CHAPTER 1

Putting ADR to Work in IP and Technology Disputes: When and How to Do It

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Discourage litigation. Persuade your neighbors to compromise whenever you can. Point out to them how the nominal winner is often the real loser—in fees, expenses, and waste of time. As a peacemaker the lawyer has a superior opportunity of being a good man. There will still be business enough.

Abraham Lincoln

Attorney Abraham Lincoln tried a patent infringement suit in Chicago (Parker v. Hoyt) on July 11–20, 1850, involving a patent on a water wheel. He defended Mr. Hoyt against a charge of infringement and ultimately prevailed with a jury verdict. In his book Lincoln, David Herbert Donald reported that Lincoln called it “one of the most gratifying triumphs of his professional career.”

Despite his admonition against litigation and its uncertainties, it is doubtful Lincoln considered arbitration or mediation in the mid-1800s. Neither one existed in its present form. Arbitration started in earnest in 1925 with the Federal Arbitration Act (the FAA). Mediation came later,

1. Abraham Lincoln, Notes for a Law Lecture (July 1, 1850), http://www.americanbar.org/content/dam/aba/administrative/professional_responsibility/39th_conference_session_7_did_lincoln_practice_law_the_way_he_practiced_politics.authcheckdam.pdf.
at least in the structured form we know today. Furthermore, until the 1982 amendment to Title 35 (35 U.S.C. § 294), the courts held that patent validity and infringement could not be arbitrated.

INTRODUCTION—THE ADR LANDSCAPE

About 40 years ago, arbitration, mediation, and other modern alternative dispute resolution (ADR) techniques blossomed. The reasons are undisputed: complexity, delay, and the resulting high cost of traditional litigation, coupled with the evolving international nature of commercial and technology disputes, made the growth of ADR virtually inevitable. Today some form of ADR is usually considered and often used in intellectual property (IP) and technology disputes.

Significant literature and educational activity have grown up around ADR. The American Arbitration Association, the International Chamber of Commerce (ICC) International Court of Arbitration, based in Paris, the International Institute for Conflict Prevention and Resolution (CPR), based in New York, as well as JAMS, based in California, promote and administer arbitration. Many law schools now teach courses in ADR. Some law firms expressly offer ADR services with specialized ADR practice groups. And the federal courts are in the act, some requiring mandatory pre-litigation ADR. Indeed, in the Advisory Committee Notes for the 1993 amendments to the Federal Rules of Civil Procedure, Rule 16(c) regarding pre-trial matters refers to “procedures such as mini-trials, summary jury trials, mediation, neutral evaluation, and non-binding arbitration” that judges and attorneys can explore as possible alternatives to a full trial on the merits.

This chapter explores, for both counsel and clients, the practical uses of various forms of ADR in IP/technology cases and how to use it. Experience argues for an affirmative but prudent approach to the subject. It is a valuable tool when properly used by those who understand its opportunities and limitations.

Following a general discussion of ADR, six case histories of actual ADR matters are set forth (one arbitration, one mini-trial, three mediation).

4. IP/Technology disputes can concern the existence of the IP and/or technology; who created it; ownership; validity; enforceability; scope of rights; infringement/unfair competition/misappropriation; whether a third party has rights in, under, or to the IP/technology; encumbrances/limitations on the rights or on the holders of those rights, transactions involving IP/technology; and contract issues.
tions, and one neutral fact-finding) in the hope that real-world examples will illustrate the importance of understanding ADR as a tool and how to use it.

I. OVERVIEW OF ADR TOOLS

Historically, IP owners have looked to the courts to enforce their rights, be they injunctions, infringement damage awards, or license agreements. As noted above, costs and delays of traditional litigation have been significant factors driving IP owners to ADR, which has often provided relief that is not only faster and cheaper, but also more effective.

But ADR is effective only if counsel and clients are competent in knowing when and how to use it as a tool. In ADR, *one size does not fit all*. The opportunities and limits of the ADR tools must be fundamentally understood as well as how they interrelate to traditional litigation.

Furthermore, contrary to the belief by some that ADR is a *stepchild* to litigation and requires less rigorous preparation and execution than litigation, ADR has proven to be as rigorous (sometimes more so) as litigation. ADR requires not only the traditional skills of advocacy, persuasiveness, and persistence but also additional skills like creativity in legal and business problem solving, which, after all, is what IP/technology owners are looking for to resolve an IP dispute.

The most popular ADR tools today are arbitration, mini-trial, and mediation. Use of special masters, though technically not ADR, has ADR elements. The use of special masters in IP cases is covered in chapter 12 of this book. Similarly, neutral fact-finding is sometimes used in conjunction with traditional litigation or as a stand-alone ADR technique.

Viewed from the perspective of formality and cost, the ADR spectrum runs from more formal and costly arbitration through mini-trial, mediation, and neutral fact-finding to old-fashioned negotiation or settlement talks—the least formal and costly way to resolve disputes.

An introductory word about the spectrum.

**Arbitration**

Arbitration in IP/technology disputes is typically pursued by party agreement, intended to be binding, and often governed by the FAA, which provides for court review with very limited grounds to amend or reverse an arbitration award. Over the years, American courts, including the U.S. Supreme Court, have willingly enforced agreements to arbitrate and have upheld both domestic and international arbitration awards. In-
International treaties in most industrialized countries have supported U.S. and other nations’ courts in enforcing arbitration awards.

Arbitrations in IP/technology cases tend to run much like district court bench trials, but with more relaxed party-agreed time schedules and procedural rules. Usually the parties agree to use the rules of one of the above-noted ADR-promoting organizations. Discovery or information exchange is limited, and most arbitrators place a heavy burden on the parties to handle discovery informally with minimum involvement by the arbitrators. Arbitrators, under the FAA, have some subpoena power and use it when necessary.

In arbitration hearings, the emphasis is not on technical conformity to formal rules of evidence but on obtaining relevant and material evidence that the arbitrators regard as helpful in making a decision. Often arbitrators and the parties agree that the Federal Rules of Evidence will provide the basic framework for the consideration of evidence, with the rules being relaxed as circumstances warrant.

Arbitration awards can be brief and conclusive without explanation, but generally in IP cases the parties want sufficient findings of fact and reasons to explain the rationale for the award. Generally, experience has shown that arbitrations in IP/technology cases are faster and less expensive than traditional litigation, which often involves full-blown discovery and both trial and appeal.

Arbitration in IP/technology cases usually arises from contract clauses, mostly license agreements, which require parties to arbitrate disputes. Most clauses specify an organization and its rules to govern the arbitration. But parties by mutual consent sometimes amend the clause to modify (or eliminate) a particular organization and/or its rules. Counsel who are experienced in arbitration sometimes want to eliminate the bureaucratic constraints of some organizations by setting up their own mutually agreed-upon procedures. See chapter 2 of this book for a discussion of the elements to consider in drafting ADR provisions (including arbitration provisions) in IP/technology agreements.

**Mini-trials**

Mini-trials are not trials at all but rather structured information exchanges attended by counsel, usually prospective witnesses (especially experts), and, most important, the businesspeople responsible for resolving the

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5. See chapter 10 for an in-depth discussion of the use of arbitration in IP/technology disputes.
putting ADR to work in IP and technology disputes

A dispute—typically executives. Mini-trials usually run two to three days, during which the parties present truncated forms of their best cases in a nonbinding, confidential format with the hope that the businesspeople, who attend and witness the whole procedure, can thereafter resolve the dispute on a person-to-person basis. Mini-trials have been characterized as replacing the courtroom with the boardroom, and some have been extraordinarily successful in resolving major corporate disputes.

The first mini-trial in 1975, in the patent dispute between Telecredit, Inc. and TRW, is described later in this chapter as a case study. It remains the classic example of how to use the mini-trial.

Mediation
Mediation is the least structured, least expensive, and most used ADR process today. It provides a forum for the parties to meet face-to-face, often for the first time, with a neutral mediator who usually has experience in the kind of dispute involved to serve as a facilitator in information exchange and negotiation. Experience teaches that not all mediations result in immediate settlement, but even those that do not often lead to continued party contacts, including later mediation sessions and ultimate settlement.

Neutral fact-finding
Neutral fact-finding is typically used in one of two ways: (1) a stand-alone process in which a neutral investigates and finds facts upon which the parties can attempt to negotiate a settlement or (2) in litigation, a process in which the court may order fact-finding by an agreed-upon fact-finder as part of the court’s ultimate decision-making process. In both of the above situations, the fact-finder is a person with training and experience in the subject matter of the dispute (e.g., an engineer, scientist, medical professional) and usually also a lawyer. Neutral fact-finding permits efficient crystallizing of fact issues, opportunity for prompt review, and hopefully a basis for final resolution of the dispute by settlement or expedited judicial consideration.

To demonstrate how parties can use these ADR tools to resolve IP/technology disputes, salient aspects of those disputes are considered next.

II. INTELLECTUAL PROPERTY INFRINGEMENT SUITS

The typical IP infringement case lends itself to ADR. ADR works best when the issues are factually and/or legally complex, there is justified
doubt about the ability to prove issues definitively, and reasonable compromises are foreseeable. If, on the other hand, a dispute requires resolution of a critical legal issue, compromise resolution might establish unacceptable precedent between the parties or in future disputes with other parties, or one (or both) of the parties is convinced that the odds of victory overshadow the risks and costs of the litigation, then ADR probably will not succeed. That said, what follows is a closer look at typical ADR scenarios. IP cases, particularly patent infringement cases, usually involve several or all of the following issues:

- infringement and willful infringement;
- validity;
- damages;
- threat of injunctive relief; and
- unenforceability (e.g., misuse, inequitable conduct).

Many courts today have local rules in patent cases requiring prompt, often pre-discovery, attention to matters historically deferred to later pretrial proceedings, such as a patentee’s infringement contentions with claim charts directed to alleged infringing activities; a defendant’s invalidity contentions with claim charts directed to 35 U.S.C. §§ 102 and 103 defenses; and claim construction contentions.

If the parties wish to try ADR, particularly mediation, such local rules can affect when to have the mediation. Experience suggests that there are no general rules for the best time to pursue mediation. Indeed, resolution sometimes requires multiple mediation sessions spread out with the same or a different mediator. In more cases than one would think, parties agree to pre-discovery mediation, while in others it may be necessary to wait until discovery is under way, and in other cases even completed.

In some cases, an effective early case assessment alone or along with some focused information exchange can permit parties to perform a meaningful risk analysis. Experience also suggests that some cases are more likely to settle the later in the case that mediation is held. This is because early on, issues may not be sufficiently crystallized to make meaningful risk analysis and litigation cost predictions, both of which are central to a mediated settlement. Chapter 3 of this book discusses how an effectively performed early case assessment can be used to develop a risk analysis for settlement negotiations or as a prelude to a mediated settlement.
On the other hand, early mediation can sometimes lead to a prompt settlement if the dispute is mature at or before the time litigation is started. For example, competitors are usually well aware of their counterparts’ activities in the marketplace and may have even communicated with cease-and-desist letters or settlement discussions before pursuing ADR. Furthermore, public information, such as patents, trademark registrations, copyright notices/registrations, and their related file histories; corporate websites; and public governmental filings, as well as prior art publications and activities such as sales, offers for sales, and uses, often provide parties with much of the information they need even before litigation begins. In such instances, the time for commencing mediation may be ripe soon after litigation starts, and before the big expenses begin.

III. BEING A WORTHY ADVOCATE IN MEDIATION

As mentioned earlier, while ADR may be considered less formal than litigation, it does not follow that advocacy and persuasion skills are any less relevant. The importance of honing or maximizing these skills in the context of ADR processes is not as commonplace as it is for litigation. For example, in mediation, during any one point in the process, outside counsel might be an advocate with regard to the opposing party (e.g., during the initial joint session), an advocate to the mediator (e.g., in caucuses), and an advocate to one’s client (e.g., outside the mediation session and in caucuses). Written, like oral, advocacy is an important skill for mediation, so that is the focus here. Most mediators require a pre-mediation submission, which typically requires:

- Joint submission of pertinent documents (e.g., pleadings, motions, court rulings) and any other non-confidential documents that the parties believe will be useful to the mediator’s understanding of the dispute; and

- Simultaneous submissions by each side, ex parte, of a confidential statement addressing the party’s factual and legal contentions; each side’s strengths and weaknesses, as understood; the party’s real interests, including the relationship of the parties and the markets involved; how to increase value to each party, as perceived by each side, by a settlement; projected costs of litigation; probability of success on each issue; and, most important, a summary of settlement discussions to date.
It is at this point that the job of counsel (outside and in-house) and the client begins in earnest. Failure to respond meaningfully and persuasively to the mediator’s ex parte submission request can prejudice a party’s efforts to fully use its opportunity to enlist the support of the mediator in getting the dispute resolved. For similar perspectives from a magistrate judge and a client, see chapters 5 and 6 respectively.

In preparing your ex parte submission materials, consider each of the mediator’s requests to discuss:

(1) The party’s factual and legal contentions
Here is the opportunity for counsel to tell his or her client’s story, confidentially, to someone who is preparing to assist the parties to craft a resolution, in a way that sets the stage for the kind of relief the client is looking for in the real world. Counsel should set out facts succinctly, recognizing that the mediator in virtually all IP cases is an experienced IP attorney (often a litigator or maybe a retired judge). In patent and trade secret cases, for example, counsel should summarize the technical background of the invention and what the invention contributed to advance the art or solve a problem. Counsel should also set out clearly and persuasively both the relevant legal issues and supporting facts (e.g., novelty (or lack thereof) of the invention under 35 U.S.C. § 102 (e.g., prior use, prior invention, on sale) and non-obviousness (or lack thereof) (e.g., long-felt need, unexpected results or the lack thereof, as appropriate)).

Pleadings, motions, and rulings on motions, in and of themselves, rarely tell a persuasive factual and legal story for purposes of educating the mediator in a way that he or she can use them for purposes such as reality testing and identifying interests/needs and acceptable settlement options.

(2) Each side’s strengths and weaknesses, as understood
Here counsel should level with the mediator, particularly in focusing on the perceived strengths and weaknesses of their opponent’s case and anticipating (and dealing with up-front) what the other side is going to say about the strengths and weaknesses of their client’s case. This will help to set the stage for helping direct the mediator to focus on each party’s interests in resolving the dispute rather than just their positions on the issues. It is also a way of giving the decision maker a reality check for assessing
risks, as well as giving the mediator the information that he or she can then use with the decision maker for helping to assess the risks.

To say it another way, mediators usually are not much interested in who will win in court on the law and the facts; they want to know the interests of the parties and how to reach a resolution that will best satisfy those interests. After all, the mediator is not there to make a decision but to facilitate a real-world solution to what businesspeople consider a business problem.

(3) The party’s real interests, including the relationship of the parties and the markets involved
Even where parties are compelled to mediate, for example, because of a pre-dispute resolution clause or court rules, they often embrace mediation because there are considerations (business or personal) and benefits outside the ambit of the pleadings and formal papers that each believes warrant consideration in a resolution. This, as suggested in (2) above, is the time to take a hard look with the decision maker at what interests are important in resolving the dispute and to set out those interests for the mediator. Thus, this section should be prepared in concert with the person who will be attending the mediation with authority to settle, as well as with whomever else might be needed to identify relevant interests (e.g., business, R & D, finance).

Counsel and their clients should research and identify relevant interests of their opponent to determine possible overlapping, complementary, and opposing interests. Also, if circumstances warrant, brainstorm with all relevant client representatives (those who will attend the mediation and those who will not but who have relevant information and experience) possible settlement options and/or structures for satisfying the above-identified interests (e.g., license arrangements, distributorship arrangements, supply arrangements).

(4) How to increase value to each party by a settlement
The scope of possible solutions for settling a case in mediation typically exceeds the relief the parties may be entitled to from a court. Thus, like point (3) above, counsel should discuss this aspect carefully with their client representatives, particularly the
decision maker attending the mediation, to develop creative ideas appropriate for the circumstances. Examples abound, as sometimes it comes to light during the mediation that one or the other of the parties (or both) would like to make some major rearrangements in their business, which the IP dispute can catalyze. These may include the sale of some or all of the IP in dispute (as well as related IP), or even sale of the division of a company (or the whole company) along with tangible and intangible assets.

Such possible solutions thus make it important that counsel explore in depth with their client as much information as is available about the adversary (e.g., financial condition, history of mergers and acquisitions, history of previous litigations, strategic plans or pronouncements) as well as explore the same things about counsel’s own client. The resources for this information may be in publicly available documents, with a client’s upper management, and with other client personnel who keep up with their opponents’ activities (e.g., scientists—scientific journals, professional meetings; marketing—trade shows).

(5) Projected costs and probabilities of success
Counsel should be candid here to keep credibility with the mediator. In particular, counsel should refrain from exaggerating costs and probabilities of success on the issues, which is sometimes done in an effort to skew settlement numbers unrealistically in a direction toward counsel’s client. For example, plaintiffs’ counsel have been known to skew projected costs and success probabilities unrealistically high in an effort to enlist the mediator’s support in recommending a higher settlement figure; defendant’s counsel have done the opposite. But mediators can see through this, based on their experience and on the facts as presented by the parties, thus creating a potential (and undesirable) credibility problem.

(6) The settlement discussions to date, in summary
The settlement summary is very important to the mediator: it sets up where the parties actually are (or are not) in the resolution process and brings an up-front reality check to the mediator beyond the usual (and expected) advocacy in the other submitted papers. As sometimes turns out, the parties’ ex parte reports of settlement discussions are not congruent, and their inconsistен-
cies may shed light to help the mediator decide what direction to take in the mediation.

In a typical mediation, the mediator first meets with each side alone (typically by phone) to clear up any questions left in the mediator’s mind after reviewing the parties’ submissions. If the settlement history is not clear, the mediator discusses the differences with each side. Often differences relate to misunderstandings of proposed settlement terms or who was present at any meetings. Clearing up such matters may shed light on the real issues remaining between the parties, including differences among outside counsel, in-house counsel, or businesspeople. It is not uncommon to find that changes over time have led to misunderstandings or misperceptions by those involved in the process. Knowledge of this may help in fashioning proposed solutions.

IV. STUMBLING BLOCKS IN MEDIATION ADVOCACY

The very nature of mediation in IP/technology cases explains why a high percentage of them result in settlement. The parties are willing to try a candid exchange using a mediator to resolve the dispute in a way that makes business sense—relevant interests are satisfied, and in some cases the parties make compromises to put the dispute behind them. Implicit in mediations is that both parties have thought through the issues listed above, spoken with relevant people before the mediation, and have a pretty good idea of what their bottom line is for resolution. And in the typical mediation, the process of give-and-take with the mediator helps get to the bottom line usually after a day of mediation.

But not all mediations lead to immediate settlement. Experience shows that the following are among the principal reasons why:

- differing perceptions on the strengths and weaknesses of the parties’ cases;
- differing goals of the parties; and
- failure of the ultimate decision maker(s) to understand the risks and consequences of not settling.

Each of these reasons will be addressed with comments on how best to avoid or minimize them.
(1) Differing perceptions on the strengths and weaknesses of their cases

In years past, it was usually pretty straightforward to smoke out parties’ real perceptions on the strengths and weaknesses of their case on the five issues above: infringement, including willful infringement; validity; damages; injunctive relief; and unenforceability. Cases from the U.S. Supreme Court and U.S. Court of Appeals for the Federal Circuit, as well as post-grant proceedings available from the U.S. Patent & Trademark Office (PTO), have changed matters.

For example, regarding validity, the Supreme Court’s decision in KSR Int’l Co. v. Teleflex Inc.,7 has emboldened defendants to be less willing to compromise on obviousness issues. In the past, defendants often accepted the reality that proving invalidity for obviousness, in the face of the statutory presumption of validity coupled with proofs required under Graham v. John Deere Co.,8 and the Federal Circuit’s “teaching, suggestion or motivation test,” was a significant burden, thus removing it as a meaningful block to settlement. Since the Supreme Court issued the KSR opinion, with its perceived loosening of proving obviousness, defendants tend to stand their ground.

The same can be said of injunctive relief. The Supreme Court’s decision in eBay Inc. v. MercExchange, L.L.C.,9 reversed the Federal Circuit’s usual practice of virtually automatically granting permanent injunctions to prevailing patentees. The eBay case provides some comfort to defendants that a loss will not necessarily result in a permanent injunction.

As for damages, the willingness of the courts to accept creative and arguably broad bases for relief provided by the statute’s requirement that damages be “adequate to compensate for the infringement,” whether royalties or lost profits, has emboldened many patentees, rightly or wrongly, to be more reluctant to make compromises for settlement.

On the other hand, the Federal Circuit’s revamping of the law of willful infringement in In re Seagate Tech., L.L.C.,10 in a direction favoring

6. Therasense, Inc. v. Becton, Dickinson & Co., 649 F.3d 1276 (Fed. Cir. 2011) (en banc), has tightened the requirements for establishing the affirmative defense of inequitable conduct, causing fewer assertions of that defense.
10. 497 F.3d 1360 (Fed. Cir. 2007) (en banc).
alleged infringers, has given less comfort to patentees that they may be able to prove willful infringement. Experience shows that patentees no longer press that issue as strongly in the give-and-take of mediation.

Further, the Supreme Court’s decision in *MedImmune, Inc. v. Genentech, Inc.*, and subsequent Federal Circuit cases applying it, have made it arguably easier to get declaratory judgment consideration by putative infringers of brewing infringement and validity disputes. Putative infringers may be more inclined to *sue first and talk later*, making mediation a possibly attractive venue to *talk out* a solution.

Finally, the availability of post-grant proceedings (e.g., inter partes review, post-grant review, or covered business method) that the PTO offers by which, for example, third parties (e.g., defendants) can challenge a competitor’s patent, can be a factor in mediation strategy. Experience shows that in some cases the pendency of a post-grant proceeding emboldens the party who commenced it and their—*in it to win it*—attitude makes it more difficult to mediate a settlement until the PTO renders a determination. In other cases, the pendency of the proceeding is like any other risk that the parties each must realistically assess in determining whether and for what amount to settle and concluding the proceeding is part of a global settlement of the dispute.

The short of it is that changes in the law have added new variables to settlement considerations that in certain cases, on balance, have affected parties’ calculus of whether to settle and for what value. Whether these changes should affect interest-based discussions is another matter, but they have made settlement a more interesting challenge.

What are the advocates in mediation to do about this? The advocate should address the challenges up-front in the submissions to the mediator. So, for example, if invalidity based on obviousness is an issue (and it usually is), the patentee should acknowledge the *KSR* decision and advocate why *KSR* in his case does nothing to change the heavy burden of proving obviousness. The defendant should do just the opposite. In other words, anticipate what is coming and hopefully defuse it.

The same holds for the other issues, that is injunctions, willful infringement, and damages. As stated earlier, addressing these issues up-front, if read and understood by the client and the client’s decision maker, will provide a reality check and point out the uncertainties that lie ahead in the litigation.

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(2) Differing goals of the litigants

It sometimes turns out at mediations that one or more of the parties have goals or aspirations different from just the litigation of the IP or technology in the suit. That is, what appears to be a straightforward patent or trademark infringement dispute may in reality be a test case by a patentee or trademark owner to establish some industry-wide precedent, usually in licensing. Settlement may therefore be more difficult.

Or a defendant, as a condition for settlement, may demand, for example, a hold-harmless agreement under other patents of the patentee for products not involved in the litigation, as well as those that are. This is sometimes the case with competitors who have a history of litigation and who seek to obtain a broad peace from further litigation.

Or sometimes the facts simply are not developed enough for one party or the other to make comfortable risk assessments. This is especially true if enforceability (particularly inequitable conduct) is a serious defense and discovery is needed.

As with questions of validity and the other issues above noted, the well-prepared mediation advocate will anticipate these matters in preparation for the mediation and, as circumstances warrant, include in the information to the mediator suggested proposals for resolution—for example, cross-licenses or new business relationships—all done after careful consultation with the client.

(3) Failure of the ultimate decision maker(s) to understand the risks and consequences of not settling

Despite the practice of mediators to require ultimate decision maker(s) to attend the mediation, sometimes they do not, and settlement may be impeded or blocked.

The reason for ultimate decision makers to attend mediations is obvious: without them there, exposed to all sides of the issues and their opponent, they may rely too heavily on a filtered and abbreviated account of communications (verbal and nonverbal) from their own counsel or other arguably non-objective attendees. The decision maker needs to hear in real time the strengths of the opposition’s case (as well as the weaknesses of his or her own case); the interests of the other side; and the options that may be open to both sides. A decision maker who stays home is operating in a communication vacuum. The absent decision maker is left to second-guess, for example, what the opponent really needs or means, from secondhand information reported by well-intended colleagues.
who are often not well positioned to obtain key information that might be communicated if the principals were there to meet face-to-face.

Post-mediation, post-settlement interviews sometimes show that a party settled (despite counsel’s advice to the contrary) because the settling decision maker was persuaded to do so by the other side’s presentations and arguments. A real-world example illustrates why decision makers need to be at the mediation:

**Case in point:** In the mediation of a patent infringement suit brought by a foundation and its exclusive licensee against an alleged infringer/competitor, the foundation did not bring a decision maker to the mediation; it sent only outside counsel. All the parties (i.e., exclusive licensee, alleged infringer) except the foundation agreed to settlement terms. Counsel for the foundation refused to agree, even though it became clear at the mediation that the foundation would have netted more by settlement than through litigation because of a unique arrangement between the foundation and its licensee. One can only speculate as to the foundation’s reasons for not having a decision maker present at the mediation and the counsel’s reasons for not settling.

**V. CASE HISTORIES—USING ADR TO WIN IP/TECHNOLOGY DISPUTES**

The following case histories were chosen for two reasons. First, they illustrate how creative lawyers who are knowledgeable about the opportunities of ADR, working with businesspersons, can resolve cases in difficult situations. Second, they illustrate the role that an experienced and well-prepared ADR neutral can play in facilitating the process.

**Case History #1:**
Neutral fact-finding as an adjunct to litigation

A chemical company sued one of its former executives for theft of trade secrets after the executive had been discharged and started a competing company. The case was pending in state court before an experienced judge with no science experience or training, and it involved complex chemistry and nasty facts.
Recognizing that the dispute (typical of trade secret disputes) involved two principal issues (what, if any, were the trade secrets, and were they unlawfully appropriated and used by the defendant), the court agreed with the parties to appoint a neutral fact-finder to find facts on the two principal issues. In fact, the court appointed a neutral (lawyer with chemistry background) agreed on by the parties.

The court, with guidance from the parties, authorized the neutral to interview appropriate personnel of the defendant and the plaintiff (some of whom had already been deposed), as well as one party representative, in the presence of counsel, under an appropriate protective order. The neutral was further authorized to inspect the parties’ manufacturing facilities, including books and records, and to make a confidential report to the court based on the interviews and the inspections.

The neutral performed the interviews and inspections but did not conduct the interviews under oath, and they were not transcribed. Counsel had the opportunity to ask questions during the interviews and inspections as they saw fit. The neutral provided a draft of the report to counsel for comments. Counsel made no material objection to the report, which the neutral sent to the court. The draft contained detailed findings on the chemical processes involved and what both parties were actually doing at their respective facilities. The draft also identified the alleged trade secrets.

The bottom line of the findings was that there were trade secrets, and the defendant had misappropriated and was using them. The court accepted the findings and asked the parties essentially, “Where do we go from here?” At that point, the defendant offered to stop using the trade secrets, to pay a modest sum for past damages, and to relinquish all shares of the plaintiff’s stock that it owned. The plaintiff agreed to settle on those terms as long as the settlement provided that the neutral be required for six months to inspect defendant’s plant, including books and records, for compliance with the settlement. Accordingly, the neutral performed the inspections and prepared the reports for the court.

This case history is an example of ADR working at its best, hand-in-glove with traditional litigation. The parties, in conjunction with the court, tackled the heart of the dispute quickly
and expertly with a knowledgeable fact-finder. The court retained control of the dispute; the parties minimized discovery costs and avoided the expense of party experts and lengthy proceedings.

In sum, trade secret cases, notorious for high costs and messy trials, do not necessarily have to be.

Case History #2
The mini-trial is born

Prior to 1977, there was no such thing as a mini-trial in the ADR lexicon. But frustration with a three-year-old patent infringement suit, moving at a snail’s pace through the federal district court in Los Angeles, was about to change that.

The case started in 1974 when Telecredit, Inc., a company providing computerized check and credit-card authorization services, claimed that TRW had infringed several of its patents. Telecredit wanted an injunction and $6 million in damages. Discovery turned up more than 100,000 documents. After three years of discovery battles and $1 million in legal fees, no settlement was in sight.

Telecredit’s patent license administrator and co-founder suggested binding arbitration. TRW refused. Thus, faced with a stalled lawsuit and management on both sides frustrated with no resolution, counsel working together came up with an idea of what was to become known as a mini-trial. The process entailed six weeks of expedited discovery, exchange of briefs, and then a two-day session attended by top management where each side would present a truncated form of its case on all issues. As the parties requested, the proceedings would be moderated by a neutral, experienced in patent litigation and preferably also with judicial experience, who would issue a non-binding opinion with settlement recommendations and a prognostication of trial outcome if management was unable to work out a settlement after the mini-trial.

The mini-trial took place in a Los Angeles hotel in July 1977, attended by more than two dozen people. Among them were the CEO of Telecredit and the executive vice-president of
TRW. In the agreed-upon format, one side presented its case, followed by rebuttal, then reply, and finally questions from the executives. Then the other side put on its case. The cases were presented through the testimony of technical and legal experts and argument of counsel, with the neutral asking questions for clarification where appropriate.

The site for the mini-trial, a large banquet room at the hotel, was organized like a courtroom. The neutral sat in the middle at a bench-like table with the two corporate executives on either side; there were separate tables for counsel and a chair for witnesses and presenters; and blackboards (or white boards) were located around the room for displaying drawings, photographs, and the like, of which there turned out to be many.

The process went forward as agreed. When the mini-trial finished (in two days), the executives met alone with the neutral. At the executives' request, the neutral summarized the proceedings, stating that the central issue appeared to be the scope of the patent claims—whether the claims were entitled to a broad construction (as argued by the patentee) that would embrace the accused devices or whether they were entitled to a more limited scope in view of prior art not cited by the PTO (the claims would be valid but not infringed).

Within half an hour, meeting without the neutral, the executives had the rough outline of a settlement (suggested by the neutral), which was finalized in a couple of weeks. The patents were to be submitted to the U.S. Patent and Trademark Office for reexamination in view of the new prior art, and if they were reissued with the broad claims, TRW would take a license at an agreed-to royalty rate. Both sides agreed that they had thereby avoided an extensive, costly trial several years down the road.

Fortune magazine published a feature article in 1979 touting the Telecredit/TRW mini-trial event as “A Businesslike Way to Resolve Legal Disputes” and quoting a top executive who agreed, stating, “I’m not a believer in letting lawyers solve business problems.”

Over the years since 1977, the mini-trial approach has been tailored to fit other types of controversies where issues can be

framed after a limited amount of discovery. As pointed out by the *Fortune* article, “This approach is not meant for cases that present novel questions of law, requiring a judge to establish new precedent; nor would it be likely to work in some of the largest cases where even trial-court opinions are merely preliminary to the real battleground, the appeals court.” 13 The mini-trial has been used to resolve major dollar disputes—e.g., Westinghouse, many major electric utility companies, Shell Oil, Union Carbide, Borden, Texaco, Xerox, Gillette, American Can Co., Honeywell, and government agencies including the Department of Justice, the Army Corps of Engineers, and NASA.

**Case History #3**

**The mega-mediation/mini-trial**

**Background and overview**

Occasionally, the opportunity arises to resolve a very large and complex multi-patent dispute by ADR, particularly mediation and/or mini-trial. So it was with two of the largest U.S. manufacturers and sellers of information storage equipment, *Primo Co.* and *Secundo Co.* Each had extensive and impressive patent portfolios, of which they were justly proud, based on research and development and experience in the field. Both had increasing market shares and increasing competition in the marketplace leading to multiple patent litigations.

Senior management at both companies recognized that over time the companies would continue to have patent disputes between one another with the attendant costs, uncertainties, and disruption of employees’ time. Senior management favored a paid-up royalty-bearing cross-license on all existing accused products. But there were problems with this approach: (1) each side believed its patents, on balance, were more valuable than the other side’s, and (2) making market projections for sales of accused products during the unexpired life of the accused patents was a challenge. Thus, how could the parties determine the relative infringement value and who should pay whom?

13. *Id.*
Based on an earlier, unsuccessful mediation of the case in which the participants attempted to evaluate an extensive portion of the companies’ patent portfolios, the parties, with the help of a new neutral, decided to take a more focused approach: a three-step hybrid mediation/mini-trial process:

- **Step one** was to identify only the infringed patents along with alleged infringing products and their past and projected future sales.
- **Step two** was to brief the infringement, validity, and damages/royalties issues and conduct a mini-trial before a neutral, each side to present its case as it saw fit. The mini-trial would be for two days, with each side limited to five experts on liability issues.
- **Step three** was to have the neutral prepare an opinion/report for the parties’ CEOs to consider, followed by a meeting of the CEOs along with the neutral. The report was to provide an analysis of validity, infringement, and damages/royalties on a patent-by-patent basis, with the probability of success on each issue, so that the CEOs could hopefully reach a settlement with a one-time payment. Critical to the process was an agreement that the CEO meeting must be within four months after the process started.

**The process**

The first hurdle in the process was to decide how many of the patents in controversy would be considered for the mini-trial, thus to avoid the *overload* problem that existed in the earlier mediation. The technology involved divided into three product areas. The parties wanted to choose five patents per side in each product area (15 patents) for analysis, thus 30 patents total. The neutral believed this was too many for the time allotted considering the technology and the factual/legal issues (implicating hundreds of products and hundreds of millions of dollars). Nevertheless, the neutral permitted the parties to brief 30 patents and corresponding accused products and to outline how they intended to present their cases at the mini-trial (e.g., witnesses, attorney argument)
After receiving the briefs, the neutral advised the parties that their submissions comprised “about 4,600 pages of briefs and documents including patent references, technical documents, expert statements, product information, sales information,” all of which was too much to handle in the agreed-upon time frame. After consultation with the parties, the neutral conducted the mini-trial with six (rather than 15) patents per side (a total of 12 patents) and one claim per patent. This worked well. The parties spent two full days to get through 12 patents, while expert testimony (including cross-examination) on validity and infringement took most of the time. Accounting, marketing, and royalty experts also presented on damages/royalties issues. The parties did not have the proceedings transcribed.

The neutral’s opinion/report
The neutral’s opinion/report, prepared specifically for the CEO’s consideration, comprised five sections (12 pages): Background, Evaluation Methodology, Royalty Rates, Analysis of Individual Patents, and Summary and Conclusions.

Because the audience for the report was high-level executive businessmen, the Background section provided succinct information regarding the technology and the legal claims in dispute. The Evaluation Methodology section warrants a closer look because it was central to the CEOs reaching a confidence level sufficient to justify a large settlement based on limited sampling of information. The section began:

The yardstick used to evaluate infringement, validity and enforceability was to apply the burdens of proof used by the courts, recognizing that the mediation environment is not a trial with witnesses, cross-examination under oath, etc., all of which are particularly important in patent cases because of complex law and technical issues. Proof of infringement requires a ‘preponderance of the evidence.’ Proof of invalidity and enforceability requires ‘clear and convincing evidence’ because of the statutory presumption of validity accorded all patents. In each instance of evaluation, the neutral has indicated a ‘confidence level’ to provide some guidance on the weight to be accorded his conclusions.
Further, because of the fact-intensive nature of the obviousness inquiry, and the “differences of opinion, especially expert opinion, thus normally requiring a trial,” the neutral stated no opinion on the parties’ obviousness arguments.

In sum, the neutral’s liability evaluation addressed validity under 35 U.S.C. § 102 (e.g., prior disclosure or public use, on sale bars) and also license issues (i.e., assertion that a patent was licensed to the other side). Infringement evaluation addressed both direct and doctrine of equivalents infringement.

The *Royalty Rate* section noted a wide spread of argued appropriate rates for different products. The neutral noted, “Neither party was forthcoming with licensing details of its own licenses for confidentiality reasons. Nor did they provide any information about industry practices (if there is any such information).” Accordingly, the neutral set royalty rate ranges as best he could from the parties’ arguments, basically compromising between high and low positions of the parties.

The *Analysis of Individual Patents* section addressed each of the 12 patents under consideration, opining validity, enforceability, and infringement using the standards noted above. The conclusion stated: “As was expected, the results of the evaluations are a mixed bag. Some of the patents are deemed valid and infringed, others not infringed or not valid, and it cuts both ways with the parties as set out in the summary and conclusions at the end of this report.”

The *Summary and Conclusions* section reports as follows:

- Primo Co.: 5 patents valid and infringed; 1 patent not infringed; no patents invalid
- Secundo Co.: 3 patents valid and infringed; 2 patents not infringed; 1 patent invalid
- Finally, the neutral noted:

While only 12 of the 30 patents briefed by the parties and presented at the mini-trial are considered in detail here, the neutral has considered the parties’ briefs on all 30 patents . . . [and] believes that based on the briefs and experience at the mini-trial, the results of further oral presentations would not materially change the relative position of the parties as set out above. The neutral
believes this view is justified by the understanding that each party put its best foot forward at the hearing with its strongest patents and nothing material would be gained by further proceedings.

The result
The CEOs met as scheduled, with the neutral attending at the beginning. The neutral set out a projected range of a proposed settlement in the eight- to nine-figure range. Thereafter, the CEOs met alone and settled the case in two hours. The results were never made known to the public or the neutral. The keys to the success of this mediation/mini-trial were two:

1. Careful tailoring, preparing, and presenting of the issues at the mini-trial with active participation of the neutral, and
2. A report to the CEOs in sufficient detail and with sufficient analysis to persuade them that the truncated snapshot of the respective parties’ positions was sufficient to base an overall resolution of their present and potential future conflicts under the asserted patents.

Both sides agreed that the process saved them millions of dollars in prospective litigation expenses and expenditure of other corporate assets.

Furthermore, this case history illustrates that big-ticket patent disputes (in the hundreds of millions of dollars) can be resolved by ADR with careful preparation and proper defining of issues so that senior management can comfortably make rational decisions.

Case History #4
If at first you don’t succeed . . .

Background and overview
This case history illustrates two points: (1) mediation sometimes does not produce an immediate settlement (i.e., a settlement after one mediation session), but (2) with active participation of the mediator and the parties’ willingness to seek and hear out the mediator’s views, the parties may still settle their dispute.
In the early 2000s, EuroComCo, a large European company, licensed ProdCo, a major U.S manufacturer, to use certain patented communications technology. ProdCo paid a one-time license fee of $9 million. The patents involved expire in 2012.

Several years later, a dispute arose regarding whether a new ProdCo product came within the license grant. ProdCo believed it did. EuroComCo disagreed and claimed a new license was required for the new technology. The new technology promised to be very popular worldwide but was in its infancy, and the parties disputed its success in the future. EuroComCo, relying on early ProdCo market projections, believed that the new technology would be a big success in five or six years. ProdCo disagreed, believing that the early projections were not materializing.

The parties tried to settle on their own. EuroComCo offered $13 million. ProdCo rejected the offer, choosing to rely on its legal position that no further license was necessary. EuroComCo then demanded mediation as provided under the license.

Senior management of both companies attended the mediation, as well as in-house and outside counsel. In its pre-mediation statements, EuroComCo withdrew its earlier offer to settle for $13 million and presented an elaborate analysis of why, if the matter went to litigation, ProdCo would be held an infringer and liable for about $100 million. ProdCo contended that even if it were held liable, the damages would be trivial because the new technology was just getting started and was having significant marketing problems with no predictable success.

Early in the mediation, the mediator met with each side privately. In response to the mediator’s probing, EuroComCo said that its views from the time it offered to settle for $13 million had changed based on “learning much more about ProdCo and its new product from publicly available information on market projections, etc.” from which it concluded that its $13 million offer had been “woefully inadequate.” The mediator expressed skepticism, noting it was difficult to believe that EuroComCo knew so little about ProdCo’s public activities at the time of the $13 million offer. Furthermore, EuroComCo said it believed now that ProdCo’s “back was to the wall” because it had in-
vested substantial money in the new technology and needed the license to proceed forward.

In the private meeting with ProdCo, the mediator probed why ProdCo rejected the $13 million offer. ProdCo responded that its more recent review of the market justified a settlement of around $9 million at most, and it indicated a willingness to negotiate between $5 million and $9 million. At this point, the mediator persuaded ProdCo to make a $5 million offer, “to try to get things started.”

EuroComCo predictably rejected the offer and countered with $33–$65 million. The mediator urged ProdCo to go up to $13 million to try to keep things going, believing that EuroComCo, on reflection, might return close to its initial offer of $13 million. ProdCo refused.

At the mediator’s invitation, the parties met face-to-face to explain their positions and why each refused to move further in the negotiations. Neither side would budge, and things stalemated.

**Mediator’s efforts to break the stalemate**

The mediator asked the parties if they would like to hear jointly the mediator’s reactions and suggestions to the situation. The parties agreed. The following is a summary of what the mediator told the parties in joint session.

The matter should settle in the range of $14–$20 million. Here’s why:

(1) *ProdCo* should conclude that a payment greater than $13 million, maybe as high as $18–20 million, is justified. Despite dire predictions of success, ProdCo seemed to believe that despite a slow start with the product, things would get better, though they never said so expressly to the mediator and certainly not to EuroComCo. It seemed to the mediator that the product, if successful, could result in the next 5–10 years in hundreds of millions in revenue to ProdCo.

(2) *EuroComCo* should conclude that setting its sights on $33–$65 million is unrealistic in view of the history of the parties’ dealings, in particular the initial license deal for $9 million. The new technology is not sufficiently dif-
Different in kind or importance from the previous license to expect such a large incremental increase. Between $14 million and $20 million appears to be fair and reasonable, particularly in light of the fact that EuroComCo was willing to settle for $13 million just a few months earlier.

(3) Finally, the legal question as to whether the new technology is already licensed under the original license remains hotly contested, though to the mediator, EuroComCo has the better of it—i.e., the new technology is not licensed. In private meetings with the mediator, ProdCo had stuck adamantly to its view that no new license was needed, but the mediator said he suspected that their counsel was candidly advising the businesspeople of the substantial risks with that position.

The parties thanked the mediator and parted company.

All’s well that ends well . . .

Three weeks later, the parties requested a second session with the mediator. That session lasted several hours and rehashed much of the earlier ground.

But, happily, it concluded in a settlement of $25 million. While it was never clear what broke the ice here, presumably the mediator’s efforts played some role in each side bending toward the middle.

A final observation about this mediation: The mediator’s active role in setting out jointly to the parties reactions and suggestions after stalemate raises an interesting point about the mediation of IP/technology, and particularly patent, cases.

Experience teaches that counsel and participants are exceptionally well prepared and are not subject to much arm-twisting in reaching settlement. Those IP/technology counsel who have a background in engineering and science tend to approach disputes with the exacting precision that only a scientist or engineer can understand (or tolerate). They also tend to be more concerned (than counsel without technical training) about having disputes resolved by judges unfamiliar with both relevant law and technology. And sometimes they are even more concerned about trying cases before jurors who usually have, at best, great difficulty deciding which set of scientists or engineers to believe.
Thus, in stalemate situations in mediations, the parties are understandably receptive to views of the mediator, especially ones with considerable real-life experience observing how these issues play out (e.g., litigators, arbitrators, judges), and in mediations attended by senior executives, they are especially looking for reality checks from someone experienced in the law and technology and not biased in either direction.

How much weight a mediator’s thoughts are given in these circumstances is never really known for sure, but the parties often seek them, especially when they could make a difference.

Case History #5
Arbitration, with a twist

Arbitrations do not usually offer opportunity for creative efforts to resolve the dispute short of a hearing and an award. But this is not always so. This case history illustrates a creative twist to resolve a dispute midway in the presentation of evidence in the arbitration hearing.

The dispute involved multinational parties and multiple foreign and U.S. patents covering medical products. It also involved issues of inventorship, patent ownership, and license rights. The arbitration was held under the International Chamber of Commerce Rules, administered from Paris. There were three arbitrators: a retired Canadian appeals court judge (the chairman) and two party-nominated arbitrators, one American and one British, both experienced patent litigators. Hearings were scheduled in Paris (two weeks), London (two weeks), and a wrap-up in the U.S. (one week).

After two weeks in Paris and on the eve of adjourning and moving to London, the parties advised the panel that they had agreed to stipulate to some of the London and U.S. testimony, which should shorten the hearings considerably. At that point, the panel considered whether further proceedings were necessary. Based on the evidence presented thus far and what appeared to be coming, the panel believed that if no materially contrary evidence was offered, the Panel could promptly render a decision on each of the issues. The Panel asked the parties if they would like to hear its views with the proviso that if any party believed that materially contrary evidence was coming, they
should so advise the Panel and the Panel would withhold its views. Thus it was up to the parties to agree unanimously with this procedure or it would not go forward.

The parties agreed on the proposed process with the understanding that no party would challenge any final award on grounds of having gone forward with this procedure. Thereafter, the Panel chair told the parties which party(s) would prevail in an award on the present record, and why, and made it clear that this view could change with additional evidence.

The parties promptly settled, saving considerable time and money for all involved. Thus under appropriate circumstances, parties and arbitrators should consider this procedure. After all, arbitration is a consensual process and is intended to resolve disputes consensually, whenever that opportunity arises, as was done here with attendant reduced expense.

Case History #6
Beware of cultural differences

Sometimes cultural differences between the parties can raise complications in ADR, particularly mediation. So it was in a patent and trade secret dispute several years ago between an American electronics company and a Mainland Chinese competitor.

Background
An American electronics manufacturer with extensive worldwide market share in the cell phone parts industry began manufacturing some of its products in Mainland China. It set up shop with all-Chinese personnel, including a Chinese CEO partly educated in the United States.

Sometime later, the CEO left the American company to set up a competing new Chinese company that the American company thereafter accused of patent infringement and theft of trade secrets. The American company sought injunctive relief in the U.S. International Trade Commission (ITC). The Chinese company was willing to discuss a license. The American company refused, but agreed to mediate.

The pre-mediation filings by the Chinese company asserted that it stole no trade secrets; denied infringing any patents (U.S
or otherwise); admitted hiring some former employees of the American company’s facility in China, but denied that the employees knew or disclosed any trade secrets; and indicated a willingness to take a license at a reasonable royalty. The American company reasserted patent infringement; alleged that the Chinese company had filed patent applications in China based on American trade secrets; and alleged that the Chinese company continued to hire away from the American company’s facility in China employees who knew and were using trade secrets.

In a word, it was complicated.

The mediation
Outside counsel for the American company and two Chinese representatives of the Chinese company along with their U.S. counsel (a Chinese/American female lawyer fluent in Chinese) attended the mediation. The Chinese representatives never spoke at the mediation, but it seemed they understood everything discussed in English. Their counsel translated.

The Chinese company opened with an offer to take a license for all accused products at 0.25% royalty on sales. (Sales were in the tens of millions of dollars.) The American lawyer countered that for a deal, any royalty arrangement must be in the 2–5% range and that the Chinese company must agree to stop hiring away employees from the American company’s facility in China.

The Chinese company then made an impassioned statement that at a 2–5% royalty on sales it would not make a profit. The American lawyer countered that the American company, having a plant in China, knew the financial situation regarding costs, margins, and profits of the accused products in China and that because the margins were in the 25–30% range, a 2–5% royalty was appropriate. Furthermore, the American lawyer countered that unless the Chinese company agreed to stop raiding the American company of its employees, no deal was possible. Also, the American lawyer stated that the Chinese company must abandon its efforts to get patents on products incorporating trade secrets of the American company.

There followed an interesting quasi-political response by the Chinese company regarding the raiding allegation. It pointed out that when American companies began to set up American subsidiaries in China (with China’s blessing and to the mutual
benefit of both countries), the Americans staffed those companies by hiring skilled Chinese managers and workers away from Chinese-owned factories, to the detriment of those factories. It seems ironic, the Chinese company said, that the Americans are now complaining when the Chinese turn the tables and try to get the workers back.

Whatever can be said about that perspective, the mediation ended without a settlement.

The result
Several days later, the Chinese attorney called the mediator with the following question raised by the Chinese businessmen who attended the mediation: Did the mediator think that the stumbling block to settlement was the hard-nosed and stubborn attitude and position of the American company’s counsel regarding royalty rates and raiding employees? Did the mediator think that progress could be made if a more conciliatory attorney and negotiator represented the American company? The mediator told the attorney that he did not believe a change of attorneys would make any material difference; that the position of the American attorney (as the mediator understood it based on the facts the mediator understood) was not unreasonable and that if push came to shove in the ITC case, the Chinese were at a substantial risk of an injunction.

The parties thereafter settled the case with a cross-license of patents, an agreement by the Chinese company to pay royalties between about 2% and 5% of sales depending on volume, a mutual agreement not to knowingly solicit for employment any management-level employee of another Party, and a mutual covenant not to sue on any existing patents for two years.

All’s well that ends well!

CONCLUSION
Experience confirms that ADR can work to resolve IP/technology disputes. The above case histories are just the tip of the iceberg. But, as espoused in this chapter, success is neither probable nor likely unless the parties and counsel understand how and when to use ADR. Success depends on the willingness, ability, and determination to make it happen with counsel who are experienced ADR practitioners, after careful analysis of the dispute and careful planning and execution to see it through.