

10 Mediation Tips For Patent And Trade Secret Cases

By **Frank Burke** (February 28, 2019, 4:46 PM EST)

Patent and trade secret litigation remain important tools to protect the intangible assets of technology companies. They are among the most costly matters to litigate, and there is a significant financial incentive for parties to consider mediation and settlement as early as possible. Mediation is also increasingly required by local court rules or contracts between parties.



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1. Select the right time to mediate patent and trade secret cases.

Patents

A benefit of early dispute mediation is the informal exchange of information, producing cost savings over traditional discovery and possibly settlement. If a settlement does not result, the parties and mediator can narrow the focus of discovery and return quickly to a subsequent mediation, producing litigation savings.

Cases between competitors involving core technology are the most difficult to settle and may not be susceptible to early dispute resolution. Cases between competitors involving noncore technology or involving nonpracticing entities may prove easier to resolve earlier.

In patent litigation, there is a case progression continuum where the parties gain more knowledge about the strengths and weaknesses of their cases but also incur more costs. There are opportunities for mediation along that continuum, some of which result from required early disclosures under local patent rules, and others from the risk of adverse rulings.

The first window of opportunity occurs after a required exchange of asserted claims and infringement and invalidity contentions and preliminary damages contentions. The second window occurs if there is a patent-eligibility motion under Alice. The third window occurs before or after the claim construction Markman hearing or ruling. A fourth window occurs at the conclusion of fact discovery. A fifth window occurs after expert disclosures and discovery and summary judgment and Daubert motions regarding expert testimony.

Separate parallel processes providing mediation opportunities include: an inter partes review of patentability at the U.S. Patent and Trademark Office's Patent Trial and Appeal Board, or a Section 337 exclusion proceeding at the U.S. International Trade Commission.

Trade Secrets

Trade secret cases arise from employee departures, violations of confidentiality obligations by partners or licensees or intrusions by outsiders. The trade secret owner usually seeks preliminary relief to prevent misuse or disclosure of the trade secret and also damages. Such litigation is expensive and permeated with emotions and distrust.

There are several opportunities for a mediated solution. The first is at the temporary restraining order or preliminary injunction stage. A second is during the disclosure and definition of the trade secret. A third is during discovery whether the trade secret is truly confidential or is generally known or readily ascertainable, or whether the defendant possessed pre-existing know-how included in the trade secret. A fourth is during discovery regarding breaches of confidentiality agreements or fiduciary duties. Later opportunities are at expert reports and motions, and motions for summary judgment.

2. Realistically assess liability, damages and equitable remedies.

Parties should approach a mediation with realistic expectations about what will occur and the need for compromise. This requires candid consultation between lawyer and client. To value the case, each party should explore its best, most likely and worst verdict results to develop three numbers: its opening offer, the likely settlement range and its walk-away number.

Client legal and business teams must gather the facts and law, identify business concerns, assess risks and costs, and make choices about how to approach and resolve the dispute, including monetary, licensing or business resolutions. This requires a clear-eyed assessment of liability.

In a patent case this includes analysis of validity, prior art and infringement. In a trade secret case, this includes assessment of the validity and strength of the trade secret. In both types of cases damages should be assessed in relation to litigation cost, including lost profits, reasonable royalties, price erosion, convoyed sales, entire market value, apportionment and in a trade secret case, also unjust enrichment/disgorgement. Assessment of likelihood of success may include decision-tree analysis, jury verdict research, mock juries or less formal approaches.

Another key leverage factor is the likelihood of plaintiff securing an injunction barring the sale of the accused products. That can produce significant leverage over damages and in negotiations concerning whether defendant must agree to exit certain product lines or enter a license or business arrangement.

3. Carefully select the team to attend the mediation in a patent or trade secret case.

Mediations should be attended by outside counsel and a client representative with settlement authority. Selection of the client representative should be undertaken with care.

An in-house litigation or intellectual property counsel should participate, who has a good understanding of the technology, USPTO and other litigation proceedings, and other licenses. A business executive should participate who has knowledge of the market for the technology, sales, the impact (or not) of the infringement or misappropriation of the technology, and other licenses. The executive is important in the business aspects of any settlement.

Some parties prefer the attendance of retained experts, while others prefer pre-mediation sessions

where each side and its experts may present a tutorial to the mediator on the technology and damages issues.

4. Develop a plan to deal with two-tier protective orders

Most technology cases have two-tier confidentiality agreements, where highly confidential materials may be designated for review only by outside counsel and experts, with a patent prosecution bar for those who review such materials. When entering into mediation, additional mediation confidentiality protections should be adopted.

To promote settlement discussions, some protective orders allow designated in-house counsel or business executive with no involvement in competitive decision making to review certain highly confidential materials other than source code. Other variations involve exchange of summary financial data, subject to later verification, supplying cost or profit financial data to the mediator, and supplying confidential technical information to a neutral technical adviser assisting the mediator.

5. Write a persuasive mediation memorandum.

Write a persuasive summary of the claims, facts and law relating to liability, causation and damages, and make a good faith settlement demand or offer. These should be exchanged. A private letter can be given to the mediator to highlight confidential information.

The patent owner should identify the asserted claims in the patents in suit, as well as the accused products, whether infringement is direct or indirect, and the claimed priority date. The alleged infringer should identify the bases for invalidity contentions, including patent eligibility, relevant prior art supporting anticipation or obviousness, and specification/written description/enablement and indefiniteness grounds. Both sides may include relevant preliminary or final claim constructions and should exchange damages contentions.

In a trade secret case, the trade secret owner should specifically identify the trade secret, how it was kept confidential, other contract or tort claims, how the trade secret was used by the defendant, and damages. The alleged misappropriator should describe any lack of confidentiality, whether the alleged trade secret was in the public domain, whether the defendant had pre-existing know-how, any reverse engineering, and damages contentions.

6. Make the most of pre-hearing conferences and oral presentations at the mediation.

Most mediators conduct pre-hearing conferences with each party. Use your time to tell the mediator about any backstories, obstacles to settlement, issues you perceive with your client or the opposing party, and how settlement can be achieved. In more complex cases with large damages claims, separate pre-hearing conferences are sometimes in person and can be lengthy, including tutorials about the technology and key contentions.

Carefully plan client presentations, either for joint session or private caucus. The clients can best describe the issues and events that precipitated the litigation, and how they were impacted. Graphics are effective. Counsel should focus on the application of legal principles to the facts as well as the overall message. Trade secrets cases can provoke strong emotions and mistrust, but uncontrolled emotional venting should be avoided. On the other hand, it is important for the opposing party to listen respectfully. A civil, polite approach is advisable.

7. Make a strategic opening offer.

The opening offer should be selected as part of the overall settlement strategy, potential settlement moves and concessions. It should be accompanied by a rationale. The opening offer can send a message with an anchoring effect. The opening offer must also take into account prior offers and not backpedal.

A reasonable opening offer would be within what each party sees as the likely verdict range, which views can be quite different. A plaintiff's aggressive offer would be in the high end of its perceived likely verdict range, while a defendant's aggressive offer would be in the low end of its view of the likely verdict range. Each party's view of the facts, law and damages should credibly support its offer. An extreme aggressive offer may require substantial concessions to achieve a settlement. An insulting opening offer often becomes a boomerang, provoking an equally insulting counter-offer, which can lead to a large gap or early stalemate.

8. Plan your settlement moves, avoid or break impasse, and close the deal.

The "middle rounds" are the heart of the mediation. Each party's second move is often its most important in signaling its intentions. The next few moves also send key strategic signals, either firmness or conciliation. There is extensive information exchange through the mediator. It is important to have a negotiation plan regarding the end goal and the sizes of the concessions, making the moves more strategic and not emotionally driven.

As the parties move closer, they often will make smaller reciprocal moves to try to reach a fair midpoint. They may offer to split the difference, suggest conditional bracketed moves, or suggest conditional reciprocal moves to the midpoint.

The best way around impasse is to avoid it in the first place by positive attitude, strategic thinking and moves, making conciliatory moves at the right moment, and avoiding emotional responses to moves by the opposition. As impasse approaches or arrives, it should cause each party to seek the mediator's insights to help re-evaluate the strengths and weaknesses of its position. The parties may then decide to make additional moves, suggest conditional bracketed moves, or request a mediator's proposal. If the mediator's proposal is not accepted, the parties may use it as a basis for further proposals.

If the parties are at "walk away" numbers but there is still a gap between their positions, they may bridge the gap by recalibrating, moving their "walk away" numbers, or "enlarging the pie" by exploring additional interests and issues to create value to bridge the gap. A party's last, best and final proposal is often accepted if the other party concludes that it is the best achievable result at that point in time.

9. Plan ahead for your settlement agreement: monetary payments.

Any settlement should be memorialized in a written memorandum of understanding or bullet point agreement, stating that it is enforceable and admissible in court, signed by the parties before they leave the mediation. Final documentation can follow. Given the complexity of the likely settlement terms in a technology case, the parties should pre-prepare term sheets reflecting the key points to be agreed upon.

Potential patent settlement terms to be considered: payment amounts and the terms; tax issues; release or covenant not to sue; no-challenge clauses; admissions of validity, infringement or

enforceability; most favored nations clauses vis-a-vis other settlements; dispute resolution mechanisms; and confidentiality and marking of patented products. Trade secret payment terms can include lost profits, disgorgement of profits or a reasonable royalty.

10. Plan ahead for potential licensing terms, business relationships and equitable remedies.

If a patent license is contemplated, determine which patents will be involved, including patent families, continuation patents, continuations in part, pending applications and foreign patents. Identify the licensed products by description and product number. Define the royalty base and how the royalty will be computed, and whether cross royalties will be involved. Look at definitions used in other licenses. Royalty payment terms may be lump-sum or installments, running royalties and percentages, or include caps or minimum payments.

If an patent injunction is likely, that may lead to business negotiations concerning whether defendant must agree to exit certain products or sales channels or focus on different product lines or different geographical areas, depending on the scope of the patent. Any future business relationship among competitors or vertical arrangement should be carefully reviewed by antitrust counsel.

Trade secret equitable remedies may include agreements or orders to return or destroy certain materials, to limit use of information or technology for specified time periods or fields of use, or to limit certain employees from working in a competitive line of business for a period of time. Business terms may include licenses, cross licenses, royalties, shared royalties, buy-sell agreements, mergers, or if not direct competitors, agreements that would allow each to focus on its core business.

Conclusion

Following the best practices described in this article to carefully plan and make strategic moves throughout the early, middle and late phases of the mediation process can help lead to successful results and durable settlement agreements.

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