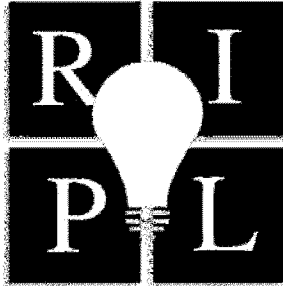


# THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



## LET'S MAKE A DEAL: NEGOTIATING RESOLUTION OF INTELLECTUAL PROPERTY DISPUTES THROUGH MANDATORY MEDIATION AT THE FEDERAL CIRCUIT

WENDY LEVENSON DEAN

### ABSTRACT

In 2006, the United States Court of Appeals for the Federal Circuit implemented a mandatory mediation program for parties in all counseled cases, including intellectual property disputes. This program offers the parties incentives to settle, such as providing neutral mediators with intellectual property expertise at no cost to the litigants. This article explains how the Federal Circuit's Mediation Program works and provides an overview of the Guidelines. This article concludes that the Federal Circuit firmly stands behind the mandatory mediation program for intellectual property disputes and believes the process can only serve to benefit all parties involved.

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# LET'S MAKE A DEAL: NEGOTIATING RESOLUTION OF INTELLECTUAL PROPERTY DISPUTES THROUGH MANDATORY MEDIATION AT THE FEDERAL CIRCUIT

WENDY LEVENSON DEAN\*

*"I was never ruined but twice: once when I lost a lawsuit and once when I won one."*<sup>1</sup>

Voltaire

*"Let us never negotiate out of fear. But let us never fear to negotiate."*<sup>2</sup>

John Fitzgerald Kennedy

## I. INTRODUCTION

On October 3, 2005, the United States Court of Appeals for the Federal Circuit became the last of the thirteen United States Courts of Appeals to enact an alternative dispute resolution program. The program is designed to help parties negotiate settlement of docketed appeals before oral argument.<sup>3</sup> Participation by the parties in the initial pilot program was entirely voluntary. The pilot program relied exclusively on volunteer neutrals.<sup>4</sup>

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<sup>1</sup> I AN EDITOR'S TREASURY: A CONTINUING ANTHOLOGY OF PROSE, VERSE, AND LITERARY CURIOSA 1032 (H. Mayes ed. 1968).

<sup>2</sup> John F. Kennedy, President of the United States of America, Inaugural Speech (Jan. 20, 1961).

<sup>3</sup> Federal Circuit Mediation Program, <http://fedcir.gov/mediation.html> (last visited March 29, 2007). In 1974, the United States Court of Appeals for the Second Circuit initiated the first court-annexed appellate mediation program. Shawn P. Davisson, Note, *Privatization and Self-Determination in the Circuits: Utilizing the Private Sector Within the Evolving Framework of Federal Appellate Mediation*, 21 OHIO ST. J. ON DISP. RESOL. 953, 958 (2006). The Sixth Circuit adopted a program in 1981, and the remaining circuits (other than the Federal Circuit) established appellate mediation programs through the 1990s. *Id.*

<sup>4</sup> Philip J. McConaughay, *ADR of Intellectual Property Disputes*, 2002 SOFTIC SYMPOSIUM 1 (Nov. 15, 2002), [http://www.softic.or.jp/symposium/open\\_materials/11th/en/PMcCon.pdf](http://www.softic.or.jp/symposium/open_materials/11th/en/PMcCon.pdf). "Mediation . . . is the process by which a neutral third party attempts to assist disputing parties in reaching a voluntary resolution of their dispute." *Id.* Mediation is the form of ADR utilized by all twelve federal circuit appeals courts and may be either facilitative or evaluative (or a combination of both approaches). See generally S. Gale Dick, *The Surprising Success of Appellate Mediation*, 13 ALTERNATIVES TO HIGH COSTS OF LITIG. 41, 48 (1995).

On September 18, 2006, the court adopted a permanent, mandatory appellate mediation program,<sup>5</sup> followed by the appointments of both James M. Amend,<sup>6</sup> as the court's Chief Circuit Mediator, and a Circuit Mediation Officer to administer the program and serve as Mr. Amend's deputy. The court's mediation program offers parties a risk-free, non-binding opportunity to settle their disputes in a confidential, timely, creative way, by utilizing the services of an experienced mediator with intellectual property subject matter expertise. The parties do not pay the mediator for his or her service.

## II. WHY APPELLATE MEDIATION OF INTELLECTUAL PROPERTY DISPUTES?

Mediation can serve the needs of parties to intellectual property disputes in many cases, especially when the preservation or creation of business relationships, such as a relationship between a licensor and licensee, is desirable.<sup>7</sup> However, conventional wisdom argues against successful mediation at the appellate level, most obviously because the lower tribunal has already declared a winner and a loser.<sup>8</sup> To the contrary, appellate mediation continues to be successful in federal appellate courts.<sup>9</sup>

The unpredictability of results on appeal may be one reason mediation works even after a judgment has been entered.<sup>10</sup> In particular, the lower tribunal "winners"

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<sup>5</sup> U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT, APPELLATE MEDIATION PROGRAM GUIDELINES 1, <http://fedcir.gov/guideline06.pdf> (last visited March 29, 2007) [hereinafter *Guidelines*]. With the exception of the Eighth Circuit, all federal appellate mediation programs are mandatory. See Gilbert J. Ginsburg, *The Case for a Mediation Program in the Federal Circuit*, 50 AM. U. L. REV. 1379, 1380 (Aug. 2001).

<sup>6</sup> Mr. Amend obtained his J.D. from University of Michigan, *magna cum laude*, in 1967. Mr. Amend was a Fulbright Fulbright Scholar at the London School of Economics from 1967 to 1968, and litigated numerous patent, trademark and unfair competition matters during his thirty-eight-year tenure with Kirkland & Ellis LLP. *Id.* Mr. Amend has served as a mediator of intellectual property disputes and was appointed Special Master by the United States District Courts for the Eastern District of Wisconsin and the District of Arizona to conduct claim construction hearings. *Id.* Mr. Amend is the author of *Patent Law: A Primer for Federal District Court Judges*, 1st ed. published by the Berkeley Center for Law and Technology, 1998, 2nd ed. 2007.

<sup>7</sup> Nancy Neal Yeend & Cathy Rincon, *ADR and Intellectual Property: A Prudent Option*, 36 IDEA 601, 603 (1996).

<sup>8</sup> Dana Curtis & John Toker, *Representing Clients in Appellate Mediation: The Last Frontier*, JAMS DISPUTE RESOLUTION ALERT, December 2000, at 1, available at <http://www.jamsadr.com/images/PDF/dra-2000-12.pdf>.

<sup>9</sup> See S. G. Dick, *supra* note 4, at 49 ("[T]here is no denying the success of appellate ADR. In fact, the 50 and 60 percent settlement rates [of cases selected for mediation] by some appeals courts rival those found in trial-level programs and even some private contexts."); see also Kevin R. Casey, *Mediation on the Horizon in the U.S. Court of Appeals for the Federal Circuit*, THE ADR ADVISOR, Spring 2005, at 5 ("Sister federal appellate court mediation programs have been successful . . . . [M]ost circuits report between a 35% and 45% settlement rate. The programs have enabled courts to accommodate increased filings without additional judges, saved money, and increased party satisfaction.")

<sup>10</sup> See Curtis & Toker, *supra* note 8, at 1 ("Appeals from judgments entered as a matter of law, such as summary judgments . . . are particularly risky because the appellate courts review these appeals *de novo*. The reversal rate in these cases is approximately 30 percent.")

in intellectual property disputes may not have as much confidence in a favorable appellate outcome as appellees in suits involving other subject matter.<sup>11</sup>

*A. Alternative Forms of Resolution Support the Continuation of Timely Issuance of Quality Precedent from the Federal Circuit*

Nearly 1800 appeals were filed with the court last year, approximately one-third of which involved intellectual property. Chief Judge Paul R. Michel states that “[p]atent infringement cases . . . have climbed steadily over the last 10 years . . . [and have] become increasingly time-consuming and difficult to decide. Most involve advanced technologies of great complexity.”<sup>12</sup> Accordingly, even though “the total number of appeals filed has risen only modestly in the last few years, the amount of labor required to resolve them has increased greatly.”<sup>13</sup> Chief Judge Michel reports that the percentage of judge time expended on intellectual property appeals is considerable and, overall, the court’s workload is increasing.<sup>14</sup>

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<sup>11</sup> Jessie Seyfer, *Panel Advises IP Litigators to Wake Up and Smell the Reversals*, THE RECORDER, Vol. 131, No. 14 (Jan. 22, 2007) (“With intellectual property litigation . . . [the] mix of high vulnerability and low predictability makes these disputes perfect candidates for alternative dispute resolution and especially mediation[.]”); Curtis & Toker, *supra* note 8, at 2. (“Often a party who prevails on appeal merely wins an opportunity to return to the trial court.”).

<sup>12</sup> Hon. Paul R. Michel, Chief Judge, United States Court of Appeals for the Federal Circuit, Address to the Federal Circuit Bar Association: The State of the Court (June 29, 2006) (revised July 10, 2006) [hereinafter Michel, June 29].

<sup>13</sup> *Id.*

<sup>14</sup> Hon. Paul R. Michel, Chief Judge, United States Court of Appeals for the Federal Circuit, State of the Court Address at the Federal Circuit Judicial Conference, In the Matter of The Federal Circuit: A National Court of Appeals Approaching a Quarter Century (May 19, 2006) [hereinafter Michel, May 19]. Chief Judge Michel recently noted:

[P]atent cases have replaced personnel cases as our most numerous. And of course that represents a shift in workload because by-and-large the patent cases are more complex and more time-consuming than the [personnel cases] . . . . The net effect of these changes, I suggest, is that the workload for our 12 active judges has gone up considerably. We have many more patent cases; they are more complicated. They take a lot more time. Many of them are close. Many of them have numerous difficult issues. Yet, we have the same 12 judges to perform all this work. Consequently, our judges are hard-pressed to maintain the same speed and quality as in the past.

*Id.* See also *Immigration Litigation Reduction: Hearing on Immigration Reform Before the Senate Judiciary Committee*, 109th Cong. 132–33 (2006) (statement of Hon. Paul R. Michel, Chief Judge, United States Court of Appeals for the Federal Circuit).

We are one of the smallest circuit courts, based on total number of staff and judges . . . . The court has 12 active judgeships with one vacancy [filled in September 2006 by Circuit Judge Kimberly Moore], and enjoys the part-time support of four colleagues who have taken senior status. All appeals with counsel are argued unless the parties waive oral argument. Preparation is done entirely by the judges, assisted by three “elbow” law clerks . . . . Opinions are written by the judges with assistance of law clerks, not by staff attorneys.

*Id.* Further, there is the possibility of expansion of the courts patent jurisdiction with proposed patent reform legislation. See 152 CONG. REC. S8804–01, S8831 (daily ed. Aug. 3, 2006) (statement of Sen. Orrin Hatch) (“Section 8 [of S. 3818] also contains a provision allowing for interlocutory appeals of decisions involving the claim construction of a patent”).

Appellate mediation clearly benefits the court by easing its workload and, on that ground alone, benefits the bar by allowing the court to maintain the timely issuance of quality decisions in those cases that do not settle.<sup>15</sup>

*B. Mediation can provide better results for intellectual property litigants*

Mediation provides litigants liberties and advantages unavailable in traditional appellate court proceedings. Indeed, regarding intellectual property disputes, “the most significant benefits [of mediation] often are conservation of resources, confidentiality, control over selecting and tailoring the process, selecting the neutral, and determining the outcome.”<sup>16</sup> These benefits are discussed in more detail below.

*1. Quicker Resolution*

Against the backdrop of the Federal Circuit’s growing workload and the absence of increased adjudicative resources, it should be no surprise that mediation provides parties with an opportunity for a quicker resolution of their disputes. The mediation process can begin within weeks of docketing; thus, the parties need not passively wait in a queue of appeals on the court’s docket.<sup>17</sup>

Consider also, as one commentator noted: “More than 97 percent of all filed cases will settle. Therefore, you know that your own matter, even if you file a lawsuit, is overwhelmingly likely to result in an agreed outcome. Statistically, a lawsuit just delays the inevitable agreement.”<sup>18</sup>

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<sup>15</sup> Richard Becker, *Mediation in the New Mexico Court of Appeals*, 1 J. APP. PRAC. & PROCESS 367, 369 (Summer, 1999).

Experience has shown that appellate mediation endeavors create a potential for several important benefits, including a reduced number of cases for the appellate court to decide, fewer remands and secondary appeals, the streamlining of appeals through partial resolution of issues, the satisfaction of parties underlying needs and interests and the reduction of time a case spends on appeal.

*Id.*

<sup>16</sup> See Yeend & Rincon, *supra* note 8, at 604.

<sup>17</sup> McConaughay, *supra* note 4, at 3 (asserting that “[p]roperly managed . . . ADR mechanisms . . . are able to commence immediately (i.e., there is not an entire docket of cases competing for the attention of the adjudicator”).

<sup>18</sup> James Pooley, *Successful Mediation of Intellectual Property Disputes*, IPFRONTLINE.COM, <http://www.ipfrontline.com/printtemplate.asp?id=8171> (last visited April 6, 2007).

## 2. *Flexible and creative resolutions*

As Chief Circuit Mediator Amend frequently tells mediating parties, “generally, the Federal Circuit can only give the litigants a thumbs-up or a thumbs-down.” That is, one side prevails, at least in part, and the other side loses.

In contrast, a mediated remedy may incorporate innovative solutions to long-running disputes:

Perhaps a cross-license is of mutual interest to the parties, or perhaps the parties’ competing interests can be accommodated by geographic limitations or restrictions on the scope of use. Perhaps a patent right could be traded for a trade secret or a copyright. These are all solutions that the parties themselves could discover and create, while the courts cannot. By negotiating a win-win solution, parties who may have a history of cross-licensing or cooperation can continue to cooperate in harmony, without upsetting the balance of the entire relationship.<sup>19</sup>

Outside the confines of the traditional public court paradigm, parties are free to explore royalty rate negotiation, cross-licensing, mergers and virtually any other business (versus judicial) solution that can be imagined.<sup>20</sup> Additionally, “[p]arties who enjoy the freedom of creating a settlement which meets their interests are more likely to honor those agreements,” thereby avoiding future judicial enforcement action.<sup>21</sup>

## 3. *Privacy*

In most instances, a mediated resolution shields the participants from the prying eyes of the public.<sup>22</sup> Further, the privacy of the mediation process enables parties to protect trade secrets and other proprietary information.<sup>23</sup> There are no written transcripts or opinions, and settlement terms may be kept secret with the parties and mediators bound by confidentiality agreements.<sup>24</sup>

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<sup>19</sup> Kristine F. Dorrain, *Alternative Dispute Resolution in Intellectual Property Disputes*, THE METRO. CORP. COUNS., Feb. 2006, at 31.

<sup>20</sup> See McConnaughay *supra* note 4, at 5.

<sup>21</sup> Yeend & Ricon, *supra* note 7, at 606.

<sup>22</sup> Tom Arnold, *WHY ADR*, PATENT LITIGATION 1013, 1040 (Practicing Law Institute 1999).

<sup>23</sup> *Id.*

<sup>24</sup> See Yeend & Ricon, *supra* note 7, at 605.

In a mediation situation, any evidence produced for the mediation may not be used in a subsequent proceeding involving the same parties, except for evidence that would be admissible at trial regardless of the mediation proceeding. This is of great benefit for those intellectual property cases involving trade secrets, such as business or technical information, or for corporations wishing to avoid negative publicity.

*Id.*

In sum, mediation at the appellate level offers an unprecedented opportunity to candidly explore creative “win-win” solutions to difficult and potentially embarrassing problems, while preserving existing — or even developing new — business relationships and models. Parties have the chance to avoid significant delay and expense associated with both an appeal and a possible remand, allowing them to get back to running their businesses.

Now, at the Federal Circuit, parties have the opportunity to explore their unique needs and concerns with the mediator, an expert in intellectual property subject matter, in a non-binding process, without paying a fee for this valuable service.

### III. HOW THE FEDERAL CIRCUIT PROGRAM WORKS.

All counseled cases are eligible for participation.<sup>25</sup> A docketing statement is included in the docketing packet sent from the Clerk’s Office to be completed by the principal attorney of record.<sup>26</sup> The docketing statement is the initial screening tool used by Mediation Office staff (the Chief Circuit Mediator and Circuit Mediation Officer) in considering which appeals might be good candidates for mediation.<sup>27</sup>

Questions pertinent to selection for mediation include inquiries about settlement history and the candid query, “Do you believe that this case may be amenable to mediation?”<sup>28</sup> Counsel is directed to explain why a case may not be ripe for mediation and to provide “any other information relevant to the inclusion of this case in the court’s mediation program.”<sup>29</sup>

While counsels’ answers to the above questions are helpful, with the court’s decision to shift to a mandatory program in late 2006, such answers are not dispositive of whether a case will ultimately be selected for mediation.<sup>30</sup> In analyzing settlement potential, court staff will also review notice(s) of appeal, judgments and other germane rulings, and relevant pleadings from the lower tribunal.<sup>31</sup> Before making a decision whether to assign a case to mandatory mediation, the Chief Circuit Mediator or Circuit Mediation Officer may call counsel with additional questions, starting with a call to any side that has indicated a reluctance to participate in mediation to better understand possible impediments to settlement.<sup>32</sup>

Once the Mediation Office has decided that an appeal should be included in the mediation program, the parties will be notified, a date for an initial face-to-face or telephonic mediation session will be set, and a mediator will be assigned.<sup>33</sup> In addition to the court’s on-staff Chief Circuit Mediator, the court has recruited a cadre

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<sup>25</sup> Guidelines, *supra* note 5, at 1.

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* at 1–2.

<sup>28</sup> United States Court of Appeals for the Federal Circuit, *Docketing Statement 2*, [http://fedcir.gov/docketing\\_jan\\_2007.pdf](http://fedcir.gov/docketing_jan_2007.pdf) (last visited March 29, 2007).

<sup>29</sup> *Id.*

<sup>30</sup> Order Revising Appellate Mediation Program (Fed. Cir. 2006), *available at* <http://fedcir.gov/enbanc06.pdf> (implementing mandatory attendance for “at least one mediation session”).

<sup>31</sup> Guidelines, *supra* note 5, at 1.

<sup>32</sup> *Id.* at 1, 3.

<sup>33</sup> *Id.* at 3 (requiring at least one face-to-face meeting between the parties and their respective principal counsels).



of experts in intellectual property matters to serve the parties as mediators on an entirely volunteer basis.<sup>34</sup> Frequently the briefing schedule will be extended to allow the parties to, at least temporarily, focus resources on settlement.<sup>35</sup>

Volunteer mediators are given wide latitude in how to conduct the mediation process after assignment, largely in deference to their extensive experience as mediators.<sup>36</sup> In-house (i.e., court staff conducted) mediations follow a more standard format. Mediations are commonly conducted at the Federal Circuit facilities in Washington, D.C. One week before the mediation session the parties submit confidential mediation statements to the Chief Circuit Mediator. These statements are not made part of the public record and are not shared with opposing parties. The statement must include, among other things, identification and candid discussion of: related cases; relevant authority; jurisdictional issues; prior settlement efforts; each side's strongest and weakest issues; positions that cannot be compromised; and any other factors that may frustrate or further settlement.

The Federal Circuit's Appellate Mediation Guidelines require participation not only by the principal attorney, but by a party representative with actual settlement authority.<sup>37</sup> "Actual settlement authority" does not simply mean a person allowed to accept or offer a minimum or maximum dollar amount. Rather, the Guidelines contemplate that a party representative is an individual who can make independent decisions based on developments at the mediation, and who has the knowledge necessary to generate and consider creative solutions.

The Guidelines provide for maximum confidentiality at all stages of the mediation process and even the fact of participation in mediation is generally unknown to the court.<sup>38</sup> Under no circumstances do mediators (volunteer or staff) communicate with the merits panel about specific mediation proceedings, including the identity of any involved parties or counsel.<sup>39</sup>

#### IV. CONCLUSION

The Federal Circuit takes its new mediation program seriously<sup>40</sup> and very much hopes to see it succeed.<sup>41</sup> Chief Judge Michel views the program as a means of

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<sup>34</sup> U.S. Court of Appeals for the Federal Circuit, *List of Mediators*, <http://fedcir.gov/mediators.html> (credentials and biographies of the court's roster of volunteer mediators). Pursuant to the Federal Circuit's Appellate Mediation Guidelines, litigants share responsibility for travel, food, and lodging costs incurred by volunteer mediators if asked by the parties to travel to conduct mediation sessions. *Guidelines*, *supra* note 5, at 1.

<sup>35</sup> See *Guidelines*, *supra* note 5, at 3.

<sup>36</sup> *Id.* at 3.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.* at 2-3 (explaining the confidentiality responsibilities of the mediator). Each party, party representative, attorney and person, party or attorney assisting them also must maintain confidentiality with respect to any settlement communications made or received during or incident to the mediation process. *Id.* at 3 ("The fact that a case is in mediation is confidential unless all participants agree otherwise.").

<sup>39</sup> *Id.* at 2-3.

<sup>40</sup> See *id.* at 4. Paragraph I of the Guidelines makes non-cooperation with the Circuit Mediation Office sanctionable. *Id.*

relieving the mounting pressures on the bench and enhancing the options available to the bar for dispute resolution.<sup>42</sup>

While a court can expect good faith participation in its alternative dispute resolution program, it cannot compel settlement, even through a “mandatory” mediation program.<sup>43</sup> Nonetheless, counsel should encourage their clients to come to the mediator’s table with enthusiastic and open minds. Mediation can offer a custom-tailored approach to unique problems, yielding results that satisfy broad interests.

Through mediation parties can affirmatively shape their business’s destinies, efficiently, creatively, and collaboratively crafting a favorable outcome in many intellectual property disputes.

*“[O]ne way to think of modern litigation is negotiation done inefficiently and with an attitude.”<sup>44</sup>*

-James Pooley

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<sup>41</sup> See Michel, June 29, *supra* note 12, at 5. (stating the court’s workload “situation underscores the importance of making the court’s . . . mediation program more productive”).

<sup>42</sup> See Michel, May 19, *supra* note 14, at 11 (explaining that the court’s mediation program “is another major initiative and it’s intended to meet the squeeze we’re in where we have more cases and bigger cases but the same number of judges. This is one of the methods that we hope will allow us to stay current and stay careful.”).

<sup>43</sup> See generally *Klay v. All Defendants*, 389 F.3d 1191, 1200 (11th Cir. 2004) (interpreting the Federal Arbitration Act the court recognized, “[i]n the absence of an agreement to arbitrate, a court cannot compel the parties to settle their dispute in an arbitral forum.”); *Volt Info. Sci., Inc. v. Bd. of Tr. of Leland Stanford Junior Univ.*, 489 U.S. 468, 479 (1989) (“Arbitration under the [Federal Arbitration] Act is a matter of consent, not coercion”); Fed. R. Civ. P. 16(c)(9) (2006).

<sup>44</sup> Pooley, *supra* note 18.