

IP Mediation at the Federal Circuit

The court's fledgling program has proven to be surprisingly successful.

The U.S. Court of Appeals for the Federal Circuit hears appeals from the U.S. Patent and Trademark Office in patent and trademark matters, and from all of the district courts countrywide in patent infringement cases. Along with other subject matter such as copyrights and trade secrets, patents and trademarks fall within the category of “intellectual property” or IP. IP cases are among the most complex and costly to litigate, and among the most difficult to resolve via mediation. Perhaps for these reasons, many people have thought a lot about, and have addressed with great passion, the topic of mediation at the Federal Circuit.

This article addresses the topic in five sections. The article briefly outlines what the process of mediation entails, explains existing appellate mediation at the federal level, provides a history of mediation at the Federal Circuit, summarizes the relatively new Federal Circuit mediation program, and concludes with a look at the future of mediation at the Federal Circuit.

I. What is Mediation?

There is no shortage of literature on the topic of mediation. *See, e.g.*, B. Picker,

“Mediation Practice Guide” (American Bar Association Section of Dispute Resolution, 2d ed., 2003). Mediation is a non-binding process designed to result in a settlement agreement that is an enforceable contract. The parties are free to define the parameters of the process; it is both flexible and informal. The Federal Rules of Evidence and Federal Rules of Civil Procedure are inapplicable.

The mediator does not impose any judgment on the parties. Rather,

the mediator changes the dynamics of settlement negotiations through a structured process designed to encourage compromise. When mediation occurs before trial, some have expressed concern that they will educate the opposition via candor that might ultimately hurt their case. Especially at the appellate level, however, where all issues should have been vetted at trial, mediation is substantially risk-free.

In addition to mediation, a number of other “alternative dispute resolution” or ADR tools, alternatives to litigation, are available. Among these alternatives are settlement negotiations, arbitration, early neutral evaluation, summary jury trials, mini-trials, private judging, fact finding, and hybrid processes (e.g., mediation-arbitration or “Med-Arb”).

Each alternative has its place in the toolkit of those trying to resolve a particular dispute at a particular time. Few of the other alternatives are better suited for implementation at the appellate level than mediation.

II. Background: Appellate Mediation

The Federal Circuit became the thirteenth federal court of appeal in 1982. The jurisdiction of the 12 regional U.S. courts of appeal is limited by geography. In contrast, the jurisdiction of the Federal Circuit is defined by subject matter. Interestingly, all of the other 12 regional circuit courts had existing mediation programs well before 2005, with the first implemented in 1974. The Federal Circuit was the last holdout. For more information on the various appellate mediation programs, *see* R. Niemic, “Mediation & Conference Programs in the Federal Courts of Appeals” (Federal Judicial Center, 2006).

A. Key Factors for Success

What have these existing programs taught us? There are a number of key factors that affect the likelihood of success for a mediation. *See* K. Casey, “Mediating IP Disputes: Seven Keys to Success,” 9 Intellectual Property Law Newsletter 1 (Pennsylvania Bar

Association Intellectual Property Law Section, Spring 2005). Four of the more important factors are mediator qualifications, case selection, the mediation structure, and practice culture.

First, selection of the mediator is critical to the success of the process and perhaps the most important factor. The mediator must manage the process, control and direct the parties, offer creative solutions, break impasse, establish credibility, and more. Many mediations fail through mismatch between mediator and case.

Second, some cases are more suited to mediation than others and, therefore, case selection is also important to the success of a mediation program.

The structure of the mediation process is also critical. When mediation occurs affects the likelihood of success. If the process begins too early, the parties may not have enough information to resolve their dispute. If too late, the advantageous cost and time savings which often drive parties to mediation dissipate.

Other practical factors — such as which party representatives attend, whether the mediation is done in person or by telephone or even online, and many more — also affect success.

Finally, certain industries are already comfortable with ADR and have incorporated it into their culture. Consider many employment disputes or baseball arbitration. Unfortunately, IP is not yet one of those fields. But many in the field are working toward that goal.

B. Assessments

What have been the assessments of existing appellate mediation programs? The mediation settlement rates of existing appellate programs range from about 25% to 75% across all circuits in civil cases, depending on the factors identified above. In terms of saving time, about half of the appellate mediations are concluded faster than the appeal would have taken; the other half are concluded in about the same time frame.

Although cost savings may be

achieved, they should not be expected during the appeal. The data report insignificant savings. Consider the savings, however, if further proceedings are avoided by settlement.

Perhaps the most important assessment is how the participants ultimately view their mediated outcome. Most evaluate appellate mediation positively. A positive evaluation is not surprising, as a compromise settlement is often “better” than an appellate judgment. This is especially true because it avoids the suggestion for panel rehearing and petition for en banc proceedings (filed in over 90% of Federal Circuit cases), petitions for certiorari, and remands to the trial tribunal. Some cases have bounced between the district court and Federal Circuit multiple times.

III. History of Mediation at the Federal Circuit

The Federal Circuit rules expressly require the parties to discuss settlement. *See* Fed. Cir. R. 33 (appeal conferences). Although the parties’ own, unassisted efforts to settle cases on appeal are often ineffective, the Federal Circuit’s adoption of its mediation program in 2005 was accomplished in the face of significant controversy. An hour-long introductory program at the second annual Bench and Bar Conference sponsored by the Federal Circuit Bar Association (FCBA) in 2000 touted the advantages of mediation. Discussion with several court personnel following the presentation revealed an appreciation for the process but disinterest in applying it to Federal Circuit appeals.

At least six reasons were expressed to justify the court’s initial reluctance to adopt a mediation program: (1) incentives to settle are reduced on appeal; (2) opportunities to discuss settlement are reduced on appeal; (3) complex patent cases are ill-suited for mediation (how ironic that patent cases comprise the bulk of those now settled by the Federal Circuit’s mediation program); (4) when the government is a party, settlement approvals are problematic; (5) there is only a small group of mediators available; and (6) timing

concerns in that the court lacked a backlog and did not want mediation delays to affect the favorable status quo.

Nevertheless, the FCBA formed a Dispute Resolution Committee (DRC). The court's clients or customers — members of the FCBA — flocked in large numbers, initially more than 50, to join that committee. The committee continues to generate great interest. DRC representatives worked with the Federal Circuit Advisory Council in recommending mediation to the Federal Circuit, and then worked with the judges of the court to help develop a pilot program. Chief Judge Paul R. Michel has been a terrific supporter of the court's mediation program.

IV. The Federal Circuit Mediation Program

On October 3, 2005, the Federal Circuit initiated its Appellate Mediation Program. The program is authorized by an en banc order, revised on September 18, 2006, and is operated in accordance with a set of Guidelines, last revised on May 1, 2008. Relevant materials are available on the court's Web site: www.caftc.uscourts.gov. A three-judge panel monitors the program; the court wants to see the program work. The expressly stated purpose of the program is perhaps self-evident, i.e., to help the parties settle.

The program was entirely voluntary at the outset; counsel could jointly ask to participate. Although court resources continue to be available for voluntary requests, subsequent amendments now make mediation "mandatory" for selected cases. Thus, parties enter the program either upon selection by the court staff, or by filing a confidential joint request to enter the mediation program.

Of course, the mediation ceases once it appears that mediation will not be fruitful, so "mandatory" is a relative word. But the court does not hesitate to order the parties to a mediation session even if one or both parties do not want to try mediation. Curiously, the court reports a slightly higher settlement rate for those cases where one party came

reluctantly than when both parties were initially willing to try mediation.

A Chief Circuit Mediator has been appointed to administer the program. His name is Jim Amend and he is assisted by a Circuit Mediation Officer, Wendy Dean. Together, they select cases and mediators "as early as possible." To do so, they review the record and the parties' own assessment provided in an initial Docketing Statement that, among other items, asks whether the case may be amenable to mediation. They also conduct a telephone assessment.

The FCBA was asked to compile a list of mediators who, preferably, are not in active practice. The requirements to qualify as a mediator are somewhat flexible. The mediators receive no compensation, but for minor expenses. The mediator list is available on the court's Web site. For those who mediate, an application form is also available on the court's Web site.

Based on its order and the authority provided in FRAP 33, the court has published guidelines for the program. The mediation process is confidential. Certain cases are excluded from selection for the program; namely, pro se cases. The appeal proceeds in parallel — sensitive to the court's desire to keep current on its case load — but the court grants consent motions for extensions of time to allow mediation as needed.

V. Future

The trend is toward settlement of civil cases. A recent study by the American Bar Association showed that 98.2% of civil cases settled after the complaint was filed. This statistic augers well for the Federal Circuit's mediation program.

Despite the finality of the judgment being appealed, each party has a significant risk that it will still lose on appeal. Statistics show a reversal rate somewhere between 35% and 50% on the issue of patent claim construction. This statistic, too, bodes well for the success of the mediation program.

And the court's fledgling mediation program has proven successful. The court has consistently helped the parties

to resolve their patent appeals through mediation in over 40% of the patent cases selected for the program. In remarks presented at the Annual Bench and Bar Conference of the FCBA held June 25-28, 2008 ("the Conference"), Chief Judge Michel noted the following statistics: 65% of patent cases are decided by the court, 12% are settled by the parties, 9% are dismissed by the court, and 8% are resolved by the court's mediation program.

Chief Judge Michel supports the program as a way to give the court docket relief, case management assistance, and enhanced service to litigants. His support appears warranted. Helped by its mediation program, the court has been able to issue opinions within three months after oral argument in about 80% of its cases.

Clearly, the program will require monitoring and shaping. Many issues must be resolved. For example, parties often neglect to complete and file a Docketing Statement (available on the court's Web site). In those instances, the court sends a reminder letter.

More substantively, when the parties settle during the appeal process, perhaps literally on the steps of the Federal Circuit courthouse on Lafayette Square in Washington, D.C., will the court vacate the decision being appealed?

In efforts to enhance the success that the mediation program of the Federal Circuit has already enjoyed in its short existence, Chief Circuit Mediator Amend identified at the Conference eight impediments to settlement of patent cases on appeal. The impediments are: (1) the case involves a "troll" (which might be defined as a non-inventive entity with no commercial product that acquires and asserts overbroad patents in an attempt to extort a toll from others) and the defendant company wishes to avoid a "bulls-eye" inviting further litigation; (2) party representatives with settlement authority are not present for the mediation session; (3) the party having lost the judgment appealed is reluctant to mediate (this is perhaps counterintuitive, since the winning party

might be viewed as more reluctant, but the cost of rolling the die on appeal can appear small relative to the cost already sunk into the case); (4) the patent was held invalid (one solution might be to ask the district court to vacate its invalidity holding as part of a settlement award); (5) counsel is representing the appellant on a contingent fee basis; (6) an emotional, entrepreneur patent owner appeals a loss and seeks “justice”; (7) a summary judgment of non-infringement is appealed and the plaintiff seeks millions (the “lottery” case); and (8) a party believes it is entitled to attorney fees or enhanced damages. The court is in the process of refining the selection criteria for, and the techniques used in, its mediation program to take these impediments into account and improve the program.

Ultimately, however, the success of the program depends on the parties using it. The court likely would, as it should, cancel the program at some point if they do not. Attorneys do a disservice to their clients without placing the appropriate case in the mediation program. In addition, it is perhaps a breach of ethical duty not to at least advise clients of the existence and availability of the court’s mediation program.

In summary, the belief that IP cases cannot be mediated with sufficient success rates to justify an appellate mediation program has been dispelled. The consequence is that you should become familiar with the Federal Circuit’s mediation program and, in your next patent case, be ready to participate. And the odds that you just might settle the case through mediation are good. ♦

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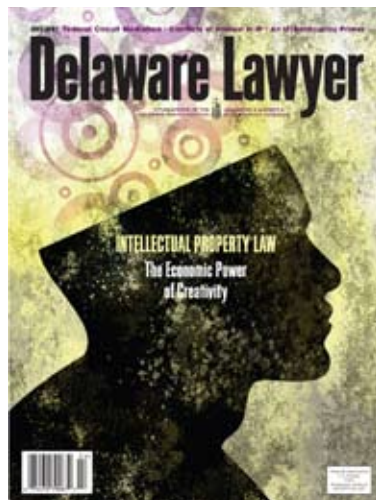
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