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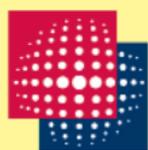
**REPORT OF THE CPR
PATENT MEDIATION
TASK FORCE**

Effective Practices Protocol



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Changing the Way the World Resolves Conflict

CPR is the leading independent resource helping global business and their lawyers resolve complex commercial disputes more cost effectively and efficiently.

ABOUT CPR – CPR is the only independent non-profit organization whose mission is to help global business and their lawyers resolve complex commercial disputes more cost effectively and efficiently. For over 30 years, the legal community has trusted CPR to deliver superior arbitrators and mediators and innovative solutions to business conflict.

CPR Members – CPR's membership comprises an elite group of ADR trailblazers, including executives and legal counsel from the world's most successful companies and global law firms, government officials, retired judges, highly-experienced neutrals, and leading academics. CPR accomplishes its mission by harnessing the expertise of these leading legal minds to change the way the world resolves conflict for generations to come.

CPR Pledge – In 1979, CPR started this legacy by being the first to bring together Corporate Counsel and their firms to find ways to lower the cost of litigation. Since that time, CPR has changed the way the world resolves conflict by being the first to develop an ADR Pledge. Today, this Pledge obliges over 4,000 operating companies and 1,500 law firms to explore alternative dispute resolution options before pursuing litigation.

CPR 21st Century Pledge – CPR is once again challenging the way the world resolves conflict by introducing the 21st Century Corporate ADR Pledge. This new Pledge will systemically change the way global business and their leaders resolve complex commercial disputes.

CPR's Clauses and Distinguished Neutrals – CPR's rules and clauses allow for a self-administered ADR process, enabling practitioners to maintain control and flexibility while minimizing costs. CPR members have unlimited access to a highly qualified panel of more than 600 distinguished neutrals, specializing in over 20 practice areas. CPR employs a highly competitive vetting and evaluation process to ensure that the highest quality and most experienced neutrals are available without administrative expenses.



REPORT OF THE CPR PATENT MEDIATION TASK FORCE

Effective Practices Protocol

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I. Background

In 2010, the International Institute for Conflict Prevention and Resolution (CPR) formed the Patent Mediation Task Force to examine the benefits of mediation in resolving patent disputes, and to identify and overcome the barriers to the effective use of mediation.

As a nonprofit alliance of global corporations, law firms, scholars, and public institutions dedicated to the principles of commercial conflict prevention, CPR has long been a pioneer in seeking improvements to private resolution in disputes involving intellectual property and patents.

The Task Force was convened in response to current patent settlement rates, which demonstrate that mediation continues to be underutilized in patent disputes. The Task Force's main objective was to analyze methods and solutions for improving the use and efficiency of mediation as an alternative dispute resolution (ADR) in patent disputes.

To achieve their goal, the Task Force formed three subcommittees to examine mediation best practices from each of five stakeholder perspectives: in house-counsel/business people; outside counsel; mediators; judges; and provider organizations. Each subcommittee focused its evaluation on one of three distinct topics: pre-mediation, mediation, and unique issues in patent cases. They organized focus group meetings comprised of a variety of participants and used survey tools to gather facts about their respective topics. The subcommittees consolidated their findings into a best practices protocol that was then vetted by in-house counsel, attorneys, and leading ADR practitioners.

The Chair of the Task Force is Manny W. Schechter, IBM Chief Patent Counsel. The subcommittee members are:

Pre-Mediation

Harrie Samaras (Chair)

Jason Burwell

Robert F. Copple

Anne B. Kiernan

Russell E. Levine

Richard Rainey

Jay Stewart

S.I. Strong

Phillip C. Swain

Mediation

Kevin Casey (Chair)
Kenneth R. Adamo
Hon. Edward N. Cahn
Dennis Crouch
Mark Edwards
Hon. John S. Martin
Peter Michaelson
Robert T. Tobin

Unique Issues in Patent Cases

John M. Delehanty (Chair)
Bruce G. Bernstein
M. Scott Donahey
Don W. Martens
Hon. Paul R. Michel
Steven W. Miller
Maxim (Mac) H. Waldbaum
John K. Williamson
Thomas F. Fleming

II. Methodology

Each subcommittee of the CPR Task Force held an initial meeting to identify prospective participants who could comment on and discuss their experiences with mediation. Each subcommittee then conducted between 3 and 8 teleconferences with a total of approximately 80 participants who were comprised of in-house counsel, outside litigators, mediators, judges, and representatives from non-practicing entities (NPEs). A total of 15 teleconferences were held between January and April 2012.

Each subcommittee chair prepared an agenda based on the subcommittee's focus topic and a list of targeted questions to send out to participants in advance of each teleconference. On average, the meetings lasted between 1 – 2 hours and the chairs acted as moderators in order to steer the discussion and collect survey responses.

Out of the 80 participants, approximately 15 participants were in-house counsel, 26 participants were outside litigators, 22 participants were mediators, 15 participants were judges or former judges and 2 participants were representatives of NPEs.

The subcommittee chairs had each teleconference transcribed. After the final teleconference, each chair compiled and summarized the results of their discussions into a memorandum. The Task Force held a meeting in June 2012 to discuss these results

and begin drafting a report based on the input and recommendations received from participants.

The following report is the culmination of the Task Force's project: the development of an "*Effective Practices Protocol*" (EPP) to highlight and promote the strengths of patent mediation as a means for providing an early resolution of patent disputes and saving companies from wasteful litigation costs.

III. Report and Recommendations

Recommendations for Initiating the Mediation Process

- **The Parties To The Dispute Must Be Fully Educated About the Mediation Process**

Parties to a patent dispute may resist mediation simply out of fear of the unknown, or because of a misunderstanding about the nature of the mediation process. To enable their clients to make an informed decision about the use of mediation, counsel should fully educate them about the process in the following ways.

- **Mediation Is Not Binding And Has Many Advantages Over Litigation**

Clients should be informed at the outset that the notion that mediation is "binding" is a myth. Unlike arbitration, mediation is wholly consensual; either party may discontinue the process at any time and the mediator does not render a decision on the merits. Clients should also be advised of the many potential benefits of mediation, including substantially reduced legal expenses, speed to resolution, and the avoidance of the disclosure of confidential company information. These benefits are particularly important in patent disputes where proprietary technical information must be disclosed in discovery to determine infringement, and where confidential financial information is used to determine a reasonable royalty or lost profits damages. Even if these benefits do not materialize, or a settlement is not reached during mediation, the process enables each party to assess the strengths and weaknesses of its legal position and that of its adversary and to explore business solutions which may reach fruition at a later date.

- **Mediators Are Not Arbitrators Or Judges; Nor Are They Mere Conduits For Self-Serving Settlement Proposals**

Clients should also be informed about the mediator's function. A mediator is not an arbitrator or a judge or a mere conduit for the parties' positions. He or she should not be expected to simply convey one-sided settlement offers to the other party in the expectation that it will ultimately capitulate. A mediator's role is to facilitate the parties' own negotiations and, when requested by the parties, to propose settlement solutions. Clients should realize that senior executives with settlement authority must fully participate throughout the mediation; anything less would be correctly perceived as an unwillingness to compromise. Lack of full participation by senior executives also increases the risk that settlement will not be achieved because resolution of a complex patent dispute requires that the parties fully understand their respective positions, business needs, and opportunities for compromise.

- **Patent Mediation And Patent Litigation Are Completely Different Species**

Clients should be made aware that litigation and mediation in patent cases have very different objectives. One of the principal goals of litigation is to determine which party is right and which party is wrong (e.g., is the patent valid; is it infringed and, if so, what is the proper measure of damages?) In contrast, the purpose of mediation is to find a business solution to the parties' dispute without necessarily determining which party is right and which is wrong (e.g., through a license or other business arrangement, which satisfies the interests of both parties.) It is essential that the parties understand the distinction between these two methods of dispute resolution from the outset because it affects their choice of a mediator, their decisions about who will attend the mediation and their expectations about the process.

- **Despite Its Drawbacks, Litigation Can Be A Useful Tool For Mediation**

Litigation in patent cases does have purposes other than winning at trial, which can be helpful in the mediation process. It enables the

parties to discover facts which they may not have known, such as the existence of prior art, the actual operation of the infringing device or method, and the factors relating to the calculation of a reasonable royalty or lost profits. Litigation may also clarify the meaning of any unclear terms in the patent claims which will have a bearing on validity and infringement. Although these attributes of litigation are attractive in theory, in practice they often lead to delay and expense, driving up the cost of a typical patent case to over \$5MM and the time to trial to over 3 years. It is not necessary to pursue full-blown litigation discovery and motion practice in order to achieve a successful mediation.

- **Initiating Mediation Is Not A Sign Of “Weakness”**

When discussing mediation with their clients, counsel must dispel the common belief that proposing mediation to an adversary is a sign of “weakness.” This is a myth. Suggesting mediation is nothing more than an expression of a willingness to negotiate in a structured setting.

- **Use The CPR Corporate Policy Statement On Alternatives to Litigation©**

One of the ways that counsel can overcome this perceived obstacle to mediation is to suggest to their clients that they become signatories to the CPR Corporate Pledge. The CPR Corporate Policy Statement on Alternatives to Litigation©, which has been signed by over 4,000 companies and their subsidiaries, was developed in the 1980s specifically to overcome the concern that a party’s suggestion of mediation (or other form of ADR) would be seen as a sign of weakness. The Corporate Pledge compels the signatories to attempt resolution of disputes through ADR before filing suit. The names of the companies which have signed the Pledge are available on CPR’s website, <http://cpradr.org/About/ADRpledges/CorporatePledgeSigners.aspx>. In-house counsel can refer to this directory to see if the other party to the dispute is a signatory before initiating mediation.

- **Use The Court (With Caution) To Support Your Mediation Initiative**

Courts in many jurisdictions have attempted to remove the stigma of “weakness” associated with initiating mediation (and also to clear their dockets) by mandating the use of this process. Courts began to compel mediation to facilitate settlement and to overcome parties’ reluctance to reveal to their adversaries any suggestion that they question the strength of their legal positions. Today, many federal and state courts require some form of mediation (see http://www.adr.org/aaa/ShowPDF?doc=ADRSTG_011813). Although many of these programs are successful, the compulsion of mediation by Courts in patent cases has received mixed reviews from focus group participants in the Task Force.

- **Use Magistrate Judges Where Available; Be Wary Of Unpaid “Volunteers”**

The consensus of focus group participants was that court-ordered mediation often failed to take into account the timing of the mediation in relation to the status of the litigation, the parties’ willingness to negotiate and the impact of compulsion on a completely voluntary process. Coercion by a court to mediate when the parties are not ready to settle can cause many parties to simply go through the motions and not put much effort into the procedure. In addition, volunteer mediators on court panels are of varying quality and training and may not be compensated, factors which often lead them to achieve unsatisfactory results.

Mediators who only encourage a “check the box” effort before trial are often wasting the court’s and litigant’s time and resources. This criticism of volunteer mediators does not generally apply to Magistrate Judges. The use of Magistrate Judges who have significant experience in patent cases can help assuage parties’ resistance to mediation and their concerns about appearing “weak.” Mediation of patent cases by Magistrate Judges is well known and accepted in many jurisdictions (e.g., Delaware) and many parties consider it to be a useful step in the litigation process. Referrals to experienced patent mediators are also available from CPR

(<http://cpradr.org/FileaCase/CPRsNeutrals.aspx>); JAMS (<http://www.jamsadr.com/professionals/>)

xpqProfResults.aspx?xpST=ProfessionalResults); and AAA (<http://www.aaamediation.com/faces/index.jspx>).

- **Make Sure The Mediator Spells Out The Ground Rules**

Mediators themselves can also significantly reduce parties' fears of appearing "weak." Experienced patent mediators can help the parties become comfortable with the mediation process and overcome any resistance or misconceptions. Confidential pre-mediation conferences between the parties and the mediator to set expectations and build trust were often cited by focus group participants as contributing to the likelihood of a productive mediation. Mediators should clearly spell out the "rules of engagement" and provide structure to what parties often perceive as an amorphous procedure. This is especially appreciated by and helpful to executives with engineering backgrounds who usually play a large role in the outcome of patent cases.

- **Use Mediation Provisions In Patent License Agreements**

Perceptions of weakness can also be avoided if counsel expressly includes a mediation provision into the dispute resolution clause of a patent license or other similar agreement. This can be mimicked after one of the CPR Model Mediation Clauses (<http://cpradr.org/Resources/ALLCPRArticles/tabid/265/ID/635/CPR-Model-Clauses-and-Sample-Language.aspx>). While this option will not work with alleged infringers who have no pre-existing contractual relationship with the patent owner, such a provision should not be overlooked in cases where there is such a relationship in place. Finally, once the mediation begins, any pre-existing issues about the strength or weakness of the case of the party proposing it become irrelevant and are rapidly superseded by the actual positions of the parties.

- **Before Initiating Mediation, Use Early Case Assessment And Decision Trees**

Early Case Assessment (ECA) is a conflict management process designed to facilitate informed and expedited decision-making at the early stages of a dispute. It is an excellent tool

to use in advance of commencing mediation. The process calls for a team working together in a specified time frame to: (a) gather the important facts and law relating to the dispute; (b) identify the key business concerns; (c) assess the risks and costs that the dispute poses for the company; and (d) make an informed choice or recommendation on how to handle the dispute. A related process is the use of Decision Trees. Decision Trees demonstrate the economic impact of litigation strategy and are particularly useful in patent cases as a tool for counsel to communicate effectively with clients about the costs associated with the various steps in the litigation process and the likely outcomes of their strategic decisions.

- **ECA Helps The Parties To Focus On The Broader Business Context, Not Just The Specific Dispute**

Most focus group participants felt that the use of ECA or Decision Trees enhances the likelihood of success of a mediation. Both methods increase the level of preparation for mediation, as well as cause the parties to focus on business issues beyond those that are directly relevant to the dispute. In patent cases, with or without licensing potential, mediations often focus on business solutions, and the use of ECA and Decision Trees ensures a thorough analysis of the available business options. In addition, ECA and Decision Tree processes provide the parties with a broader business context against which to weigh the advice of patent litigation counsel and the judgment of the executives directly involved in the dispute. These methods provide the decisionmakers with objective criteria for evaluating the settlement proposals offered by the other side.

- **When Selecting A Mediator, The Parties Should Focus On Mediation Experience and Skill**

One of the benefits of private mediation is that the parties themselves select the mediator. When the parties choose the mediator, even if the choice is made from a list of court-approved mediators or from lists provided by CPR, JAMS or AAA, the mediation has a better chance of success. Even more desirable is for the parties to select the mediator from lists which each of them has prepared.

Mediators must be fully informed about the background of the dispute and should understand the key facts and legal issues, the parties, and the business issues. Patience, optimism, persistence, neutrality, and good listening skills are all necessary qualities for a mediator. Focus group participants strongly preferred mediators who explored the nuances of the case, allowed the parties to fully express the strengths and weaknesses of their respective positions, and challenged the parties concerning unrealistic positions and expectations. Mediators are expected to work diligently with the parties and propose creative solutions to their business problems. Participants universally criticized mediators who simply conveyed settlement demands and responses back and forth between caucus rooms and tried to force the parties to meet somewhere in the middle. All agreed that mediation should not be used to force one side to capitulate.

- **The Mediator's Integrity And Ability To Elicit The Trust Of The Parties Is Critical**

Selecting a mediator with a well-established reputation is also important because the parties are more likely to develop trust and confidence in such a mediator as well as in the process. Other necessary attributes for a mediator include: (a) integrity, which includes unwavering neutrality and the ability to convince the parties that their confidential communications will be respected; (b) excellent communications skills; (c) a commitment to devote the time necessary to allow the mediation to succeed; (d) a willingness to work with the parties to develop a mediation process that is effective for their situation and to implement it; (e) sensitivity to cultural issues; and (f) a willingness to follow through after the mediation session to help the parties continue their settlement discussions and to ensure the formal settlement documents are prepared and signed.

- **Mediation Skills Trump Technical Skills In A Mediation**

There was a general consensus among focus group participants that in order to be successful, a mediator in a patent case should have strong mediation skills, experience mediating patent cases, and a thorough understanding of patent law and patent litigation. Specific

experience with the technology disclosed in the patent is not essential unless the dispute turns entirely on technical issues or the parties have requested an evaluative mediation. Moreover, with the parties' consent, mediators can engage neutral experts to advise them on specific technical issues. A mediator who does not have strong mediation skills, notwithstanding his or her thorough knowledge of patent law, is unlikely to be successful because, as noted above, the purpose of mediation is to reach a consensus, not to render a judgment on the law. Conversely, since parties often rely on the mediator to conduct reality testing (e.g., asking probing questions) and to provide a reasoned explanation as to why they should alter their proposals, a mediator with strong mediation skills, but little or no patent experience, will be at a disadvantage. The optimal patent mediator combines both sets of skills.

- **The Mediator Must Be The “Adult” In The Room**

It is important that the mediator have strong “people” skills, *i.e.*, the ability to deal with the inevitable personal differences that arise in the mediation process. An excellent way to exercise these skills is to conduct pre-mediation conference calls with counsel and the parties to expedite the mediation process and provide the mediator with an opportunity to explain it to the parties. They will also enable the mediator to assess the personal issues which may interfere with achieving a settlement. For example, in those cases where parties bring emotional issues to the table, focus group participants appreciated mediators who could help them deal with those issues by permitting some amount of “venting” and allowing the parties to “tell their stories,” before delivering reality testing and focusing on the business issues. Since internal differences can arise among the representatives of the parties, having a mediator who can maintain a peaceful process and encourage conciliation within a group during the mediation is essential.

- **Former Judges Must Learn To Become Settlement Facilitators And Leave Their Judicial Robes Behind**

Focus group participants agreed that former judges can be effective mediators if they have

mediation training and experience. A former judge may add an extra layer of credibility, which makes clients more comfortable with the process, and is often in a good position to determine the proper point in litigation when mediation should be attempted. Former judges can also provide a generalist's reaction to the case and some may be able to predict the reactions of jurors at trial, a perspective which is very helpful in reality testing. However, even those former judges who are committed to using mediation skills (rather than judicial skills) to mediate patent cases are often expected by the parties to predict who will win and who will lose and, if favorable to the party making the request, convey this message to the other side. This expectation clearly defeats the purpose of mediation. Former judges should disabuse the parties at the outset (*i.e.*, in pre-mediation calls and the joint session of the mediation) that they will act as decisionmakers and emphasize that their role is solely to facilitate the parties' own negotiations.

- **Counsel Should Propose Mediation As Early As Possible**

Although there are no hard and fast rules about the optimal time for mediation, most focus group participants expressed the view that mediation should take place as early as possible, when the parties have sufficient information to evaluate the strengths and weaknesses of their positions and before their views have been hardened by the emotion, and in some cases hostility, that is generated by the litigation itself. It is also advantageous to the parties to seek a mediated resolution before litigation expenses begin to mount.

Commencing mediation at the outset of a patent case may shed light on the parties' amenability to settlement and their respective goals. For example, the alleged infringer can evaluate the patent owner's demand for royalties or damages and compare that sum to the cost of litigation through trial. Similarly, the patent owner can evaluate the alleged infringer's evidence concerning the validity of the patent and the likelihood that it will be successful in obtaining a ruling of invalidity.

Parties in certain industries are amenable to early mediation even before they have developed a full factual record. For example, in

the pharmaceutical industry, generic manufacturers generally prefer to pursue mediation quickly. Counsel for generic pharmaceutical clients often suggest mediation at the Rule 16 scheduling conference, and judges are often amenable to early mediations in these cases. In some industries, however, depending upon the corporate culture, cases do not settle until late in the game (e.g., at the end of the pretrial process) because business clients do not focus on the dispute until then. Rather than confining mediation to either the beginning or the end of the litigation, many focus group participants recommended multiple mediations: one at the beginning of the case and additional mediations at later stages as the case gets closer to trial. This approach optimizes the likelihood of an early resolution and, even if unsuccessful at the initial mediation, enables the parties to learn facts about their adversary's case which may prove helpful in settling the case at a later stage.

The optimal time to mediate is when both parties are somewhat unsure about their respective litigation positions. Examples of events which should cause counsel to consider mediation are: significant changes in the parties' respective businesses or competitive positions; the filing of a counterclaim which introduces new issues into the case; the impending deposition of a person who does not want to be deposed (e.g., a party's CEO); an interim decision by the Court on an important procedural issue; or an early *Markman* ruling.

- **A *Markman* Ruling Is Not Essential Before Commencing Patent Mediation**

The usefulness of a *Markman* ruling before scheduling mediation has to be considered on a case-by-case basis (e.g., how significant is the file history for the claim terms at issue, what are the strengths and weaknesses of the claims, who is the presiding judge and what is his or her experience with patent cases?) If the key claim terms are genuinely ambiguous and require interpretation, it may be necessary for the parties to wait until after a *Markman* ruling to commence mediation. However, there are two caveats to this approach: many parties seek the interpretation of claim terms solely for tactical reasons, not because they are actually

ambiguous; and many claim interpretations are overturned by the Federal Circuit, which undercuts the weight they are given by parties at the District Court level. With the high rate of reversals on appeal, a *Markman* ruling from a District Court does not resolve uncertainty, and may not accurately foretell the ultimate outcome.

In contrast, when mediation occurs before a *Markman* ruling, and there is an impasse at the mediation, receiving the *Markman* ruling after the mediation can help resolve the case quickly. Having the mediation first can push the parties further along the settlement path (*i.e.*, by opening communication) before receiving the *Markman* ruling. Another time to begin mediation is when the *Markman* ruling is pending because at that point both parties experience the highest level of risk.

- **Parties Need Not Conduct Full Blown Litigation Discovery Before Commencing Mediation**

It is not necessary to complete litigation discovery in order to have a successful mediation. If the parties have sufficient information (from initial discovery or the cooperative exchange of information) to evaluate each other's cases, if counsel know and respect one another, and if the parties are motivated to settle, mediation can be effective. While some focus group participants expressed the view that full discovery was necessary before sitting down at the mediation table, most found this not to be the case. In fact, proceeding with full discovery can frustrate a principal goal of mediation, which is to avoid wasteful litigation expense. The likelihood of finding a "smoking gun" in discovery is rare. Pre-mediation discovery may also be highly problematic in international patent disputes, given the general unavailability of discovery in civil law jurisdictions and the limited availability of discovery in other common law countries.

- **There Are Many Alternatives To Litigation Discovery Prior To Mediation**

Focus group participants consistently expressed the view that expensive discovery, especially electronic discovery, should be avoided prior to mediation. Rather than engage in full blown

discovery, the following techniques should be considered by counsel to prepare their clients for mediation: (a) clients should be made to understand the substantial cost of full litigation discovery compared with the more modest cost of disclosing information solely for the mediation; (b) counsel should try to persuade their adversary to provide necessary information voluntarily and, if necessary, seek the assistance of the mediator in this effort; (c) counsel should execute a bullet-proof confidentiality agreement which limits the use of the information exchanged solely to the mediation; (d) counsel should determine what information is publicly available and use that fact as leverage to request additional information from their adversary; (e) counsel should consider providing information, such as financial data, in summary form (rather than not at all) with the agreement that any settlement agreement would include a representation as to its accuracy; (f) counsel should consider having the mediator review confidential financial information, such as marginal casts and profits, in camera; (g) if the information is required to perform an infringement or invalidity analysis, counsel should consider having the confidential information disclosed to a neutral third party (other than the mediator) who can then render an evaluation without disclosing the information; (h) counsel should consider only allowing outside counsel to see confidential information; (i) counsel could suggest limiting the disclosure of confidential information to one key person at the mediation and to the mediator; and (j) if a pre-mediation exchange is not possible and the dispute is the subject of active litigation, counsel should consider pursuing focused discovery rather than broad discovery common in patent cases, and mediate after documents are exchanged or after the taking of limited depositions.

Recommendations for Conducting and Participating in Mediation

- **Pre-Mediation Conferences Are Essential**

Pre-mediation discussions can be used to shorten the duration of the mediation session, where information is exchanged between the parties and the mediator, and the mediator can help the parties to “front load” much of the

work. This is important because there is “Parkinson’s Law” at play in patent mediation: work expands so as to fill the time available for its completion. Because real progress toward settlement tends to await an arbitrary deadline (e.g., the end of the business day), other deadlines (set by the mediator) may actually help rather than hinder settlement.

- **Opening Statements Should Only Be Used On A Case-By-Case Basis**

Although all focus group participants recognized the need for written mediation statements before the mediation begins, there was much debate over the merits of including oral opening statements by each party at the outset of a mediation session. Some of the potential benefits and drawbacks of opening statements are summarized below, and suggest a case-by-case approach may be best. The timing of the mediation in the life of a dispute (*i.e.*, earlier versus later; as a first attempt to resolve the dispute or after much negotiation) may dictate whether to have opening statements, as might the parties’ relationship (e.g., cooperative versus acrimonious). Pre-mediation discussions should also direct whether to have opening statements since, in some cases, the parties might strongly express the desire to make them. It is important to pay attention to who will attend the mediation session and to whom the statements will be presented.

The apparent trend, if one exists, is to avoid opening statements in patent mediations. There is an introductory joint session and then the mediator goes straight to private caucuses between the mediator and each of the parties. In some mediations, the parties never meet together at all – let alone present statements to each other. If opening statements will be made, the mediator can make clear in pre-mediation discussions that the parties should refrain from posturing during opening statements; rather, the opening statements should focus on the process and on resolving the issues. Ultimately, the decision whether to have opening statements turns on the character of the parties, the nature of the dispute and the mediator’s and counsels’ assessment of their usefulness in the case.

- **The Advantages Of Allowing the Parties to “Vent”**

Notwithstanding the trend against them as mentioned above, opening statements can be very useful because they allow the parties to try to convince the other side of the merits of their respective positions. Joint sessions often provide the parties with their only opportunity to directly address the principals of the other side without having their comments filtered by outside counsel. Even in complex patent cases, the parties can bring with them emotional barriers which prevent settlement negotiations. Opening statements can allow the parties to “vent” their emotions and give them an opportunity to be heard. Often, after this “venting” process, the parties are prepared to proceed with the mediation process in a more reasonable frame of mind, which may facilitate an ultimate settlement. In addition, the mediator can question the parties in front of each other after the opening statements and, perhaps, use the information stated as a reference during later caucus sessions, for example, “how do you address what X said about Y?”

- **The Disadvantages Of Litigation Driven Opening Statement**

In some cases, however, opening statements can poison the atmosphere of the mediation. Opening statements made in patent mediation often parallel statements made in the litigation. These types of opening statements give the parties an opportunity to posture. They tend to be argumentative, can harden positions and entrench people, and fail to focus on compromise. They also increase the expense of the mediation. When parties from outside the U.S. are present, which is often the case in patent disputes, an opening statement can also cause a party to lose face and, therefore, become an obstacle to settlement. It is important to be mindful of cultural issues during opening statements.

- **Another Approach: Let The Mediator Make The Opening Statement**

One way to avoid the above pitfalls is to have the mediator alone present an opening statement so that polarization does not occur. The mediator can explain the process and relevant

issues (*i.e.*, confidentiality) and can begin with a neutral description of how the case has been presented to by each party without editorializing remarks. A good opening statement sets the tone for the mediation process that follows: the statement should acknowledge the parties' differences, be presented in a conciliatory tone, and reflect the voice of reason.

- **The Mediator Should Avoid Artificial Time Constraints**

Time constraints and other problems should be addressed in advance of the mediation session. The mediator should educate the participants about the need for flexibility in their time commitments because parties generally underestimate the time required for mediation. Patent mediators usually set aside two days at the outset (or schedule the mediation session for a Friday so that Saturday is available if needed). If the parties hit an impasse during the first day, all participants can think about that impasse (and potential creative solutions) overnight.

- **The Mediator Must Carefully Manage The Private Caucuses**

The general consensus among focus group participants is that private caucuses between the mediator and each of the parties are absolutely necessary in patent mediation. The majority of time in a typical patent mediation is spent in these caucuses; the parties usually do not spend too much time together, as a group, in joint sessions with the mediator. In some cases, for example those in which the party representatives are not on good terms, the mediator may (and perhaps should) separate them during the process. The mediator should try not to waste the parties' time; therefore, the mediator might leave one party with "homework" or something to think about while working with the other party in a private caucus. The mediator should always keep the parties apprised of what is happening procedurally as he or she orchestrates the process.

- **Party Representatives With Full Authority To Settle Must Be Present During Mediation**

All focus group participants agreed that the presence of party representatives having full

settlement authority is essential to the success of a patent mediation. Beyond that consensus, however, there are a number of issues: Who has the authority to settle? Should the mediator refuse to proceed if authorized representatives are not present? Is it sufficient to have the representatives available by telephone, if not in person? Is it important to have the presence of “comparable” party representatives?

One of the attributes of mediation is its flexibility. Creative solutions not contemplated by party representatives before mediation may prove important in reaching a settlement after the fact. Therefore, it may not be possible to assure that a party’s mediation representative has “full” settlement authority. Moreover, patent mediations often involve large companies as parties. Large companies may have to work (perhaps slowly) through a complicated process to decide who has the authority to settle. They tend to have various levels of authority, and management may not give authority to outside counsel or even to in-house counsel. Finally, it may be truly impossible for some large companies to make sure that a representative with full settlement authority attends the mediation since some corporate cultures have a consensus-based decision making style.

In these cases, the mediator must do the best that he or she can. The mediator can advocate for a representative with full settlement authority to attend. The mediator can insist that a business person, not just the general counsel, be present on behalf of a company. If only lawyers are present, resolution of the dispute may prove more elusive. It is essential to have the business people present and to have them actively involved throughout the process, especially those who are senior executives.

- **Telephone Attendance May Be Permitted If The Decision Maker Is Fully Informed And Prepared**

One way to address a lack of physical attendance at the mediation by a party’s ultimate decision-maker is to have the person with ultimate authority available by telephone. Telephone attendance works best when the party identifies the decision-maker who will not be present (e.g., the CEO), prepares the

decision-maker in advance, and keeps the decision-maker up to speed during the mediation to minimize surprises. The decision-maker should be consulted before the mediation to discuss at least a range of acceptable resolution options. Thus, in all cases, a person attending the mediation should have full settlement authority within a given range. In some cases, creating a memorandum of understanding is the goal in mediation so the parties can go back to their respective managements for final approval.

As a further complication, there may be another entity not party to the litigation or underlying dispute (e.g., a licensee, an investor, an insurer) to which one of the parties has an obligation. Should or must a non-party attend the mediation? Each party should at least identify all of the stakeholders on its side, speak to them in advance of the mediation, define settlement parameters, and get their buy-in. Such stakeholders also may be involved by telephone.

- **The Parties Should Be Represented By Persons Of Comparable Or Equal Authority**

Another issue arises when the parties bring to the mediation representatives who do not have equal or comparable status. This imbalance may be reflected in settlement authority (e.g., one party has a representative with full authority, the other does not); in stature (the CEO of one party attends versus a low-level manager of the other party); in numbers (one party has one representative while the other party has five); or in other ways. A party evaluating “is this worth it?” may conclude “no” unless a comparable counterpart from the other party will attend the mediation. A party may view lack of attendance by a peer as a signal that the other side has no interest in settling the case. One side may even be insulted (especially if cultural differences exist) by lack of poor attendance.

Fortunately, pre-mediation communication can address the issue of incomparable attendance. The mediator should determine at the outset who is attending the mediation. By knowing which representatives are expected to attend, each party may “red flag” certain issues, and the mediator should address any problems that might arise at that time. If one party does not see a counterpart on the list of attendees, then

it should attempt to have that person attend. Disclosure of who is attending the mediation is critical; there should not be any surprises.

- **Handling The Mediation Where A Party Does Not Have The Authority To Settle**

One of the biggest frustrations with mediation occurs when the parties reach a settlement and are ready to sign the settlement agreement, and one party announces that it does not have the authority to sign, but will have to get approval from someone who is not present. If a person with ultimate settlement authority cannot be present during mediation, should the mediation proceed? Unfortunately, outside of the context of court-ordered mediation, the mediator does not have the power to mandate attendance. While some would say that having the mediation occur, even without settlement, is better than not having the mediation at all, other mediators will not conduct a patent mediation unless a decision-maker for each party is present. Mediators note that settlement rates increase when business representatives with settlement authority are involved, since this involvement helps each party to “buy in.” Stated alternatively, it is too easy to say “no” to an agreement when you have not been a part of the mediation process.

With court-ordered mediation, the mediator may be able to exert more influence on attendance because the mediator has to report back to the court on the result of the process. Judicial orders to mediate in some jurisdictions have become very specific and stringent; the order may require someone with full settlement authority to attend. A party may be held in contempt if they fail to have a representative with sufficient settlement authority in attendance. To address that risk, parties should make sure they understand from the mediator in advance what the expectations regarding authority are, communicate that information appropriately, and bring the appropriate representatives to the mediation.

- **Litigators Should Promote, Not Interfere With, The Mediation Process**

Since the principal purpose of mediation is to find a business solution to the patent dispute, and not to “win,” mediation puts litigation

attorneys in a difficult position; they have to set aside their “gladiator” instincts and adopt the role of business advisors. Many focus group participants observed that, unless they act as problem solvers and not advocates, litigation attorneys are often counter-productive in the mediation process. Yet, there are a number of ways that they can improve the likelihood of a successful mediation. For example, in their mediation statements, advocates should acknowledge the risks of litigation, concede any weaknesses in their positions, and propose reasonable solutions. They should forego the temptation to make an aggressive opening statement, but rather use the opening as an invitation to negotiate. They should also make sure that their clients have an opportunity to speak as part of the joint session. This approach serves two purposes: (a) the parties, not the attorneys, need to vent their grievances before they can begin negotiations; and (b) they also need to focus on potential business solutions from the outset.

During the private caucuses, the litigation attorneys should not interfere with the mediator’s efforts to evaluate the parties’ positions. They should also avoid allowing artificial barriers to prevent the successful conclusion of the mediation (e.g., by claiming that she/he or his/her client has a plane to catch, or using other excuses to cut the process short). They should also be prepared to paper the deal before negotiations start so that “wordsmithing” delays will not be an obstacle to a successful settlement agreement. Provisions relating to confidentiality, termination of the litigation, releases, etc. should be prepared in advance. Finally, litigation attorneys should assure their clients of the integrity of the mediation process and explain its key elements, such as achieving a mutually beneficial result with no clear winner or loser.

Recommendations for Mediating With Non-Practicing Entities

- **Mediation With NPEs Should Not Be Dismissed Out Of Hand; Many NPEs Are Amenable To Mediation**

Mediations of patent disputes are complicated by the participation of non-practicing entities (“NPEs”). There are many different types of

NPEs; NPE business models have expanded from the original notion of a garage inventor enforcing his or her own patent for recognition to sophisticated businesses that acquire patents in quantity across diverse technologies for enforcement for profit using varying strategies. Unfortunately, some NPEs have engaged in business practices which have adversely affected their reputation.

An important characteristic of patent disputes involving NPEs is that NPEs rarely have products or services of their own, resulting in an asymmetric patent threat because patents of the defendant are rendered useless against the NPE. Before the recent Supreme Court decision in *eBay*, an NPE would often seek an injunction against patent infringement, although now the availability of injunctions in federal courts has been reduced. However, an NPE is generally motivated by damages and an injunction is merely a tool to increase leverage in license negotiations rather than the desired end result; if the defendant cannot make and sell anything, then the NPE is not entitled to royalties. Ordinarily, the seeking of an injunction might be considered an impediment to mediation of a patent dispute because a party might simply want marketplace exclusivity against a competitor defendant, but an injunction sought by an NPE is generally just a negotiating tactic. A significant obstacle to mediation with an NPE is that many companies, as a matter of policy, refuse to mediate with them regardless of the reputation of the NPE involved or the merits of its claim. This orthodox approach should be re-evaluated.

Until recently, NPEs also had a tendency to initiate multi-defendant litigation. The presence of many defendants can bog down mediation in disputes or administrative issues among the defendants. The America Invents Act included a provision preventing joinder of defendants based solely on the alleged infringement of the same patent. As a result, the rate of initiation of multi-defendant litigation by NPEs has dropped considerably. However, the Federal Circuit has since authorized joining of pre-trial phases of separate litigations relating to infringement of the same patents by different defendants. It is still too early to understand

how frequently this phenomenon will occur and the implications for the mediation of patent disputes.

Perhaps the largest impact of an NPE on the mediation of a patent dispute results from the relationship between the NPE and the defendant. In many disputes, the parties are competitors, customers of each other, or business partners (or all of the foregoing) and have a strong interest in resolving disputes amicably to maintain a good working business relationship. An NPE and/or defendant may have no expectation of a future business relationship and therefore have less motivation to seek compromise. Good relations may be important with respect to NPEs with large patent portfolios that repeatedly assert patents against the same defendants, although defendants may prefer to set precedent for the future (particularly with respect to patents perceived to be of poor quality or inflated damages expectations).

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