Preparing for Mediation in the Patent or Technology Case

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You can be sure of one thing: if you have a patent or technology case pending in court, you will end up in a session to settle it. This will be before a mediator, before a judge or magistrate in a settlement conference, or both. Because over 95% of cases settle, this may well be the one chance you have to present, in some form or other, the merits of your case and advocate your client's interest.

It is tempting to forego detailed mediation preparation and, instead, focus on the positional bargaining you know will occur at the mediation session. That is not a good idea. Being prepared to mediate in the best interests of your client requires a good bit of analysis and preparation.

When to Mediate

This may not be up to you. It may be up to the court. But most courts will be open to scheduling a mediation or settlement conference as soon as it becomes likely to be productive.

It makes sense to explore mediation as soon as you have enough information to make the mediation meaningful. Too early and the plaintiff won't know, for example, exactly which products may infringe what claims, how many have been sold, and what the range of damages may be. Too late and you likely will have extensive "sunk costs" in discovery beyond what may really have been necessary and fewer dollars to spend on resolution.

Indeed, because over 95% of cases settle, it makes good sense to identify the facts you need to analyze the case and get them early. Think about approaching your scheduling conference with the court with an eye to exchanging the information both parties need to analyze settlement.

Some patent cases, for example, will turn in large part on a disputed claim term. You will want to focus initial discovery on claim interpretation, the products involved, and the application of the claims to the products. You may want to mediate once that limited discovery and any other discovery on key issues is done, possibly even before the Markman hearing. In some cases mediation makes more sense after a Markman ruling.

The defendant may think invalidity is the key. The discovery could then focus on prior art and related matters necessary to exploring the issue.

In a case where damages are key to settlement -- which is most cases -- you will want to focus on sales, sales dollars, likely profits, or information that would inform a royalty determination. You, in fact, may want to hire an accountant or financial expert fairly early to help you with the damages analysis, either in putting it together or critically evaluating your opponent's figures.

Most patent cases involve not only patent issues, but also complex business relationships between the parties. The parties may be competitors, for example. The patent claims are only part of the problem. The attorney preparing for a mediation in such a dispute needs to understand all of the business issues involved. It isn't enough to focus only — or even primarily — on the technical patent issues in the case, important as those are. For the parties, the business issues are likely to be in high focus. The business situation may also, therefore, drive the timing of the mediation.

Who Should Be the Mediator?

If the mediation/settlement conference is to be done by the court, you won't have much choice. In many cases, though, you will have the opportunity to work with your opponent in choosing the mediator. Who should that be?

In patent cases, the dispute often will be governed by issues of patent law and related technical matters. This suggests your mediator should understand the legal issues and have an ability to learn about and analyze technical issues. In some cases, you may want a mediator with a specific scientific or technical background to really understand the issues.

But be a little careful here. Judges and juries aren't usually scientists or engineers. It is important to have a mediator with a good legal and technical background, but also a good understanding of the legal process.

Equally important, if not more important, is the ability to manage a mediation process to achieve a lasting resolution. Mediations are fraught with emotion. Many patent mediations are particularly emotional. Some inventors and business owners are completely invested in the merits of their patented innovations and think the defendant is "stealing" their life's work. Some manufacturers are convinced that any plaintiff in a patent case is simply "trolling for money," trying to avoid legitimate competition, or both.

The parties will typically see the matter from a business point of view and judge their opponent's acts based on the effect on their business. A lawyer may see a series of interesting legal and technical issues. The parties probably see heroes and villains. Your mediator should know how to navigate all that.

Preparing on the Merits

The key to any mediated settlement is the value of the case. If the case is very valuable, of course, the settlement will likely be high. If the case is not very valuable, the settlement will be low. You prepare for mediation, in part, by determining the value of the case.

This is no small task. In a patent case, you will need to determine which claims may be infringed, how their scope may affect damages, and the like. Similarly, you will need to analyze any invalidity contentions and the prior art involved.

Damages are usually a critical and hotly contested issue. You will need the information to determine sales of products, possible lost profits, and royalty rates. Many of these elements are not hard and fast, but you will likely have a pretty good feel for the likely ranges. You will want to understand what you need to prove and what you have to prove it. Consult some pattern jury instructions to get a pretty good idea of the information you need to prevail on issues like lost profits, the smallest salable patented unit, a reasonable royalty rate, and the like.

The most valuable thing you may have as a plaintiff, or the thing you may fear most as a defendant, could be an injunction. You will need to evaluate the likelihood that the plaintiff can meet the test for an injunction. It may be that the defendant can fairly easily design around the patent. If so, you will want to explore that in detail as a possible path to settlement. If not, that will likely affect the value of the case.

You also need to think carefully about some of the less legal and technical factors in the case. How does the inventor come off as a witness? Believable? Contentious? Are there other factors, such as a former employee of the plaintiff being hired by the defendant and taking along a design? What other factors may sway a jury? You will want to consider them all as you evaluate the value of the case.

Again, complicated business issues and relationships may be involved. Be prepared to address them. As noted above, the business people at the mediation are likely to be highly focused on those issues. They may, in fact, be the main driver of the dispute and the key to its resolution.

You will want to know whether you are expected to make a presentation at the mediation and, if so, of what sort. You will need to think about who your audience is. The mediation may be the only time you can directly address the opposing party, rather than its lawyers. How will you convince them your case has merit so that they should work with your client to resolve the case on a reasonable basis?

Let us give you one hint about that. Name calling, blaming, and shaming won't help much. It builds resistance to your position. Showing you have thoughtfully considered the evidence and focused objectively on the case may help a lot — if you do it right.

Fortunately, the mediator will normally require you to provide a mediation statement with enough background for him or her to understand the merits. This forces you to do at least some of the necessary preparation. But don't squander the opportunity by writing it the night before it is due. Put a draft together to discuss with your client and plan a meeting so you can use the draft to prepare your client for the mediation.

You should also be prepared to document as much as possible any resolution you reach at the mediation. In our experience, the more detail you put into that, particularly in a patent case, the better.

If you foresee an agreement that, for example, includes a license going forward, be ready to write down the patents involved, including — if they are to be included — continuations, continuations-in-part, pending applications, etc. Have a way to identify the licensed products by description and possibly product number. Have a way to define the royalty base, how the royalty will be computed and all the other technical parts of the agreement. Bring along definitions from other licenses you have done to help memorialize as many details as practical.

If you want the settlement to be confidential, bring along some language you like. If there is an issue as to the scope of the release, be prepared with proposed language.

If the deal is at all complex, you likely won't be able to draft a complete agreement at the mediation session. But the more complete the writing is, the less likely the settlement will be scuttled as significant areas of disagreement are unearthed during the drafting process.

And remember this: There really are no universally understood "standard terms" in a patent settlement agreement, even though some counsel suggest the new terms in a proposed final writing are just "standard terms." Be specific if there is something you feel you must include in your settlement.

It has become common lately in our jurisdiction for the parties to appoint the mediator as the arbitrator of what should go into the final form of settlement agreement if there is dispute. Think through whether you want to propose that or accept it if it is proposed.

Preparing Your Client

This is a critical part of the process and can be the trickiest. Your client likely hired you because it believed you could "win" the case. Your firm may have won a beauty contest by convincing your client just how good you are at winning and your aggressive approach to the case.

But mediation is, of course, all about being clinically realistic about the merits and problems with the case. You probably will have learned a lot about just how good the case is or isn't. But your client likely hasn't been living with the case as you have. He or she is likely to wonder what became of this great case or defense he or she was expecting, as you provide your professional assessment of the benefits and the risks.

Still, you must realistically go over this and more. You will want to understand your client's goals for the case. If you represent a plaintiff, is it realistic to think it will obtain an injunction and the market to itself? If you represent a defendant, would it be better to pay something and focus on a different product line? You will want to lay all this out and come out with a working approach to the case.

You may learn that you will need the mediator's help in allowing your client to see things more objectively. That too is critical information that will help to get the case resolved.

You also need to determine who will attend the mediation. You certainly need to have a company representative who can make the decision whether to settle or not, or at least recommend it to the Board of Directors. In a patent or technology case you likely will also need someone with technical expertise to help define the scope of any license, prohibited activity, or other matters that will come up. If damages or licensing are key, you may need a financial person to help with that.

In cases where the business relationships or issues are critical — which will be most cases — the client representative needs to have the business skills and authority to structure a business resolution to the problem. This all depends on the type of case. But there is no surer way to make a mediation unsuccessful than having the wrong people there.

Do not count on being able to call someone on the phone late in the day of the mediation for permission to settle or provide necessary expertise. Successful mediations focus intensely on new information and new perspectives. Calling someone in "cold" at the end who hasn't been at the mediation is likely to derail things. He or she simply has not been through the experience and learning that the mediation provides, to inform reasonable settlement decisions.

Preparing the Mediator

Generally, this is done through your mediation statement and possibly through a pre-mediation phone call with the mediator. You are, to be sure, trying to convince the mediator you have a valuable case or solid defense that affects the settlement value of the case. You also want to begin to explore a possible structure for the settlement.

Patent cases are likely to have a wealth of information helpful to analyzing the case. In many cases the parties will have exchanged infringement and invalidity contentions as well as at least preliminary damages and licensing information. Some substantive pretrial motions may have been decided. This is a ready source of information to help the mediator understand the dispute and test the parties' expectations for the case.

But remember, the mediator won't be deciding the case. You don't have to win the case at mediation. Yet, you do have to put your best foot forward in helping the mediator see -- and help the mediator help your opponent see -- the value of the case or strength of the defense. Perhaps more importantly, you need to help the mediator understand your client's interests. Only by understanding the parties' interests and motivations can the mediator hope to help craft a solution to the dispute that both parties can live with.

The mediator may direct the parties to exchange settlement offers before the mediation. You will want to give this careful attention with your client. In a patent case, that requires identifying a structure you can live with. A plaintiff may be willing to live with some past payments for a license and a license going forward. Or it may insist on past lost profits, fees, treble damages, and that the defendant immediately stop selling the product.

Be careful. The plaintiff should not start with its bottom line. Nor will the defendant want to provide its top dollar out of the gate. But a settlement position that is unrealistically out of proportion to the value or risks of the case will simply bog things down. You will want to send a message with your proposed structure and dollar demand or offer that you have a realistic view of the case and are willing to settle the case on realistic terms.

Of course, if your opponent's view of the case is unrealistic and misinformed, you may just have to try the case to get an outcome your client can live with. But, remember, that only happens less than 5% of the time. So plan for the 95%, and you are likely to do well in your next mediation.

If the Case Doesn't Settle

Still, not all cases settle at the first, or even the second, mediation. Before giving up, you will want to be sure that you have made every effort to find out the other side's "bottom line." The only way to do that is to negotiate in a way that elicits the best offer from the other side. Having that information, you and your client can then make a truly informed decision about proceeding with the litigation and all the risk that entails.

Mediators usually don't give up. You can use that trait to help explore settlement further during the course of the case. You or your client may be reluctant to raise further settlement discussions directly with the other side, fearing you are showing signs of weakness. Instead, you can ask the mediator to check in with the parties to determine whether further settlement discussions will be productive. If so, you'll have a further chance to explore a resolution that everyone can live with.

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