

WHEN THE DEAL GOES SOUTH: DISPUTE NEGOTIATION AND ADR

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During the romance no one wants to contemplate divorce, but experience teaches that antenuptial agreements may save stress later. So, too, no one negotiating a business deal wants to contemplate what will happen if the deal goes south, but some time spent discussing the issues in advance may save shouting over the issues later. Moreover, because license agreements are often negotiated as a way to settle an existing intellectual property dispute, the prospect of further contentiousness is all too real.

I. The Default: How Disputes Get Resolved When the Deal is Silent

Typically when a dispute about the meaning or effect of a license agreement occurs, the parties try to work it out. Negotiations between business people are less expensive than if lawyers are involved. Negotiations between business people or business lawyers are usually less acrimonious than if litigators are involved and more likely to produce a new acceptable business arrangement.

If negotiations fail, and the license agreement does not provide otherwise, the parties go to court. Which court depends on the kind of intellectual property and the kind of dispute.

Both patent and copyright disputes lie within the exclusive jurisdiction of the federal courts. But here's a surprise: disputes about patent or copyright *licenses* are not patent or copyright disputes. They are contract disputes. Absent diversity jurisdiction or an argument that the conduct took the dispute entirely out of the agreement, the federal courts are closed to such disputes. For federal trademark disputes there is concurrent jurisdiction in state and federal courts; for disputes about state trademarks only state courts are open, absent diversity.

Where there is an agreement, it will often be a basis to argue that money damages are adequate and capable of computation by reference to the parties' own agreement. This availability of an adequate remedy at law is usually a bar to injunctive relief. A provision in the agreement stating that money damages are inadequate and permitting injunctive relief is evidence, but does not bind a court to that conclusion.

Absent an expediting order or a basis to seek injunctive relief, the case will become mired in the docket delay of the local court. In federal district court in 2002 the median time from filing to disposition nationally was 8.7 months for civil cases of all types; it was 20.8 months from filing to trial for all types of federal cases. IP cases being more complex than diversity car accidents, they probably usually take longer than these overall medians. State court delays vary widely. Full discovery under the applicable rules will be available and lawyers' fees will accrue at the rate of the second hand on the clock.

In most jurisdictions, at some point, there will be an effort to settle the case. Whether that takes the form of a conference with a judge (magistrate or district) or a court annexed mediation or arbitration is very much a matter of local practice.

Ultimately a jury, if requested, or if not a judge, will hear evidence at a trial and resolve the dispute. There is a right of appeal to a Court of Appeals from a final judgment, and a very slim chance the Supreme Court might grant certiorari.

In both court and private dispute resolution the parties pay counsel. But in private dispute resolution filing fees to the forum are dramatically more expensive. The daily rate of arbitrators is either paid jointly by the parties or assessed against the loser, while the taxpayers pay for a judicial decision-maker.

II. Negotiation Between the Parties

Although common sense would suggest that the parties should first try to work out their problems by themselves without third party intervention, emotion often gets in the way of common sense. Thus, it may be prudent to require this common sense step when the deal is negotiated, before emotion reigns.

As John Connor (Sean Connery) notes in the movie Rising Sun "Americans like to fix the blame. The Japanese fix the problem." This procedure is designed to fix the problem, not the blame.

The CPR Institute for Dispute Resolution (described in more detail below) has some proposed alternative language to achieve this goal:

- **NEGOTIATION BETWEEN EXECUTIVES**

(a) The parties shall attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between executives who have authority to settle the controversy and who are at a higher level of management than the persons with direct responsibility for administration of this contract. Any party may give the other party written notice of any dispute not resolved in the normal course of business. Within [30] days after delivery of the notice, the receiving party may submit to the other a written response. The notice and the response can include (a) a short statement of each party's position and a summary of arguments supporting that position, and (b) the name and title of the executive who will represent that party and of any other person who will accompany the executive. Within [60] days after delivery of the disputing party's notice, the executives of both parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to attempt to resolve the dispute. All reasonable requests for information made by one party to the other will be honored.

(b) All negotiations pursuant to this clause are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of confidentiality, evidence and professional secrecy.

Commentary

Negotiation is, of course, the time-honored initial step in attempting to resolve disputes. However, because it can be difficult for the representatives of the parties who are directly involved in a dispute to resolve it, this clause requires, in the event of impasse between the initial negotiators, that the dispute be referred to senior executives of the parties whose presumably greater objectivity may make a successful resolution more likely.