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CPR Patent Mediation Task Force Findings And Recommendations

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Under the leadership of President and CEO Kathleen A. Bryan, the International Institute for Conflict Prevention and Resolution (CPR) formed a Patent Mediation Task Force to analyze methods and solutions for improving the use and efficiency of mediation in patent disputes. The chair of the Task Force is Manny W. Schecter, IBM chief patent counsel. The Task Force formed three subcommittees, led by myself, John M. Delehanty and Harrie Samaras, to examine mediation best practices from each of five stakeholder perspectives: in house-counsel and business people, outside counsel, mediators, judges and provider organizations. Each subcommittee focused its evaluation on one of three distinct topics: pre-mediation, mediation process and unique issues in patent cases. The subcommittees consolidated their findings into an "Effective Practices Protocol" for mediation of patent disputes, available on CPR's website at www.cpradr.org.

The task force leaders have been presenting the protocol and its findings to, and soliciting input from, various groups. Their most recent stop was at the 28th Annual Intellectual Property Law Conference of the American Bar Association.

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An outline follows of some of the topics that are addressed.

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I. Patent Mediation is NOT:

A. Binding

1. Unlike arbitration, mediation is wholly consensual; either party may discontinue the process at any time.

2. A mediator is neither an arbitrator nor a judge, and does not decide anything.

3. A mediator's role is to facilitate the parties' own negotiations.

B. A Sign of "Weakness"

1. Suggesting mediation is nothing more than an expression of a willingness to negotiate in a structured setting.

2. Companies should consider becoming signatories to the CPR Corporate Policy Statement on Alternatives to Litigation or the new 21st Century Corporate ADR Pledge.

3. Signatories to the Pledge (more than 4,000 companies) agree to attempt resolution of their disputes through mediation or other forms of ADR before litigating.

4. Companies should consider including a mediation provision in the dispute resolution clauses of their patent license agreements and similar documents.

C. In Need of Litigation-Type Discovery

1. Litigation-type discovery and motion practice are not necessary to achieve a successful mediation.

2. If the parties have sufficient information from initial discovery or the cooperative exchange of information to evaluate each other's cases, mediation can be effective.

3. Proceeding with full discovery, especially electronic discovery, frustrates a principal goal of mediation, to avoid expense.

4. The likelihood of finding a "smoking gun" in discovery is rare. Note the "80/20 Rule."

D. More Successful if Left to the Court

1. Most federal and state courts require some form of mediation.

2. California and Florida have well-regarded mediation programs.

3. Some magistrate judges are facile mediators.

4. The overall consensus is, however, that court-ordered mediation often fails to take into account:

a. the timing of the mediation in relation to the status of the litigation;

b. the parties' willingness to negotiate; and

c. the impact of compulsion on a voluntary process.

5. Volunteer mediators on court panels are of varying quality and training.

6. Mediators who are only part of a "check the box" effort before trial waste the courts' and litigants' time and resources.

E. Impossible with NPEs

1. Mediations of patent disputes are complicated by the participation of non-practicing entities (NPEs), sometimes called patent trolls.

2. An NPE almost never has products or services of its own, resulting in an asymmetric patent threat because the patents of the NPE's target are useless as a counter-weight against the NPE.

3. Also, the NPE's lack of products or services make a business solution remote, if not impossible.

4. Many companies, as a matter of policy, refuse to mediate with NPEs.

Please email the author at kcasey@stradley.com with questions about this article.

5. The NPEs participating in our focus groups (admittedly self-selected) said they are eager to pursue mediation and suggested that their corporate targets differentiate between those NPEs that are merely extortionists and those that have valuable patents and legitimate claims.

F. Unsuccessful Absent Settlement

1. There is no such thing as a "failed" mediation.

2. Even if the dispute is not settled, mediation gives the parties an opportunity to learn useful information about the merits of their case, as well as their opponent's case, while avoiding large legal bills.

3. The mediator helps the parties identify key business concerns, assess risks and costs, and realistically analyze the case and develop an appropriate business solution.

II. Key Benefits of Mediation Over Litigation

A. Reduced Costs

1. The median cost of litigation for a patent infringement suit with more than $25 million at risk is $5 million.

2. Mediation, particularly if initiated early, substantially reduces the costs.

3. Although the cost of mediation varies depending on the nature of the dispute and the type of mediation used, it is always a small fraction of the cost of litigation, on average $50,000.

B. Speed to Resolution

1. Achieving a speedy resolution is especially significant in patent disputes because patents have a finite useful life.

2. On average, patent infringement litigation takes 2.5 years to reach trial. Many cases can take as long as seven years to reach final judgment.

3. On average, mediated cases are resolved in less than one year.

4. The preparation for and participation in mediation usually only takes three or four days.

C. Confidentiality

1. Mediation sessions are totally confidential, and, unlike lawsuits, not a matter of public record.

2. The parties decide what will be disclosed to the mediator and what will be disclosed to each other.

3. This is particularly important in patent disputes where proprietary technical information must be disclosed in discovery to determine infringement, and where confidential financial information is used to determine a reasonable royalty or lost profits damages.

4. Any statements made during mediation sessions are inadmissible as evidence in litigation.

5. Similarly, the fact of settlement and the settlement terms are not disclosed, even to the court.

D. Certainty and Finality

1. Reaching a final result in a patent dispute is often the most critical factor to the companies involved.

2. Mediation can cut through the delay and uncertainty of litigation and allow the parties to reach a definite result, even if imperfect.

III. Selecting A Mediator

A. Integrity

B. Patience and Diligence

C. Testing of the Parties' Assumptions and Creativity

1. The mediator must have the ability to challenge the parties concerning any unrealistic positions and expectations.

2. The mediator should have the skill to propose creative solutions.

D. Experience and Training

1. Parties are more likely to develop trust and confidence in a mediator with a well-established reputation as a mediator.

2. Because the parties rely on the patent mediator to conduct reality testing, thorough knowledge of patent law and procedure is essential.

3. Although helpful, specific experience with the technology disclosed in the patent is not required.

E. Preparation

1. The mediator must be fully informed about the background of the dispute, the key facts and legal issues, the interests of the parties, and, most importantly, the business context in which the dispute arises.

2. The mediator must be willing to hold one or more pre-mediation conferences to meet the parties and counsel, establish the ground rules for the mediation, and identify the potential obstacles to settlement.

3. If necessary, the mediator should be willing to engage a neutral expert to advise on specific technical issues.

F. People Skills

1. The mediator should have excellent communications skills and be sensitive to cultural issues.

2. The mediator must have the ability to maintain a civilized process and foster harmony among the participants because personal differences inevitably arise not only between the parties but among their respective representatives.

G. Former Judges

1. Judging and mediating are entirely different skills.

2. Some former judges are very good mediators; some are not.

IV. Timing: When to Begin Mediation

A. As Early as Possible: Although there is no optimal time for mediation, most focus group participants agreed that mediation in a patent case should take place as early as possible.

B. A Continuing Process: Many participants said that mediation should not be confined to either the beginning or the end of the litigation, but should be a continuing process. Multiple mediations often lead to settlement.

C. Factors in Deciding When to Mediate

1. The optimal time to mediate is when both parties are unsure about their respective litigation positions.

2. Examples of events that should cause counsel to consider mediation are:

a. significant changes in the parties' respective businesses or competitive positions;

b. the filing of a counterclaim that introduces new issues into the case;

c. the impending deposition of a person who does not want to be deposed (e.g., a party's CEO);

d. an interim decision by the court on an important procedural issue; and

e. an early *Markman* ruling.

D. Having Sufficient Information

1. It is not necessary to know everything about your adversary's case to have a successful patent mediation.

2. There are many ways to obtain sufficient information other than through discovery.

V. The Mediation Process

A. Pre-Mediation Conferences Are Essential

1. Pre-mediation conferences allow the mediator to learn about the dispute, explain the mediation process to the parties, and set the ground rules; they also enable the mediator to identify any personal or business issues that may be obstacles to settlement.

2. Pre-mediation conferences can also be used to shorten the length of the mediation, particularly if the mediator causes the parties to "front load" much of the work.

B. Submissions

1. Written submissions by the parties are essential and should be given to the mediator in advance of mediation.

2. In addition to written mediation statements, some mediators ask the parties to submit PowerPoints, models, videos and expert testimony.

C. Party Representatives with Full Authority to Settle Must Be Present

1. Party representatives with full settlement authority must be present. Moreover, the parties should bring to the mediation representatives who have equal or comparable status.

2. Mediations are not only about the merits of the patent dispute; they look forward to the parties' respective business interests, not backward to their litigation positions.

3. Business representatives are in a unique position to fashion business solutions that are not directly related to the patent dispute.

4. If there is another entity not party to the litigation or underlying dispute (e.g., a licensee, an investor or an insurer) to which one of the parties has an obligation, each party should identify all of the stakeholders on its side, speak to them in advance of the mediation, define settlement parameters and get their buy-in.

5. The telephone is a poor substitute for a party's physical presence.

D. Opening Statements

1. There is much debate over the merits of including opening statements by each party at the outset of the mediation.

2. The parties and the mediator should carefully weigh the advantages and disadvantages of opening statements in the particular case and reach a consensus at the pre-mediation conference.

E. The Advantages of Opening Statements

1. Joint sessions often provide the parties with their only opportunity to directly address the principals of the other side without having their comments filtered by outside counsel.

2. The mediator can also question the parties in front of each other after the opening statements and use the information stated as a reference during later private caucus sessions.

F. The Disadvantages of Opening Statements

1. In some cases, opening statements can poison the atmosphere of the mediation, particularly if they merely echo litigation-driven positions.

2. They also tend to lengthen the process and increase its expense.

G. Opening Statement by the Mediator

1. A possible solution to the opening statement dilemma is to have the mediator present the opening statement.

2. The mediator can explain the process and relevant issues (i.e., confidentiality), present a neutral description of the parties' positions without editorializing and set the tone.

H. Private Caucuses

1. Private caucuses between the mediator and each of the parties are the core of the meditation process.

2. Private caucuses are very time-consuming; the mediator should therefore educate the parties about the need for flexibility in their time commitments.

3. The mediator should leave one party with "homework," such as preparing the outline of the settlement papers, while meeting with the other.

4. While privately caucusing with one party, the mediator should regularly report to the other party on the status of the caucus.

I. A Written Binding Agreement

1. Counsel should have draft settlement papers (including standard terms) prepared before mediation begins so that "wordsmithing" delays will not be an obstacle to a successful settlement agreement.

2. Even if the terms of settlement have been generally agreed upon, no one should leave the mediation until an enforceable agreement has been signed by both parties.