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PERSPECTIVE

The unique advantages of early mediation in IP disputes

By Frank Busch

Early settlements, where achievable, are virtually certain to provide the best outcome for the parties. Legal fees are kept to a minimum, business disruptions caused by extensive document discovery and depositions are minimized, and the parties do not yet feel locked into their positions on liability. Of course, early settlements can be unachievable because the parties' risk assessments may be too far apart, damage models may be unrealistic, and the parties may have fundamental factual or legal disputes that require judicial resolution. Indeed, in many types of litigation the fact a lawsuit has been filed can indicate that either pre-filing negotiations failed or that at least one party believes early negotiation would be futile.

Intellectual property disputes are — or at least can be — different in multiple respects. We live in a world where intellectual property is often a company's most valuable asset, where keeping that property secret is a key element of any intellectual property protection strategy, and where losing one's intellectual property rights therefore cannot be allowed. Or adequately addressed by monetary damages. IP disputes are also far more likely to involve litigants who have no prior relationship. As a result, lawsuits are often filed before any attempt at informal resolution, and can be coupled with requests for immediate and far-reaching injunctive relief that immediately puts the parties in a high-stakes adversarial posture.

In that context, early mediation may be the only way to avoid years of litigation. If the dispute involves patent infringement, you cannot count on early resolution of your *Alice* dispute.

Berkheimer v. HP Inc., 881 F.3d 1360, 1370 (Fed. Cir. 2018) (partially vacating *Alice*-based summary judgment ruling due to factual dispute); *Aatrix Software v. Green Shades Software, Inc.*, 882 F. 3d 1121 (Fed. Cir. 2018) (reversing *Alice*-based dismissal before claim construction). If it involves disputes regarding use of sensitive data you can count on slow and expensive expert- driven attorneys' eyes only discovery procedures that make getting to the facts more challenging than in less sensitive cases. Even early disclosure rules in patent or trade secret litigation are no guarantee that the parties will actually disclose their final positions early in litigation. *See, e.g.*, N.D. Cal. Patent Local Rule 3-6(a) (adverse claim construction ruling may permit amendment to contentions); *Perlan Therapeutics, Inc. v. Superior Court*, 178 Cal. App. 4th 1333, 1350 (2009) (trade secret disclosures may be amended if "information suggesting defendants misappropriated additional trade secrets" is discovered).

Although early mediation attempts can be difficult, they provide the only reliable path to quick and certain resolution of disputes that can be expensive to litigate, devastating to lose, and difficult to settle later.

Not only is the path to meaningful resolution on the merits through contested litigation long, early mediation offers four key advantages where both sides engage in good faith.

First, early mediation permits *informed* decision-making by the client. The sooner the parties clarify facts and positions, the sooner the client can make the most informed decision about devoting time and resources to a dispute. This is particularly true in circumstances where the fact of use, infringement, or disclosure at the root of the lawsuit is based upon a misunderstanding or error that can be cleared up by early factual disclosures (or even third-party expert analysis) made under the protection of a mediation privilege.

Second, early mediation is a good way to engage *insurance*. Potential coverage is often underexplored in IP cases, when in fact coverage may be in place and the carrier(s) may be willing to contribute to a settlement to avoid the full litigation expense as well as residual issues with their insureds. The modern case law remains in flux, with a number of cases suggesting that coverage extends more broadly in many IP cases. *Yahoo! Inc. v. Nat'l Union Fire Ins. Co. of Pittsburgh*, 5:17-cv- 00489-EJD, 2018 U.S. Dist. LEXIS 176115, at *40 (N.D. Cal. Oct. 12, 2018) (Absent explicit allegations to establish coverage, defendant insurer still held to have breached duty to defend lawsuit where coverage could be reasonably inferred and where complaint could be amended to implicate coverage); *see also Uretek (USA), Inc. v. Cont'l Cas. Co.*, 701 F. App'x 343, 348 (5th Cir. 2017); *Crum & Forster Specialty Ins. Co. v. Willowood USA, LLC*, 696 F. App'x 276, 278 (9th Cir. 2017).

Third, early mediation is a good way to bring forward evidence regarding *injury*. In trade secret cases, for example, the initial litigation skirmishing is often over preliminary injunctive relief. If those efforts succeed, the issue of underlying damage may be smaller, rather than larger, further providing the parties with incentive to settle sooner. Moreover, many intellectual property disputes of every stripe are litigated with an initial focus on complex — often hotly-contested — liability disputes. Understanding the parties' damage models early may identify disagreements that can align the parties' damage models and permit a negotiated resolution. It also allows each side to exchange positions regarding additional exposure. *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1932 (2016) (plaintiffs may obtain enhanced damages without obtaining a finding of objective recklessness); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 (2014) (permitting defendants to obtain fees without showing both that the case was "brought in subjective bad faith" and "objectively baseless.").

Fourth, early mediation avoids the risk of *insolvency* or *collectability*. Many litigants, faced with potential liability, take steps to avoid paying a likely judgement, particularly if the litigation expense is substantial. In many intellectual property cases, parties can also use inconsistencies in international law to avoid payment, as they do not possess physical assets in the United States. Attacking those economic forces early on is often better for everyone, while the defendant has more to lose and more reason to compromise.

To secure these benefits, the parties must agree to do the work necessary to set themselves up for success. The parties need to discuss their claims — ideally in person and more than once, but at least voice-to-voice — *before* drafting their mediation statements, so that each statement can respond to the other side's concerns. The parties need to share their mediation statements and draft them in a manner that makes that sharing beneficial. Invective, unrelated claims, and other distractions are best avoided so that the mediation can focus on the relevant facts. Clients need to be advised of both the risks identified by the other side's papers, and the goals (identified above) that can be served by early mediation even if the case does not fully resolve at the first mediation. And be prepared to participate in a joint session if one will be productive.

Although early mediation attempts can be difficult, they provide the only reliable path to quick and certain resolution of disputes that can be expensive to litigate, devastating to lose, and difficult to settle later. Even where they do not result in a final settlement agreement, they can also benefit subsequent litigation by providing information to your client about the merits of the claims and defenses, engaging insurance carriers, and bringing damage theories into early focus. These benefits suggest that intellectual property lawyers should analyze the possibility of early mediation in every case, and reject it only where the specific case factors justify that decision. ■

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