Vol. 69 / No. 1
2014

DISPUTE RESOLUTION JOURNAL

American Arbitration Association®

International Centre for Dispute Resolution®

Mediation.org™

DISPUTE RESOLUTION JOURNAL

Web Site

The *Dispute Resolution Journal* (**DRJ**) is available through its Publisher, JurisNet, LLC at www.arbitrationlaw.com and at www.jurispub.com.

Submission of Manuscripts

The American Arbitration Association actively seeks articles of high quality addressing current issues in dispute resolution. For article contributions, please e-mail your submission to Ted Pons, Vice President of Publications & ADR Resources/AAA Education Services, American Arbitration Association, at **PonsT@adr.org**.

Manuscript submissions should be accompanied by an assurance that the article has not been previously published or accepted elsewhere or an explanation as to how this submission differs from that previously published (*e.g.,* entails an excerpt from a previous publication or includes material not previously included). In circumstances where the article was published elsewhere, the appropriate permissions to reprint must be obtained by the author prior to submission

Subscriptions

A subscription to the *Dispute Resolution Journal* comprises four (4) issues per year and costs $195 annually for USA customers, $225 for international customers. Pricing includes shipping and handling. Subscription includes online access to the *Dispute Resolution Journal* archive from 1965 to the Present. Further information can be found on our website: www.jurispub.com. Please direct any queries to subscriptions@jurispub.com.

Permissions

To request permission to reproduce any article or information contained in this journal, please contact JurisNet, LLC, 71 New Street, Huntington, NY 11743, USA, Tel: (631) 350-2100, Fax: (631) 673-9117.

ISSN 1074-8105. For reference, this issue may be cited as Dispute Resolution Journal, Vol. 69, No. 1, JurisNet, LLC, Huntington, New York.

AMERICAN ARBITRATION ASSOCIATION®

INTERNATIONAL CENTRE
FOR DISPUTE RESOLUTION®

Mediation.org™

WHY ARBITRATE HIGH-TECH CASES? AN ADR PRIMER FOR HIGH-TECH EXECS

*Raoul Drapeau**

THE AGREEMENT

Let's say you're an executive in a high-technology firm, and you negotiated a business agreement with another firm. You are excited because the agreement will bring attractive profits now and set the stage for a long-term relationship that will expand your marketing into new places.

Perhaps the other company is your customer, supplier, licensee, partner or even a competitor. Whatever the case, your attorney went over the many detailed terms with the proverbial fine tooth comb and it passed legal muster.

After it was signed, you read something about Alternative Dispute Resolution (ADR) and wondered whether an ADR clause to deal with disputes should have been in the contract. It's unlikely that your attorney didn't know about that possibility—it's more likely that she thought that because of the finality of a binding arbitration award, you shouldn't give up in advance the right to appeal any decision. Or perhaps she knew that the very lack of finality in mediation would mean that if a settlement is not reached, the whole matter would have to be re-argued in a different forum. Or maybe she thinks that there might not be any savings in money or time over litigation.

In any case, it's too late now, and the business arrangement will have to proceed without an ADR clause in the agreement.

A DISPUTE ARISES

Inevitably, some months or even years later, a dispute arose between your two firms. Maybe they didn't deliver the host computer system you had ordered on time and that threw your business into a tailspin—or they didn't accept your communications system, claiming that it didn't meet the specs. As hard as you and their executives tried

* **Raoul Drapeau** has an interdisciplinary background in high-technology business management and product development, teaching and lecturing. He is an active inventor and author. He has served on AAA's Commercial Panel since 1980 and also on the Large, Complex Case and Technology Panels.

to resolve it, you could not. Positions became too entrenched. In addition, there may have been other people in your or the other firm who uttered the fateful words, "we should go to the mat on this one."

At this point, your attorney should be advising you about the potential cost of following such a go-for-broke strategy. The costs for pursuing litigation can be staggering, particularly in a case involving complicated technology. You will need to call numerous expert witnesses to testify at court to provide background and educate the jury, and experts don't come cheap. Then there are the witnesses who will need to be deposed, and that will eat up attorney fees, stenographer time and travel expense. There will be many delays to accommodate the schedule needs of all the participants. And then there is the uncertainty as to which forum (including perhaps which country) and judge will hear your case and whether it will even be enforceable in all the places you do business.

Your decision to forgo ADR isn't looking so good any more. Maybe you wish that you had insisted on an ADR clause in the agreement after all. But all is not necessarily lost. You could always propose to the other side that you agree to arbitrate the case instead of litigating it by negotiating an ADR agreement now—after the fact. However, that is a hard thing to do, because positions may have hardened by now. And since the business conditions may have changed since the agreement was signed, they man not be willing to give up the option of appealing the award in case they lose. So, that horse may have left the gate.

WHAT'S SO SPECIAL ABOUT HIGH-TECH FIRMS, ANYWAY?

A firm in any business can become embroiled in a thorny dispute that takes the best minds of the executives to try to resolve. But this article is about a particular kind of firm for which ADR is an even better choice than it might be for less-technologically oriented firms; namely the high-tech firm. What constitutes a high-technology firm may be partly in the mind of the beholder, but there are several commonly-recognized examples, such as pharmaceuticals, electronics, computer, software, communications and aerospace.

One aspect of all these firms is that their business is rapidly evolving and is becoming ever-more global in nature. As such, they must establish and maintain business relationships with other firms in

many countries. This means that there will be frequent opportunities for communications breakdowns, language, legal and cultural differences and eventually, disputes. A difficult dispute between two firms that is brought to litigation can disrupt these long-standing business relationships. Unless the forum and rules for resolving them are decided in advance, those differences can be overwhelming. Trying to resolve a thorny dispute in court means that the cost, delays and disruption to the business could put the participants in a disadvantageous competitive position.

Another key aspect of high-tech firms is their reliance on intellectual property—patents, trademarks and trade secrets. If other companies in the same field believe that your intellectual property assets are in question due to the dispute, it can affect potential new relationships as they and the rest of the industry wait for the matter to be resolved.

In addition, most high-tech industries like yours have the added characteristic that their business is rapidly evolving, making it important to resolve disputes quickly so that the competition will not pass them by and business opportunities be lost. This aspect is especially important when the dispute involves patent rights, which have limited terms and so are very important in establishing a commanding market position in technology-oriented businesses.

A run-of-the-mill commercial dispute (if there is in fact any such thing) will usually involve such issues as breach of contract for incomplete or defective work, non-payment and lateness. Even in a complicated construction case, there are standards and codes that govern behavior of parties, and it should not be difficult to show that something bad did or did not occur.

But in high-technology matters, because of the very investigative and explorative nature of your business and the driving need to stay ahead of the competition, your company is often operating at the very edge of common knowledge. The fact that your business is so complicated and esoteric, means that it can take someone familiar with that particular business, or at least technology in general, to even understand the claims at issue in the dispute. That fact should make the idea of your turning the decision-making power over to a jury of laymen downright scary, since you want to achieve an award that is based on solid comprehension of the evidence.

WHY ADR?

So why not just take them to court? When there is an intractable dispute, there are many advantages to choosing ADR instead of litigation. First is the cost; studies[1] have shown that when the rules agreed to by the parties give the neutrals flexibility in controlling the kind of adversarial tactics common in litigation such as open-ended discovery, the costs can be significantly less than in litigation.

The second benefit is in time. ADR is inherently less formal than litigation, with its complex rules of evidence. ADR allows for the parties to choose their own location, schedule and duration of the hearings. The process will not be interrupted or slowed because of the unavailability of a courtroom, judge or jury, and the compression of time can be crucial because of the fast-moving nature of the business.

This is not to say that arbitrations cannot take longer than a courtroom trial. They can and have. But if the rules established in the original agreement are tightly written, and the presiding neutrals are alert to abuse of the process, then the ADR should take significantly less time.

In addition to these time and money advantages of ADR, if disputes can be resolved quickly and without the rancor that often comes with litigation, then confidentiality and the established relationships that are important to your ongoing business can be preserved.

All of these characteristics point to the fact that while parties may not give much attention to dispute resolution while negotiating a contract agreement, the special needs and characteristics of your high-technology business including the importance of IP and the difficulty of resolving resulting disputes, means that ADR clauses take on a special importance.

THE RULES

Arbitral associations like the American Arbitration Association (AAA) and the World Intellectual Property Organization (WIPO) have well-developed evidence and hearing rules that are most often used as-is. However, there is nothing that prevents parties from modifying those rules to suit their own needs. However, if you do so, the best time to do it is while the original contract is being negotiated, not after a dispute arises. This option is particularly useful in high technology cases where

[1] Tom Arnold, *Patent Alternative resolution Handbook,* 1991.

the cases are complex to begin with and setting rules that allow for maintaining confidentiality of business methods and IP can be crucial.

MEDIATE OR ARBITRATE?

Just as in any commercial dispute, there are several choices for dispute resolution in addition to litigation. They include mediation and arbitration, each of which can come in different variants. In technology cases however, the relative attractiveness of one versus another can be different from in a typical commercial, non-technological case.

It is not necessary to specify just one form of ADR, since a logical course of action commonly specified in agreements is to call for mediation first, and if that fails, then employ binding arbitration. Accordingly, most ADR clauses call for arbitration to be invoked if the parties are not able to resolve the dispute by other means.

So, the best course of action when you negotiate an agreement is to make sure that there is an alternative dispute clause, and that it addresses which form(s) of ADR will be used and when they may be invoked.

BINDING ARBITRATION

A key difference between litigation and binding arbitration is the inability of one party to appeal an award on the merits, except under exceptional conditions. Some corporate attorneys may view that as a disadvantage, wanting to keep their options open, but executives in those high-tech companies who choose to resolve their dispute with binding arbitration, know that win or lose, when it's over, it's over. That is a real advantage in cost and time.

While it is possible to employ non-binding arbitration, what's the point? It's likely to take longer and cost more than mediation, and in the end there would be no enforceable award.

MEDIATION

Although both arbitration and mediation are considerably less formal than court-based litigation, mediation can offer an even greater flexibility in format and approaches. Arbitration usually follows a set procedure of document exchange, briefs, preliminary and evidentiary hearings, more briefs and finally, an award.

On the other hand, a mediation can be as simple as the two parties sitting down with the mediator and presenting their arguments. The mediator can act as a facilitator, in which case it is much like "shuttle diplomacy" in which the neutral delivers proposals from one side to the other. Such an approach might be called for if the parties are at emotional loggerheads with each other and are not on speaking terms.

Alternatively, the neutral can have both parties in the same room, listen to their arguments, and try to expand their thinking to help formulate new options. Because of her knowledge of the industry's norms, an effective neutral should be able to guide the parties towards a settlement.

Note that there is no award in a mediation. When it's over, the best that can be hoped for is that there will be an agreement between the parties that settles the dispute. The worst is that you start all over again, or submit the dispute to arbitration or litigation.

ADR COMBINATIONS

Some parties will agree to a combination or sequence of ADR methods. For example, they may agree to mediate first, and if that is unsuccessful, go to arbitration. However, this approach may prove expensive to implement if the same neutral is not used for both phases, thereby necessitating repeating the whole process of evidence presentation.

On the other hand, the parties may be reluctant to use the same neutral for both phases, because in an attempt to compromise during mediation, they may disclose information that they would not disclose in an arbitration.

One way to handle this conundrum is to conduct an arbitration first and for the neutral(s) to prepare an award based on the evidence presented. The award is held in abeyance and is opened by the parties only if they do not reach agreement during a subsequent mediation. Providing that the rules allow this kind of procedure, it does give the parties an incentive to successfully negotiate during the mediation.

CONFIDENTIALITY

Since courtroom proceedings are generally public, this fact adds another layer of danger to the undesired release of confidential information. Trade secrets and intellectual property requirements make dealing with discovery demands during litigation problematical.

During arbitration, you may need to implement non-disclosure agreements during the document exchange process to protect business secrets. Unless the arbitrator(s) are judicious in deciding what requests are allowable, the trade secrets, one of the most important assets of a high-tech firm can be compromised.

EVIDENCE COLLECTION

And then there is the collection of written evidence; definitely a potential major effort with accompanying expense. You know that you already have in hand many documents that you believe will help make your case. But your attorney advises that there are probably many more that you don't even know about that would be helpful—even crucial. The problem is that you don't know what they are or even that they exist. But your attorney advises you that you should subpoena anything and everything that might be relevant. And naturally, the other side will be doing the same thing to you. Tit for tat.

So, legal papers go out demanding that the other side submit all documents that might relate in any way to the contracted business, written by whomever and whenever. This activity can easily take them (and you) many months to find and assemble and result in multiple, huge three-ring binders, each of which requires the lengthy involvement of your attorney's paralegal staff—and copying machine. The bills continue to mount.

The intent of arbitration as a dispute resolution means that there will be calls for document production, rather than discovery. That is, if you know of the existence of a particular document for example, you can call for it to be provided. But if you just want to discover what evidence might exist that you don't already know about, the arbitrator(s) and the agreed-upon rules should not allow that. However, it can be easy to lose track of that goal, and the neutrals have to be on the alert for creeping fishing expeditions. Specifically, in the original agreement, the neutrals should have the power to define the limits of document exchange. In most cases though, the parties already know of the existence of, or already have whatever documents they need, and there are few if any 'hidden' documents that are crucial.

In addition to the costs of various legal professionals in building a case, don't forget that there is also the diversionary impact of those efforts on your executives and employees who will of necessity

become involved in responding to discovery demands, testifying and preparation of evidence and materials.

In fast-paced high-technology businesses, these diversions can adversely affect the development and introduction of new products—in short, pose a competitive disadvantage.

As the costs for this fishing expedition begin to mount, you begin to wonder whether litigation, with its open-ended discovery was the right choice. Even if you win, the other side may appeal and in that case, so not only will costs continue to add up, but during appeal your attorney will likely have to re-argue the whole case, inflicting yet more damage on yourself.

ONE OR THREE?

The number of neutrals is usually determined in the arbitration clause in the original agreement between the parties. In common commercial business disputes, the number is usually one or three, most often depending on the size of the case; the bigger the dollar claim, the more likely that three will be specified.

When three neutrals are chosen, the parties will likely consider having an attorney to advise on matters of the law, a business person knowledgeable about business practices in that industry and an engineer or scientist familiar with the technology. This collaborative arrangement can work well. If only one neutral is used, then a technologist who is also familiar with the industry practices and norms is the logical choice. If there are legal issues to be resolved, then the sole non-attorney neutral can ask the parties' attorneys for briefs about the fine points that will assist in making a ruling.

Selecting the Neutrals

Arbitration and mediation are consensual dispute resolution processes. Unlike litigation, where a judge is randomly assigned and may have no particular knowledge about the technical issues involved, the parties in an arbitration can choose who will decide their case, and also the rules that will govern the process. Also in litigation, there is the jury, where it is highly unlikely that any chosen member will be as qualified as an expert neutral. The usual strategy is to preemptively eliminate those who you think might do you the most harm, but that is a hollow success.

Even worse, is the fact that some laymen in a jury are often not only ignorant of the science and engineering that may lie at the heart of the dispute, but are disdainful of it. These are not the kind of people you want to be judging a dispute that could adversely affect your future business success.

In the case of arbitrator qualifications, having an individual who has the right kind of expertise, both in arbitration processes and in the technology, is obviously important, and is a significant difference between litigation and ADR. Being able to understand and interpret the evidence is important in arriving at an informed arbitral award. All of these qualifications can be specified in the original contract, or used by the parties during the neutral selection process.

Significantly, an expert neutral can shorten the hearing process by not requiring as much testimony or written evidence as a layman or one who is not so qualified. Further, a neutral who is knowledgeable about the industry may make it less necessary to call expert witnesses than in a courtroom setting where the deciders must be first educated on the industry and technology.

While it is possible to specify a specific individual in the original agreement to be a neutral, it carries the disadvantage that such a person might not be the best one to sit on the case as it develops, perhaps some years later. Further, that person simply might not even be available to hear the case when the time comes. Figuring out succession options could get very complex.

Most arbitral association rules call for a procedure to assign neutrals that involves sending a list of qualified individuals from their various lists to the parties, and asking them to reject those who are unacceptable. The association then compares the lists and assigns neutrals from those who were not rejected by both parties. Naturally, it can happen that there are no candidates acceptable to either party, even after several tries. In that case, the association can make an administrative assignment.

ROLE OF THE ARBITRATORS IN THE HEARING

Arbitrators and mediators are managers of a process that is intended to be collegial but can turn confrontational. In any hearing, tempers can flare, principals can go off on unhelpful tangents and aggressive attorneys unfamiliar with (or unwilling to abide by) hearing rules can interrupt the proceedings with motions, objections, repetitive testimony

and other disruptive and delaying tactics. Thus, in addition to their knowledge of the business methods and technology of the parties, neutrals may need to deal with conflict resolution.

THE AWARD

An award is simply the end result of an arbitration. It might call for your firm to pay the other a certain sum, or perhaps order them to perform some action or even a combination of both.

In the original arbitration clause, the parties should note the kind of award that they wish. If it is not specified, then the usual award type is 'simple', that is, it simply specifies a certain result; money or performance with no explanation about why that course was decided upon.

But the parties can also request a 'reasoned' award, in which the arbitrator(s) give the logic behind their decision. This can be a help to the executives to learn how their actions (or lack of) were perceived by the arbitrators and perhaps by extension to others in the industry.

In a high-tech case, this information could prove useful in avoiding future difficulties of the same kind. It is unlikely however, that a reasoned award could be used as a basis for a challenge to the award, since an award can not usually be challenged on the merits; but only for very limited reasons such as an undisclosed conflict of interest or the neutral(s) not having admitted a piece of evidence that turned out to be important. In fact, it is for this reason that the usual arbitration practice is to admit any evidence offered, and the neutrals will give it the weight they believe it deserves.

INTELLECTUAL PROPERTY DISPUTES

Because trade secrets, patents and other form of intellectual property are such an important part of the economic value of a high-tech company, protecting those rights during discovery and throughout the course of the proceedings is always very important; you certainly don't want your trade secrets to be disclosed to a competitor. Yet that can be exactly what happens if the process is not properly managed to protect your interests.

And then overlay those complexities with the government regulations and industry norms that govern what firms can and cannot do, that can make it that much harder for a layman juror or even a well-intentioned judge to understand the case much less render an informed decision.

While intellectual property disputes, including those involving patents can be arbitrated, in the United States, arbitrators can not invalidate a patent, but they can rule on an infringement of it.

Since arbitration is private, the danger of release of your IP information is less than it would be in litigation and thus easier to control. But still, it is advisable to incorporate a confidentiality clause in any arbitration agreement; where trade secrets are agreed to be kept confidential.

Many intellectual property disputes common in high-technology cases come down to the claimant trying to be awarded damages or a royalty, and perhaps have the opponent be declared an infringer or obtain an injunction against further improper use. Conversely, the respondent will attempt to have the claimant's patent be declared invalid because of prior art, defective claims or describing an inoperative device, and thus obtain a negative declaratory judgment or even be declared an infringer of a different patent of the respondent's.

It is because of the complexity of these patents and the unlikelihood that a layman jury (or even judge) could make an informed decision, it is yet another reason why many firms choose ADR to resolve their IP disputes.

INTERNATIONAL DISPUTES

One reason why your technology company should choose ADR over litigation is the matter of enforceability. Because many high-tech companies are inherently international in scope, court awards can run into a blizzard of different laws and languages that prevent, or at least complicate the matter of having the result be recognized in a different jurisdiction. Fortunately, there is an international treaty often called the New York Convention[2] that requires its 130 signatory states to recognize and enforce arbitration awards given in a different country.

Many high-tech businesses have research, manufacturing and sales operations that occur in multiple countries. This is a clear advantage of arbitration over litigation where court procedures, conflicting laws, languages, customs and practices vary widely from one country to another and can make enforceability of decisions from litigation a nightmare.

---

[2] Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958) (the "New York Convention"); http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention.html.

Also, in litigation, there may be a struggle to even determine which court has jurisdiction. And if not that, different results in different jurisdictions can lead to confusion, muddying the result and complicating implementation.

These very real differences provide a huge advantage in international cases for ADR compared to litigation.

THE RESULTS

In a recent international survey of 393 respondents, the WIPO[3] found that overall, "disputes occurred in relation to [only] some 2% of respondents' technology-related agreements...." Most of the agreements involved NDAs, "followed by assignments, licenses, agreements on settlement of litigation, R&D agreements and M&A agreements. However, of those disputes, 25% of the respondents reported that in their technology-agreements, licensing agreements resulted in the most disputes. There was a subset of those respondents who reported that, "more than 10% of their licensing agreements led to disputes." R&D, NDAs, settlement agreements, assignments and M&A agreements were all less common sources of dispute.

Since licensing is a key factor in technology businesses, this result is important. Accordingly, 94% of the respondents reported that including dispute resolution clauses was part of their contract negotiations.

Not all of the dispute resolution clauses called for ADR, however. Court litigation was the most common form at 32%. Arbitration was a close second at 30% and mediation at 12%.

Respondents also reported that they "spent more time and incurred significantly higher costs in court litigation than in arbitration and mediation."

It is no surprise then that they, "perceived a trend towards out-of-court dispute resolution mechanisms", and further that cost and time were the "principal considerations in ... negotiating dispute resolution clauses...."

In terms of the time to resolve a dispute, it took an average of eight months for mediation, 12 months for arbitration and three years or more for litigation in their home jurisdiction and even longer outside.

---

[3] Results of the WIPO Arbitration and Mediation Center International Survey on Dispute Resolution in Technology Transactions; http://www.wipo.int/amc/en/center/survey/results.html.

On the other hand, a recent study by the AAA of 4,400 cases[4] showed that some large, complex cases reached settlement in fewer than five months. Naturally, the longer the time to resolve the dispute, the longer that key executives spend non-productive time in pursuing that resolution, making ADR a more attractive alternative.

While in this survey, arbitration proved a much faster and less expensive way to resolve disputes, it also showed that mediation can be a valuable first step because of its lower cost, faster time to resolution and high settlement rates. Further, if the contract calls for arbitration as a required next step in case mediation fails, that threat can improve the chances of a mediation settlement.

SUMMARY

ADR offers technology executives like you a way to help resolve disputes with partners, suppliers and customers more quickly and less expensively than litigation, while its confidentiality protects business trade secrets.

The same benefits of your being able to get on with business instead of devoting money and personnel resources responding to evidence and procedural requirements that are common in litigation, will accrue to any commercial business involved in ADR. However, these benefits are particularly important for high-technology businesses because of their rapid evolution, the limited time value of some assets such as patents, and the danger to the business of uninformed decisions by lay juries and judges.

If arbitration of a case does not take less time and cost less than litigation, it is because the parties have not taken advantage of all of the inherent advantages of ADR such as restricted evidence collection, efficient rules, choice of forum and qualified neutrals who strive to manage the process to keep costs down.

---

[4] AAA document AAA131: *Myth: Arbitration Is Becoming as Expensive and Time-Consuming as Litigation.*