Mediation of Intellectual Property Disputes: Tactics and Strategies

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Mediation of Intellectual Property (IP) disputes can be very similar to the resolution of other types of complex litigation. However, there are a number of important distinctions specific to IP cases, and patent cases in particular, that concern timing and strategy of case resolution. Naturally, achieving optimum case efficiency and a resolution for your client's maximum benefit are the primary (and obvious) desired outcomes. I've written this chapter in a more conversational style to invite the reader into the strategic world of deal mediation.

Simplistically, in any mediation, defendants want to get out as cheaply as they can, while plaintiffs want to extract as much as they can. This is not a pretty, touchy-feely, win-win problem-solving picture, but it is realistic and a pragmatic view of the pond in which we swim.

Interestingly, in over 30 years of mediating, I have found that logic, reason, and rationale are usually the poorest choices you can use as negotiating or mediating strategies. This is counterintuitive and sounds absurd, but it is a typical human reaction.

All parents think that their child is the smartest, most athletic, or best looking child in school and . . . that's not usually the case. Will you ever convince them of that? It's a fool's errand. You're not going to convince people that their analysis is wrong, that their position is misplaced or unfounded, or that they have failed to consider or weigh a particular piece of prior art (i.e., prior patents or technology) correctly. This is particularly so in IP matters, where you have extremely bright counsel, who often have advanced degrees in highly technical areas.

The most enjoyable part of my work is being able to interact with the brightest of the bright. Since there are plenty of 5–4 decisions by the U.S. Supreme Court and 2–1 decisions by the Federal Circuit, what makes one view right? Victors write the history and flawed analysis can certainly become law. The Supreme Court has had a recent history of reversing the Federal Circuit on several occasions. While clearly the judges of the Federal Circuit have more patent knowledge and experience, the law and/or standards are changed nonetheless. *Being right on an issue does not necessarily mean you will win.*

We soldiers in the trenches of IP resolution, deal in the realm of the possible, not the optimum. I once had the president of a large manufacturing plant tell me that "best is the enemy of better." That is, unfortunately, a truism and can act as a barrier to a creative or pragmatic resolution.

Of Chess, Strategy, and Timing

I prefer to think of mediation and negotiation of intellectual property matters as more of a chess game. It begins with a move, then a countermove, and then a move once again. Smart chess players think three moves ahead, with each move designed to provoke a particular move from their opponent. Grandmasters have the ability to think 10 moves ahead, seeing the entire game board and looking at all the machinations and possible outcomes.

"Strategy requires thought, tactics require observation," says Dutch Chess Grand Master Max Euwe. Taking the time to just observe reveals a treasure trove of information that can be strategically beneficial in the deal making game. There are several tactical moves you can make in devising a beneficial strategy to move the case where you want it to go.

Timing is an important factor. There are several time vortices where case resolution has optimal value. The first is in the pre-litigation stage. Depending on venue and declaratory judgment issues,

it can be advisable to meet with your opponent to ferret out the response to various respective positions and damage models, in order to see what potential business goals may be available. The goals are very fluid at this stage, and a lot of shaping can happen with the right mix of personalities, strategies, and creative-mediator suggestions and tactics.

I have settled a number of extremely complex matters very early in the game when it was tactically beneficial for the parties to do so. When spaghetti sauce drops on the counter, we can easily wipe it up with a sponge. If left overnight, we're scraping it off with a spatula! There are a myriad of opportunities available while the spaghetti sauce is still wet. Early in the game, positions have not hardened, business alliances may be possible before mortal enemies are declared, and whole-is-greater-than-the-sum-of-its-parts options can be devised by clever mediators and counsel.

Business people like making business deals. Once something becomes "legal," it hardens, and joint projects, acquisition of assets, sales and collaboration become more difficult. Particularly in copyright, trademark, and trade-secret cases, timing is crucial. Coming to the table early rewards a party with nimble positioning options and potential business solutions. This can be invaluable in structuring a deal. Patent cases can take advantage of this early exploration as well, but it is affected by the greater complexities involved and the disparities in expectations of perceived value. The mix of personalities heavily influences this early solution exploration process.

The Markman Opportunity

The second time vortex is after the suit is filed and initial Markman briefs have been exchanged, (or in a copyright, trade-secret, or trademark action, after initial discovery). You might surmise that after infringement contentions have been exchanged in a patent case, it would be a beneficial settlement moment. However, this is not usually the case. Often, at this time there is a shortage of information and party emotions run high, negatively impacting pragmatic settlement discussions. There are, of course, always exceptions to the rule, based on circumstances and personalities, which should be explored. After the Markman briefs are filed, and after the Markman hearing or ruling, the aperture of the case necessarily becomes narrowed.

Deciding to mediate early in the case, after Markman briefs, after the hearing, or after the ruling is a tricky matter. Frankly, it depends as much on the personality of counsel and the decision-making of the client as the hard facts of the controversy.

In my 30 plus years of mediating, I state one clear, unequivocal observation: Take the exact same facts and change the human beings around the table, and you have an entirely different game. Even in the highly sophisticated and intellectual world of IP litigation, human beings control the decisions, and we are psychological creatures.

Even though a very high percentage of matters are reversed at the Federal Circuit on claim construction, it is still a very expensive ticket to ride all the way to the Federal Circuit after a trial to get that review. So the aperture of the lens of a patent case, good, bad, or indifferent, is basically fixed for that trial after Markman.

Based on whichever party thinks they won Markman, the positions of the perceived winner will harden. Then, often extreme creative legal reasoning, i.e., cirque du soleil contortions, can occur from the "non-winner" of the Markman (i.e., better than "loser of the Markman" because no one ever thinks they lost the Markman). Once these hardened positions or contortions have occurred, it is very hard for strong personalities to step back from the brink.

It can be preferable to try for a mediation opportunity pre-Markman ruling. In a complex case where the judge is an unknown, we might need the hearing first. Where there are less complex

issues or where the judge is more of a known quantity, mediation after the briefs are exchanged may be sufficient.

Post-Discovery and Expert Report Exchange

The third time vortex comes after fact discovery, if anything meaningful was unearthed. The fourth one occurs after expert reports have been exchanged. By this point the aperture of the case is even more narrowed; the parties realistically understand their respective positioning. Summary judgments are being teed up, the damage models are revealed, and the money trail, or lack thereof, becomes is clarified.

"Filthy lucre"—Money. Ultimately, in most IP matters, there are issues of both the sword and shield. There are times when a settlement can be very creative and include nonmonetary options, but often it's simply more money, or less money, that drives a deal.

In patent, copyright, and trade-secret cases, the damage models are clarified once the expert reports are exchanged. In other commercial matters, the months and weeks leading up to trial may provide a perfect storm in which meaningful settlement discussions can occur. However, in IP cases, this is often not the case. The cost to prepare the case and prep the witnesses for trial causes IP counsel to hunker down, dig in their heels, and prepare their trench for war. Once this occurs, it is harder for either side to offer an olive branch. Yet meaningful discussions are still possible, especially if something surprising, unexpected or definitive occurs. Of course, discussions can also happen after post-trial motions and before appeal to the Federal Circuit. Negotiation exhaustion, hemorrhaging expenses, or extraneous business reasons can all come into play in a long running matter where a good mediator can swoop in and help get a deal done, save face, and/or tie up loose ends.

All parties at mediation have constituencies to which they must report. In-house counsel reports to business units, CEOs report to boards, partners report to their managing committee. Even solo entrepreneurs often have venture capitalist funding, an executive staff, or a spouse, to which they feel accountable. Seen or unseen, these entities are part of the deal. They create a shadow-boxing effect. In a contingency fee matter, while the ethical rules are clear that the clients' best interests always control, counsel has a clear stake in the outcome and is a full partner at the table, psychologically, if not in reality.

Politics. There's a client culture that each client representative must abide. It's never a clean black or white issue. It can be dependent on internally driven issues, at a company outside the logical parameters of the content of a case. Looming IPOs, mergers, shifts in the chain of command, a new policy on "toughness," and a new policy on getting cases moved are a few, but the list is not exhaustive. Decision makers of organizations are employees who would like to stay employed. Being attuned to those internal politics is critical in creating movement toward a workable deal with proper optics. Good diagnosis is paramount. If the diagnosis isn't correct, then the actions taken will be solving the wrong problem.

These issues have deep relevance based on the decision-making apparatus of the client. A good mediator should have keen diagnostic abilities in order to help bring laser clarity to work through the thorny field of unrealistic expectations and unreasonable positions. Those diagnostic abilities also help mediators ferret out unrealized possibilities for a deal or a solution. Mediators need to explore significant issues such as timing, deal options, settlement parameters, and creative structures that will work within the given dictates of each group. Sometimes the effort is subtle, sometimes overt, depending on the politics and dynamics of the situation. A gentle or firm hand is critical based on the personalities and needs of the individuals. A good mediator will understand this.

Optics. The visuals of a deal are usually more important for defendants, but can also be important for plaintiffs, who want to preserve the structure of a licensing program or set parameters for other deals in the future.

The Federal Circuit, Congress, and even the Supreme Court have all been wading into the intellectual property waters in a more activist way than in the past. The landscape is constantly changing, especially since the lifespan of an IP case can be longer than the average commercial case. Things can change during the interim, giving parties an opportunity for motions for rehearing, motions for en banc rehearings, and petitions for Supreme Court review, all of which can impact the case midstream.

Israeli psychologist Daniel Kahneman, who won the 2002 Nobel Prize in Economics, has extensively studied the psychology of judgment, decision making, behavioral economics, and hedonic psychology. He proved that most people respond to the loss of a given amount of money about twice as strongly as they react to a similar gain. In other words, it hurts twice as much to lose something, in contrast to the pleasure derived from an equal gain. His work demonstrated how the human decision-making process works specifically regarding that loss aversion. For example, he explained why many people fail to make money in the stock market over the long term. People lack the fortitude to sell shares when down, because they are unable to fathom taking a loss; rather, they will watch their investment plummet with the unrealistic hope that one day it will rise again.

Kahneman established a cognitive basis for common human errors that arise from heuristics and biases. I see this in operation every day. Predicting outcomes is extremely difficult. By definition one side will be wrong, not necessarily in what the outcome "should have been," but in what the outcome actually becomes. After Decca Records rejected the band "The Beatles" with the comment, "Guitar groups are on the way out, Mr. Epstein," George Martin signed the group to EMI's Parlophone label. The rest, of course, is history.

Human beings are much more failure-avoidant than success-driven. In fact, our whole compensation system rewards little successes and punishes big failures. A good mediator can counter this with options outside the box by tapping into the internal needs of each party while designing the structure of a deal around these parameters with workable optics.

I have been a warrior most of my career, starting out in the early 1980s doing oil and gas litigation, securities fraud, complex tort, and business litigation. I think it takes an old warrior to know how to be an effective peacemaker. Some of the nice "win-win" problem-solving bromides are not particularly effective in complex commercial litigation, much less IP litigation, where the smartest of the smart play.

The best tools to achieve results?

Think far, far outside the box.

Be attuned to the optics and politics of the parties.

Be careful of the need to "not be seen as losing."

Come armed with a heavy dose of patience and the relentless pursuit of a solution.

Hesha Abrams, Esq. a nationally acclaimed attorney mediator for over 30 years, is known for crafting highly creative settlements in very difficult cases. She has created settlements worth over $700 million in the past year alone. She specializes in creating innovative solutions for complex or difficult matters in Commercial, Intellectual Property and "Deal Mediation", which is driving a complex business deal to successful signing. She has the unique ability to work with big egos and strong personalities. Hesha has successfully mediated for thousands of parties and was an innovator in the mediation field serving on the legislative task force that drafted the landmark Texas ADR law. She mediates, consults, and negotiates on behalf of private parties throughout the country and internationally. She has worked in London, Hong Kong, Mexico, Thailand and India and with parties from all over the globe in complex patent licensing deals. She taught mediation and negotiation at the 2001 International Symposium on Negotiation and Conflict Resolution in The Hague. She was on the national panel for Dow Corning Implant cases and was the Chair of the Texas Bar Intellectual Property ADR Committee. She has been appointed Delegate to the Fifth Circuit Judicial Conference, 1988, 1990, 2002, speaker 2005, elected as a fellow of the Texas Bar Foundation in 2006 and received the Brutsché Award for Excellence in Mediation from the Association of Attorney Mediators.

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