

## Mediating Intellectual Property Disputes: The “Nerd Factor”

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### **1. Introduction:**

Intellectual property litigation has increased dramatically over the past 15 years and have plateaued recently.<sup>1</sup> Generally speaking, the universe of intellectual property cases includes trademark<sup>2</sup> and trade dress cases,<sup>3</sup> copyright cases,<sup>4</sup> trade secret cases.<sup>5</sup> and patent cases.<sup>6</sup> There are significant differences across these case categories although they do share certain important characteristics. Overall, the cost of intellectual property litigation, especially patent litigation, can only be described as “devastating.”<sup>7</sup> The stakes in most

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<sup>1</sup> According to CFO.com, the number of patent filings have increased every year between 1991 and 2004 [from 1171 in 1991 to a high of 3075 in 2004. Since 2004, patent lawsuits have leveled off to about 2700 cases per year. <http://www.cfo.com/article.cfm/8765742?f=related>

<sup>2</sup> A full discussion of the nuances of intellectual property is far beyond the scope of this paper. For purposes of this article, trademarks are names, symbols, sounds or some other device that associates a product or service with a particular source. For example, Coca Cola identifies certain sodas with the Coca Cola Company.

<sup>3</sup> Trade dress is a close cousin of trademark. Trade dress is the “look and feel” of a product that gives the product or service a kind of emotional or aesthetic identity. Unlike trademarks, trade dress is a common law right and it is not generally registered. The cases tend to be factually intensive.

<sup>4</sup> Copyright law protects the presentation of information (not the information itself). A common law copyright is created as soon as the work is created but registering the copyright allows for easier proof of damages, jurisdiction in federal court, and enhancement of damages.

<sup>5</sup> Trade secrets are any useful commercial information that is actively kept secret. If the information becomes public, the right is lost.. The most famous trade secret is the formula for Coca Cola.

<sup>6</sup> A patent is a monopoly grant from the government to exclude others from making, selling, or using an invention.

<sup>7</sup> A 2003-04 survey of attorneys in the Intellectual Property Lawyers Association states that the average cost of a patent lawsuit in the United States is \$2 Million. That is just for the lawyer’s fees!  
[www.ipworldonline.com](http://www.ipworldonline.com)

intellectual property disputes are often very high.<sup>8</sup> In many cases, the subject matter is difficult and complex and, as a result, the normal decision makers have difficulty finding access points by which they can resolve the dispute on business terms. All of these factors complicate mediation and dispute resolution in intellectual property cases. However, because the stakes are so high and the litigation costs are often so crushing, parties can greatly benefit from effective mediation.

## **2. The “Nerd” Factor:**

A seldom-mentioned feature that most intellectual property disputes have in common is the “nerd factor.” Intellectual property disputes are populated by experts and the disputes are generally inaccessible to general legal and business actors who normally aid in the resolution of business disputes. In fact, in the intellectual property area, there is a tendency for business decision makers to defer to experts or “nerds.”<sup>9</sup> A mediator attempting to resolve an intellectual property dispute may find that the “nerd factor” makes it difficult to use normal mediation techniques. Unlike typical business actors, nerds may not have the institutional position, skills or experience to effectively articulate a party’s interests. Nerds also tend to focus on the technical aspects of intellectual property law and may have difficulty compromising from legal principles that they “know” to be true. Advisors and practitioners in the intellectual property field possess specialized scientific, literary, artistic, or technical knowledge that was difficult to obtain and required extensive training. Many are very invested in the language, conventions, procedures and arcane knowledge that derives

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<sup>8</sup> Damages awards in U.S. patent infringement cases have been recognized as reaching magnitudes rarely seen in other countries. During the last decade there have been about 20 to 30 patent infringement cases a year with published judicial awards of calculated infringement damages. The total for this period reaches about \$1.5 billion dollars. Of these individual cases, about 60% had awards in excess of \$1 million dollars, with over 20 ranging between \$10 and \$100 million dollars and at least 6 more above \$100 million dollars. Nearly 20% of the total awards is attributable to pre- and post-judgment interest on the actual damages. For those cases where damages are based on a reasonable royalty, over 70% used a royalty rate in excess of 6%, with about 15% exceeding a 20% royalty rate. <http://library.findlaw.com/1996/Jan/1/128053.html>

<sup>9</sup> The term “nerds” is used as a colloquial substitute for “expert.” It is not intended to be pejorative.

from their specialized knowledge. Although this specialized knowledge makes these “nerds” invaluable in developing and managing intellectual property the mediator must try to control the layers of factual, terminological and technical issues that can discourage efforts to get to the “heart of the matter” and resolve the dispute.

A mediator needs a strategy to work through the “nerd factor.” On the one hand, the mediator needs the nerds to help clarify the key issues in the case. At the outset of the mediation, the mediator should encourage the experts to use their expertise to help everyone understand the issues. This is not the time to try to push the experts aside, challenge the experts or to denigrate the importance of any issues presented.<sup>10</sup> The mediator’s goal at this point is to gain understanding and to translate and develop the issues. There will be opportunities to eliminate, link, or subordinate some of the issues later. As a result, the mediator must work closely with the nerd experts early in the case and constantly restate and reframe their contributions into understandable terms that all participants in the mediation can understand. Reflexive listening techniques, where the mediator “translates” the nerd statements into understandable terms and confirms with the nerd that he has it correct are quite crucial. Furthermore, the mediator needs to check that lay participants are gaining an understanding of the dispute.

Throughout this early period, the mediator must drive hard to get the parties to agree to an agenda of key issues that require resolution. This is best done, if at all possible, in a joint session. The mediator can use a wide board of some similar device to display the key issues. The issues will need to be framed and reshaped so that they are understandable and so that they are put in a form that provides the best chances of resolution. When the

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<sup>10</sup> Also, at the outset of the dispute, business actors with authority may be reluctant to discuss the complexities of the case and will want to defer to their experts. Pushing against the experts early in the dispute could backfire and cause all the parties to “clam up.”

mediator thinks he has a firm handle on the key issues on the white board, the mediator can point to the issues and say, “Are there any other issues that need to be addressed?” And if there are no others, the mediator can say, “So do we agree if that we can resolve these issues, we can reach agreement today?” When the parties respond in the affirmative to this question – and they always do because they have agreed that those are all the issues – their assent is a surprisingly powerful first agreement building momentum toward resolution. Suddenly, the blinding array of technical issues and problems has been reduced to a discrete set of issues that everyone in the room can understand. The mediator is now ready for the next stage and will now decide which issues to attach and in which order, how to frame them, and how to help the parties discuss and resolve them.

### **3. Managing Typical IP Issues:**

As previously discussed, intellectual property cases may often involve large sums of money damages. In addition, one unique aspect of IP cases is that the Plaintiff will often present a direct or threatened possibility of enjoining the defendant from further use of the invention, trademark, trade secret, or copyrighted material.<sup>11</sup> The parties in intellectual property cases are often competitors in the same industry and, in fact, the dispute may be one of several interlocking intellectual property events between the parties and a segment of an overall competitive strategy. In such cases, a mediator can easily jump to the conclusion that the dispute is intractable. Instead, the mediator needs to recognize that an injunction is a remedy after successful proof of certain intellectual property infringements and that it is not easy to obtain such relief. For a mediator, injunction [or in the case of mediation, an agreement to curtail use of the intellectual property in dispute] is just one of a range of

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<sup>11</sup> A protracted discussion of injunction standards regarding intellectual property cases is also beyond this paper’s scope. Suffice it to say that injunctions are available and are often at issue in intellectual property cases but they are by no means “automatic.”

options for resolution of the issues on the table. As a result, a mediator should not over-react to threats of injunction, and should not accept the idea that injunction is the only remedy that one party will find acceptable. If pressed on whether the mediation could result in an injunction, a mediator should say that he recommends holding discussion of specific resolutions until all the issues can be understood and discussed.

Intellectual property cases generally do involve a similar structure even though the substantive requirements of each type of intellectual property case can vary markedly. Almost always, the property holder claims to have control over certain intellectual rights that were allegedly infringed by the defendant. The defendant, in turn, will often dispute the validity and scope of the plaintiff's rights and may also present affirmative defenses as to why any infringement was justified. A consistent problem in intellectual property cases is that lay people have great misconceptions as to the nature of certain intellectual property rights. Intellectual property defer in rights to tangible property in many ways but for most of us, the only mental property available to us is a tangible property model. As a result, intellectual property owners will often see their property rights as "more absolute" than they really are. Similarly, because it is possible to infringe a patent or trademark without even having knowledge of the other party's rights, defendants may be confused as to how they could have gotten into so much trouble when they had done "nothing wrong." Depending on the experience and sophistication of the participants, a mediator may have a great deal of "basic" ground to cover before effective negotiation can proceed.

#### **4. Navigating Different Intellectual Property Disputes:**

Now that some of the similarities among intellectual property disputes have been discussed, it must be recognized that the different types of intellectual property disputes have unique qualities. Because trademark, trade dress, copyright and trade secrets cover

different types of property interests, the manner in which each right is created and maintained and the bundle of rights flowing from the property grant differ in ways that have important impacts on dispute resolution.

**A. Trademarks:**

The essence of a trademark dispute is consumer confusion. Specifically, a key issue is often<sup>12</sup> whether the allegedly infringing use is likely to cause confusion in the marketplace. In litigation of trademark cases, the strength of the mark, the extent to which the mark is in use (use is critical in evaluating trademark rights),<sup>13</sup> its similarity to the infringing mark, the notoriety of the mark at issue, and the actual likelihood of confusion in the marketplace are likely to be contested. Consumer survey data may be presented at trial to substantiate consumer confusion. Generally speaking, obtaining the consumer survey data and the expert testimony to administer the survey and present it are likely to be the costliest part of a trademark dispute. If the parties each have their own dueling surveys and experts, the dispute is far advanced and the mediator will probably try to focus on the risk to each party of having the issue decided by a jury. Perhaps a better time to start the mediation is after basic fact discovery but before the parties have expended significant funds on experts and surveys. In such circumstances, the parties can save significant litigation costs if they can come to an agreement and if they recognize the risks and uncertainties of litigation, they will often be quite motivated to resolve the dispute. In such a situation, the mediator can help the parties – both the “nerds” and business decision makers -- understand the costs of

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<sup>12</sup> If the infringing use is an exact or almost exact copy of the trademark in the same relevant market – a “knock-off case” the factual issues are likely to be somewhat simpler. The key issues in such cases are likely to focus on damages or remedy or – perhaps – whether the trademark is valid.

<sup>13</sup> There are registered trademarks and common law trademarks. Although a registration confers certain rights and provides for jurisdiction in federal court, the mere existence of a registration does not necessarily demonstrate the validity or strength of the mark. In trademark law the old adage of “use it lose it” is very descriptive. A mark that is not actively in use in the relevant market is not likely to support recovery for the Plaintiff.

litigating the case through traditional means and focus the parties on the business issues that they are trying to resolve.

Although parties often come into a trademark mediation with the view that they are engaged in a “zero sum game” and that one party will get the right to continue using the mark and the other party will be required to stop, such is not always the case. Sometimes the parties can agree to limit their use to certain geographical areas, or even to certain products in the market segment. It is even possible to “split” the trademark in terms of time so that the party accused of the infringing use has a time period to transition to another trademarked identity. In other words, a mediator can help the parties convert a game they see as “zero sum” into one in which a range of possible resolutions are available. Similar approaches may be effective with regard to trade dress disputes and other forms of intellectual property issues.<sup>14</sup>

### **B. Copyrights:**

Defendants may defend against copyright claims on the basis that they did not have access to the copyrighted material (and therefore did not copy it). They may also invoke a “fair use” defense. The “fair use” defense is not always easy to apply but it is a function of (1) The purpose and character of use of the copyrighted material; (2) the nature of the work and the extent to which it is entitled to copyright attention; (3) that amount of the copyrighted work that was allegedly appropriated; (4) the effect on the potential market for the copyrighted work.<sup>15</sup> During the mediation, the parties may require extended discussion of the risks associated with these four factors before they are prepared to discuss settlement. As with all forms of intellectual property, the parties may again see use of the copyrighted

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<sup>14</sup> Trade dress disputes have many similarities to trademark disputes except that a trade dress dispute is generally factually more difficult to prove which puts some greater risk on the Plaintiff. Due to the large number of factual issues, a trade dress dispute is rarely decided by dispositive pre-trial motion.

<sup>15</sup> <http://www.benedict.com/Info/FairUse/FairUse.aspx>

information as a “zero sum game” and the mediator should explore with the parties whether there is an avenue for licensing the copyrighted material to the alleged infringer.

Final resolution of copyright cases are somewhat complicated by the “dual track” possibilities with regard to damages. When dealing with registered copyrights, damages are available for economic loss [lost profits] to the copyright holder but in cases of intentional infringement, statutory damages are also available. Federal judges have fairly broad discretion to set such damages which can go as high as \$30,000 for each separate act of copyright infringement. The existence of statutory damages creates a major “hammer” for Plaintiffs if they can demonstrate an actual and intentional copyright infringement. As in most intellectual property cases, this type of extreme exposure can create a strong incentive for settlement.<sup>16</sup>

### **C. Patent Cases:**

Patent cases are among the most difficult of all cases to litigate or to resolve. First of all, as discussed previously, patent cases rank very high on the “nerd quotient” as patent lawyers are often engineers or scientists who have become lawyers. Determination of whether a particular device violates a utility patent requires at least some understanding of the technical field in which the patent was written as well as familiarity with substantive and procedural patent law and general rules of patent interpretation. In addition, unlike trademark or copyright registrations, patents are often long documents and significant effort and concentration is required to decipher them. Often, mere reading of the patent is insufficient to address claims that the parties may have regarding inequitable conduct or prosecution history estoppel and extensive review or reference to the patent prosecution file

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<sup>16</sup> For example, it should come as no surprise that most parties in the file sharing cases [or “music piracy” cases as the recording industry refers to them] are settled once it is clear that accused party has engaged in a violation of the Copyright Act.



are required. As a result, a mediator in a patent case should consider investing some pre-mediation time to study the patent and the other relevant documents so that the mediator might be able to communicate effectively with the patent experts and the layperson decision makers at the mediation. The mediator must have the ability to quickly grasp both the technical issues and key points of disagreement under the patent law and have the ability to make these disputes understandable and concrete to the parties involved. Sometimes, this can best be accomplished by a lawyer/mediator who has significant experience working with patents but also has extensive general experience working with business decision makers and other non-patent specialists.

Once the issues are well understood, the parties will be well-equipped to consider their interests in terms of the risks in the underlying dispute. Again, in cases of infringement, one of the key issues is may be whether a broader range of settlement possibilities can be created through some form of licensing. Often, plaintiffs will arrive at the mediation with the view that they have the absolute right to stop the other side from continuing to use their invention. If this view is articulated too early and too forcefully, the parties may get frustrated and terminate the discussion prematurely. Rather, the mediator should encourage the parties to consider the key issues relating to a finding a patent infringement and liability and avoid discussion of intended results and remedies until the parties can better appraise the dangers along the route to their most preferred scenario. Once there is better understanding of the risks and the problematic situation that both parties face in most patent disputes, it is possible to engage the business decision makers and their experts in brain storming to come up with possible solutions to problem that both parties have now adopted as their own.

The threat of enormous patent damages, when used skillfully, can also create tremendous pressure toward settlement. In addition, patent cases are notoriously costly to litigate, partly because the patent litigators themselves are expensive and partly because so much expert testimony is required to support the case. Furthermore, the law of damages in patent cases is extremely complex and subject to difficult problems of proof. For example, in cases in which the patent holder practices the invention and competes in the industry, the patent holder may claim lost profits and other economic losses. However, proof of lost sales is quite difficult and may often require additional expert testimony. An alternative track which is used most often when the patent holder does not compete in the industry is the “reasonable royalty” standard. In such cases, damages are measured by an imaginary licensing agreement for a royalty between a willing licensee and licensor. Again, in such cases credible testimony will have to be provided establishing the reasonable royalty prevailing in the industry for licenses involving similar inventions. All of this can become extremely expensive and difficult for the parties. The sheer ugly cost, expense, and bother of patent disputes can focus the minds of the participants and motivate them to regain control over the decision making and come up with their own fair way to measure damages and thereby resolve the dispute.

## **5. Conclusion:**

A mediator does not have the power to get parties to do what they do not want to do. Parties in intellectual property litigation often feel that they have absolute rights of property that are simply inconsistent with the nuanced complexity inherent in most forms of intellectual property rights. At the same time, defendants do not always understand all the elements of exposure they face in an intellectual property case. As a result, the mediator must enlist the assistance of the experts or “nerds” to help validate the picture the accuracy

of the picture that the mediator helps create for the parties through understandable, compelling, and practical articulation of the problem facing the parties. In most intellectual property disputes, therefore, a bit more time must be spent assuring that the key issues are well understood by both the experts and the lay decision makers. Once the issues are understood in practical context, it is not unusual for the parties to quickly perceive the logic of coming up with a resolution and, with not much encouragement, they are capable of developing creative and practical resolutions that they did not consider possible before the mediation.