

Alternatives to Litigation

A discussion of mechanisms that may be employed to settle licensing disputes

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"I must say that, as a litigant, I should dread a lawsuit beyond almost anything else short of sickness and of death." Judge Learned Hand.

If Judge Hand were alive today, he might dread a lawsuit even more than sickness or death. The number of federal civil suits filed per year in the United States since Judge Hand sat on the bench has increased at an alarming rate. Chief Justice Warren E. Burger of the U.S. Supreme Court in his 1982 Annual Report on the State of the Judiciary announced that from 1940 to 1981 the number of civil cases on file increased from about 35,000 to 180,000, nearly doubling the case load per judge from 190 to 350 cases per year. Justice Burger stated that this litigation explosion emphasizes the need for "mechanisms [other than litigation] that can produce an acceptable result in the shortest possible time, with the least possible expense and with a minimum of stress on the participants."

Although it is recognized that the mechanisms called for by Justice Burger are needed, the problem seems to be just what "mechanisms" should be used. Business executives and lawyers, those most often involved in disputes, have different ways of looking at how to deal with disputes. Lawyers are trained and work in an adversary environment that is at odds with the concept of settling lawsuits. This adversary stance can be an obstacle to settlement and the hourly fee system rewards legal wrangling rather than negotiation and settlement. Partly for this reason, \$80 billion are spent annually on intercorporate litigation and discovery.

Business executives, on the other hand, tend to be problem solvers and weigh the practical realities of a dispute with an eye to resolving the dispute. Lately, business executives have become aware that commercial litigation takes them and their staffs away from the operation of their business and inflicts substantial stress on everyone concerned as well as substantial expense. In recognition of the stress, expense and the effects of the litigation explosion in the courts, corporations have started a quiet revolution in the way lawsuits are being handled. More and more, disputes are being managed rather than immediately litigated. Business executives are learning that blank check,

look-under-every-rock litigation techniques are not the only way to resolve disputes and many new techniques, collectively referred to as alternative dispute resolution procedures, have been created.

The objective of these alternative procedures is to make available private processes and practices that provide the same or better-quality outcome than that provided by litigation at a lower cost. This objective is accomplished in most of the alternative procedures by the inclusion of the parties' business executives either as participants or as jurors. By becoming participants, business executives bring their negotiation skills and knowledge into the dispute which makes settlement more likely or at least narrows the issues and reduces the cost.

Although many alternative procedures are available, there are six that have been used extensively and are considered successful. These procedures are: arbitration, minitrial, summary jury trial, private judge or rent-a-judge, voluntary settlement conferences, and private organizations. It is possible to include a clause in a technology transfer license requiring the use of one of these procedures to resolve any dispute under the license. Before drafting such a clause, however, an understanding of each of these procedures is necessary. To assist in this understanding, a brief description of each procedure will be provided.

ARBITRATION

Probably the oldest and most often mentioned alternative procedure is arbitration. Until recently, arbitration was not included in licenses involving the transfer of rights in patents. The federal courts have universally held that the question of patent validity could not be arbitrated since it was a matter of great public interest and, therefore, was a question to be decided only by the courts. Although the issue of patent infringement has been generally considered a question of fact that could be decided by a fact finder other than a court, the courts have tended to treat infringement in the same manner as validity and ruled that the issue of infringement was also not subject to arbitration. In response to efforts by intellectual property owners and comments by the judiciary requesting alternatives to litigation, the U.S. Congress in August 1982 enacted a new statute (35 U.S.C. §294) to overcome prior judicial holdings that patent issues were inappropriate for resolution by arbitration.

Under the new statute, parties to a license may include a provision requiring arbitration of patent validity or infringement. If a license does not include a provision for arbitration, under the new statute the parties

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to an existing patent dispute may agree in writing to settle the dispute by arbitration. Arbitration under the new statute is governed by the Federal Arbitration Act, 9 U.S.C. §1 et seq., and it is suggested that any license clause drafted in accordance with the statute provide that the arbitration be conducted in accordance with the rules of the American Arbitration Association. The license should also designate the particular arbitrators; otherwise, the court is authorized to designate an arbitrator. Designation by a court may not be desirable because an arbitrator designated by the parties may not be disqualified for interest or bias. An award by an arbitrator designated by the court, however, may be vacated if bias or partiality is demonstrated.

Disadvantage

Although the secrecy, informality, speed and inexpensive expertise of arbitrators make arbitration a highly desirable alternative procedure to litigation, there are many disadvantages that may lead parties to select other procedures. One disadvantage most often voiced is that arbitrators frequently split the difference between the parties rather than decide clearly in favor of one or the other party.

More serious disadvantages are evident upon examination of the procedural mechanics of arbitration. Although the arbitrator may decide both fact and law questions, he need not be a lawyer. Non-lawyer arbitrators may be inclined to deal with the facts rather than determine threshold legal issues such as the statute of limitations.

In arbitration there is no procedure for obtaining information from the other party beyond the ability of the arbitrator to compel production of witnesses and documents at the hearing by subpoena. Significantly, the rules of evidence and civil procedure available in litigation are not mandated in arbitration and each party need only be afforded a full opportunity to hear and present evidence. For example, hearsay and inadmissible evidence can be accepted by the arbitrator. Although arbitration rules allow the grant of injunctions, the arbitrator does not retain jurisdiction after the grant leaving the enforcement of an injunction to a court unfamiliar with the original dispute.

Even the advantage of a speedy and inexpensive decision by an arbitrator does not always accrue to the parties. Arbitrators are not judges and do not devote full time to hearing a dispute. Hearing days are scheduled at the convenience of the arbitrator. These factors may result in an arbitration that can take months to conclude.

The numerous disadvantages of arbitration seem to indicate that arbitration would not be a preferred alternative procedure to litigation. To determine if intellectual property owners preferred arbitration as a means of resolving disputes, a recent study was conducted through questionnaires distributed to 150 corporations. The study indicated that only 25% of the responding corporations had used arbitration to settle patent, know-how or licensing disputes while 70% had used litigation.

To determine if the dollar amount involved in the dispute influenced the decision to use arbitration or

litigation, different dollar figures were included in the questions. If the dispute involved less than \$100,000, 69% of the responding corporations stated they would agree to arbitration on the issue of patent validity. As the dollar amount was increased to more than one million, the percentage dropped to 10%.

The figures from this survey seem to confirm what many lawyers and executives have said in the past about arbitration. There is a greater willingness to use arbitration when patents are not directly involved or the dollar amount involved in the dispute is not high.

MINITRIAL

The general reluctance to use arbitration has resulted in the creation of other dispute resolution procedures. One of the newest and most talked about procedures is the minitrial. Whereas arbitration is similar to litigation in that executives are not participants, the philosophy of the minitrial is that if an executive, house counsel or a financial person from each of the litigating corporations, constitute the jury, they could likely settle the dispute after hearing the lawyer's opening statements. The goal of the minitrial by the inclusion of executives is to produce a speedy, cost-effective resolution of the dispute by narrowing the issues, promoting a dialogue on the merits rather than on dollars, and reconverting what has become a typical lawyer's dispute back into a businessman's problem.

There are two basic forms of minitrials. Both involve the participation of a neutral, respected third party or neutral adviser assuming the role of either an arbitrator (binding minitrial) or a mediator (non-binding minitrial). A binding minitrial is most useful in disputes in which the parties have a desire to save money and time by narrowing the issues. In a binding minitrial, the parties have agreed to resolve the dispute but cannot agree on one or two narrow issues. The neutral third party is asked, in this situation, to render a binding decision on those one or two narrow issues. The non-binding minitrial is more effective in disputes in which the parties have not agreed on the structure of a resolution. The function of the neutral third party in a non-binding minitrial is to focus the parties on the key issues and to suggest a workable resolution.

Experience to date indicates that minitrials are best suited for existing, ongoing disputes between two businesses, rather than multiple party disputes in which constitutional issues, novel questions of law or issues of witness credibility are involved. Minitrials are particularly successful in disputes involving complex questions of mixed fact and law where the facts are technical and require expert analysis and testimony. Intellectual property disputes often have these characteristics but may also include several causes of action and defenses. The cumulative burden of prevailing on all of several issues is likely to hamper any negotiation making a minitrial less suited for such a dispute.

The mechanics of use are the same in either form of minitrial. Prior to the minitrial, a neutral advisor is selected and expedited, limited discovery takes place with the adviser ruling on all discovery disputes. The minitrial is confidential consisting of informal sum-

mary presentations by lawyers and experts for each party of the party's best case. Rebuttal and questions follow each party's presentation. Management representatives having authority to settle for each party attend the minitrial and the jointly selected neutral adviser presides over the proceeding.

Decision

In a binding minitrial, at the conclusion of the presentations, the neutral adviser renders a binding decision on the one or two issues presented to him. In the non-binding minitrial, at the conclusion of the presentations, the management representatives meet to discuss settlement. If settlement is not reached and there are no prospects for settlement, the neutral adviser drafts a non-binding opinion as to the likely outcome of the dispute if it were to go to trial.

In order for the minitrial to be a success, the presentations should be structured so that experts and inventors present and discuss the invention and the prior art, executives present and discuss commercial success and attorneys present and argue the law. Most important to the success is that the parties and their attorneys must generally want to resolve the dispute and must be willing to make some compromise. If the dispute is hotly contested involving considerable emotional involvement, there is little hope of accomplishing much in a minitrial. With a high level of hostility it is doubtful that the parties can agree on things such as selecting an adviser, narrowing the issues, compacting discovery or agreeing on how the minitrial will proceed.

In most of the minitrials conducted to date, if the dispute is in litigation, the parties have not informed the court that they have agreed to a minitrial. Consequently, there is significant concern regarding the confidentiality of the proceeding. It is possible that whatever is presented at the minitrial will also be introduced in a subsequent trial between the parties if the minitrial fails. It is also possible that whatever is presented at the minitrial will be introduced at a later trial between one of the parties to the minitrial and a third party.

Several theories for protecting the confidentiality of the proceedings of a minitrial have been suggested. Despite these suggestions, there is very little judicial precedence regarding the protection of confidentiality of minitrial proceedings and one would be prudent not to expect to protect any information disclosed during a minitrial.

As in arbitration, it would be desirable to include a clause in a license agreement providing for a minitrial if a dispute arises, but is such a clause enforceable? Such clauses have been included in international joint-venture agreements and in the Coal Grievance Program but there are no judicial interpretations of these clauses. Moreover, it is argued that since settlement of a dispute is voluntary, the failure of one party to participate in a minitrial as agreed to in a license does not damage the other party except to the extent of any expenses incurred in preparation for a minitrial. The defaulting party may have to pay these expenses but would not be required to participate in the minitrial. In view of the lack of authority on minitrial agreements,

it is best to enter into such an agreement with the understanding that it may not be enforceable.

SUMMARY JURY TRIAL

Arbitration and minitrials are normally entered into voluntarily and are often conducted without a court's knowledge. A summary jury trial, however, is normally imposed on the parties in a lawsuit by the court with an official of the court as a participant. The first summary jury trial was conducted by Judge Thomas D. Lambros of the Northern District of Ohio, the "inventor" of the summary jury trial, on March 5, 1980. The majority of summary jury trials since that date have been in personal injury cases.

Presently, there are two district court judges conducting summary jury trials—Judge Lambros and Judge John J. McNaught in the district of Massachusetts. Judge Lambros' summary jury trial is a half-day proceeding during which an attorney for each party is given one hour to summarize his case before a six-member jury. Attendance by an executive of each party is expected, but leave may be sought to excuse attendance if attendance would result in a hardship. Unless agreed to otherwise by the parties, the jury's verdict is advisory only and the summary jury trial in no way affects the parties' right to a full trial on the merits.

A summary jury trial in Judge Lambros' court is presided over by the judge or a magistrate. A court reporter is optional. A 10-member jury panel is presented to counsel with a short character profile of each juror that includes the juror's name, occupation, the name and occupation of the juror's spouse, ages of the juror's children, the juror's previous knowledge of any parties or counsel and any adverse attitude of the juror toward the nature of the action. Each attorney is then given two challenges to arrive at a final six-member jury. Once a jury has been selected, each attorney is given one hour to present his client's view of the circumstances.

There are only a few evidentiary and procedural rules in summary jury trial. Any facts alluded to in the presentations must have a basis in an item that would be admissible in a regular trial. Motions regarding the presentations are also entertained and ruled upon prior to the summary jury trial, since objections during the summary jury trial are not encouraged. At the summary jury trial, exhibits may be shown to the jury. There is no examination of witnesses during the proceeding but counsel may describe the testimony of witnesses and short passages of depositions may be read aloud.

Instructions

At the conclusion of the presentations, the jury is given abbreviated instructions that do not include boilerplate instructions such as those on the demeanor of the witnesses. The instructions do not necessarily state all of the applicable law. The jury then deliberates and is encouraged to return a consensus verdict but it may return a special report that anonymously lists each juror's findings on liability and damages. In complex cases, the jurors may be called

upon to make rulings on separate issues. After a jury ruling, each counsel is given five minutes to discuss with the jury the reasons why they arrived at the ruling.

Judge Lambros has discovered that it is not reasonable to expect the parties to settle the dispute on the day of the summary jury trial and he allows two weeks for the parties to consider the results of the jury's ruling and arrive at a settlement. If the suit is not settled, a pretrial conference is held with the judge to discuss settlement. If the suit is not settled at the pretrial conference, a trial is set to be called within the next 30 to 60 days.

Judge McNaught employs a modified version of Judge Lambros' summary jury trial. In Judge McNaught's summary jury trial, the attorneys may directly examine witnesses but cross examination is not permitted. Judge McNaught has stated that he selects cases for summary jury trial that are not too complicated; preferably, those involving simple contract or tort issues. After the attorneys' presentations, one of the judge's law clerks instructs five jurors on the law and presents questions on which the jury's advisory opinion is sought. The jurors are given 30 minutes for deliberation during which time the judge is present in the deliberation room. During this time, the judge does not speak unless the jurors have a question pertaining to the law.

The summary jury trial procedure has proven very successful. Judge Lambros has experienced an 80% settlement rate for those cases assigned to the summary jury trial. The success rate for Judge McNaught, however, has not been as high.

Judge Lambros believes that in a summary jury trial the court is calling upon the jurors to provide their peculiar expertise in a situation where that expertise is vital. This expertise, Judge Lambros has found, is vital in those cases where the only bar to settlement is the uncertainty of the perception of liability and damages by members of the jury. It is in this type of case that Judge Lambros (and apparently, Judge McNaught) wishes to give counsel for the parties a chance to sound out a lay jury on the jury's perception of liability and damages without affecting either parties' right to a trial on the merits and without a large investment of money.

To date, the majority of cases that have been through a summary jury trial have been personal injury suits. Judge Lambros, however, is of the opinion that any case, complex or not, is suitable for a summary jury trial if the case would normally go to a jury and all pretrial procedures have been exhausted. Judge Lambros believes a case should not be assigned to a summary jury trial if the case is likely to set judicial precedent, includes a government officer or agent as a party, the credibility of a witness is questionable, or when expert witnesses are necessary.

In a study of summary jury trials in Judge Lambros' court, the attorneys and jurors were surveyed as to their opinion of the proceeding. Generally, the attorneys believed that the proceeding resulted in a quicker and satisfactory settlement but several attorneys were of the opinion that an abbreviated charge to the jury affected the outcome in complex cases. The jurors surveyed believed that the proceeding is inap-

propriate if credibility of a witness is important and suitability of the proceeding decreased as the complexity of the case increased. As a result of the survey and other information gathered, it has been recommended that the summary jury trial should continue and should be utilized in other courts. It has also been recommended that the procedure should not be used in those cases where there is more than a single plaintiff and a single defendant or in those cases in which the truthfulness of a witnesses' testimony plays a central role.

A private summary jury trial is available to parties to a dispute through one of the private organizations mentioned later or as set up by the parties. A clause may be included in a technology transfer license to provide for a summary jury trial in a dispute under the license but the enforceability of the clause is the same as discussed with clauses providing for minitrials.

RENT-A-JUDGE

A dispute resolution technique that has many similarities to arbitration and minitrials is used primarily in California. This technique involves a private judge and has been termed "rent-a-judge." A 110-year-old statute allows a court, with the agreement of the parties, to "appoint anyone it deems qualified to act as referee to try any and all of the issues in the action, whether of fact or of law, and to report a finding and judgment thereon" or "to ascertain any facts necessary to enable the court to determine an action." This statute has been interpreted to permit litigants to have their case heard privately by a judge, usually retired, or their own choosing.

Under the California Code, the case is referred to an impartial referee that is usually a former judge. If the parties wish, however, they may mutually select the referee. It is recommended that the parties select the referee since retired judges may not always be the best choice if the dispute does not turn solely on legal issues. For example, in technology transfer matters, a technical referee may be desirable. In any event, the parties split the cost of the referee.

Once a referee is appointed, he has all the powers of a trial judge except contempt power. The referee must follow the applicable substantive law and the rules of evidence and must submit a written report to the trial judge within 20 days after the close of testimony. Unlike arbitration and minitrials, however, the decision of the referee is subject to appeal to the same extent as a court judgment. The "rent-a-judge" procedure provides an expert, mutually-selected judge, and reduces the delay while allowing privacy of the proceedings since only the findings and conclusions are reported. This procedure, however, is very much like a trial and the executives of the parties do not participate although they may attend as observers as in a regular trial.

The "rent-a-judge" procedure has been subject to some criticism. The procedure has been termed a denial of due process and Justice Bird of California Supreme Court has denounced the proceeding as a "quasi-private judicial system for the wealthy." Because the proceeding is private, it is questioned whether third parties have any rights, particularly since third parties

may not learn of the proceeding because it is private. There is also a question as to whether there is a right to a jury using this procedure.

In response to these criticisms, it is asserted that parties have a constitutional right to enter into contracts and to settle their contractual disputes privately either through settlement or arbitration, or both. Moreover, both federal and state statutes encourage arbitration which is what "rent-a-judge" really is. It would appear that the "rent-a-judge" procedure is certainly available by agreement or by a license clause to parties in a dispute since it is very similar to a binding minitrial.

VOLUNTARY SETTLEMENT CONFERENCE

A procedure that at first glance does not seem to be a dispute resolution procedure but should not be overlooked is a voluntary settlement conference with the judge in charge of the litigation. It is believed by several members of the judiciary that officers of corporate litigants are often not aware of the facts of contemporary litigation and if they were made aware by inclusion in the dispute, they might push to resolve the dispute through alternative means. Judge Robert E. Keeton of the district court for the District of Massachusetts recommends that corporate officers attend a voluntary settlement conference at which the judge educates the officers as to the facts of contemporary litigation. He suggests the officers be informed that incorporate litigation often requires two or more weeks of trial and that it is at least four years after filing the lawsuit before trial occurs. Judge Keeton also recommends that corporate officers be provided with a reasonable idea of the cost of the litigation.

Judge John F. Grady of the district court for the Northern District of Illinois is also of the opinion that voluntary settlement conferences should be held with the option to direct officers of the parties to appear. Judge Grady suggests that an officer of each party come to the conference with some idea of what the party would be willing to give to settle the litigation and that an effort be made at the conference to bring the settlement positions of the parties together.

The settlement conference is certainly a less expen-

sive way to explore the resolution of a dispute and with a judge presiding, an earnest attempt by the parties to arrive at a settlement is more likely.

PRIVATE ORGANIZATIONS

In response to the increased awareness of the need for alternative dispute resolution procedures, several private organizations have been established. Two of these organizations are the Center for Public Resources, Inc. and Endispute, Inc. The goal of these organizations is to provide the same or a better-quality outcome than provided by the courts at a lower overhead cost. These organizations attain this goal by providing nonjudicial resolutions through arbitration, mediation, conciliation, negotiation, private trials, minitrials, voluntary settlement conferences and summary jury trials. Each of the mentioned organizations has established judicial panels composed of well known lawyers and former judges who will serve as arbitrators, mediators, conciliators or neutral advisers.

Once retained, these organizations will assist the parties in a dispute to evaluate the different dispute resolution procedures, assist in the negotiation of an agreement on the proceedings, assist in selecting a neutral adviser from the judicial panel and, if necessary, a jury for a summary jury trial and conduct the proceedings. In short, these organizations will provide everything needed for going forth with any of the alternative dispute resolution procedures.

Most likely, reaction by lawyers and executives to the various alternative dispute resolution procedures will be similar to their reaction to arbitration—very cautious. These procedures, however, seem well suited for technology transfer disputes in which only a single issue is in dispute and the amount of damages is low.

As experience is gained, the use of the alternative dispute resolution procedures can be expanded to more complex cases with larger damages at stake. One common feature of the majority of alternative dispute resolution procedures is the active involvement of business executives from each party in an evaluation of the dispute. When business executives are involved, the cost of resolving the dispute most likely will decrease no matter what procedure is used and even if litigation is the final means of resolving the dispute.