

## IP Cases: Mediate or Litigate

by *Michael A. Albert and James E. McGuire*

At the outset of a patent or other IP dispute, the parties could consider using alternative dispute resolution (ADR) techniques, such as mediation or arbitration, to resolve their differences instead of more costly and protracted litigation. While the general merits of ADR and litigation are often discussed, James McGuire, a mediator, and Michael Albert, an IP litigator, discuss the role of mediation and litigation specifically in the context of resolving patent and other IP disputes.

### Should we consider using (or avoiding) ADR for our IP dispute?

**McGuire:** The primary advantage of ADR is to avoid the costs and risks of litigation. For this reason, “ADR” now stands for Appropriate Dispute Resolution in most areas of corporate and commercial disputes. For IP litigation, ADR is especially appropriate since IP litigation is among the most expensive litigation in today’s legal system. When IP disputes enter mediation voluntarily, the settlement rate is about the same as for other classes of cases: three out of four settle at or near the time of the mediation. IP cases often use mediation later in the litigation process than other types of cases. Since the discovery process is so expensive, parties should consider starting the mediation process sooner rather than later. For these reasons, when drafting a dispute resolution clause as part of a voluntary licensing arrangement, parties should protect their interests by requiring mediation or arbitration.

**Albert:** While ADR can save time and expense, the nature of IP litigation often does not lend itself to the compromise inherent in mediation and arbitration.

First, IP cases tend more often than other cases to involve high-stakes gambles. The goal may be to dominate an entire emerging industry (or at least a corner of an in-

dustry) rather than simply to marginally outsell one’s competitors with whom one must otherwise coexist. When domination is the goal, negotiation or mediation is likely not to be the best tool.

Second, investor expectations demand a more aggressive stance. High stock market returns are driven by finding the “killer app” and owning it. You may have raised startup capital by promising to enforce your IP in court, and you don’t want to disappoint your investors by compromising too readily.

Finally, the high Federal Circuit reversal rate does not encourage parties to enter into mediation sooner. Parties are less likely to be driven into ADR by the adverse outcome of the first few steps of litigation when they know that the odds of appellate vindication are high. If the trial court is a dose of reality for parties and their counsel, that medicine is less effective in patent cases because all bets are off when the Federal Circuit speaks.

**McGuire:** To a mediator, the “obstacles” of high stakes and uncertainty of judicial outcomes are best viewed as the real reasons to mediate. Coexisting with a competitor is better than being shut out of a market, and providing some return to investors is better than no return at all. In mediation, parties can control their own destiny when the stakes are high and the outcome is uncertain.

### What sort of patent disputes would definitely NOT be suitable for mediation?

**Albert:** Patent disputes that could potentially involve a large number of separate adversaries are especially unsuitable for mediation. For example, when a large, deep-pocketed company is sued for patent infringement by a non-competitor (particularly a small patent-holding company), the

defendant has a strategic incentive to focus not only on the current lawsuit but to take a broader view of the message they want to send to all such potential plaintiffs. If the defendant rolls over and settles quickly, others might view them as an easy target. There can be a value to such defendants in avoiding the quick and inexpensive approach of using ADR and instead investing in full-scale litigation, or perhaps even adopting a “no settlements” policy (as some companies have suggested they will adopt for “patent trolls”). In a *post-eBay* world, such threats have even more force as the risk of a patent troll obtaining a permanent injunction has been reduced somewhat.

Another scenario involves patentees looking to enforce a new patent against an entire industry. Such patentees may have an incentive to fight their first case or two until they get a clear, enforceable, and final verdict that is upheld on appeal. A decisive victory in court will encourage potential infringers to fall into line and either take licenses or get out of the business.

**McGuire:** When the law is unsettled and



*Michael A. Albert is a Shareholder and chair of the Litigation Group at Wolf Greenfield, and focuses his*

*practice on patent litigation. Michael’s clients include high-tech companies in the software, internet, biotechnology, and engineering industries, as well as Fortune 500 retail businesses and leading research universities.*

*Telephone: 617.646.8240.*

*Email: malbert@wolfgreenfield.com*

one of the parties decides that it needs a definitive ruling to help itself (and its business sector), then litigation may be a better alternative than mediation. Such cases, however, are relatively rare. Even “structural” cases, where patent rights may determine the structure of an industry sector, usually benefit from serious, high-level mediation. Although the mediation itself in such cases may be long and complicated, through mediation the parties are able to craft more flexible and nuanced solutions than any court could do.

Mediation may also help small patentees. A small patentee taking on an entire industry may benefit by mediating first with “reasonable” companies and offering most-favored-nation status. The small patentee will then have a more powerful arsenal when litigating with recalcitrant infringers.

**Albert:** With some patent disputes, mediation is not suitable because of the purposeful strategy of a litigant. Some litigants may view IP battles as a war of attrition, where the odds of prevailing, or at least of obtaining a favorable settlement, increase in proportion to the degree that one’s opponent has been worn down financially and psychologically. Parties adopting this strategy may see little benefit in mediation, especially during the early stages.

**McGuire:** The threat of all-out war can be an effective inducement to settlement discussions. By giving the appearance of being ready and able to wage war, the opponent may rethink their options and come to the table with reduced expectations. During mediation, the parties must consider the best alternative to a negotiated agreement (BATNA). If one party can portray the BATNA as an all-out litigation war, then the incentive for the other party to come to an agreement through mediation is higher. That demonstration may be sufficient to obtain a quick settlement from a rational opponent, assuming that you too are prepared to be rational in settlement. Thus, even when a party gives the impression that mediation is impossible and litigation is imminent, the party may merely be seeking to gain a bargaining advantage for mediation.

**Albert:** Mediation may also be less likely if the forum that has been selected or the judge assigned to the case is known to act

expeditiously. Slower courts and judges may give plaintiffs more reason to seek out the efficiencies of mediation.

**McGuire:** A court with a rocket docket could also be an additional incentive for both sides to consider mediation. Nothing so concentrates the attention as knowing that one will be shot at sunrise. The certainty of a trial date answers only the questions whether and when, but leaves open the question who will prevail. Managing that risk in mediation may lead to a more favorable outcome for both.

### **Does the confidential nature of mediation offer any particular advantages in patent cases?**

**McGuire:** The confidential nature of mediation provides the same advantages for IP litigation as it does for other litigation. Mediation can get relevant information to decision makers without protracted discovery battles through a voluntary information exchange. Because the information is to be used for settlement purposes only, mediation provides an opportunity to explore “what if” scenarios that could allow settlement possibilities that would otherwise not be possible.

**Albert:** The confidentiality of the mediation process is especially valuable to certain IP litigants. When a patentee goes after a potential infringing defendant, the defendant will spend money attempting to find prior art to invalidate the patent. If such prior art is found, both the patentee and defendant will have incentive to keep it under wraps. The patentee will want to keep the prior art under wraps to protect the validity of the patent and go after other potential infringers who may not be aware of the prior art. Other potential targets of the patentee are likely to be competitors of the defendant. The defendant has spent money to protect itself from the patent and would rather that its competitors make the same effort to escape the patent rather than getting knowledge of the valuable references for free. The defendant wants out of the case but doesn’t want to pay to get its competitors out. The same benefits may not apply to arbitration since a federal statute, 35 D.S.C. § 294, requires arbitration decisions to be filed with the PTO, which in turn places them in the corresponding patent file history.

### **Advocates of ADR often make much about the “flexibility” of the process. Are there real-world examples of resolutions reached in mediation that could not be achieved with a judge or jury?**

**Albert:** Mediation allows parties to go straight to crux of the disagreement, while courts always have to consider threshold questions such as jurisdiction. ADR can cut through these procedural battles, where the courts would have to decide them. For example, consider a dispute over a patent identified in a threatening letter where the letter provides enough information to start a mediation process. In court, the parties might spend tens of thousands of dollars fighting over whether the judge has jurisdiction to hear the recipient’s claim for a declaratory judgment.

Mediation also allows the parties to come to mutually beneficial compromises where a court would generally side with one party or the other. For example, consider a disagreement over the proper forum where each party is attempting to gain home court advantage. If one party prefers Boston and the other prefers San Francisco, they could easily agree to mediate or arbitrate in Chicago.

**McGuire:** Further, while courts are usually restricted to money damages and injunctions, parties in mediation can come to any mutually agreeable solution. Licensing and cross-licensing agreements, acquisition of IP portfolios, and other voluntary commercial agreements are all possible mediation outcomes.

### **Isn’t mediation just an excuse for a fishing expedition - getting information that your opponent can spin to its advantage later on?**

**McGuire:** Because the parties are in control of the mediation process, the fishing expedition aspect of mediation can be constrained. Parties choose the information to be exchanged and share the information each side thinks is appropriate. Further, the information presented during mediation is not necessarily admissible or even relevant to later litigation. Parties can prepare summary documents “for mediation purposes only” that would be inadmissible under the Federal Rules of Evidence. Generally, the

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focus in mediation is on the future: “what do you want to happen?” These materials are qualitatively different than those used in court: “what happened?” A rights-based presentation is usually only a small part of the mediation process.

**Albert:** Parties can control the information they choose to present, but the parties must also be careful to not give the opponent information that could be valuable should mediation fail. One must distinguish between documents and the underlying information. The patent holder may not be able to introduce your descriptions of the allegedly infringing products, but surely it can draw on the knowledge gained during the mediation to make the right discovery requests later on.

### In “high stakes” cases, won’t mediation normally just prove to be a distraction that delays the time until the parties get in front of a real judge?

**McGuire:** A matter can get to mediation without significant delay, and the mediation process itself need not stay pending litigation. Parties could even have separate litigation and settlement teams so that both tracks may be pursued simultaneously. Parties can certainly abuse the process and use mediation as a delay tactic to work on a design-around effort or gain some other advantage. But the fact that some parties may abuse the process does not mean that parties genuinely interested in seeking mediation should not consider the parallel approach.

**Albert:** In theory a parallel approach could be beneficial, but in practice the dockets are littered with examples of deadlines being postponed because of settlement talks. Plaintiffs must be concerned about defendants who deliberately use the mediation process as a stalling tactic to gain advantage.

**McGuire:** Simply delaying the resolution of the dispute is of uncertain value to the defendant. If the defendant is found to be infringing, then the defendant will have to pay damages for the period of the infringement, which will include the time spent in litigation. By mediating early, a defendant could limit these damages. Similarly, a defendant

with a viable design-around is better off presenting this information early in the process as it will increase the defendant’s bargaining power and increase the likelihood of a favorable settlement.

### What type of mediator should we look for? Does subject-matter expertise matter?

**McGuire:** The mediator must, first and foremost, have good process skills. The mediator needs to get the process started and bring the parties to the table mentally as well as physically. By having a mediator with at least general familiarity with IP law and the subject area of the patent, the parties can benefit by avoiding tedious explanations. While a mediator should always be facilitative, in some cases, the parties will be looking for some informal evaluation so the mediator must be prepared ultimately to offer some blunt assessments in order to bring the matter to a successful settlement. In some situations, a good strategy for a mediator is to be facilitative in the morning (allowing the parties to be heard) and evaluative in the afternoon (giving the parties a good dose of reality).

**Albert:** Mediator selection depends on the circumstances, business interests, and personalities. Flexibility is paramount. If the merits clearly favor one side, a good mediator will get this fact on the table fairly quickly so that the other party has time to process the news and adjust its position accordingly. Having a mediator knowledgeable in IP law and the relevant technical area is always helpful. Notwithstanding their often sophisticated and complex technical nature, however, patent cases involve people, business needs and interests, emotions, and beliefs just as other cases do. Feeling heard may be a precursor to being rational about whether claim 23 covers your opponent’s widget or not.

### Ideally, when should mediation occur?

**Albert:** When to commence mediation, like other aspects of litigation, can be a strategic decision. Making a “show of force” early in the case - such as winning or defeating an early motion for preliminary injunction or getting a key piece of discovery - can aid a party’s bargaining position in subsequent mediation. Additionally, delaying mediation

and showing the other party that you mean business and that the client (even if smaller) has the guts, gumption, and litigation team able and willing to fight hard signals to the other party that you are not scared to litigate could also increase your bargaining power.

In practice, defendants in particular often need a fair amount of time to assemble prior art and study the file history. A patent dispute is normally not the sort of case that becomes amenable to settlement as soon as you talk to a few witnesses. Few defendants will agree they infringe until they have had some chance to test the claim construction waters and do some prior art searches.

**McGuire:** Sooner is better in almost every case. The information needed to participate in meaningful settlement discussions usually can be obtained more quickly and at lower cost when done as part of a mediation information exchange than through formal discovery. Mediators can help craft an information exchange as part of the mediation process that is efficient and effective. Thus, starting the mediation process early can help avoid discovery disputes, save litigation expenses, and perhaps even maintain the relationship between the parties.

### Final thoughts?

**McGuire:** Parties in IP disputes should consider the possibility of mediation. Starting mediation early on can save time, cut legal expenses, and better preserve business relationships. Since the parties are in complete control of the mediation process, the risks are low and there is much to be gained.

**Albert:** In the right situations mediation is a valuable tool for resolving differences in an IP dispute. Not all IP disputes, however, are appropriate for mediation. Depending on the circumstances, the potential of a decisive victory in court may be much more valuable than a negotiated agreement even when considering the associated risks. Further, litigating rather than mediating can be a good business strategy. For example, a large, deep-pocketed company may be sued by numerous patentees with suits of dubious merit. The company may be able to ward off such suits in the future by sending a message that nuisance suits will not be settled. Whether to mediate or litigate must be determined on a case-by-case basis.