POTTER GROUP

MOVING INNOVATION FORWARD [SM]

Columbia Center
701 Fifth Avenue
Suite 4200
Seattle, WA 98104 USA
Tel: +1-425-351-6113
Fax: +1-206-374-2749

Potter Group – KACG
4-13-7 Minami Azabu
Suite 601
Minato-ku
Tokyo, Japan 106-0047
Phone: +81-50-5809-9691

Three First National Plaza
70 West Madison Street
Suite 1400
Chicago, IL 60602 USA
Tel: +1-312-498-4932
Fax: +1-312-873-3793

INTELLECTUAL PROPERTY DISPUTE MANAGEMENT©

R. Clifford Potter
Potter Group
Chicago, Illinois

The Institute of Intellectual Property

Tokyo, Japan

October 26, 1993

INTELLECTUAL PROPERTY DISPUTE MANAGEMENT©

INTELLECTUAL PROPERTY DISPUTE MANAGEMENT©

by R. Clifford Potter
Potter Group

It is my great pleasure and honor to address the Institute of Intellectual Property and its members today. It was also a welcome diversion for me to return to the premises of my previous works and programs on this subject and see how the landscape has changed.[1]

The concept of dispute management, promoted by these programs and papers, has now become fashionable. More attorneys are devoting time and effort to achieve faster resolution of disputes at lower costs. The ability to deliver technically sophisticated products at greatly lowered cost is everyone's objective, in business as well as the law.

This discussion today will hopefully be the first of many on this topic in Japan. It is always a joy to learn from your country's experiences and management systems. We usually find that we always have more to learn than we have to teach. We therefore look forward to discussing the topics in this paper with you and your members today, later this week, and in the future.

This paper discusses a number of corporate intellectual property dispute management mechanisms. While corporations have implemented some of these mechanisms, the dispute management system discussed below attempts to expand the management function through the Intellectual Property Dispute Management Manual.

The Manual includes draft policies, guidelines and forms for the budgeting, control and coordination of intellectual property disputes. It takes a more structured and managed approach to business disputes. It will be available upon request in the near future. In the meantime, we are providing you with this early summary of its contents.

Any corporation using one or more of the dispute management techniques in the Manual should obtain several benefits for any type of case. These include:

1. Better Understanding Of Objectives - The corporation's intellectual property objectives may be formulated more precisely, and more widely understood within and outside the corporation, if these management tools are implemented.

2. Cost Containment - Costs should be contained, and results and relationships improved through the use of the Manual. The Manual should provide a corporation with significant

---

[1] The subject of dispute management was the topic of several articles and a treatise chapter I wrote in the mid-1980's. I chaired a program on business disputes for the American Law Institute-American Bar Association (ALI-ABA) in 1988 and 1990. So I have had time to reflect on the state of dispute management today compared with its status only a very few years ago. It has decidedly changed for the better.

cost savings, and permit the corporation to understand more fully the economic implications of a given dispute and the cost of the differing tools available for its resolution.

3. Results - As disputes escalate in cost and their potential for economic loss or gain increases, dispute management may mean the difference between the financial success or failure of the corporation. The Manual should assist corporations in improving the final outcome of the dispute. This quality improvement should increase the corporation's chances to achieve the corporation's objectives, including a successful resolution of the dispute consistent with the corporation's business objectives.

4. Maintaining Relationships - The techniques discussed in the Manual increase the likelihood that business relationships will be maintained. With proper dispute management, suppliers, distributors, consumers, competitors, and employees may not be as adversely affected by the dispute as they would otherwise be.

After a brief introduction, the paper covers the following topics:

1. Intellectual Property Audits And Policies - Corporations often implement policy statements to provide employees with guidance regarding intellectual property matters. This paper examines those that have been implemented regarding intellectual property rights, including the use of audits for intellectual property reviews.

2. Dispute Resolution Guidelines - Corporate-wide guidelines provide the best opportunity to assess and control disputes. They are most often divided into two categories. The first can provide guidance to employees and counsel regarding how a nascent dispute should be handled. The second category would direct outside counsel regarding the ways a dispute should be budgeted, employees and others should be contacted, and disputes should be handled and resolved.

3. Dispute Reports - Reports regarding significant disputes are usually prepared for top management. These can include budgets, anticipated expenditures, and alternatives for resolving disputes.

4. Dispute Analysis - The factual and legal bases of a dispute and its economic consequences are being analyzed by many counsel in a more rigorous manner. Whether through the use of software or some other means, this analysis can save a corporation substantial lost time and revenue if employed properly.

5. Dispute Resolution Alternatives - Various alternatives exist for resolving disputes. These "alternative dispute resolution" mechanisms, called "ADRs," are discussed in some detail. Issues relating specifically to intellectual property disputes are addressed, including resolutions through licensing, and the advantages and disadvantages of various dispute mechanisms for this type of dispute.

6. Legal Issues In Resolving Disputes - The corporation and its key employees should be aware of at least some of the key legal issues confronted in dispute resolution. These include privilege issues, discovery issues, and obligations placed on attorneys and others in the United States in connection with the conduct of dispute resolution and the settlement of

cases.

7. New Technologies - Various new techniques are being used by attorneys and their clients and experts to demonstrate what occurred in the past, to evaluate disputes, and to present evidence to fact finders. These are briefly explored at the end of this paper.

The model policies, agreements and examples of possible corporate and law firm guidelines in the Manual were designed to be used together. These documents are organized in the same order as the sections of this paper.[2]

I. THE STATUS OF INTERNATIONAL DISPUTE MANAGEMENT

The use of dispute management is quite old by Western standards. As early as 1250 A.D., litigants in England were required to meet to establish "concord" before commencing any litigation. These procedures were designed to avoid the polarization and costs associated with trial.

More cost-effective techniques that resolve disputes while fostering rather than destroying business relationships continue to be a goal of businesses around the world. Some corporations today have formed alliances dedicated to searching for alternatives.[3]

To ensure compliance with law and optimal treatment of disputes, some corporations have adopted certain types of policies, guidelines and reports.

1. Policies provide employees with guidance regarding important legal rights. These include international conduct and intellectual property policy statements.
2. Guidelines provide direction to those who are involved in a dispute. These guidelines, including those controlling outside attorneys, govern the actions of all persons involved throughout the dispute.
3. An adjunct to guidelines, dispute reports provide a continuing record of a dispute, historical background for related disputes, and more accurate evaluations of the costs and benefits experienced in a dispute.

These policies, guidelines and reports are significant for several reasons. They allow the participants to make factual and legal analyses more accurately. As a result, they permit careful

---

[2] Each segment of a business may require some changes to the procedures in this paper. A subsidiary dealing with distributors may differ from one selling directly to consumers. Large corporate groups may need to have special rules applicable to their disputes. Further, no particular dispute resolution system, style of negotiation, or dispute resolution form may be appropriate for every dispute. However, an overall system is almost certainly advisable, with changes in the system approved at the highest level.

[3] Several organizations have provided dispute resolution services in the United States and abroad for decades. These include the American Arbitration Association headquartered in New York and the International Chamber of Commerce in Paris. Included among the newer organizations are those that have structured pledges designed to commit corporations and law firms to consider first alternatives to litigation. For example, the Center for Public Resources in New York has obtained pledges from hundreds of such corporations to commit to alternatives first if possible. Even these corporations, however, usually have no binding commitment or internal policies to ensure that the most efficient and cost effective dispute resolution possible takes place.

handling of a corporation's intellectual property through more careful planning and control throughout the life of that property. They also promote uniformity and coordination in the handling of disputes.

More wide-spread use of budgeting is also occurring. Internal corporate accounting has begun to treat the law function as a profit and loss center. Aggressive actions on claims, stimulated by increasing cost pressures, market conditions, and obligations to shareholders, have become more commonplace. Indeed, large corporations are themselves in the position of plaintiff more frequently than in the past. Examples of these aggressive actions are Texas Instruments' and Honeywell's patent negotiations and litigation regarding semiconductors and focusing technology respectively.

Various dispute resolution techniques, known as alternative dispute resolution devices ("ADRs"), are available and being used by the international corporation. These techniques, often administered by organizations formed to offer alternatives to litigation, include arbitration, conciliation, mediation, mini-trials, and other variations. They may offer greater control, flexibility, and automation. They also may lower costs.

The utility of each mechanism may depend upon the type of dispute and status of the persons involved. Special considerations apply in international intellectual property disputes, including where the dispute resolution should take place, what form of enforcement mechanisms should be used, and other similar issues. For example, United States patent disputes are subject to special reporting rules regarding the outcome of arbitrations.[4] Other matters of international significance include the need for and choice of counsel, and the roles each counsel should play if a given type of multi-jurisdictional dispute resolution is chosen.

As information concerning a company and its disputes becomes more available, internal and external coordination become more important. The technology age has extremely important significance to this process. No longer can companies expect disputes to be contained within national boundaries. Unless coordination takes place at the international level, corporations will face increasing risks.

Careful quality management techniques for the corporate legal function, including comprehensive guidelines and other management controls, are just beginning to surface.[5] They will continue to develop as the use of today's technology is employed to improve on the management of disputes and all of the other law functions within and outside the corporation.

II. CORPORATE POLICY STATEMENTS AND AUDITS

The Dispute Management Manual contains a guide to international conduct, an intellectual property policy statement, and an intellectual property audit form. Particularly appropriate and

---

[4] 35 U.S.C. § 294.

[5] Richard H. Weise, "Representing the Corporate Client: Designs for Quality" (Prentice Hall 1992) is perhaps the most significant written work that discusses the quality management of the legal operations of a corporation. The author is General Counsel of Motorola, Inc.

possibly legally necessary for trade secret and patent protection in many jurisdictions, the intellectual property statement provides a constant reminder to employees of the critical importance of intellectual property rights to the modern international corporation.

These documents can prove beneficial for a number of other reasons. They provide a line of defense if and when conduct is questioned. They also serve to protect assets.

The intellectual property audit form and policy statement in the Manual are designed to be preventative in nature, having as one of their objectives the maximum possible assurance that the corporation is infringing no intellectual property. Laws are increasingly placing responsibility on the shoulders of directors and officers for unlawful or unethical conduct. If faced with criminal charges, these documents may protect these individuals from prosecution.

These documents also have as their objectives the assurance that the corporation is protecting to the maximum extent possible its own intellectual property.

They increase the likelihood that violations against the corporation are identified and dealt with expeditiously. The documents protect against claims by shareholders and others that the corporation did not do enough to preserve some of its most valuable assets.

A. *International Conduct Guides*

As a first step in implementing an intellectual property compliance program, an international corporation may wish to implement a "Guide To International Conduct" such as the one in the Manual. The Guide is designed to provide a philosophical document raising its employees' level of awareness regarding possibly unlawful or unethical conduct.

The Guide is a very general document. It provides support for more specific issues, but is not a substitute for more specialized policy statements such as the intellectual property policy statements discussed below. It can be useful, however, in demonstrating the corporate intent to avoid illegal conduct.

B. *Intellectual Property Policy Statements*

Intellectual property policy statements provide preliminary information and guidance regarding intellectual property. A policy may also include periodic seminars and discussions designed to protect intellectual property rights, and can include periodic or one time intellectual property audits.

Although among the most significant assets of corporations, intellectual property policy statements are rare. Even if they do exist, they are quite limited in scope. Even abbreviated statements could save a corporation millions of dollars in expenses caused by innocent infringements of third party intellectual property rights. They also protect against the infringement of the corporation's own intellectual property.

The "Intellectual Property Policy Statement" in the Manual is very general. Depending on the corporation, more specific guidelines may be appropriate for specific intellectual property rights. Among other choices to be made in modifying the Statement are whether certain assets warrant specific guidelines by themselves. For example, trade secrets may warrant more particularized

provisions and tighter controls. Also, special controls may be required for specified assets. Software source code, for instance, is often kept in limited copies, under lock and key, with very restricted access. Such assets are worthy of special restrictions and care.

C. *Intellectual Property Audits*

Intellectual property audits can be useful at the outset of any intellectual property protection program since they can provide substantial information and direction to officers, directors and employees of the corporation. They can identify possible violations and infringements concerning the corporation's and others' intellectual property. They also are useful for on-going disputes, and in connection with any acquisition, joint venture or merger.

A typical audit process would include four phases.

1. In the first phase, the corporation would develop a specialized audit form, based upon a standard form that outlines the information and documents to be collected and used during any audits and for any dispute that might arise. One example of this form is in the Manual.
2. In the second phase, the data and documents would be collected from internal, and, if appropriate, external sources. A review of the identified facts and documents would then occur.
3. In the third phase, interviews and follow-up discussions with current and possibly former employees are conducted. At times, this phase may also call for discussions with third parties.
4. Finally, remedial action, including affirmative action taken to prevent any infringements by the corporation or by third parties, would be completed. These actions would include perfection of any faulty intellectual property registrations, improvement of any procedure deemed faulty, and periodic follow-ups to ensure that the steps begun are being followed.

Despite their utility, intellectual property audits are just being implemented by most corporations as a preventative measure. Audits are often considered too costly, and the benefits rarely seen until a company faces a dispute.

Even if audits are not periodically conducted, an intellectual property audit can be one of the procedures required if a dispute arises. Consideration should be given to such an approach, even if the cost of doing periodic audits is deemed prohibitive. Conducting an audit during a dispute provides a more economical avenue to ensure that intellectual property guidelines are being followed, and that there is no other problem with the corporation's activities in this area.

Audits are being performed more frequently when a corporation is considering an acquisition. Such audits are more commonplace today, given the importance of intellectual property to the value and possible contingent liability of the target company.

III. DISPUTE RESOLUTION GUIDELINES

A growing number of corporations have dispute guidelines.[6] These guidelines, however, are used only when a proceeding exists or is threatened. Thus, in-house counsel frequently have little knowledge concerning intellectual property controversies until well after a controversy arises. Guidelines, particularly those that include the requirement for periodic audits, provide an early warning system that protects against this delay.

The following discusses the "Dispute Resolution Guidelines" in the Manual, which are designed to bring everyone involved, including attorneys, into a dispute at the earliest possible time. The "Law Firm Guidelines" in the Manual are designed to improve control over the outside attorneys.

A. The Utility Of Dispute Guidelines

Large United States corporations with inside counsel often call each other when they discover a dispute between the two companies. The businessperson, however, is typically the first involved in business disputes.[7] While perhaps impractical for some controversies, a standing set of procedures for both the corporation's lay employees and its lawyers can therefore be useful from a number of perspectives.

Guidelines can perform many other functions, however:

1. Guidelines prevent mistakes and promote consistency of approach. Admissions and unwarranted or accidental compromise are less likely to occur if prior guidance is provided.
2. They also can strengthen the protection of privileged communications, an important and at times crucial factor in business disputes.
3. Guidelines promote better analysis of and budgeting for controversies.
4. Guidelines can be used to identify those who are authorized to conduct negotiations concerning specific types of controversies.[8] They can thereby prevent employees from acting in their own rather than the corporation's best interests during a dispute.
5. All corporations experience some loss of information and some delay in communication of disputes that could be prevented by clear guidelines for all personnel in the event they face a business dispute.

---

[6] Government corporations, whose penchant for guidelines is renowned, have also begun to establish dispute guidelines. For example, the United States Department of Justice and the Equal Employment Opportunity Commission have promulgated rules for dispute resolution.

[7] The importance of the businessman transcends his role as a witness. The businessman is a major source of dispute resolution innovation, and business solutions are generally far superior to legal solutions left to third parties unrelated to the disputants.

[8] Different persons may have different responsibilities concerning negotiations. The amount in controversy and the types of disputes involved will usually warrant assigning different persons to be in charge depending on what is involved. This is particularly important for intellectual property.

For these and other reasons,[9] corporations should consider creating guidelines designed to handle a dispute from its outset to its conclusion.

B. Dispute Guideline Coverage

The Dispute Management Manual contains sample dispute guidelines for corporations and their law firms. The guidelines control both legal and non-legal personnel, and are designed to be widely disseminated. More detailed guidelines may be appropriate for those in corporate legal departments, and for specific types of controversies.[10] The guidelines may vary, however, depending upon (1) the types and size of disputes covered, (2) the breadth of dispute resolution authority deemed advisable, (3) the degree of sophistication desired for budgeting expenses and for determining the costs and benefits of the various ADRs available, and (4) the number of persons authorized to discuss and review disputes.

1. Types of disputes covered

Dispute guidelines probably should cover all possible types of controversies. In doing so, each dispute will be handled in the same manner procedurally. The corporation will also be able to maintain information on its dealings with the particular individuals or other corporations and subject matters involved. The information so obtained should help in dealing with the persons or entities on the other side, in determining the performance of individuals and divisions within the corporation, and future planning.

The potential criminal exposure for some intellectual property violations suggests that all such disputes should be covered. Many corporations have already taken this step for antitrust violations.[11] At least in the United States, a proactive policy to preclude or stop violations should at least result in leniency for the corporation and its officers and directors.[12]

Despite the need to limit dispute management to laymen on some occasions, the potential complexities of a given controversy generally call for an initial contact with a lawyer in order to ascertain its significance. For this reason, the guidelines set forth in the Manual include the requirement that any controversy be brought to the attention of counsel.

---

[9] The numerous advantages seemingly far outweigh any disadvantages. Despite considerable readings on this subject, no argument against guidelines has been found. However, some institutions have a strong dislike for guidelines, preferring to have managers use common sense when confronted with possible problems. This flexibility, useful in many contexts, can prove very detrimental in many corporate disputes.

[10] Although specific guidelines applicable to disputed intellectual property rights should prove very useful, these do not exist in many corporations. One reason may well be the separation of the general legal function from the patent and trademark function, including separate managers to whom these two branches report.

[11] Antitrust guidelines have been used extensively by most competitors in the many industries that have been confronted with antitrust criminal and civil cases. The use of such guidelines is by far the rule in most large corporations, given the extreme cost of any company's participation in or losses suffered from antitrust violations.

[12] The United States' Sentencing Guidelines provide for consideration of and lower sentences for those corporations that have made an effort to control possibly unlawful conduct.

2. Minimum dispute size

It would be tempting to have guidelines cover all controversies with outside persons or corporations. For many corporations, this would mean that tremendous numbers of controversies would fall under the guidelines. The enormity of reporting this number of disputes, and the cost of doing so in lost time and effort, suggests that this approach would not be practical for many corporations.

The corporation will therefore probably wish to place a dollar limit or some other limitation in the guidelines, so that some disputes are not reportable. Nonetheless, certain controversies might fall below the limit, but still warrant reporting. For example, all controversies which involve certain types of claims, such as allegations of criminal activity, should be reported. Similarly, claims that involve possible precedent establishing decisions might be ones that should be controlled by persons with authority over all similar situations.[13] The financial and business significance of intellectual property may call for guidelines to require the reporting of any dispute over these rights.

3. Dispute resolution authority

Another variable is the extent to which the corporation desires to spread dispute resolution authority among its personnel. For most corporations there will be limits to the size of controversies which particular personnel may settle. In many corporations, for example, expenditures may not be made above a certain level without specific board of directors approval.

Many corporations may want to have certain types of disputes left largely or completely to business personnel other than attorneys. Even larger corporations, with considerable legal counsel available within and outside the corporation, frequently leave certain types of dispute resolution to laymen, and often have success doing so.

Three examples worthy of review are labor, personnel and environmental questions. Specific rules of law apply to claims brought in these areas of law.[14] The use of dispute resolution guidelines for these areas is therefore particularly important for those unsophisticated in the law of dispute resolution.

Intellectual property disputes are rarely left to non-legal personnel in the United States, although good arguments can be made for doing so. In many corporations, the licensing function is left to businesspersons without legal training. Even in these companies, however, intellectual property

[13] Since laymen may not find classification very easy, the draft guidelines direct personnel to consult with counsel whenever a controversy arrives. On the other hand, businesses may choose to require consultation with attorneys only when disputes may lead to significant economic exposure, such as exposure over $1000 or some other appropriate figure. This point is raised in the draft guidelines along with possible language for such a provision for those who choose this alternative.

[14] Labor contracts and personnel issues are heavily regulated by many governments. Environmental issues also involve substantial policy issues. None of these areas is strictly controlled by attorneys, and many companies have others who are not attorneys handle these issues. In many if not most Japanese companies, the legal function itself is handled by executives with substantial international experience who are not attorneys.

transfers and disputes are more likely to include coordination between the licensing and legal functions.

4. Dispute analysis and budgeting

Guidelines should create a uniform system for analyzing and budgeting disputes. Obviously, this may be largely handled by the corporation's attorneys. Guidelines for attorneys and any other personnel involved in dispute resolution should include estimates of the cost and time involved for the various disputes. In this fashion, all disputes will be analyzed on a uniform basis and there can be some assurance that the total exposure of all disputes will be known at any one time.

Because all disputes may require analysis of litigation costs and business costs inherent in resolving them, each analysis may require the combined input of both legal staff and businesspersons. The more sophisticated the system of analysis, the more important it will be to have the estimation supervised by counsel. There are also privilege considerations for undertaking the analysis and budgeting in this fashion.[15]

5. Dispute discussion guidelines

The guidelines for discussions regarding disputes with the other side or third persons revolve around who is involved for the other side, what type of controversy is involved, and when the contact is occurring.

If an attorney is involved on the other side, the use of a corporate attorney may be considered mandatory. Generally, as a matter of etiquette if not ethical obligation,[16] the attorney will contact the inside attorney if he can be located rather than talking directly with the businessperson involved.

As to some controversies, the attorney may be the only logical person to be involved in negotiations. Dollar limits and the type of controversy will often dictate whether the contact person is to be the attorney. On the other hand, the businessperson having more knowledge concerning the business aspects of the situation may remain the principal negotiator for some time.

Disputes occurring at the same time concerning similar subject matters must be dealt with in some coordinated fashion. The person in charge may be an attorney or businessperson. Generally, the coordination among divisions or departments will be handled by the legal staff in any substantial controversy.

6. ADR preferences

ADRs other than litigation, as will be seen in Part VI, may be far preferable to the uncertainties one

[15] Part VI discusses risk analysis and budgeting in greater detail.

[16] If an attorney realizes that the other side is represented by another attorney his ethical obligation will generally require contact only with the attorney. American Bar Association Code of Professional Responsibility, Disciplinary Rule 7-104(A)(1). Because of the presence of inside attorneys in most corporations of any size today, the attorney will generally contact the other inside attorney at the outset.

encounters with litigation. As a consequence, the guidelines may choose to make the use of other ADRs a corporate policy.

7. Privilege issues

Dispute guidelines should contain specific guidance to personnel regarding privileges, so that they will not be accidently waived. In addition, the guidelines should specifically preclude personnel from disclosing the contents to any person other than an attorney for the corporation.

The contents of the guidelines should not contain any information or statements that could not see the outside world, although there could be a viable argument that the guidelines themselves are privileged. The most likely privilege is the attorney-client privilege, with the argument being made that the guidelines are a part of the attorney advice given to the corporation's personnel.

C. Distribution Of Dispute Guidelines

There are ordinarily no problems in distributing the guidelines to all personnel with responsibility over the handling of outside legal affairs. These persons clearly will be charged with the burdens of notifying appropriate personnel depending upon the particular dispute and its ramifications.

Other personnel may be less likely to have any need for the comprehensive guidelines. Moreover, it does not make sense for anyone within a given department or division to call the head office's legal department with a report of a dispute. For coordination purposes most corporations will choose to have greatly abbreviated guidelines distributed to personnel to inform them of the particular person who should be notified of the dispute. This more limited form is included in the Manual.

IV. DISPUTE REPORTS: STATUS, EXPOSURE AND BUDGET

The "Dispute Reports" section of the Manual includes reports that may be used to identify, monitor and permanently record the corporations disputes. The format could vary, depending on who is to receive and maintain the information. Corporate management must decide whether all of the corporation's employees should be required to fill out reports, or whether the reporting should be left to fewer employees, or even only to inside or outside attorneys.[17]

Dispute reports can be extremely valuable in accurately documenting disputes relating to intellectual property. They can support a finding that the corporation enforces and protects its trade secrets, that it attempts to comply with intellectual property laws, and that each dispute is approached on an equitable basis. They also can be used to maintain a record of fees, expenses, and settlements that serves as an historical record of costs incurred in various types of disputes.

Dispute reports are used today by law firms and corporations. The two most common would be those designed for specific disputes or categories of cases dealing with the same situation, and

[17] Distribution of reports and their computerization depends upon the need of secrecy and the extent of applicable privileges. Most corporations will not choose to distribute the reports very extensively within the corporation. There probably should be no copies made beyond the original unless careful control is exercised over any copies made.

others that summarize information in their reports.[18] Most corporations and firms still have no reports, however. Even those that do use reports often have no standard format, and do not require their outside counsel to use standard formats.

A. The Utility of Dispute Reports

Dispute management guidelines would ordinarily require the preparation and maintenance of reports covering controversies that arise with outside entities or persons and certain disputes within the corporation. These reports would serve several functions, and should benefit the corporation in several ways.[19]

1. The reports provide a means of obtaining accurate and hopefully nearly immediate information concerning the controversy. The attention to detail and accuracy may depend in part on the sophistication of the person designated to make the report.
2. The reports enable upper management to manage disputes that might otherwise escalate.[20] They can allow management to examine disputes in careful detail.
3. The reports preserve evidence and protect against document destruction.
4. The reports protect against accidental admissions and disclosures. They should be considered privileged as long as they are made by or to counsel.
5. The reports preserve in one place the history of the controversy. This saves time in determining the status of the dispute, and provides a useful historic record in case disputes arise in the future over the same or different issues with the same person or entity. In addition, the reports might be useful in providing information regarding how well persons perform negotiations and enabling better use of personnel in resolving future disputes.

Nonetheless, careful legal review is required before any dispute report is created. A critical question is whether factual reporting even by an attorney is subject to discovery. Any decision to undertake this type of reporting system requires analysis prior to its implementation.

Although guidelines would be typically distributed to all personnel, reports may or may not be. The contents of the reports for the various categories of personnel within the particular corporation involved would necessarily need to be different. There would generally be no reason

[18] Corporate counsel often generate very limited dispute reports to inform upper management of the dispute and the estimated exposure.

[19] Reports do present risks that privileges will be waived if they are disclosed to persons outside the corporation's control group. Also, the lines between reportable controversies and others may impose time consuming work on persons who cannot afford the time. These are questions that involve the format, reporting requirements, and distribution of the reports. They do not seem to justify having no report at all.

[20] The corporation will almost without question be responsible for the acts of lower echelon employees irrespective of whether their acts were in furtherance of corporate business. The involvement of upper management should therefore in no way add to the burden of the corporation during later proceedings. Protection is what is gained, not further liability.

for all personnel to be privy to any of the information contained in the reports included in the Manual. Certain strategic management and litigation-oriented decisions must be made upon before implementing any reporting requirements.

B. Dispute Report Formats

The Manual includes an example of the type of dispute report discussed below. The computerization of this information is an easy task today, as can be seen by the example of the database in the Manual, and should provide the corporation with easy access to the information. Computerization also permits the rapid and accurate quantification of the over-all exposure faced by the company at any one time. Other considerations discussed below should be fairly universal among all types of corporations.

1. Reporting person(s)

The first section should be devoted to a full and complete identification of the persons filling out the report. The information on each reporting person should be complete, with home address and telephone number and next of kin information.

2. Persons involved in the dispute

The same information should be provided in the next section on each person involved in the dispute, if possible. The degree of information needed depends upon the type of dispute. A fair amount of information for this section may be available from those inside the corporation and from on-line databases. Other investigational services also exist, with more sophisticated methods depending upon need and budget.

3. Description of controversy

The next section should contain a description of the events which make up the controversy. The length of this section and the contents will principally depend upon the purpose of the report and the decisions on applicable privileges.

Because accuracy is critical, the report should be as concise and clear as possible. Lawyers may be the best persons to write the entire report. If they are used, the client should obtain attorney work product and attorney-client protections covering the report. Also, the controversy should be classified for purposes of legal analysis and exposure evaluation. Such classification must be done by lawyers. For these and other reasons, the report may be best handled entirely by attorneys.

4. Dispute analysis

Another section of the report should contain the dispute risk analyses.[21] These analyses attempt to quantify the commercial, management and attorney time and expense which will go into the handling of the dispute from its inception to its ultimate resolution. These steps will vary in expense depending upon the method used to resolve the dispute.

To be complete, the analyses will require both a business and legal assessment of the risks and

[21] Part VI explores these costs in detail.

rewards involved if the dispute were litigated. Thus, at least one business person with knowledge of the particular area of the business should be assigned, perhaps from the outset, to assist the lawyer in determining the business side of the equation.

5. Expenditures and budget

A portion of any dispute report should be devoted to a review of current expenditures and the budget. The former are easy to track. The budget may be more or less detailed depending upon the type of dispute and the risks involved. The Manual contains a basic budget format for intellectual property suits. The critical question on the budget is whether to handle internal costs and all external costs, or whether to stick to traditional budgeting that covers only deposition transcript, attorney fee and other outside costs relating directly to the dispute.

6. Dispute resolution history

The efforts to settle the dispute would be recorded in another section of the dispute report, detailing all offers and conditions made by both sides. This historical record allows each person who participates in the dispute resolution negotiations, or in the evaluation of the appropriate method of disposing of the dispute, to review the positions that the parties have taken over the course of the dispute.

In addition to the ability to inform all participants, the dispute resolution history may prove useful in negotiations with the persons or entities on the other side of the dispute if and when another dispute arises with them. Also, the same types of disputes can be coordinated and treated uniformly by using the historical records created through dispute reports.

7. Post-dispute resolution administration

A section should also be provided for post-dispute resolution activity. Many dispute resolutions require actions by one or both parties over time. These requirements pose difficult administrative burdens at times which can be simplified and recorded most easily in the dispute report. This section of the reports can also provide proof that the dispute resolution's requirements have been fulfilled.

C. Other Considerations

Several reporting considerations must be considered before implementing any system of dispute reports. Among these are how the lawyers should be contacted, where the reports should be distributed, and the desirability of computerization.

As to the first two considerations, sizable reporting obligations clearly will inhibit management personnel from performing their business functions. The balance between both contacts and reporting responsibilities is to a matter of style and one of necessity. Corporate legal departments have varying responsibilities and methods of contacting business personnel. The channels already in place will probably determine the degree of reporting appropriate.

II. DISPUTE RESOLUTION ALTERNATIVES

As the quantity and expense of disputes has increased, dispute resolution at the earliest practical time has become a corporate imperative. The following explores the major types of dispute resolution techniques currently employed by corporations: litigation, arbitration, mediation, conciliation, mediation-arbitration, mini-trials, private judges, claims facilities, and negotiated settlement. Each is an "alternative dispute resolution" technique, or "ADR".[22]

Arbitration and other ADRs are increasingly used in intellectual property disputes. ADRs can minimize public disclosures and thereby protect intellectual property assets. A public challenge to intellectual property rights is almost inevitable if intellectual property rights are enforced in court, potentially weakening a corporation's ability to obtain licensees or settlements until the litigation is resolved. However, other ADR methods can ensure privacy, at least if patent rights are not involved. Particularly where trade secrets and confidential business information are concerned, arbitration may be a preferred method of ADR.[23]

There seem to be few empirical studies of the reasons for this increase, however. According to a 1993 Deloitte & Touche survey, the following are some of the reasons other ADRs are chosen over litigation in all types of disputes: (1) saving money; (2) saving time; (3) better result expected; (4) lower likely damages; and (5) expertise. The same study lists the following as reasons these alternatives are not chosen: (1) unwillingness of opposing party; (2) absence of legal rules; (3) no right to appeal; and (4) compromised damage findings.[24]

A. Litigation

Although inefficient, expensive, and often uncertain, litigation remains one of the principal ADRs used in the United States. Litigation may have increased recently, although this has been the subject of much debate. Unlike most other ADRs, information regarding the controversy is publicly known if litigation is begun.

The principal criticisms of litigation are (1) unacceptable delay in obtaining results, (2) exceptional costs involved, and (3) uncertainty, particularly with juries.[25] In large part due to these problems, the Supreme Court and Congress have changed, or recommended changes in, rules of procedure, imposing new sanctions, and impressing on everyone concerned the need to reduce litigation costs. Also, judges and Congress have become more aware of the costs of delay, decreasing the

---

[22] The term "ADR" typically is used in the United States to refer to litigation alternatives. This paper chooses to consider all potential dispute resolution alternatives as ADR's, including litigation.

[23] This does not mean, however, that materials produced and the proceeding itself will be protected from discovery during a subsequent litigation brought by a person or entity who did not participate in the arbitration.

[24] "Deloitte & Touche Litigation Services 1993 Survey of General and Outside Counsel," at p. 9.

[25] Many, including the former Vice President of the United States, judges, attorneys and attorney organizations, have heartily criticized the expense of litigation.

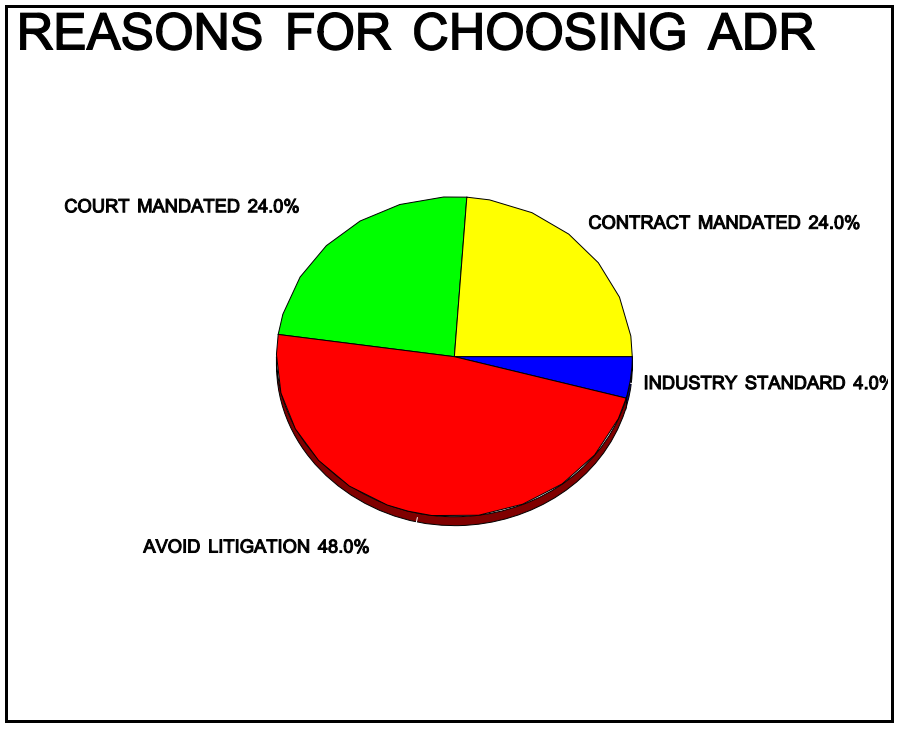
time required to obtain decisions through more careful case management and increasing the number of federal judges.

One major reason for the high expense is the nature of the litigation process. Far from assisting with the resolution of the dispute, the litigation process often encourages discord. Litigation often may result in more work, largely due to the following formalistic requirements imposed on the litigants.

1. Pleadings - Formally setting forth each company's claims often before any discussions or negotiations may lead to greater expectations than are warranted. Pleadings include the complaint and answer. They are binding on the parties, with each claim potentially requiring separate types of discovery.

2. Formal Discovery - This part of the case is often the most expensive. The parties can contest the types of discovery sought, leading to expense even before the information is obtained. The tools here include interrogatories, depositions, and requests to admit.

3. Briefs - These are formal legal and factual documents designed to allow the court to decide what part of the case should be tried, whether the case has merit, whether discovery should take place, and whether the court has jurisdiction. Each of these formal papers requires significant expense, and many are filed without the hope of victory but instead as a matter of delay or for other strategic reasons.



Examples of these tools may be found in the Manual.

The chart at the right shows the break-down of why ADR occurred in the disputes covered by the Deloitte & Touche survey. As will be seen below, there are a number of reasons for avoiding litigation, the principal reason for the choice of another ADR.

At least some of the criticisms directed at litigation may be the cause of the reluctance here.

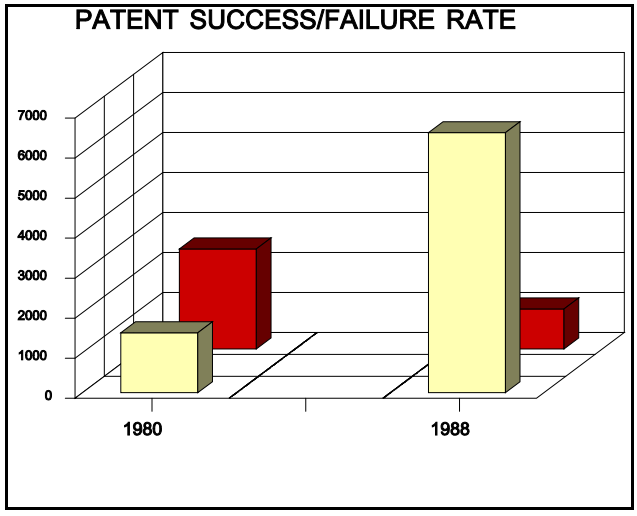
Despite criticism of these processes, however, inefficiencies that have encouraged many corporations to use other dispute resolution alternatives have also been deemed a benefit by others. Large corporations still frequently feel that strong litigation postures regardless of cost decreases the number of claims the corporations would otherwise face, discouraging potential plaintiffs from bringing suits in the first place. This approach may at times be justifiable; the more significant the claim, the less likely a plaintiff is to go away or never file. This has inhibited cost controls and supported continuing inefficiencies of United States litigation.

Although perhaps for other reasons, the latest efforts to modify the Federal Rules of Civil Procedure to reduce litigation costs through more careful discovery requirements may be unsuccessful. If these efforts are derailed by interested parties, the proposed rules will be rejected by Congress for one of the only times in history.[26]

On the other hand, in many situations a public fight over intellectual property rights, or even the existence of a disagreement, is particularly chancy. Among the factors to be considered are:

1. There may be greater difficulty in obtaining other license agreements due to perceived weaknesses in the intellectual property, including its potential coverage.
2. Competitors may obtain information that would be unavailable if another ADR were used.
3. Less than expert judges and juries are often required to decide technical issues far more difficult than the typical case.
4. Finally, litigation is almost certainly a more expensive approach than the other ADRs, and may inhibit the parties' ability to use another ADR.

Why then is litigation so prevalent in intellectual property cases. Perhaps the reason is the degree of success experienced in litigated patent cases in the United States since the creation of the United States Court of Appeals for the Federal Circuit. The chart on the right, derived from a paper delivered by Hiro Noguchi of Coopers & Lybrand, shows the difference in patent infringement successes before and after the creation of the Federal Circuit. The bars in the front are the successful cases decided in the years 1980 and 1988. The increase in the success rate is obviously substantial.



[26] The United States Supreme Court determines how to modify rules of procedure, based upon recommendations provided by a special committee. The latest proposals deal principally with the mandatory exchange of information by litigants, designed to minimize discovery disputes at the initial stages of litigation.

B. Arbitration

Litigation is not the preferred ADR in part due to the greater difficulty in enforcing judgments. Arbitral awards are enforceable much more universally and easily due to the United Nations Convention[27] on enforcement of arbitral awards. For this and other reasons, arbitration is the ADR of choice in most international agreements. Since qualified experts can be designated to decide intellectual property arbitrations, arbitration has become a more preferred method for resolving license agreement disputes. This trend should continue for patent and other intellectual property disputes.

Arbitration has traditionally involved the voluntary decision that one or more persons other than a judge or jury can make a binding decision regarding a dispute. As the use of arbitration has increased, so has the extension of the term to many different forms of ADR techniques. Among the many techniques used are "binding" and "non-binding" arbitration, "agreed" and "forced" or "mandatory" arbitration, "administered" and "ad hoc" arbitration, and court-ordered and statutory arbitration. True arbitration is always binding.

Arbitration in its most typical form involves the following methodology. The parties have entered into an agreement to arbitrate any disputes that arise concerning the subject matter of a commercial contract. The contract itself typically provides for arbitration under an arbitral body's rules, such as the commercial arbitration rules of the American Arbitration Association. The number of arbitrators may be specified, together with the substantive and procedural law to be applied.

Parties may agree in advance on the persons who will serve as arbitrators. The selection of one arbitrator by each party may be provided for in the arbitration agreement, with the final arbitrator selected by the two arbitrators selected by the parties. An arbitration association or court may also make the final selection.

The use of arbitration has advantages and disadvantages. An arbitrator being paid her or his normal billing rate will be less likely to assist the parties in seeking settlement than if they were paid less than this rate. An arbitrator's participation in settlement discussions may also be inhibited by the arbitral body's rules. Thus, for the arbitrator, a monetary incentive or an institutional requirement may reduce the chance for an early resolution, and increase arbitration fees.

One way to avoid this problem would be to pay the arbitrator at the outset a fixed payment, or to put a cap on fees. It may then be to the arbitrator's advantage to settle the dispute as quickly as possible. Institutional rules can be avoided by contractually allowing arbitrators to engage in mediation and settlement discussions either before or during the arbitration.

The absence of strict, formal rules often allows an arbitration to progress more swiftly than a trial. However, the informality also permits more extensive discussion of wide-ranging issues. The

[27] The United Nations Convention on the Enforcement of Arbitral Awards has over ninety signatories, including every industrial country in the world.

extent of discovery permitted can be provided for under the arbitral agreement, and is typically better managed by arbitrators than judges.

Sometimes called "last-best offer arbitration,"[28] one permutation limits the arbitrator's award to choosing between the last offers made by each of the parties. This ADR is employed by Major League Baseball™, and has been employed in commercial contexts as well.

Finally, a hybrid form of arbitration, called mediation-arbitration or "med-arb."[29] The mediator is given the charge to mediate the dispute until some point in time, when the proceeding is changed to arbitration. The concept here is to create a stronger incentive to settle than in pure mediation.

Most international corporations strongly advocate arbitration. If properly documented prior to a dispute, most experiences are positive, both for arbitrators and advocates. Arbitration can be particularly useful when a technical issue predominates. The parties can agree to arbitrator qualifications in advance, and the pool of qualified arbitrators continues to grow throughout the world.

Arbitration is best conducted though the use of a carefully drafted arbitration agreement. Examples of short form and long form agreements may be found in the Manual.

C. Mediation and Conciliation

The term "mediation" has been defined as the "intervention between conflicting parties to promote reconciliation, settlement, or compromise."[30] Conciliation is similarly defined. These two terms are often used synonymously. They are treated differently by many experts. Moreover, several international associations and organizations have specific rules concerning each type of ADR.

Mediation involves at least one person unrelated to the parties who assists the parties in resolving their differences. The mediator generally does not have authority to make any binding decisions on the merits. Instead, the purpose is to bring reason and good judgment to the controversy, and to offer proposed solutions and an independent, neutral view of the dispute to each party.

Commentators have at times discussed mediation as an ADR in the province of professional mediators.[31] While many judges and other fact-finders do feel that they cannot act as pure mediators, there is little question but that many judges are among the best mediators that exist. After all, they have substantial incentives for a settlement to be reached before a case goes to trial. Moreover, many judges perceive their roles to include mediation.[32]

---

[28] See Resolving Disputes Without Litigation (BNA 1985) (hereafter "Resolving Disputes"), at 18.

[29] See Resolving Disputes, supra, at 18.

[30] Webster's International Dictionary, 1988 Edition.

[31] See, e.g., Resolving Disputes, at 14-17.

[32] See Title, "The Lawyer's Role in Settlement Conferences", 67 ABA Journal 592 (1981).

Although they may meet with both parties at the outset, many mediators do not meet with the parties at the same time. The mediator may travel from room to room, or location to location, attempting to explore alternatives and seek solutions to the dispute. Separating the parties decreases the parties' tensions and antagonisms.

Mediation is usually much cheaper than litigation or arbitration. The parties may stay at their home bases and allow the private mediator to travel between the locations, often saving travel and lodging expenses typically experienced in other dispute resolution methods. There is less need to prepare for mediation in a formal way. The mediator may insist that presentations be oral, that there be no witnesses, and that each party should refrain from arguing extensively from the existing precedents.

The private mediator also usually does not feel restrained to remain neutral, as a judge should even in jury cases. This is one of many advantages that a mediator has over his fact-finding counterparts. Others include the ability to take into account and advocate each party's understanding of non-material and legally irrelevant factors, and the ability to expand and contract issues without formal restraints from doing so.

The ICC's Rules of Optional Conciliation provide a formal means for the parties to engage in conciliation. A place for conciliation proceedings is set by the conciliator.[33] The parties appear before the conciliator, who "shall conduct the conciliation process as he thinks fit, guided by the principles of impartiality, equity and justice."[34] The AAA's Commercial Mediation Rules also provide for scheduled mediation sessions.[35]

A newer form of conciliation, called "joint conciliation" has been created by the Chinese Foreign Economic and Trade Arbitration Commission[36] and the American Arbitration Association. Joint conciliation involves the appointment of one conciliator for each side, with the conciliation first based upon negotiations among the conciliators and their resolution submitted to the parties for approval.

Mediation and conciliation are frequently encountered during arbitration or litigation. Both judges and arbitrators are called upon to assist the parties in resolving disputes which come before them. Many cases and arbitrations end up being resolved through the use of this method.

Both mediation and conciliation may be very beneficial in intellectual property disputes. They

---

[33] ICC Rules of Optional Conciliation.

[34] Id., Article 5.

[35] AAA Commercial Mediation Rules, Article 8.

[36] In the People's Republic of China, even the civil code contains an emphasis on conciliation, a process strongly favored throughout Asia. Thus, under Article 97 of the Chinese Civil Code:

> "If a civil case...can be conciliated, the People's Court shall...conduct conciliation and urge the parties to reach mutual understanding and compromise."

permit the neutral to advise the parties as to the relative strengths of their positions, while at the same time providing greater understanding of those positions and of the possible settlement alternatives. The ability to use a neutral experienced in licensing may also result in greater understanding of the dispute which can result in more efficiencies if a binding resolution is needed if these ADRs fail to achieve settlement.

D. Mini-Trial

The mini-trial method of resolving disputes has had a significant following in recent years. Its use, however, appears considerably less significant than the discussion which it has generated.

A mini-trial can be shaped by agreement of the parties in whatever fashion felt desirable. It is in essence a structured settlement negotiation. In its most typical form, the clients' chief executives or other high ranking employees hear factual and legal presentations made by lawyers after a minimal exchange of documents. A neutral may be present and may be asked her or his views of the merits of the dispute. Periodic settlement discussions may occur during or after the mini-trial in an effort to achieve settlement. Further, there is no reason why a mini-trial which uses a neutral cannot be binding if resolution is not reached within a given time frame, becoming a form of ad hoc arbitration.

Mini-trials provide disputants with a more informal way to exchange materials and to obtain views concerning legal issues that await the parties should trial or arbitration ultimately occur. Typically used for complex commercial situations, the most significant advantage, however, is the ability to determine what the other side will argue and to analyze the more significant issues in a controversy so that, in the absence of settlement, both sides will be better prepared at trial.

Although several corporations have used mini-trials, they do not appear to be the panacea many lawyers once thought they were. In fact, some general counsel will not use mini-trials because they feel that they will result in added and unnecessary costs to the disputants.

Despite these issues, the mini-trial experience can be positive if the parties are willing to act in good faith in their discussions of the facts and law. Although unlikely to become a major part of a corporation's ADR arsenal, they do offer benefits that formalize negotiations and discussions when other forms of communications break down. This may be particularly worthwhile when technical issues are such that the parties have little chance of agreeing at the engineering level, leaving only upper management in a position to judge whether one side is right or wrong.

E. Private Judge

In some jurisdictions in the United States, parties may transfer a pending case to court-appointed referees who render decisions after performing arbitration for pay.[37] The parties pay a proportionate share of the arbitration's costs and obtain a decision on the merits. One difference between this technique and arbitration is that the referee's decision can usually be appealed as a

[37] These states include California (Cal. Civ. Proc. Code §§ 638 et seq.), Connecticut (Conn. Gen. Stat. Ann. §§52-425 et seq.), Florida (Fla. R. Civ. P. §1.830, Kansas (Kan. R. Civ. P. §§60-253 et seq., Nebraska (Neb. Rev. Stat. §§25-1129 et seq.), and New York (N.Y. Civ. Prac. L. & R. §4317).

final judgment to an appellate court in the jurisdiction, which can review the merits of the referee's decision.

More recent versions of this technique resemble court proceedings, but result in a decision similar to arbitration. Thus, various corporations in the United States have constructed courtrooms presided over by private judges who conduct formal proceedings much like pre-trial and trial in a United States court. The parties agree to abide by the judge's or a paid jury's decision, and often engage in discovery.

Given the lengthy delays in receiving a verdict in federal court, this technique allows the parties to resolve the controversy in much less time and typically much less expense while preserving strong similarities to a normal state or federal court decision. However, this form of dispute resolution will likely be treated as an arbitral decision, thereby not subject to later appeal in a state or federal court except on matters relating to the validity and propriety of the proceeding itself.

Except for qualified judges with sufficient technical background, the private judge approach seems to have little to offer over what can be achieved through arbitration of intellectual property disputes. Given its confidential nature, and relatively small numbers, and the need for further development of the parties' rights, this approach cannot be considered a significant alternative at this time.

F. Negotiations

Negotiations are the most prevalent method of handling disputes. Only the rare dispute finds itself in an ADR. While the types of strategies available for disputes is beyond the scope of this paper and the Manual, it may be useful to consider this an ADR worth discussing. Three types of ADRs are included here. While contract-mandated negotiations, and normal negotiated settlements are prevalent in intellectual property disputes, the use of multi-party mechanisms is less well-travelled.

1. Contract-mandated negotiation

Contract-mandated negotiation is another method of resolving disputes that is often overlooked by those who discuss ADR. Like some other ADR methods, parties may be able to accept the outcome or reject it. It also has the advantage of maintaining privacy regarding the existence and outcome of a dispute. And, unlike most other ADR techniques, it does not have the complications and costs of an intermediary or independent forum.

Various contractual provisions among parties with an interest in settlement rather than the more public litigation may be used to achieve resolution of important issues outside of arbitration. Although more typically used in joint ventures, these methods may be useful when other contractual relationships are involved, including insurance contracts.

Some recent contracts require the creation of boards composed of upper management personnel from both parties who are required to negotiate in good faith before any further action is taken. The framework can include different levels of review, so that the most senior executives only become involved if others cannot resolve the controversy.

Recent intellectual property licenses and joint ventures have included contract mandated

negotiation as a first step in the dispute process. The needs of the parties are usually such that the required negotiations preserve and protect the parties and their property. An exception can be made when a threat to the intellectual property exists so that the mandated negotiation could be useless if the threatened actions are carried out such as that of trade secret disclosure or the concerted actions by one party with a third party.

2. Negotiated Settlement

Negotiated settlements provide disputants with an opportunity to shape and accept an outcome controlled and influenced entirely by them rather than some outside party. Unlike the other dispute resolution techniques, the complications and costs of an intermediary or independent forum do not exist.

Negotiated settlements are not always the first step in attempting to resolve many intellectual property disputes. Trade secret cases involving public disclosure, patent cases dealing with leading edge technology, trademark infringements, and pioneer software copyright cases may present situations where a license is not deemed to be a viable alternative. In each of these cases, the competitor might be precluded by a court from using the right, thereby providing the owner with a competitive advantage superior to any license agreement.

3. Multiple plaintiff and defendant ADRs

One reason for multiparty ADRs is the desire to protect the defendants or plaintiffs from excessive costs or payments due to the inefficiencies faced in dealing with each party separately. Another is the ability to control panic settlements. One negotiating tactic is to make a lump sum, and agreeing not to disclose the amount being paid by each party, no one outside those parties should know the amount each party paid.

Sharing agreements are particularly beneficial when one or more of the parties has other pending suits raising similar issues, when one or more has potential exposure to others on the same or similar facts, and when the settling entity is potentially subject to "strike" suits.[38] Many cases are settled in this fashion. Most of these dispute resolutions, however, are achieved only because the parties are willing to negotiate together and to share in the ultimate dispute resolution.

For some reason, little has been done to organize a joint defense or a claims facility for patent and other intellectual property cases. It can be argued that this has resulted in greater settlement costs to most of the corporations involved than is needed or warranted.

a. Sharing agreements

The many considerations involved in negotiating and settling multiparty disputes through a sharing agreement are beyond the scope of this paper. An example of a sharing agreement is contained in the Dispute Resolution Manual. However, it is worthwhile to consider some of the issues addressed by such agreements. While not used by potential patent and other intellectual property infringement defendants, their use may increase given the increase in settlement and license

[38] The term "strike suit" refers to suits filed with the intention to settle due to the costs involved, with little basis in fact or with very small amounts of recoverable damages.

demands by intellectual property owners, and the dramatic recent jury awards.

When a number of potential defendants face similar charges, a "sharing agreement" may be advantageous. These agreements provide the signatories with some protection from the pressure faced by these putative defendants from a common type of claim, such as infringements. Agreements have been drafted in other areas of the law[39] requiring signatories to settle as a group, precluding any other actual or potential defendant from entering into a separate settlement to the detriment of the other defendants.

Sharing agreements ordinarily provide for the settlement of cases by the potential defendants. Agreements are reached regarding the timing, dollar amount to be paid, terms of releases or covenants not to sue, protection of the parties regarding the settling party's liability in the case that might be imposed on the remaining parties, and other similar terms.

Sharing agreements are the best technique available when one is concerned about potential exposure due to the acts of others. They are also often one of the most difficult dispute resolution-related agreements to negotiate because they require companies to analyze their particular exposure in the litigation versus that of the other defendants.

Despite the difficulty, companies are now much more inclined to negotiate sharing agreements based upon market share, at least in antitrust cases and others where the amount of exposure is covered at least in large part by the amount of sales each of the defendants has experienced during the relevant time period.

b.. Claims facilities

Multi-party disputes are commonplace today. Insurers dispute coverage, and participants in the chain of distribution contest liability and create substantial uncertainties. Other claims, such as automobile accidents, are too small to warrant heavy expenditures of time and money.

Claims facilities have been designed to expediently process these disputes, using one or more forms of ADR. Over the past five years, five or more such facilities have been established either for specific claims or for more general claims of a common and recurring nature. Such facilities have also been established as part of standard corporate policies for corporations.

On June 19, 1985, the Agreement Concerning Asbestos Bodily Injury Claims was signed by fifty asbestos producers and insurers.[40] Although an extreme example in the number of participants, claims and total exposure, the process of reaching this agreement, and its effectiveness, shows that this ADR might be useful for many types of multiple party controversies.

The asbestos litigation raised enormous problems for insurers and producers. By late 1982, between 15,000 to 20,000 asbestos personal injury cases were pending against over one hundred

[39] Examples of sharing agreements are those that have been executed in connection with environmental and antitrust claims, where each party potentially faces the entire judgment.

[40] See Center for Public Resources, Containing Legal Costs - ADR Strategies for Corporations, Law Firms, and Government at 339 (Butterworth 1988) (hereafter "CPR 1988").

companies.[41] These suits were filed throughout the United States, and were increasing in number each month. The pressure to file these suits was increasing as time passed, in part because when physiological change was found with no impairment on the individual's health it was not clear when the applicable limitations period would commence. Further, insurers, including those with primary and excess levels, were fighting coverage issues with the products.

Among the more important issues were various policy exclusions, "trigger of coverage" questions, and duties to defend claims.[42] Given the latency period often in excess of twenty years, and the number of companies involved, the average suit named twenty defendants. Also, coverage questions for each defendant over this span of time usually included several insurers.[43] The insurance coverage questions in one instance required a trial of nearly one year between five asbestos producers and sixty-five insurers in an auditorium designed for the proceeding.[44]

The Center for Public Resources[45] stepped into this situation in October 1982. At a meeting in CPR's offices, insurers, producers and certain plaintiffs' counsel discussed the creation of an alternative to asbestos litigation. The process begun in 1982 had three stages.

The first stage involved identification of the problems and concerns facing each group, insurers, producers and plaintiffs. After initial group sessions, it became clear that insurers and producers had to first resolve their differences.

The second stage was negotiation among the producers and insurers. These two sides appointed an executive resolution group whose function was to follow general directions of their respective constituents in reaching agreement on the issues. Subcommittees worked on discrete issues. Finally, the parties were assisted by CPR and Professor Harvey H. Wellington, then Dean of Yale Law School.

The Wellington Agreement resolved, or established, an ADR mechanism for resolving, all coverage questions. Punitive damage claims and insurance defenses were dropped, with sharing formulas created in lieu of indemnities and defenses.

The third stage was the creation of a mechanism for dealing with plaintiffs' claims. The claims facility created and permitted the plaintiff to achieve settlement with all participating defendants on their claims. It also allowed plaintiffs to protect themselves from the running of the statute of limitations.

---

[41] CPR 1988, at 340.

[42] CPR 1988, at 340, 350.

[43] Id.

[44] In re Asbestos Insurance Coverage Cases, Ind. Council Coord. Proc. No. 10721 No. 765 226 (S.F. Sup. Ct.); CPR 1988, at 340.

[45] The Center for Public Resources is a corporation dedicated to the reduction of legal costs involved in dispute resolution. For further information, contact Mr. James F. Henry, President, Center for Public Resources, 366 Madison Avenue, New York, NY 10017, (212) 949-6490.

Although it appears that this ADR has not been used to date for intellectual property disputes, some consideration should be given to handling multiparty intellectual property disputes in this fashion. Some patent and copyright disputes could be more easily handled if done in this manner. For example, organizations designed to protect many software companies' interests might more easily handle such disputes through a claims facility. Other groups, such as manufacturers in a particular industry, might also band together to create such a mechanism.

VI. DISPUTE ANALYSIS AND THE BUDGETING PROCESS

Corporations go through cost/benefit analysis for each transaction they consider. The costs and benefits of any dispute should be examined in the same way. This analysis might be more properly treated as risk/reward in the context of the analysis of disputes, since there are costs if one wins or loses the dispute, sometimes certain benefits if one wins or loses, and always costs and benefits for both sides if the dispute is settled.

Despite the similarity, disputes are often analyzed with less care than other business transactions. The reasons are myriad for this less comprehensive review. Principal among them is the view shared by many attorneys that the costs cannot be very accurately ascertained. Nonetheless, a growing number of companies are attempting to do a better job of evaluating the costs and benefits of a given dispute and the various methods by which the dispute can be resolved. There have also been somewhat greater efforts made to resolve disputes at the earliest possible time.

The methods used in accomplishing this task are diverse. The following discusses the types of analysis that may be used, including the form used in the Manual. Dispute analysis is first defined, efforts that can be taken to analyze disputes in a more disciplined manner are reviewed next, and the utility of such analysis in today's business environment is then considered.

A. Dispute Analysis Defined

All disputes have as their basis a disagreement between parties regarding something with a perceived value to one or both sides. In considering the value of a dispute, the potential risks and rewards in a mandatory resolution of the dispute by a third party must be analyzed. The risks can usually be evaluated in terms of the costs involved in pursuing a decision from someone else, generally a fact-finder, concerning the subject matter of the dispute, together with the probable economic losses that the individual, company or other client would suffer if the fact-finder were to find against them. The rewards can be estimated in terms of the likely recovery or economic advantage that could be achieved if the dispute were decided in favor of the individual, company or other client.

Risk/reward analysis is therefore the analysis of both sides of the dispute. The degree of sophistication used to identify and quantify the risks and rewards depends upon the time needed for the analysis, the facts available, and the complications involved in the dispute.

B. Dispute Analysis Methodologies

Many counsel and corporations have adopted formalized risk/reward analyses, offering laudatory comments concerning their accuracy and their utility in achieving faster and more economical dispute resolutions. Sufficient momentum exists so that it is very likely that there will be greater

use of it in the future. The degree of sophistication will continue to vary among counsel and corporations, each with obvious merits and faults. The following analyzes three different methodologies and offers criticism for each one.

1. Results analysis[46]

Probably still the most common form of analysis in use today, results analysis is the determination through a minimum of factors what the likely result will be on the entire controversy. The obvious advantage of this system is that it takes little time. The most obvious disadvantage is that it limits more careful analysis of factors that may affect the results in some significant way.

Typical of this form of analysis is the use of judgments and reports of settlements to determine the amounts paid in personal injury cases. Although insurance counsel are now among the most sophisticated attorneys in dispute management, dispute analysis varies among plaintiffs counsel and still among insurance counsel as well. And arguably this form of analysis is the most useful when facing numerous cases with similar facts.

This type of analysis necessarily must use intuition, obtained from facing similar facts in other cases, even if the gravamen of the cases are unrelated. This is the least sophisticated means by which analysis of the risk/reward parameters of a given situation can be measured.

2. Major issue analysis

The second type of analysis is the use of major issues to develop some more sophisticated model to enable the attorney to decide the most likely outcome. The use of this system will not be dependent upon the use of probability analysis and for purposes of this discussion these analyses will all be categorized within the next section.

Use of major issue analysis is particularly prevalent among insurers and others with common, repeating fact patterns. The concept is to assess broad questions, such as the probability of the jury accepting one side of conflicting testimony and other credibility questions, and to arrive at a conclusion often more carefully analyzed than those arrived at through results analysis.

Some businesses have already adopted major issue analysis in some fashion. These companies use forms or somewhat simple computer programs designed to obtain a rough estimate of the likely costs and outcome of a given dispute. They are usually used only in connection with litigation.

3. Probability analysis

The most modern and advanced form of risk/reward analysis involves the use of probability theory in achieving a mathematical model of the dispute. To date at use principally in the computation of costs and exposures in litigation,[47] this has the greatest promise for litigators and businesspersons.

---

[46] Legal writers have apparently made no effort to categorize the various types of analyses described in this and the following sections. The terminology is therefore new. Hopefully, each term is useful, enabling the reader to identify the different forms of analyses when they are in use.

[47] The most detailed work on this has been done by Marc B. Victor whose company, Litigation Risk Analysis, Inc., has

The advantages of using some form of probability analysis are two-fold. On the one hand, there is a greater likelihood the controversy's likely results will be adequately analyzed. On the other, there is also the likelihood that counsel using this will be better prepared to fight the controversy if and when that becomes necessary, and can better portray the advantages and disadvantages of pursuing the dispute through litigation to management.

If there is any disadvantage, it is the likelihood of too many factors being weighed and the central purposes of the litigation being lost. Since this is most likely to occur when using decision tree analysis, this is explored in detail below.

4. Decision tree analysis

Decision trees are in use for many disciplines and by many corporations and other organizations today. They involve the use of schematic analysis of all, or the most important, factors in the particular project or problem being analyzed. Each issue is identified, given a certain factor of significance, and then evaluated in terms of its likely outcome.

In litigation, the analysis generally has as its objective a determination of the merits of the controversy. After assigning probabilities to the various legal and factual issues, each is combined in some fashion to ascertain the likely outcome of trial and to attempt to foresee the recovery or damages that will probably be involved.

The advantage of decision tree analyses depends in large part upon the sophistication of the lawyer making the analysis both in the use of this type of analytical tool and in the particular area of the law involved. The best possible analysis depends upon both of these factors. Nonetheless, there is little question but that the use of decision trees will enable the lawyer to improve corporation of the case, to prioritize projects and to develop thereby more accurate and detailed budgeting. The use of decision trees can also allow inside counsel to participate in decisions regarding expenditure of money and resources, sometimes deciding that particular projects are not worthwhile from a cost/benefit standpoint.

Although risk/reward analysis properly should include all possible costs and benefits of litigation, current work in this area has usually eliminated this aspect of the analysis. From this standpoint, major issue analysis has a better track record. In all likelihood, the future will bring more accurate means of studying the full costs and benefits of a dispute. The following examines the beginning of one such approach.

C. Budgeting Through Dispute Analysis

The decision tree methodology presents the best form of analysis to date. The only shortcoming of the approach used is the lack of deeper analysis of the true costs of the particular controversy.

---

produced a computer program for use in such risk analysis. This program, "Arborist," is marketed by Texas Instruments, Inc. The following articles by Victor and others detail the use of this type of system, and promote its value in analyzing litigation: Bodily, When should you go to court?, 20 Harv.Bus.Rev. 103 (1981); Greenberg, The Lawyer's Use of Quantitative Analysis in Dispute Resolution Negotiations, 38 The Bus.Lawyer 1558 (1983); Nagel, Applying Decision Science to the Practice of Law, 30 The Prac.Lawyer 13 (1984); Victor, How Much Is a Case Worth?, 1984 Trial 48; Victor, The Proper Use of Decision Analysis to Assist Litigation Strategy, 40 The Bus.Lawyer 617 (1985).

The Manual contains an example of one such decision tree relating to the resolution of an international trade secret controversy.

In order to examine how decision trees can be used in a risk/reward setting, it is first essential to isolate all factors that should be brought to bear in examining the particular controversy. There are at least five major categories of risks and rewards here: (1) the outside costs of sustaining the dispute; (2) the internal costs to the corporation in lost management time and business opportunity; (3) the likelihood of success or failure on the merits; (4) the costs and benefits of success or failure on the merits to the client; and (5) these same costs and benefits opponent(s) and others. These may also be the subject of any budget created. Note, however, that the use of more information on outside and internal costs apart from the ordinary costs of deposition transcripts, attorney fees and the like could be an exceptionally tedious venture over time. It may be best therefor to have made the more difficult cost estimates at the very beginning of the dispute and, if necessary,[48] periodically thereafter.

1. Outside costs of dispute

Outside costs of litigation can be difficult to measure. However, they can often be the most costly. For example, continuation of a lawsuit against one's customer could result in the loss of goodwill with other customers sympathetic with the customer being sued. The outside costs explored below and similar costs should be monitored if possible and their impact minimized through thoughtful public relations activities.

a. Relationship of parties

Perhaps the most obvious stimulus of immediate negotiation is a close relationship between the parties. Unless estranged, persons with close relationships that are likely to continue will rarely bring an action in court or some other forum, seeking instead to obtain a dispute resolution negotiated between the parties.

Even if the dispute reaches the point where the parties do not feel they can handle the dispute by themselves, their first resort is to someone to mediate the dispute. They will rarely proceed next to someone to litigate the controversy.

As the parties become more distant in relationship or recent contact, there is less of a tendency to seek informal negotiations. Despite this fact, even large corporations have committed themselves to seeking informal dispute resolution in the first instance irrespective of the dispute's nature. Although this agreement could be stronger and clearly commit the parties signatory to the cheaper direct dispute resolution negotiations, the agreement is the first general commitment to such negotiations and, as such, is highly recommended.[49]

b. Existence or threat of criminal prosecution

[48] One reason for later estimates would be if the assumptions have changed over time.

[49] The Center for Public Resources' "CPR Corporate Policy Statement on Alternatives to Litigation, is reproduced in the Manual. The most recent signatory list includes six hundred companies.

Criminal proceedings raise distinct and often different considerations depending upon their status or likelihood. If criminal proceedings exist prior to notice to private parties which may have claims against the criminal proceedings' target, there may be delay in initiating negotiations. On the other hand, the absence of criminal proceedings may result in a decision to undertake immediate negotiations.[50]

Pending criminal proceedings often require that any related civil actions be stayed pending the resolution at trial or through plea of the criminal case or investigation. If a stay is implemented, it is usually sought in the first instance by the defense attorneys. The attorneys seek to have the court stay all discovery and actions in the existing case until after the criminal trial based upon the need for and importance of devoting all their energies to defending against the criminal charges. Often the court itself will wish to conserve its own energies, particularly if the case is complex and would require analysis of much of the same legal principles.

Many cogent reasons exist for the coordination of at least some aspects of dual criminal and civil cases, however. For the civil case plaintiff, legal issues common to both cases may be decided by the court in connection with the criminal case that may effectively if not as a matter of law become law of the civil case. Also, there may be discovery for the criminal and civil case defendant that could be coordinated, saving the defendant from the extra work and expense required to conduct separate searches.

For many of the same reasons, it may be desirable to negotiate immediately rather than wait the outcome of the criminal case. The most critical issue will probably be the likelihood of success in the criminal case if trial is to be undertaken. If a successful trial is likely, then the value of the civil case is less and there may be delay in dispute resolution until trial occurs. On the other hand, if trial is chancy, there may be an attempt to settle.

Examples of the different considerations that may go into such a situation may be drawn from the Corrugated Container Antitrust Litigation.[51]

c. Financial obligations or requirements

Dispute resolution may also be delayed or accelerated due to considerations of external financial obligations and requirements. If the defendant has financial obligations that cannot be met or can just be met by income, dispute resolution is likely to be low on the list if the defendant needs to pay its supplier creditors or its bank loans. Similarly, if there are capital requirements for a company's line of credit or for important business purposes, the likelihood of dispute resolution goes down.

---

[50] The possibility but absence of criminal proceedings also can improve the negotiating position of the other side. For example, there remains the possibility the authorities will not discover the possibly criminal activity if no private suit is filed, requiring the persons facing possible criminal action to factor this into their risk/reward analysis. Certain ethical restrictions and criminal laws may apply to the parties and attorneys in these types of situations. These rules and laws preclude the use of the threat of notifying the authorities as a bargaining chip, and preclude the possible defendant from obtaining an agreement that the plaintiff will not approach the authorities with the information.

[51] In re Corrugated Container Antitrust Litigation, 752 F.2d 137 (5th Cir. 1985), and earlier opinions.

The prospect of bankruptcy reorganization is an increasingly important consideration when a company having financial difficulties faces potentially expensive litigation. This consideration may call for greater temperance when considering how much to demand in dispute resolution.

d. Investor and stockholder considerations

Closely related to financial considerations are investor and stockholder considerations. The considerations for the plaintiff may be the mirror image of those for defendants. The plaintiff wants to maximize the timing of its receipt of payment while the defendant wants to minimize the impact of the dispute resolution.

Particularly public companies may wish to delay dispute resolution until there is an adequate amount of profit shown to encourage investment in the company. On the other hand, there may be good investor reasons for immediate dispute resolution. For example, the quick dispute resolution by a defendant may demonstrate a lower value of a suit than a prudent investor would have otherwise evaluated it to be.

A quick dispute resolution by a plaintiff may show greater return than the plaintiff's investors believed the case was worth. Moreover, the plaintiff may want to show a greater profit in a given month, quarter or year and therefore may find dispute resolution delayed until that time more advantageous than an earlier or later dispute resolution.

e. Tax considerations

Although principally material to deciding on when dispute resolution should take place, tax considerations may also enter into the timing of negotiations themselves. Tax considerations can also affect the timing of settlement. The reasons for these considerations are plain. If tax can be deferred on a settlement payment to a plaintiff, or the payment can be deducted in a given year more readily than another, a settlement or other resolution would need to await that event.

f. Related cases

Related cases can stimulate early dispute resolution, delayed dispute resolution, or the decision not to settle at all. Early dispute resolution has been the objective of those facing cases of differing significance to the defendant or plaintiff.

A quicker dispute resolution may encourage other plaintiffs to file similar claims. On the other hand, hard defenses to potential claims can discourage future lawsuits. No clear preference exists among corporations regarding how to address this situation. Some companies publicly state their desire to avoid litigation, while others indicate through actions that they will oppose the other side strenuously without regard to the expenses involved.

2. Internal costs

Some internal costs of handling disputes are readily obvious. These include the costs of court reporters, court fees, outside attorney fees, travel expenses, and other similar costs incurred in maintaining a lawsuit or some other form of dispute resolution technique.

Another category of costs frequently forgotten or ignored when the corporation is involved in a dispute includes those internal costs caused by the corporation's responses to the dispute. These

include lost management time and business opportunities, effects on the corporation's financial rating and strength, and various tax considerations.

a. Lost time and opportunities

Management involvement in disputes can be quite considerable. Calculations of the costs that will be entailed in their involvement should be undertaken because this cost can often be considerably larger than management anticipates. The calculations could be done most simply by determining the percentage of the employee's time that will be taken up by the dispute and then calculating the employee's pay over that time. The higher the management personnel involved, the higher the costs.

Lost business opportunities are much harder to quantify. Here would be the lost sales due to the salespersons absence or unavailability due to the controversy. Other similar costs, such as the loss of qualified subcontractors due to critical time loss, should be calculated as well.

Many economic considerations affect the timing of dispute resolution negotiation. The financial wherewithal of one or both sides often determines the timing of negotiations. The cost of defense and prosecution is also a factor in deciding whether and when to negotiate a settlement or even begin an ADR. Financial obligations or financing requirements may also call for immediate dispute resolution, or awaiting dispute resolution until the obligations are met or financing is completed. Investor considerations may call for early settlement discussions or may call for strategic delay if possible. Finally, tax considerations may enter into dispute resolution negotiation timing.

One can argue that these factors are especially appropriate considerations concerning when dispute resolution should occur, but that discussions may be undertaken from the very outset notwithstanding these factors. For example, settlement can be consummated in a later quarter even if a definitive agreement were reached three quarters earlier. For a public company, there may be requirements of disclosure if the arrangement is consummated, however.

b. Financial rating and strength

In some corporations, particularly in publicly-held corporations, early dispute resolution has become the norm. Many have embraced the "alternate dispute resolution" agreement of the Center for Public Resources and other similar agreements.[52] These agreements only bind the corporations to pursue an ADR other than litigation with other signatories, who are generally large corporations.

Although the list is by no means limited to such companies, many signatory companies may still consider the wherewithal of their opponent if it is a non-signatory before commencing dispute resolution. The ability of the two sides to sustain litigation has been a time-honored tool used to encourage continuing litigation efforts before or during settlement negotiations. This remains the most common argument in favor of delaying settlement. Accordingly, this is one of the more

[52] These resolutions commit the corporations to attempting to resolve disputes at the beginning by alternate dispute resolution techniques. See, e.g., Blue Cross and Blue Shield Association's dispute resolution guidelines, which provide for the resolution of disputes among its Member Plans.

important factors to analyze in terms of its propriety and value.

An initial and important consideration is of course the effectiveness of the strategy of continuing litigation when early dispute resolution is possible. For several reasons this strategy may not be successful in an intellectual property dispute.

One obvious reason for this strategy's lack of success is the significance of the case to the plaintiff. The more substantial the case, the more willing the plaintiff to sustain whatever is necessary to pursue his claims.

Another related consideration is the likelihood of success. If success is likely, the plaintiff will be more interested in continuing the fight.

The plaintiff will also be able to ignore cost in contingency fee cases, where the plaintiff's lawyer is not paid unless the case is successful. If the arrangement were for the lawyer to advance fees and expenses, then there need be no consideration at all of the cost of the suit. For this reason, attorneys often include certain options concerning withdrawal in their fee agreements. For example, agreements often permit withdrawal if the attorney concludes that a fair settlement has been offered but not accepted by the client. When such provisions are included, the defendant may be able to determine the level at which settlement may take place by obtaining the fees agreement pursuant to discovery or by court rule.

The expense to defendants may also encourage settlement. Leaving aside the situations where for strategic reasons the defendant has chosen to refuse to settle,[53] and those situations where the defendant believes he will be reimbursed for fees and expenses,[54] a defendant will always consider the expense of defending a lawsuit when deciding on whether to settle and the amount of money to expend in dispute resolution.

Naturally, the existence of an insurance company defense generally provides that third party with the right to defend and settle the case, taking into account the needs and desires of the defendant. In these situations, the economic considerations for the defendant rest on the more attenuated evaluation of the prospects of loss of future coverage and increase in premiums.

3. Likelihood of success or failure

Most of the current decision tree analysis is focussed upon the likelihood of success or failure. This problem is often handled by examining major issues in the case. The accuracy of the calculation usually is not substantially changed by the reduction of issues but, as discussed earlier, more limited analysis may require more extensive analysis.

4. Corporation's benefits

In addition to the costs of the litigation, the success or failure analysis obviously leads to the

[53] This is the situation with the tobacco companies in cigarette product liability cases, where they have chosen to refuse dispute resolution and to litigate the cases.

[54] Some court rules and statutes allow recovery of some or most of the expenses and fees expended in a case. See, e.g., Federal Rule of Civil Procedure 11.

question of the cost of success. Typically, these costs and benefits are reduced or increased by two factors: (1) the present value of the future recovery or payment and (2) the probability of success or failure.

The concept of present value is simple and can be easily calculated through the use of present value charts often employed in connection with real estate transactions and other business calculations requiring the payment of money over time or at some later date. The present value of a future payment is the amount paid less a discount for the value of investment that was lost over the time period.

The impact of the judgment on the business at the time of the payment should also be calculated. In this manner, there would be consideration given to the state of the corporation at present and five years later.

5. Opponent's costs and benefits

Just as there would be costs and benefits to the corporate client, there would be similar costs to the other side. These must be included in the calculations to determine dispute resolution value since, in practically all situations, the attorney fees and other costs necessary to defend or prosecute the case will be considered in calculating appropriate reductions. Similarly, the benefits of discouraging subsequent lawsuits as a defendant and other competitive and commercial benefits that might be obtained as a plaintiff must be considered.

VII. LEGAL ISSUES IN RESOLVING DISPUTES

Dispute management is fraught with legal considerations for attorneys, fiduciaries and all clients.[55] The following discusses four major issues: (1) attorney, client and settlement privileges, (2) limitations on pursuing dispute resolutions, (3) the ethics of dispute resolution, and (4) the protection of information regarding disputes. These and other issues may be of critical importance to successful dispute resolution. Violations of the requirements discussed below may enable the participants to obtain privileged information, abrogate settlement agreements, pursue criminal prosecutions, and impose damages upon those who have violated their ethical duties.

A. Attorney, Client And Settlement Privileges

Although the general rule requires the protection of communications between those who provide legal advice and their clients, and the protection of settlement agreements, several limitations on these privileges exist. These limitations affect how advice is given and to whom within a corporation, when advice should be given, and when such advice and settlement agreements may be subject to public scrutiny.

[55] Numerous questions can arise that not only deal with the legality of any dispute resolution achieved but which also relate to whether the dispute resolution leaves a partner, or some other party with a business relationship with the settlor, in an alienated and potentially adverse position which is legally acceptable but is nonetheless contrary to particular "business ethics." These choices are not the subject matter of this paper. However, business considerations, including considerations of business ethics, are covered when discussing dispute resolution and negotiation strategies. For an example of guidelines that include business ethics directives, please refer to the Code of International Conduct in the Manual.

1. *Attorney and client privileges*

In general, an attorney's communications with his client are privileged and cannot be disclosed by anyone other than the client. However, this general rule is subject to a number of exceptions.

The attorney-client privilege is a long-standing and well-recognized privilege in the United States that precludes anyone from obtaining any communications between the attorney and the client. What, however, is the client when a corporation is involved? And how consistent are these rules in the United States and in other countries?

The answers to these questions are often not clear and sometimes surprising. For example, some countries have challenged the privilege for any inside counsel to a corporation. And others have permitted raids on attorneys' files dealing with potential unlawful activity.

Furthermore, many international companies may not comply even with the Upjohn criteria[56] which establish the way they may protect their communications with counsel. This is particularly dangerous given the likelihood that they certainly cannot satisfy certain state law privilege requirements, which have stayed with the "control group" test[57] making it harder to ensure that those obtaining advice and involved in communications with attorneys are authorized and sufficiently responsible to preserve the privilege.[58]

Another exception to the attorney-client privilege occurs when a client challenges legal fees. Practically all states provide for the waiver by the client of at least those privileged communications required to demonstrate the fees were justified. This is particularly so with respect to attorney's time records which are now much more detailed than in the past for most firms.

Although not strictly a privilege, the attorney work product doctrine recognizes that an attorney's work on an actual or possible dispute is not subject to discovery. In fact, cases in the United States recognize that these materials are owned by the attorney and copies may not even be provided to a client if the attorney so chooses.

2. *Use of settlement agreements, information, and materials*

A corporation may be required to produce negotiated documents, draft license agreements, and other similar material developed during the resolution of an earlier intellectual property dispute in a later court case on the same subject. Thus, dispute resolution analyses, information, discussions and communications may need to be produced in subsequent cases.

The discoverability and use of settlement agreements, information, and materials ("settlement

---

[56] In United States v. Upjohn Company, 449 U.S. 383 (1981), the United States Supreme Court upheld a test for privileges involved when advice is sought by a corporation. The corporate advice was protected as long as the advice and information were given to and by persons and attorneys who were acting in their corporate capacity.

[57] See, e.g., Consolidated Coal Co. v. Bucyrus-Erie Co., 432 N.E.2d 250 (Ill. App. 1982).

[58] Illinois and a number of states provide that only certain higher level employees within corporations can seek and be provided with privileged advice.

materials") by parties and nonparties vary from state to state. Special rules of evidence and civil procedure in most jurisdictions preclude the use of dispute resolution materials in civil suits involving the negotiating parties. However, there remain substantial questions concerning discovery by third parties or even parties to the case who are not part of the negotiations. Moreover, even the existing rules do not specify exactly what and how this type of evidence can be obtained by a third party.

The discovery issue is fraught with complications and can be quite serious. What are dispute resolution materials? Is it appropriate to have a general rule ensuring confidentiality of dispute resolution materials and precluding their discovery and use? Should there be any confidentiality provided for these materials, or should dispute resolution materials be discoverable? From whom can dispute resolution materials be kept secret? Should some civil cases be considered so important that these materials must be disclosed to the public? Is the press entitled to uncover some, none or all of the materials involved in dispute resolution? What statutes cover disclosures? Are there different rules that should apply if the government is involved? These and other issues are explored below.

a. Settlement materials identified

Precisely what are settlement materials? There are no cases uncovered that define settlement materials, although a definition of sorts is included in certain federal and state rules. These rules generally preclude parties from using settlement discussions and communications in trial.

For example, Federal Rule of Civil Procedure 68 provides that offers to allow judgment may not be introduced in evidence except during a hearing to determine costs. The bar is absolute:

> An offer not accepted shall be deemed withdrawn and evidence thereof is not admissible except in a proceeding to determine costs.

There is no definition of the meaning of the term offer of judgment. Because there is no discussion of whether all of a written settlement offer must be excluded, including admissions that may be contained in the offer, there is no certainty if the meaning of offer includes such materials or not.

The first sentence of Federal Rule of Evidence 408 covers a more clear range of settlement materials:

> Evidence of (1) furnishing, or offering or promising to furnish, or (2) accepting or promising to accept, a valuable consideration in compromising or attempting to compromise a claim which was disputed as to either validity or amount, is not admissible to prove liability for or invalidity of the claim or its amount.

In addition, it specifically excludes "evidence of conduct or statements made in compromise negotiations."

Another problem arises when materials appear to have been used or usable in more than one context. For example, some materials may not be identified as settlement materials, but nonetheless include settlement discussions. These materials may include damage analyses and

other similar documents.

b. Protection of settlement materials

The propriety of protecting settlement materials from public disclosure, civil or criminal discovery or other use is a significant issue. There is of course the judicial policy encouraging settlements. There are many other issues that may come into play depending upon the particular setting either favoring disclosure and use or arguing against it. No other significant argument appears to exist against the discovery and use of non-privileged settlement materials.

Strong language excluding offers of judgment was enacted through Federal Rule of Civil Procedure 68. However, Federal Rule of Evidence 408 was not nearly so absolute. Because of concern that this broad exclusion was sufficient to preclude use of normally discoverable factual information, a sentence was added by the Senate stating:

> This rule does not require the exclusion of any evidence otherwise discoverable merely because it is presented in the course of compromise negotiations.[59]

Moreover, the last sentence of the rule does not even exclude the evidence discussed in the first sentence of the rule if it is being "offered for another purpose, such as proving bias or prejudice of a witness . . .." Thus, even though most materials are easily identified as settlement materials, not all of these materials are necessarily considered settlement materials for purposes of evidentiary exclusion.

B. Prohibitions Against Fostering Litigation

The two oldest forms of ethical prohibitions against suits are champerty and maintenance. The essence of maintenance, the broader of the two concepts, is the encouragement and support of a lawsuit by one or more persons (other than the government) with no interest[60] in the litigation to others who have a controversy with someone else. Champerty is the funding of the prosecution of a litigation with the expectation of obtaining part of the judgment or dispute resolution if the owner of the claim is successful.[61]

The person defending against a champertous claim may also obtain damages at least from the person who maintained the claim.[62] A judge who determines that a valid claim of champerty exists should dismiss the case with prejudice.[63] It should therefore logically follow that any dispute resolution determined to have settled a champertous lawsuit is null and void. Although no cases

---

[59] Senate Report No. 93-1277 at 10. See also Waltz and Huston, The Rules of Evidence in Settlement, 5 Litigation 11,15 (1978).

[60] See Champerty and Maintenance, 14 Am Jur 2d 843 (1964 ed.); The Cherokee Nation v. United States, 355 F.2d 945, 951 (U.S.Ct.Cl. 1966).

[61] 14 Am Jur 2d at 843-44; Restatement of Contracts, sec. 540(2).

[62] Golden Commissary Corp. v. Shipley, 157 A.2d 810 (D.C.Mun.Ct.App.).

[63] Decker v. Becker, 143 Wis. 542, 128 N.W. 404.

precisely on this point have been found, champertous dispute resolutions could be subjected to successful rescission.

C. Ethical Obligations In Dispute Resolution

Attorneys have distinct and enforced ethical obligations regarding the assessment and negotiation of dispute resolutions. They must prudently advise their clients regarding the merits of the controversy and the parameters of an appropriate dispute resolution. Under certain circumstances, providing dispute resolution advice, or failing to do so, could result in a damage award against the attorney for incorrect or improperly motivated advice, for failure to give timely advice, or because the lawyer had a conflict of interest due to prior representation or regarding some aspect of the dispute resolution. Attorneys' decisions regarding dispute resolution agreements and all other phases of a dispute may also subject the attorney to malpractice claims.[64]

Anyone charged with responsibilities for others, such as trustees and guardians, may be required to negotiate successful settlements or face at least some of the sanctions imposed on attorneys. Also, courts and juries may be more inclined today to award damages to aggrieved parties because of the courts' greater emphasis on dispute resolution due to their clogged dockets,[65] and the perception that many persons whose fees depend upon the continuation of litigation have little interest in dispute resolution.[66] Accordingly, it is extremely important to insure that these ethical questions are understood and handled correctly.

These considerations may mean that liability might also exist if the fiduciary chooses to settle at the very outset and then it is shown that dispute resolution could have been obtained for less if there had been delay before dispute resolution negotiation rather than immediate efforts at settlement.

Many complications may arise during the pendency of a dispute. Liability has been assessed to date only for the failure to delay. Moreover, it would be difficult to prove, particularly in a single defendant suit, that there should have been delay given the added attorney fee and cost burden, the different positions of even different defendants on liability and the unanticipated changes that occur during litigation. Early dispute resolution discussions are therefore probably the most prudent for all fiduciaries as well as those who have no fiduciary duties, particularly because they are almost always more advantageous to the parties. The following sections examine major factors that should be considered when deciding when to begin dispute resolution discussions.

---

[64] A lawyer's oral employment contract requires him or her to exercise ordinary skill, prudence and diligence as other lawyers commonly possess, and he may be sued for a breach of this implied covenant. Lucas v. Hamm, 56 Cal.2d 583, 364 P.2d 685. Presumably because this is wrapped up in the attorney's Canons of Ethics, potential claims cannot be waived in a written contract.

[65] United States courts strongly favor alternative dispute resolution at least in part due to their crowded dockets and their evaluations that are based on keeping their dockets current.

[66] Most counsel agree that this is no means epidemic, and feel that the desire to increase fees and to avoid dispute resolution can be perceived fairly quickly.

1. *Failure to recommend settlement*

The most obvious attack against an attorney's advice is one based on the failure to provide adequate advice regarding the propriety of dispute resolution. It has been said that "with increasing frequency, clients have been charging their attorneys with negligence regarding a settlement," including "failing to recommend a settlement."[67] It is conceivable that the failure to recommend an ADR is also actionable.

Attorneys may be liable for some portion or the entirety of any judgment that exceeds the amount for which the claim could have been settled before trial. In Lysick v. Walcom,[68] an attorney found himself on appeal from a judgment in his favor regarding his actions in connection with the trial of a personal injury suit. An accident had occurred in which two persons were killed by the decedent of the defendant estate. Plaintiffs offered to settle a $450,000 claim for $12,500. A counter-offer of $9500 from the decedent's insurer was rejected.

The defendant attorney was brought into the case by the insurer, representing both the insurer and the decedent's estate. He was told by the insurer that at the proper time a settlement offer by the insurer could be made for the full amount of decedent's policy, $10,000. The insurer left the timing up to the lawyer. The lawyer failed to mention the offer to the decedent's estate in a timely fashion, nor did the lawyer offer the full amount until just before trial. At that time the offer of $10,000 was made, which was refused. The jury returned a verdict against the decedent's estate in the amount of $225,000.

After the suit was tried, a lawsuit was commenced against the insurer and attorney for bad faith and negligence. The defendant insurer settled and the trial resulted in a jury verdict for the defendant lawyer. On appeal, the court held that:

> By continuing to act as counsel for the estate, while entertaining the belief that his primary obligation in the matter of dispute resolution was to the insurer, defendant violated the legal and ethical concepts which delineated his duties to the estate.

65 Cal.Reptr. at 415-17.

The failure to keep a client informed concerning developments regarding the dispute resolution may be sufficient to permit a reprimand or other action against the lawyer.

2. *Contact with other party*

In general, attorneys are prohibited from communicating directly with parties represented by other attorneys.[69] In some jurisdictions, communication of an offer for judgments has been

---

[67] Mallen & Levitt, LEGAL MALPRACTICE sec. 138, 846 (1977). The client must be informed concerning dispute resolutions and dispute resolution offers so he can determine if he wishes to obtain different counsel, settle or make some other decisions. See, e.g., Rogers v. Robson, Masters, Ryan, Brummund & Belom, 74 Ill.App.3d 467, 392 N.E.2d 1365 (1979, aff`d, 81 Ill.2d 201, 497 N.E.2d 47 (1980); Rice v. Perl, 320 N.W.2d 407 (Minn.1982).

[68] 258 Cal.App.2d 136, 65 Cal.Reptr. 406 (1968).

[69] See Disciplinary Rule 7-104(A)(1):

considered proper, however, in light of specific court rules or statutes.

The issue of contacting the party on the other side has been raised in several American Bar Association and state bar association opinions.[70] The thrust of these opinions is that offers may be made directly to another's client if permitted by rule or statute, a copy is served on the attorney for the other side and the action is not being taken "with any improper motive or purpose."[71]

Henry Drinker's views are that contact is permissible if there is a refusal of the other side's attorney to communicate an offer and the refusal is not predicated upon a belief that the offer should not be considered:

> Where, however, his refusal to submit the offer is because he has an arrangement for a contingency fee, or because his outstanding bill for services has not been paid, it would seem that the other lawyer should be permitted at least to bring the facts before the court [or for the lawyer or his client] to contact the other party at a time and place for which the declining lawyer is advised.[72]

A corollary to this rule is that it is the client's decision as to whether to settle or litigate a controversy, not the attorney's decision. Nonetheless, an attorney may not need actual authority to settle a dispute.

3. Attorney fee considerations

Ethical challenges often arise in connection with contingent fee arrangements. An example of one such agreement may be found in the Manual.

If a contingency agreement provides that fees and expenses are recoverable only out of any recovery, some courts and statutes hold that it is champertous. This was the apparent choice of the American Bar Association's Code of Professional Conduct which required that "the client [remain] ultimately liable for such expenses."[73] Contingency agreements that provide for the receipt of fees only after recovery is obtained have not been held to be champertous under this rule.

In the more recent Model Rules of Professional Conduct, the American Bar Association has determined that both fees and expenses can be advanced, contingent upon the success of the lawsuit.[74] Moreover, the costs of a lawsuit to an indigent can be advanced under the new rule without any entitlement to reimbursement.

The assignment of a claim is also subject to being construed as champerty and/or maintenance.

---

[70] ABA Informal Opinions 985, 1019, 1348; Ohio St. Bar Ass'n Op. 23; N.C.St. Bar Op. 672; Wash.St. Bar Ass'n Op. 96.

[71] ABA Informal Op. 985.

[72] Henry S. Drinker, Legal Ethics, at 203.

[73] Disciplinary Rule 5-103(B).

[74] Rule 1.8(e).

Some suggestion of this possibility may be found in a recent patent assignment case.

Should the agreement be champertous, the attorney risks loss of his fees and time devoted to the litigation. The attorney may also end up paying some or all of the other side's fees and other damages. Finally, certain ethical breaches that occur if champerty exists[75] may subject the attorney to disciplinary action, such as the suspension or revocation of the attorney's license, and even to criminal prosecution.[76]

A finding of champerty could make the lawyer liable to the other side for damages. If the dispute resolution agreement were considered void or voidable due to the offense, the lawyer's client may also be able to recover any losses he incurred unless it could be shown that the risk was explained to the client prior to the contingency fee arrangement.

Ethical issues may also arise when contingency fees are contracted for and a structured dispute resolution takes place. Does the attorney obtain his full payment when the dispute resolution is structured? This has been answered in cases where the fee agreement has been ambiguous, with the cases holding that the award is to be paid only at the same pace as the client receives his payment. Thus, the attorney cannot negotiate a dispute resolution that gives him more than the portion of each payment that he is entitled to under the fee agreement.[77]

Other troubling ethical questions arise when the defendant attempts to coerce the other attorney to a dispute to forego payment of attorney fees in order to obtain a dispute resolution for his client. This may constitute interference with contract if defense counsel attempts to do this when there is a written contingency fee agreement.[78] When the right to attorney fees is only statutory, however, the attorney may be duty bound to accept the dispute resolution for his client even if this means waiver of his right to fees.[79]

An attorney can also face exposure when a settlement is rejected on an attorney's advice who is entitled to contingent fees. A Kansas case suggests that in appropriate circumstances an attorney entitled to a contingency fee advises against settlement when his clients wish to settle may be acting improperly. It also suggests that the other side to a controversy may be able to obtain an

---

[75] See, e.g., Illinois Code of Professional Responsibility, Canon 5, Disciplinary Rule 5-103.

[76] Criminal prosecutions for simple champerty or maintenance are very rare if not non-existent today. Statutes are still on the books for these offenses, however. A special form of champerty is barratry, i.e. the fomenting of multiple lawsuits. "Ambulance chasing" is an example of barratry. Although lawyers are most prone to such claims, laymen may also be prosecuted and sued.

[77] See, e.g., Cardenas v. Ramsey County, 322 N.W.2d 191 (Minn.1982); In re Chow, 656 P.2d 105 (Hawaii Ct.App.1982). But see Donaghy v. Napoleon, 543 F.Supp. 112 (N.J.1982)(increased award percentage in contingency fee for structured dispute resolution).

[78] No lawsuit dealing with this issue has been found.

[79] The most recent case on this point probably resolves the issue for federal court dispute resolutions. In Evans v. Jeff D., 106 S.Ct. 1531 (1986), the United States Supreme Court found that there was an obligation to recommend dispute resolution in a civil rights suit even if attorney fees had to be waived.

order requiring settlement from a court if it can be proven that the attorney was acting with improper motives.[80]

4. Multiple party representation

Demonstrating the weight placed on the sensitivity of representing multiple defendants in settlement negotiations, the only disciplinary rule dealing with settlement in the American Bar Association's Model Code of Professional Responsibility dealt with this subject. According to Disciplinary Rule 5-106:

> A lawyer who represents two or more clients shall not make or participate in the making of an aggregate dispute resolution of the claims of or against his clients, unless each client has consented to the dispute resolution after being advised of the existence and nature of all the claims involved in the proposed dispute resolution, of the total amount of all the claims involved in the proposed dispute resolution, of the total amount of the dispute resolution, and of the participation of each person in the dispute resolution.

Disciplinary rules cannot be waived and their violation can result in reprimand, suspension or revocation of a license to practice law. Moreover, the violation of disciplinary rules may result in the forfeiture of attorney fees and damages if the violation has adversely affected a party or client.

D. Fiduciary Dispute Resolution

Numerous settlements are made by or through fiduciaries. In addition to attorneys, insurance companies have been likened to fiduciaries in both first party and third party insurance contract[81] situations. Class action representatives have also been recognized to have certain obligations, but to date no case has been found that has held the class representative liable for incorrect dispute resolution decisions. They and other fiduciaries may have special responsibilities when settling controversies on behalf of others. In the absence of good faith, each may be liable to their clients for compensatory and punitive damages.

1. In general

The major question that must be posed in any fiduciary situation is whether the settlement could have been reached in a quicker, more efficient manner. The fiduciary may face claims if he fails to settle a case properly, just as he has exposure in making any other decision for others. Insurance companies have experienced substantial damage awards in light of findings that they did not act in the best interest of their insureds in seeking dispute resolutions. Whether any others will be exposed to damages in the same way insurance companies currently are is a question in large part unanswered today.

---

[80] Giles v. Russell, 222 Kan. 629, 567 P.2d 845 (Kan. 1977). An attorney's settlement authority has been reviewed in several jurisdictions. In some, the attorney must be provided with specific authority before his agreement can bind the client. In others, the attorney is considered to have an agency to do so if the circumstances permit such an inference.

[81] First party insurance includes policies covering items such as automobiles and homes. Here only first party claims exist generally. On the other hand, third party insurance includes all form of liability insurance where the insured is potentially liable to others for his acts or omissions.

Despite the generally greater control exercised by insurers it is likely that there will be greater scrutiny of other fiduciaries, and particularly lawyers, in the handling of dispute resolutions. Only time will tell as to whether these other fiduciaries will have similar duties imposed on them. Attorneys already have faced exposure similar to that of insurers, however. It will probably only be a matter time until they and others face broad-based attacks on their advice regarding whether to settle or dispose of a dispute by some other means.

2. Insurers' dispute resolution obligations

Of all the various forms of fiduciary relationships, the insurer/insured is by far the most developed in terms of the fiduciary insurer's obligations to the insured. Although persuasive arguments have been made that the relationship in first party insurance contracts is not fiduciary, there has been little argument that when the insurer is entitled to undertake the defense and prosecution of claims on behalf of the insured, including the dispute resolution of such claims, the relationship imposes significant responsibilities on the insurer.

Because the relationship between insurer and insured is contractual, questions regarding when the insurer has the obligation to seek a dispute resolution in good faith could be a matter of contract. However, there is a "covenant of good faith" recognized in insurance and other contracts which has been interpreted to require the insurer to act with the utmost good faith towards the insured at all times. Thus, a justifiable position probably could be taken that the insurer has an obligation to seek dispute resolution as soon as he has found out about a potential claim and has obtained sufficient information to evaluate the claim on an adequate basis irrespective of the language of the contract. Typically, the courts have recognized an obligation to defend arising at the time the grounds of a complaint filed in some court are known.[82]

3. Class action representatives

Certain persons can have specific obligations when efforts are being made to settle class actions. These include at least the class' attorneys and the class representatives. Both are in fiduciary relationships with the class under both state and federal law,[83] and both consequently should have specific dispute resolution obligations. The law in this area is particularly unclear, however.

As to both groups, there are few signposts and many questions regarding their obligations to initiate dispute resolution negotiations. In fact, the Manual for Complex Litigation recommended against early dispute resolutions in class actions.[84] The caution here is presumably over the need to insure that the facts are well-known.

The many benefits of rapid dispute resolution, particularly of some of the defendants in multiple defendant cases, lead some courts to encourage dispute resolution and to largely ignore the

---

[82] See, e.g., U.S.Fidelity & Guaranty Co. v. Louis A. Roser Co., 585 F.2d 932, 936 (8th Cir.1978); Holland American Ins. Co. v. National Indemnity Co., 75 Wash.2d 909, 454 P.2d 383 (1969).

[83] Shelton v. Pargo, Inc., 582 F.2d 1298, 1305 (4th Cir. 1978); Rothman v. Gould, 52 F.R.D. 494 (S.D.N.Y.1971).

[84] Manual For Complex Litigation, §1.46 at 59 (5th ed.1982).

Manual. Others have followed the Manual's position.[85]

VIII. DISPUTE MANAGEMENT TECHNOLOGY

As quality improves, more dispute management software products are being introduced. Among the tools that an attorney may have today are software programs designed to provide decision tree analysis, budgeting, billing, multimedia presentations, and sophisticated database systems.

Technically, any software used to manage some aspect of a dispute is "dispute management software." However, some software has been developed, or has existed for some time, that specifically addresses the dispute management process. Many software packages can perform the functions necessary to manage disputes. The following addresses various types of software available today, or which can be easily designed, to make the dispute process more manageable.

Decision tree software has existed for some time. A package was designed and used for dispute analysis in the early 1980's which is no longer available. Another package, "Decision Analysis" by Tree Age, has effectively taken the place of the older software. Current versions are in DOS, not Windows. We expect a more updated release in the near future. An example of a dispute decision tree is in the Manual.

Virtually any database software package is available to create databases of documents and other information. Some specialized packages also exist.

Almost every law firm and business today creates databases for its documents. Specialized uses of these databases by attorneys for the internal organization of their files raise important privilege and copyright questions that should be reviewed more carefully as these databases are being created and used.

Multimedia and virtual reality are just coming into the courtrooms in the United States. There has been talk about using embedded images in documents, to be transmitted to judges and used in jury presentations. Virtual reality has been used to some degree in order to recreate an event, principally in personal injury cases.

These newer technologies provide a substantial advance to educate juries and other triers of fact. We anticipate greater use in patent and other intellectual property cases in order to demonstrate infringements and to prove other facts necessary in these cases.

[85] McDonald v. Chicago Milwaukee Corp., 565 F.2d 416, n.3, 420 (7th Cir.1977).