Considering Arbitration or Mediation for Licensing Disputes

by Theodore K. Cheng

It is commonplace in the intellectual property and technology fields for parties to enter into licensing arrangements for any variety of different business reasons. Unfortunately, despite good intentions and much optimism when those deals are consummated, disputes over those agreements are themselves also a common occurrence. For example, a photographer may decide to license her catalog for use in connection with a theater production, but keeping track of which photographs are being used by the producers immediately becomes a challenge, leading to uncertainty over the appropriate amount of royalties that are due. A merchandising firm specializing in bobbleheads and other likenesses of celebrities may approach a popular NFL team to discuss the potential of making figurines of star players in football uniforms, but the end products bear little resemblance to the actual players, and the reproduced team trademarks do not comply with the specifications provided by the league. A consumer products company may need to incorporate raw materials or chemicals distributed by a manufacturer, but encounters shipping delays that threaten to cause havoc with its own production schedule and inventory.

It would not be surprising in the least to turn to commencing a traditional federal or state court action as an almost knee-jerk reaction to solving these kinds of licensing problems. But in resorting to litigation, how often do we think about the additional transaction costs that are incurred in choosing this particular way to resolve the dispute? For example, it goes without saying that it costs money to resolve disputes. But it's also important to remember that the true costs can be both direct and indirect. Direct costs could encompass e-discovery and document production costs, deposition expenses, expert witness fees, and, of course, legal fees. Indirect costs could include negative publicity, reputational harm, loss of employee productivity, and lost business opportunities because resources are being directed towards resolving the dispute. Moreover, the longer it takes to achieve a resolution, the greater the likelihood that all of these costs will have an adverse impact on future growth and profitability. And, as the dispute wears on, both the licensor and licensee derive increasingly less benefits from their underlying agreement.

In that regard, disputes also unavoidably take up time, and, as Benjamin Franklin once noted, "Time is money." And worse yet, disputes spend time on your behalf. Three-time Pulitzer Prize-winning American poet, writer, and editor Carl Sandburg once said that "Time is the coin of your life. It is the only coin you have, and only you can determine how it will be spent. Be careful lest you let others spend it for you." Every metric of time diverted to handling a dispute is not being devoted to furthering the core business interests of either the licensor or licensee. Disputes also hold the parties hostage to a particular moment or moments in time. Most poignantly, the point in time when the dispute arose becomes the focus and remains so until the dispute is resolved.

Money and time are the most obvious transaction costs. But the loss of emotional capital can be equally, if not more, debilitating. David Packard, the late co-founder of Hewlett-Packard, said, "A group of people get together and exist as an institution we call a company so they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society, a phrase which sounds trite but is fundamental." A business is nothing but the passion, dedication, and commitment of its people, and, as Jack Welch, former CEO of GE, said, "It goes without saying that no company, small or large, can win over the long run without energized employees who believe in the mission and understand how to achieve it." Individuals who can direct their emotional capital toward what they enjoy doing are the ones who contribute the most to the business objectives and, consequently, to overall success. At the same time, individuals who are compelled to invest emotionally in issues having little or nothing to do with the business objectives – such as an unresolved dispute – are likely to find themselves impeded in their ability to participate meaningfully and, thus, feel disheartened, discouraged, and demoralized. Devoting energies towards resolving disputes requires an expenditure of emotional capital that will almost always take a negative toll.

Finally, putting faith in the courts to achieve a resolution means ceding ultimate control over the outcome to someone other than the parties to the dispute, namely, the judge and/or the jury. Influential management consultant Peter Drucker once said, "Management is doing things right; leadership is doing the right things." Steering a business in line with its mission, growing profitability, respecting and responding to its customers, and safeguarding its reputation are all responsibilities over which management must exercise proper control. Disputes, however, hold the potential to diminish management's ability to control one or more of these areas. In a court proceeding, both licensors and licensees have little to no control over the outcome, creating the potential for results that could adversely impact each of their respective businesses.

Considered together, these transaction costs point to one inescapable conclusion: the more we rely on court litigation to achieve our dispute resolution goals, the more money, more time, and more emotional capital we expend to secure an outcome over which we have less and less control. Litigation is an appropriate dispute resolution mechanism in certain circumstances, but it has many serious limitations, including the inability to accommodate a customized process for the dispute in question; appearing before a decision maker who more than likely has little to no expertise in the subject matter of the dispute; and the inability to maintain true confidentiality because of the public nature of the proceedings.

Licensing disputes have long been resolved competently, cost-effectively, and expeditiously by arbitrators and mediators, who either work wholly outside of the court systems or in court-annexed programs designed to

offer litigants an alternative to slavishly following court procedural rules. These processes afford the parties a great degree of flexibility because, at their core, they are processes that the parties contractually agreed to undertake utilizing parameters determined, for the most part, by the parties themselves. Even after a dispute has arisen, the better practice by arbitrators and mediators is to engage the parties and their counsel to continue tailoring the process to fit the dispute in question, assisting the parties to design a process that makes sense to them and their business priorities. One design option to consider is placing reasonable limitations on the scope of information exchange so as to avoid the broad and nearly unfettered discovery found in court litigation. For example, the parties could agree to informally exchange information in advance of a mediation session; eliminate depositions; severely restrict the use of interrogatories; or exchange witness statements in advance of the hearing in lieu of conducting direct examinations. The parties could also consider setting aside extended time for ex parte communications with the mediator in order to help crystallize their positions and bring the parties closer to a resolution; placing restrictions on motion practice; and agreeing to limit the number of expert witnesses or even agreeing to retain joint expert witnesses.

Licensing disputes are essentially breach of contract actions, and, depending on the context, they may call for having a facilitator or decision maker who possesses sufficient subject matter knowledge and/or expertise to understand the true parameters of the dispute. That knowledge or expertise could be focused on the industry in which the licensing arrangement was consummated. It could also include substantive knowledge of the legal framework applicable to such arrangements. Unlike in a court proceeding, the parties can choose a neutral based upon relevant criteria such as patent, trademark, or copyright expertise; prior experience in or with the industry; reputation and temperament; prior arbitration or mediation experience; availability; and a host of other factors. Thus, selecting the appropriate mediator or arbitrator can oftentimes maximize the likelihood that a resolution can be achieved, in that that selection may be critical to being able to work with a neutral who can appreciate both the legal issues and the technical industry concepts involved.[1]

As a drafting matter, the parties can require in their licensing agreement that the neutral have specific subject matter and/or industry expertise. One place to look for potentially eligible neutrals is the Silicon Valley Arbitration and Mediation Center (www.svamc.org), which annually promulgates its "List of the World's Leading Technology Neutrals."[2] This free and publicly available list "is peer-vetted and limited to exceptionally qualified arbitrators and mediators known globally for their experience and skill in crafting business-practical legal solutions in the technology sector." It is an excellent resource for at least identifying arbitrators and mediators who have significant experience in intellectual property and technology disputes, many of whom also have substantive experience in specific industries, such as arts and entertainment, information technology and software, and retail goods and consumer products.

Although arbitration and mediation both involve engaging the services of a neutral third-party akin to a judge, unlike a court proceeding, both are also confidential processes. The neutral and any provider organization administering the proceedings are obligated to maintain the confidentiality of the proceedings and may not disclose any of the particulars to the general public. The parties themselves can also agree to maintain confidentiality over any arbitration or mediation proceeding. However, absent governing law, a court rule, or the parties' agreement, neither process is inherently confidential, and there are limitations on maintaining confidentiality.[3] Notwithstanding those limitations, the ability to maintain confidentiality in both arbitration and mediation proceedings is a significant distinguishing factor in selecting that dispute resolution mechanism. Thus, for example, avoiding the potential for unwanted publicity associated with filing a lawsuit – particularly one involving prominent celebrities or well-known corporations – can be agreed-to in the licensing agreement itself before any dispute has arisen. Moreover, because licensing arrangements, in many instances, contemplate an ongoing relationship of some kind once the dispute has been resolved, the confidentiality afforded by both arbitration and mediation can perhaps be modestly helpful in preserving that relationship.

Finally, when disputes arise in an international or cross-border context, being able to have an arbitration award recognized and enforced in most countries in the world through the operation of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention) is a distinct advantage over pursuing litigation in any particular country's local courts.[4]

Choosing to use arbitration or mediation as alternatives to court litigation in the parties' licensing agreement is something that should be seriously considered. These processes have the potential to address many underlying concerns when a dispute arises, such as designing and tailoring the dispute resolution mechanism to better fit the dispute in question; ensuring that the neutral third-party who will be either be adjudicating the dispute or assisting the parties in facilitating a negotiated resolution has the appropriate level of knowledge and expertise with the subject matter of the dispute and/or the industry; and maintaining confidentiality over the proceedings. The two processes can even be combined in what is known as a "step" or "tiered" dispute resolution clause, which would typically require the parties to attempt good faith negotiations by themselves as a first step, followed by the initiation of a formal mediation proceeding if the parties need the assistance of a neutral, and then finally, the commencement of an arbitration proceeding only after the mediation has failed to achieve a facilitated resolution. In that way, the parties' shared interest in resolving the dispute cost-effectively and expeditiously can be better realized.

Theodore K. Cheng is an independent arbitrator and mediator, focusing on commercial, intellectual property, technology, entertainment, and labor/employment disputes. He has been appointed to the rosters of the American Arbitration Association, the CPR Institute, FINRA, Resolute Systems, the Silicon Valley Arbitration & Mediation Center's List of the World's Leading Technology Neutrals, and several federal and

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for the process. In meeting that responsibility, the mediator serves the parties. For the lawyers who represent clients in the mediations, after all is said and done, isn't it often the client's degree of satisfaction with the mediation process, irrespective of outcome, that determines how happy the client is with his or her lawyer?

For those of you who want to read more of Dr. Poitras' study, it is available at https://doi.org/10.1111/j.1571-9979.2009.00228.x. I intend to follow this article with additional ones that speak further to each of the subject areas that his paper identifies – degree of mastery over the process, explanation of the process, warmth and consideration, chemistry with the parties, and lack of bias toward any party—and what it is a trusted mediator can do to improve the mediation experience for the participants and with it improve the likelihood of a successful result.

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Endnote:

[1]Poitras, Jean, What Makes Parties Trust Mediators?, Negotiation Journal, July, 9, 2009, John Wiley and Sons.

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One of our authors bridges the two principal facets of ADR by looking at the use of arbitration or mediation in licensing disputes. Theodore Cheng sets the stage for his analysis by reminding the reader of the obvious disadvantages of traditional litigation as well as the sometimes-forgotten costs of traditional adversary proceedings. This article suggests that Arbitration and mediation, either alone or in tandem, are especially well suited to licensing controversies.

This issue includes three articles that provide practical considerations for neutrals and attorneys representing clients in mediation. Two federal court mediators Cynthia R. Mabry-King and Rebecca Price share their experience mediating controversies in federal court. Practitioners would be well-advised to pay attention to the qualities these mediators recognize in the most effective mediation professionals. From the other perspective, Arthur Pressman examines the importance of trust in the mediator as a starting point to effective mediations. This is the first a promised series of articles focusing on the mediation process. Finally, Sam Imperati also zeros in on the Traits of a Mediator with a unique and thought-provoking approach to this often talked about topic.

We hope that our readers will find this issue of The Resolver useful and stimulating. We welcome your comments and reactions, and we invite you to contribute your own thoughts, analyses and opinions to our next issue which will be published in time for the FBA Mid-Year Meeting in Spring 2019.

Thank you for your support.
Alexander Zimmer, Editor

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state courts. Mr. Cheng also has over 20 years of experience as an intellectual property and commercial litigator. More information is available at www.theocheng.com, and he can be reached at tcheng@theocheng.com. An earlier version of this article appeared in the NYSBA Entertainment, Arts and Sports Law Journal, Vol. 29, No. 1 (Spring 2018).

Endnotes:

[1]See, e.g., Douglas Shontz, Fred Kipperman, and Vanessa Soma, "Business-to-Business Arbitration in the United States: Perceptions of Corporate Counsel," Rand Institute for Civil Justice, at 1-2, 32 (2011) (finding that a majority of respondents in a study reported that arbitrators are more likely to understand the subject matter of the arbitration than judges because they can be selected by the parties), available at www.rand.org/content/dam/rand/pubs/technical_reports/2011/RAND_TR781.pdf.

[2]See https://svamc.org/techlist. The author is proud to have been appointed to this distinguished list since 2016.

[3]See Theodore K. Cheng, "Maintaining Confidentiality in Arbitration," The Resolver (Spring 2018), at 5 (discussing parameters of confidentiality in arbitration proceedings, including some of the limitations).

[4]See Theodore K. Cheng, "Arbitration of Art and Cultural Heritage Disputes," NYSBA Entertainment, Arts and Sports L. J., Vol. 28, No. 3 (Fall/Winter 2017), at 32 (discussing the advantages of the New York Convention).