

Early Mediation of Patent Disputes: The Virtues of Taking Parallel Paths

Mark LeHocky

The American Invents Act (AIA), along with recent United States Supreme Court rulings, created new paths for ending many patent disputes faster and cheaper. All well and good. But potentially lost in the enthusiasm over AIA *inter partes* review (IPR) proceedings and possible dispositive early motions to dismiss are these business realities: These new tools still entail significant uncertainty and strategic risk; they still consume significant time and resources; and they often forestall or eliminate business opportunities while they remain unresolved.

This is not a critique of IPR proceedings or *Alice* motions. They appear to serve the purposes intended by Congress and the Supreme Court as to some patents and patent disputes. Rather, the suggestion here is to combine those tools with a parallel and early mediation effort because of the special opportunities early mediation affords. As discussed here, parties may indeed leverage these newer dispute processes, their uncertainty and other murkiness about potential litigated outcomes to settle these cases even faster *and* under terms that the parties choose -- rather than what a judge, jury or arbitrator may otherwise impose.

Mindful of Samuel Clemens' admonition that "no generalization is worth a damn, including this one", I'll hazard one anyway: Having worked with many chief executive officers, investor groups and executive teams in my days as a litigator and then as a general counsel, I bear witness that they all consistently prefer predictability over unpredictability, and controlling their fate over letting others decide it. We all want to control our own destiny, and for good reason. The parallel mediation path recommended here does that and more.

IPR Proceedings, *Alice* and their impact:

Enacted in 2012, the American Invents Act (AIA) gives alleged infringers a choice – challenge the patent's validity in court or via an IPR proceeding. Along with a lower burden for proving invalidity (a mere preponderance of the evidence versus the clear and convincing evidence required in a district court proceeding), IPR proceedings are statutorily required to move faster than most district court patent cases do today.

A Patent Office preliminary response is due within 3 months of the filing of the IPR petition, followed by a 3-month deadline for the Patent Office to decide whether to conduct the review, and then no more than a year to issue a final written opinion. (Office of Patent Trial Practice Guide, 77 Fed. Reg. 48,756-57 (8/14/12). This timetable compares favorably to most district court patent cases, where the median span from case filing to summary judgment alone spans nearly 700 days in California's Northern District, over 500 days in its Central District, and over 900 days in its Southern District (See, Brian J. Love and James Yoon, *Predictably Expensive: A Critical Look at Patent Litigation in the Eastern District of Texas*, 20 Stan. Tech. L. Rev. 1 (2017).

The benefits of IPR proceedings may explain in part the 22% decline in patent suit filings nationwide in 2016 versus 2015, while the number of IPR petitions has reached a record high (See, Lex Machina's 4th Annual Patent Litigation Year in Review Report (3/2/17)).

Like the AIA IPR process, the United States Supreme Court's decision in *Alice Corp. v. CLS Bank*, 134 S. Ct. 2347 (2014) has triggered earlier dispositions of many cases involving software and business method patents. With its two-step inquiry into whether the patent claim includes an abstract idea, and if so, whether an inventive concept sufficiently transforms that abstract idea into a patent-eligible invention, *Alice* enhances an alleged infringer's prospects for success on an early motion to dismiss under Section 101 of the Patent Act. Indeed, of 140 § 101 decisions rendered through 2015 since *Alice*, over one-half invalidated the underlying patent, roughly one-third upheld it, and the remainder were found to be partially invalid or inconclusive.

Juxtaposed against this data are the other strategic considerations for those facing a patent suit as well as those deciding when to launch or settle one.

The tradeoffs of IPR petitions or early *Alice* motion

While over 70% of challenged patents were canceled during the first two years of the Patent Trademark and Appeal Board (PTAB)'s existence (counting IPR, covered business method challenges and post-grant reviews), that percentage is trending down. (Compare USPTO PTAB Statistics, 1/31/16, 2/29/16). In 2013, for example, the PTAB declined to institute as to 13.5% of IPR petitions filed. By 2015, the PTAB declined to institute as to 34.7% of all IPR petitions. The low-hanging fruit may have already been picked.

While many IPR petitions still succeed today, combined with this declining trend is the practical consequence of losing an IPR proceeding. An adverse IPR decision estops the challenger from contesting the claims on any ground the challenger raised or could have raised during that IPR proceeding (35 U.S.C. §§315©, 325(e)), and the USPTO Board's decision is final and non-appealable. *Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131, 2134-35 (2016). Also problematic for litigants is the potential impact of that IPR decision upon a subsequent jury trial. See, e.g., *Ultratec, Inc. v. Sorenson Communications, Inc.*, 2014 WL 4955302 (W.D. Wisc. 10/1/14), and *Universal Elecs., Inc. v. Universal Remote Control, Inc.*, 2014 WL ____ (C.D. Cal. 4/21/14) (both permitting patent holders to reference the PTAB's favorable IPR decision before the jury in subsequent trial).

Alice motions also involve tradeoffs, strategic gambles and potential delays, particularly if there is ambiguity as to whether the patent embodies an abstract idea and truly adds a meaningful inventive concept. Indeed, because an unsuccessful Section 101 motion under *Alice* typically ensures that the case will not be appealable until final judgment is entered, many counsel defer filing such a motion until after first developing a factual record and asking the district court to construe one or more key terms via a claims construction hearing. Sooner may not be better.

As well, both IPR proceedings and *Alice* motions continue to abdicate control over your dispute to someone else. With the utmost respect to the bench, juries, arbitrators and the PTAB, the reality in most instances is that you won't be able to predict that result or capitalize upon it until it's done (if then). Meanwhile, business plans and opportunities – launching the next product or sales initiative, for example -- are often held in abeyance or remain subject to considerable risk. Given the lightening pace of development, commercialization and obsolescence in many sectors, time truly is money.

The Benefits of Parallel and Early Efforts to Mediate:

Combining IPR petitions and *Alice* motions, where they fit, with an early mediation plan offers the most potential upside to all parties in a typical patent dispute. Here's how:

Test all key assumptions as soon as possible

Roughly twenty years ago, while still litigating IP and other business cases, I was asked to begin mediating patent and other complex disputes for the federal court in San Francisco. As the Northern District's ADR program existed then and continues today, cases are steered when feasible to mediation or other forms of ADR early in the life of a case. What struck me back then and remains true today is the potential early mediation provides for testing core assumptions and sorting out key facts that may otherwise perpetuate a series of "false positives" and unfortunate results.

Later, when I became general counsel to different companies, I inherited a panoply of disputes including patent and other IP cases. In that role, I purposely parsed through each case bigger than a bread box to first assess the key facts and assumptions made about the parties, their intentions and the value of the disputes. Notably, in all three roles as litigator, general counsel and mediator, I run across multiple examples where early mediation allowed everyone to uncover and address misunderstandings about key facts, objective and opportunities to resolve disputes. A few patent-specific examples (all sanitized to protect confidentiality) follow:

- In a case where the patented technology was indeed included in defendant's product, the action nonetheless settled early once the defendant demonstrated that its product did not actually activate the technology in its operation and provided contractual assurances that it never would.
- In a case bound for an extended battle across many borders, the dispute was resolved once defendant disclosed its limited plans to use the patented invention and agreed to a royalty that was a small fraction of its anticipated litigation costs going ahead.
- In another, the case resolved early on once the patent holder surfaced its desire to license other technology to the defendant, leading to a settlement that incorporated this business opportunity into the compromise agreement.

In these and other examples, thorough due diligence combined with early mediation efforts routinely surfaced misunderstandings as well as opportunities. Often, those opportunities have

their own “shelf life”, so seizing them early can be critical. As well, even if the case does not fully resolve right away, early mediation consistently clears away the fog and narrows the scope of the remaining dispute. Everyone gains by doing so.

Leverage the uncertainty

While the filing of an IPR petition is often accompanied by a motion to stay any pending district court proceeding and any court-connected mediation effort, consider the alternatives: A pending IPR petition – like a pending motion for summary judgment based on *Alice* or other grounds – can be leveraged to drive the parties together. The uncertain outcome of such petition or motion, along with the more modest investment in early versus late stage mediation efforts, should incentivize both sides to move. Aided by a mediator with both legal skill and business acumen, the prospects for a reasonable compromise may be at their peak.

As well, motions for stays pending an IPR proceedings are neither a foregone conclusion; nor should they delay an early and voluntary mediation effort in any event. The most recent California data indicates that stays are granted roughly 60% of the time in the Northern District, while only about 43% of the time in the Southern District and roughly 54% of the time in the Central District. Even when granted, stays also can be leveraged in the mediation process, given that delay in reaching an adjudicated outcome is often problematic to one or both sides.

Other areas of uncertainty to be factored into early or late stage patent mediations include the impact of the newly recomposed Supreme Court, and the number of significant matters on appeal. A current reminder is the United States Supreme Court’s recent decision in *SCA Hygiene Products v. First Quality Baby Products*, ___ S. Ct. ___ (No.15-927; 3/21/17), rejecting laches as a defense to patent infringement claims after decades where that defense was recognized. Yet another example that few things can be taken for granted as to the state of patent jurisprudence, and more reason to get off the merry go round sooner rather than later.

Avoid bad becoming much worse

Another factor warranting early efforts to settle is the evolving and uncertain prospects for attorneys’ fees and enhanced damages awards. Prior the *Octane Fitness v Icon Health*, 134 S. Ct. 1749 (2014), attorneys’ fees awards were limited to a very extreme showing of “exceptional circumstances” under 35 U.S.C. 285. *Octane* lowered that bar, allowing courts to look at the “totality of the circumstances”, factoring in the merits, the facts and the litigation behavior. Then, appearing to add an exclamation point, the Supreme Court in *Highmark Inc. v. Allcare Health Management*, 134 S. Ct. 1744 (2014), held that a district court’s determination as to an award of attorney’s fees is subject to an abuse of discretion – rather than *de novo* – review.

These decisions provide district courts more leeway to award attorney’s fees based upon bad litigation conduct as well as the merits of the respective positions. To no surprise, the number of cases awarding attorneys’ fees has more than doubled since the *Octane*. (See, Washington

Legal Foundation, 31 Legal Backgrounder 12 (2016)). Fee shifting has by no means become the rule, but that increased risk provides more reason to mediate and settle early on.

Halo Electronics, Inc. v. Pulse Electronics, Inc. 136 S. Ct. 1923, 1926-26 (2016) also raised the stakes for alleged infringers, and in turn their incentive to mediate sooner, by exposing them to greater risk of enhanced damages under 35 U.S.C. Section 284. Dropping the prior two-pronged test for “willfulness” under Section 284, the Supreme Court in *Halo* adopted a preponderance of evidence standard and left the enhancement of damages to the sound discretion of the district court. (*Id.*).

After *Octane Fitness* and *Halo*, we see a full spectrum of findings as to enhanced damages and attorneys’ fees, leaving more uncertainty than before as to how much is needed to trigger either. Compare, e.g., *Georgetown Rail Equip. v. Holland*, 2016 UL 3346084 (E.D. Tex 6/16/16) (jury’s finding of willful infringement deemed sufficient to support award of both enhanced damages and attorney’s fees), with *Enplas Display Corp. v. Seoul Semiconductor Co...* (N.D. Cal. 8/10/16 {denying enhanced damages or attorney’s fees despite a willful infringement finding where defendant had advanced several reasonable invalidity theories). More reason to mediate and settle early with more risk and uncertainty about both.

The tradeoffs of the parallel path early mediation approach:

The principal arguments against mediating early on are (a) we’re not ready, and (b) mediation is costly. Those arguments in fact carry less weight as to patent disputes.

First, the 2015 amendments to federal pleading requirements and detailed district court disclosure requirements for patent cases provide more specificity than ever. Both sides are at risk for failing to detail their claims and defenses very early on in patent cases. Consequently, patent litigants are better informed and have less reason to delay the mediation process.

Second, while thorough preparation to mediate a patent case takes substantial time and effort, that work and expense typically pales by comparison to the time and effort entailed in a fully litigated patent matter, via IPR process or otherwise.

As well, the same work needed to fully prepare for and conduct a patent mediation is typically recyclable. While some material developed for or exchanged through mediation is subject to confidentiality or evidentiary exclusions, the bulk of the work is reusable. As importantly, those exchanges better inform everyone early on, allowing for the most reasoned decisions factoring in the good, bad and ambiguity of most disputes. Little wasted and much to be gained.

With rare exception, time spent on litigation is time taken away from advancing a business’ core mission. Combining early mediation with a modern patent litigation path creates the best prospects for early resolution and enhancing the bottom line.

Mark LeHocky is a former litigator specializing in IP and other complex business disputes, the former general counsel to two public companies, and a full-time mediator with Judicate West. Mark also designed and taught a course on Mediation Advocacy at the University of California, Davis' School of Law, incorporating the principles discussed here, and has been named among the Best Lawyers in America for Mediation by U.S. News/Best Lawyers® for three years running. His extended profile is at www.marklehocky.com.