

More Cos. Seek Early Mediation in IP Disputes

By Erin Coe

Law360, New York (August 03, 2010) -- Because intellectual property litigation can be expensive, unpredictable and a huge drain on business executives' time, more parties are opting to mediate at an earlier point in a lawsuit or even before a case is launched, according to experts.

Heading into mediation sooner offers parties an advantage over staying in court by giving them more control over the dispute resolution process and allowing them to keep the door open for a future business relationship, experts say.

"The unpredictability of the costs of litigation and the lack of certainty of the results have made mediation a more popular tool at an earlier stage of litigation," said Floyd A. Mandell, national co-chair of Katten Muchin Rosenman LLP's IP practice. "Companies are more likely to want to explore it."

Most federal courts and the U.S. Court of Appeals for the Federal Circuit have mediation programs in place, and judges are hastening to suggest that parties give mediation a try.

"The more companies are sensitive to their legal budgets and the more congested courts become, the more mediation is going to grow in popularity," Mandell said.

Mediation also is being offered as a precursor to arbitration or litigation, according to William H. Needle, chair of Ballard Spahr LLP's IP department.

"Sometimes parties realize they have a dispute about the facts and law, and maybe it's time to put that controversy aside by looking at whether there is a business solution," he said.

“They’re aware of what the costs can be in litigation in terms of money and time, and they try to see if a common ground can be reached through mediation.”

The back-and-forth negotiation process facilitated by a neutral is usually successful, and parties that enter mediation have an 80 percent chance of settling their dispute, according to Needle.

“Parties can’t expect immediate success, but they may make progress that allows them to continue discussions with mediation or with themselves,” he said.

Even if early mediation does not result in an automatic settlement and the parties move on to court, the process enables them to narrow down their disagreement and they are likely to return to mediation after a dispositive ruling on claim construction or summary judgment, according to Darin M. Klemchuk, co-founder of Klemchuk Kubasta LLP.

“I always like to learn the other side’s position,” he said. “Mediation makes it quicker to see how far apart the parties are and allows them to focus on the issues that matter.”

While an IP dispute could be resolved in mediation in as early as a day, many complex matters that call for some level of discovery can reach a settlement in six months, which is substantially shorter than a court case that can drag out for two to five years, according to P. Jean Baker, vice president of the American Arbitration Association.

“In patent litigation, almost 50 percent of initial decisions at the trial level are appealed and actually reversed. That means parties are going through a trial, an appeal and another trial, and you can imagine what that does to the legal costs,” she said.

In patent cases that assert \$10 million in damages, parties may have to shell out more than \$1.25 million in attorneys’ fees on average, according to Needle.

By reducing the amount of time parties are duking it out in court or preventing a dispute from ending up in litigation, mediation can drive down legal costs and save parties between hundreds of thousands and millions of dollars, Klemchuk said.

Electronic discovery alone can cost businesses millions of dollars and is another reason why companies are more likely to avoid the courts and seek out mediation, where rules of evidence do not apply and parties can reach an agreement on how much electronic discovery is needed, according to Baker.

"In mediation, parties discuss how much information they are going to share, whereas the court system involves a full-blown, adversarial, slash-and-burn discovery process. It's about lifting up every rock and piece of evidence you can find because those are the bullets you're going to be firing in court," Baker said.

If the dispute involves parties that have a working relationship or that hope to collaborate in the future, litigation is a sure-fire way to destroy that possibility, according to experts.

"Our legal system is a fight to the death," Baker said. "It's a jousting match where one party lives and the other party dies. That is not conducive to maintaining good future business relationships."

In contrast, mediation encourages parties to work together and think creatively about how to resolve their problems, according to Needle.

"If I'm being accused of infringing a patent, maybe there is a business solution where I make a product for you and you sell it, or you will have me sell the product under a license. Or maybe I have patents you're interested in and we agree to make a trade," he said. "When parties want to continue business relationships, mediation is a good vehicle in carrying that out."

While any IP case can be a good candidate for mediation, some parties in trade secrets and patent litigation may find it difficult to reach a middle ground, according to Mandell.

"If there is a fight over whether a former employee should be able to compete with a company by using its trade secrets, there's less room to compromise," he said. "If a party is perceived to be a patent troll, a lot of companies won't negotiate because it sets a bad precedent."

Mandell, who primarily deals with trademark and copyright cases, said trademark disputes lend themselves to more innovative solutions.

"There are ways in which parties can make slight changes to a mark, possibly use a disclaimer or agree to stay out of a market," he said. "There are more opportunities to work things out in the trademark area."

Microsoft Corp., which was accused in a North Carolina lawsuit of infringing a trademark that it had been using for 12 years, fought the case for two years and claimed it had co-ownership rights to use the mark, but agreed to enter mediation prior to trial and resolved the matter in December 2009, according to Mandell, who represented the software giant.

Long-running trademark feuds have also been put to rest in mediation. Bausch & Lomb Inc. and Karl Storz GmbH & Co. brought suits against each other on and off for 20 years in the U.S. and Europe stemming from their overlapping use of the trademark "Storz," which Bausch & Lomb used for its optical surgical products and Karl Storz used in connection with devices for eye surgery, according to Mandell, who represented Bausch & Lomb.

After Karl Storz appealed a May 2008 decision by the U.S. Patent and Trademark Office's Trademark Trial and Appeal Board in favor of Bausch & Lomb on summary judgment, the parties took part in settlement discussions with a Federal Circuit mediator that resulted in a global settlement in 2009, Mandell said.

Unlike litigation, mediation allows parties to keep a dispute private and avoid a legal precedent that could have an effect on third parties, according to Baker.

"If companies go through a private mediation session, there is no requirement that whatever is resolved must be publicized someplace," she said. "It greatly diminishes the risk of an unfavorable decision impacting ownership rights vis-à-vis third parties."

Parties can tailor mediation to fit their needs by picking a mediator who has the right technical expertise for the matter, which cuts down on the time it takes to get the decision maker up to speed on the case, according to Needle.

"I tell people if they're not successful in mediation and they decide to go to litigation, the case is out of their hands. They don't have as much say over who's going to be on the jury or who the judge is, whereas in mediation, they can select the person that might have the precise technical experience and understands the underlying issues," he said.

Mediation is also an opportunity for the parties to air their grievances and can help reduce the tension inherent in IP litigation, according to Klemchuk.

"It's easier to be aggressive or unfriendly to an unknown named party than when you sit across the table from them and explain your position," he said.

Needle, who mediates IP matters as a neutral for alternative dispute resolution provider JAMS, often finds that parties need to work through their feelings first before they can think about a settlement and suggests that parties talk directly to each other instead of letting their attorneys speak for them.

"I'm not into yoga and having scented candles around the room, but if I feel a certain level of emotion in the room, I encourage the parties themselves to address the issues so that they

can let their emotions out," he said. "Once the angst and emotions are drained away, the parties can get to a better place."