



**Early Mediation of Patent Disputes:
*The Virtues of Pursuing Parallel Paths***

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So much for predictability. As we wait for the U.S. Supreme Court ruling in *Oil States Energy Services, LLC v. Green's Energy Group, LLC* as to the continuing viability of *inter partes* review (IPR) proceedings by the Patent and Trademark Office (PTO), the Federal Circuit recently reversed two district court summary Section 101 rulings where factual disputes were found to exist. More uncertainty, and more reason to pursue multiple paths in litigating patent disputes.

Clarity as to IPR proceedings may come any day now. The Supreme Court could rule in *Oil States* that only Article III courts may determine patent invalidity. Alternatively, it could uphold IPR review under the American Invents Act (AIA). However, recent data shows a declining success rate as to IPR petitions – revealing more potholes along that path than ever before.

Clarity as to potential *Alice* motions, particularly early on, seems even more elusive. In its two recent decisions – *Berkheimer v. HP Inc.* (No. 2017-1437) and *Aatrix Software, Inc. v. Green Shades Software, Inc.* (No. 2017-1452) – the Federal Circuit reversed summary judgment and motion to dismiss rulings, respectively, of patent invalidity under *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014). In doing so, it held that both district courts erred in finding no underlying factual questions existed under §101 inquiry. Interestingly, the Federal Circuit in *Berkheimer* was quick to defend prior rulings where §101 eligibility was decided on motions to dismiss or for summary judgment. But in doing so, the Court shed little light on how litigants can accurately assess their *Alice* prospects.

This is no critique of IPR proceedings (should they survive) or *Alice* motions. They appear to serve the purposes intended, as least as to some patents. However, these tools also entail significant uncertainty; they still consume significant time and resources; and they often forestall or eliminate business opportunities while they remain unresolved.

Rather, the suggestion here is to combine IPRs and §101 motions with early mediation because of the strategic opportunities early ADR efforts afford. Parties may indeed leverage these newer litigation tools, their uncertainty and other murkiness about potential litigated outcomes to resolve cases faster and under terms that the parties choose -- rather than what a judge, jury or arbitrator may otherwise impose.

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 prefer predictability over unpredictability, and controlling their fate over letting others do so, and for good reason. A parallel mediation path does that and more.

IPR Proceedings, Alice and their impact:

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, IPR proceedings are meant 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, when 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 IPRs, the United States Supreme Court’s decision in *Alice Corp. Pty. V. CLS Bank Int’l*, 134 S. Ct. 2347 (2014) has prompted earlier dispositions of many patent cases. Indeed, of 140 § 101 decisions rendered through 2015, over one-half invalidated the underlying patent, roughly one-third upheld it, and the remainder were found to be partially invalid or inconclusive.

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, 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.

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).

Alice motions also involve tradeoffs, strategic gambles and potential delays, particularly if there are arguable factual discrepancies underlying whether the patent embodies an abstract idea and truly adds a meaningful inventive concept. After *Berkheimer* and *Aatrix* in particular, sooner may not be better.

As well, both IPR proceedings and *Alice* motions abdicate control over your dispute. 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 opportunities – launching the next product or sales initiative, for example -- are often held in abeyance or remain subject to considerable risk. Given the lightning 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 early mediation offers the most 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 began 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 often steered to mediation or other forms of ADR early in the life of a case. What remains true today is the potential early mediation provides to test assumptions and sort out facts that may otherwise perpetuate a series of "false positives" and unfortunate results.

Later, while general counsel to different companies, I inherited a panoply of patent and other IP disputes. In that role, I 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, opportunities for clarity as well as early resolution arose. A few patent examples follow:

- In a case where the patented technology was indeed included in defendant's product, the action nonetheless settled early once the alleged infringer demonstrated that its product did not actually use 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 the anticipated litigation costs going ahead.
- In another, the case resolved early on once the patent holder revealed its desire to license other technology to the defendant, prompting a settlement that incorporated this business opportunity into the compromise agreement.

In such examples, thorough due diligence combined with early mediation routinely dispelled misunderstandings and surfaced opportunities. Those opportunities often 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. Aided by a mediator with both legal skill and business acumen, the prospects for a reasonable compromise may be at their peak.

As well, stay motions pending an IPR proceedings are not a foregone conclusion; nor should they delay an early mediation. 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.

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)). 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 at least consider settling early.

The arguable 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 material developed for or exchanged through mediation is subject to confidentiality or evidentiary exclusions, the underlying 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.

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