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GUEST COLUMN

Mastering mediation strategies for successful IP settlements

Successful mediation in intellectual property cases requires IP practitioners to complete five critical tasks: creating a candid list of best and worst facts, sharing these with the client, anticipating tough questions from the mediator, conducting a realistic settlement value analysis, and preparing to listen, learn, and negotiate.

By Claude M. Stern

The field of intellectual property (IP) carries with it an aura of complexity and erudition. Though the successful litigation of IP cases requires counsel's specialized knowledge of what many consider complicated areas of law, in the end, most IP cases resolve, like other civil cases, by settlement, many through mediation.

Any IP practitioner who hopes to achieve a successful mediation should come to the mediation only after having completed the following five critical tasks.

1. Assemble a candid list of best facts and worst facts.

Mediation is the client's chance to achieve a solution by consent. Too frequently, lawyers become enamored with the best facts of their case without seriously scrutinizing the case's bad facts, risks and costs.

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Before the mediation, counsel should create two lists: one containing good facts and the other containing bad facts. These lists should identify, given the applicable law (e.g., in a patent case, this includes claim constructions the court will provide to the jury), facts that are client-related (e.g., client lack of credibility, unlikability, bias), witness-related (e.g., key witness admissions in depositions or documents, bias), merits-related (e.g., in a trade secret case, whether the client had access to and an opportunity to take the adverse party's claimed trade secrets, or, in a patent case, the extent to which any limitation within an asserted claim is practiced by the accused technology/product), court- or judge–related (e.g., the assigned judge's lack of experience or rulings in past similar cases), and economic-related (e.g., the case's costs, the likely recovery/loss).

One effective means of listing the case's good and bad facts is to gather the members of the trial team and "popcorning" what each sees as the best and worst facts. Another is to research the statistics associated with the type of case being tried. (For example, various sources indicate that the chance of a plaintiff prevailing in a patent case is between 60% and 65%, which, though not decisive, is a fact worth noting.)

Counsel would be well-advised to associate each good and bad fact with the claims and defenses being asserted. This simple association shows the extent of support for each element of each claim and defense (and is a wonderful way to avoid either a non-suit/directed verdict or summary judgment).

2. Share those lists with your client.

Trial lawyers simultaneously wear two hats: To their external audience (judge, jury, the press), they are advocates, but to their clients, they are counselors. An advocate has the latitude to minimize (or even ignore) the significance of a bad fact when trying to sell the case's credibility. But a counselor is duty-bound to give the client the good news and the bad news and all the news in between. The bad news could be the limited evidence supporting an element of a claim or the client's (or key witness') lack of credibility.

Clients should not learn the bad facts from adverse counsel or the mediator during mediation.

Discussion of the bad facts with the client allows the counselor to "soften up" the client from otherwise hardened positions and makes the client (and the lawyer) more amenable to negotiation during the mediation.

3. Imagine the mediator's hardest questions for you and your adversary.

Every IP case, plaintiff's or defendant's, has vulnerabilities. In mediation, the vulnerabilities of each party's case may become exposed. Whether this takes place in the initiating joint session or during private caucusing, counsel must expect that at some point, the mediator is going to ask one or more questions that expose one or more weaknesses in their case.

Counsel must be prepared to answer the questions honestly and credibly, or else suffer a loss of the client's confidence or mediator's trust.

The hardest questions may relate to the liability case (e.g., in a copyright case, the extent of proof that defendant actually made unauthorized copies) or the damages case (e.g., in a patent case, the factual support of a royalty rate that on its face seems unreasonably high). They may relate to the repercussions of the case on future cases (e.g., in any IP case, if the corporate defendant with a docket of 50 similar cases settles, what precedent does that set?) or ostensible roadblocks to settlement (e.g., in a patent or trade secret case, whether a litigation funder is preventing reasonable settlement).

Whatever the focus, preparing for the tough questions helps each of the parties develop realistic expectations for the mediation.

4. Conduct an expected value/ likely outcome/decision tree/ probability analysis of your case.

Analyzing the settlement value of your case before coming to mediation is a critical feature of mediation.

In a copyright case, assume that plaintiff anticipates any of four results at trial, based on all percipient and expert evidence: judgment for the plaintiff for $1 million, judgment for the plaintiff for $500,000, judgment for the plaintiff for $100,000 or judgment for the defense. Assume that each of these four results has an equal likelihood of occurring (a 25% chance). In that case, the case has a settlement value of $400,000 [($1M x .25) + ($500K x .25) + ($100K x .25) + ($0 x .25)] before considering the plaintiff's "transaction cost"; i.e., the cost of trying case. If trying the case will cost the plaintiff $100,000 in attorneys' fees and other costs, then the settlement value - the value at which the plaintiff should be prepared to settle the case before even preparing for trial - is $300,000.

This simplistic analysis places the plaintiff's best-case scenario on the same footing at the worst case. If the best-case scenario is highly unlikely (e.g., supporting evidence is not particularly persuasive or the plaintiff is not particularly sympathetic), then the settlement value of the case may drop substantially.

An expected value analysis is very much subject to GIGO (garbage in, garbage out). If one assigns an unrealistic outcome or likelihood to any scenario, the settlement value of the case becomes distorted.

This sort of analysis (also known as expected value, likely outcome, decision tree or probability analysis) is vital to assessing the case's worth. There are varied approaches to creating a settlement value matrix. In one form of "micro" analysis, a decision tree is crafted not just for each ultimate result (verdict), but also for the interim or dependent "branches" leading to the result (e.g., in a patent case, looking at the likelihood of each asserted patent claim alleged to be infringed; and for each claim, the likelihood of prior art found to be invalidating). In a more "macro" approach, as reflected in the copyright example above, the individual "branch" decisions are collapsed into a more general case analysis.

In conducting this settlement value analysis, some practitioners ignore the transaction cost, thinking that the settlement value of the case should be entirely merits-based. This approach ignores the real-world cost of the litigation on the client.

The expected value analysis allows the parties to stop focusing on the dream verdict and instead develop a realistic assessment of a solution that is desirable to the client.

5. Prepare yourself and your client to listen, learn and negotiate.

Mediation is not the place for fantasy-based advocacy or closed-minded zealotry. IP advocates and their clients come to mediation seeking a dispute's complete solution, thereby avoiding the uncertainty and waste associated with further litigation.

This means, first, that the practitioner and their client must be willing to listen with an open mind to the mediator's and their adversary's arguments. Being willing to hear new information - good, bad or otherwise - can only help the client and their lawyer, even should the mediation fail.

Next, the practitioner and the client must be willing to assimilate new information, or old information cast in a new light, in the case's settlement calculus. This means that the IP practitioner and their client must be willing to learn, which means adjusting the settlement valuation, which is no small feat over a one- or two-day mediation.

Finally, be prepared to negotiate. No one gets bonus points for not coming off their original demand during a mediation. Mediation is confidential for a reason: You can negotiate to your client's delight, and if the case does not settle, you have lost nothing. Just because you have reduced or increased a settlement offer doesn't mean that you have set a floor or ceiling for the case's settlement should the case not settle during that particular mediation session. Things can happen after an unsuccessful mediation: Motions can get granted or denied, witnesses can make new admissions and new evidence may come to light. So, being willing to negotiate doesn't put you at a disadvantage for the next settlement discussion should the case not settle at the mediation.

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