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Commentary on Patent Litigation Best Practices: Patent Mediation Chapter

A Project of The Sedona Conference
Working Group on
Patent Litigation Best Practices (WG10)

APRIL 2017 EDITION



The Sedona Conference Commentary on Patent Litigation Best Practices: Patent Mediation Chapter

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Patent Litigation Best Practices (WG10)*

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Preface

Welcome to the April 2017 Edition of The Sedona Conference *Commentary on Patent Litigation Best Practices: Patent Mediation Chapter*, a project of The Sedona Conference Working Group on Patent Litigation Best Practices (WG10). This is one of a series of Working Group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute dedicated to the advanced study of law and policy in the areas of antitrust law, complex litigation, and intellectual property rights. The mission of The Sedona Conference is to move the law forward in a reasoned and just way.

WG10 was formed in late 2012 under the leadership of its now Chair Emeriti, the Honorable Paul R. Michel and Robert G. Sterne, to whom The Sedona Conference and the entire patent litigation community owe a great debt of gratitude. The mission of WG10 is “to develop best practices and recommendations for patent litigation case management in the post-[America Invents Act] environment.” The Working Group consists of around 200 active members representing all stakeholders in patent litigation.

The Patent Mediation Chapter was published for public comment in April 2016, and was the focus of the dialogue at The Sedona Conference WG10 Midyear Meeting in San Francisco in April 2014, the Sedona Conference “All Voices” Meeting in New Orleans in November 2014, the WG10 Midyear Meeting in Miami in May 2015, and the WG10 Midyear Meeting in Pasadena in February 2016. The editors have reviewed the comments received through the Working Group Series review and comment process. The Chapter will be regularly updated to account for future significant developments impacting patent mediation.

The Chapter represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular Gary Hoffman who has graciously and tirelessly served as the Editor-in-Chief for this and all Chapters in this Commentary on Patent Litigation Best Practices, and as the Chair of WG10. I also thank everyone else involved for their time and attention during the drafting and editing process, including: Roderick M. Thompson, Mark Wine, James Amend, Gregory Bradley, Paul E. Burns, Monte Cooper, John M. Delehanty, Jake Holdreith, Carol Ludington, and Sarita Venkat. In addition, I thank volunteers James C. Brooks and Reeva Dua for their special assistance and contributions to this effort. I further thank all who have provided comments to the April 2016 public comment version, in particular Jeff Kichaven.

The Working Group was also privileged to have the benefit of candid comments by several judges with extensive patent litigation experience, including the Honorable Cathy Bissoon, the Honorable Leonard Davis (ret.), the Honorable Cynthia Eddy, the Honorable Marvin J. Garbis, and the Honorable Mary Pat Thyng. The statements in this Commentary are solely those of the non-judicial members of the Working Group and do not represent any judicial endorsement of the recommended practices.

Working Group Series output is first published in draft form and widely distributed for review, critique, and comment, including in-depth analysis at Sedona-sponsored conferences. Following this period of peer review, the draft publication is reviewed and revised by the Working Group and members of the Working Group Steering Committee, taking into consideration what is learned

during the public comment period. The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be.

Craig W. Weinlein
Executive Director
The Sedona Conference
April 2017

Foreword

Patent litigation has now become a major pillar of litigation in the federal courts. As the number of patent cases has risen, so has the cost of conducting them. Faced with millions of dollars in potential fees, the uncertainty of a jury verdict, and the prospect that it could be overturned by the Federal Circuit, parties are increasingly turning to mediation as a means of resolving patent litigation at an early stage in the proceeding. Despite the popularity of mediation for patent litigation matters, there has been very little written about what makes a patent mediation unique and what the participants might do to improve its effectiveness. The objective of this Sedona Conference *Commentary on Patent Litigation Best Practices: Patent Mediation Chapter* is to present a series of best practices that will be useful to a party that selects mediation as a process to resolve its patent dispute.

The drafting team approached this task from the perspective of a litigant involved in a patent litigation matter where the parties are willing to participate in mediation. The drafters considered and created best practices addressing the timing of mediation, the process of selecting a mediator, the task of preparing for mediation, the unique issues of confidentiality in patent mediation, and the conduct of the mediation session itself. In each of these areas we drew from our shared experiences in the field of mediation and from the wisdom of the participants at The Sedona Conference Working Group meetings. The ideas expressed by the members of the drafting team represent a broad cross-section of the patent mediation community and are intended to present a balanced presentation of mediation practices used throughout the United States. The result is a series of best practices that provide guidance to the courts, mediators, and parties to litigations to maximize the value of the mediation process.

The editors express their appreciation to the members of the drafting team and the Judicial Advisors for their invaluable input. The time commitment for all involved was considerable. The drafting, comment, and discussion process was thorough and, at times, spirited. Many positions were advanced and subsequently compromised in order to develop a true consensus. It was a valuable and gratifying experience to be part of this team.

Gary M. Hoffman
Editor-in-Chief
Chair, Working Group 10 Steering Committee

Roderick M. Thompson
Mark Wine
Chapter Editors

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Patent Mediation Principles

“At a Glance”

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Principle No. 2 – When used in connection with pending patent litigation, mediation should be administered to promote the just, speedy, and cost-effective resolution of the case. 2

Principle No. 3 – Consistent with the first two principles, mediation of patent cases should promote the overall goals of the patent system and the judicial process. 2

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I. Introduction

Patent infringement cases present unique challenges for courts. They often involve highly complex technology, high economic stakes, and highly competent, zealous counsel, who on the defense side, are often fighting for the very existence of their clients in view of the ominous threat of injunctive relief. Accordingly, patent cases require a disproportionately greater amount of judicial resources than most other types of federal court litigation. Patent infringement cases also raise multiple unique issues with a terminology all their own, such as “prior art,” “accused products,” “asserted claims and infringement contentions,” “invalidity contentions,” “claim construction,” and “*Markman* hearings.” Many district courts have adopted special local rules for patent cases that require unique disclosures and claim construction briefing on an aggressive schedule.¹

In view of its complexity and high stakes, patent litigation has been referred to as the “neurosurgery” of law.² Recognizing this complexity, Congress, in January 2011, enacted legislation requiring the Federal Judiciary to establish a ten-year pilot project designed to increase the expertise of district court judges in patent cases through specialization and training. Additionally, according to the American Intellectual Property Law Association’s (AIPPLA) 2015 Report of the Economic Survey, the average patent infringement case requires an accused infringer to expend an inclusive amount of \$3 million when there is \$10-\$25 million at risk and \$5 million when there is more than \$25 million at risk.³ Most of these costs are incurred prior to trial, and an overwhelming majority of patent cases are settled before going to trial.⁴ The economic impact on the parties is thus substantial, not only in terms of the consequences if a party loses at trial, but also in terms of the attorneys’ fees and costs that a party will have to incur to get through trial and appeal or even to get to a settlement if the settlement comes late in the litigation. Parties would consequently realize great economic benefit from earlier settlements and improved case management. Mediation presents litigants with the opportunity to achieve settlements that resolve patent infringement disputes prior to litigation or earlier in the litigation process, in a facilitative environment that can enable the parties to avoid the bulk of litigation costs and relieve some of the burden on the federal judiciary.

¹ For a full discussion of Working Group 10’s recommended initial disclosure, early infringement and invalidity contention, and production of key documents requirements, see The Sedona Conference, *Commentary on Patent Litigation Best Practices: Discovery* (Dec. 2015 Edition), at Sec. IV.A. (Initial Disclosures) and Sec. IV.B. (Initial and Responsive Contentions), available at <https://thesedonaconference.org/publication/The%20Sedona%20Conference%20Commentary%20on%20Patent%20Litigation%20Best%20Practices%3A%20Discovery> [hereinafter *Sedona WG10 Discovery Chapter*].

² See Symposium, *A Panel Discussion: Claim Construction from the Perspective of the District Judge*, 54 CASE W. RES. L. REV. 671, 682 (2004) (“Patent litigation is like the neurosurgery of litigation: it is hard scientifically and it is hard legally.” – Hon. Patti Saris).

³ AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, *2015 Report of the Economic Survey*.

⁴ See LEX MACHINA, 2015 PATENT LITIGATION YEAR IN REVIEW REPORT (noting that between 2009 and 2014, 73.2% of terminated cases settled, and that in 2015 the number increased to 76.7%); cf. TERESA G. CAMPBELL AND SHARON L. PIZZUTI, THE EFFECTIVENESS OF CASE EVALUATION AND MEDIATION IN MICHIGAN CIRCUIT COURTS (Oct. 31, 2011), available at <http://courts.mi.gov/Administration/SCAO/Resources/Documents/Publications/Reports/The%20Effectiveness%20of%20Case%20Evaluation%20and%20Mediation%20in%20MI%20Circuit%20Courts.pdf>.

The Patent Mediation drafting team and the Working Group hope to achieve the mission of The Sedona Conference to move the law forward in a reasoned and just way by (i) encouraging the courts' use of presumptive mediation, (ii) improving parties' and their counsels' mediation experience, (iii) promoting increased use of mediation, and (iv) increasing the likelihood of successful mediation outcomes in patent infringement cases. As parties' and counsels' patent mediation experiences improve, it is anticipated that they will seek out mediation with greater frequency, which will lead to a greater number of patent infringement cases being settled earlier and more economically for the greater benefit of the parties and the judiciary.

To guide the Patent Mediation drafting team's development of best practice recommendations for patent mediation, the team developed the following overarching principles:

Principle No. 1 – Mediation is designed to benefit the parties to a patent dispute by providing an opportunity for a mutually acceptable resolution of their claims in whole or in part.

Principle No. 2 – When used in connection with pending patent litigation, mediation should be administered to promote the just, speedy, and cost-effective resolution of the case.

Principle No. 3 – Consistent with the first two principles, mediation of patent cases should promote the overall goals of the patent system and the judicial process.

Mediation promotes the overall goals of the patent system by serving as an effective means of resolving cases prior to trial, resulting in substantial savings of money and resources for the litigants and the court system. However, mediation is not a “one-size-fits-all” process. Rather, it must be tailored to fit the needs of the case in each instance.

Patent mediations are most successful when they bring together skilled mediators, who are experts in patent litigation and able to learn the applicable technology quickly, with well-prepared counsel and realistic litigants. Mediations also depend on the free and open exchange of information and views protected by confidentiality and privilege, without fear that such party disclosures will be used against the party making them. Accordingly, confidentiality and a bar to admissibility applicable to the mediation process are crucial to its success.

In addition to the interests of the parties, patent litigation may also be said to involve the public's interest. A strong patent system is essential to fostering the innovation that drives our economy and, as stated in our Constitution, to “promot[ing] the progress of Science and useful Arts.” Our litigation process can serve a valuable role in rewarding real innovation and at the same time potentially exposing unenforceable or invalid patents. While mediation is a flexible process that should be adapted to best meet the needs of the parties to a particular case, it should also be tailored where feasible to further or at least not frustrate the goals of our patent system.

The best practices set forth in this paper are intended to provide useful trail markers to guide all participants toward a successful outcome in the mediation process.

II. Patent Mediation is a Process, Not a Single Event

A patent mediation should be viewed as a process rather than a single event. The mediation is not just the in-person mediation session attended by the mediator, the parties, and counsel. Rather, the mediation commences when the mediator is retained and the mediator's engagement agreement is signed, and continues until the mediator declares that the mediation has concluded. Instead of having only one in-person mediation session, many experienced mediators, parties, and counsel recommend that more than one in-person mediation session may be necessary to settle a complex patent infringement dispute. For example, to resolve a patent infringement dispute involving complex technology, an initial mediation session might be scheduled at the beginning of the case with additional mediation sessions scheduled at later stages, as the case gets closer to trial, perhaps interspersed with follow-on telephone conferences with the mediator. This approach optimizes the likelihood of an early resolution and, even if unsuccessful at the initial in-person mediation session, enables the parties to learn facts about their adversary's case which may prove helpful in settling the case at a later stage.

Mediation sessions can also be held while a critical case event is pending. For instance, an in-person mediation session can occur after the briefing or hearing on claim construction or on a motion for preliminary injunction or summary judgment. The parties, the court, and the mediator can propose a mediation schedule in order to maximize the settlement opportunity presented by a pending hearing on claim construction or a pending motion.

With respect to multi-party and multi-jurisdictional cases, there may be a separate mediation session for each defendant. This provides the opportunity to negotiate settlements with each defendant based on the unique facts and market forces relevant to that party. Multi-jurisdictional cases often arise when a party sued on a patent brings a countersuit against the plaintiff in another court, claiming infringement of its own patent. In some cases, parties may be involved with unrelated patent litigation in multiple courts because different business units of at least one of the parties proceeded independently. In these cases, settlement efforts through mediation should not be delayed in one court because of litigation proceedings in another court.

Different categories of patent disputes give rise to different types of settlement issues and patterns. Major case categories and the settlement issues commonly involved with them are described in the chart attached hereto as Appendix A. These categories are by no means exhaustive and facts and circumstances applicable to a particular case may warrant different mediation strategies than other cases in the same category.

III. When to Retain a Patent Mediator

An optimal time to mediate is when the parties are unsure about the strength of their ability to control the outcome of their case. This uncertainty often occurs early in the litigation process, especially in circumstances where the initial optimism about the case by each side may have begun to wane. If the parties are reluctant to engage in early mediation, there may be intervening events which may trigger reconsideration. For example, the large increase in *inter partes* proceedings (IPRs) before the Patent Trial and Appeal Board (PTAB) has significantly changed the dynamics of patent litigation. Once an IPR has been filed, the parties should consider engaging in mediation for several reasons. The patentee may want to avoid the risk of an invalidity ruling. Similarly, the defending party may want to forego the expense of continuing the IPR proceedings, especially if the underlying litigation has not been stayed pending the IPR.

Other intervening events which may trigger patent mediation include: (i) significant changes in a party's competitive or business position; (ii) the filing of a counterclaim which introduces new issues into the case; (iii) the impending deposition of a high-level executive (e.g., a party's CEO); (iv) an interim decision from the court on a key procedural issue or claim construction; (v) court-ordered mediation; (vi) a decision on a motion for summary judgment by the court; or (vii) the existence of a looming trial date. The relative advantages of mediation at each of these stages are discussed below.

A. AFTER COMMENCEMENT OF THE CASE

Best Practice 1 – Counsel should consider proposing patent mediation as early as practicable.

Although there are no hard and fast rules about the optimal time for mediation, many sophisticated mediators, parties, and counsel believe that mediation should take place as early as possible, and when the parties have sufficient information to evaluate the strengths and weaknesses of their positions. It usually will be advantageous to the parties to seek a mediated resolution before litigation expenses begin to mount, and one or more of the parties becomes potentially entrenched as a result.

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 accused infringer can evaluate the patent owner's demand for royalties or other damages and compare that sum to the cost of litigation through trial and a likely appeal. Similarly, the patent owner can evaluate the accused infringer's prior art evidence and the likelihood that it will be successful in obtaining a ruling of invalidity on all of the asserted claims.

While a number of federal district courts, particularly in the western U.S., impose presumptive mediation by local rule or require the parties to include a deadline for mediation in the case scheduling order, the parties should consider initiating mediation well before any scheduling order deadline or suggestion by the court if it can save substantial costs to both parties. The parties in certain industries are amenable to early mediation even before they have developed a full factual record. For example, generic pharmaceutical manufacturers generally prefer to commence the mediation process early in the case. 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 other industries, depending upon the corporate culture, cases typically do not settle until late in the game (e.g., at the end of the pretrial process) or as the court-ordered mediation deadline approaches.

Even if the parties are not yet ready to settle the case, commencing mediation early can save the parties litigation costs and time by helping the parties to narrow the issues and facilitate efficient and economical discovery. Moreover, the mediator can be available at the request of the parties to convene follow-on telephone calls or in-person sessions when the parties reach impasse on eDiscovery or case management issues to help facilitate agreement or narrow the scope of the dispute.

B. AFTER INITIAL DISCLOSURES AND INFORMAL DISCOVERY

It is not necessary to complete full-blown litigation discovery in order to have a successful patent mediation. While some parties and counsel believe that complete fact and expert discovery are necessary before mediation, many find this not to be the case.⁵ In fact, proceeding with expansive 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. Analogizing to the well-known Pareto Principle, in many instances, 80% of the information necessary to evaluate a case will be made available in the first 20% of the time allotted for discovery; the remaining 80% of the allotted time (and expense) will often yield only 20% of the information needed to evaluate a case. 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 ways to obtain sufficient information to evaluate the strengths and weaknesses of the parties’ respective positions early in the case, without the need for full-blown discovery. For example, much of the information needed to conduct a mediation is available from the following sources which are usually generated in the relatively early stages of the litigation: (i) asserted claims and infringement contentions, (ii) claim charts and accused devices; (iii) invalidity contentions and prior art; (iv) preliminary claim constructions, if relevant; and (v) preliminary damages contentions and sales data.⁶ Indeed, in district courts with patent local rules, most of these disclosures will be required early in the case with or without mediation having been commenced.

In addition there are a number of informal techniques for gathering information prior to mediation that should be considered by counsel:

⁵ According to Federal Circuit Court of Appeals Judge Kimberly A. Moore, in an article written when she was a Professor at George Mason University School of Law, of the patent cases that resolved via settlement between 1995 and 1999, 34% settled prior to the commencement of litigation, 51% settled mid-litigation, 14% settled after pretrial conference, and only 1% settled during or after trial. *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?* 79 N.C. LAW REV. 889, 913 (2001).

⁶ In June 2016, The Sedona Conference’s Working Group 9 (Patent Damages and Remedies) published for public comment its Commentary on Case Management of Patent Damages and Remedies Issues: Proposed Model Local Rule for Damages Contentions, *available at*: <https://thesedonaconference.org/publication/The%20Sedona%20Conference%20Commentary%20on%20Case%20Management%20of%20Patent%20Damages%20and%20Remedies%20Issues%3A%20Proposed%20Model%20Local%20Rule%20for%20Damages%20Contentions> [hereinafter *WG9 Proposed Model Local Rule for Damages Contentions*].

- (a) To facilitate informal exchanges of information, counsel should inform their clients about 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 confidentiality agreement which limits the use of the information exchanged solely to the mediation.
- (d) Counsel should determine what information is publicly available.
- (e) Counsel should consider providing preliminary damages contentions and sales data.
- (f) Counsel should consider having the mediator review confidential financial information, *in camera*, or otherwise limiting the disclosure of confidential information.
- (g) Counsel should consider mutual disclosures of preliminary asserted claims and infringement contentions, preliminary invalidity contentions, and preliminary claim constructions to the mediator and to each other with the understanding that they are subject to revision at any time and that the preliminary versions may not be admissible or used for any purpose outside of the mediation.
- (h) 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, consistent with the discovery schedule and discovery deadlines, and mediate after documents are exchanged or after the taking of limited depositions.

If the parties have sufficient information (from initial disclosures or the informal cooperative exchange of information) to evaluate each other's cases, and if the parties are motivated to settle, mediation can be effective.

C. BEFORE CLAIM CONSTRUCTION ORDER

The usefulness of waiting until the court issues a claim construction order before scheduling mediation has to be considered on a case-by-case basis. In some patent cases, the parties seek claim construction of numerous claim terms to gain a tactical advantage. If, however, one of the parties sincerely believes there are one or more key claim terms that require construction, before that party will be able to evaluate the strength of infringement or invalidity contentions, it may be necessary to wait until after a *Markman* ruling to commence mediation. In contrast, if there is a consensus that the outcome of claim construction will not be case dispositive, then the parties may benefit from commencing mediation before the court rules on the claim construction and should submit their claim construction briefs or preliminary claim constructions and intrinsic and extrinsic evidence in support thereof to the mediator well before the court's claim construction ruling. This will enable the mediator to evaluate the parties' respective claim construction positions and explore the strengths and weaknesses of each side's positions in private caucus.

Even if a claim construction order has been issued prior to the commencement of mediation, patent litigators know that there is a high rate of reversal of district court claim construction orders on appeal.⁷ Accordingly, a claim construction ruling from a district court does not resolve uncertainty, and may not accurately foretell the ultimate outcome. This rate of reversal may change with the Supreme Court's decision in *Teva v. Sandoz*,⁸ but it is too soon to determine the impact of *Teva*.⁸ Even so, parties in a case may both sincerely believe that their claim interpretation will prevail, leading to an impasse that may be overcome by a skilled patent mediator who can determine the optimum time during the mediation to be evaluative.

Conducting the mediation before a *Markman* ruling can push the parties further along the settlement path (i.e., by opening communication) before receiving the *Markman* ruling. This may be more attractive for parties desiring a quicker resolution to their case, especially considering the average time from case filing to claim construction in U.S. district courts is roughly two years. As set forth previously, when the *Markman* ruling is pending, both parties experience the highest level of risk. At this juncture, the mediator can understand the impact of the *Markman* ruling on each party's case—for example, by asking the parties to identify which claim constructions, if adopted by the court, pose the biggest threat to the parties' positions in the case. If there is still an impasse, pre-*Markman* mediation can nevertheless set the stage for a later mediation session after the *Markman* ruling is rendered, again helping to resolve the case more quickly than would otherwise be possible.

D. AFTER FACT AND EXPERT DISCOVERY IS COMPLETED

Once the parties have completed both fact and expert discovery, their knowledge of the relevant facts, the appropriate witnesses, expert opinions, and case strategy increases dramatically. At this stage, the parties should have a full understanding of the strengths and weaknesses of their respective positions. For example, after the prior art and other invalidity evidence have been exchanged through discovery, expert reports, and testimony, the patent holder should be fully informed about the invalidity issues facing the asserted patents. Likewise, the accused infringer can fully assess its noninfringement positions after its fact witnesses have been deposed and the parties have completed expert discovery. In addition, the conclusion of discovery is usually the event which triggers the parties' consideration and filing of respective summary judgment motions. These dispositive motions could significantly impact the litigation by (i) narrowing the issues for trial, (ii) invalidating some or all of the asserted patents, (iii) holding that the asserted patents are infringed, or (iv) dismissing the counterclaims asserted by the alleged infringer.

For the above reasons, this stage of the litigation presents an opportune time for scheduling the mediation if the parties have not done so earlier, or to schedule a follow-on mediation session if a prior one was not successful in settling the case. Although the parties are likely to have expended

⁷ A 2010 study found that the Federal Circuit's rate of reversal for U.S. district court claim construction rulings was 33%, in contrast to the reversal rate for U.S. district court rulings in all areas of civil litigation, which ranged from 7% to 18%. See Ted Sichelman, *Are Appeals at the Federal Circuit A Coin Flip*, PATENTLY-O (Apr. 9, 2010), <https://patentlyo.com/patent/2010/04/are-appeals-at-the-federal-circuit-a-coin-flip.html>.

⁸ *Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015) (holding that when reviewing a district court's resolution of subsidiary factual matters made in the course of the district court's construction of a patent claim, the Federal Circuit must apply a "clear error," not a *de novo*, standard of review.) As a result of the *Teva* case, litigants may begin to increase their reliance on extrinsic, factual evidence for claim construction at the district court level, leading to increased use of expensive expert testimony and other forms of extrinsic evidence. This, in turn, may also make pre-*Markman* mediation that much more attractive.

substantial amounts on legal fees and costs, including expert expenses, at this stage, there are several motivating factors for resolution of the case. From the patent holder's perspective, the potential risks that the asserted claims (or a significant portion of the patent portfolio) will be invalidated or that the court will issue a summary judgment of noninfringement are significant, especially if the patentee is or will be asserting the patents against other alleged infringers. Likewise, the alleged infringer may want to avoid the time and cost of bringing its witnesses to trial and the risk of losing a case that may result in a large damages verdict and possibly a permanent injunction that could have a devastating impact on its business. Both parties also need to consider the substantial additional costs of trial, posttrial motions, and appeal. The factual record established through discovery and the parties' assessment of the above risks often facilitate effective resolutions at the end of the discovery period and make a successful mediation concluding with an amicable resolution more likely.

E. BEFORE OR AFTER USPTO FILINGS

Best Practice 2 – Mediation should be considered immediately before or after initiation of proceedings before the USPTO challenging validity of asserted claims.

The America Invents Act has had a substantial impact on the settlement of patent disputes and on the number of patents that have been invalidated.⁹ The filings of petitions for *inter partes* review (IPR) to challenge validity before the Patent Trial and Appeal (PTAB) in the USPTO have dramatically increased in the past couple of years. For example, as of February 28, 2017, the PTAB had received over 5,950 IPR petitions.¹⁰ Almost 50% of those petitions filed that have reached a final disposition have been resolved through settlement or dismissal prior to trial.¹¹ Of the remaining roughly 1000 petitions that have been scheduled for trial, 35% have been settled or dismissed during trial.¹² A large majority of the petitions which have gone to trial have resulted in the invalidation of all of the asserted patent claims.¹³ Specifically, in 67% of the IPR cases in which the PTAB has rendered a written decision, it has found all of the asserted claims to be unpatentable.¹⁴ These decisions by the PTAB appear to be given substantial deference by the Federal Circuit.¹⁵ Although the statistics for *ex parte* reexaminations are not as unfavorable to the patent holders as those for IPRs, this form of review of the validity of patents by the USPTO also carries significant risks for patent holders.

In light of the above statistics, a patent holder is well advised to be receptive to commencing mediation before a threatened IPR is filed or after the filing of an IPR to avoid the substantial risk that its patents will be invalidated. A mediation session can be scheduled after the IPR petition has

⁹ H.R. 6621, 112th Cong. (2011).

¹⁰ UNITED STATES PATENT AND TRADEMARK OFFICE, PATENT AND TRIAL APPEAL BOARD STATISTICS 2/28/2017, at 2, available at https://www.uspto.gov/sites/default/files/documents/aia_statistics_february2017.pdf.

¹¹ *Id.* at 10

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ The first and only reversal of a PTAB decision cancelling patent claims was recently issued by the Federal Circuit in *Straight Path IP Group Inc. v. Sipnet EU S.R.O.*, 2015 U.S. App. LEXIS 20477 (Fed. Cir. Nov. 25, 2015).

been filed, prior to trial, or even during the trial itself. The PTAB strongly encourages alternative dispute resolution (ADR) and sends a notice to this effect to all parties in IPRs and other post-grant proceedings. Even if the accused infringer's IPR petition is granted, giving the accused infringer at least a short-term tactical advantage, the accused infringer should seriously consider mediation while the IPR is pending. Although the filing of an IPR may result in a stay of a parallel district court action, especially after the petition is granted, some courts do not always issue stays in these circumstances.¹⁶ Therefore, an accused infringer is still at risk that the district court proceedings will continue and the court will issue a claim construction order or make findings of validity and infringement prior to a decision in the IPR.

F. AFTER A DECISION BY THE COURT ON A MOTION FOR SUMMARY JUDGMENT

Summary judgment rulings tend to take place in patent cases after all fact and expert discovery is completed. Positions steadfastly held by parties regarding issues ranging from validity to damages may be resolved by summary judgment in ways that materially impact the perceived value of the claims remaining for resolution at trial. Even if mediation has been tried unsuccessfully earlier in the case, it should be considered again following a summary judgment decision.

As a practical matter, the timing of a summary judgment decision in relation to the trial date may make it difficult to schedule a mediation on short notice, particularly if the parties have not previously engaged in mediation or selected a mediator. However, if the parties have commenced the mediation process earlier in the case, as recommended in this Chapter, they can schedule a follow-on mediation session quickly by agreement and with the cooperation of the mediator.

Even if the time for conducting a mediation prior to trial is short, the opportunity to resolve a case by this method following a summary judgment ruling should not be squandered. If the summary judgment ruling dislodges firmly held positions by the parties, the likelihood of a successful mediation is substantially increased.

G. THE EXISTENCE OF A LOOMING TRIAL DATE

There is nothing like a looming trial date to focus one's attention on the strengths and weaknesses of your case. Many settlements happen on the eve of a firm trial date for a reason. The parties have all of the information (discovery and most or all pretrial rulings) they are going to have about the relative merits of their claims and are in the best position to assess the likelihood of success. While direct negotiation may produce a settlement, an experienced mediator will be able to use the impending trial to maximize the chances for a resolution. If the parties have already engaged in one or more mediation sessions with a mediator who has their confidence, using the same mediator again has obvious advantages.

¹⁶ E.g., between September 2012 and July 2015, the Eastern District of Texas granted only 25% of motions to stay. *Motions to Stay District Court Cases Pending Post-Grant Proceedings*, DOCKET REPORT (Aug. 24, 2014), <http://docketreport.blogspot.com/2015/08/motions-to-stay-district-court-cases.html>.

IV. Patent Mediator Selection

A. PATENT MEDIATOR QUALIFICATIONS

Best Practice 3 – Mediators must be experienced in patent law and litigation and should have formal mediation training.

Patent infringement disputes require a mediator with a unique set of skills. The probability of a successful mediation is increased when the mediator is appropriately qualified to mediate a patent infringement dispute. In this section, we will address the minimum credentials of a qualified patent mediator.

A patent mediator must have a deep understanding of substantive patent law and substantial experience with the unique aspects of patent prosecution and patent litigation procedure. General mediators, without patent law and litigation experience, may not be able to effectively conduct mediation of a patent case. Many patent litigators may avoid mediation because of unsatisfactory experiences with general mediators who do not sufficiently understand patent law or procedures. Indeed, many general mediators recognize that patent mediation is the one area of law where their extensive mediation experience cannot offset their lack of patent law and litigation knowledge. In addition, although patent mediators do not need specific technical expertise, they should have the experience and training to be able to understand subject matter involving complex science, technology, and engineering issues.

1. Formal Mediation Training and Experience

While there are exceptions to every rule, a patent mediator should have formal mediation training. Most formal mediation training programs generally have a lecture and written materials component combined with a significant simulation or “clinical” component. Some states which regulate mediators either generally or to qualify for appointment to judicial mediation panels have a training requirement of a minimum of thirty (30) hours. The Working Group recommends that a patent mediator complete such a formal mediation training course, with at least thirty (30) hours of training including a significant clinical component, coupled with the issuance of a certificate of completion.

Federal judges with alternative settlement training or experience presiding over settlement conferences may be exempt from such a formal mediation training requirement, although many retired federal judges choose to obtain the benefits of formal mediation training. However, other than long serving mediators with substantial experience facilitating mediation settlements, even the most seasoned patent litigator or patent prosecutor should not attempt to mediate patent disputes without having completed the recommended formal mediation training. Patent litigation or patent law experts without formal mediation training may do more harm than good when they attempt to mediate. This usually results from the untrained patent expert engaging in “here’s what will happen at trial” speculation that ends up alienating one party or emboldening the other party. Another problem with experienced patent litigators without mediation training is the tendency to be too argumentative with a party in private caucus, an approach that only serves to make the party more defensive, guarded, and anxious—emotions that are not conducive to facilitating settlement. Thus, borrowing from the field of medicine, patent mediators must be scrupulously faithful to the Hippocratic Oath: “First, do no harm.”

2. Patent Law and Litigation Experience

A non-judicial patent mediator should have at least ten to fifteen years of experience in patent law, with a significant amount of patent litigation experience during that period. This experience level is consistent with the neutral experience requirements of other organizations such as the American Arbitration Association, the International Institute for Conflict Prevention and Resolution (CPR), and the International Trademark Association. The main reason for this requirement is that the patent mediator must, above all else, gain the trust and respect of the litigants and their counsel. This often means convincing experienced patent litigators and technology subject matter experts and client representatives that the patent mediator understands the technology, the applicable patent law, and the patent litigation procedural issues that may impact the outcome of the case. If the mediator does not have substantial patent law experience, there is a risk that lead patent litigation counsel and the client's technology experts will simply not recognize the patent mediator as being sufficiently authoritative to command the respect necessary to facilitate settlement.

While there are exceptions, even a very experienced patent prosecution attorney who does not have significant patent litigation experience is not an optimal candidate for conducting a patent mediation. In order to understand all of the issues in the pending case, a patent mediator needs to be able to step into the shoes of each party's litigation counsel and fully understand his or her perspective. Consequently, the patent mediator must have both patent law knowledge and significant patent litigation experience. There may nevertheless be circumstances in which a patent mediator may wish to consult with an experienced patent prosecution attorney who is conversant with the technology at issue, such as when an *inter partes* review or post-grant review petition is pending, or when an *ex parte* reexamination has been filed. Patent prosecutors can sometimes have greater insight into how Administrative Patent Judges or patent examiners may view a validity challenge.

The number of patent mediations or other types of mediations a candidate for mediator has previously conducted should not be determinative factors in the selection process. While some dispute resolution providers might want a mediator to have completed a certain number of mediations, the Working Group believes that the quantity of mediations is not as material as patent litigation experience and formal mediation training. Some effective patent mediators spend most of their time practicing law and do not engage in a substantial number of mediations in any given period of time.

3. Ability to Understand Patent Subject Matter through Experience or Tutorial

Best Practice 4 – A patent mediator should have the ability to understand the technology or “art” of the asserted patents, but need not be a subject matter expert.

While there is no unanimous consensus, the Working Group acknowledges that familiarity and experience with specific technology subject matter may be helpful in certain complicated patent disputes such as those involving biotechnology and pharma, or complex computer software/hardware. However, experienced patent litigators often handle cases across multiple technologies and are quick studies when it comes to novel technological areas. Accordingly, the ability of a patent mediator to learn the underlying art quickly is the most important prerequisite. Tutorials and the assistance of neutral consultants can help to educate a patent mediator who does not have the specific subject matter expertise.

The Working Group recognizes that in some cases, parties or counsel may want the patent mediator to be registered to practice before the USPTO. This appears to reflect personal and professional biases rather than any objective need. Passing the patent bar exam does serve as evidence that the patent mediator has undergone rigorous study and testing with respect to patent law and patent office procedure. Although a USPTO bar registration number may be helpful, the Working Group does not believe it should be a mandatory qualification to be a patent mediator.

4. Judicial Experience and Other Exceptions

Retired federal judges who have presided over patent infringement cases and settlement conferences may have sufficient experience to become effective patent mediators. Indeed, participants in the 2012 CPR Patent Mediation Task Force study agreed that former judges can be effective mediators in patent cases if they have mediation training and experience.¹⁷ A retired federal judge may add an extra layer of credibility to the mediation process, which makes clients more comfortable, and may be able to predict the reactions of jurors at trial, a perspective which is very helpful. 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. Retired judges should inform the parties at the outset (i.e., in pre-mediation conferences and the joint session of the mediation) that they will not act as decision makers and emphasize that their role is solely to facilitate the parties' own negotiations.

Depending on the case, there may be other exceptions to the patent mediator qualifications as set forth above. For example, if the parties agree on liability and validity issues but are at an impasse regarding a reasonable royalty, a patent mediator who is an experienced damages expert may be appropriate. Alternatively, an attorney or retired judge patent mediator could retain a damages expert as a mediator's consultant to assist in the mediation. Finally, there may be experienced patent mediators without all of the recommended credentials described above who should be deemed to be "grandfathered" as qualified patent mediators as a result of their prior successful patent mediation experiences.

B. PATENT MEDIATOR DISCLOSURES

Adequate disclosures by the mediator are essential in all mediations. Disclosures are especially important in patent cases, where the mediator may gain access to particularly confidential and sensitive information.

1. Qualifications, Experience, Costs, Prior Relationships, and Any Information that may Affect Impartiality

At the time the parties indicate an interest in retention, patent mediators should disclose a description of their patent law and litigation experience, technology-related subject matter expertise or ability to learn and understand the technology, and, if requested, formal training and continuing mediation education. In addition, patent mediators should disclose any material fact that may impact

¹⁷ INTERNATIONAL INSTITUTE FOR CONFLICT PREVENTION & RESOLUTION, REPORT OF THE CPR PATENT MEDIATION TASK FORCE: EFFECTIVE PRACTICES PROTOCOL (2012).

a party's perception of their impartiality, similar to disclosures that arbitrators are required to make in arbitration proceedings.¹⁸

Mediators should make full disclosure of any known facts, circumstances, or relationships they have with or concerning the parties or their counsel (including the law firms.) Disclosure of such information promotes the parties' confidence in the neutrality of the mediator, which in turn encourages them to disclose their confidences more fully. This disclosure would include whether the mediator or mediator's firm is or has engaged in any representations involving the same technology subject matter, as there is no effective way in most law firms to perform an automated conflict check for such information. The conflict disclosure system is largely self-policing. In private mediations, the parties must agree on the mediator, and in court-ordered mediation, an objection by a party to a mediator will likely be honored. Because "parties are encouraged to share confidential information with mediators," the Federal Circuit has stated that public confidence may be undermined somewhat where the court is unable to put "greater teeth in the mediators' disclosure obligations."¹⁹ The court explained that "[b]ecause the parties arguably have a more intimate relationship with mediators than with judges, it is critical that mediators not project any reasonable hint of bias or partiality."²⁰ The best way to avoid any appearance of partiality is full and complete disclosure and transparency.

2. Patent Mediation Procedures and Expectations

As early as practicable, the patent mediator should schedule a telephonic preliminary conference to discuss the fee arrangement and the applicable mediation procedures. Examples of mediation procedures to be discussed include: (i) mediation style, (ii) how the in-person mediation will be conducted, such as the length of time, the location, the date, the agenda, and whether and when any joint sessions will take place, (iii) required pre-mediation submissions such as mediation briefs and any case filings, and (iv) the rules of confidentiality the patent mediator will observe (i.e., whether everything said in private caucus may be disclosed to the opposing party unless expressly instructed not to, or whether everything said in private caucus will be confidential unless expressly instructed to disclose it to the opposing party). In addition, the patent mediator should discuss the terms of the patent mediator's engagement agreement, the terms of any mediation agreement that the parties will be expected to sign prior to the mediation, and any information the parties are expected to exchange prior to the mediation.

¹⁸ Such disclosures of facts and circumstances relating to the perception of impartiality may be imposed by court rules in some jurisdictions. For example, neutrals practicing in California state courts are obligated to disclose information indicating potential bias or conflict across a fairly wide spectrum of categories in accordance with California Code of Civil Procedure § 1281.9 and California Rule of Court 3.855. Similarly, the Central District of California in its local rules makes specific reference to a number of ethics rules which a potential mediator must consider before taking on an engagement in a court-sponsored mediation program. *See* United States District Court for the Central District of California Local Rules of Court General Order 11-10.

¹⁹ *CEATS, Inc. v. Continental Airlines, Inc.*, 755 F.3d 1356, 1365 (Fed. Cir. 2014) (Although the court affirmed denial of Rule 60 motion seeking to overturn final judgment of patent invalidity, which motion was based on alleged relationship between mediator and some of the accused infringers that purportedly led to improper disclosure of patentee's confidential information, the court found that the mediator's failure to reveal reasonably known actual and potential conflicts "could be seen as raising a question about the mediator's impartiality.").

²⁰ *Id.*, 755 F.3d at 1362.

3. How the Patent Mediator Will Handle Confidential Information

Patent mediations may involve especially sensitive confidential information. How the accused product or process operates may both be a closely guarded trade secret and decisive on the key issue of infringement. It may be necessary to disclose sensitive proprietary information to the mediator, and perhaps opposing counsel, during the mediation process to maximize the chances of success. It is therefore imperative that all participants in the mediation understand the rules regarding treatment of confidential information.

In mediation, there are two layers of confidentiality. First, as discussed above, no mediation communications should be revealed to third parties by any participant in the mediation. That is, what happens in the mediation, stays within the mediation. Second, information revealed by one party in confidence to the mediator should not be revealed to any other party in the mediation. The mediator's ability to gain this kind of confidence—necessary to provide insight into the underlying interests of both sides—lies at the heart of the mediator's ability to facilitate a settlement without betraying that trust and confidence.

It is vital that all parties understand and agree upon the mediator's ground rules for handling each party's confidential information revealed in a caucus. Some mediators tell the parties that all information revealed in a caucus will be shared with other parties—except anything a party expressly and explicitly asks not to be disclosed. Other mediators flip the presumption: anything said in a caucus stays in the caucus unless the mediator receives express permission to disclose it. Either way, clarity is crucial. Inadvertently breaching a party's confidence through misunderstanding may not only jeopardize any possible settlement, it may leave the parties worse off than they were when the mediation began.

Mediators typically use engagement letters spelling out, among other things, their practices and procedures for handling confidential information. Some mediators stipulate that unless otherwise requested, all notes and mediation documents will be destroyed 30 days (or some other period) after conclusion of the mediation. Other mediators stipulate that the documents will be returned or destroyed on request. If they are not informed by the mediator, the parties should inquire about this issue and make appropriate requests of the mediator to protect their interests.

Mediator engagement letters may also contain the ground rules to be agreed upon by the parties, counsel, and other mediation participants with respect to mediation confidentiality and mediation privilege precluding use and admissibility of confidential information disclosed in mediation. The topic of confidentiality and privilege will be more fully addressed below.

When the mediator is also a practicing lawyer, there may be additional confidentiality concerns. First, a large law firm may represent actual or potential competitors of a party to the mediation. The interests of the client-competitor could be affected by the outcome of the mediation. This relationship may not be revealed by a routine conflict check using the names of the parties in the mediation. Second, there is a possibility of a subject matter conflict. A partner in another office could be prosecuting a patent on technology closely related to that at issue in the mediation. Finally, these difficult issues can be exacerbated by the desire to use mediation as a continuing process. These types of conflicts can be raised at any time by new clients and new matters requiring further disclosures to the parties in mediation. While it is not possible to anticipate in advance all of the confidentiality/technology issues that might create conflict issues during a mediation, it is important

for the mediator and the parties to be aware of the issue, and to the extent possible, establish an agreed-upon protocol for handling potential conflicts at the outset of the engagement.

4. Mediator Communications with the Court

Mediators should normally have no substantive communication about the case with the judge assigned to make any merits adjudication(s). Courts often expressly prohibit such communication by local rule. Conversely, mediators on court-appointed mediation panels are often required to communicate with the court and even make court filings in the case docket regarding mediation session scheduling and whether or not the mediation has successfully resulted in settlement. Some courts have one or more judges other than the trial judge specifically assigned to handle any issues that may arise during a court-sponsored ADR proceeding. In all events, mediators should disclose to the parties their practice regarding the issue.

As discussed below, the assurance of confidentiality is important to the success of the mediation process. It is preferable that the mediator can assure the parties that nothing beyond the fact that a mediation has been conducted, and whether or not a settlement was achieved, will be reported to the trial court.

V. Mediation Confidentiality and Privilege

A. CONFIDENTIALITY OF MEDIATION COMMUNICATIONS

The assurance of confidentiality of communications in mediation is essential to the success and integrity of the mediation process. Knowing that whatever is said or done in mediation (including preliminary and follow-up communications and written statements) will remain confidential allows parties to confide to the mediator more freely. By gaining insight into the parties' true motives and objectives, the mediator may effectively explore potential common ground and possible resolutions without betraying confidences. Confidentiality can also protect the mediation process from being misused solely as a discovery tool.²¹

It is helpful to address terminology at the outset. "Mediation confidentiality" refers to the obligation of mediation participants to refrain from disclosing or using statements and information communicated in a mediation outside of the mediation. The source of this confidentiality obligation may be (i) statutory, (ii) court rule, or (iii) contractual (as in a mediation agreement or a mediator's engagement agreement).²²

"Mediation privilege," which is analogous to but often broader than Federal Rule of Evidence 408, provides that communications or other disclosures in mediation are privileged and not discoverable or admissible in any proceeding. Whether a mediation privilege applies to a particular mediation generally depends upon whether there is a statute, controlling court opinion, or local rule in the jurisdiction whose law applies to the mediation. If a mediation privilege applies, mediation communications are protected from compelled disclosure and are inadmissible. In the absence of agreement of the parties, if the applicable jurisdiction does not have controlling legal authority mandating mediation privilege, its applicability will be uncertain.

This distinction between mediation confidentiality and privilege is often blurred in practice. Best practices for clarifying these important concepts and removing any uncertainty as to if and how they will apply to the patent mediation are set forth below.

²¹ In re Anonymous, 283 F.3d 627, 636 (4th Cir. 2002) ("[T]he assurance of confidentiality is essential to the integrity and success of the Court's mediation program, in that confidentiality encourages candor between the parties and on the part of the mediator, and confidentiality serves to protect the mediation program from being used as a discovery tool for creative attorneys.").

²² The parties to a mediation can proscribe by contract future use of the information learned by the respective mediating parties. Contractual commitments, however, cannot stop efforts by third parties to discover what happened in a mediation. There may be confidentiality or privilege protections that attach to that prior mediation by operation of state or federal law, and those are not subject to any contractual arrangement between the parties.

Best Practice 5 – At the outset of the mediation, all participants in the mediation should enter into a written agreement providing for strict confidentiality, nondisclosure, and inadmissibility of all mediation communications, and, where appropriate, the parties should provide in their stipulated protective order for protection of mediation confidentiality.

Beginning with the initiation of the mediation process, all communications of any kind related to the mediation should be protected from later discovery, by court order or agreement of the parties, and should be inadmissible in any future proceedings. It is common for the parties to sign standard form mediation confidentiality agreements, which often expressly or impliedly protect mediation confidentiality. Preferably, the court order or the stipulated protective order should expressly include confidentiality protection for mediation communications at the highest appropriate level of “Confidentiality” under the protections of the order, with the exception that at least one party representative with settlement authority may have to receive disclosure of certain otherwise “Attorneys’ Eyes Only” information in order to induce settlement. It is worth noting that the content of these agreements may not always receive the attention they deserve. The parties know better about their particular circumstances and how they might be impacted by the terms of a mediation confidentiality agreement than the mediator. Of particular importance in patent cases, the parties should consider whether they wish to carve out any exceptions to the confidentiality coverage.²³

While many local court rules provide for such confidentiality protections, there is some uncertainty about their efficacy.²⁴ It is also unclear whether or not there is a federal common law mediation privilege, and district court decisions are mixed on the issue.²⁵ The parties should therefore consider

²³ See *infra* Section V.B. (Exceptions to Mediation Confidentiality and Privilege are Narrow).

²⁴ See *Facebook, Inc. v. Pacific Northwest Software, Inc.*, 640 F.3d 1034, 1040–41 (9th Cir. 2011) (lower court read local rule as creating a “privilege” for “the parties’ negotiations in their mediation;” in dicta the Ninth Circuit clarified: “A local rule, like any court order, can impose a duty of confidentiality as to any aspect of litigation, including mediation. But privileges are created by federal common law.”) (citations omitted).

²⁵ *In re TFT-LCD (Flat Panel) Antitrust Litig.*, ___ F.3d ___, No. 14-15916, 2016 WL 4547357 (9th Cir. Sept. 1, 2016), is the latest Circuit court decision on the subject. There the Ninth Circuit held that California state privilege law does not apply to the admissibility of the documentation of a settlement of federal antitrust and related state law claims; instead, the federal common law of privilege applies. *Id.* at *3. Under Federal Rule of Evidence 501, “in a civil case, state law governs privilege regarding a claim or defense for which state law supplies the rule of decision;” but “where the same evidence relates to both federal and state law claims” “federal privilege law governs.” *Id.* The Ninth Circuit apparently assumes federal common law differs from California law, but provided no further explanation as to how.

The same issue has produced conflicting results in prior district court decisions. For example, two decisions from the Central District of California offered differing views on the issue. *Compare* *Folb v. Motion Picture Indus. Pension & Health Plans*, 16 F. Supp. 2d 1164 (C.D. Cal. 1998), *aff’d*, 216 F.3d 1082 (9th Cir. 2000) (holding that “it is appropriate, in light of reason and experience, to adopt a federal mediation privilege applicable to all communications made in conjunction with a formal mediation”), *with* *Molina v. Lexmark Int’l, Inc.*, 2008 U.S. Dist. LEXIS 83014; 2008 WL 4447678, at *9 (C.D. Cal. Sept. 30, 2008) (“The existence of a federal common law mediation privilege is not nearly as well established as [the defendant] suggests it is. Both the Ninth and the Fourth Circuits have expressly declined to consider whether such a privilege exists,” citing *Babasa v. Lenscrafters, Inc.*, 498 F.3d 972, 975 n.1 (9th Cir. 2007) (declining to consider whether a federal mediation privilege exists)); *also compare with In re Anonymous*, 283 F.3d 627, 639 (4th Cir. 2002) (same).

The *Folb* decision appears to have been followed by the majority of district court decisions addressing the issue. See, e.g., *Microsoft Corp. v. Suncrest Enterprise*, 2006 WL 929257, at *2 (N.D. Cal. Jan. 6, 2006) (“most of the deposition

whether to specify if a contractually defined confidentiality protection applies to the mediation process. Many mediators or their ADR provider organizations require the use of standard form confidentiality agreements as part of the paperwork to be completed during the engagement process. These agreements may provide for robust mediation confidentiality protections of all mediation communications, for example, requiring that the parties agree not to later try and subpoena or otherwise compel discovery of such communications.

Best Practice 6 – Those district courts that provide that the parties should participate in mediation should consider providing by rule for the strict confidentiality of all mediation communications.

As noted, while a federal common law mediation privilege might be desirable, there is judicial disagreement about whether such a privilege exists. The written confidentiality agreement should consequently be tailored in light of any applicable statutory or local rule provisions and to meet the needs of local practice. Some local court rules provide for all-encompassing confidentiality and privilege: Anything said or done in mediation is not discoverable or admissible for any purpose in the trial on the merits of the case (unless by agreement of all concerned, including the mediator).²⁶ Many state statutes have similarly broad protections, generally protecting mediation communications as “privileged.”²⁷ Local rules or practice may also promote or require the use of a mediation confidentiality and privilege agreement. And courts may include a standard form agreement to be used in court-sponsored mediation.

Best Practice 7 – Protective orders used in patent cases should address the protection of mediation communications and whether or not there should be any permitted use or limited disclosure of any confidential information in a mediation.

As explained above, it is preferable for the parties to a mediation to obtain a court order (either a mediation-specific order or as part of the general protective order) that provides for specific protection of the confidentiality of and privilege for mediation communications, spelling out any agreed exceptions.

questions at issue seek information pertaining to parties’ conversations with the mediator and are, therefore, protected”); *Dibel v. Jenny Craig, Inc.*, 2007 WL 2220987, at *3 (S.D. Cal. Aug. 1, 2007) (“the federal mediation privilege extends to communications in preparation for and during the course of mediation”); *In re RDM Sports Group, Inc.*, 277 B.R. 415, 430–31 (Bankr. N.D. Ga. 2002) (holding that the federal mediation privilege protects mediation documents from disclosure to third parties); and *Sheldone v. Penn. Turnpike Comm’n.*, 104 F. Supp. 2d 511, 512 (W.D. Pa. 2000) (same).

²⁶ N.D. Cal. ADR Local Rule 6-12(a), for example, requires all mediation participants to treat as “confidential information” the contents of mediation statements and “anything that happened or was said, any position taken and any view of the merits of the case expressed by any participant in connection with the mediation.”

²⁷ The Uniform Mediation Act (UMA) (2003), which has been adopted by eleven states and the District of Columbia, is typical. It provides in Section 4 that, subject to narrow, enumerated exceptions, “a mediation communication is privileged . . . and is not subject to discovery or admissible in evidence.” The UMA provides for exceptions to confidentiality where the mediation communication is “sought or offered to prove or disprove a claim or complaint of professional misconduct or malpractice filed against a mediator;” and where “sought or offered to prove or disprove a claim or complaint of professional misconduct or malpractice filed against a mediation party, nonparty participant, or representative of a party based on conduct occurring during a mediation.”

Litigants in patent cases spend considerable time negotiating over the terms of agreed protective orders. Courts with heavy patent dockets often have form protective orders that can serve as a starting point and may establish default provisions. Nondisclosure agreements (NDAs) and other private agreements often have similarly strict confidentiality protections. It would be helpful to list in the court forms and in generic NDAs what disclosures are to be permitted in mediation as enumerated exceptions (e.g., compliance with subpoenas or other court orders) to confidentiality protections. This will avoid possible disputes about what may or may not be disclosed to the mediator or the opposing party, and promote information exchange when consistent with the parties' desires.

B. EXCEPTIONS TO MEDIATION CONFIDENTIALITY AND PRIVILEGE ARE NARROW

A recurring scenario testing the bounds of mediation confidentiality is where an agreement is reached during mediation and some dispute later arises about its effectiveness or content. This may occur when the parties fail to adequately document their settlement and one side contends there was never a true meeting of the minds on material terms. Alternatively, there may be no disagreement about the existence of a binding agreement, but its interpretation may be disputed. Either way, the mediator could be seen as having knowledge relevant to resolving the dispute. Other times, the mediator's knowledge may be seen as relevant to determining the appropriate amount of attorneys' fees. Regardless of its relevance, testimony by the mediator should not be allowed (unless required by statute or court rule). Allowing mediator testimony would undermine trust in the mediator's pledge to maintain confidentiality and neutrality and render mediation less effective as a settlement tool. The Working Group's consensus is that strict mediation confidentiality and mediation privilege can be important, and sometimes even essential, to the success of the process.

The mediation process can leave one or both parties dissatisfied. This can lead to claims by the parties that they were not well-represented by counsel. Alleged attorney malpractice can arise in patent mediation just as in other cases.²⁸ Before allowing any discovery of mediation communications, at least one federal appellate court has required a very significant showing of a special need for information that is not available from any other source.²⁹ The parties should consider adding a provision in their confidentiality agreement which includes privilege and prohibits the disclosure of privileged communications.³⁰

²⁸ *Wyers v. Greenberg Traurig* (D. Colo. Civil Action No. 12-cv-00750-WYD-CBS. June 13, 2014) (arising in part out of alleged malpractice committed during Federal Circuit Mediation).

²⁹ *In re Teligent, Inc.*, 640 F.3d 53, 57–58 (2d Cir. 2011) (holding, in a law firm malpractice action in which discovery was sought of “all mediation and settlement communications,” that “[a] party seeking disclosure of confidential mediation communications must demonstrate (1) a special need for the confidential material, (2) resulting unfairness from a lack of discovery, and (3) that the need for the evidence outweighs the interest in maintaining confidentiality”). Interpreting state statutory protections, the California Supreme Court has flatly refused to allow any discovery of mediation communications to prove malpractice under any circumstance, even if the result is to bar the claim. *Cassel v. Superior Court*, 51 Cal. 4th 113 (2011) (holding that Cal. Evid. Code § 1119 terms “must govern, even though they may compromise petitioner’s ability to prove his claim of legal malpractice”).

³⁰ *Facebook, Inc. v. Pacific Northwest Software, Inc.*, 640 F.3d 1034, 1041 (9th Cir. 2011) (enforcing a confidentiality agreement “which everyone signed before commencing the mediation,” to exclude evidence of mediation communications offered to support fraud or securities claims related to a settlement reached during mediation).

C. BALANCING THE NEED FOR DISCOVERY OF PRIOR SETTLEMENT TERMS WITH THE NEED FOR MEDIATION CONFIDENTIALITY AND PRIVILEGE

Best Practice 8 – Counsel should make the parties aware of the risk that under current law on patent damages, a court could find some mediation communications potentially relevant and order disclosure in a subsequent case asserting the same patent(s).

Patent cases can raise a special issue regarding a potential exception to mediation confidentiality and privilege: does the potential need for discovery on the issue of a reasonable royalty under *ResQNet.com*³¹ and its progeny justify a possible exception to mediation confidentiality and privilege? There, in dicta, the Federal Circuit “observe[d] as well that the most reliable license in th[e] record arose out of litigation.”³² Before *ResQNet.com*, such licenses were generally not thought to be reliable in the reasonable royalty determination because settlements are the product of compromise in litigation and may have occurred long after the date of the hypothetical negotiation. Currently, licenses entered as part of litigation settlements may be relevant. The mere fact that a settlement agreement was reached in mediation does not by itself protect the resulting license from discovery or make it inadmissible. More recently, the Federal Circuit held in *In re MSTG*³³ that “settlement negotiations related to reasonable royalties and damage[s] . . . [are] not protected by a settlement negotiation privilege.” The *MSTG* court did not decide “the extent to which evidence of settlement negotiations would be admissible under Rule 408,” and, after noting that mediation communications receive heightened protection, left “for another day the issue of what limits can appropriately be placed on discovery of settlement communications.”³⁴ There are differing views on the discoverability and admissibility of settlement negotiations.

Neither *ResQNET* nor *MSTG* involved a mediation. While it may be argued that settlement negotiations supervised by a neutral third party in mediation are less “arms-length” than those conducted outside the mediation process, there is also an argument that negotiations included in mediation communications in a patent case may be more substantive and “pure,” insofar as mediation reduces gamesmanship.³⁵ In the only decision the Working Group has located directly addressing the issue, the Northern District of California ruled “that a mediation privilege bars discovery into negotiations that arose in the context of mediation.”³⁶ The parties to a mediation

³¹ *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869–73 (Fed. Cir. 2010).

³² *Id.* at 872.

³³ *In re MSTG, Inc.*, 675 F.3d 1337, 1347 (Fed. Cir. 2012).

³⁴ *Id.* at 1347.

³⁵ “Arms’ length settlement negotiations are more clearly relevant than negotiations under the umbrella of court-ordered mediation during the press of litigation.” *U.S. Ethernet Innovations LLC v. Acer Inc.*, 2014 U.S. Dist. LEXIS 45682, at *18 (N.D. Cal. 2014). The expert opinion at issue in *MSTG* opined that the settlement/license amounts should be discounted by 75% because they were entered “before any substantive litigation rulings such as claims construction or summary judgment.” 675 F.3d at 1348. This in part opened the door to discovery of the settlement negotiations to test the expert’s conclusion.

³⁶ *Ethernet Innovations*, 2014 U.S. Dist. LEXIS 45682 (seeking discovery of settlement negotiations from several court-ordered mediations on the same patents that resulted in settlement/licenses). Although the court noted that one mediation was protected by the parties’ “express agreement and local court rule,” it concluded “that the mediation

should be aware of the risk that under the current state of the law on patent damages, a court could find certain of the communications in mediation potentially relevant and discoverable in a subsequent case asserting the same patent(s). If this ever does occur, the Working Group would support a trend toward discovery being limited to disclosures made from one party to the other party in the mediation. Eroding the strict confidentiality and privilege of party-to-mediator communications in private caucus not disclosed to the other party would undermine the mediator's efforts to facilitate settlement, because each party would be reluctant to share information candidly with the mediator as discussed below. Again, the parties should consider addressing this issue in their confidentiality agreement.

Best Practice 9 – Settlement communications between the mediator and one party only that are not disclosed to the other side should not be discoverable in a patent case.

Federal Rule of Evidence 408 provides some protection for settlement communications between parties. The Working Group believes that it would be a mistake to treat differently communications that reach another party on the subject of settlement just because they occur during a mediation. A contrary rule might encourage use of mediation as an artificial cloak to protect such communications. The consensus of WG10, however, is that *ex parte* communications made in confidence only to the mediator with the understanding that they will not be shared with the other party should always be protected from discovery and admissibility at trial—even if they would otherwise be relevant.

privilege protects against discovery for documents and information in [any] formal mediation.” *Id.* at *18, n.1. The court ordered production only of “emails and other communications that reflect the negotiations and that are not subject to the mediation privilege.”

VI. *Preparing for Patent Mediation*

The constant factor applicable to every patent mediation is the need for careful preparation. Without preparation, the considerable cost of participating in a mediation will be difficult to justify and the opportunity to terminate the litigation early will have been squandered.

Counsel's preparation for a patent mediation involves a number of factors: (i) assembling the necessary facts to support the arguments counsel intends to make; (ii) marshalling whatever legal research is appropriate to use in mediation; (iii) analyzing the damages claims in a realistic manner; (iv) obtaining client authority for the approach; and (v) finalizing both a goal for the mediation and a strategy for achieving that goal, including an exit strategy that will permit the parties to take a break and resume the mediation session at a later date.

For purposes of this set of best practices, the focus will be on the preparation necessary to present the legal and factual arguments to the mediator and in joint sessions (if held) with the opposing parties and their counsel.

A. **EARLY CASE ASSESSMENT**

Best Practice 10 – Before initiating mediation, the parties may wish to consider using early case assessment.

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 frequently an excellent tool to use in advance of commencing mediation. The process calls for a team working together in a specified time frame to: (i) gather the important facts and law relating to the dispute; (ii) identify the key business concerns; (iii) assess the risks and costs that the dispute poses for the company; and (iv) 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 strategic decisions.³⁷

B. **IDENTIFICATION OF INFORMATION/DISCOVERY NECESSARY TO ENABLE PARTIES TO EVALUATE SETTLEMENT PROPOSALS**

The first priority in terms of mediation preparation is to determine what legal and factual information will be necessary to support the arguments that a party intends to advance at the mediation and to counter the expected arguments from the opposing side. In order to implement this process, it may be necessary to seek assistance from the mediator well in advance of the mediation session to obtain an agreement on accelerated discovery that will facilitate mediation. Although the mediation process is cloaked in its own set of rules regarding confidentiality as

³⁷ “A typical decision tree used in litigation has two branches: ‘litigate’ and ‘settle.’ The ‘settle’ branch may reflect the other side’s most recent offer, or it may reflect the lawyer’s estimate of what the adverse party might accept in settlement. The ‘litigate’ branch is often an extended ‘chance tree’ the branches of which represent the different events that may transpire during litigation.” David P. Hoffer, *Decision Analysis as a Mediator’s Tool*, 1 HARV. NEGOT. L. REV. 114 (1996).

discussed herein, it may also be necessary to make sure that a protective order has been entered by the court in the case to avoid any concerns about disclosure. In addition, to promote an early mediation with accelerated information exchange, the protections of Federal Rule of Evidence 408 should be confirmed by the participants to the mediation.

1. Asserted Claims and Infringement Contentions

Getting a firm handle on what claims of the patent(s)-in-suit are being asserted against what products or methods offered by the defendant is an important prerequisite to settlement. While this agreement may not be binding for all purposes, the ability to frame the discussions at the mediation around specific claims and products is essential for a multitude of reasons including risk evaluation and damages calculation.

2. Invalidity Contentions

Similarly, it is important for the parties to understand what invalidity arguments are going to be advanced by the accused infringer and the prior art references supporting anticipation or obviousness contentions. In some jurisdictions such as the Eastern District of Texas, it is likely that the initial mediation will be held well after the disclosure of initial invalidity contentions. In other jurisdictions like the Northern District of California, the rules and timing may make it far less likely that invalidity contentions will have been disclosed by the date of an early mediation. The parties must nevertheless figure out a means of accommodating this issue in order to have a successful patent mediation.

3. Preliminary Claim Constructions and Extrinsic Evidence

The resolution of many patent cases rests on claim construction. Even if mediation is being conducted in a case where claim construction is deferred until late in the process (e.g., in connection with cross motions for summary adjudication), having a basic understanding of the parties' claim construction positions is crucial in getting a case resolved at mediation. Even if the parties agree in advance that the arguments on claim construction are preliminary and subject to change, the ability to understand and evaluate the risk factors associated with differing claim constructions will be an important part of the mediation process.

4. Early Assessment of Potential Damages

Best Practice 11 – The mediation process should include a realistic assessment of damages.

The goals of a mediation likely cannot be achieved unless both parties have a realistic sense of what remedies are at stake in the litigation. An assessment of monetary damages prior to the mediation can be facilitated in several ways, including, but not limited to, the exchange of damages contentions. Given the complexity of damages methodologies and analyses that currently exist in patent cases, and depending on how far the case has progressed at the time of mediation, it may be advisable to involve the parties' damages experts or consider including a neutral damages expert in the mediation process.

Exchanging damages contentions that set forth information such as sales and profitability data, relevant licenses and agreements, methodologies for calculating damages (including a reasonable

royalty), and positions regarding key damages considerations encourages the producing party to address damages in preparation for the mediation and provides the opposing party and the mediator with information to address damages considerations.³⁸ One or more issues, such as applicability of the *Panduit* and *Georgia Pacific* factors,³⁹ the entire market value rule, apportionment, available alternatives, design-around options, or the scope of relevant license agreements often have a major impact on realistic damages assessments. Even when these issues have been identified and addressed by the parties, there often is no determination of the outcome of these issues until shortly before, or during, trial. This results in uncertainty regarding the magnitude of damages and hinders informed decision-making and settlement. Although resolution of these issues prior to mediation is not necessary in all cases, in situations where differing positions regarding one or more key damages considerations creates a significant difference in the parties' assessments of the magnitude of realistic damages, the early identification and assessment of issues impacting damages may be a critical factor in conducting a successful mediation.

C. PRE-MEDIATION TELEPHONE CONFERENCE TOPICS

1. Pre-Mediation Telephone Conference and "Housekeeping" Details

Best Practice 12 – Pre-mediation conferences are essential to the mediation process.

Before an in-person mediation session takes place, a pre-mediation conference with the mediator and counsel, and in some cases the parties, is essential. Most of these conferences are held telephonically, although a face-to-face meeting should be considered. If the mediator does not require such a pre-mediation conference, the parties should request one. Pre-mediation conferences provide the mediator with an opportunity to learn about the dispute, explain the mediation process to the parties, and set the ground rules. They also enable the mediator to identify any personal or business issues that may pose obstacles to settlement. Depending on the case, it can be useful to have such conferences with either in-house counsel or the client, who can articulate any internal obstacles to potential settlement, thoughts on any alternative settlement structures that may be palatable, and any key non-monetary terms that are essential to the client. Although the mediation itself should be conducted with all parties' representatives having authority to settle and counsel physically present, pre-mediation conferences may take place a few weeks prior to the mediation by telephone, to facilitate participation by the appropriate party representatives.

At a minimum, the conference should discuss the following topics:

a. Mediation Obligations and Expectations including Confidentiality (and any exceptions thereto)

The mediator should make clear who should attend the mediation (especially the parties' representatives with authority to settle) and what expectations the mediator has regarding the

³⁸ See *WG9 Proposed Model Local Rule for Damages Contentions*, *supra* note 6.

³⁹ *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152 (6th Cir. 1978) (holding that to obtain lost sales, a patent owner must prove: (1) a demand for the patented product; (2) absence of acceptable substitutes that do not infringe; (3) capability to take advantage of the demand; and (4) the amount of profit he would have made); *Georgia-Pacific Corporation v. U.S. Plywood-Champion Papers Inc.*, 446 F.2d 295 (2d Cir. 1971).

conduct of the mediation and the format to be used. Party representatives should always include someone with decision-making authority who, at a minimum, is familiar with the key business issues driving damages considerations, such as sales of an accused product, licensing terms in other licenses, and the like. In cases involving larger stakes or important issues, it may be advantageous for the parties to bring more than one business executive with familiarity with the sales, marketing, and damages issues likely to drive the discussions; although, the mediator must always be sensitive to the costs that the mediation itself imposes on the parties. Having someone present who has flexibility in terms of settlement is often essential to the process working properly. Not all settlement issues that arise can be predicted in advance with accuracy. The pre-mediation conference is also a time to discuss these issues and secure agreement (usually confirmed in writing) around the issue of mediation confidentiality and mediation privilege, if they have not already been addressed in the mediator's engagement agreement.

b. Mediation Location and Schedule

Parties often believe that the mediation should be held in a neutral location so that neither party will have a real or imagined home-court advantage. On a more practical level, the location of the mediation will likely depend upon what is most convenient for the greatest number of participants. Mediation sessions can be held in any location which has enough conference rooms for each side to occupy during private caucuses. The mediation schedule may include deadlines for pre-mediation disclosures, as well as mediation briefing. Given the complexity of the issues in patent disputes, at least two days should be scheduled for the in-person mediation sessions; it is often unrealistic to complete a successful mediation session in one day. Also, party representatives should be informed that the scheduled days may last well into night, and a rigid flight itinerary should not prematurely terminate a mediation session that may be on the precipice of breaking through a seemingly insurmountable impasse.

c. Mediation Procedure

One preliminary procedural issue to be determined in advance of the mediation is the degree to which the parties will be placed into direct contact with each other during the course of the day. Some mediators prefer that the mediation session begin with the parties in a joint session, and opening statements being made for the benefit of the mediation attendees. Whether or not this is a good idea is case specific and has much to do with the level of animosity and disagreement that exists between the parties prior to the mediation. Such a joint session can in certain circumstances be beneficial in determining the points on which the parties agree as well as those where they do not. Certainly, in every instance counsel should take steps to avoid throwing fuel on the fire by making arguments that are sure to hurt more than help the parties reach common ground. Even if the mediator and counsel conclude that opening statements would not be helpful because the parties and counsel know each other's respective positions from the case filings and pre-mediation disclosures, some mediators prefer to have a joint session in which the mediator can be introduced to the attendees and explain to all the ground rules of the in-person mediation session. These ground rules should include how the mediator will handle *ex parte* disclosures in private caucus as more fully discussed above.

A closing joint session may be desirable for in-person mediation sessions. The purpose of a closing joint session is to establish points of agreement that may be taken off the table even where the case as a whole may not be resolved. If further in-person or telephonic mediation sessions are

contemplated, a timetable for such sessions should be discussed and established. Finally, the confidentiality of the process should be discussed once again in this closing session.

If a full (or partial) settlement agreement is reached, it should be documented and executed before the parties leave the mediation site. Failure to do so will undermine the value of the mediation to all participants. Given the complexities of settling patent cases, as well as the multitude of ways that a case may be settled, counsel should be encouraged by the mediator to bring to the in-person mediation session a proposed written settlement agreement and any supplemental documents that will be needed. Where possible, adversaries should be encouraged prior to the in-person mediation session to negotiate and draft as many acceptable settlement agreement terms as possible, leaving blanks or providing alternative language on topics upon which the parties cannot agree. This will increase the probability that a complete, enforceable settlement agreement may be signed by the parties prior to adjournment of the mediation session. If there is language in the settlement agreement upon which the lawyers cannot agree, the parties can consent to have the mediator act as an arbitrator for the limited purpose of resolving such disputes.

d. Mediation Briefs

The submission of mediation briefs setting forth the facts of the case and the positions of the parties are routinely required. However, there are differences among mediators regarding the nature and extent of the briefing.

i. Contents of Mediation Briefs

Agreement should be reached regarding what elements are required to be briefed and what length the brief should be. Most mediation briefs are left to the discretion of parties as to content, but some mediators include novel elements like an evaluation of strengths and weaknesses of the case. Almost all mediators require a good-faith settlement demand be set forth in writing before the mediation. Some mediators require parties to set forth their settlement positions for the mediator's eyes-only. Patent mediators will often want the briefs to include the parties' asserted claims and infringement contentions, invalidity contentions, and preliminary claim constructions and intrinsic and extrinsic evidence in support thereof. If possible, arguments in support of damages or injunctive relief from the patent holder will be helpful, as will counterarguments from the accused infringer.

Advocacy to be used in the mediation briefing is slightly different than advocacy in court settings especially if the brief is confidential and intended for the mediator's eyes only. Above all else, the briefing should be as candid as possible in the assessment of the case and the positions of the parties if the intended audience is the mediator alone. The extent to which a client's "bottom line" must be disclosed is a challenging issue for counsel. Most clients will be hesitant to agree to the expression of a definitive position on this issue without hearing from the other side first. As a result, counsel should be as firm as possible with the client on the issue of a "bottom line" if the mediator requests one, but should use judgment to determine how to express that position in a manner consistent with the client's wishes.

ii. Should Mediation Briefs be for Mediator's Eyes Only?

In addition to exchanging mediation briefs between the parties, many mediators encourage the exchange of mediation briefs for the mediator's eyes only. This allows for candor in apprising the

mediator of the positions of the party without disclosing those positions to the opposing party. The advantages of having a direct avenue of communication with the mediator through the mediation brief outweighs any perceived benefit or sense of satisfaction that might result from being in a position to tell the other side exactly what you think about their case. Absent unique circumstances, there would seem to be no reason to depart from the general practice of submitting confidential mediation briefs as a best practice. However, when a mediation commences early in the case, the parties and their counsel may benefit from exchanging mediation briefs addressing claims and defenses, in addition to submitting a supplemental mediator's eyes-only brief to communicate confidential issues and concerns to the mediator only.

iii. Degree of Candor and Honesty

Successful mediations are often the result of establishing credibility with the mediator. The way to establish credibility is through honesty and transparency combined with a total command of the facts and law applicable to the case. The lawyer who comes to a mediator with only a passing familiarity with the facts and circumstances of the case is going to be of little assistance to the mediator in resolving the case. Conversely, having an ability to counter arguments with both factual and legal positions that squarely address the point raised will be highly beneficial to the process and will be perceived by the mediator as a sign that the information from this source can be relied upon.

Preparation of the client in advance for this type of candid exchange with the mediator is critical. The process is not going to be a comfortable one for the client if it ends up exposing the weaknesses of the positions taken in the case. Counsel needs to explain that the benefits flowing from such an approach greatly outweigh the disadvantages. The only possible exception to this practice, as discussed above, is with regard to maintaining some degree of flexibility regarding the ultimate settlement position.

2. Direct Efforts between Counsel to Facilitate Information Exchange and Case Simplification in order to Increase Prospects for Settlement and Cost-Effective Case Disposition

Best Practice 13 – Counsel should cooperate to reach agreement on the early exchange of information and the simplification of issues as an aid to the mediation process.

The ability of the parties to aid the process of mediation through early information exchange and reaching agreements on issues in dispute is dependent on the willingness of the parties to engage in such cooperative efforts. A mediator can use the power of persuasion to attempt to bring about these exchanges and agreements, but at the end of the day the mediator is without the power to compel them. Counsel should take the time necessary to lay out the benefits of these proposals to any opposing counsel who expresses reluctance to approach the client with these ideas. This is a learning process for all concerned, and not all mediators or mediations will benefit equally from these procedures. Over time this should change. The ability to reach agreement on a patent litigation matter more quickly and efficiently through a well-planned mediation will ultimately dispel any concerns about the efficacy of the collaborative approach.

VII. *Patent Mediation Sessions*

A. HOW TO CONDUCT AND PARTICIPATE IN JOINT SESSIONS

Best Practice 14 – Opening statements should be used on a case-by-case basis.

Although most parties and counsel recognize the need for written mediation statements before the mediation begins, there is no clear consensus on 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.

There is a recent trend to avoid opening statements in patent mediations. Instead, an introductory joint session is conducted 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.

Opening statements allow the parties to try to convince the other side of the merits of their respective positions. Moreover, 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 hamper settlement negotiations. Opening statements allow the parties to "vent," a critical element of successful mediations. Allowing the parties to express themselves at the outset, even if time consuming, may lead them to proceed with the mediation in a more reasonable frame of mind, which may facilitate a settlement. The mediator can also question the parties in front of each other after the opening statements and use the information stated as a reference during later private caucus sessions.

Conversely, opening statements can poison the atmosphere of the mediation if the parties are particularly contentious and they merely echo litigation-driven positions. Posturing by litigators in opening statements is often counterproductive and makes compromise more difficult. Posturing also tends to lengthen the process and increase its expense. If either of the parties has not previously experienced aggressive litigation advocacy in the U.S. or comes from a country where differences in culture may have an impact, aggressive opening statements can also cause a party to lose face and become another obstacle to settlement. One approach to ameliorate these problems is to ask the mediator to present the opening statement. The mediator can explain the process and relevant issues (e.g., confidentiality) and can present a neutral description of the parties' positions without editorializing. A properly prepared opening statement by the mediator sets the tone for the

mediation process to follow; it should acknowledge the parties' differences and create a conciliatory atmosphere. If done properly, it can also assure the parties that the mediator understands the case.

B. HOW TO CONDUCT AND PARTICIPATE IN PRIVATE CAUCUSES

Private caucuses between the mediator and each of the parties are essential in patent mediation and are at the core of the process. The majority of time in a typical patent mediation is spent in these caucuses. In some cases, such as those in which the party representatives are not on good terms, the mediator may (and perhaps should) separate them during the process. Because caucuses are very time-consuming, the mediator should educate the parties about the need for flexibility in their time commitments. A productive way to use the time when the mediator caucuses with one party is to assign the other party "homework," such as preparing the outline of the settlement agreement. While privately caucusing with one party, the mediator should regularly report to the other party on the status of the caucus, as it is counterproductive to leave the excluded party in the dark for extended periods of time. The mediator should always present the parties' respective settlement positions to each other in the most positive light and should always try to present creative solutions to bridge the gaps between the parties.

It is critical that the mediator maintain the confidentiality of what he or she is told in private caucuses and not disclose confidential information to either side without their consent. Reporting the results of these caucuses requires the utmost discretion and tact. The mediator must avoid any value judgments concerning either side's position when he or she is reporting to the other side on the results of the caucus. It is also essential that the mediator accurately describe the parties' respective positions to each other; if either party believes that the mediator is not stating its position clearly and accurately, trust in the mediator—a cornerstone of the process—will be diminished or lost. Mediators should take care to avoid providing legal advice in any capacity to one or both parties. Even if a mediator provides an evaluation of a party's position, recommends a settlement figure, or advises on the outcome of potential litigation, the mediator should ensure that the parties understand that the mediator is not providing legal advice and is not acting as an attorney for any side.

Mediator evaluations must be dispensed with great caution, because telling a party "how the case will come out unfavorably to a party" can alienate that party and foster a perception of mediator bias that will result in an unsuccessful termination of the mediation. The mediator must be mindful of the psychological impact the mediator's evaluation might have on the party representatives (and counsel), as well as the backstory of the dispute. Patent disputes are often extremely emotionally charged, creating stresses well beyond the usual dollars and cents involved in commercial litigation. The patent mediator must recognize such situations and do whatever is necessary to let each side vent in private session in order to defuse the emotions as much as possible. Once that is done, the mediator can focus the parties on the main selling point of every mediation—that settlement is a far better alternative than allowing the case to go to a trial, where the parties would forfeit control over the resolution of the dispute to the court or jury.

C. USE OF A MEDIATOR'S PROPOSAL TO BREAK IMPASSE

One tool available to try to break an impasse in mediation is a proposal of settlement terms by the mediator. It can be done at the request of the parties or at the suggestion of the mediator. This

technique should only be used in certain circumstances and under certain conditions discussed below.

A mediator's proposal is most effective where mediation has significantly narrowed the gap between the parties' respective demands and offers, but no further progress is being made. It is not effective where the parties are orders of magnitude apart, and show no inclination to even approach a point in between. In many instances the inability to close the remaining gap is a result of the fact that one or both parties have come to the mediation with a floor or ceiling, and they do not have the authority to go below or above it without further authorization. The party representative at the mediation may not be comfortable recommending a higher or lower number than the one authorized without the consent of the absent decision maker(s). The mediator's proposal can serve as cover for the party representative to engender a further discussion back home without appearing to exhibit weakness.⁴⁰

The conditions on the proposal and its form are critical to its potential success. Experience with mediator proposals has shown that adherence to the following rules can sometimes help overcome impasses in patent mediations:

1. The proposal should be made only if both sides (all parties) agree to receive it.
2. The proposal should not include the mediator's reasons for making it. Lack of agreement with the reasons could result in a rejection that otherwise might not be made.
3. The proposal should not be characterized as a recommendation of what is "fair." Fairness is subjective. The goal is peace, which is objective. The proposal should be what the mediator believes both parties may accept as the price of peace.
4. The parties should be given ample time to consider the proposal before acceptance or rejection. The proposal will need to be discussed back home and given due consideration.
5. The proposal should include all the major terms the parties have been discussing, so that there is no need for further bargaining if it is accepted. For example, if the parties have been discussing a lump sum royalty for a license under the asserted patents and their families and for general releases, the proposal should recite those understandings. If there are several issues which have not been resolved, the proposal should list them separately. Even if not all are agreed to, there nevertheless may be a partial settlement.
6. On the deadline for acceptance or rejection, each party should just communicate to the mediator only a "yes" or "no" to the proposal, and not make other offers or demands.
7. If there is not a total settlement (i.e., all "yeses"), the parties will not be told the other party's response on the issues not resolved; and the mediator must take care not to disclose any information that might reveal indirectly another party's response.

⁴⁰ For an example where a mediator's proposal was used and analyzed, see *In re TFT-LCD (Flat Panel) Antitrust Litig.*, ___ F.3d ___, No. 14-15916, 2016 WL 4547357 (9th Cir. Sept. 1, 2016) (describing the "double blind" mediator's proposal procedure used by an experienced mediator in reaching apparent settlement agreement in antitrust case via a mediator's proposal).

Sometimes, even if the proposal is not accepted, it engenders further discussions between the parties which result in settlement.

D. CLOSING THE DEAL: GETTING PARTIES TO SIGN A MEDIATION SETTLEMENT TERM SHEET

Best Practice 15 – Drafts of the settlement agreement should be prepared prior to mediation and the terms of the settlement should be confirmed in writing by the parties and counsel before the mediation closes.

Counsel should have draft settlement papers prepared before mediation begins so that “wordsmithing” delays will not be an obstacle to a successful settlement agreement. For example, the drafting of boilerplate provisions relating to confidentiality, termination of the litigation, releases, choice of law, dispute resolution, etc., should not await the conclusion of the mediation, especially if the parties have provisions they routinely include in such agreements. These boilerplate provisions can take the form of a simple term sheet, which lays out non-monetary terms that the parties envision for a potential settlement. The mediator, at his or her discretion, can ask the parties for permission to exchange the term sheet if it will be useful to the process.⁴¹ Importantly, if the patent dispute is to be resolved by the granting of a license, the licensor should have its standard terms readily available for review by licensee’s counsel.

Assuming the mediation is successful and the terms of settlement have been generally agreed upon, the decision-makers and lawyers should not leave the mediation until an enforceable agreement has been signed by both parties. If it is necessary for the parties to draft a more detailed agreement after the mediation is concluded, the mediator may be appointed by the parties to resolve any disputes about the language of the agreement. To increase the likelihood of enforceability, it will usually be advisable for the parties to acknowledge that the terms of the agreement were reached with the benefit of the representation of counsel, and that those terms have been reviewed by and approved by the attorneys present at the mediation. The parties should consider including language stating: “While the parties contemplate that this document may be replaced by a more formal document, this document is a binding contract and agreement between the parties hereto.” Counsel may further wish to provide that the settlement agreement can be entered as a judgment on noticed motion.

Even in those instances where the mediation session does not resolve the case, there may be an opportunity to document areas of agreement between the parties so that any subsequent mediation will not require revisiting previously discussed topics in order to decide what agreements had been

⁴¹ In some jurisdictions, this practice will be necessary for a full resolution of the matter. California Evidence Code Section 1123 requires that certain language be present before an agreement can be admissible and therefore enforced outside the context of a mediation. Such language should include the following:

- The parties intend this agreement to be admissible, binding, and subject to disclosure as provided by Evidence Code Section 1123.
- This agreement is neither privileged nor inadmissible under Evidence Code Section 1119.
- This agreement is enforceable pursuant to Code of Civil Procedure Section 664.6.

achieved. In addition, the documentation of such matters prevents “buyer’s remorse” from taking place that would undermine the intentions of the mediation process.

E. FOLLOW-UP MEDIATION SESSIONS—TELEPHONIC AND IN-PERSON

Despite the best efforts of the parties, counsel, and the mediator, many initial mediation sessions conclude before the parties have reached a settlement agreement. There are several factors which contribute to this phenomenon. The parties may be too far apart in their respective positions; the parties may not have allocated sufficient time and effort to the mediation process; the participants may not have proposed a creative compromise which satisfies all parties; or a trial or other litigation event may be imminent and the parties want to focus on winning the case rather than settlement. Notwithstanding these potential barriers, many parties end up settling disputes within a few weeks or months after an unsuccessful mediation, either through direct communications between parties and their counsel or intervention by a neutral, such as a magistrate judge.

With the foregoing in mind, mediators should be proactive after an unsuccessful mediation session has concluded by reaching out to the parties and their counsel and trying to keep the settlement dialogue alive. The mediator can communicate with each of the parties separately, as if in caucus, and determine if they would like to continue the settlement effort. The mediator can also propose compromises or business solutions that may not have been considered during the mediation. Furthermore, the mediator can ask the parties if they would like him or her to make a mediator proposal, which each party can accept or reject without letting the other side know the party’s position. If the parties agree to any of these approaches, the mediator can convene a follow-up mediation session by conference call or in-person. Post-mediation session events and the cooling-off effects of the passage of time may lead to a successful result.

Given the observation that mediation is a process, the “mediation” is generally considered to be pending until the mediator declares in writing to the parties that the mediation is concluded. Unless one or both parties request termination of the mediation, a patent mediator should be “on call” for the duration of the case to schedule follow-on telephonic or in-person mediation sessions to help the parties narrow the issues, overcome any impasse on procedural matters, and ultimately settle the case.

Appendix A: Settlement Issues Arising in Different Types of Patent Cases

Below is a chart listing settlement issues that arise in different types of patent cases.⁴²

Case Category	Settlement Issues
Competitor vs. Competitor—Core Technology	These cases tend to be difficult to settle unless there is a serious counterclaim, other significant risks to the patent owner, or a strategic opportunity presented by a potential business agreement between the parties. Participation by senior officers of the parties is required for a meaningful mediation. In addition, agreements may involve antitrust issues if the parties have large cumulative market shares.
Competitor vs. Competitor—Non-Core Technology	Such cases are good candidates for early mediation. Litigation may be the consequence of a failed effort to negotiate a license prior to litigation, with litigation intended to add additional negotiating leverage.
Large Enterprise vs. Start-up/New Entrant	If there is no other competitor that offers substantial equivalents of the claimed patented technology, the large enterprise may not settle unless the start-up is willing to forego use of the technology. Considering the costs of patent litigation, the start-up may be willing to give up use of the technology or offer itself for sale to the patent owner. The likelihood of early settlement through a license is greater if there are other competitors using the patented technology.
Non-Practicing Entity (NPE) vs. Large Enterprise	The likelihood and timing of settlement in such cases depend on a variety of factors including: (i) the amount demanded (the demand may be modest and early settlement possible if the NPE intends future litigation against others and is seeking to build necessary funding); (ii) the

⁴² See *supra* Section II (Patent Mediation is a Process, Not a Single Event). The case categories and settlement issues set forth in this Appendix A are based upon the in-depth analysis prepared by Peter S. Menell et al., from the Federal Judicial Center, *Patent Case Management Judicial Guide* (2009), available at [http://www.fjc.gov/public/pdf.nsf/lookup/patent01.pdf/\\$file/patent01.pdf](http://www.fjc.gov/public/pdf.nsf/lookup/patent01.pdf/$file/patent01.pdf).

Case Category	Settlement Issues
	size of the NPE's portfolio (if the case being mediated is the first of several expected suits, a license to the NPE's entire portfolio may be an attractive settlement); (iii) reputational effects (settlement may not be possible if the large enterprise was involved with litigation in the past or expects litigation in the future with this or other NPEs and because settling such suits encourages additional NPE litigation); and (iv) strategic alliances (in the case where the NPE and the large enterprise can collaborate against the defendant's competitors, an early settlement is conceivable where there is an agreement allowing the enterprise to use the NPE's portfolio against its competitors).
Non-Practicing Entity (NPE) vs. Start-up Enterprise	Suits in these cases are often timed to coincide with a critical event for the start-up. A very early settlement or a settlement after the critical event is likely. Since it may be difficult to obtain participation from senior officers of the start-up before the critical event, telephone or other non-traditional participation may be acceptable in the mediation.
Serial Litigant: Patent Owner vs. First Alleged Infringer	In these cases, patent owners face a collateral risk in which an adverse <i>Markman</i> or other substantive ruling threatens the case as well as the entire business rationale underlying it. Conversely, a litigation victory can be persuasive for collateral estoppel purposes. This in turn may create settlement opportunities while substantive rulings are pending.
Large Pharmaceutical Company vs. Large Pharmaceutical Counterpart	Such cases are difficult and often impossible to settle due to the fact that pharmaceutical industry economics are based on each company having an exclusive position in marketing its patent-protected drugs.
Large Pharmaceutical Company vs. Generic Pharmaceutical Manufacturer	These cases tend to be based on Hatch-Waxman Act provisions which allow the generic product a 180-day period of exclusivity after it enters the market. Some of these cases have settled by "reverse payments," in which the large pharmaceutical company makes

Case Category	Settlement Issues
	<p>payments to the generic company to remain off the market for a period of time. Such settlements continue to be challenged by the Federal Trade Commission as anticompetitive.⁴³</p>
<p>Medical Device Industry</p>	<p>Early settlement of litigation between medical device manufacturers is not common because this is a very litigious industry, with a history of contentious patent litigation. Litigation can be similar to that of the “Competitor vs. Competitor” category, in which the settlement depends on whether or not the technology is “core” to a significant product.</p>

⁴³ See *Joblove v. Barr Labs, Inc.*, 429 F.3d 370 (2d Cir. 205), *amended*, 466 F.3d 187 (2006), *cert. denied*, 127 S. Ct. 3001 (2007); *Schering-Plough Corp. v. FTC*, 402 F.3d 1056 (11th Cir. 2005), *cert. denied*, 126 S. Ct. 2929 (2006).

The Sedona Conference Working Group Series & WGS Membership Program

**“DIALOGUE
DESIGNED
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THE LAW
FORWARD
IN A
REASONED
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The Sedona Conference was founded in 1997 by Richard Braman in pursuit of his vision to move the law forward in a reasoned and just way. Richard’s personal principles and beliefs became the guiding principles for The Sedona Conference: professionalism, civility, an open mind, respect for the beliefs of others, thoughtfulness, reflection, and a belief in a process based on civilized dialogue, not debate. Under Richard’s guidance, The Sedona Conference has convened leading jurists, attorneys, academics, and experts, all of whom support the mission of the organization by their participation in conferences and the Sedona Conference Working Group Series (WGS). After a long and courageous battle with cancer, Richard passed away on June 9, 2014, but not before seeing The Sedona Conference grow into the leading nonpartisan, nonprofit research and educational institute dedicated to the advanced study of law and policy in the areas of complex litigation, antitrust law, and intellectual property rights.

The WGS was established to pursue in-depth study of tipping point issues in the areas of antitrust law, complex litigation, and intellectual property rights. It represents the evolution of The Sedona Conference from a forum for advanced dialogue to an open think tank confronting some of the most challenging issues faced by our legal system today.

A Sedona Working Group is created when a “tipping point” issue in the law is identified, and it has been determined that the bench and bar would benefit from neutral, nonpartisan principles, guidelines, best practices, or other commentaries. Working Group drafts are subjected to a peer review process involving members of the entire Working Group Series including—when possible—dialogue at one of our working group meetings, resulting in authoritative, meaningful, and balanced final commentaries for publication and distribution.

The first Working Group was convened in October 2002 and was dedicated to the development of guidelines for electronic document retention and production. Its first publication, *The Sedona Principles: Best Practices Recommendations & Principles Addressing Electronic Document Production*, has been cited favorably in scores of court decisions, as well as by policy makers, professional associations, and legal academics. In the years since then, the publications of other Working Groups have had similar positive impact.

Any interested jurist, attorney, academic, consultant, or expert may join the Working Group Series. Members may participate in brainstorming groups, on drafting teams, and in Working Group dialogues. Membership also provides access to advance drafts of WGS output with the opportunity for early input. For further information and to join, visit the “Working Group Series” area of our website, <https://thesedonaconference.org/wgs>.

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