Arbitration and Mediation of Intellectual Property Disputes Today

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Types of ADR

- Mediation - a nonbinding procedure in which a neutral intermediary, the Mediator, assists the parties in reaching a settlement of a dispute
- Arbitration - a neutral procedure in which the dispute is submitted to one or more Arbitrators who make a binding decision on the dispute
- Others - Early neutral evaluation (ENE-objective third party evaluates the merits of each party's case), summary jury trials, mini-trials

Routes to ADR

- Voluntary decision of the parties
- Court-annexed
- ADR clauses

Court-annexed ADR in Federal Courts

What does Court-annexed ADR mean?

ADR programs that are authorized, implemented and administered by a Court

Court-annexed programs do not include:

Party-initiated proceedings outside the context of federal court litigation or proceedings, or proceedings conducted pursuant to an ADR provision in an agreement, whether conducted:

- ad hoc, or
- through an administering organization, such as WIPO, AAA, CPR, JAMS, LCIA, ICC, etc -- though a Court often compels ADR proceedings to occur through enforcement of an underlying ADR provision

Court-annexed ADR in Federal Courts

General characteristics:

- Sophistication of ADR programs varies across districts
  - Some districts, e.g., EDNY, have rather rigorous, well-developed programs with full-time ADR staff and case managers; others, e.g., DNJ, have simpler programs with no dedicated staffing
- Case entry (depends on Court program):
  - Sole discretion of Judge (mandatory referral)
  - Party request or Judicial referral with party consent (voluntary referral)
  - Selection (case suitability screening) by ADR staff
  - Automatic referral at early stage (e.g., after answer is filed)

Court-annexed ADR in Federal Courts

- Type of cases:
  - Mediation – nearly any civil matter (some exceptions, e.g., Constitutional questions, tax, prisoner's civil rights, social security, pro se)

    -Success rate:

    ✧<50% when Court ordered (e.g., mediation referral often occurs too early; parties entrenched and/or have unreasonable expectations); particularly successful if parties have an on-going relationship with each other of some sort; though empirically, patent cases have proven to be more difficult to settle through Court-annexed programs than non-Court-annexed

    ✧≥ 80% when all parties consensually agree to mediation on non-Court-annexed basis

    -Prior to signing a term sheet (abbreviated settlement agreement), any party can terminate its participation in a mediation at any time; though party must participate in mediation in good faith

Court-annexed ADR in Federal Courts

- Type of cases
  - Arbitration may be compulsory for cases with relatively small amounts in dispute (≤ $ 150K); Court may exempt case from arbitration sua sponte or on motion from any party (case is too complex, legal issues predominate over factual issues and/or for other good cause);
    -Within 30 days after award, any party dissatisfied with award may file demand for trial de novo; cost penalties may be assessed if party filing demand obtains less at trial than previously obtained through award
  - ENE, summary jury trials and/or mini-trials in some districts
  - Other approaches with Court approval and parties' consent

Court-annexed ADR in Federal Courts

- Parties can pick any Mediator they want, including from Court-approved list or not; Arbitrator is chosen by Court from its list of Arbitrators
  - Most Courts, e.g., EDNY, post lists of their neutrals to the Court's website
  - Some Courts use their own Magistrates as Mediators (e.g. USDC Dist. of Del.)

- Quick; Flexible; Very cost-effective
  - Common problem with arbitration: increasing "litigationalizing" of arbitration

Court-annexed ADR in Federal Courts

- Confidential

- District Judge (DJ) has no knowledge of what occurred in mediation; only that, if case returned to active trial docket, mediation was attempted and failed

- Magistrate or ADR coordinator supervises mediation and works with Mediator, and Magistrate makes all necessary rulings (if any)

  -Purpose: totally insulate DJ from any mediation activities and settlement offers made by parties so as not to prejudice DJ should the case return to DJ for decision

- Neutrals enjoy same level of judicial immunity as Judges; Neutrals can not be subpoenaed or compelled to testify

Court-annexed ADR in Federal Courts

- Some Federal mediation programs rely on “pro bono” Mediators to provide “equal access to Courts” (in practice, Mediators are only parties at table not being paid); others permit compensation (market rate, Court established hourly rate or pro bono/market or pro bono/fixed rate mix)
  - -ADR Act of 1998 left compensation to discretion of District Courts
  - -Courts are now realizing that not compensating Mediator is unfair and exploitive if parties (e.g., large corporations) can afford to pay
- Now approx 1.5 % of Federal cases go to trial (“vanishing trial” phenomena)
  - – down from approx 4 % in 1960s), increasing use of ADR processes is one factor facilitating this trend (approx. 250,000 civil filings per year 1995-2005; with approx. 2500-3000 patent cases filed/year)

Court-annexed ADR in Federal Courts

- Appellate mediation programs exist in Circuit Courts of Appeal, including Federal Circuit (no program, to my knowledge, exists in US Supreme Court)

  -Fed. Cir. Mediation pilot program started in October 2005 – still rather new

  -Very short list of Court-approved private Mediators (approx. 17) and 2 Court-based Mediators; currently private Mediators are only those who no longer actively practice law; parties can pick any Mediator not on list, but any Mediator must serve pro bono;

  -Fed. Cir. success rate is unknown as program is too new and data is too sparse; Mediator compensation issues exist in Fed. Cir. program (currently pro bono with minor or full cost reimbursement depending whether Mediator is on Court list or not) as some cases can consume significant amounts of Mediator time to properly handle

Mediator Selection

- Sources of Mediators:
  - Administering organizations (WIPO, CPR, etc.) (provide lists and screening assistance)
  - Court lists
  - Counsels' (law firms') lists of neutrals
  - Directories and various listings
  - Recommendations/referrals from others
  - Web search (e.g., Google)

Mediator Selection

- Type of Mediator desired:
  - Sufficient mediation experience/expertise
  - Substantive (technical) expertise necessary? (be careful of requiring someone with excessively narrow qualifications – person may not exist; mediations rarely require a Mediator to have the level of technical knowledge which the parties think Mediator should have)
    - ✧ Provides "level of comfort" to parties and Counsel – as Mediator is familiar with specific "linqua franca" of underlying technology, i.e., vernacular and basic "qualitative" technical concepts (though usually these aspects can be readily learned by any technically trained Mediator)
  - Success rate? (useless metric, as mediations succeed/fail for many reasons outside control of Mediator)
  - Mediation model used by Mediator
    - ✧ Interest-based (only one that makes sense for commercial disputes)
    - ✧ Transformational, etc.
    - ✧ Mediation style: Facilitative/Evaluative (in practice, this distinction, frequently made in the past in academia, is overly simplistic and naïve as any commercial mediation has elements of both, and mediation process is dynamic often requiring Mediator to switch styles as need arises)

Mediator Selection

- Selection Process:
  - "Beauty Contest" – Counsel should interview Mediator candidates (by telephone, in person if possible); in sufficiently important matters; Client representatives who will participate in mediation should also interview candidates (to see if proper rapport/"chemistry", comfort and trust exist between Counsel and client representatives, and Mediator; etc.)
  - Get references from each candidate (confidentiality obligations of Mediator regarding his(her) prior mediations may limit this to some extent) and talk with them

Co-mediation

- Very useful where:
  - Issues in dispute and/or facts are complex and/or numerous, i.e., when one Mediator is likely to be overwhelmed by having to deal with all issues and facts
  - Numerous parties/stakeholders

Co-mediation

- **Benefits:**
  - Splits mediation task between two Mediators (divided as Mediators see fit), thus simplifying effort of each Mediator
  - Mediators consult and collaborate with each other; each can "check" the other
  - Allows each Mediator to focus on different aspect(s) of mediation, e.g. one could be conducting session or talking to one party, other could view and assess parties and their reactions; both Mediators could conduct simultaneous caucus sessions with parties, thus saving time for overall process
  - Could split required expertise between two Mediators, e.g., one might have required technical/substantive expertise; other might have extensive mediation expertise

Co-mediation

➢ Concerns:

- Added cost (more than 2X charge of each Mediator, as some inefficiency is also incurred due to caucuses between Mediators, etc.)
- Same mediation model followed by each, e.g., Interest-based?
- Psychological considerations:
  - ✧ Generally, is each Mediator comfortable working with another Mediator? Can particular Co-mediators work with each other? Do they have similar work regimen and process approach to mediation?
  - ✧ Personality clashes or other factors might exist which may impede particular Co-mediators from closely and effectively interacting with each other
- May be difficult to find two proper Co-mediators; hence causing considerable delay

Pete Michaelson's general mediation process

- **Pre-mediation Activities**
  - Preliminary teleconference with all Counsel (discuss logistics, discuss process going forward – set up a separate "process" mediation, if necessary)
  - Separate confidential pre-session teleconference (or in-person meeting) w/each party and its Counsel
  - Targeted exchange of docs and very narrowly focused discovery (to extent necessary)
    - **Remember: Basic purpose of mediation is not to find truth, but to make a business deal that meets the parties' needs**; therefore very little discovery, if any, is required for mediation
  - Mediation statements submitted to Mediator
    - Highly confidential, not exchanged to encourage candor
  - Further separate telephone caucuses (meetings) with each party and its Counsel, as needed; Joint teleconference(s) and/or joint meeting(s), if beneficial, etc.

Pete Michaelson's general mediation process

- **Mediation session (joint session(s) and caucuses)**
  - Two days minimally are reserved
  - Opening joint session: presentations by business people first (may be first time business adversaries have met and/or discussed the dispute), Q&A of business people, lawyer presentations, Q&A of lawyers (no interruption rule)
  - Then, caucuses and/or more joint session(s) as needed – with their selection and timing depending on inter-party dynamics and context
- **Conclusion at session:**
  - If settlement reached, have Counsel prepare and sign term sheet before session concludes and parties and Counsel leave (Counsel can draw up a formal settlement agreement later)
  - If settlement not reached, schedule further sessions (telephonic and/or in-person) at a later date, etc. – be relentless until impasse or settlement reached
  - Report back to Court (Magistrate or ADR coordinator) merely to state that session was held and whether or not case was resolved, and other status info
- **Request Court's/Provider's assistance, if and as needed, throughout process**

Take-away Thought about ADR:

"You can't always get what you want ...

But if you try sometimes well you just might find

You get what you need."

"You Can't Always Get What You Want"

Rolling Stones

http://www.youtube.com/watch?v=mKFsXJbFB_o