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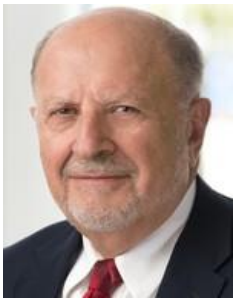
The Case For Early Mediation Or Arbitration In IP Disputes

By **Jerry Cohen** (March 15, 2018, 12:15 PM EDT)



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Alternative dispute resolution is one of the best ways to resolve disputes involving patents, copyright, trademark, trade secrets, and other intellectual property issues. While not every situation lends itself to ADR, it is more accessible than many parties assume.

The two major ADR methods that are frequently used are arbitration and mediation. Arbitration has a streamlined discovery process, less motion practice, relaxed evidentiary and procedural rules and practices while retaining the truth-seeking core of both and often can bring the dispute to a conclusion sooner than litigation, thereby minimizing costs delays, distractions and risks to the dispute parties/clients. However, the client may benefit from access to the courts to file motions for relief of various types to allay client concerns and aid of the arbitration process including preservation of status quo and preservation of evidence, particularly before selection of an arbitrator or a panel of three arbitrators. Most arbitration agreements provide such options.

Mediation is a relatively inexpensive mechanism to conduct an accelerated and guided settlement negotiation and is often the most efficient route to arrive at a settlement. The vast majority of mediations take place in a single day session. All that said, parties and counsel must prepare carefully for the arbitration proceeding or mediation session and evaluate their own goals and priorities (and those of the other side) as well as chances of ultimately winning or losing on the merits. Some mediations continue beyond a scheduled one-day session and reach settlement in post-session phone engagement of parties with each other and with the mediator.

One distinct advantage of arbitration is that it is usually a private proceeding with protective order and confidentiality agreement coverage. Similarly, mediation is a closed proceeding protected by confidentiality provisions and statutory privilege. Another advantage is that mediation and arbitration have a better chance of preserving parties' relationships than in litigation. Companies often write ADR contract provisions based on this prospect as well as other ADR attributes. Further emerging branches of ADR include (1) nonbinding neutral evaluation for one party or for dispute parties jointly, providing a reality check along with other ADR advantages and (2) use of a dispute resolution neutral to monitor and assure compliance with obligations. Below is some guidance on how to use ADR to resolve an IP dispute quickly and cost-effectively in particular types of disputes.

Patents

ADR can be used to resolve issues of infringement, validity of a patent, damages, breach of license agreement or injunction, and patent ownership. Mediation and arbitration offer parties a chance for resolution of the issues (and/or the case as a whole) before or after the claim construction stage or even presuit. After a final court decision, arbitration award or license agreement reached with or without mediation assistance, a mediation or arbitration process can be used to determine whether new products or product changes constitute infringement or breach of a settlement agreement or court judgment.

ADR can also resolve issues over multiple corresponding patents in many countries transcending court jurisdiction limits. A U.S. arbitration award is enforceable in most other countries under the New York Convention. A mediated agreement can also lead to the same result as a practical matter.

What factors should a company consider when deciding whether or not to pursue a mediated agreement? There are almost always party interests beyond economic quantum and percentage probabilities of success or failure — publicity, deterrent effects and other company issues not directly related to the patent suit but affected by its costs, delays, risks and distractions. There is also the prospect of something less than a total win or total loss, such as licensing, transition periods for payment in installments or phasing out infringement. Looking at the big picture invokes what mediators know as BATNA/WATNA concepts (best/worst alternative to a negotiated agreement) to frame parties' interests. Contrary to urban legend, mediation need not warrant completion of full discovery nor a court's Markman claim construction ruling. It is effectively and beneficially done sooner rather than later.

U.S. and foreign ADR service agencies have neutrals with substantial patent and ADR experience as lawyers, judges and magistrate judges. Using mediation, guided by an experienced neutral, or arbitration can greatly reduce or eliminate the risks of court and a jury. The parties can control neutral selection, type and scope of ADR, time, place, language, privacy, and privilege of the proceeding. Parties also control extent of usage or not of court rules of civil procedure and evidence in arbitration. In arbitration, the typical panel of three can be reduced to a single arbitrator backed up by optional appeal procedures of some ADR agencies or by high-low caps of party agreement.

Patent case mediation services are offered not only in the private sector, but in federal courts and administrative agencies including the U.S. Court of Appeals for the Federal Circuit, most district courts and the U.S. International Trade Commission. Each mediation has a nonjudge or a judge separate from the judge(s) who will preside over trial or appellate proceedings. These are important taxpayer-funded resources. However, for various reasons, parties in patent disputes often turn to private ADR providers in the U.S. and abroad, including: the American Arbitration Association and its International Centre for Dispute Resolution affiliate, JAMS and JAMS International, the International Institute for Conflict Prevention and Resolution, the World Intellectual Property Organization, the Hong Kong International Arbitration Centre, the Singapore International Arbitration Centre, the China International Economic and Trade Arbitration Commission, the International Chamber of Commerce, the London Court of International Arbitration, and many more. Also, lawyers and law firms offer ADR services outside any such agencies in "nonadministered" ADR proceedings (though the International Institute for Conflict Prevention and Resolution and American Arbitration Association will provide low-cost fund administration if asked).

Trade Secrets

Trade secret disputes can involve civil and criminal action if a company's trade secrets are misappropriated internally (by employees, consultants, officers, donors, investors, or joint venture partners) or externally by burglary, breaking and entering, computer hacking or bribing/blackmailing internal actors. Trade secret issues also occur not only in trade secret cases, but also in other types of IP cases, in a variety of non-IP disputes such as divorce, probate, bankruptcy, and valuation in mergers and acquistions and investment transactions. With trade secrets, there is a lack of the relatively definite guidance of patent claims to define peripheral boundaries between lawful and unlawful conduct.

ADR processes — which are more flexible by nature — can help parties move past dispute logjams to reach an agreed scope of protection and remedies that may differ from what might be expected through court proceedings. Early neutral evaluation for each party or for the parties jointly can help move the case towards objective reality and settlement. ADR neutrals can also serve as monitors of settlement agreement or judgment/injunction compliance.

Litigation is conducted in federal and state courts that (subject to limited impoundment or restricted access) generally are public forums with written submissions of the parties, testimony, exhibits and briefs judgments and interlocutory rulings of judges, hearings and trial being open and available to the public (including competitors). ADR is often a more secure process than court litigation for trade secret cases.

Copyright

Copyright dispute issues that can be resolved through ADR are analogous to those in patent disputes (infringement, validity, damages, breach of license agreement or injunction, and ownership) and the motivations for using ADR are similar. The copyright owner's burden of proof in court is on a preponderance basis rather than the clear and convincing standard of patent law, but nevertheless difficult. Absent smoking gun evidence of defendant's intent to infringe, the copyright owner must show access of the defendant to the copyright protected subject matter and substantial similarity to the work of the accused product(s) without the guiding claim structure of patent law. Even if infringement is shown, the defendant has the opportunity to avoid liability by pleading and proving a "fair use" or "compulsory license" defense under the standards of one or more of Sections 107-122 of 17 U.S.C. As to validity, copyright enjoys very low thresholds of originality and eligibility for protection, much lower than in patent law.

Some of the longest, hardest fought cases have involved estates of famous authors and performers, where privacy is a key concern. This is one of the reasons why ADR is used frequently to resolve copyright ownership and license rights issues such as subsidiary issues of sole and joint authorship, work-for-hire status, valid assignments, inheritance, license scope, and statutory termination rights.

Trade Identity

Trade identity protection does not require the originality of patent law for a valid patent or the lesser originality level needed for a valid copyright — only an inherent or acquired ability to distinguish goods and services of an owner from those of a competitor. Protected identifiers include words, phrases, slogans, 2-D and 3-D graphics and sculptures, and to a limited degree, musical note sequences, scents, voice timbre, and colors.

Acts of infringement are those that create likelihood of consumer confusion as to source of goods and services of the mark owner or dilute the distinctive quality of an owner's famous mark. Using ADR to resolve trade identity disputes involves care and creativity to avoid a settlement that causes a mark owner to lose rights because of usage by two parties without common quality control (so called "naked licensing"). Invalidity is the fate of marks that are generic or descriptive of goods to which the mark is applied. Descriptiveness can be overcome via acquired secondary meaning. A registered mark can obtain near-incontestable validity (with a few limited exceptions) after a five-year post registration continuous period of unchallenged exclusive use.

Damages for infringement are the mark owner's lost profits and infringer's profits, without double dipping, with enhancement in case of willful infringement. Attorneys' fee awards are more likely in trademark cases than in patent or copyright cases. Injunctions are granted to a prevailing mark owner with attention to protecting consumers as well as the owner's property.

Final Takeaways

The long-standing reality is that most litigation in trial and appellate courts ends short of finality of a court judgment. This occurs through private negotiation with or without mediation assistance (including court confirmed stipulations for judgment). Arbitration awards are almost always confirmed by a court. Some IP litigation is removed to bankruptcy court management. Administrative proceedings — e.g., various post-grant review modes at the Patent Trial and Appeal Board or trademark cancellation proceedings at the Trademark Trial and Appeal Board — may also put valuable IP rights at greater risk.

Early use of ADR protocols, with experienced neutrals, can reduce the costs, delays, distractions and risks of court proceedings, and often produce a better resolution covering multiple IP rights (and collateral issues) in multiple countries and possibly preserving a business relationship despite the IP dispute. In the end, the most significant attribute of ADR is its preservation of party autonomy, including manner, scope, protocol, time, place, language and neutrals of the ADR event. But parties and counsel must consider carefully the pros and cons of opting for ADR, selecting types of ADR and providers/protocols and most of all the big picture of parties' interests beyond litigation pleadings assertions.

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