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Mediating IP Disputes: Seven Keys to Success

By Kevin R. Casey

Mediation is a process in which a neutral person (the mediator) helps parties to a dispute reach their own settlement; mediation is basically a settlement tool. In contrast to a judge in litigation or an arbitrator in binding arbitration, the mediator neither seeks nor has any power to render a binding decision. Rather, the mediator works the process — sometimes facilitative, sometimes evaluative, often both — and applies his or her talents to highlight the issues, make each party see the weaknesses of its own case, and promote meaningful discussion of the issues in light of realistic perceptions.

Mediation has a long history in the diplomatic arena and, more recently, interest in commercial mediation has grown significantly. Interest in the mediation of intellectual property (patents, trademarks, copyrights, trade secrets and related matters) or “IP” disputes has lagged behind, however, the growth in general commercial mediation. The cost, delay, inflexibility and uncertainty of litigation — factors that foster a resort to mediation — are even more exacerbated in IP cases than in other types of cases. Therefore, why the delayed interest in mediating IP cases? In part, the answer is that the mediation of IP cases differs in certain respects, seven of which are outlined below, from the mediation of other types of cases:

- **Selecting IP cases suitable for mediation is trickier;**
- **The timing of the IP mediation is more important;**
- **IP mediator selection is more critical;**
- **Two mediators may help in IP cases;**
- **Limit the number of IP party representatives;**

- **Anticipate extended duration of IP mediation;**
- **Note the public interest in IP subject matter**

As background, many IP cases, especially patent infringement cases, involve complex issues and high stakes. Some are “bet the farm” cases. The asserted patent may be the plaintiff’s only asset. If the defendant is found to infringe the plaintiff’s patent, an injunction normally issues that could shut down a product line or an entire business. Patent infringement damages can be significant and, if the infringer is found to be willful, the court may enhance the award and add attorney’s fees. The defendant typically defends against these risks vigorously, raising a myriad of difficult issues including non-infringement, invalidity and inequitable conduct. Often the plaintiff asserts a number of patents, each having multiple claims. Thus, one patent infringement suit might be considered 10 or more sub-suits.

1. Selecting Cases Suitable For Mediation Is Trickier.

Not every case is suitable for mediation. This principle is especially true for IP cases. IP cases often involve head-to-head *competitors* who have been competing for years, know each other well, and sometimes have a mutual dislike. If the parties do not share an honest, good faith interest in settling their dispute (rather than using the mediation to “fish” for information or merely complying with a court order), the mediation will fail. Of course, the need to resolve repetitive disputes might drive the parties toward — rather than away from — mediation.

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Although, as in most commercial disputes, one of the primary issues to address is *quantifying the damage claim*, the parties to an IP case often have widely divergent views about the value of a case. Unfortunately, a rational assessment of damages (lost profits, reasonable royalty, enhanced damages) is often an entire sub-case within the case (many IP cases that are litigated are bifurcated into liability and damages phases). The typically wide monetary gap between the parties' initial positions in an IP mediation may be difficult to bridge absent reliable economic data found credible by both parties. (Contrast the estimated legal costs for IP litigation, often a helpful card for a mediator to play, which can be derived from the American Intellectual Property Law Association economic survey completed every other year.)

2. The Timing Of The Mediation Is More Important.

All mediations risk impasse; IP mediations have *special drivers toward impasse*. Both parties may honestly believe that the court in a parallel litigation proceeding gave them a favorable patent claim construction following a *Markman* hearing. Highly compensated and respected experts may have strenuously advised the respective parties that they "should win." As litigation proceeds, the parties will have spent large amounts of money and become sufficiently entrenched that settlement may be difficult. These drivers push an early mediation session, before such external factors can discourage settlement. On the other hand, in general, the more the parties know about each other, the more likely is a mediation to be successful.

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Experience indicates that the timing of the IP mediation can have a crucial impact on whether settlement will occur. *IP cases are neither likely to settle too early in the march through litigation nor too late as a litigated decision approaches.* Perhaps a graph of successful mediation against litigation time would show a Gaussian distribution or bell curve. Mediation can be successful before a cease and desist letter has been sent if the parties are well aware of their competitors and their IP portfolios, before filing a complaint if the parties have completed pre-litigation investigations and evaluated their case, after the defendant answers if a statement of the parties' respective positions is key, after the completion of discovery so that that parties can evaluate the strengths and weaknesses of the case, after dispositive motions if narrowing the issues will trigger settlement, after the trial is complete (but before the judge or jury

decides) if the parties want to avoid an adverse judgment, or even after the trial court's decision (most federal courts of appeal have alternate dispute resolution programs and the U.S. Court of Appeals for the Federal Circuit is reversing the patent claim constructions of the district courts about half the time, placing a litigant's successful outcome in serious jeopardy on appeal). It is usually best in an IP case to have completed some discovery — typically a first round of interrogatories, document exchange and admissions, as well as a few key depositions — before conducting mediation.

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3. Mediator Selection Is More Critical.

IP cases present a number of challenges for the mediator that are not normally associated with other types of cases. Therefore, when selecting a mediator, even an experienced mediator of commercial disputes without an IP background may not be the best choice. An IP mediator must be pro-active in helping the parties find a solution to their dispute. That quality requires *experience in the IP field and a creative ability*. Typically, the mediator must "create" value (one person's trash is another person's treasure) enhancing the parties' relationship going forward. Perhaps the defendant has (even better if peripheral) patents of interest to the plaintiff in a cross-license; or the plaintiff would find valuable the defendant's public concession that the asserted patent is infringed and not invalid; or the defendant would be willing to buy product or components from the plaintiff; or the defendant might easily develop a new, non-infringing product designed around the asserted patent. Might a deal be structured to include foreign markets? Of course, the criticality of the selection of a mediator in an IP case will be enhanced when the mediation will be evaluative (the mediator offers opinions) rather than facilitative.

4. Two Mediators May Help.

In most non-IP cases, a single mediator is preferred. Advantages of a single mediator include reduced costs and avoidance of communication problems. In complex IP cases, however, it may be difficult for a single mediator to *control and facilitate the process, listen to and learn from the parties, and think and propose creatively* — all concurrently. Therefore, two mediators may be preferred in complex IP cases. Should the parties seriously explore this possibility,

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they might also consider the benefits of having one mediator experienced in IP and one non-IP mediator who might offer other advantages (such as an in-depth understanding of the relevant business).

5. Limit The Number Of Party Representatives.

All types of cases require the parties to send representatives with decision-making authority to the mediation. Most IP mediations tend to draw more party representatives than other types of cases. Typically, and for a variety of reasons, the adage "too many chefs spoil the broth" applies. The mediator may face the unenviable but necessary task of *eliminating some of the people who propose to attend*. The in-house corporate counsel who strongly advocated that a complaint be filed or strenuously demanded posing a strong defense may thwart a mediator's efforts, because counsel may be forced politically to defend the earlier advice. Junior associate attorneys from an outside firm usually provide factual and legal details — often a distraction to a broadly based, mediated solution to a dispute. In addition, many IP cases involve large companies represented by "star" counsel; all participants may feel obligated to put on a show. The mediator's task of maintaining control of the mediation in such cases can be daunting.

6. Anticipate Extended Duration of Mediation.

The number of complex issues present in an IP case, relative to other types of cases, raises an immediate and rather obvious difference: IP cases typically take longer to mediate. The *increased duration has many consequences*. The mediator must get and keep the parties' attention, watch for fatigue and its erosive effects on the process and keep track of progress. A successful IP mediation will generally address one or two issues at a time, attempt to reach a tentative settlement on them, and take them off the board; the process may proceed piecemeal. The mediator will need to continually refocus on a more limited number of issues to move the settlement along. The mediator and the parties should consider reserving and committing to a second day of mediation to follow their first day (an initial session on Friday to be followed by a Saturday session, if necessary, may help focus the parties and eliminate posturing on Friday).

7. Note The Public Interest.

It is often difficult, but sometimes critical, to consider within the parties' private mediation the public interest inherent in IP rights. The mediation is typically conducted without direct input from interested third parties. Often an entire industry may know about a particular dispute, however, and be watching and waiting for a resolu-

tion with great anticipation. Mediations may fail unless the defendant "respects" the plaintiff's rights by admitting validity and infringement (so that others are more likely to do so). Stated alternatively, the need for precedent in IP cases may be more acute than in other cases, placing an additional strain on the mediation process. Consider, too, other ramifications of the public interest: Will a release of the plaintiff's claim against the defendant include the defendant's customers?

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All disputes are resolved one way or another. The only question is whether the dispute will be resolved by a judge, a jury, an arbitrator or by the parties themselves. Statistics indicate that, when invoked, mediation generally enjoys a high rate of success. Despite the unique challenges posed by IP mediation, in contrast with other types of mediation, the growth of interest in IP mediation anticipates a similar success rate. ■

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In Memoriam

Frederick B. Ziesenheim, a director and vice chairman of The Webb Law Firm, Pittsburgh, died Dec. 8, 2004, following a battle with cancer. He was 78 years old.

Ziesenheim pursued a career in intellectual property law that spanned nearly five decades. He received a B.S. degree in industrial engineering from the Pennsylvania State University in 1947, and an L.L.B. degree from the University of Pennsylvania Law School in 1957. During the 1970s, he served as one of the "Founding Fathers" of the National Inventors Hall of Fame (NIHF), Akron, Ohio. He later served as NIHF president, 1981-1982, and vice president of Selection, 1980-1995, and continued his involvement to the present day as a member of the board of directors. ■