following may be discussed:

- (i) the names of the parties in dispute and any third parties involved or likely to be involved
- (ii) the general nature of the dispute
- (iii) sufficient detail, but no more than necessary, of the project to enable both interviewer and interviewee to assess the latter's suitability for the appointment

(iv) the expected timetable of the proceedings

(v) the language, governing law, seat of and rules applicable to the proceedings if agreed, or the fact that some or all of these are not agreed

(vi) the interviewee's experience, expertise and availability.

(11) Subject always to the overriding provisions of Guideline 9, in assessing the interviewee's experience and expertise, questions may be asked to test his/her knowledge and understanding of

(i) the nature and type of project in question

(ii) the particular area of law applicable to the dispute

(iii) arbitration law, practice and procedure.

Such questions should be general in nature and neutrally put in order to test the interviewee and should not be put in order to ascertain his/her views or opinions on matters which may form part of the case. Questions concerning the interviewee's publishing history (if any) may be put subject to the same proviso.

(12) The interviewee should be permitted to decline to answer any question on the grounds that it goes beyond what is categorized in Guideline 10 above, and any such declining should be accepted in good faith by the interviewer.

(13) Conversely, the interviewer should equally be permitted to decline to answer any question from the prospective arbitrator on the same basis.

(14) In the event that the interviewee comes to the conclusion that the interviewer is really seeking a partisan arbitrator or one who will not be impartial, he/she should terminate the interview forthwith and should not accept the appointment.

(15) The interview should be conducted in a professional manner in a business location, and not over drinks or a meal.

(16) A time limit should be agreed for the interview.

(17) It is reasonable for the parties to interview prospective chairmen but such interviews should either be by the parties (or their legal advisers) jointly or, if by one of the parties, be conducted only with the attendance of the other's representative. The other party should not unreasonably refuse to co-operate.

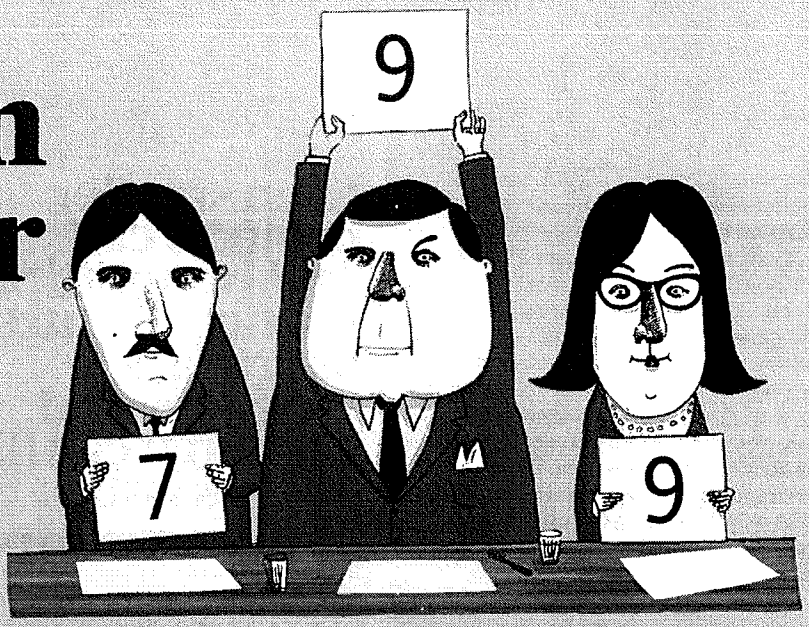
(18) Any failed interviewee may be reimbursed his/her reasonable travel expenses for attendance at the interview but should not be reimbursed for his/her time save in exceptional circumstances.

(19) The appointee should not be reimbursed his/her travel expenses or time for attendance at the interview but, once the tribunal is constituted and arbitral proceedings under way, the appointed arbitrator should submit his/her travel expenses for reimbursement in the normal way but clearly separated and identified as relating to the interview.

7. HOW TO SELECT AN ARBITRATOR

HOW TO...

...select an arbitrator



By Mandy Moore
Illustration: Cameron Law

"Does he or she have a particular qualification critical to your dispute?"

SELECTION OF AN ARBITRATOR is one of the most important strategic decisions of an arbitration proceeding, as success can depend, in large part, on the quality of the arbitrator. Counsel must conduct the necessary due diligence to secure an arbitrator who is not only independent and impartial, but also possesses the appropriate skill set and qualifications. So what should counsel consider when selecting an arbitrator?

1/ Restrictions on who can act

Review the arbitration agreement and the applicable law as they may impose restrictions on the choice of an arbitrator by requiring, for example, that arbitrators have knowledge of a particular legal system or have particular expertise or experience.

2/ Experience and training

Ensuring that your prospective arbitrator has the appropriate expertise and training is critical. Do they have experience acting as arbitrator? Do they have specific arbitration training such as Fellowship of CIArb? Is the arbitrator a current or former lawyer or judge? Does he or she have a particular qualification critical to your dispute such as an engineering degree or accounting designation?

3/ Availability is key

'Big name' arbitrators, while desirable to clients by their reputation alone, may have little to no availability to adjudicate a client's dispute in an expedited manner and thus defeat one of the key benefits of proceeding by way of arbitration.

4/ Interview with care

The last thing you want to do is jeopardise the independence and/or impartiality of a prospective arbitrator by asking inappropriate questions or sharing views on the dispute. Conduct an interview on the premise that the entire discussion will be disclosed to the other party to the dispute. Also take notes so you remember what was discussed. If you choose to interview, the following areas should be covered:

- The identities of the parties, counsel and witnesses (to the extent known) and a brief description of the dispute in order to permit the arbitrator to consider whether any conflicts exist and to permit them to make any necessary disclosure to the parties of conflicts or potential conflicts;
- The arbitrator's background, qualifications and experience as reflected or not on their CV;
- The arbitrator's availability;
- The language, governing law, seat of and rules applicable to the arbitration (if any), or the fact that some or all of these are not yet agreed to;
- The arbitrator's rate;
- The arbitrator's experience with the subject of the dispute, if any;
- The arbitrator's experience as sole arbitrator, party-appointed arbitrator or chair; and
- The arbitrator's willingness to act in relation to the dispute.

5/ Research your arbitrator

The questions that you cannot ask of a prospective arbitrator can often be answered, at least in part, through research. Look for any papers written, or speeches given, by the arbitrator or past arbitration awards (to the extent available) on the issues raised in the dispute. Have any of your colleagues had experience working with the prospective arbitrator? What are their views on the extent of documentary disclosure? Have they ever made a finding of gross negligence?

6/ Trust your instincts

Your clients rely upon you for your strategic judgment. After you have conducted due diligence and have a pool of prospective arbitrators, apply that judgment to your final recommendation. When an arbitrator feels right for your dispute, you will know it.

MORE INFO

Looking to appoint an arbitrator?
CIArb-DAS can help you find a suitably qualified arbitrator with the right knowledge and experience. For any enquiries please contact Waj Khan.
Email wkhan@ciarb.org **Tel** + 44 (0) 20 7421 7444

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Guidelines for Interviewing Prospective Arbitrators

By Hew R. Dundas

The Chartered Institute of Arbitrators (CIArb), with approximately 11,500 members in approximately 105 jurisdictions, inter alia, promulgates best practice guidelines in a number of areas of arbitration procedure. The guidelines are practical; they suggest what an arbitrator should do if certain situations arise, as opposed to repeating the law. They have recently been completely revised and put into an international context with input from CIArb members around the world (approximately 30 jurisdictions were consulted). As part of its work, the CIArb has published guidelines on interviewing arbitrators (the Guidelines).[1]

Introduction

In most state court systems, parties are allocated the next available judge or judges, possibly one with some particularly relevant legal expertise, possibly one with no knowledge or understanding of the subject matter of the dispute. One of the many reasons to arbitrate is to have the opportunity to select the tribunal, particularly in those cases where each party selects one arbitrator (a party-appointed arbitrator, or PAA), and the two PAAs (or an institution) then appoint the third. Arbitral rules or the applicable procedural law may constrain the choice of the PAA, e.g., in cases where he or she must be of a different nationality to the parties.

How then should a party choose its PAA? One approach is for the appointer to interview a list of prospective PAAs prior to making the appointment. This is routine and unexceptional in some jurisdictions but unknown or even anathema in others. Actual experience shows that a comprehensive interview can be conducted without jeopardy to the neutrality of the PAA.

The Guidelines do not address non-neutral behavior where either the appointer looks for a hired gun/closet advocate as PAA, or where the PAA, consciously or otherwise, acts in a non-neutral manner. Challenge procedures exist to deal with such circumstances

Should Interviews Be Permitted or Prohibited?

A very small minority of those consulted by the CIArb objected to the mere concept of interviews; a larger number accepted the concept but stated (for differing reasons) that they personally would decline to be interviewed and would do no more than discuss availability and terms of business. However, few (if any) enquiries made of potential arbitrators stop at the simple terms/availability questions. In addition, the prospective arbitrator cannot realistically contemplate receiving an appointment without providing any information to the many appointers who feel they must ascertain certain minimum information (see below).

A number of highly reputed authors have considered the issue. For example,

(1) Redfern and Hunter state, "However, it is hard to perceive the practice [i.e., of interviews] as being objectionable in principle, provided that it is not done in a secretive way and that the scope of the discussion is appropriately restricted."[2]

(2) A U.S. perspective was given by Professor Lowenfeld:

> [I]f . . . one of the principal functions of a party-appointed arbitrator is to give confidence in the process to the parties and their counsel, some basis for that confidence needs to be established. Sometimes that confidence can be based on mutual acquaintances, without direct personal contact; some potential arbitrators become well known through published writings, lectures, committee work or public office. Others are not so well-known, and I understand that lawyers or clients or both want to have a first-hand look. I think, however, that some restraint should be so shown by both sides.[3]

(3) In their article, R Doak Bishop and Lucy Reed state, "The ability to appoint one of the decision-makers is a defining aspect of the arbitral system and provides a powerful instrument when used wisely by a party"[4]

The ABA's "Code of Ethics for Arbitrators in Commercial Disputes" (February 9, 2004) appeared to be the only formal code that addressed the interview process. Canon III(B) provides (inter alia) that

> [a]n arbitrator or prospective arbitrator should not discuss a proceeding with any party in the absence of any other party, except in any of the following circumstances:
>
> (1) When the appointment of a prospective arbitrator is being considered, the prospective arbitrator:
>
> (a) may ask about the identities of the parties, and the general nature of the case; and

(b) may respond to inquiries from a party or its counsel designed to determine his or her suitability and availability for the appointment. In any such dialogue, the prospective arbitrator may receive information from the party or its counsel disclosing the general nature of the dispute but should not permit them to discuss the merits of the case.

The Guidelines

It is not practicable to repeat the Guidelines in full in this article, but I will briefly cover the key features.

The Guidelines are available for use in any jurisdiction, and their use is not restricted to CIArb members. They can be used to cover the superficially routine telephone inquiry that falls short of (often by very little) an interview. They can, of course, be used in telephone interviews as well as in face-to-face ones. They are stated to be recommendations with no implication of being mandatory.

There is an overriding principle that the following may not be discussed either directly or indirectly: (1) the specific circumstances or facts giving rise to the dispute; (2) the positions or arguments of the parties; (3) the merits of the case.

Subject to that overriding principle, in order for the interviewee's suitability (expertise, experience, language proficiency and conflict status) to be assessed, the following may be disclosed: (1) the names of the parties in dispute and any third parties involved or likely to be involved; (2) the general nature of the dispute; (3) sufficient detail, but no more than necessary, of the project to enable both interviewer and interviewee to assess the latter's suitability for the appointment; (4) the expected timetable of the proceedings; (5) the language, governing law, seat of and rules applicable to the proceedings. Questions may also be asked to test his or her knowledge and understanding of (1) the nature and type of project in question; (2) the particular area of law applicable to the dispute; (3) arbitration law, practice and procedure. Such questions should be general in nature and neutrally put in order to test the interviewee and should not be put in order to ascertain his or her views or opinions on matters that may form part of the case. Questions concerning the interviewee's publishing history may be put subject to the same proviso. By way of example, I recently chaired a tribunal where one of my co-arbitrators had been selected by the appointing institution for apparently possessing certain expertise and, in fact, had no relevant expertise at all. An interview would have revealed that in five minutes.

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Any interview should normally be led by a senior representative of the interviewing party's external lawyers because they can be expected to have a greater appreciation of the sensitivities of the process. A record of proceedings should be taken and should be disclosed to the other side in the dispute, as well as to the appointing body, at the earliest available opportunity. The Guidelines envisage either a tape recording or a detailed file note being made.

In the interests of minimizing the opportunity of the process going off the straight and narrow, the interview should be as professional as possible, and no interview should take place over lunch or a beer, etc. Conventional business pleasantries before, during or after the interview are not excluded.

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The Guidelines do not require that they be adopted in full and it is open to parties to agree to something extra or to delete something. The CIArb suggests that the fundamental principles are not open to jettison, but that some of the details may be varied or omitted.

The Guidelines do not address the issue of communications between appointor and PAA after the arbitration commences for the simple reason that, in the CIArb's view and subject to certain exceptions, there should be no such communication, both parties being obliged to communicate with the tribunal, not with any individual member thereof.

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For much of 2007, no arbitration conference was complete without an animated discussion about the principles and process of interviewing prospective arbitrators and of the CIArb Guidelines. Apart from the few who still rejected the entire concept, there were surprisingly few negative views and many positive ones of the Guidelines as issued. Equally surprising (or perhaps the Guidelines were in very good shape already!) was that few suggestions were made for any revision of the Guidelines. One

was that they should cover the separate but related (and also potentially difficult) process of the two PAAs selecting the third arbitrator where some limits are required beyond which those in the discussion of the appointer/appointee (i.e.. the PAA).

"[A]n interview can be a valuable tool in a party's selecting the ideal arbitrator for its dispute remembering that that arbitrator will be neutral and will serve both parties."

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Summary

The question of whether or not to interview, or to permit interviews, remains controversial, with some arbitrators (and lawyers) bitterly opposed to either view. However, an interview can be a valuable tool in a party's selecting the ideal arbitrator for its dispute remembering that that arbitrator will be neutral and will serve both parties. The CIArb Guidelines do not claim to be the ideal solution but they do offer a very practical and flexible solution in this very difficult and sensitive area. They are available for those that want or need them and for the present at least, constitute the worldwide standard.

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Guidelines for Interviewing Prospective Arbitrators

By Hew R. Dundas

The Chartered Institute of Arbitrators (CIArb), with approximately 11,500 members in approximately 105 jurisdictions, inter alia, promulgates best practice guidelines in a number of areas of arbitration procedure. The guidelines are practical; they suggest what an arbitrator should do if certain situations arise, as opposed to repeating the law. They have recently been completely revised and put into an international context with input from CIArb members around the world (approximately 30 jurisdictions were consulted). As part of its work, the CIArb has published guidelines on interviewing arbitrators (the Guidelines).[1]

Introduction

In most state court systems, parties are allocated the next available judge or judges, possibly one with some particularly relevant legal expertise, possibly one with no knowledge or understanding of the subject matter of the dispute. One of the many reasons to arbitrate is to have the opportunity to select the tribunal, particularly in those cases where each party selects one arbitrator (a party-appointed arbitrator, or PAA), and the two PAAs (or an institution) then appoint the third. Arbitral rules or the applicable procedural law may constrain the choice of the PAA, e.g., in cases where he or she must be of a different nationality to the parties.

How then should a party choose its PAA? One approach is for the appointer to interview a list of prospective PAAs prior to making the appointment. This is routine and unexceptional in some jurisdictions but unknown or even anathema in others. Actual experience shows that a comprehensive interview can be conducted without jeopardy to the neutrality of the PAA.

The Guidelines do not address non-neutral behavior where either the appointer looks for a hired gun/closet advocate as PAA, or where the PAA, consciously or otherwise, acts in a non-neutral manner. Challenge procedures exist to deal with such circumstances

Should Interviews Be Permitted or Prohibited?

A very small minority of those consulted by the CIArb objected to the mere concept of interviews; a larger number accepted the concept but stated (for differing reasons) that they personally would decline to be interviewed and would do no more than discuss availability and terms of business. However, few (if any) enquiries made of potential arbitrators stop at the simple terms/availability questions. In addition, the prospective arbitrator cannot realistically contemplate receiving an appointment without providing any information to the many appointers who feel they must ascertain certain minimum information (see below).

A number of highly reputed authors have considered the issue. For example,

(1) Redfern and Hunter state, "However, it is hard to perceive the practice [i.e., of interviews] as being objectionable in principle, provided that it is not done in a secretive way and that the scope of the discussion is appropriately restricted."[2]

(2) A U.S. perspective was given by Professor Lowenfeld:

> [I]f . . . one of the principal functions of a party-appointed arbitrator is to give confidence in the process to the parties and their counsel, some basis for that confidence needs to be established. Sometimes that confidence can be based on mutual acquaintances, without direct personal contact; some potential arbitrators become well known through published writings, lectures, committee work or public office. Others are not so well-known, and I understand that lawyers or clients or both want to have a first-hand look. I think, however, that some restraint should be so shown by both sides.[3]

(3) In their article, R Doak Bishop and Lucy Reed state, "The ability to appoint one of the decision-makers is a defining aspect of the arbitral system and provides a powerful instrument when used wisely by a party"[4]

The ABA's "Code of Ethics for Arbitrators in Commercial Disputes" (February 9, 2004) appeared to be the only formal code that addressed the interview process. Canon III(B) provides (inter alia) that

> [a]n arbitrator or prospective arbitrator should not discuss a proceeding with any party in the absence of any other party, except in any of the following circumstances:
>
> (1) When the appointment of a prospective arbitrator is being considered, the prospective arbitrator:
>
> (a) may ask about the identities of the parties, and the general nature of the case; and

(b) may respond to inquiries from a party or its counsel designed to determine his or her suitability and availability for the appointment. In any such dialogue, the prospective arbitrator may receive information from the party or its counsel disclosing the general nature of the dispute but should not permit them to discuss the merits of the case.

The Guidelines

It is not practicable to repeat the Guidelines in full in this article, but I will briefly cover the key features.

The Guidelines are available for use in any jurisdiction, and their use is not restricted to CIArb members. They can be used to cover the superficially routine telephone inquiry that falls short of (often by very little) an interview. They can, of course, be used in telephone interviews as well as in face-to-face ones. They are stated to be recommendations with no implication of being mandatory.

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8. ENHANCED NEUTRAL SELECTION PROCESS

American Arbitration Association
Dispute Resolution Services Worldwide

Fact Sheet

Enhanced Neutral Selection Process
for Large Complex Cases

In addition to the standard procedure for selecting a neutral as outlined in the rules, the AAA offers parties the following options individually or in a combination:

- **Oral or written interviews of the arbitrator candidates**
  The AAA case manager will work with parties to develop an interview protocol in order for the parties to have an opportunity to present questions to potential arbitrator candidates, either through a telephone conference, or in writing. Examples of interview question topics might include: industry expertise, relative experience in similar disputes, the arbitrator's procedural handling practices, and any other questions that the parties would find helpful to the selection process.

- **Pre-screening for arbitrator disclosures and availability**
  The AAA case manager will pre-screen a select number of arbitrators who possess the qualifications requested by the parties. The arbitrators may be pre-qualified for conflicts of interest, availability, or both.

- **Additional Information**
  The AAA case manager will obtain additional information about an arbitrator's experience in the field of the dispute, as requested by the parties. This may also include a request for references.

- **Block listing**
  For cases involving three- arbitrator panels, the AAA case manager can provide separate lists of arbitrators to the parties, each one containing arbitrators with a specified background or level of expertise, i.e., one list of retired judges, one list of attorneys and one list of business and industry experts.

As with any aspect of a case filed with the AAA, the case manager is your contact person and **has specific expertise in dealing with issues unique to Large Complex Cases**. The parties' input in conjunction with the case manager's expertise will ensure that parties are given the best opportunity for finding the arbitrator that is qualified to resolve their dispute.

The Enhanced Neutral Selection Process is designed to give parties the tools they need to meet this goal. The process instills greater party confidence in the selected arbitrator, and can often save time and expense in the long run.

Parties can customize any or all of the above methods, in order to meet their needs during the arbitrator appointment process.

We understand that selecting the right arbitrator is critical to the parties' satisfaction with the arbitration process, which is why this service is offered at no additional charge.

We encourage the parties to work together to agree on as many procedural items as possible. As long as the process is fair and reasonable, and does not violate any applicable law or AAA rules, we are happy to facilitate an enhanced selection process that is developed and agreed upon by the parties.

The purpose of this Fact Sheet is to provide a brief guide to the Enhanced Neutral Selection Process. Please make sure to review the applicable rules and guides for more information.

Fact Sheet

Enhanced Neutral Selection Process

for Large Complex Cases

The American Arbitration Association's National Roster of Neutrals

- Highly trained, accomplished, and respected experts from the legal and business communities.
- Leaders in their fields with achieved academic and professional awards and honors.
- At least 15 years of senior level business experience or legal practice.
- Training and experience in arbitration or other forms of dispute resolution.
- Continuing education and training in the AAA rules, case management procedures, the arbitrator's role and authority, and legal and statutory developments affecting arbitration.
- Experience has shown that AAA's trained neutrals significantly impact the efficiency of the ADR process and the satisfaction of the parties.

What is the Enhanced Neutral Selection Process?

The Enhanced Neutral Selection Process is a level of service that is designed to give parties in AAA arbitrations who use the Procedures for Large, Complex disputes greater flexibility and control in selecting the most appropriate arbitrator for their case. At no additional cost, parties can agree to customize their neutral selection process by agreeing to use one or more of the screening processes offered. Parties are encouraged to discuss options with each other and their case manager who will be knowledgeable in helping the parties fine tune their selection process.

The following is an overview of the suggested options offered using the Enhanced Neutral Selection Process:

- **Representative sample review**
  The AAA case manager will provide the parties with an initial sample of arbitrator resumes based on the qualifications requested by the parties. The parties will review the sample resumes and confer with the case manager to give feedback on whether the arbitrators presented meet their needs. This feedback will be used in developing the final list of arbitrators from which the parties will select.

- **Pre-screening for arbitrator disclosures and availability**
  The AAA case manager will pre-screen a select number of arbitrators who possess the qualifications requested by the parties. The arbitrators may be pre-screened for conflicts of interest, availability, or both.

- **Supplemental Description of Arbitrator's Experience**
  The parties can request more information in the form of a brief synopsis regarding specific expertise in a specific field. The arbitrators will be requested to elaborate on experience in a specific area as requested by the parties. This may also include a request for references and/or a copy of a CV, where applicable.

- **Oral or written interviews of the arbitrator candidates**
  The AAA case manager will work with parties to develop an interview protocol in order for the parties to have an opportunity to present questions to a select number of potential arbitrator candidates, either through a telephone conference, or in writing. Examples of interview question topics might include: industry expertise, relative experience in similar disputes, the arbitrator's procedural handling practices, and any other questions that the parties would find helpful to the selection process.

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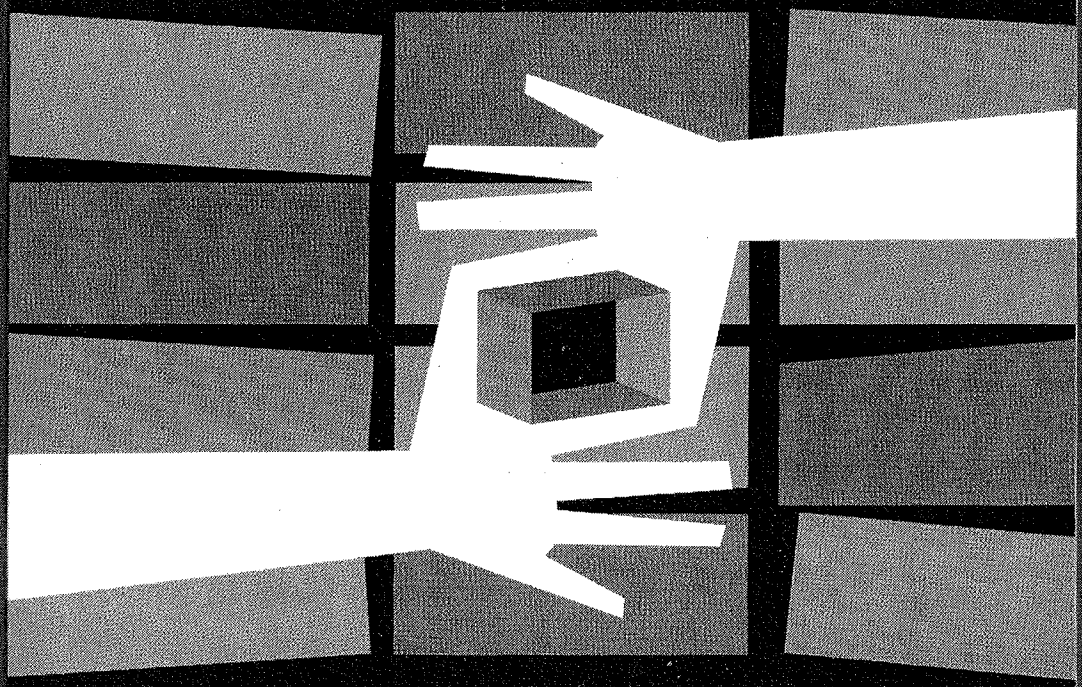
Parties know how important the selection of the right neutral is in having an effective arbitration process. The above services can give the parties confidence that they have met that goal. This service is offered at no additional cost and the case manager will help facilitate an agreement during an administrative conference.

We encourage the parties to work together to agree on as many procedures as possible and we will work to try to find a process that is agreeable to everyone. However, if after full discussion with the parties, an agreement is not reached, the AAA will administer the case in accordance with the standard arbitrator selection process outlined in the rules.

9. ADR ADVOCACY, STRATEGIES, AND PRACTICE FOR INTELLECTUAL PROPERTY CASES

ADR Advocacy, Strategies, and Practice for Intellectual Property Cases



Harrie Samaras | Editor

ABA AMERICAN BAR ASSOCIATION
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CHAPTER 4

Mediation: One Judge's Perspective (Or Infusing Sanity into Intellectual Property Litigation)

Magistrate Judge Mary Pat Thynge

When Samuel Hopkins obtained the first patent issued on July 31, 1790, for an improvement in the process of making potash and pearlash, the total length of the claim language, including the "specification" or description of the process, consisted of four short phrases.[1] On July 13, 1836, the first officially numbered patent was issued to John Ruggles for inventing "new and useful . . . improvements on locomotive engines . . .

1. Hopkins' patent described the process as follows: "1st by burning the raw Ashes in a Furnace, 2nd by dissolving and boiling them when as burnt in Water, 3rd by drawing off and settling the Ley, and 4th by boiling the Ley into salts which then are the true Pearlash, and also in the making of Potash by fluxing the Pearlash as made as aforesaid, which Operation of burning the raw Ashes in a furnace, preparatory to their Dissolution and boiling in Water is new, leaves little Residuum; and produces a much greater Quantity of Salt." This patent grant was executed by George Washington, then President of the United States. The patent examiner was Thomas Jefferson, in his capacity as Secretary of State. Thereafter, the patent was reviewed by the Secretary of War Henry Knox and then signed by Attorney General Edmond Randolph before President Washington granted the patent. Of interest, Edmond Randolph later defended Aaron Burr during his trial for treason in 1807.

The Patent Act of 1790 eliminated state legislatures' control over patents as directed under the Articles of Confederation and required patent applicants

by which inclined planes and hills may be ascended and heavy loads drawn by the same with more facility and economy than heretofore, and by which the evil effects of frost, ice, snows and mud . . . are obviated." This patent was formatted like the present arrangement of columns and lines with which we are all familiar. It comprised six columns and seven figures.

By contrast, in a recent patent trial, just *one* of the three patents-at-issue was titled "computer-based communication system and method using metadata defining a control-structure," and consisted of 156 columns, 47 figures, and 99 claims—all that verbiage to explain and cover a one-click purchasing system for ordering products online.

INTRODUCTION

In the 46 years between the Hopkins and Ruggles patents, almost 10,000 patents were issued.[2] One hundred and twenty-five years later, in 1961, the United States Patent and Trademark Office (PTO) issued the three millionth patent. By December 7, 1999, just 38 years later, the number had doubled to six million. The number of patents continues to grow at an amazing rate. By the end of 2010, the PTO issued more than 7,850,000 utility patents.[3] Such unabated proliferation of patents fuels the explosion of intellectual property litigation in the federal courts. Moreover, intellectual property (IP) litigation has spurred a cottage industry of experts, attorneys, and businesses that invest in and manage enforcement of IP, further promoting the litigation boom.

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to file a petition with the Secretary of State, who, with the Secretary of War and the Attorney General, determined whether a patent should be granted. Federal control over granting patents is found under Article I, Section 8 of the Constitution. At that time, the life of a patent was 14 years. The cost for a completed application and document fees was about $4.00 to $5.00, approximately $120 in today's money.

2. Prior to the Patent Act of July 4, 1836, patents issued by name and date rather than by number. Unfortunately, a fire destroyed many of the original patent records in December 1836. Those patents that could be restored using private files (approximately 3,000) were issued with a number beginning with an "X" and are referred to as the "X-Patents." The patents that could not be restored were cancelled.

3. This number does not include design patents, which total more than 620,000, and plant patents, which include over another 20,000.

NATIONAL PATENT FILINGS

	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
TX/E	20	27	35	50	103	139	216	359	322	242	446
DE	103	141	135	135	174	128	139	157	187	214	273[4]
IL/N	152	152	166	171	155	162	138	128	153	153	249
CA/C	275	254	220	362	333	267	281	334	244	285	231
CA/N	175	154	200	198	190	204	163	159	169	181	184
NJ	68	101	115	124	139	99	145	186	191	165	164
NY/S	112	156	133	112	176	137	135	111	121	122	132

NATIONAL PATENT FILINGS PER JUDGESHIP - FY10

	PATENT FILINGS	JUDGESHIPS	NEW CASES PER JUDGE
DE	273	4	68
TX/E	446	8	56
CA/N	184	14	13
IL/N	249	22	11
NJ	164	17	10
CA/C	231	28	8
NY/S	132	28	5

4. As the table reflects, the U.S. District Court for the District of Delaware ranked third in the filing of new patent matters in fiscal year (FY) 2009 and second in FY 2010. Although the court has four district court judge positions, since December 2006, it has been operating with a vacant judgeship. It has no senior judges, and until August 2007 had only one magistrate judge. In July 2010, a second district court judge retired and was replaced by a magistrate judge. Thus, presently three district court judges and one magistrate judge serve on the court.

With almost 70 new patent cases filed per authorized district judgeship in my court[5] in fiscal year 2010, the average patent docket for each district judge numbers over 100. The impact of this statistic is not adequately reflected by the mere number. Patent cases are by far the most complex and technical civil matters to manage (particularly in addressing and controlling e-discovery), try, and decide. They often demand substantial time to analyze numerous briefs and mountains of exhibits spawned by *Markman* hearings, summary judgment motions, and post-trial motions, in addition to fostering lengthy opinions. Thus, these statistics demonstrate why alternative dispute resolution (ADR), specifically mediation, is an important lifeline, not only for the court but for litigants as well.

As evidenced by the tables above, the District of Delaware is a patent-intense court, yielding "a bench with extensive practical experience and a rich collection of rulings that enhance the predictability of patent law as applied in Delaware."[6] About 16% of patent matters proceed to trial in Delaware.[7] A jury verdict, however, does not equate to a "final" decision, since most trials are followed by post-trial briefing and an appeal, which may lead to remand, additional discovery, and another trial.

Recent articles demonstrate the absence of finality through trial. For instance, one article examined Federal Circuit cases between April 24, 1996 (the date of the Supreme Court's *Markman* decision), and June 30, 2007.[8] That article found that 29.7% of the cases were reversed, vacated, and/or remanded because of erroneous claim construction.[9] For the same period, the author calculated that 22.2% of the cases appealed from the

5. Since June 1992, the author has served as a magistrate judge on the District of Delaware court.

6. Donald F. Parsons, Jr., Jack B. Blumenfeld, Mary B. Graham & Leslie A. Polizoti, *Solving the Mystery of Patentees' "Collective Enthusiasm" for Delaware*, 7 DEL. L. REV. 145, 145 (2004); *see also* Eugene R. Quinn, Jr., *Using Alternative Dispute Resolution to Resolve Patent Litigation: A Survey of Patent Litigators*, 3 MARQ. INTELL. PROP. L. REV. 77, 104 (1999) (in a survey of patent litigators regarding their experience with judges having expertise in patent litigation, the judges of the District of Delaware were "far and away the most mentioned judges . . . .").

7. Parsons, et al., 7 DEL. L. REV. 145, 156, Table 5 (2004).

8. David L. Schwartz, *Practice Makes Perfect? An Empirical Study of Claim Construction Reversal Rates in Patent Cases*, 107 MICH. L. REV. 223, 238 (2008).

9. *Id.* at 249 (Table 4).

District of Delaware were reversed, vacated, and/or remanded because of erroneous claim construction.[10] Another article[11] examined the result of district court claim construction appeals after the Federal Circuit's en banc decision in *Phillips v. AWH Corp*[12] on July 12, 2005. Analyzing that court's opinions from July 13, 2005, to September 13, 2006, the author concluded that *Phillips* had not significantly reduced reversal rates, noting that the overall reversal rate, excluding summary affirmances, in claim construction cases rose slightly to 53.5% compared to a 2001 article's[13] finding of a 47.3% reversal rate.[14] Therefore, as a practical matter, "[f]or the average litigated patent, final judgment is not rendered until after the mid-point of the patent's term, i.e., 12.3 years after the patent application was filed."[15] The median or average length is about 7.5 years after filing of the application.[16]

As evidence by these statistics, to conclude that federal trial courts are merely backlogged is an understatement.

Time is a valuable commodity to all commercial litigants, yet the nature of IP litigation steals that valuable commodity. Finality in IP litigation generally takes years, during which time the parties are subject to significant expense and uncertainty. Litigants are increasingly dissatisfied with the inherent inadequacies of the civil litigation process. This dissatisfaction has exponentially increased interest in ADR,[17] where control over the resolution process remains with the businesspeople rather

10. *Id.* at 246 (Table 2).

11. Michael Saunders, Note, *A Survey of Post-Phillips Claim Construction Cases*, 22 BERKELEY TECH. L.J. 215 (2007).

12. 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

13. Christian A. Chu, *Empirical Analysis of the Federal Circuit's Claim Construction Trends*, 16 BERKELEY TECH. L.J. 1075 (2001).

14. Michael Saunders, 22 BERKELEY TECH. L.J. 215, 235-36.

15. Samson Vincent, *Litigation Risk Analysis: The Economics of Patent Litigation, Part IV: More Patent Facts and Stats*, 2 PATENT STRATEGY & MGMT. (October 2001), *available at* http://www.hunton.com/files/tbl_s47Details/FileUpload265/388/Risk_Reward_4.pdf.

16. *Id.*

17. As noted in a law review article published in 1999, of those patent litigators surveyed who had participated in formalized ADR, 87.1% had experience with mediation, while 70.1% had participated in arbitration. Sixty percent of the respondents expressed a positive experience with mediation, compared to only 44% who characterized their arbitration experience as positive. Eugene R. Quinn, Jr., 3 MARQ. INTELL. PROP. L. REV. 77, 94 (1999).

than leaving the economic future of their company to the vagaries of a jury trial or with a single judge.[18]

The growth of ADR is redefining the role of the American trial lawyer. Unfortunately, some attorneys have not kept pace with their evolving role. They frequently approach mediation as another forum of litigation: they prepare for battle, with a focus on winning and how to avoid losing, and similarly groom their clients. For counsel, mediation can be a threatening environment since, it is outside the adversarial process and beyond their comfort zone. They misunderstand how mediation evolves, misconstrue its purpose, and often view it as usurping their control. Despite its prevalence over the past 20 years, lawyers and their clients often approach mediation without the appropriate preparation and forethought to produce the most positive outcome. The focus of this chapter is on your successful use of mediation at the trial court level in IP litigation.

I. WHAT MEDIATION REALLY IS

Mediation is a non-binding[19] *negotiation process* in which a neutral helps the litigants resolve a dispute. The mediator establishes an atmosphere in which *the parties* work to settle the dispute themselves. The mediator does not resolve the case: rather, the parties do. Moreover, mediation of any intellectual property matter is the negotiation of a *business dispute*, where commercial objectives, interests, and needs are the primary concerns of both sides. Although patent litigation is the primary focus of this chapter, trademark, copyright, and trade secret disputes also fall within the category of a business dispute.

All intellectual property disputes potentially bring additional emotional baggage to the bargaining table for numerous reasons: the perception that a property right has been stolen or violated, the relationship of the combatants (e.g., competitors, former or current business associates or partners), the prior history between the disputants, or the personal characteristics of the affected businesspeople, to name a limited few. For

18 Almost a hundred years ago, the imperfections of legal proceedings were understood. "Litigation" was described as "a machine which you go into as a pig and come out of as a sausage." AMBROSE BIERCE, THE DEVIL'S DICTIONARY 72 (Dover Publ'ns, Inc. 1993) (1911).

19. The term *non-binding* means that should the process be unsuccessful, all rights of the parties are reserved, allowing them to continue with the lawsuit or to explore other ADR avenues, such as arbitration.

example, in trademark litigation the emotion element may be significant because the identity of a business is involved: the plaintiff views the accused infringer as having pilfered the heart and soul of his enterprise.[20] Mediation injects objectivity into the controversy, helping the parties to evaluate settlement options impartially and exercise their judgment in forging a resolution.

Mediation is a process that takes time to develop and is not dictated by legal doctrines. The focus is not on who is right and who is wrong. The process instead is directed to those business factors that help fashion a resolution. It requires on the part of the mediator, counsel, and the business representatives the three Ps: preparation, patience, and persistence.[21] Impatience, in particular, will result in frustrating and needless delays, extending the time necessary to achieve a mutually satisfactory settlement.[22] Settlement *need* not, and frequently will not, occur during the first mediation session. Rather, it results from the mediator's continued follow-up efforts via subsequent contacts and discussions with counsel and/or the principals, or by similar exchanges between counsel or the principals.

Mediation is not compromise: it is negotiation. When the process begins, neither side has "won" anything.[23] Often, one party has a patent or trademark that may not withstand the scrutiny of case-dispositive motions or a trial, while the other side, accused of infringement, has raised a dozen defenses, some of which will not survive discovery or summary judgment. For counsel and their clients to discern, however, what their "final" trial presentation will be entails a major investment of time, emotion, resources, and money, with no guaranteed benefit.

Mediation returns to the parties what litigation has taken away—control. It allows the parties control over the decision-making process. Unlike litigation and trial, it requires their direct, intimate involvement

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20. That emotion is comparable to employment discrimination claims, where the self-worth of an individual has been impugned.

21. A fourth "P"—avoid pessimism—is also frequently needed.

22. As expressed by the Rolling Stones, each side does not always get what they want, but they usually get what they *need.*

23. To understand mediation, a quote from the book *Primal Fear* is most apropos: '[i]f you go in thinking compromise, you assume you're going to give up something. If you go in thinking negotiation, you decide what you want and what you don't give a damn about. That way, you get what you want and give up what doesn't matter. Cuts through the [B.S.].' WILLIAM DIEHL, PRIMAL FEAR 23 (Villard Books 1993).

and judgment, and thereby provides them the means to tailor a result, whether through a settlement agreement, license, or other business arrangement, which addresses their individual needs. It gives parties resolution opportunities beyond the limited restraints of a particular case, allowing a global, rather than piecemeal, approach to finality, and it maintains privacy within the confines of the law and mandatory reporting obligations. It allows parties to choose the method for resolving prospective disputes and to avoid future litigation.

It is worth emphasizing what mediation is not. Mediation is not the opportunity to convince a neutral to force the opposition to capitulate. It is not intended to focus solely on legal issues or theories. Nor should it operate as a dress rehearsal for a *Markman* hearing or oral argument on case-dispositive motions. Mediation is one process available under the umbrella of ADR—*alternative* dispute resolution—the operative word being "alternative." It is the alternative to continued litigation, eventual trial, inevitable appeal, possible remand, and frustrating retrial.

Is mediation a panacea? Does it have all the answers to the litigation explosion? Will it settle every case? No, but for you not to include it in your arsenal of options when initiating or defending an intellectual property matter is to ignore a meaningful and potentially successful avenue to address every client's goal—an expeditious means to a final resolution.

II. THE "OTHER" ADR

Although this chapter is limited to mediation, I would be remiss in not briefly mentioning additional ADR processes available at the trial court level for comparison purposes.

Arbitration is an adjudicatory dispute resolution process in which a neutral (or neutrals) issues a nonbinding or binding judgment after an expedited adversarial hearing. It is a "rights"-based process, rather than the "interest"-based approach pursued in mediation.

Early Neutral Evaluation allows the parties and their counsel to present summaries of their positions very early in the litigation (often shortly after the answer is filed and before significant discovery) and receive a nonbinding assessment by a neutral evaluator with subject matter expertise. After that assessment is provided, the neutral encourages the parties to engage in mediation.

Summary Jury Trial is a process that allows litigants and their counsel to present a shortened version of their case to a jury and obtain an "advisory" verdict. It is often more expensive than other forms of ADR and is a rights-based approach using a very abbreviated trial format.

III. WHY MEDIATION IN IP CASES?

Mediation, as an interest-based process, offers distinct advantages over other forms of ADR, such as:

1. It saves time and money by avoiding distractions caused by continued and protracted litigation. Although effective mediation involves a commitment of time and expense by the parties, their counsel, and the mediator, the potential return more than compensates for mediation's up-front costs by reducing prolonged, distracting, expensive, and unnecessary litigation. Even in those cases that settle later (e.g., after the filing of case-dispositive motions), mediation eliminates future trial-related obligations and attendant significant costs, including the pretrial stipulation, the pretrial conference and trial (encompassing, for example, preparation of jury instructions, trial graphics and/or animations, experts, and fact witnesses), drafting post-trial or JMOL motions and briefs, and the exposure to appeal and remand.

   In addition to the out-of-pocket savings to the parties when a mediated settlement is reached are the time savings to the business—an incalculable but invaluable asset of mediation often ignored by outside counsel. IP cases usually require substantial time from the CEO, CFO, and other businesspeople, technical and IT personnel, and in-house counsel at various levels within the organization. In addition, they demand the attention of an army of the client's employees to comply with the essentials of litigation (e.g., responding to multiple waves of discovery in various forms, including e-discovery; collecting, collating, and answering questions about documents; providing technical support; supplying current and historical information about relevant markets, industries, and standards; and developing infringement positions or invalidity defenses). These demands slash productivity, interrupt commercial profit-making activities, and decrease revenue.

   Furthermore, should the case proceed to trial, the time of *at least* one party representative will be dedicated to that proceeding.
2. Mediation offers psychological benefits through an expeditious and definitive resolution of the underlying dispute that reduces the uncertainty associated with an ongoing controversy. Settlement allows parties to get on with their businesses.

3. Mediation provides a confidential setting for litigants to express their concerns and receive a frank evaluation of the risks and benefits of settlement versus continued litigation and trial. It offers a non-threatening forum to consider and analyze objectively legal and factual issues from different perspectives, not just the myopic view of one side.
4. Mediation achieves results that are mutually formulated by the parties instead of having the final determination imposed upon them by a jury, the court, or an arbitrator.
5. Mediation seeks win-win solutions intended to provide face-saving avenues for both sides, rather than determining the "winner," which may improve understanding between parties with an ongoing relationship. This win-win feature of mediation does not arise solely from the terms of settlement, but from putting the controversy to rest.
6. Mediation converts unpredictability to certainty.
7. Because the parties have negotiated the result, it produces outcomes that are more likely to endure.
8. Most important, mediation allows the parties and their counsel to candidly explore with a neutral how litigation fits into or affects, positively and negatively, present and future business objectives.

In addition to these advantages, it should be noted that any preparation and case assessment done for mediation is not wasted effort should the matter not settle during the initial session. As discussed in Chapter 3, such endeavors remain useful throughout the settlement process, as they help focus any additional discovery and educate decision makers on realistic probabilities of litigation success and the avenues available for resolution.

Unlike mediation, other forms of ADR do not center on the underlying commercial issues and solutions or the short- and long-term business goals of the parties. Thus, they are effectively alternative *forms* of the adversarial process. They do not encompass the panoply of solutions available in mediation. They do not distinguish and explore the common interests among the parties from which to fashion a resolution.

IV. TIMING IS EVERYTHING

My general belief for when to mediate is "the earlier the better." A matter settles when the parties know enough about a dispute to intelligently

agree to resolve it. Such knowledge, however, does not require discovery to the *n*th degree, a claim construction opinion, or a summary judgment decision.

The best time to mediate, on the other hand, varies from case to case. Earlier mediation provides opportunities that usually are lost or unavailable with later mediation. The process may be used to streamline discovery and to determine what information is needed to settle. It can enable the mediator to facilitate and oversee an earlier exchange of information on relevant issues (e.g., joint testing or other investigation procedures and focused discovery).

Early mediation also helps define issues blocking resolution and determine whether those issues may be carved out and handled through another form of ADR, such as arbitration, or are best left for trial. For example, in one patent matter dealing with microprocessors, after two sessions, one remaining issue prevented a final settlement: whether certain activities by the defendant were permitted under the plaintiff's contract with a third party involving the patented technology. During the first session, the parties and their counsel, with the help of the mediator, agreed to provide information focused on that issue, as well as limited discovery on other liability concerns and damages. That exchange occurred between the two sessions. As a result of further negotiations during the second session, a total settlement amount was reached covering an entire family of patents and all issues in the case, including the contract matter. Under the final settlement agreement, a percentage of that figure was earmarked to the contract issue, so only that dispute (not the amount of damages) would be tried to the district judge, who would determine whether the defendant's conduct was protected under the contract. If the defendant's conduct was not covered by the third-party contract, the earmarked percentage would be paid to the plaintiff; otherwise, that amount would not be paid. The outcome of the trial was binding on the parties, with no right of appeal. Thus, through the effective use of focused discovery exchanged during the mediation process, the parties settled the entire matter, with final resolution of the payment amount determined by a two-day bench trial on the contract issue rather than a 10-day jury trial on all issues. This example also shows the benefit of "thinking outside the box"—how invaluable imagination and creativity are in crafting a settlement and a resolution process.

In another intellectual property case, during the initial teleconference to discuss a mediation date, the defendant advised that mediation would not be beneficial, since prior discussion between lawyers indicated the

parties had significantly different settlement figures in mind. The defendant did not want to proceed with mediation due to the expense of having counsel and the parties travel from California. In response to my inquiry about prior settlement offers, counsel related that the plaintiff "was around 75 while defendant was at 12." Further questioning revealed that both the demand and offer were *five*-figure amounts and *not* seven. In light of the minimal settlement range and the expenses likely to be incurred in litigation, I scheduled early mediation requiring pre-mediation statements to focus on damages and approaches to settlement. I negotiated for the parties to exchange limited economic information, such as past sales and net profits, prior to the submission of their mediation statements. Because the relevant patent had expired, only past damages were at issue. Although it was not my preferred method, the mediation session was held telephonically rather than in person. The matter settled during the first session.

Early mediation provides counsel and the parties with reality checks sooner in the litigation by educating them on the weaknesses of their positions. It allows the mediator to test "trial-balloon ideas" with the other side without conveying where the suggestion originated. Absent early mediation, such "balloons" are suspect and likely signal that the proposal came from the opponent. These techniques are particularly useful in intellectual property matters, which rarely involve a "smoking gun," guaranteeing a successful result at trial.

Early mediation also allows sufficient time within case management order deadlines to let the process percolate without the distractions of briefing and trial preparation. It permits enough time for business representatives to incorporate the process into their busy schedules, minimizing conflicts with other commitments that detract from their involvement. It allows for multiple sessions and continued negotiations between sessions.

Most important, early mediation encourages the parties to think about settlement options before major financial investment is incurred. For example, in a patent case, I scheduled mediation after the parties completed their initial exchange of documents. Because of their mutually exclusive beliefs regarding liability, neither side was hopeful that mediation was worthwhile, and both were very hesitant to mediate at that time. During individual private meetings with each side, I learned that the defendant, a smaller, privately held company, was interested in merging with a larger business, while the plaintiff wanted to expand into areas where the defendant had expertise. This information led to exploratory discussions between the principals during the first mediation session and further meetings thereafter. Those negotiations achieved settlement by

the defendant merging with the plaintiff and becoming one of its business units, with defendant's CEO as head of that unit. The parties would have forfeited this opportunity and incurred unnecessary expense if they had mediated later. Moreover, the trust required to negotiate such an arrangement would have eroded if the parties continued to litigate. This example likewise demonstrates the importance of having the appropriate decision makers in attendance at mediation, and it shows that focusing on money alone is a very myopic approach to settlement.

The most common concern expressed by counsel against early mediation is lack of information about the other side's case, and the resulting effect on advising their clients. Most attorneys prefer to wait until discovery is closed or summary judgment motions are decided before mediating. They often complain that mediation serves as a means for "free discovery" by the opposition. Most information disclosed during mediation, however, is discoverable in any event. You should consider and weigh the advantage of waiting to disclose particular information through discovery versus enhancing the possibility of settlement by revealing such information during mediation.

A more recent practice that has developed on my court is the use of bifurcation: limiting trial to liability issues, infringement, and validity, for example, with a later trial on monetary damages and willfulness to a different jury after the appeal process is completed.[24] Discovery in the case management order is limited, therefore, to the subject matter of the issues for the first trial and delayed on the later trial issues.

In that situation, a plaintiff is obviously not willing to mediate in a vacuum and is unlikely to try to settle the matter absent the defendant's income information to evaluate and calculate past damages and consider future arrangements. A defendant, on the other hand, may be disinclined to disclose sales and other economic information. Realistically, certain information on value is necessary for mediation to be effective and for the parties to determine whether future investment in the lawsuit is worthwhile. With the assistance of a mediator, the parties can negotiate what information on damages should be exchanged and when it should be provided under the protective umbrella of mediation. Although this production is, in essence, discovery, parameters are also established limiting

24. Where antitrust and patent misuse have been raised, especially where the parties have alleged bilateral infringement, those issues have been bifurcated. Masimo Corp. v. Philips Elec. N.A., et.al., C.A. No. 09-80 LPS/MPT, 2010 WL 925864, at *4 (D. Del. Mar. 11, 2010), *aff'd,* 2010 WL 2836379, at *1 (D. Del. July 15, 2010).

the type, extent, and degree of information to be furnished and who may have access to those materials. The information exchange, however, is not intended to be full-blown discovery, but is restricted to essential data to facilitate settlement discussion.

A late mediation, after the close of discovery or shortly before trial, benefits from more information. The downside of late mediation, apart from precluding mediator-facilitated early negotiation and the other benefits previously discussed, is that significant funds (and emotion) have been invested in the litigation, and the position of the parties may be immovably entrenched.

V. THE FIFTH "P": DON'T PREJUDGE THE CASE

One litany that I often hear is "this case can never be settled," or "this is not a case for mediation." This mantra is most frequently expressed in ANDA cases, particularly when the first filer is the defendant. Even defendants who are not the first filer will assume that mediation is a worthless exercise.

Although these matters have their challenges, you should not presume that every ANDA case cannot be resolved outside of trial. As this chapter discusses, external, non-legal factors play a major role in whether a matter will likely settle, and those same factors influence *all* cases.

In an ANDA matter involving a major-brand company and a large generic drug manufacturer, the parties initially expressed hesitation regarding mediation. I still scheduled mediation, primarily based on my read of counsel's responses and my interpretation of what was expressed (and not said) during the initial teleconference. The parties were very familiar with each other, and each side knew and identified the representatives they preferred and felt were needed to have a productive mediation.

In a subsequent teleconference, certain of those identified representatives were required to participate. During that teleconference, I suggested that a pre-mediation discussion among those principals would help identify the business topics and concerns each side felt were crucial to a resolution. The extent of that discussion was left in the representatives' capable hands. Because of that pre-mediation meeting, the mediation was more focused on business matters, and both sides had detailed outlines that concentrated on not only the important business issues but also solutions addressing each concern.

Although settlement on the medication at issue did not occur at the mediation session, the pre-mediation conference and mediation identified

other areas where the companies' interests overlapped, resulting in an agreement for the generic company to become an exclusive authorized generic for other drugs. That agreement changed their relationship and eventually segued into settlement of the litigation. The value both sides received from the authorized generic agreement on other drugs allowed them to modify their positions on the more challenging issues in the litigation, such as the entry date into the market prior to expiry of the patent-at-issue.

No doubt, a number of variables influence whether settlement in an ANDA matter is likely, such as the life remaining on the patent; the importance of the drug in the brand's portfolio and its success in the marketplace; the bioequivalence of the generic's medication; the *true* strengths of the legal arguments, in particular validity; whether the drug covered by the patent involves a unique or difficult composition; the likelihood of the generic's success in the FDA process; whether the brand intends to capitalize on its own generic; and other medications in the brand's arsenal of interest to the generic, to name a limited few. Rather than automatically rejecting mediation, you need to distinguish the significant factors that influence *both* sides' positions to discern whether commonality exists from which potential settlement may occur.

VI. JUMP-STARTING THE PROCESS

In court-assisted mediation, the parties generally do not choose the mediator. In my court, the selection of the magistrate judge who will serve as the mediator for a particular case is arbitrary based on the case number on an odd-even basis. For matters that are related, the magistrate judge who was originally assigned to the first case is usually assigned to the related matters.

ADR, usually in the form of mediation, is initially discussed with the district judge assigned to the case during the Rule 16 scheduling conference; however, counsel and the client should seriously confer, and address ADR with the opposition beforehand. Litigants should also be mindful that my court expects counsel and the parties to discuss an ADR process and/or settlement negotiations with a neutral under the auspices of Rule 16.[25] All case management orders employed by the judges on my

25. FED. R. CIV. P. 16 controls pretrial conferences, scheduling, and case management, authorizing the court to hold "pretrial conferences for such purposes as: (1) expediting disposition of the action . . . ." Rule 16(a)(1).

court contain a paragraph dealing with ADR, which usually provides that the matter is referred to a magistrate judge for the purpose of addressing settlement-related issues. During the Rule 16 conference, counsel should advise the referring judge whether any related matter involving the same or similar parties and the same patents or trademarks exist, whether those cases have been previously referred, and if so, to which magistrate judge. Having the same mediator involved in related litigation reduces the need to re-educate different neutrals concerning the underlying legal and factual issues, the historical relationship between the parties, the status of the litigation, and background on the industry. It improves consistency in the process; eliminates the need for counsel, the parties, and the mediator to become familiar with one another; and aids in developing the trust necessary for a fruitful exercise.

As indicated from the examples herein, mediation is a process, and it often proceeds in multiple stages. The first stage isolates issues and helps the parties agree on what information is necessary for settlement. Later negotiations, whether in-person or otherwise, occur after additional information has been exchanged.

VII. WORKING WITH YOUR MEDIATOR

Whether a mediator is arbitrarily designated by the court or selected by the parties in private mediation, there are certain qualities that you should consider in the selection process and when preparing for mediation: communication skills, reputation for preparation, patience and persistence, ability to dissect the issues, and, to a lesser degree, familiarity with the subject matter. How the mediator approaches the process— evaluative, facilitative, or both—may also be relevant. When choosing a mediator, ask yourself, "who would the other side (and my client) listen to?"

In selecting and working with the mediator, you should remember that a mediator does not adjudicate the subject matter of the dispute. Rather, the mediator *guides* the course of negotiations. Thus, the mediator is an independent, non-judgmental neutral whose loyalty is to the process, and who, through interactions with the parties, serves them jointly and each party separately. The negotiation traits of the mediator are important for you to determine how he or she may effectively motivate either side to address settlement seriously. Consider how the mediator may persuasively express the strengths of your position to the other side, or educate your side on the major weaknesses of your case. Keeping the mediator's function in mind enables the participants to effectively

employ his or her services, thereby improving the potential for a successful conclusion.

When a sitting judge serves as the mediator, the "power of the robe" no doubt strongly influences cooperation with the process, including the exchange of pre-mediation information and ensuring that the appropriate client representatives participate. Private mediators have an enforcement arsenal as well—prestige and deference. Since the parties have selected the private mediator, he or she enters the process with inherent respect. Unlike court-assisted mediation, the parties usually have mutually decided that a resolution is desired and mediation is the preferred format. Moreover, in addition to the typical intrinsic expenses of mediation (attorneys' fees, travel and/or lodging costs, preparation, and downtime for business representatives), there are the fees and expenses of the private mediator, which *should* encourage all participants to work toward a resolution of the dispute. With a judicial mediator who is "free," the initial session may be more a "testing of the waters."

VIII. PREPARING FOR MEDIATION

Chapter 5 details the importance of preparation and how to prepare for mediation from the client's perspective. Here, I address those topics from the judicial mediator's prospective.

A. Initial Conferences

Counsel and parties who are successful in mediation recognize that they must prepare themselves, the mediator and even the opposing side. You cannot expect that the mediator will initiate all necessary measures to ensure that all participants are ready to mediate. It is frustrating and counterproductive to the process to learn through a submission or during the mediation that certain essential information, although promised, has not been exchanged prior to the mediation session. It is equally annoying to learn that the "right people" are not in attendance. It is difficult to fathom (especially in private mediation) why valuable and expensive time and effort is wasted on such conduct as: lecturing the other side; using mediation as a litigation tool (e.g., initiating threats of motions to dismiss or for summary judgment with proposed briefs in hand); raising or emphasizing discovery complaints; or accusing your opponent of not cooperating with or being interested in mediation (as evidenced by the lack of the appropriate business representatives in attendance), rather

than focusing on the *true* issues for resolution. Such conduct can doom the process before it begins.

To minimize such disputes *before* the session occurs, I establish ground rules beforehand, usually through serial teleconferences. Not only is the initial teleconference important, but periodic follow-up teleconferences are frequently necessary. Having the client participate in the teleconferences (often through in-house counsel) emphasizes the requirement of cooperation. Orders summarizing the discussions and my expectations may follow the teleconferences.

The preparation for mediation *begins with* the initial, "feeling out" teleconference. During that teleconference, I expect counsel to address the following:

1. A general overview of the case, including the legal and/or factual issues (e.g., the number of patents; the accused process, system, or product; the defenses raised; bases for any Lanham Act claims, such as cyber-stalking, or bases for any copyright claims).
2. Any negotiations or settlement discussions either between counsel or between the parties before and after the filing of the lawsuit, the status of those discussions, and the hierarchy of the participants involved.
3. The identities of any non-parties with an interest or influence on the outcome of the litigation and whether they are aware of the teleconference (i.e., notified by counsel or the parties). In such situations, I explore the need for their involvement in the mediation process.
4. The parties' interest in, timing of, and length of time required for mediation (e.g., more than one day), as well as the availability of counsel and the decision makers.
5. Any ancillary litigation (including companion cases filed in my court, in other courts, or in arbitration proceedings), whether pending or planned, that could affect mediation in the present matter.
6. The status of discovery (e.g., existence of a protective order, completion of initial document production and the scheduling of any further document exchange, commencement of depositions, including foreign entities), and identification of other information necessary to appropriately and reasonably value the matter before mediation. If certain discovery will not be available or completed before the initial teleconference, I require counsel to

advise me of the type of information, reports, data, and other *necessary* discovery that should occur before mediation.

To adequately discuss these matters during the initial teleconference, counsel should also be familiar with my standard order governing mediation conferences and mediation statements, which defines the term "full authority" and mandates attendance by the parties' decision makers,[26] and identifies seven topics to be addressed in the confidential mediation statement.[27] My order has evolved over time, and the requirements I set forth therein are included with a purpose.

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26. Full authority requires the party participants to "be able to make independent decisions and have a knowledge or understanding of the dispute and/or the business objectives/operations of their company to generate and consider solutions and/or be able to address the negotiation dynamics in mediation. It is *not just* settlement authority . . . ." Order Governing Patent Mediation Conferences and Mediation Statements at ¶ 2 (emphasis in original).

27. Those topics are:

"a) *'The Parties'*: provide a description of who the parties are, their relationship, if any, to each other, and by whom each party is represented, including the identity of all individuals who will be participating on behalf of a party during the mediation conference.

b) *'Factual Background'*: provide a brief factual background, clearly indicating which material facts are not in dispute and which remain in dispute.

c) *'Summary of Applicable Law'*: provide a brief summary of the law, including applicable statutes, cases, and standards. Copies of any unreported decisions (including decisions from this jurisdiction) that counsel believes are particularly relevant should be included as exhibits.

d) *'Honest Discussion of Strengths and Weaknesses'*: provide an *honest* discussion of the strengths *and* weaknesses of the party's claims and/or defenses.

e) *'Settlement Efforts'*: provide a brief description of prior settlement negotiations and discussions, including the most recent offers or demands exchanged between the parties and the reasons for rejection, and the party's assessment as to why settlement has not been reached.

f) *'Settlement Proposal'*: describe the party's proposed term(s) for a resolution. Identify any interests or issues not directly involved in this matter that may frustrate or further settlement. If the party has any suggestions as to how the Court may be helpful in reaching a resolution, such suggestions should also be described.

g) *'Fees and Costs'*: list separately each of the following: (i) attorneys' fees and costs incurred to date; (ii) other fees and costs incurred to date; (iii) good faith estimate of additional attorneys' fees and costs to be incurred if this

In addition to setting a date (firm or tentative) for mediation during the initial teleconference, if certain discovery is needed for an effective mediation, I establish a schedule for completing that discovery. Also, I often require counsel to advise each other regarding the identities of the principals who will attend mediation by a date certain.

I use follow-up teleconferences to: confirm that necessary information is being exchanged; discuss the mechanics of the mediation (e.g., use of presentations, joint submissions when there are multiple plaintiffs or defendants, or the date when a particular defendant will mediate in the case of multiple defendants); confirm the attendance of business participants; and address any other problems that may affect the mediation process. I may also employ separate teleconferences because, without an audience, the parties will more frankly discuss their concerns related to mediation as well as the potential goals of the process (i.e., approaches to resolution). Both the initial and subsequent teleconferences are intended to produce an organized and productive mediation session.

B. Whom to Include (or Exclude)

Essential to any successful negotiation is having the "right people" involved. Determining who they are, however, may be difficult. My order requires attendance of the "decision-maker(s) of the parties who must have full authority to act on behalf of the parties, including the authority to negotiate a resolution of the matter and to respond to development during the mediation process." In deciding who meets my standards and who are the "right people," counsel often must rely on the client. Therefore, the client needs to be educated not only on mediation requirements, but also on the mediation process. If the right people are not present, mediation can be defeated before it begins or becomes an exercise in frustration. That said, figuring out whom to avoid is often as important as whom to include.

With this in mind, where there have been previous negotiations, consider whether the individuals who participated in those discussions are proper mediation participants. Where certain individuals have developed a good working rapport, those same individuals should participate in mediation. On the other hand, if personality clashes or personal animosity

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matter is not settled; and (iv) good faith estimate of additional other fees and costs to be incurred if this matter is not settled." Order Governing Patent Mediation Conferences and Mediation Statements at ¶ 6.

have developed during prior negotiations, "fresh blood" is advisable for the mediation.

You should also determine if the decision-making process is a group effort, and if so, what members of the team are essential. Select client representatives based on an individual's ability to make a *meaningful* contribution to the process, and not just his or her title. Consider whether certain information sources, such as key employees (e.g., IT staff, engineers, business managers) or key experts with direct knowledge of the underlying facts and issues, should be present or available for consultation via telephone during mediation.

In a patent mediation, the defendant brought its "mediating attorney" to the mediation, in addition to in-house counsel, trial counsel, and a managing business representative. The mediating attorney was not a patent litigator or a prosecution counsel, but had been employed by the defendant in other matters to assist in negotiations. He was thoroughly familiar with the defendant's business and the industry involved. Once his function and involvement were explained to plaintiff's counsel and representatives (unruffling feathers and allaying protective order concerns), the mediation proceeded.

At the end of the first session, the parties were $25 million apart for a paid-up license, with the plaintiff advising me that further "compromise" would not occur absent substantial movement by the defense. Periodic teleconferences occurred thereafter between the mediating counsel and me discussing approaches to take with both sides to break the apparent stalemate. Those approaches were subsequently explored with the plaintiff's counsel and its representatives in separate, private teleconferences. Through this process, the settlement range was narrowed, and in another mediation session, the matter settled. The matter resolved in part because of the insight and knowledge that the mediating attorney brought to the process and his relationship with the defendant.

Certain participants may be less helpful to negotiation, but at the same time necessary for mediation. When possible, client representatives should not consist solely of a company's in-house legal department, whose primary (and often singular) goal is to proselytize its patents. Such individuals frequently are not knowledgeable about the business aspects of a case. For example, if there is an ongoing supplier/customer relationship between the parties, in-house counsel may not be aware of, or focused on, that relationship. Their concentration may be limited to a purely legal approach, such as taking a license, and they may fail to explore

other business solutions. Businesspeople with knowledge of the past and present relationship are helpful in broadening and crafting solutions for settlement.

The inventor and patent prosecution counsel are usually counterproductive to mediation. They are not objective and frequently refuse to accept any potential flaws in the patent or the prosecution history. The inventor often has an emotional investment in the patent—it is, after all his or her creation—while prosecuting counsel has his professional reputation at stake. Excluding the inventor from mediation, however, is unlikely, especially when he or she is the plaintiff. Similarly, the owner who designed or built her business on a trademark is emotionally attached to that mark and will look for extensive protection of it. Such individuals bring unique challenges to mediation for both counsel and the mediator. These special concerns do not solely hamper counsel representing the inventor or trademark holder: they also become a problem for the opposing counsel and party in creating a solution. How to address such issues in preparation for and during mediation depends, in part, on the personalities and goals of the players. Counsel, however, cannot ignore these factors.

For example, in a recent trademark dispute, the plaintiff was a wheelchair-bound veteran, CEO of his small software company, and he personally designed the entity's mark. He intended to develop sufficient income from the business to help disabled veterans. In the five years the company existed using the mark before the purported infringing logo/name was introduced, it operated at a loss and was barely functioning on a shoestring budget. The defendant was a medium-sized software company and competed in a similar market to the plaintiff. The similarities between the plaintiff's mark and the accused logo/name were obvious. The plaintiff felt that the defendant's infringement caused confusion, lost profits, and significant damages despite the fact that his business never experienced a profit or any substantial sales before the infringement. Further, the geography of the plaintiff's business was limited, while the defendant sold its products throughout the United States and in certain foreign countries. The plaintiff, however, had developed a unique software line in which the defendant had considered expanding.

During mediation, I explained the plaintiff's interest in disabled veterans to the opposition. The defendant's CEO's deceased brother had been a disabled veteran. The parties settled by the defendant agreeing to buy the plaintiff's software products and assisting plaintiff financially in developing new product lines for the defendant, as well as purchasing the

mark, with credit to the plaintiff noted on the defendant's literature and website. In addition, a percentage of profits the defendant earned from the plaintiff's software line was contributed to agreed-upon veterans' charities. By recognizing what was important to the plaintiff and not just concentrating on standard settlement approaches, the defendant garnered a positive commercial result and expanded its software services. Plaintiff salvaged a floundering business, developed a profitable business arrangement, and satisfied his egalitarian interest.

Almost uniformly, I have found that bringing experts—particularly damages experts—to mediation is generally not helpful. It tars the process with an adversarial brush and telescopes a "trial win" starting point for negotiations. Alternatively, providing a summary of experts' reasoning as part of the analysis in the mediation statement is appropriate.

In a patent mediation a few years ago involving an eye medication, the "perfect storm" occurred. The plaintiff's representatives at mediation were the inventor, the patent prosecuting attorney (who was also trial counsel), local counsel, and the consultant for damages. No progress occurred during the first session, and all participants, including myself, found the experience frustrating. That single experience spurred modifications to my initial teleconference and standard mediation orders and my use of teleconferences, and eventually led to the approach that I presently employ. The matter settled, but only after the plaintiff's business representatives became directly involved and negotiated with their counterparts on the defense side during a second session.

My standard order now requires the identification of participants attending the mediation in the submission to allow me to compare each side's representatives. This information allows discussion and suggested changes in the participant list to avoid the "perfect storm."

C. Preparing an Effective Mediation Statement[28]

The mediation statement is the initial opportunity to educate the mediator on the *true* interests and needs of the client. A properly focused mediation statement requires counsel to concentrate on key facts and information important to the client as well as to evaluate the client's interests and needs before mediation. To accomplish this objective, the client's involvement in preparation of the mediation statement is essential. (See Chapter 5.) Counsel and the parties are free to supplement their mediation statement with exhibits that help the mediator understand a

28. The statement is usually due 10 days before the mediation.

party's perspective of the case. However, attaching a tome of materials on the factual and legal issues for review usually does not advance settlement, nor does it provide necessary insight regarding the client's interests and needs. My standard order restricts mediation statements to 20 double-spaced pages to encourage narrowly focused submissions.

Even with page limits, parties often fail to strike the right balance between the legal issues part and business interests/solutions portion of the submission. The latter frequently receives minimal, if any, attention.

Counsel are normally intimately familiar with the facts and legal arguments of the case before preparing their mediation statements. Inordinate emphasis on legal arguments in the mediation statement, however, such as whether infringement exists, is counterproductive. Again, it tarnishes the process with a rights-based tone. And the other side usually feels just as passionate about its legal arguments. The mediation statement is not intended to be a blueprint for case-dispositive motions. Since mediation of an IP matter is a negotiation of a business dispute, settlement rarely rises or falls on the strength of legal arguments.

In preparing the mediation statement, consider carefully the stage of the case, the previous exchange of information or education between the parties regarding strengths and weaknesses, and the information—particularly the business information, most helpful for the mediator to resolve the case.

Unless the parties otherwise request, their mediation statements are confidential, submitted only to the mediator, not docketed, and not shared with the opposition. Therefore, counsel should not "hide the ball" from the mediator. If there is information of particular importance—a "slam dunk" winning argument, a desired business arrangement, or significant business or legal strategies that should not be disclosed to the other side—that information should nevertheless be conveyed in the mediation statement. During mediation, counsel and the client may authorize the mediator to disclose such information to "seal the deal" or explain to the other side why a seemingly intractable position is being taken. That time may not come, but without knowledge of such critical information at the outset, the mediator cannot properly guide, analyze, assess, or suggest settlement approaches.

As alluded to above, among the topics given least attention in the mediation statement are "settlement efforts," where the parties explain their reasons for rejecting prior offers or demands and assess why negotiations have been unsuccessful, and "settlement proposal," which seeks identification of any interests and/or issues directly or indirectly involved

in the matter that may frustrate or further settlement. Another "orphan" topic is an "honest discussion of the strengths and weaknesses" of the party's case. The mediation statement frequently contains a wealth of the "whys" a party will succeed at trial and little or nothing on the inadequacies of the claims or defenses.

Although each case is unique and is influenced by dynamics among the parties and counsel, within parties, within the industry involved, and, to some extent, due to the nature and stage of the litigation, rarely does a party have *no* weaknesses. Not acknowledging potential weaknesses also suggests that both counsel and the client are using the mediation process as an extension of litigation rather than a quest for a reasonable solution. Certainly, your opponent will educate me and put its spin on the deficiencies of your case. Why position your case on the defensive rather than on the offensive by not addressing potential weaknesses in a more positive light? You should anticipate what your opponent will argue about the weaknesses of your case and address these issues positively and frankly during mediation.

Counsel's hesitancy to acknowledge flaws in his or her case may be due to a fear of showing any weakness or that the mediator will side with the opponent. A mediator recognizes the importance of consistency and knows it is critical that both counsel and the parties understand how the process will unfold. A mediator is, and remains throughout the mediation, an impartial facilitator of the process, regardless of the information presented. That promise is represented by me to every counsel and litigant before the session begins.

Moreover, because of the heavy caseload in this district, a substantial amount of "repeat business" exists. As a result, many attorneys have mediated with me before and should be comfortable to set forth candidly both the strengths *and* weaknesses of their positions in their written submissions. A mediation statement that primarily asks me to force the opposition to surrender is inconsistent with, and a detriment to, the resolution process.

D. Counsel's "Homework" Before the Mediation Session

As addressed in detail in Chapter 5, another vital task of counsel is preparing the client for the mediation session—i.e., having the client directly involved in the preparation. Clients benefit from an explanation and understanding of the process in advance and need to understand that the outcome of mediation contemplates a "win-win," rather than declaring

a single victor. This requires a *realistic* analysis of the weaknesses of the case and trial options to create the best possible reconciliation options. Counsel's goal should be to put the client in a position to make a meaningful choice between continuing the litigation and accepting the best possible settlement option available—that is, getting an offer from the opponent that is its best alternative to litigation. The "loser" in mediation is the party who ends the process and walks away without getting the best alternative from the other side.

Preparation for the mediation session necessitates determining what the client truly needs to achieve. This means, for example, exploring the client's overall business objectives; how relevant the intellectual property is to those objectives; how success or failure in the case affect those objectives; whether the client has any "hidden agendas," what they are, and how they affect settlement; and how the client perceives the future of the relevant industry.

Because each side defines the overall goals of mediation from the interests of the client, an analysis of the opposition's objectives and their relative importance is equally important. Analyzing the dynamics of the process from the opposing side's point of view may provide insight into any commonality between the parties from which to build a settlement. Understanding any history between the parties and how they negotiated previously, as well as prior and present business relationships, dealings, contracts, and licenses, should also be part of the analysis. Thus, the client's direct involvement in preparation is indispensable and requires discussing the structure, overall objectives, and various settlement scenarios in advance.

In addition, consulting with the client's business and technical people is very important. They usually have more intimate knowledge about day-to-day operations and strategic planning for the business, including the future direction of the company, its IP, and products at issue. In patent matters, for example, they can provide invaluable assistance in fashioning a design-around or information concerning the phasing out of an accused product or process.

Similarly, in a trademark dispute, those individuals can develop proposed designs and provide guidance regarding the phase-out period and the costs related to new advertising and promotion. Expanding those involved in preparation increases the quantity and quality of feasible solutions. I expect, and my mediation order requires, that counsel and the participants include proposed terms and approaches to settlement in the mediation statement.

Unlike trial or other forms of ADR, mediation allows the crafting of a customized settlement that is forward-looking, deals with past sins, and provides opportunities not available under rights-based procedures, such as using business concepts (e.g., product discount programs, bartered services, use of equipment, joint ventures) as part of a settlement package. Not infrequently, to close the value gap between the parties, part of the settlement may involve the accused infringer purchasing goods or services from the patent or trademark owner. Such an arrangement provides additional value and can help an accused infringer save face, while providing a recovery amount in the range the patent or trademark holder desires. The opposite approach—the infringer providing goods or services to sweeten the deal in addition to a monetary payment—has similar benefits. It gives the plaintiff its desired amount and is less costly out-of-pocket for the defendant.

Preparing a list of the opponent's principal contentions/defenses in order of importance, along with your rebuttal, is helpful to educate the mediator on the main issues separating the parties and provides him or her with responses to the opposition. Having a checklist of the important terms for settlement is essential. It avoids misunderstanding during the multiple volleys of negotiation and helps keep the mediator, yourself, and the opponent focused on the primary objectives of settlement. That checklist may include, to name a limited few:

- Scope of any license (e.g., using claim terms or plain English, what products or family of products are included);
- Payment amount(s) and payment terms (e.g., up-front or in installments with or without interest, running royalty percentage and the base to which it applies, and any minimum payments or caps);
- Future business relationship terms, IP included (e.g., in a patent matter, whether an entire portfolio or family, CIPs and/or divisionals are included);
- Taxes (who pays and whether settlement is net of foreign taxes); transfer of ownership/control issues;
- Admissions (e.g., infringement, validity, or enforceability);
- Any MFN (most favored nations) clause;
- ADR (how future disputes will be handled);
- Confidentiality (with or without teeth, any press release allowed, and contents of a press release); and
- Marking (in a patent case).

This list of important settlement terms may also be used to memorialize the agreement or agreed-upon term sheet at the end of the mediation.

As the above discussion and the examples in this chapter reveal, settlement is not just about money. Thus, do not fixate on "the bottom line." In the pre-mediation preparation, consider "half-of-the-loaf" approaches as well, such as elimination of peripheral issues by a final or interim partial settlement, a stipulation to end or stay part of the case, or an agreement to informally set aside certain issues pending resolution of the main claims.

When dealing with foreign entities, cultural differences may play a significant role in mediation. Despite the shrinking effect technology has had on the world, local business customs and practices remain relevant to the art of negotiation. When preparing for mediation, this diversity needs to be recognized and addressed.

E. Making the Most of the Mediation Session

My experience has shown that formal presentations by counsel in the presence of all parties are unproductive. In that setting, attorneys cannot avoid the temptation to perform, a.k.a. posture—especially in the presence of their client. They frequently grandstand or become argumentative, and by such behavior set a negative tone for the mediation. Opening presentations may be helpful, however, when mediation occurs very early in the case, when the parties have exchanged relatively little, if any, information, through discovery. When presentations occur, the client must feel that its story has been told. Most essential is for counsel to clearly and *objectively* communicate the client's position to the mediator and the other side, and not engage in or invite debate. The client may also actively participate in the joint presentation. In deciding whether, and to what extent, the client should actively participate, his or her temperament, personality, and ability to maintain control and civility should be weighed. Some degree of righteousness is expected and acceptable, but the client should not preach to the other side.

The most productive aspects of the mediation session are the private caucuses and shuttle diplomacy between the parties. A primary purpose of these caucuses is to probe a party's vulnerabilities and flesh out weaknesses or issues where there is no convincing rebuttal. Although I recognize the cathartic need for counsel and the client to express their position during these caucuses, solely focusing on the strengths of their own legal arguments does not foster settlement.

Other essential purposes of the private meetings are to educate the mediator about the dynamics within the client's company, the pertinent commercial issues involved in the dispute, and, most important, the reasonable business objectives a resolution must address. Counsel should expect, and clients should be forewarned and prepared, to actively participate in these discussions. Most mediators understand that venting is often necessary. During the separate caucuses, provide a "best position" or "winners" list—an outline of your strongest arguments—for the mediator to use as a reality check in the private meeting with the other side.

Counsel should allow and prepare the client for caucuses in which only the mediator and the client talk or the mediator and only the principals from both sides are involved.[29] This approach often is met with reluctance from lawyers, the basis of which is rarely entirely clear—whether it is the absence of control over the process or the concern that the client will be railroaded during such discussions. Principals, however, have often expressed disappointment when the opportunity to talk with the other side has not occurred. My firm belief is that the first (and possibly only) mediation session should include a discussion of business concerns and matters related to the litigation among the principals.

Sometimes mediation reaches an impasse due to insufficient information. In that situation, I encourage measures to avoid a stalemate, such as using the process to facilitate the necessary information exchange through negotiated streamlined discovery. For example, I have ended the initial session to allow the parties to further investigate and consult with experts or technical people. Under the protective umbrella of mediation, the technical people from both sides can meet and exchange agreed-upon information.

In a patent dispute involving a process to make microprocessors, the parties were stuck on whether the silicon disk was "dry" after the cleaning operation, a significant claim element. Neither would accept the other's analysis of the defendant's process. At the close of the first session, with my assistance, the parties agreed to an independent laboratory to perform defendant's process and negotiated the steps and parameters of that cleaning operation to be provided to the laboratory. The associated costs were equally shared. In addition, since this review was being done under the auspices of mediation, and thus confidential, and the findings would be provided only to me, the parties confirmed that the results would not be

29. Clients are always provided the opportunity to confer with their attorney during such meetings.

discoverable, and the laboratory personnel could not be deposed or used as experts or consultants in the case. In a later session, after the testing was completed and the findings reported, the parties left it to my discretion as the mediator whether to use that information in further negotiations. The matter settled during the second session.

Creativity is essential in mediation. Do not look solely to the mediator for creative thinking. I require in the mediation statement and expect during the mediation session for the parties and their counsel to make suggestions on how to address issues constructively and how to proceed with negotiations. Further, mediation is not merely the back-and-forth exercise of demand, offer, counter, and so on. IP cases frequently require more imaginative negotiations. Use the private caucuses to develop and express more unique approaches to resolution.

Because mediation is a process, if settlement is not reached during the initial session, mediation has not failed. Thereafter, communication among counsel, the principals, and the mediator continue via e-mail, letters, and the telephone. I encourage principals (and you should allow them) to contact me to discuss their ideas or thoughts regarding settlement or changes in the business climate that affect their interest in litigation. Indeed, when evaluating potential mediators, parties should consider a mediator's willingness to function in this manner. Because clients may view outside counsel's role as limited to the litigation itself, trial counsel may not be immediately informed of changes in the business landscape that impact settlement. Giving the client an additional avenue to discuss resolution prospects can foster further settlement efforts.

IX. CLOSING THE DEAL

As discussed in the previous section, before mediation begins, you should prepare an outline addressing the important settlement terms. If verbal agreement is reached during mediation, those pertinent terms should be memorialized in a writing executed by the parties before the session ends. The relevant provisions of settlement do not require a detailed document with every "t" crossed and "i" dotted. Brief bullet points usually suffice. You should consider whether this document will operate as a binding contract if the definitive agreement cannot be finalized. When drafting the final agreement following mediation, avoid "nit-picking" over peripheral concerns or issues. Many a settlement is delayed (or lost) when the final agreement is "over-lawyered." Rather than allowing drafting

disagreements to cause the death knell of the settlement, re-involve the mediator before dissension becomes insurmountable.

CONCLUSION

Mediation may not be the answer for every IP dispute, but litigation and trial are clearly not the solution in every case. The courtroom is a forum where counsel lives: it is not home to businesspeople. For them, the adage about litigation generally applies: "[a]s a litigant, I should dread a lawsuit beyond almost anything short of sickness and death."[30]

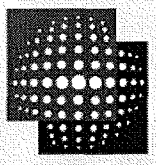
30. Attributed to Learned Hand *in* JAMES F. HENRY & JETHRO K. LIEBERMAN, THE MANAGER'S GUIDE TO RESOLVING LEGAL DISPUTES: BETTER RESULTS WITHOUT LITIGATION (HarperCollins 1985).

10. REPORT OF THE CPR PATENT MEDIATION TASK FORCE EFFECTIVE PRACTICES PROTOCOL

International Institute for
Conflict Prevention & Resolution

REPORT OF THE CPR PATENT MEDIATION TASK FORCE

Effective Practices Protocol



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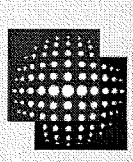

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Changing the Way the World Resolves Conflict

CPR is the leading independent resource helping global business and their lawyers resolve complex commercial disputes more cost effectively and efficiently.

ABOUT CPR – CPR is the only independent non-profit organization whose mission is to help global business and their lawyers resolve complex commercial disputes more cost effectively and efficiently. For over 30 years, the legal community has trusted CPR to deliver superior arbitrators and mediators and innovative solutions to business conflict.

CPR Members – CPR's membership comprises an elite group of ADR trailblazers, including executives and legal counsel from the world's most successful companies and global law firms, government officials, retired judges, highly-experienced neutrals, and leading academics. CPR accomplishes its mission by harnessing the expertise of these leading legal minds to change the way the world resolves conflict for generations to come.

CPR Pledge – In 1979, CPR started this legacy by being the first to bring together Corporate Counsel and their firms to find ways to lower the cost of litigation. Since that time, CPR has changed the way the world resolves conflict by being the first to develop an ADR Pledge. Today, this Pledge obliges over 4,000 operating companies and 1,500 law firms to explore alternative dispute resolution options before pursuing litigation.

CPR 21st Century Pledge – CPR is once again challenging the way the world resolves conflict by introducing the 21st Century Corporate ADR Pledge. This new Pledge will systemically change the way global business and their leaders resolve complex commercial disputes.

CPR's Clauses and Distinguished Neutrals – CPR's rules and clauses allow for a self-administered ADR process, enabling practitioners to maintain control and flexibility while minimizing costs. CPR members have unlimited access to a highly qualified panel of more than 600 distinguished neutrals, specializing in over 20 practice areas. CPR employs a highly competitive vetting and evaluation process to ensure that the highest quality and most experienced neutrals are available without administrative expenses.

REPORT OF THE CPR PATENT MEDIATION TASK FORCE

Effective Practices Protocol

[redacted]

I. Background

In 2010, the International Institute for Conflict Prevention and Resolution (CPR) formed the Patent Mediation Task Force to examine the benefits of mediation in resolving patent disputes, and to identify and overcome the barriers to the effective use of mediation.

As a nonprofit alliance of global corporations, law firms, scholars, and public institutions dedicated to the principles of commercial conflict prevention, CPR has long been a pioneer in seeking improvements to private resolution in disputes involving intellectual property and patents.

The Task Force was convened in response to current patent settlement rates, which demonstrate that mediation continues to be underutilized in patent disputes. The Task Force's main objective was to analyze methods and solutions for improving the use and efficiency of mediation as an alternative dispute resolution (ADR) in patent disputes.

To achieve their goal, the Task Force formed three subcommittees to examine mediation best practices from each of five stakeholder perspectives: in house-counsel/ business people; outside counsel; mediators; judges; and provider organizations. Each subcommittee focused its evaluation on one of three distinct topics: pre-mediation, mediation, and unique issues in patent cases. They organized focus group meetings comprised of a variety of participants and used survey tools to gather facts about their respective topics. The subcommittees consolidated their findings into a best practices protocol that was then vetted by in-house counsel, attorneys, and leading ADR practitioners.

The Chair of the Task Force is Manny W. Schecter, IBM Chief Patent Counsel. The subcommittee members are:

Pre-Mediation

Harrie Samaras (Chair)
Jason Burwell
Robert F. Copple
Anne B. Kiernan
Russell E. Levine
Richard Rainey
Jay Stewart
S.I. Strong
Phillip C. Swain

Mediation

Kevin Casey (Chair)
Kenneth R. Adamo
Hon. Edward N. Cahn
Dennis Crouch
Mark Edwards
Hon. John S. Martin
Peter Michaelson
Robert T. Tobin

Unique Issues in Patent Cases

John M. Delehanty (Chair)
Bruce G. Bernstein
M. Scott Donahey
Don W. Martens
Hon. Paul R. Michel
Steven W. Miller
Maxim (Mac) H. Waldbaum
John K. Williamson
Thomas F. Fleming

II. Methodology

Each subcommittee of the CPR Task Force held an initial meeting to identify prospective participants who could comment on and discuss their experiences with mediation. Each subcommittee then conducted between 3 and 8 teleconferences with a total of approximately 80 participants who were comprised of in-house counsel, outside litigators, mediators, judges, and representatives from non-practicing entities (NPEs). A total of 15 teleconferences were held between January and April 2012.

Each subcommittee chair prepared an agenda based on the subcommittee's focus topic and a list of targeted questions to send out to participants in advance of each teleconference. On average, the meetings lasted between 1 – 2 hours and the chairs acted as moderators in order to steer the discussion and collect survey responses.

Out of the 80 participants, approximately 15 participants were in-house counsel, 26 participants were outside litigators, 22 participants were mediators, 15 participants were judges or former judges and 2 participants were representatives of NPEs.

The subcommittee chairs had each teleconference transcribed. After the final teleconference, each chair compiled and summarized the results of their discussions into a memorandum. The Task Force held a meeting in June 2012 to discuss these results

and begin drafting a report based on the input and recommendations received from participants.

The following report is the culmination of the Task Force's project: the development of an "*Effective Practices Protocol*" (EPP) to highlight and promote the strengths of patent mediation as a means for providing an early resolution of patent disputes and saving companies from wasteful litigation costs.

III. Report and Recommendations

Recommendations for Initiating the Mediation Process

- **The Parties To The Dispute Must Be Fully Educated About the Mediation Process**

  Parties to a patent dispute may resist mediation simply out of fear of the unknown, or because of a misunderstanding about the nature of the mediation process. To enable their clients to make an informed decision about the use of mediation, counsel should fully educate them about the process in the following ways.

- **Mediation Is Not Binding And Has Many Advantages Over Litigation**

  Clients should be informed at the outset that the notion that mediation is "binding" is a myth. Unlike arbitration, mediation is wholly consensual; either party may discontinue the process at any time and the mediator does not render a decision on the merits. Clients should also be advised of the many potential benefits of mediation, including substantially reduced legal expenses, speed to resolution, and the avoidance of the disclosure of confidential company information. These benefits are particularly important in patent disputes where proprietary technical information must be disclosed in discovery to determine infringement, and where confidential financial information is used to determine a reasonable royalty or lost profits damages. Even if these benefits do not materialize, or a settlement is not reached during mediation, the process enables each party to assess the strengths and weaknesses of its legal position and that of its adversary and to explore business solutions which may reach fruition at a later date.

- **Mediators Are Not Arbitrators Or Judges; Nor Are They Mere Conduits For Self-Serving Settlement Proposals**

  Clients should also be informed about the mediator's function. A mediator is not an arbitrator or a judge or a mere conduit for the parties' positions. He or she should not be expected to simply convey one-sided settlement offers to the other party in the expectation that it will ultimately capitulate. A mediator's role is to facilitate the parties' own negotiations and, when requested by the parties, to propose settlement solutions. Clients should realize that senior executives with settlement authority must fully participate throughout the mediation; anything less would be correctly perceived as an unwillingness to compromise. Lack of full participation by senior executives also increases the risk that settlement will not be achieved because resolution of a complex patent dispute requires that the parties fully understand their respective positions, business needs, and opportunities for compromise.

- **Patent Mediation And Patent Litigation Are Completely Different Species**

  Clients should be made aware that litigation and mediation in patent cases have very different objectives. One of the principal goals of litigation is to determine which party is right and which party is wrong (*e.g.*, is the patent valid; is it infringed and, if so, what is the proper measure of damages?) In contrast, the purpose of mediation is to find a business solution to the parties' dispute without necessarily determining which party is right and which is wrong (*e.g.*, through a license or other business arrangement, which satisfies the interests of both parties.) It is essential that the parties understand the distinction between these two methods of dispute resolution from the outset because it affects their choice of a mediator, their decisions about who will attend the mediation and their expectations about the process.

- **Despite Its Drawbacks, Litigation Can Be A Useful Tool For Mediation**

  Litigation in patent cases does have purposes other than winning at trial, which can be helpful in the mediation process. It enables the

parties to discover facts which they may not have known, such as the existence of prior art, the actual operation of the infringing device or method, and the factors relating to the calculation of a reasonable royalty or lost profits. Litigation may also clarify the meaning of any unclear terms in the patent claims which will have a bearing on validity and infringement. Although these attributes of litigation are attractive in theory, in practice they often lead to delay and expense, driving up the cost of a typical patent case to over $5MM and the time to trial to over 3 years. It is not necessary to pursue full-blown litigation discovery and motion practice in order to achieve a successful mediation.

- **Initiating Mediation Is Not A Sign Of "Weakness"**

  When discussing mediation with their clients, counsel must dispel the common belief that proposing mediation to an adversary is a sign of "weakness." This is a myth. Suggesting mediation is nothing more than an expression of a willingness to negotiate in a structured setting.

- **Use The CPR Corporate Policy Statement On Alternatives to Litigation©**

  One of the ways that counsel can overcome this perceived obstacle to mediation is to suggest to their clients that they become signatories to the CPR Corporate Pledge. The CPR Corporate Policy Statement on Alternatives to Litigation©, which has been signed by over 4,000 companies and their subsidiaries, was developed in the 1980s specifically to overcome the concern that a party's suggestion of mediation (or other form of ADR) would be seen as a sign of weakness. The Corporate Pledge compels the signatories to attempt resolution of disputes through ADR before filing suit. The names of the companies which have signed the Pledge are available on CPR's website, http://cpradr.org/About/ADRPledges/CorporatePledgeSigners.aspx. In-house counsel can refer to this directory to see if the other party to the dispute is a signatory before initiating mediation.

- **Use The Court (With Caution) To Support Your Mediation Initiative**

  Courts in many jurisdictions have attempted to remove the stigma of "weakness" associated with initiating mediation (and also to clear their dockets) by mandating the use of this process. Courts began to compel mediation to facilitate settlement and to overcome parties' reluctance to reveal to their adversaries any suggestion that they question the strength of their legal positions. Today, many federal and state courts require some form of mediation (*see* http://www.adr.org/aaa/ShowPDF?doc=ADRSTG_011813). Although many of these programs are successful, the compulsion of mediation by Courts in patent cases has received mixed reviews from focus group participants in the Task Force.

- **Use Magistrate Judges Where Available; Be Wary Of Unpaid "Volunteers"**

  The consensus of focus group participants was that court-ordered mediation often failed to take into account the timing of the mediation in relation to the status of the litigation, the parties' willingness to negotiate and the impact of compulsion on a completely voluntary process. Coercion by a court to mediate when the parties are not ready to settle can cause many parties to simply go through the motions and not put much effort into the procedure. In addition, volunteer mediators on court panels are of varying quality and training and may not be compensated, factors which often lead them to achieve unsatisfactory results. Mediators who only encourage a "check the box" effort before trial are often wasting the court's and litigant's time and resources. This criticism of volunteer mediators does not generally apply to Magistrate Judges. The use of Magistrate Judges who have significant experience in patent cases can help assuage parties' resistance to mediation and their concerns about appearing "weak." Mediation of patent cases by Magistrate Judges is well known and accepted in many jurisdictions (*e.g.*, Delaware) and many parties consider it to be a useful step in the litigation process. Referrals to experienced patent mediators are also available from CPR (http://cpradr.org/FileaCase/CPRsNeutrals.aspx); JAMS (http://www.jamsadr.com/professionals/

xpqProfResults.aspx?xpST=ProfessionalResults); and AAA (http://www.aaamediation.com/faces/index.jspx).

- **Make Sure The Mediator Spells Out The Ground Rules**

  Mediators themselves can also significantly reduce parties' fears of appearing "weak." Experienced patent mediators can help the parties become comfortable with the mediation process and overcome any resistance or misconceptions. Confidential pre-mediation conferences between the parties and the mediator to set expectations and build trust were often cited by focus group participants as contributing to the likelihood of a productive mediation. Mediators should clearly spell out the "rules of engagement" and provide structure to what parties often perceive as an amorphous procedure. This is especially appreciated by and helpful to executives with engineering backgrounds who usually play a large role in the outcome of patent cases.

- **Use Mediation Provisions In Patent License Agreements**

  Perceptions of weakness can also be avoided if counsel expressly includes a mediation provision into the dispute resolution clause of a patent license or other similar agreement. This can be mimicked after one of the CPR Model MediationClauses (http://cpradr.org/Resources/ALLCPRArticles/tabid/265/ID/635/CPR-Model-Clauses-and-Sample-Language.aspx). While this option will not work with alleged infringers who have no pre-existing contractual relationship with the patent owner, such a provision should not be overlooked in cases where there is such a relationship in place. Finally, once the mediation begins, any pre-existing issues about the strength or weakness of the case of the party proposing it become irrelevant and are rapidly superseded by the actual positions of the parties.

- **Before Initiating Mediation, Use Early Case Assessment And Decision Trees**

  Early Case Assessment (ECA) is a conflict management process designed to facilitate informed and expedited decision-making at the early stages of a dispute. It is an excellent tool

to use in advance of commencing mediation. The process calls for a team working together in a specified time frame to: (a) gather the important facts and law relating to the dispute; (b) identify the key business concerns; (c) assess the risks and costs that the dispute poses for the company; and (d) make an informed choice or recommendation on how to handle the dispute. A related process is the use of Decision Trees. Decision Trees demonstrate the economic impact of litigation strategy and are particularly useful in patent cases as a tool for counsel to communicate effectively with clients about the costs associated with the various steps in the litigation process and the likely outcomes of their strategic decisions.

- **ECA Helps The Parties To Focus On The Broader Business Context, Not Just The Specific Dispute**

  Most focus group participants felt that the use of ECA or Decision Trees enhances the likelihood of success of a mediation. Both methods increase the level of preparation for mediation, as well as cause the parties to focus on business issues beyond those that are directly relevant to the dispute. In patent cases, with or without licensing potential, mediations often focus on business solutions, and the use of ECA and Decision Trees ensures a thorough analysis of the available business options. In addition, ECA and Decision Tree processes provide the parties with a broader business context against which to weigh the advice of patent litigation counsel and the judgment of the executives directly involved in the dispute. These methods provide the decisionmakers with objective criteria for evaluating the settlement proposals offered by the other side.

- **When Selecting A Mediator, The Parties Should Focus On Mediation Experience and Skill**

  One of the benefits of private mediation is that the parties themselves select the mediator. When the parties choose the mediator, even if the choice is made from a list of court-approved mediators or from lists provided by CPR, JAMS or AAA, the mediation has a better chance of success. Even more desirable is for the parties to select the mediator from lists which each of them has prepared.

Mediators must be fully informed about the background of the dispute and should understand the key facts and legal issues, the parties, and the business issues. Patience, optimism, persistence, neutrality, and good listening skills are all necessary qualities for a mediator. Focus group participants strongly preferred mediators who explored the nuances of the case, allowed the parties to fully express the strengths and weaknesses of their respective positions, and challenged the parties concerning unrealistic positions and expectations. Mediators are expected to work diligently with the parties and propose creative solutions to their business problems. Participants universally criticized mediators who simply conveyed settlement demands and responses back and forth between caucus rooms and tried to force the parties to meet somewhere in the middle. All agreed that mediation should not be used to force one side to capitulate.

- **The Mediator's Integrity And Ability To Elicit The Trust Of The Parties Is Critical**

  Selecting a mediator with a well-established reputation is also important because the parties are more likely to develop trust and confidence in such a mediator as well as in the process. Other necessary attributes for a mediator include: (a) integrity, which includes unwavering neutrality and the ability to convince the parties that their confidential communications will be respected; (b) excellent communications skills; (c) a commitment to devote the time necessary to allow the mediation to succeed; (d) a willingness to work with the parties to develop a mediation process that is effective for their situation and to implement it; (e) sensitivity to cultural issues; and (f) a willingness to follow through after the mediation session to help the parties continue their settlement discussions and to ensure the formal settlement documents are prepared and signed.

- **Mediation Skills Trump Technical Skills In A Mediation**

  There was a general consensus among focus group participants that in order to be successful, a mediator in a patent case should have strong mediation skills, experience mediating patent cases, and a thorough understanding of patent law and patent litigation. Specific

experience with the technology disclosed in the patent is not essential unless the dispute turns entirely on technical issues or the parties have requested an evaluative mediation. Moreover, with the parties' consent, mediators can engage neutral experts to advise them on specific technical issues. A mediator who does not have strong mediation skills, notwithstanding his or her thorough knowledge of patent law, is unlikely to be successful because, as noted above, the purpose of mediation is to reach a consensus, not to render a judgment on the law. Conversely, since parties often rely on the mediator to conduct reality testing (*e.g.,* asking probing questions) and to provide a reasoned explanation as to why they should alter their proposals, a mediator with strong mediation skills, but little or no patent experience, will be at a disadvantage. The optimal patent mediator combines both sets of skills.

- **The Mediator Must Be The "Adult" In The Room**

  It is important that the mediator have strong "people" skills, *i.e.,* the ability to deal with the inevitable personal differences that arise in the mediation process. An excellent way to exercise these skills is to conduct pre-mediation conference calls with counsel and the parties to expedite the mediation process and provide the mediator with an opportunity to explain it to the parties. They will also enable the mediator to assess the personal issues which may interfere with achieving a settlement. For example, in those cases where parties bring emotional issues to the table, focus group participants appreciated mediators who could help them deal with those issues by permitting some amount of "venting" and allowing the parties to "tell their stories," before delivering reality testing and focusing on the business issues. Since internal differences can arise among the representatives of the parties, having a mediator who can maintain a peaceful process and encourage conciliation within a group during the mediation is essential.

- **Former Judges Must Learn To Become Settlement Facilitators And Leave Their Judicial Robes Behind**

  Focus group participants agreed that former judges can be effective mediators if they have

mediation training and experience. A former judge may add an extra layer of credibility, which makes clients more comfortable with the process, and is often in a good position to determine the proper point in litigation when mediation should be attempted. Former judges can also provide a generalist's reaction to the case and some may be able to predict the reactions of jurors at trial, a perspective which is very helpful in reality testing. However, even those former judges who are committed to using mediation skills (rather than judicial skills) to mediate patent cases are often expected by the parties to predict who will win and who will lose and, if favorable to the party making the request, convey this message to the other side. This expectation clearly defeats the purpose of mediation. Former judges should disabuse the parties at the outset (*i.e.*, in pre-mediation calls and the joint session of the mediation) that they will act as decisionmakers and emphasize that their role is solely to facilitate the parties' own negotiations.

- **Counsel Should Propose Mediation As Early As Possible**

  Although there are no hard and fast rules about the optimal time for mediation, most focus group participants expressed the view that mediation should take place as early as possible, when the parties have sufficient information to evaluate the strengths and weaknesses of their positions and before their views have been hardened by the emotion, and in some cases hostility, that is generated by the litigation itself. It is also advantageous to the parties to seek a mediated resolution before litigation expenses begin to mount.

  Commencing mediation at the outset of a patent case may shed light on the parties' amenability to settlement and their respective goals. For example, the alleged infringer can evaluate the patent owner's demand for r oyalties or damages and compare that sum to the cost of litigation through trial. Similarly, the patent owner can evaluate the alleged infringer's evidence concerning the validity of the patent and the likelihood that it will be successful in obtaining a ruling of invalidity.

  Parties in certain industries are amenable to early mediation even before they have developed a full factual record. For example, in

the pharmaceutical industry, generic manufacturers generally prefer to pursue mediation quickly. Counsel for generic pharmaceutical clients often suggest mediation at the Rule 16 scheduling conference, and judges are often amenable to early mediations in these cases. In some industries, however, depending upon the corporate culture, cases do not settle until late in the game (*e.g.,* at the end of the pretrial process) because business clients do not focus on the dispute until then. Rather than confining mediation to either the beginning or the end of the litigation, many focus group participants recommended multiple mediations: one at the beginning of the case and additional mediations at later stages as the case gets closer to trial. This approach optimizes the likelihood of an early resolution and, even if unsuccessful at the initial mediation, enables the parties to learn facts about their adversary's case which may prove helpful in settling the case at a later stage.

The optimal time to mediate is when both parties are somewhat unsure about their respective litigation positions. Examples of events which should cause counsel to consider mediation are: significant changes in the parties' respective businesses or competitive positions; the filing of a counterclaim which introduces new issues into the case; the impending deposition of a person who does not want to be deposed (*e.g.,* a party's CEO); an interim decision by the Court on an important procedural issue; or an early *Markman* ruling.

- **A *Markman* Ruling Is Not Essential Before Commencing Patent Mediation**

  The usefulness of a *Markman* ruling before scheduling mediation has to be considered on a case-by-case basis (*e.g.,* how significant is the file history for the claim terms at issue, what are the strengths and weaknesses of the claims, who is the presiding judge and what is his or her experience with patent cases?) If the key claim terms are genuinely ambiguous and require interpretation, it may be necessary for the parties to wait until after a *Markman* ruling to commence mediation. However, there are two caveats to this approach: many parties seek the interpretation of claim terms solely for tactical reasons, not because they are actually

ambiguous; and many claim interpretations are overturned by the Federal Circuit, which undercuts the weight they are given by parties at the District Court level. With the high rate of reversals on appeal, a *Markman* ruling from a District Court does not resolve uncertainty, and may not accurately foretell the ultimate outcome.

In contrast, when mediation occurs before a Markman ruling, and there is an impasse at the mediation, receiving the Markman ruling after the mediation can help resolve the case quickly. Having the mediation first can push the parties further along the settlement path (*i.e.*, by opening communication) before receiving the *Markman* ruling. Another time to begin mediation is when the Markman ruling is pending because at that point both parties experience the highest level of risk.

- **Parties Need Not Conduct Full Blown Litigation Discovery Before Commencing Mediation**

  It is not necessary to complete litigation discovery in order to have a successful mediation. If the parties have sufficient information (from initial discovery or the cooperative exchange of information) to evaluate each other's cases, if counsel know and respect one another, and if the parties are motivated to settle, mediation can be effective. While some focus group participants expressed the view that full discovery was necessary before sitting down at the mediation table, most found this not to be the case. In fact, proceeding with full discovery can frustrate a principal goal of mediation, which is to avoid wasteful litigation expense. The likelihood of finding a "smoking gun" in discovery is rare. Pre-mediation discovery may also be highly problematic in international patent disputes, given the general unavailability of discovery in civil law jurisdictions and the limited availability of discovery in other common law countries.

- **There Are Many Alternatives To Litigation Discovery Prior To Mediation**

  Focus group participants consistently expressed the view that expensive discovery, especially electronic discovery, should be avoided prior to mediation. Rather than engage in full blown

discovery, the following techniques should be considered by counsel to prepare their clients for mediation: (a) clients should be made to understand the substantial cost of full litigation discovery compared with the more modest cost of disclosing information solely for the mediation; (b) counsel should try to persuade their adversary to provide necessary information voluntarily and, if necessary, seek the assistance of the mediator in this effort; (c) counsel should execute a bullet-proof confidentiality agreement which limits the use of the information exchanged solely to the mediation; (d) counsel should determine what information is publicly available and use that fact as leverage to request additional information from their adversary; (e) counsel should consider providing information, such as financial data, in summary form (rather than not at all) with the agreement that any settlement agreement would include a representation as to its accuracy; (f) counsel should consider having the mediator review confidential financial information, such as marginal casts and profits, in camera; (g) if the information is required to perform an infringement or invalidity analysis, counsel should consider having the confidential information disclosed to a neutral third party (other than the mediator) who can then render an evaluation without disclosing the information; (h) counsel should consider only allowing outside counsel to see confidential information; (i) counsel could suggest limiting the disclosure of confidential information to one key person at the mediation and to the mediator; and (j) if a pre-mediation exchange is not possible and the dispute is the subject of active litigation, counsel should consider pursuing focused discovery rather than broad discovery common in patent cases, and mediate after documents are exchanged or after the taking of limited depositions.

Recommendations for Conducting and Participating in Mediation

- ### Pre-Mediation Conferences Are Essential

Pre-mediation discussions can be used to shorten the duration of the mediation session, where information is exchanged between the parties and the mediator, and the mediator can help the parties to "front load" much of the

work. This is important because there is "Parkinson's Law" at play in patent mediation: work expands so as to fill the time available for its completion. Because real progress toward settlement tends to await an arbitrary deadline (*e.g.,* the end of the business day), other deadlines (set by the mediator) may actually help rather than hinder settlement.

- **Opening Statements Should Only Be Used On A Case-By-Case Basis**

  Although all focus group participants recognized the need for written mediation statements before the mediation begins, there was much debate over the merits of including oral opening statements by each party at the outset of a mediation session. Some of the potential benefits and drawbacks of opening statements are summarized below, and suggest a case-by-case approach may be best. The timing of the mediation in the life of a dispute (*i.e.,* earlier versus later; as a first attempt to resolve the dispute or after much negotiation) may dictate whether to have opening statements, as might the parties' relationship (*e.g.,* cooperative versus acrimonious). Pre-mediation discussions should also direct whether to have opening statements since, in some cases, the parties might strongly express the desire to make them. It is important to pay attention to who will attend the mediation session and to whom the statements will be presented.

  The apparent trend, if one exists, is to avoid opening statements in patent mediations. There is an introductory joint session and then the mediator goes straight to private caucuses between the mediator and each of the parties. In some mediations, the parties never meet together at all – let alone present statements to each other. If opening statements will be made, the mediator can make clear in pre-mediation discussions that the parties should refrain from posturing during opening statements; rather, the opening statements should focus on the process and on resolving the issues. Ultimately, the decision whether to have opening statements turns on the character of the parties, the nature of the dispute and the mediator's and counsels' assessment of their usefulness in the case.

- The Advantages Of Allowing the Parties to "Vent"

  Notwithstanding the trend against them as mentioned above, opening statements can be very useful because they allow the parties to try to convince the other side of the merits of their respective positions. Joint sessions often provide the parties with their only opportunity to directly address the principals of the other side without having their comments filtered by outside counsel. Even in complex patent cases, the parties can bring with them emotional barriers which prevent settlement negotiations. Opening statements can allow the parties to "vent" their emotions and give them an opportunity to be heard. Often, after this "venting" process, the parties are prepared to proceed with the mediation process in a more reasonable frame of mind, which may facilitate an ultimate settlement. In addition, the mediator can question the parties in front of each other after the opening statements and, perhaps, use the information stated as a reference during later caucus sessions, for example, "how do you address what X said about Y?"

- The Disadvantages Of Litigation Driven Opening Statement

  In some cases, however, opening statements can poison the atmosphere of the mediation. Opening statements made in patent mediation often parallel statements made in the litigation. These types of opening statements give the parties an opportunity to posture. They tend to be argumentative, can harden positions and entrench people, and fail to focus on compromise. They also increase the expense of the mediation. When parties from outside the U.S. are present, which is often the case in patent disputes, an opening statement can also cause a party to lose face and, therefore, become an obstacle to settlement. It is important to be mindful of cultural issues during opening statements.

- Another Approach: Let The Mediator Make The Opening Statement

  One way to avoid the above pitfalls is to have the mediator alone present an opening statement so that polarization does not occur. The mediator can explain the process and relevant

issues (*i.e.*, confidentiality) and can begin with a neutral description of how the case has been presented to by each party without editorializing remarks. A good opening statement sets the tone for the mediation process that follows: the statement should acknowledge the parties' differences, be presented in a conciliatory tone, and reflect the voice of reason.

- **The Mediator Should Avoid Artificial Time Constraints**

  Time constraints and other problems should be addressed in advance of the mediation session. The mediator should educate the participants about the need for flexibility in their time commitments because parties generally underestimate the time required for mediation. Patent mediators usually set aside two days at the outset (or schedule the mediation session for a Friday so that Saturday is available if needed). If the parties hit an impasse during the first day, all participants can think about that impasse (and potential creative solutions) overnight.

- **The Mediator Must Carefully Manage The Private Caucuses**

  The general consensus among focus group participants is that private caucuses between the mediator and each of the parties are absolutely necessary in patent mediation. The majority of time in a typical patent mediation is spent in these caucuses; the parties usually do not spend too much time together, as a group, in joint sessions with the mediator. In some cases, for example those in which the party representatives are not on good terms, the mediator may (and perhaps should) separate them during the process. The mediator should try not to waste the parties' time; therefore, the mediator might leave one party with "homework" or something to think about while working with the other party in a private caucus. The mediator should always keep the parties apprised of what is happening procedurally as he or she orchestrates the process.

- **Party Representatives With Full Authority To Settle Must Be Present During Mediation**

  All focus group participants agreed that the presence of party representatives having full

settlement authority is essential to the success of a patent mediation. Beyond that consensus, however, there are a number of issues: Who has the authority to settle? Should the mediator refuse to proceed if authorized representatives are not present? Is it sufficient to have the representatives available by telephone, if not in person? Is it important to have the presence of "comparable" party representatives?

One of the attributes of mediation is its flexibility. Creative solutions not contemplated by party representatives before mediation may prove important in reaching a settlement after the fact. Therefore, it may not be possible to assure that a party's mediation representative has "full" settlement authority. Moreover, patent mediations often involve large companies as parties. Large companies may have to work (perhaps slowly) through a complicated process to decide who has the authority to settle. They tend to have various levels of authority, and management may not give authority to outside counsel or even to in-house counsel. Finally, it may be truly impossible for some large companies to make sure that a representative with full settlement authority attends the mediation since some corporate cultures have a consensus-based decision making style.

In these cases, the mediator must do the best that he or she can. The mediator can advocate for a representative with full settlement authority to attend. The mediator can insist that a business person, not just the general counsel, be present on behalf of a company. If only lawyers are present, resolution of the dispute may prove more elusive. It is essential to have the business people present and to have them actively involved throughout the process, especially those who are senior executives.

- **Telephone Attendance May Be Permitted If The Decision Maker Is Fully Informed And Prepared**

  One way to address a lack of physical attendance at the mediation by a party's ultimate decision-maker is to have the person with ultimate authority available by telephone. Telephone attendance works best when the party identifies the decision-maker who will not be present (*e.g.*, the CEO), prepares the

decision-maker in advance, and keeps the decision-maker up to speed during the mediation to minimize surprises. The decision-maker should be consulted before the mediation to discuss at least a range of acceptable resolution options. Thus, in all cases, a person attending the mediation should have full settlement authority within a given range. In some cases, creating a memorandum of understanding is the goal in mediation so the parties can go back to their respective managements for final approval.

As a further complication, there may be another entity not party to the litigation or underlying dispute (*e.g.,* a licensee, an investor, an insurer) to which one of the parties has an obligation. Should or must a non-party attend the mediation? Each party should at least identify all of the stakeholders on its side, speak to them in advance of the mediation, define settlement parameters, and get their buy-in. Such stakeholders also may be involved by telephone.

- **The Parties Should Be Represented By Persons Of Comparable Or Equal Authority**

  Another issue arises when the parties bring to the mediation representatives who do not have equal or comparable status. This imbalance may be reflected in settlement authority (*e.g.,* one party has a representative with full authority, the other does not); in stature (the CEO of one party attends versus a low-level manager of the other party); in numbers (one party has one representative while the other party has five); or in other ways. A party evaluating "is this worth it?" may conclude "no" unless a comparable counterpart from the other party will attend the mediation. A party may view lack of attendance by a peer as a signal that the other side has no interest in settling the case. One side may even be insulted (especially if cultural differences exist) by lack of poor attendance.

  Fortunately, pre-mediation communication can address the issue of incomparable attendance. The mediator should determine at the outset who is attending the mediation. By knowing which representatives are expected to attend, each party may "red flag" certain issues, and the mediator should address any problems that might arise at that time. If one party does not see a counterpart on the list of attendees, then

it should attempt to have that person attend. Disclosure of who is attending the mediation is critical; there should not be any surprises.

- **Handling The Mediation Where A Party Does Not Have The Authority To Settle**

  One of the biggest frustrations with mediation occurs when the parties reach a settlement and are ready to sign the settlement agreement, and one party announces that it does not have the authority to sign, but will have to get approval from someone who is not present. If a person with ultimate settlement authority cannot be present during mediation, should the mediation proceed? Unfortunately, outside of the context of court-ordered mediation, the mediator does not have the power to mandate attendance. While some would say that having the mediation occur, even without settlement, is better than not having the mediation at all, other mediators will not conduct a patent mediation unless a decision-maker for each party is present. Mediators note that settlement rates increase when business representatives with settlement authority are involved, since this involvement helps each party to "buy in." Stated alternatively, it is too easy to say "no" to an agreement when you have not been a part of the mediation process.

  With court-ordered mediation, the mediator may be able to exert more influence on attendance because the mediator has to report back to the court on the result of the process. Judicial orders to mediate in some jurisdictions have become very specific and stringent; the order may require someone with full settlement authority to attend. A party may be held in contempt if they fail to have a representative with sufficient settlement authority in attendance. To address that risk, parties should make sure they understand from the mediator in advance what the expectations regarding authority are, communicate that information appropriately, and bring the appropriate representatives to the mediation.

- **Litigators Should Promote, Not Interfere With, The Mediation Process**

  Since the principal purpose of mediation is to find a business solution to the patent dispute, and not to "win," mediation puts litigation

attorneys in a difficult position; they have to set aside their "gladiator" instincts and adopt the role of business advisors. Many focus group participants observed that, unless they act as problem solvers and not advocates, litigation attorneys are often counter-productive in the mediation process. Yet, there are a number of ways that they can improve the likelihood of a successful mediation. For example, in their mediation statements, advocates should acknowledge the risks of litigation, concede any weaknesses in their positions, and propose reasonable solutions. They should forego the temptation to make an aggressive opening statement, but rather use the opening as an invitation to negotiate. They should also make sure that their clients have an opportunity to speak as part of the joint session. This approach serves two purposes: (a) the parties, not the attorneys, need to vent their grievances before they can begin negotiations; and (b) they also need to focus on potential business solutions from the outset.

During the private caucuses, the litigation attorneys should not interfere with the mediator's efforts to evaluate the parties' positions. They should also avoid allowing artificial barriers to prevent the successful conclusion of the mediation (*e.g.,* by claiming that she/he or his/her client has a plane to catch, or using other excuses to cut the process short). They should also be prepared to paper the deal before negotiations start so that "wordsmithing" delays will not be an obstacle to a successful settlement agreement. Provisions relating to confidentiality, termination of the litigation, releases, etc. should be prepared in advance. Finally, litigation attorneys should assure their clients of the integrity of the mediation process and explain its key elements, such as achieving a mutually beneficial result with no clear winner or loser.

Recommendations for Mediating With Non-Practicing Entities

- **Mediation With NPEs Should Not Be Dismissed Out Of Hand; Many NPEs Are Amenable To Mediation**

  Mediations of patent disputes are complicated by the participation of non-practicing entities ("NPEs"). There are many different types of

NPEs; NPE business models have expanded from the original notion of a garage inventor enforcing his or her own patent for recognition to sophisticated businesses that acquire patents in quantity across diverse technologies for enforcement for profit using varying strategies. Unfortunately, some NPEs have engaged in business practices which have adversely affected their reputation.

An important characteristic of patent disputes involving NPEs is that NPEs rarely have products or services of their own, resulting in an asymmetric patent threat because patents of the defendant are rendered useless against the NPE. Before the recent Supreme Court decision in *eBay*, an NPE would often seek an injunction against patent infringement, although now the availability of injunctions in federal courts has been reduced. However, an NPE is generally motivated by damages and an injunction is merely a tool to increase leverage in license negotiations rather than the desired end result; if the defendant cannot make and sell anything, then the NPE is not entitled to royalties. Ordinarily, the seeking of an injunction might be considered an impediment to mediation of a patent dispute because a party might simply want marketplace exclusivity against a competitor defendant, but an injunction sought by an NPE is generally just a negotiating tactic. A significant obstacle to mediation with an NPE is that many companies, as a matter of policy, refuse to mediate with them regardless of the reputation of the NPE involved or the merits of its claim. This orthodox approach should be re-evaluated.

Until recently, NPEs also had a tendency to initiate multi-defendant litigation. The presence of many defendants can bog down mediation in disputes or administrative issues among the defendants. The America Invents Act included a provision preventing joinder of defendants based solely on the alleged infringement of the same patent. As a result, the rate of initiation of multi-defendant litigation by NPEs has dropped considerably. However, the Federal Circuit has since authorized joining of pre-trial phases of separate litigations relating to infringement of the same patents by different defendants. It is still too early to understand

how frequently this phenomenon will occur and the implications for the mediation of patent disputes.

Perhaps the largest impact of an NPE on the mediation of a patent dispute results from the relationship between the NPE and the defendant. In many disputes, the parties are competitors, customers of each other, or business partners (or all of the foregoing) and have a strong interest in resolving disputes amicably to maintain a good working business relationship. An NPE and/or defendant may have no expectation of a future business relationship and therefore have less motivation to seek compromise. Good relations may be important with respect to NPEs with large patent portfolios that repeatedly assert patents against the same defendants, although defendants may prefer to set precedent for the future (particularly with respect to patents perceived to be of poor quality or inflated damages expectations).

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