

Mediation As A Means To Resolve Intellectual Property Disputes

John L. Watkins

McKENNA LONG & ALDRIDGE LLP

Consider this scenario:¹ A number of years ago, ABC company approached XYZ company about developing technology that, if successful, would be highly beneficial to XYZ's business. At the time, ABC lacked the funds to develop the technology. XYZ was interested and was willing to invest up to \$1,000,000 for ABC to develop the technology. Because neither ABC nor XYZ wanted to pay lawyers regarding their transaction, they entered into a "home made" agreement under which ABC would develop the technology for XYZ in exchange for XYZ underwriting the cost. The agreement generally provided that any resulting technology would be XYZ's intellectual property.

Principals of both companies became interested in the development efforts, and worked together to successfully develop the technology. XYZ sold products incorporating the technology and ABC benefited because it manufactured products incorporating the technology. Instead of applying for patents, ABC and XYZ agreed to keep the technology confidential and entered into another "home made" agreement, under which each party agreed to keep the "intellectual property" confidential and to use it only in connection with furthering XYZ's business.

After several years, ABC became convinced that there were other applications for the technology that were not competitive with XYZ's business and wanted to approach other companies about using the technology for such purposes. The principal of ABC thought it only proper to let XYZ know of ABC's intentions, and wrote a letter explaining that ABC intended to market the technology for other purposes. Not surprisingly, XYZ was a little taken aback by ABC's plans, and decided it was finally time to visit a lawyer.

In short order, XYZ filed suit against ABC for misappropriation of trade secrets, seeking a temporary restraining order and injunction against ABC seeking to prevent it from disclosing the technology, as well as claims for damages and attorney's fees. The trial court entered a temporary restraining order, and set a hearing on the preliminary injunction for 30 days hence. The trial court also ordered expedited discovery, including depositions of some 20 witnesses, and requested each side to be prepared to submit expert testimony at the injunction hearing.

Incensed by what it perceived as ABC's treachery, XYZ also cut off ABC as its manufacturer. However, because XYZ does not have a manufacturing capability or suitable replacement for ABC, XYZ is left with a dwindling product inventory and no ability to produce additional products. ABC, which had reconfigured its business to manufacture for XYZ, now finds itself having to engage counsel and spend thousands of dollars participating in expedited discovery and hiring experts at a time when its principal business has been cut off.

Although this scenario is fictional, it probably has rings of familiarity to those who litigate intellectual property disputes. Having failed to document their business



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relationship completely on the front end, two companies that have worked together in a friendly manner for their mutual benefit are now headed down the track for thirty days of intensive and expensive litigation that will likely end in the court granting XYZ a preliminary injunction against ABC. However, XYZ's expected victory is also likely to be pyrrhic. Winning the injunction will not provide XYZ with the manufacturing capacity it needs, and, accordingly, it will be unable to sell a profitable product. However, litigation always carries uncertainty, and if the court were to rule that the "home made" agreements were not enforceable, or that XYZ had failed to protect its trade secrets adequately, or that ABC had an implied license to use the intellectual property as it intended, XYZ could effectively lose its intellectual property rights. For ABC, it has lost its major and immediate source of business and must spend thousands of dollars defending litigation. The end result could be bankruptcy.

For counsel, the prospect of thirty days of intensive and relatively interesting litigation (at least if engaged by a client with means to pay) will certainly be profitable in the short run. However, litigation of this dispute is not likely to provide any real victory for either party. The most productive method of resolving this dispute in a cost effective manner that provides an opportunity for a "win/win" resolution is mediation.

"Mediation" means a non-binding and consensual settlement negotiation before a neutral third-party known as a mediator. Lawyers across the country have found mediation to be a useful tool for resolving both simple and complex disputes. Mediation has several characteristics that makes it particularly useful in intellectual property cases.

Mediation Is Confidential. An inherent characteristic of mediation is that it is confidential. Prior to the mediation, the parties will be asked to sign an agreement providing that the mediation proceedings and discussions of the parties will not be divulged. The confidential nature of mediation can be contrasted with court proceedings, which are presumed open to the public. Although confidentiality concerns can be dealt with in litigation by confidentiality orders and by closing certain parts of the proceedings, such practices are often cumbersome, or may provide less than the desired level of confidentiality. In our scenario, the technology in question is not patented and is only protected as a trade secret, which in turn depends on maintaining confidentiality. Mediation provides a much better chance of maintaining the trade secret.

Mediation Allows Outside Expertise to

be Brought Into the Intellectual Property Dispute. The parties in this scenario have a number of disputes that cry out for a negotiated solution. Any settlement will likely involve more than an agreement by the defendant to pay money in exchange for a release. Parties to a dispute such as outlined above are well-served to use a mediator who is an attorney with experience in intellectual property litigation. Such a mediator may be able to assist the parties in reaching a creative solution involving, for example, development or cross-licensing agreements. In our scenario, such agreements would appear to be mechanisms ABC and XYZ should consider to resolve their dispute, perhaps to their ultimate mutual benefit.

A mediator with intellectual property experience can be particularly helpful if the parties are not sophisticated regarding intellectual property issues. In such circumstances, an experienced mediator can help explain the options and issues as well as potential approaches for settlement. Because a mediator is a neutral party, the mediator may carry credibility with the parties even beyond that of their own counsel. Thus, for example, if an unsophisticated party balked at a settlement agreement because it did not understand the need for certain provisions central to the opposing party, the mediator may be able to explain the reason why the provision is reasonable and necessary. A mediator can also offer a set of "fresh eyes" on issues and alternatives that the involved parties may have overlooked or prematurely dismissed.

Mediation Provides An Opportunity to Fix Problems in Documentation. Many parties, such as those in our scenario, rush into a business relationship without proper planning or legal advice. Entrepreneurs may have a general mistrust of counsel, may not have adequate counsel or referral sources, or may simply conclude use of counsel is prohibitively expensive. When coupled with the enthusiasm often generated by a new enterprise, such circumstances may lead parties to rely on oral agreements, or "home made" agreements. Although such expedients may work for a while, they often tend to break down, particularly if a venture is successful. Under our scenario, both parties prospered, but ABC felt it should have profited more from the technology. When this emotional motivation is coupled with documents that inadequately define the parties' rights, litigation often shortly follows.

If both parties are ultimately reasonable, they may each conclude their existing documentation does not reflect what they intended, or that it did not anticipate circumstances that developed in the ensuing years. Mediation can provide a mechanism to fix bad documentation by clarifying ambiguous terms, drafting new terms to deal with changed circumstances, and by providing mechanisms to avoid future disputes or litigation. In contrast, litigation simply provides a mechanism for resolving claims under the existing documentation and only after considerable expense.

Mediation Provides a Real Opportunity to Reach a Business-Oriented Solution. In our hypothetical, it is obvious that both ABC and XYZ have more to gain by reaching a business solution than by fighting it out in litigation. Despite their differences, each party needs the other to maximize its own future business prospects.

Although the parties to a dispute are necessarily in disagreement before litigation begins, litigation may further polarize matters. Litigation brings headaches beyond the legal fees and key personnel

will be tied up in gathering information for a party's counsel, or in producing documents for the other side. Depositions often keep employees occupied for days. Particularly for public companies, litigation can raise substantial reporting concerns. Because litigation is an inherently adversarial process, it often tends to encourage a "tit for tat" type of exchange, with neither party wanting the other to gain a real or imagined advantage.

In short, the litigation process is geared toward winning or losing, not toward reaching a business-oriented settlement that may prove beneficial to both sides. The institution of litigation may, however, be necessary simply to force a party to deal with a dispute. Once litigation is filed, the prospect of seeing the process through may force both parties to consider mediation.

In contrast to litigation, mediation allows the parties to consider and reach business-oriented solutions. Mediation can be incredibly effective for such purposes. It is astonishing how often parties who are miles apart when a mediation begins will quickly "buy in" to reaching a settlement as the goal of the mediation process. Once the attitude shifts to a mutual goal of reaching a reasonable business solution from winning the litigation, it is the rare case that will not settle.

There is another value to mediation in helping reach a business-oriented solution. Mediation allows parties to "vent," or to express their frustration at their current business situation, the status of the litigation, or other emotional impediments to settlement. Emotional issues, often central to personal injury or domestic relations matters, also get in the way of settlements of business or intellectual property cases. For example, in our scenario, ABC feels that the company should receive additional business opportunities as the inventor of the technology, even though ABC was paid to develop it for XYZ. XYZ similarly feels that ABC is ignoring the success they have reaped from the relationship, and are breaching a very clear agreement.

Mediation provides a good forum for resolving these emotional issues. Often, simply expressing those emotional issues to a neutral third-party (or directly to the opposite party in a forum where they have to listen) can remove them as barriers to settlement. After hearing ABC out, XYZ may come to understand ABC's attitude even if they disagree with it. Under such circumstances, XYZ might be willing to consider a licensing arrangement under which ABC could market the technology for other purposes in exchange for royalties or other consideration. In this respect, mediation also provides a mechanism or repairing business relationships, particularly for companies such as ABC and XYZ, who are each better served by finding a way to work with each other than fighting it out in court.

In sum, mediation provides unique benefits for resolving intellectual property disputes. The confidentiality of mediation, coupled with the ability to bring an experienced intellectual property expert into the mix, promotes the possibility of resolving problems inherent in documentation (or in lack of documentation). Mediation also provides a forum for addressing emotional issues that, even in business cases, often are at the real heart of a dispute. All of these characteristics increase the possibility of ultimately reaching a business-oriented solution for the benefit of both parties.

¹ This scenario is entirely fictional and does not refer to any real dispute or any particular parties.

John L. Watkins is a Partner based in the Atlanta office of McKenna Long & Aldridge. He focuses his practice on International Transactions, Tax & Investments and Litigation matters including Alternative Dispute Resolution.

Please email the author at atjwatkins@mckennalong.com with questions about this article