

## I'LL MAKE HIM AN OFFER HE CAN'T REFUSE: A PROPOSED MODEL FOR ALTERNATIVE DISPUTE RESOLUTION IN INTELLECTUAL PROPERTY DISPUTES

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Aside from theft, contract murder, racketeering, and a score of other crimes, the mafia functions in a fashion similar to the modern judicial system. Occasionally, the families go to war (litigation). Alternatively, the heads of the families arrange formal meetings to resolve disputes (mediation). And, most commonly, the family heads give orders concerning smaller disputes (arbitration). Granted, remedies in the mafia are severe: someone usually ends up beaten or lying next to Jimmy Hoffa. However, the mafia system of dispute resolution reflects the American court system. While at times the mafia engages in full-scale war, most often the parties resolve disputes with sit-downs or decisions from the family heads. While the mafia hardly serves as a glowing role model, its system of dispute resolution provides valuable insights for private parties to more efficiently handle their disputes.

This article will discuss alternative dispute resolution in intellectual property disputes. A conceptual approach will be applied in an effort to better formulate the parties' strategies towards litigation or alternative dispute resolution. Alternative dispute resolution (ADR) is a maturing area of the law, and its application to intellectual property disputes is complicated.<sup>1</sup> These complications make any analysis difficult to organize. This article will discuss the underlying components of ADR and intellectual property disputes in a step-by-step fashion. Part I of this

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1. See generally Scott H. Blackmand & Rebecca M. McNeill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 AM. U. L. REV. 1709 (1998) (discussing the development of alternative dispute resolution and its application to intellectual property disputes).

article discusses intellectual property rights and presents two conceptual interests underlying these rights. Deciding whether to litigate or pursue ADR demands a thorough understanding of what legal rights are in dispute.<sup>2</sup> Part II focuses on the remedies available to intellectual property owners (potential liability to infringers) to effectively ascertain the “prize” of the dispute. Part III provides background information on various forms of ADR as well as the Alternative Dispute Resolution Act.<sup>3</sup> This section will serve as guidance for later sections, primarily the proposal in Part V. Part IV analyzes the advantages/risks calculi for intellectual property owners and infringers in proceeding to trial or pursuing ADR. Part V presents a sophisticated proposal for dispute resolution in intellectual property disputes. Part VI discusses the effects of this proposal. The conceptual approach focusing on the parties’ underlying interests offers a pragmatic solution to the litigation/ADR dilemma. In this article, one crucial issue concerning intellectual property disputes emerges: the parties’ interests often align. With this realization, a system of ADR better serves the parties’ interests and creates tailored solutions to their complicated disputes.

## I. INTELLECTUAL PROPERTY RIGHTS

Intellectual property law seeks to “provide incentives for innovation . . . by establishing enforceable property rights for the creators of new and useful products, more efficient processes, and original works of expression.”<sup>4</sup> Simply put, intellectual property law grants rights to inventors and innovators so they can profit from their developments.<sup>5</sup> With the ability to profit, intellectual property owners have an incentive to produce new innovations for society to enjoy.<sup>6</sup> Without intellectual property rights, infringers could easily exploit these new innovations and steal profits from the owners.<sup>7</sup> Innovators would

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2. See Kevin R. Casey, *Alternate Dispute Resolution and Patent Law*, 3 FED CIR. B.J. 1, 6-12 (1993) (discussing factors that parties should consider in deciding between ADR and litigation, as well as indicating which type of ADR to use).

3. See Alternative Dispute Resolution Act of 1998, Pub. L. No. 105-315, 112 Stat. 2993 (1998).

4. Daniel B. Ravicher & Shani C. Dilloff, *Antitrust Scrutiny of Intellectual Property Exploitation: It Just Don't Make No Kind of Sense*, 8 SW. J. L. & TRADE AM. 83, 89 (2001-2002) (citing U.S. Department of Justice and the Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property § 1.0 (April 6, 1995), available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm> (last visited 10/25/03)).

5. *Id.*

6. *Id.*

7. *Id.*

have no economic incentives to innovate, and society would ultimately suffer the loss.<sup>8</sup>

Intellectual property law is divided into four primary areas: patent, copyright, trademark, and trade secret.<sup>9</sup> Intellectual property consists of a bundle of rights held by the owner of the particular intellectual property asset (IPA).<sup>10</sup> Every stick in the bundle grants the intellectual property owner a specific right with regard to the IPA.<sup>11</sup> Each area of intellectual property consists of its own protocol to determine what subject matter may receive protection, how the owner may achieve this protection, and how long the IPA receives protection.<sup>12</sup> Additionally, each area of intellectual property provides legal remedies for infringement as well as fair use provisions available to the public.<sup>13</sup> Like tangible property, the paramount right that intellectual property vests in the owner is the right to exclude others from use.<sup>14</sup> Intellectual property is distinguished from tangible property, but each form of intellectual property is also distinguished from the other forms.<sup>15</sup> To understand these distinctions, one must analyze the bundle of rights each IPA grants.<sup>16</sup>

Each area of intellectual property conveys a different set of rights and extends protection for a different period of time. Copyright law vests into authors the exclusive rights of reproduction, distribution, creation of derivative works, performance, and display.<sup>17</sup> Copyright

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8. *Id.* Imagine if the U.S. never adopted a patent law system. People like Thomas Edison would likely have spent their lives performing insignificant jobs rather than designing technological advancements to benefit society.

9. *Id.* While Ravicher and Dilloff delete trade secrets from the list, trade secrets compare a prominent area of intellectual property law. Compare Ravicher & Dilloff, *supra* note 4, with HENRY H. PERRITT, JR., TRADE SECRETS: A PRACTITIONER'S GUIDE, ch. 2 (1994).

10. PERRITT, *supra* note 9, at 36. A more academic definition describes intellectual property as containing two primary components: creative expression coupled with public willingness to recognize the property right. Thus, intellectual property essentially permits a person to own knowledge. Lori M. Berg, Comment, *The North American Free Trade Agreement & Protection of Intellectual Property: A Converging View*, 5 J. TRANSNAT'L L. & POL'Y 99, 102 (1995).

11. PERRITT, *supra* note 9, at 36.

12. Laurinda L. Hicks & James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, 12 AM. U. J. INT'L L. & POL'Y 769, 771 (1997).

13. *Id.* It is important to note that the Lanham Act, 15 U.S.C. § 1051 (2003), and Copyright Act, 17 U.S.C. § 101 (2003), both expressly provide fair use provisions. Conversely, the countervailing fair use provisions in patent and trade secret law result as a product of case law rather than statutory requirement.

14. Hicks & Holbein, *supra* note 12, at 771-772.

15. PERRITT, *supra* note 9, at ch. 2.

16. *Id.*

17. 17 U.S.C. § 106 (2003).

protection spans the life of the author plus 70 years.<sup>18</sup> A trademark is any word, name, symbol, or device or any combination thereof used to identify one's goods and distinguish them from those sold by others.<sup>19</sup> Trademark law offers protection forever so long as the owner renews the mark.<sup>20</sup> Patents protect inventions that are useful, new, and non-obvious.<sup>21</sup> A patent protects the invention for 20 years from the filing of the patent.<sup>22</sup> Trade secrets consist of any secret, valuable information that can be used in business to gain an actual or potential advantage.<sup>23</sup> Trade secret protection lasts indefinitely until competitors or the general public discovers the secret information.<sup>24</sup>

#### A. *Value of Intellectual Property Rights*

Intellectual property consists of heavy fixed costs and low marginal costs.<sup>25</sup> Intellectual property requires significant expense to create because owners must commit substantial amounts of funds and time to develop each IPA.<sup>26</sup> Once created, the owner alone has incurred the initial investment to develop the IPA, and an infringer can copy the IPA at a minimum expense. For some IPAs, the marginal cost is so low the cost is virtually nonexistent.<sup>27</sup> Without legal protection, infringers have the power to free ride the intellectual property, and the owner alone incurs the substantial fixed costs.<sup>28</sup> Absent legal protection, infringers essentially steal the initial investment of the owner and can sell their infringing product at the lower marginal cost.<sup>29</sup> The owner is forced to sell at the marginal cost in order to retain any significant market share.<sup>30</sup>

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18. 17 U.S.C. § 302 (2001).

19. 15 U.S.C. § 1127 (2001).

20. 15 U.S.C. §§ 1058-1059 (2001).

21. 35 U.S.C. §§ 101-103 (2001).

22. 35 U.S.C. § 154 (2001).

23. Edward T. Ellis & Chungmoon Choi, *Protection of Intangible Business Assets: Trade Secrets in the Age of Federal Computer Legislation*, ALI-ABA COURSE MATERIALS J., July 2002, at 491, 502-503. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

24. Daniel P. Powell, *An Introduction to the Law of Trade Secrets*, 23 COLO. LAW. 2125, 2125 (1994).

25. Richard A. Posner, *Antitrust in the New Economy*, ALI-ABA COURSE MATERIALS J., Sept. 2000, at 115, 118.

26. *Id.*

27. *Id.*

28. *Id.*

29. Henry H. Perritt, Jr., *Property and Innovation in the Global Information Infrastructure*, 1996 U. CHI. LEGAL F. 261, 276 (1996).

30. *Id.* Professor Perritt has designed excellent equations graphing the costs of the owner, the pirate, and the free ride problem. While the depth of the equations exceeds the scope of this article, the equations provide a better understanding of how intellectual property rights protect the owner's

Selling at this price, the owner can never recover the heavy fixed costs of developing the intellectual property.<sup>31</sup>

Intellectual property law allows the owner, rather than infringers, to derive economic value from the IPA.<sup>32</sup> As evidence of this economic value, owners currently generate revenue from their IPAs.<sup>33</sup> Owners use intellectual property to secure substantial amounts of borrowed capital.<sup>34</sup> Numerous companies receive a substantial amount of investment dollars based on the companies' intellectual property rights.<sup>35</sup> Moreover, these companies spend an increasing amount of money each year to obtain protection for their intellectual property rights.<sup>36</sup> Despite their economic value, IPAs alone do not generate market power. Market power constitutes the ability to generate profits at higher than competitive levels for a significant period of time.<sup>37</sup> In other words, market power is the ability to establish prices above the marginal cost.<sup>38</sup> The IPA is merely one component in a production process that comprises several complementary factors.<sup>39</sup> These complementary factors include manufacturing, distribution, marketing, and labor components.<sup>40</sup> The intellectual property owner must utilize these factors in conjunction with the IPA to realize the commercial value of the IPA.<sup>41</sup>

Even with an efficient system to realize commercial value, rarely can the owner easily value the IPA.<sup>42</sup> An IPA has zero value if it is ruled invalid or if legal protection expires.<sup>43</sup> Aside from these extremes,

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business interests.

31. *Id.*

32. See Posner, *supra* note 25, at 118.

33. Andrew Beckerman-Rodau, *Prior Restraints and Intellectual Property: The Clash Between Intellectual Property and the First Amendment from an Economic Perspective*, 12 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 1, 13 (2001).

34. See Judith L. Church, *Structuring Deals Involving Intellectual Property Assets*, 706 *PRACTISING L. INST.: PAT., COPYRIGHTS, TRADEMARKS, & LITERARY PROP. COURSE HANDBOOK SERIES 199* (2002) (providing a thorough discussion of the use of intellectual property as security for borrowed capital).

35. Beckerman-Rodau, *supra* note 33, at 13.

36. *Id.*

37. RAYMOND T. NIMMER, *THE LAW OF COMPUTER TECHNOLOGY: RIGHTS LICENSES LIABILITIES*, app. D, §2.2 (2002).

38. Richard J. Gilbert & Willard K. Tom, *Is Innovation King at the Antitrust Agencies? The Intellectual Property Guidelines Five Years Later*, 69 *ANTITRUST L.J.* 43, 46 (2001).

39. NIMMER, *supra* note 37, at app. D, §2.3.

40. *Id.* (complementary factors may also include other intellectual property devices).

41. *Id.*

42. Ted Hagelin, *A New Method to Value Intellectual Property*, 30 *AIPLA Q.J.* 353, 357 (2002).

43. *Id.*

pinpointing the value of the IPA is a difficult task.<sup>44</sup> The most fundamental concept regarding value is simply stated: value does not equal price.<sup>45</sup> Price only defines the dollar amount at which the IPA trades in a market.<sup>46</sup> Value defines the utility of the IPA to the buyer and seller.<sup>47</sup> The buyer and seller base the exchange on the distinction between value and price.<sup>48</sup> If the price exceeds the seller's value and remains below the buyer's value, the exchange will occur and both parties will be better off.<sup>49</sup> Price and value share an integral relation.<sup>50</sup> Price is the perceived value of the IPA to the respective parties; i.e., it is the concrete number where the parties commit to the exchange.<sup>51</sup> Value is the range of numbers the parties use to negotiate a price.<sup>52</sup>

The purpose of this article is not to discuss methods to calculate a monetary figure for intellectual property rights. However, it is important for the intellectual property owner to reasonably understand the value of the disputed IPA.<sup>53</sup> A large volume of scholarship is produced concerning intellectual property, but a very small portion focus on the actual nature of intellectual property rights. When considering alternative dispute resolution for intellectual property adjudication, the focus should shift backward, to the fundamentals of intellectual property rights, before proceeding forward to strategic decisions. The owner must completely understand the rights at stake before deciding whether to settle, litigate, or enter a form of alternative dispute resolution. For a patent, the owner has a very limited time to profit solely from the patent.<sup>54</sup> Is it worth more to aggressively protect the patent at all costs or to seek licensing profits for the remainder of the term? For a trade secret, time is not an issue, but maintaining the secret is imperative.<sup>55</sup> Is it worth the risk of losing the secret to obtain licensing profits? Trademarks and copyrights have no time or secrecy considerations for

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44. *Id.*

45. *Id.* at 358.

46. *Id.*

47. *Id.*

48. Ted Hagelin, *A New Method to Value Intellectual Property*, 30 AIPLA Q.J. 353, 357 (2002).

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.* While establishing a monetary figure on intellectual property rights exceeds the scope of this article, it is relevant to note that Professor Hagelin has developed an intriguing valuation model for intellectual property rights called the Competitive Advantage Valuation. *Id.* at 397.

53. *Id.* at 355.

54. 35 U.S.C. § 154 (2001).

55. See Powell, *supra* note 24, at 2125.

the initial owner, but the owner must still decide between profiting on his own or profiting from licensing fees. For each decision, the owner must evaluate the rights at stake and the potential profitability from licensing or not.

Likewise, the infringer must completely understand the potential liability at stake before making the same decisions. What exactly does the owner want to protect and, more importantly, why does the owner want to protect it? Is the potential liability worth the potential profits? The infringer must contemplate the profitability from freely using the IPA and the profitability if he must pay a licensing fee for use. How can the infringer utilize the nature of the intellectual property right to obtain a negotiating advantage? For licensing of a trade secret, the infringer may be able to secure a lower royalty rate by assuming additional, creative safeguards to protect the secret. The infringer may obtain the same advantage on a patent with only a few years left on its term. The infringer faces a similar multitude of considerations in deciding whether to litigate or pursue ADR. Like the intellectual property owner, the infringer must reasonably understand the value of the disputed IPA. To adequately value the intellectual property rights, both owners and infringers must understand and analyze the two major interests comprising intellectual property rights.

#### *B. The Two Major Interests Comprising Intellectual Property Rights*

Excluding others from use is the intellectual property owner's definitive property right.<sup>56</sup> However, this principle provides only a superficial understanding of the intellectual property owner's rights. To fully understand these rights, one must examine the right to exclude in the context of the intellectual property owner's interests to exclude. This article proposes that the right to exclude consists of two interests: fundamental and adversarial.<sup>57</sup> Under the fundamental interest, the intellectual property owner seeks to derive the value of his IPA. Under the adversarial interest, the intellectual property owner seeks to exclude

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56. See Hicks & Holbein, *supra* note 12, at 771-72.

57. See Doris E. Long, *The New Antitrust Guidelines for the Licensing of Intellectual Property: A Workable Balance or a Practitioner's Nightmare?*, 414 PRACTISING L. INST.: PAT., COPYRIGHTS, TRADEMARKS, & LITERARY PROP.COURSE HANDBOOK SERIES 381, 393 (1995) (identifying the right to exclude as the right to profit); Jennifer Mills, Notes & Comments, *Alternative Dispute Resolution in International Intellectual Property Disputes*, 11 OHIO ST. J. ON DISP. RESOL. 227 (1996) (explaining the value of intellectual property resides in the two facets of exclusive use and licensing by the owner). This article extends these concepts by compounding the right to exclude into two interests: the interest to exclude and the interest to profit.

others from using his IPA. The fundamental and adversarial interests are not mutually exclusive; often the intellectual property owner will commit to a hybrid of the two interests.

The right to exclude generally is not divided into the fundamental and adversarial interests given the complexity and close relationship between the two. The fundamental interest derives from the adversarial interest; that is, the owner cannot seek profit without the power to exclude. Conversely, the adversarial interest may exist in the complete absence of the fundamental interest. Any given intellectual property owner may only desire one interest, but another owner may desire a complicated hybrid of the two interests. Moreover, an owner's commitment to each IPA interest will vary, depending on the circumstances of the situation. For example, an owner will favor the adversarial interest when a competitor seeks to use the IPA, but the same owner may favor the fundamental interest when a non-competitor wishes to enter a licensing agreement.

For a clearer demonstration of these concepts, intellectual property may be analogized to tangible property, for the same two interests apply to tangible property.<sup>58</sup> Consider an investor trading corporate stocks. The investor buys and sells stocks in hopes of making a profit. The investor is wholly committed to the fundamental interest. While the investor receives certificates for the stocks he buys, he never receives a physical "thing." He is not concerned with preventing others from using his "thing." Rather, he hopes to make a profit by selling the stocks at a higher price than he purchased. The investor will sell the stock as soon as he can receive a high enough price to realize an acceptable profit.

Consider the same investor inheriting a family heirloom, perhaps a quilt his grandmother sewed. The heirloom is sentimentally priceless to the investor. The investor is wholly concerned with his adversarial interest in the quilt. He has no desire to make a profit; he only wishes to enjoy exclusive possession of the heirloom. In other words, his focus is to exclude others from taking or using the heirloom. This interest will never shift; whether a child seeks the quilt for free or an antique dealer seeks the quilt for millions of dollars. No one can separate the investor from the quilt, and any negotiation pursuing this objective would prove fruitless.

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58. See Gilbert & Tom, *supra* note 38, at 44 (at least in the context of antitrust analysis, intellectual property undergoes a similar analysis as tangible property); Long, *supra* note 57, at 393 (the right to exclude vested in intellectual property rights is similar to the same rights conferred in tangible property). Analogizing intellectual property with tangible property is offered for the purposes of illustrating the fundamental and adversarial interests.

Consider once again the same investor buying a house. People buy houses to have a place to live, but houses also serve as profitable investments. Here, the investor is committed to a hybrid of the fundamental and adversarial interests. He does not want anyone entering or using his house without his permission during his use of the house as a residence. Also, he wants the market value of the house to increase. At some point in time, he may like to sell the house for a profit. Early in his ownership of the house, the investor commits to the adversarial interest. At some later point, the investor shifts to the fundamental interest when he is ready to sell. At what time this shift occurs depends on several factors including the investor's wishes and market conditions.<sup>59</sup>

These illustrations present three possible categories of intellectual property owners:  $O^F$ ,  $O^A$ , and  $O$ .  $O^F$  represents an intellectual property owner committed to the fundamental interest. This owner will realize profits from his own use as well as from licensing fees.  $O^A$  represents an intellectual property owner committed to the adversarial interest. This owner will disregard any profits from licensing fees.  $O$  represents an intellectual property owner committed to a hybrid that approximately equalizes the two interests.  $O$  initially desires to exclude use altogether, but  $O$  may be convinced to allow use for payment under acceptable terms.

The owner selects his interest commitment based upon one primary question: how can I maximize the value of my intellectual property? A number of factors such as market conditions, available resources, and the circumstances of the current legal dispute can change the answer to this question. As a result, a change in any number of circumstances may cause an  $O^A$  to shift to an  $O^F$ , or vice versa. The numerous potential causes of this shift show the changeable nature of an intellectual property owner's commitment. This changeable nature of the owner's commitment is the primary distinction against the infringer's commitment.

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59. While the investor's purchase of a house is an excellent example of the hybrid, a different consumer may just as easily commit to the fundamental or adversarial interests when purchasing a house. A retiring couple purchasing their "dream house" will commit to the adversarial interest. An aggressive consumer seeking to gain huge profits in the real estate market will commit to the fundamental interest. The relevant point is that any consumer may commit to the fundamental interest, adversarial interest, or the hybrid for any property at any given time.

### *C. Conceptualizing the Two Interests for Intellectual Property Infringers*

The fundamental and adversarial interests apply with equal force to intellectual property infringers.<sup>60</sup> As discussed above, owners exercise the two interests as components of ownership. Infringers exercise the interests as components of the privilege to freely use. The privilege to freely use is similarly divided into the fundamental and adversarial interests. Under the fundamental interest, the infringer *desires* the privilege to freely use the IPA, whether for profit or enjoyment. This infringer understands the owner has legally protected rights and that such use will require payments to the owner. Under the adversarial interest, the infringer *expects* to freely use the IPA. This infringer believes the owner either does not have legally protected rights or should not have such rights. This infringer refuses to pay for use because he expects just as much right to profit or enjoyment from the IPA as the owner. An infringer committed to the hybrid will *desire* free use in some circumstances but will *expect* the right to free use in other circumstances.

While the interests for the infringer are the same as those for the owner, the motivations behind the infringer's commitment differ from the motivations of an owner. An infringer may seek to profit from the IPA or seek only to freely use the IPA. However, the infringer's interest commitment exists independently of whether or not the infringer seeks to profit from the IPA. Consider an infringer who downloads MP3 files and subsequently listens to music from his computer or an MP3 player. The infringer downloads copyrighted music, but he only seeks enjoyment. He does not attempt to profit financially from the infringement. This infringer may commit to either the fundamental or the adversarial interest; that is, he may or may not be willing to pay for the use. Consider the same infringer who now runs a CD mixing business. The infringer receives orders from clients and makes customized CDs from MP3 files. The infringer sells the CDs for a profit. Now the infringer realizes profits from the infringement. However, the presence of profits does not affect the infringer's commitment. He still may or may not be willing to pay for the use.

Despite the disparity in motivations, infringers fall into three

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60. For purposes of this article "infringer" means anyone using an intellectual property device without permission from the owner. Such actions may constitute fair use or another defense to infringement. However, for the sake of clarity, this article will broaden the definition for explanatory purposes of the more critical issues presented.

categories like owners:  $N^F$ ,  $N^A$ , and  $N$ .  $N^F$  represents an infringer committed to the fundamental interest. This infringer desires free use but understands payment for use will be required.  $N^A$  represents an infringer committed to the adversarial interest. This infringer expects free use and does not intend to pay for the use.  $N$  represents an infringer committed to a hybrid which approximately equalizes the two interests.  $N$  initially expects to use the IPA without payment, but  $N$  can be convinced to pay for use under acceptable terms.

Unlike the intellectual property owner, the infringer is much more likely to remain fixed to his initial interest commitment. While the owner's interest commitment is often determined by asking a business question, the infringer looks to a question of right and wrong: Do I have the right to freely use the IPA? Because the infringer selects his commitment based upon his distinction between right and wrong, it will take a significant change in circumstances to facilitate a shift in the infringer's commitment. The threat of imminent civil or criminal liability is usually the only factor to cause an infringer to shift his commitment. The stronger the threat of liability, the more likely the shift will occur.<sup>61</sup> Consequently, the infringer's commitment is less changeable than that of the owner.

#### *D. Conceptualizing the Two Interests for Intellectual Property Disputes*

Understanding the fundamental and adversarial interests is not a purely pedagogical concern. Conceptualizing the two interests for owners and infringers provides the proper insight into the nature of intellectual property disputes. Combining the two interests and the hybrid position, nine possible scenarios exist for intellectual property disputes:

- (1)  $O^F + N^F$
- (2)  $O^F + N$
- (3)  $O + N^F$
- (4)  $O + N$
- (5)  $O^F + N^A$
- (6)  $O + N^A$

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61. After its infamous dispute, Napster merged with legitimate music companies to offer legal music services. Joseph A. Sifferd, *The Peer-to-Peer Revolution: A Post-Napster Analysis of the Rapidly Developing File-Sharing Technology*, 4 VAND. J. ENT. L. & PRAC. 92, 103-04 (2002). The merger presented a drastic change from Napster's initial legal position. In terms of infringer interests, Napster shifted its commitment from the adversarial interest to the fundamental interest. Unfavorable judgments tend to cause such a shift.

- (7)  $O^A + N^F$
- (8)  $O^A + N$
- (9)  $O^A + N^A$

Scenarios (1) - (4) present disputes where both parties are either committed to the fundamental interest or to the hybrid. Scenarios (5) - (8) present disputes where one party is committed to the adversarial interest but the other party is committed to either the fundamental interest or the hybrid. Scenario (9) presents a dispute where both parties are committed to the adversarial interest. Additionally, this scenario encompasses “non-standard”<sup>62</sup> intellectual property disputes. For instance, consider two parties engaged in a dispute where both parties claim the right to one patent. Only one party, if any, can obtain the patent, and the subsequent limitation on the range of the parties’ interests causes these disputes to feature a dispute presented in Scenario (9).

The nine scenarios, when analyzed through the fundamental and adversarial interests, allow focus on the nature of the dispute in terms of each party’s perception of its rights. In other words, one may examine what the parties want rather than what the law has to offer. Every intellectual property dispute will fit into one of the nine scenarios. A typical legal analysis examines disputes in terms of which party is right or wrong and what solution the law has to offer. The nine scenarios provide the opportunity to examine disputes in terms of each party’s committed interest. From the latter examination, the question of which party is right fades from the forefront. Rather, the question of how to accommodate each party’s interest takes precedence. To thoroughly address this question it is crucial to analyze damages in intellectual property cases. Before transcending the concept of what the law has to offer, it is imperative to understand what the law has to offer. For the parties in the dispute, each must become aware of the stakes involved in litigation.

## II. A BRIEF OVERVIEW OF DAMAGES IN INTELLECTUAL PROPERTY CASES

Both parties to an intellectual property dispute must have full knowledge of the possible damage awards available. Generally, intellectual property owners are businessmen. They develop their IPAs

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62. A “non-standard” dispute is a distinction solely for the purposes of this article. There is nothing atypical about these disputes, but the distinction serves the function of categorizing these disputes with disputes where both parties are committed to the adversarial interest.

to create a competitive advantage over their competitors. Deciding whether to litigate or settle is more a business decision than a decision to enforce legal rights. If the cost of enforcing the rights exceeds or nearly equals the value of the IPA, the intellectual property owner faces a difficult decision. The infringer, whether he seeks profit from the IPA or not, must assess his potential liability for infringement. If the cost of enforced liability exceeds acceptable levels, the infringer faces a similarly difficult decision. Therefore, assessing the possible damages in an intellectual property dispute is a paramount concern for both parties. Unfortunately, creating this assessment presents a daunting task.

#### *A. Actual Damages and Reasonable Royalty Rates*

Damages are similar among trademark, patent, and copyright infringement claims. Under the Lanham Act, a successful plaintiff in a trademark infringement case may win actual damages in the form of plaintiff's damages or defendant's profits.<sup>63</sup> The defendant's profits "are probably the best possible measure of damages available."<sup>64</sup> The Patent Act allows damages to compensate for the infringement, and this award must at least amount to a reasonable royalty for the use of the invention.<sup>65</sup> Patent owners most often seek to recover the defendant's profits. To win these damages, the patent owner must prove "(1) demand for the patented product, (2) absence of acceptable non-infringing substitutes, (3) his manufacturing capability to exploit the demand, and (4) the amount of the profit he would have made."<sup>66</sup> The Copyright Act provides damages consisting of the copyright owner's actual damages and additional profits enjoyed by the defendant that are attributable to the infringement.<sup>67</sup> Alternatively, plaintiffs in trademark cases, like those in patent cases, may win damages of a reasonable royalty rate.<sup>68</sup> The reasonable royalty rate is based on hypothetical

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63. 15 U.S.C. § 1117 (2001). *See* Nintendo of Am., Inc. v. Dragon Pac. Int'l, 40 F.3d 1007, 1010 (9th Cir. 1994).

64. Polo Fashions, Inc. v. Craftex, Inc., 816 F.2d 145, 149 (4th Cir. 1987).

65. 35 U.S.C. § 284 (2001). *See* Oiness v. Walgreen Co., 88 F.3d 1025, 1029 (Fed. Cir. 1996).

66. Panduit Corp. v. Stahl Bros. Fibre Works, 575 F.2d 1152, 1156 (6th Cir. 1978).

67. 17 U.S.C. § 504 (2003). *See* Nelson-Salabes, Inc. v. Morningside Dev., L.L.C., 284 F.3d 505, 517 (4th Cir. 2002); E. Am. Trio Prods., Inc. v. Tang Elec. Corp., 97 F. Supp. 2d 395, 419 (S.D.N.Y. 2000).

68. *See, e.g.*, Smithkline Diagnostics, Inc. v. Helena Labs. Corp., 926 F.2d 1161, 1164 (Fed. Cir. 1991); Golight, Inc. v. Wal-Mart Stores, Inc. 216 F. Supp. 2d 1175, 1182 (D. Colo. 2002); A & H Sportswear Co. v. Victoria's Secret, 967 F. Supp. 1457, 1479 (E.D. Pa. 1997); Wright v. United States, 53 Fed. Cl. 466, 469 (Fed. Cl. 2002).

negotiations between the parties, had they so negotiated a royalty rate (licensing fee).<sup>69</sup> However, these damages are rarely awarded in trademark cases.<sup>70</sup>

Damages in intellectual property disputes are extremely difficult to calculate.<sup>71</sup> Two primary factors contribute to this difficulty. First, all three intellectual property statutes grant the factfinder wide discretion in assigning damage awards.<sup>72</sup> As a result, a wide range of possible damages exists, and the final trial verdict is always subject to review on appeal. Second, damages from infringement share the same intangible nature as intellectual property.<sup>73</sup> In other areas of law, such as contract disputes and personal injury claims, the plaintiff has concrete proof of damages. The plaintiff will have the written contract or medical bills to offer as proof. Intellectual property owners have no such luxury. Intellectual property owners must base their damage calculations on circumstantial evidence such as sales trends, marketing expenditures, and surveys.<sup>74</sup>

#### *B. Treble/Statutory Damages and Attorney's Fees*

The Lanham Act allows courts to award treble damages, but such an award may not constitute a penalty.<sup>75</sup> While the statute does not specifically set a standard for treble damages, most courts award treble damages based on some variation of willful infringement.<sup>76</sup> The Lanham Act also provides an award of reasonable attorney fees in

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69. *Wright*, 53 Fed. Cl. at 469.

70. 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:85 (4th ed. 2003) (usually when a royalty was awarded, the case involved an infringer continuing to use a mark after the license expired).

71. *See, e.g.*, *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1374 (10th Cir. 1977); *Deering, Milliken & Co. v. Gilbert*, 269 F.2d 191, 193-94 (2d Cir. 1959). *See* Roy J. Epstein, *The Market Share Rule With Price Erosion: Patent Infringement Lost Profits Damages After Crystal*, 31 AIPLA Q. J. 1, 1 (2003) (Dr. Epstein presents a dynamic economic model for calculating patent infringement damages by applying price erosion to the market share rule).

72. *See* discussion *supra* Section II.A.

73. *See* discussion *supra* Section I.A. This article briefly addressed the complexity in establishing a monetary value on intellectual property rights. Because it is impossible to establish a precise value on intellectual property, it logically follows that damages from intellectual property infringement will be equally as difficult to value.

74. *See* *Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 969 (D.C. Cir. 1990); *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 795 (5th Cir. 1983).

75. 15 U.S.C. §1117(a) (2001).

76. MCCARTHY, *supra* note 70, at § 30:91. It was anticipated the Supreme Court would finally clarify this provision in the summer of 2003. However, the Court found no trademark infringement and thus avoided any discussion on treble or additional damages. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041 (2003).

exceptional cases.<sup>77</sup> An exceptional case warranting an award of attorney fees occurs when the trademark infringement is malicious, fraudulent, deliberate, or willful.<sup>78</sup> These standards protect trademark owners from malicious infringement as well as protect innocent defendants from abusive owners.<sup>79</sup> However, courts rarely award attorney's fees to successful defendants.<sup>80</sup> To win attorney's fees, the prevailing party must demonstrate the exceptional nature of a case by clear and convincing evidence.<sup>81</sup> Once the party makes this showing, the court may award attorney's fees at its discretion.<sup>82</sup>

Attorney's fees are awarded in patent lawsuits similar to trademark lawsuits. In addition to treble damages, the Patent Act provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."<sup>83</sup> While the Patent Act allows an award of reasonable attorney's fees, such awards are relatively rare.<sup>84</sup>

The Copyright Act allows statutory damages up to \$150,000 per infringement for willful infringement.<sup>85</sup> The court may, in its discretion, allow the recovery of full costs by or against any party other than the United States or an officer thereof.<sup>86</sup> Unlike the other intellectual property statutes, the Copyright Act does not limit attorney's fees awards to exceptional cases.<sup>87</sup> Some courts award attorney's fees to prevailing plaintiffs in copyright actions absent unusual circumstances.<sup>88</sup> However, a number of courts require prevailing plaintiffs to prove

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77. 15 U.S.C. § 1117(a) (2001).

78. *See* *United Phosphorus, Ltd. v. Midland Fumigant, Inc.*, 205 F.3d 1219, 1232 (10th Cir. 2000); *Seatrac, Inc. v. Sonbeck Int'l, Inc.*, 200 F.3d 358, 372-73 (5th Cir. 2000); *Blockbuster Videos, Inc. v. City of Tempe*, 141 F.3d 1295, 1300 (9th Cir. 1998).

79. MCCARTHY, *supra* note 70, at §§ 30:100-01.

80. *See id.* at § 30:101.

81. *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 555 (5th Cir. 1998). *See* Christopher P. Bussert, *Interpreting the "Exceptional Cases" Provision of Section 1117(a) of the Lanham Act: When an Award of Attorney's Fees is Appropriate*, 92 TRADEMARK REP. 1118 (2002) (providing an extensive analysis of attorney's fees awards in trademark cases).

82. *Pebble Beach*, 155 F.3d at 555.

83. LAURENCE H. PRETTY, PATENT LITIGATION § 9:11 (2001) (citing 35 U.S.C. § 285 (2003)).

84. 3 JOHN GLADSTONE MILLS III, ET AL., PATENT LAW FUNDAMENTALS § 18:53 (2d ed. 2003).

85. 17 U.S.C. § 504(c) (2000), *declared unconstitutional* by *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1192 (9th Cir. 2001) (holding that the Seventh Amendment requires a jury determination of the amount of statutory damages). Congress is considering legislation to restore federal remedies for copyright infringement. *See* S. 1191, 108th Cong. § 3 (2003); H.R. 2344, 108th Cong. § 3 (2003).

86. 17 U.S.C. § 505 (2000).

87. 2 ALBA CONTE, ATTORNEY FEE AWARDS § 17:6 (2d ed. 2003).

88. *Id.*

willful infringement or bad faith by the losing party.<sup>89</sup> Alternatively, some courts award attorney's fees to successful defendants in an attempt to deter frivolous and unreasonable lawsuits.<sup>90</sup>

### *C. Intangible Awards*

Generally, discussions of intellectual property damages end with monetary damages and injunctions. Just as intellectual property is intangible, victories in intellectual property disputes yield intangible awards. While these awards cannot be quantified, they confer benefits upon the intellectual property owner. When the intellectual property owner wins the case, he wins legal precedent that strengthens protection of the IPA. A written judicial opinion exists that establishes the validity and strength of the IPA. The legal precedent grants the owner leverage against subsequent infringers. As subsequent infringers emerge, the precedent conveys increased bargaining power to the owner. Moreover, the precedent will likely cause subsequent infringers to shift from the adversarial commitment to the fundamental commitment and become more willing to enter licensing arrangements. Additionally, publicity from the trial exposes the IPA to more consumers, many of whom may not have known about the IPA. In essence, the trial provides advertising for the owner. As a deterrent factor, publicity from the trial also grants the owner notoriety. Subsequent infringers know the owner is willing to play hardball and fully litigate the dispute. This notoriety will prevent some infringers from infringing altogether and persuade other infringers from attempting to bluff through litigation procedures.

### *D. The Perils of Uncertainty*

Understanding possible damages is imperative for both parties in intellectual property disputes. Intellectual property cases do not present affirmative evidence of actual damages. There are no medical bills or signed contracts. There is no specificity. Consider a typical personal injury case where the plaintiff suffers a broken leg. The plaintiff has medical bills to prove the exact damages, and employment records will prove the exact amount of lost wages. The plaintiff knows the exact

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89. *Id.* See Jeffrey Edward Barnes, Comment, *Attorney's Fee Awards in Federal Copyright Litigation After Fogerty v. Fantasy: Defendants are Winning Fees More Often, but the New Standard Still Favors Prevailing Plaintiffs*, 47 UCLA L. REV. 1381, 1394-95 (2000) (providing a more detailed discussion of this issue).

90. David Moser, *Sixth Circuit Generates Guidelines for Awarding Attorney Fees*, ENT. L. & FIN. April 2002, at 3.

amount to claim, and the defendant knows the actual amount of potential liability. The parties in intellectual property rarely have the benefit of written evidence to quantify damages. The parties enter the battle unsure of the prize. The most glowing example is the classic dispute over the slogan: "Gatorade is Thirst Aid for That Deep Down Body Thirst."

The Sands, Taylor & Wood Co. (Sands) registered several trademarks covering THIRST-AID and "First Aid for Your Thirst," in the 1950s.<sup>91</sup> In 1983, The Quaker Oats Co. (Quaker) acquired the manufacturer of Gatorade.<sup>92</sup> Quaker immediately developed a new marketing campaign centered on the now famous "Gatorade is Thirst Aid for That Deep Down Body Thirst."<sup>93</sup> Quaker subsequently aired the first "Gatorade is Thirst Aid" commercials on television in 1984.<sup>94</sup> Sands filed suit for trademark infringement in 1984.<sup>95</sup> Sands eventually won almost \$43 million (inclusive of prejudgment interest and attorney's fees), but the litigation spanned across *six years* with the final verdict entered in 1990.<sup>96</sup> Quaker appealed and, in 1992, the Seventh Circuit vacated the prejudgment interest and remanded the case for recalculation utilizing a reasonable royalty rate.<sup>97</sup> On this first remand, Federal District Court Judge Marshall entered a final award for Sands in the amount of \$26.5 million; the year was 1993.<sup>98</sup> However, Quaker appealed again, and the Seventh Circuit sharply criticized the remanded verdict.<sup>99</sup> Consequently, the case was remanded in part again, and the appellate procedure consumed another year.<sup>100</sup> Finally, in 1995, Judge Marshall entered the final verdict of nearly \$27 million plus various pre-judgment and post-judgment interest awards accruing from various dates.<sup>101</sup>

In this dispute, the parties engaged in litigation for eleven years – six years from the complaint to the initial verdict plus five years of appeals. Both parties watched the total damages range from \$26 million to \$43 million. Judge Marshall and the Seventh Circuit disagreed at

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91. Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 949 (7th Cir. 1992).

92. *Id.* at 950.

93. *Id.*

94. *Id.*

95. *Id.* at 951.

96. *See* Sands, Taylor & Wood v. Quaker Oats Co., 1990 WL 251914, at 26 (N.D. Ill. 1990).

97. Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 963 (7th Cir. 1992).

98. Sands, Taylor & Wood Co. v. Quaker Oats Co., 1993 WL 204092, at 8 (N.D. Ill. 1993).

99. Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1352-53 (7th Cir. 1994).

100. *Id.*

101. Sands, Taylor & Wood Co. v. Quaker Oats Co., 1995 WL 221871, at 3 (N.D. Ill. 1995).

some point on almost every component of damages – actual damages, treble damages, and attorney’s fees. These discrepancies occurred because intellectual property law offers discretion and reasonableness factors rather than bright-line rules. The absence of a concrete measurement of damages hinders courts equally or more severely than the parties. Judges and juries must examine the parties’ arguments, sales records, marketing expenses, and past contracts with third parties to determine the proper damages in the dispute. Even after this assessment, the factfinder must choose whether or not to award treble damages, statutory damages, or attorney’s fees. The process yields a wide range of values in which the total damages award may fall.

Admittedly, the *Sands, Taylor* case is the exception rather than the rule, and intellectual property law has become more sophisticated in calculating damages. However, this case does illustrate a number of crucial points regarding damages for intellectual property cases. First, without direct tangible evidence such as a contract or medical bills, the actual damages are impossible to calculate precisely. Not only is this a problem for judges and juries, it imposes a similar burden on the parties. The owner cannot precisely calculate the economic loss inflicted upon the IPA. Likewise, the infringer cannot exactly calculate his potential liability. Second, intellectual property disputes are highly susceptible to appeals. Intellectual property law is structured around reasonableness factors rather than bright-line rules. Thus, the factfinder possesses a wide range of discretion when deciding the case. Additionally, intellectual property disputes tend to yield lucrative damage awards. The combination of discretion to the factfinder and large damage awards provides losing parties with great incentives to appeal. Third, intellectual property disputes easily can consume years in the appellate process. The final verdict may prove economically unsatisfying to the winning party. A successful infringer is especially susceptible to an extremely costly victory given the difficulty for a successful infringer to win attorney’s fees. Faced with these elements, parties in intellectual property disputes have incentives to consider entering alternative dispute resolution in lieu of full-blown litigation.

### III. FORMS OF ALTERNATIVE DISPUTE RESOLUTION

ADR refers to procedures for settling disputes by means other than litigation.<sup>102</sup> ADR primarily consists of two basic forms – arbitration and mediation.<sup>103</sup> Parties may use arbitration, mediation, and other hybrid forms of dispute resolution to settle their disputes without proceeding through the trial process.<sup>104</sup> In arbitration and mediation the parties submit the dispute to a neutral third party to resolve the disagreement.<sup>105</sup> Both ADR forms present the twin benefits of more efficient resolution and lower costs than litigation.<sup>106</sup> The parties are spared the lengthy processes of discovery and motion practice, which further enhances their cost savings.<sup>107</sup> Furthermore, neither arbitrators nor the parties are bound to precedent like judges; they are free to utilize common sense when making their decisions.<sup>108</sup> Also, the parties may select arbitrators and mediators with expertise in the field of the dispute.<sup>109</sup>

Despite their similarities, several key differences exist between arbitration and mediation. The most significant difference is the role of the conducting party.<sup>110</sup> The arbitrator is a decision-maker, whereas the mediator plays the role of settlement-facilitator.<sup>111</sup> Thus, arbitration more resembles a small trial than a negotiation,<sup>112</sup> and arbitration retains the rigidity of litigation.<sup>113</sup> Mediation provides the distinct advantage of allowing the parties to design their own resolution by means of a

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102. Adam Epstein, *Alternative Dispute Resolution in Sport Management and the Sport Management Curriculum*, 12 J. LEGAL ASPECTS SPORT 153, 154 (2002).

103. *Id.*

104. *Id.*

105. Tom Grant, *Turkey Embraces Arbitration as Step Toward Global Economic Integration*, 74 N.Y. ST. B.J. 46, 47 (2002); Peter K. Yu, *Toward a Nonzero-Sum Approach to Resolving Global Intellectual Property Disputes: What We Can Learn From Mediators, Business Strategists, and International Relations Theorists*, 70 U. CIN. L. REV. 569, 589 (2002).

106. Joshua R. Welsh, Comment, *Has Expansion of the Federal Arbitration Act Gone Too Far?: Enforcing Arbitration Clauses in Void Ab Initio Contracts*, 86 MARQ. L. REV. 581, 582 (2002).

107. *Id.*

108. *Id.*

109. Robert L. Ebe, *The Nuts and Bolts of Arbitration*, 22 FRANCHISE L.J. 85, 86-87 (2002). See <http://www.ilnd.uscourts.gov/legal/wdadr/> (last visited 10/25/03) (listing available mediators by their respective areas of expertise for the parties to choose).

110. Epstein, *supra* note 102, at 154.

111. *Id.*

112. Hayden R. Brainard, *Survey and Study of Technology Development and Transfer Needs in New York*, 9 ALB. L.J. SCI. & TECH. 423, 445 (1999).

113. *Id.*

mutually agreed-upon solution.<sup>114</sup> The mediator serves as a translator, guiding the parties to reach an agreement.<sup>115</sup> The mediator expands the parties' available resources by providing an understanding of the complicated issues at hand as well as an unemotional analysis of the underlying problem.<sup>116</sup> Mediation deflects the focus of the dispute away from rights, winners, and losers.<sup>117</sup> Instead, mediation focuses on the parties' interests and mutual gains.<sup>118</sup> As a result, mediation gives the parties an opportunity to reinforce their relationships with one another.<sup>119</sup> Parties in mediation may strengthen relationships of trust and respect or terminate the relationship altogether in a manner that minimizes mental anguish as well as monetary costs.<sup>120</sup>

Mediation serves as the predominantly beneficial form of ADR for intellectual property disputes. In Section I, this article presented the fundamental and adversarial interests governing intellectual property disputes. The true nature of intellectual property disputes lies in each party's interest commitment. Because mediation focuses on the parties' interests, it is best tailored to handle intellectual property disputes.<sup>121</sup> Mediation focuses on each party's interest commitment to assist the parties in creating a mutually beneficial agreement.<sup>122</sup> Stated differently, mediation focuses on the parties' interests to resolve the dispute rather than declare a winner.<sup>123</sup> Mediation thus overcomes the shortfalls of arbitration. Mediation allows the parties to design a mutually beneficial solution, whereas arbitration only provides a more efficient means of declaring a winner.<sup>124</sup> Mediation provides a platform where both the owner and infringer may satisfy their interest commitment to some extent. While mediation better serves intellectual property disputes, it is necessary to analyze a hybrid form of mediation and arbitration.

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114. HOWARD C. ANAWALT & ELIZABETH E. POWERS, *IP STRATEGY: COMPLETE INTELLECTUAL PROPERTY PLANNING, ACCESS AND PROTECTION* § 5:26 (2003).

115. *Id.*

116. *Id.*

117. Danny Ciraco, *Forget the Mechanics and Bring in the Gardeners*, 9 U. BALT. INTELL. PROP. L.J. 47, 60 (2000).

118. *Id.*

119. Kathy L. Cerminara, *Contextualizing ADR in Managed Care: A Proposal Aimed at Easing Tensions and Resolving Conflict*, 33 LOY. U. CHI. L.J. 547, 557 (2002).

120. *Id.*

121. *But see* discussion *infra* Section V for the interrelation of mediation, arb-med, and arbitration for each of the nine scenarios.

122. *See* Ciraco, *supra* note 117, at 60.

123. *Id.*

124. *Id.* at 63.

*A. Arb-Med/Med-Arb*

Mediation-Arbitration (med-arb) is a hybrid form of mediation and arbitration.<sup>125</sup> Parties most often use med-arb when the dispute is complex and involves numerous issues.<sup>126</sup> Under med-arb, the parties attempt to resolve the dispute first during a mediation phase.<sup>127</sup> After mediation, the parties submit unresolved issues to arbitration.<sup>128</sup> Sometimes the mediator also serves as the arbitrator, but this dual role is often unwise for obvious reasons.<sup>129</sup> Arb-med is the same hybrid as med-arb, but arbitration precedes mediation.<sup>130</sup> In arb-med, the parties first enter a conventional arbitration.<sup>131</sup> The arbitrator renders a decision, but the decision is placed in a sealed envelope.<sup>132</sup> Neither party knows the substance of the decision, only that a decision has been made.<sup>133</sup> Then the parties proceed to a conventional mediation.<sup>134</sup> If the parties resolve the dispute in mediation, the resolution ends the matter.<sup>135</sup> If a superceded arbitration decision is disclosed after the mediation, one of the parties may become frustrated.<sup>136</sup> However, the parties have the contractual power to specify disclosure of the decision prior to mediation.<sup>137</sup> If the parties fail to reach an agreement in the mediation, the initial arbitration award decides the dispute.<sup>138</sup>

Arb-med and med-arb are both recognized forms of ADR. However, med-arb possesses a striking weakness that does not foster agreement. The major point of mediation is to foster communication between the parties so they can reach an agreement. In med-arb, a binding arbitration will follow the mediation if the parties fail to reach an agreement.<sup>139</sup> Therefore, the parties will likely hold back vital

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125. Epstein, *supra* note 102, at 160.

126. *Id.*

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.*

131. Stephen K. Huber, *The Role of Arbitrator: Conflicts of Interest*, 28 *FORDHAM URB. L.J.* 915, 929 (2001).

132. *Id.*

133. *Id.*

134. *Id.* Sometimes, the neutral party begins working with the parties as a mediator but at some point becomes an arbitrator. This model is much weaker for a number of reasons, primarily due to the arbitrary transition from an arbitration to a mediation. See Cerminara, *supra* note 119, at 561.

135. Huber, *supra* note 131, at 929.

136. *Id.*

137. *Id.*

138. *Id.*

139. *Id.*

information during the mediation in case the dispute goes to arbitration. In mediation, the parties are free to walk away for any reason. Med-arb deprives the parties of this freedom. Parties willing to freely talk in a true mediation will take a more conservative approach than during the mediation phase of a med-arb. The threat of entering a subsequent arbitration prevents the parties from openly seeking a solution. The subsequent arbitration hinders the mediation from providing an agreement. Parties who would reach an agreement in a true mediation may reach an impasse during the mediation phase of med-arb.

Arb-med deprives the parties of the freedom to freely walk away but generates the opposite result. The parties first fight out the dispute in arbitration. The decision is entered, and nothing will change it. In the mediation phase, the parties may talk freely. They can try to work out an agreement or gamble that the arbitration decision is favorable. Parties willing to talk freely in a true mediation will take the same approach during the mediation phase of arb-med. But, parties unwilling to talk freely in a true mediation now have a greater incentive to do so in the mediation phase of arb-med. With an arbitration decision already entered, the parties have nothing to lose by trying to reach an agreement. Consequently, arb-med fosters agreement between the parties better than med-arb.

### *B. The Alternative Dispute Resolution Act*

In 1998, Congress enacted the Alternative Dispute Resolution Act (ADRA).<sup>140</sup> The ADRA requires each federal district court to implement an ADR program and specifically authorizes courts to compel civil litigants into mediation.<sup>141</sup> The ADRA allows the district courts substantial flexibility and discretion in designing their ADR programs.<sup>142</sup> Courts have the ability to determine the extent of the program, what ADR forms to use, and what disputes are subject to the program.<sup>143</sup> Along with the ADRA, a variety of public and private forces have attempted to nudge civil litigants into ADR procedures in the early stages of their lawsuits.<sup>144</sup> Mandatory ADR programs force civil litigants to make serious choices about settlement early in their

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140. Alternative Dispute Resolution Act of 1988, 28 U.S.C. § 651 (2000). See Holly A. Streeter-Schaefer, Notes, *A Look at Court Mandated Civil Mediation*, 49 DRAKE L. REV. 367, 372 (2001).

141. Mark R. Anderson, *Settle or Roll the Dice?*, 28 LITIG. 37, 39 (2001).

142. Streeter-Schaefer, *supra* note 140, at 373.

143. *Id.*

144. Anderson, *supra* note 141, at 38.

lawsuits.<sup>145</sup> The logic behind this initiative is straightforward: when the parties seek settlement before incurring large litigation costs, they are more likely to work out an agreement than war-torn, ego-bruised litigants.<sup>146</sup>

In 1996, the District Court for the Northern District of Illinois implemented The Lanham Act Mediation Program (Program).<sup>147</sup> The Program was specifically designed to provide mediation services for trademark disputes.<sup>148</sup> Under the Program, all cases are assigned to the Program, but individual parties may choose whether or not to participate.<sup>149</sup> The response from the Program was overwhelming; most participating lawyers rated the Program exceptionally high and stated they would use the Program again. The Program has effectively achieved a 65-72 percent resolution rate of all disputes submitted to mediation.<sup>150</sup> This figure warrants mentioning again: in two-thirds of all disputes submitted to mediation, the parties reached an agreement.<sup>151</sup>

The Program serves as the best evidence of mediation's strength in fostering mutual agreements in intellectual property disputes.<sup>152</sup> If mediation can provide agreements in roughly two-thirds of all submitted disputes, parties should consider submitting the dispute to mediation rather than litigation.

#### IV. THE ADVANTAGES/RISKS CALCULUS FOR INTELLECTUAL PROPERTY DISPUTES

Parties in intellectual property disputes must base their decisions to litigate or mediate upon the advantages/risks calculus between the two options. The calculus is complex, and an exhaustive documentation would span across numerous volumes of text. This article will discuss some of the major advantages and risks of litigation<sup>153</sup> as well as the

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145. *Id.*

146. *Id.* The American Intellectual Property Law Association is following the trend of promoting ADR in intellectual property disputes. See [http://www.aipla.org/committees/reports/pdf\\_rpts/adr.pdf](http://www.aipla.org/committees/reports/pdf_rpts/adr.pdf) (last visited 10/25/03).

147. Jennifer Shack & Susan M. Yates, *Mediating Lanham Act Cases: The Role of Empirical Evaluation*, 22 N. ILL. U. L. REV. 287, 288 (2002). For more information on the Program, see <http://www.ilnd.uscourts.gov/legal/wdadr/> (last visited 10/25/02).

148. Shack & Yates, *supra* note 147, at 288.

149. *Id.* at 289.

150. *Id.* at 300.

151. *Id.*

152. *But see* discussion *infra* Section V for the interrelation of mediation, arb-med, and arbitration for each of the nine scenarios.

153. While it is understood "litigation" encompasses motion practice and ADR procedures, "litigation" in this article will refer to the parties proceeding to trial.

advantages and risks of mediation.<sup>154</sup> While the calculus is not an exact science, it is a substantive evaluation that intellectual property owners and infringers must consider. Attorneys must be ready to accurately evaluate the client's advantages/risks calculus to decide the appropriate tactics in resolving the dispute.<sup>155</sup> Any serious pursuit of mediation presents a question of risk management.<sup>156</sup> The lawyer best serves the client by strategically analyzing the advantages/risks calculus and by providing complete information and options.<sup>157</sup> Consequently, the lawyer must analyze the calculus the moment a dispute arises.<sup>158</sup> Intellectual property disputes impose great expense on the parties through burdensome discovery processes, particularly in high-tech disputes.<sup>159</sup> Additionally, intellectual property disputes are often incredibly time sensitive.<sup>160</sup> Moreover, intellectual property disputes often consist of complex facts and involve a significant degree of technical know-how.<sup>161</sup> Delay in evaluating the calculus may prove costly.

#### *A. Advantages/Risks Calculus for Intellectual Property Owners*

Intellectual property owners must examine the calculus along with their interest commitment and potential damage awards in the particular dispute. While the calculus is necessary to evaluate the decision to litigate or mediate, the calculus will provide no definitive answers. It is not an equation where the owner can plug in a set of values and receive a yes or no decision. But, the attorney and owner working together should be able to formulate an effective strategy based on the advantages and risks of proceeding to litigation or mediation.

##### 1. The Advantages of Litigation

Litigation offers the intellectual property owner several advantages over ADR. First, the owner may potentially win the full damages sought

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154. While this article focuses on mediation, the true calculus would apply to all forms of ADR.

155. Anderson, *supra* note 141, at 39.

156. *Id.*

157. *Id.*

158. Miles J. Alexander, *Settlement of Intellectual Property Disputes: When is it Better to Switch than Fight?*, ALI-ABA COURSE MATERIALS J., Nov. 1992, at 1, 3.

159. Ciraco, *supra* note 117, at 52.

160. *Id.* Patent disputes and technological copyright disputes are especially susceptible to time limitations given the short duration of patent rights and the rapid advance of technology.

161. *Id.*

in the complaint. Second, in addition to full damages, the intellectual property owner may win treble or statutory damages as well as attorney's fees for the dispute. Third, a victory at trial will strengthen protection of the IPA. Fourth, the intellectual property owner will have a written statement detailing the reasons for his victory. Finally, a victory at trial will establish legal precedent for future disputes.

## 2. The Risks of Litigation

Despite its large potential rewards, litigation imposes a number of significant risks on the owner. One of the major issues facing intellectual property owners is the cost of enforcing their intellectual property rights.<sup>162</sup> Intellectual property litigation typically spans several years with total costs commonly exceeding hundreds of thousands or even millions of dollars.<sup>163</sup> A 2001 survey of the American Intellectual Property Law Association (AIPLA) calculated the average cost through trial of typical patent disputes (those disputes between \$1 and \$25 million at risk) at \$1,499,000; \$699,000 for similar trade secret disputes; \$502,000 for trademark disputes; and \$400,000 for copyright disputes.<sup>164</sup> The highly competitive nature of litigation encourages the parties to exaggerate their claims and thus drive up the costs of litigation.<sup>165</sup> These exaggerated positions ignite the costs of seeking the "truth" when both parties have expanded the bounds of the dispute.<sup>166</sup> Additionally, the court system establishes a great quantum of merit upon evidentiary procedure, witness credibility, and burdens of proof.<sup>167</sup> The result is a painstaking process surrounded by opportunities for delay.<sup>168</sup> With the exorbitant costs and huge potential damages in intellectual property cases, the losing party often appeals, which further adds to the costs and duration of the dispute.<sup>169</sup>

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162. Stephen Y. Chow, *Strategic Alliances: Intellectual Property*, 1063 PRACTISING L. INST.: CORP. L. & PRAC. COURSE HANDBOOK SERIES 273, 285 (1998).

163. Ciraco, *supra* note 117, at 68.

164. FETZER-KRAUS, INC., AIPLA REPORT OF ECONOMIC SURVEY 2001 84-90 (2001) (noting that when more than \$25 million dollars is at risk, the average litigation costs reach \$2.99 million for patent disputes, \$1.00 million for trademark disputes, \$750 thousand for copyright disputes, and \$1.01 million for trade secret disputes. See *Maurice A. Garbell, Inc. v. Boeing Co.*, 546 F.2d 297, 301 (9th Cir. 1976) (allowing attorney's fees of \$237,062.50 for 18,525 hours spread out over 10 years of litigation).

165. Ciraco, *supra* note 117, at 68.

166. *Id.*

167. *Id.* at 69.

168. *Id.*

169. See *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 949 (7th Cir. 1992). The last sentence of the opening paragraph of the opinion reads, "Not surprisingly, Quaker appeals,"

While over 90 percent of cases do not proceed to trial,<sup>170</sup> parties still incur substantial costs from the time of filing the claim through discovery.<sup>171</sup> These costs diminish the value of 11th hour settlements.<sup>172</sup> Clearly, parties gain more value from settlements early in the litigation than from 11th hour settlements where the parties have already incurred substantial litigation expenses.<sup>173</sup> Even a high settlement agreement on the eve of trial may confer less economic value to the owner than a lesser settlement earlier in the litigation process.<sup>174</sup> With these factors, litigation may offer a bittersweet victory, even for successful litigants.<sup>175</sup> Proceeding to trial is a huge gamble.<sup>176</sup> “This realization is driven home when you are waiting for the jury to return a verdict or a judge to announce a decision. At that moment, it is crystal clear the outcome can go either way and you might lose.”<sup>177</sup> Once the judge or jury has deliberated to make the decision, the owner truly realizes his lack of say in the final decision.<sup>178</sup> While facing these perils of litigation, owners must evaluate the option of submitting the dispute to mediation.

### 3. The Advantages of Mediation

The mediation process is designed to alleviate the massive risks associated with litigation. Mediation offers substantial cost savings over litigation.<sup>179</sup> Mediation often saves about eighty percent of the total costs of litigation.<sup>180</sup> Litigation grants an advantage to parties with significant financial resources, but mediation allows parties of lesser financial means an equal opportunity to effectively voice their

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after the district court found Quaker liable for nearly \$43 million, including prejudgment interest and attorney’s fees. *Id.*

170. Alexander, *supra* note 158, at 9.

171. *See generally* FETZER-KRAUS, *supra* note 164.

172. Anderson, *supra* note 141, at 39-40.

173. *Id.*

174. *Id.* at 40.

175. Janet Stidman Eveleth, *Settling Disputes Without Litigation*, 34 MD. B.J. 2, 8 (2001).

176. *Id.*

177. *Id.* Ms. Eveleth quotes the Honorable Howard S. Chasanow, recently of the Court of Appeals of Maryland. Ms. Eveleth offers no citation; it is assumed Judge Chasanow’s comments came from informal conversation.

178. *See id.*

179. Ciraco, *supra* note 117, at 70. One prominent attorney involved in a multi-defendant securities fraud claim negotiated a settlement for his client. The other defendants remained in the litigation before reaching a final judgment ten years later. The decision to settle spared the client ten years of litigation as well as fees. While this scenario involved a settlement, mediation would have achieved a similar result. Anderson, *supra* note 141, at 38. *See* Peter H. Kaskell, *Is Your Infringement Dispute Suitable for Mediation?*, 20 ALTERNATIVES 45, 58 (2002).

180. Ciraco, *supra* note 117, at 70.

positions.<sup>181</sup> Judge Chasanow commented on the benefits of mediation, “We saved three to five years in time; \$100,000s in dollars saved, and untold emotions by resolving it in this manner.”<sup>182</sup> The cost savings are not limited to financial savings.

Mediation also saves the parties intangible costs. In a trial, the parties must relive the damaging acts that brought them to trial.<sup>183</sup> While intellectual property plaintiffs do not have a physical tragedy to relive, mediation does spare them the mental anguish and suffering of an arduous litigation process.<sup>184</sup> Tom Monaghan, the former owner of Domino’s Pizza, once described the litigation experience as Chinese water torture.<sup>185</sup> After eventually winning the case, Mr. Monaghan commented, “I cried like I’d never cried before in my life.”<sup>186</sup> Along with the mental anguish, intellectual property disputes utilize a painstaking discovery process.<sup>187</sup> The discovery process forces the parties to suffer intangible losses in the form of lost time.<sup>188</sup> The parties themselves, as well as key employees, often spend hours in depositions; the lost time can never be recovered.<sup>189</sup>

While litigation can consume years, mediation often provides a resolution within a few hours or days.<sup>190</sup> Patent disputes in particular embrace a paramount importance on time.<sup>191</sup> Otherwise, due to technological advances, the patent may become invalid even before resolution of the dispute.<sup>192</sup> While trademark, copyright, and trade secret disputes lack this resolve-before-it-is-obsolete element, there is still a need for a speedy resolution.<sup>193</sup> Intellectual property disputes demand

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181. *Id.* See Eveleth, *supra* note 175, at 3 (giving the following example: in the summer of 2000, a personal injury case settled for \$2.6 million even though the plaintiff never filed a lawsuit).

182. Eveleth, *supra* note 175, at 9.

183. *Id.*

184. Emotional distress is a recognized injury where aggrieved parties may recover monetary damages in tort. PROSSER AND KEETON ON THE LAW OF TORTS § 12 (W. Page Keeton et al. eds, West 5th ed. 1984). While this article is not suggesting parties should be able to recover damages for going through litigation, parties must give serious consideration to the mental anguish involved in the litigation process.

185. Alexander, *supra* note 158, at 6.

186. *Id.*

187. Ciraco, *supra* note 117, at 69.

188. *Id.*

189. *Id.*

190. Carmen Collar Fernandez & Jerry Spolter, *International Intellectual Property Dispute Resolution: Is Mediation a Sleeping Giant?*, 53 DISP. RESOL. J. 62, 63 (1998). Furthermore, the party seeking mediation early in the dispute shows strength rather than weakness. The party with the weaker case has the harder time in mediation. Anderson, *supra* note 141, at 39.

191. Ciraco, *supra* note 117, at 52.

192. *Id.*

193. See Fernandez & Spolter, *supra* note 190, at 63.

swift resolution so the parties can focus their energies back on making money rather than financing litigation.<sup>194</sup> However, swift resolution cannot come at the sacrifice of confidentiality.<sup>195</sup> Confidentiality is often crucial in intellectual property disputes.<sup>196</sup> Mediation guarantees the parties privacy and confidentiality.<sup>197</sup> Arguably, confidentiality is the most important advantage mediation offers.<sup>198</sup> Confidentiality plays an even more important role in trade secret disputes where the value of the trade secret derives from the secrecy of the IPA.<sup>199</sup> Not surprisingly, confidentiality is probably the most frequently discussed issue in mediation.<sup>200</sup> Along with confidentiality, the parties in intellectual property disputes seek expertise in the factfinder to deal with complex issues.<sup>201</sup> Mediation offers this expertise by the mediator, expertise that juries and judges often lack.<sup>202</sup> By providing the necessary expertise, mediation saves the parties additional time and effort, as well as providing more equitable results.<sup>203</sup>

#### 4. The Risks of Mediation

Mediation does present its own set of disadvantages for the intellectual property owner. First, the negotiated settlement will likely fall short of a possible trial award. Second, mediation eliminates the chances of winning treble/statutory damages or attorney's fees. Third, there is an uncertainty as to when to mediate (as opposed to trial which sets out a schedule). Finally, there is no way to impeach parties at trial with false statements made in mediation.<sup>204</sup> In other words, the

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194. *Id.*

195. *See* Mills, *supra* note 55, at 227.

196. *Id.* at 231.

197. Christine Lepera & Jeannie Costello, *Benefits of Mediating Intellectual Property and Entertainment-Related Disputes*, 605 PRACTISING L. INST.: LITIG. & ADMIN. PRAC. COURSE HANDBOOK SERIES 621, 623 (1999).

198. Kaskell, *supra* note 179, at 60.

199. Nancy Neal Yeend & Cathy E. Rincon, *ADR and Intellectual Property: A Prudent Option*, 36 IDEA 601, 605 (1996).

200. Joseph A. Torregrossa, *Appellate Mediation in the Third Circuit—Program Operations: Nuts, Bolts and Practice Tips*, 47 VILL. L. REV. 1059, 1075 (2002).

201. Brainard, *supra* note 112, at 449.

202. *Id.* at 450. *See generally* LeRoy L. Kondo, *Untangling the Tangled Web: Federal Court Reform Through Specialization for Internet Law and Other High Technology Cases*, 2002 UCLA J.L. & TECH. 1 (discussing the difficulty facing judges and juries to understand technical complexities in internet and high technology cases).

203. Mills, *supra* note 57, at 227-28.

204. Lynne H. Rambo, *Impeaching Lying Parties with Their Statements During Negotiation: Demysticizing the Public Policy Rationale Behind Evidence Rule 408 and the Mediation-Privilege Statutes*, 75 WASH. L. REV. 1037, 1044-1045 (2000).

intellectual property owner may rely on false information in the mediation.<sup>205</sup>

With these considerations, the intellectual property owner's calculus takes form. The calculus consists of four components, the advantages and disadvantages of both proceeding to trial and pursuing mediation. The advantages of proceeding to trial are:

- (1) Possibility of winning full damages,
- (2) Possibility of winning treble/statutory damages,
- (3) Possibility of winning attorney's fees,
- (4) Strengthen the IPA,
- (5) Establish legal precedent, and
- (6) Intangible awards.

Conversely, the disadvantages of proceeding to trial are:

- (1) Possibility of an outright loss,
- (2) Weaken or invalidate the IPA,
- (3) Insufficient damages award,
- (4) Long trial,
- (5) Long appellate process,
- (6) Possibility of not winning (or not qualifying for) treble/statutory damages,
- (7) Possibility of not winning (or not qualifying for) attorney's fees,
- (8) Mental anguish/suffering,
- (9) No voice in the final decision,
- (10) Massive litigation costs,
- (11) 11th hour settlements,
- (12) Intangible losses,
- (13) Probably eliminates future relationships,
- (14) Issues turn on credibility of witnesses,
- (15) Decision-maker lacks technical expertise, and
- (16) Bad publicity.

Whereas, the advantages of mediation are:

- (1) Have a voice in the final solution,
- (2) Cost beneficial,
- (3) Avoid 11th hour settlements,

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205. *Id.*

- (4) Work with the opposing party to establish a licensing fee,
- (5) Guaranteed to strengthen the IPA,
- (6) Minimize intangible losses,
- (7) Minimize mental anguish/suffering,
- (8) Time sensitive,
- (9) Promote future relationships (if desired),
- (10) Issues do not turn on witness credibility,
- (11) Technical expertise in decision-makers, and
- (12) Confidentiality of the final agreement.

Finally, the disadvantages of mediation are:

- (1) Uncertainty as to when to mediate,
- (2) No treble/statutory damages,
- (3) No attorney's fees,
- (4) Licensing fee may not be as high as trial award,
- (5) Cannot use statements made in mediation to impeach the opposing party at trial, and
- (6) Cannot discover damaging evidence from the infringer through discovery.

As mentioned before, this representation of the advantages/risks calculus is not exhaustive (an exhaustive list is not feasible). As a further aside, the quantification of each factor will differ depending on the owner and the facts of the case. For example, mental anguish/suffering will weigh significantly in an individual owner's decision. The saved time and trouble of mediation may prove enough for the individual owner to forego any intention of proceeding to trial. Stated differently, mental anguish/suffering alone may be sufficient to shift the individual owner from  $O^A$  to  $O$  or from  $O$  to  $O^F$ . Conversely, bad publicity is often of no concern to the individual owner. For a large corporation suing to protect its intellectual property, mental anguish/suffering will prove a negligible factor. However, bad publicity will weigh significantly and may be enough on its own merits for the corporation not to proceed to trial; that is, the pressure of bad publicity may cause the corporation to shift its interest commitment.

Owners must also apply the calculus to the value of each IPA as well as the owner's available complementary factors to realize such value. An intellectual property owner with massive marketing, production, and distribution resources may place greater emphasis on the advantages of litigation. Such an owner can fully realize the economic

value of the IPA without outsourcing vital business components. An owner without these resources may look wholly to the advantages of mediation to seek means of realizing the IPA's full economic value. Complete application of the calculus demands numerous considerations for the owner in evaluating whether to litigate or mediate. The calculus is equally complex for infringers.

*B. Advantages/Risks Calculus for Intellectual Property Infringers*

Intellectual property infringers face a similar calculus as IP owners. Infringers are presented with the same potential windfalls and perils as owners. The calculus is the same, with some minor variances. For instance, damages awards in intellectual property cases function as advantages for owners but serve as liabilities for infringers. The substance of the considerations is largely equivocal, and a repeat of the analysis is not necessary. The advantages of trial for the infringer are:

- (1) Potentially win the right to profit from the IPA free of charge,
- (2) Potentially diminish the value of or invalidate the IPA,
- (3) Potentially establish a fair use provision,
- (4) Establish legal precedent, and
- (5) Written rationale for the final decision.

The risks of trial for the infringer are:

- (1) Possibility of excessive trial court award to the owner,
- (2) Possibility of paying treble/statutory damages,
- (3) Possibility of paying the owner's attorney's fees,<sup>206</sup>
- (4) Massive litigation costs,
- (5) Possibility of losing the right to profit from the IPA,
- (6) Mental anguish/suffering,
- (7) Long trial,
- (8) Long appellate process,
- (9) No voice in final decision,
- (10) Intangible losses,
- (11) Probably eliminates future relationships,
- (12) 11th hour settlements,
- (13) Issues turn on witness credibility, and

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<sup>206</sup> See *supra* Section II. If the unsuccessful infringer is forced to pay the owner's attorney's fees, the infringer is essentially forced to pay twice for a losing case. The liable infringer may have to pay its own costs as well as the owner's costs.

(14) Decision-maker lacks technical expertise.

The advantages of mediation for the infringer are:

- (1) Guaranteed right to future profits from the IPA,
- (2) Have a voice in the final solution,
- (3) Cost beneficial,
- (4) Eliminates possibility of paying treble/statutory damages,
- (5) Eliminates possibility of paying owner's attorney's fees,
- (6) Avoid 11th hour settlements,
- (7) Time sensitive,
- (8) Minimize mental anguish/suffering,
- (9) Minimize intangible losses, and
- (10) Promote ongoing relationship (if desired).

The risks of mediation for the infringer are:

- (1) Eliminates free use,
- (2) Lose opportunity to invalidate or weaken the IPA, and
- (3) Negotiated licensing fee may exceed trial court award (but, if a royalty rate is awarded at trial, the infringer loses the right to future use).

Like the intellectual property owner, the advantages/risks calculus for the intellectual property infringer is not an exact science. The quantification of each factor will differ depending on the infringer and the particularities of the dispute. To add an additional complication, the owner and the infringer may easily be forced to apply both calculi in the same dispute. Consider two patentees both claiming infringement of their respective patents. The plaintiff must apply the owner calculus toward his claim, but he must also apply the infringer calculus as the counterdefendant. The reverse is true for the defendant, for he assumes the role of owner in the counterclaim.

### *C. Analyzing the Calculus Against the Nine Scenarios*

An examination of the owner and infringer calculus reveals a commonality between the owner and the infringer: each party most often favors mediation over trial. In each calculus, the advantages of mediation and the risks of litigation are the strongest components. In other words, the parties' interests are most often aligned, at least to the

extent of whether to litigate or mediate. Of course, regardless of the parties' preference for mediation, the mediation cannot succeed unless the parties share other common interests. In Section I, this article presented the fundamental and adversarial interests as well as the nine possible scenarios in intellectual property disputes. For illustrative purposes, the nine scenarios are represented here in tabular form:

<b>Parties</b>	<b>Group</b>
1. $O^F + N^F$	A
2. $O^F + N$	A
3. $O + N^F$	A
4. $O + N$	A
5. $O^F + N^A$	B
6. $O^A + N^F$	B
7. $O^A + N$	B
8. $O + N^A$	B
9. $O^A + N^A$	C

The nine scenarios illustrate a dynamic feature concerning intellectual property disputes: the parties' interests most often align. In Group A disputes, the parties' interests are aligned before any negotiation or mediation takes place. The owner is willing to allow use for payment, and the infringer is willing to pay for use. Stated differently, both parties are willing to enter a licensing agreement concerning the IPA. In Group B disputes, only one of the parties is unwilling to enter a licensing agreement before entering negotiation or mediation. After mediation commences, all that is needed for an agreement is for the unwilling party to shift from the adversarial interest to the hybrid. Through reality testing and other mediation techniques, this shift will likely occur.<sup>207</sup>

An analysis of each party's calculus combined with an analysis of the nine scenarios demonstrates two crucial points in evaluating intellectual property disputes. First, each party's calculus suggests mediation rather than litigation for most disputes. Second, the nine scenarios illustrate that in eight scenarios the parties' interests align or are likely to align. This alignment is crucial for mediation to succeed,

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207. Reality testing includes consideration of the best and worst alternatives to a negotiated agreement as well as making both parties objectively analyze their proposed solutions. See MARK D. BENNETT & MICHELE S.G. HERMANN, *THE ART OF MEDIATION* 63 (1996). This intriguing work provides a step-by-step analysis of all the necessary components of a successful mediation.

and it exists in intellectual property disputes. The parties prefer mediation, and this mutual preference combines with the requisite interest alignment or with a strong likelihood of interest alignment. Intellectual property disputes are thus prime candidates for an ADR program centered on mediation.

#### V. THE INTELLECTUAL PROPERTY DISPUTE RESOLUTION PROPOSAL

The ultimate goal of this article is to propose a sophisticated dispute resolution program for intellectual property disputes (Proposal). The Proposal will provide a means for efficiently resolving intellectual property disputes through trial or ADR. Using the concepts of the fundamental and adversarial interests, the Proposal will design proper dispute resolution platforms for particular disputes. The Proposal centers on the nine scenarios in intellectual property disputes. For each scenario, a particular form of dispute resolution will best serve the needs of the parties. Using the nine scenarios and knowledge of dispute resolution methods, the Proposal manifests the following chart:

Parties	Group	Likelihood of Agreement	ADR or Trial	Resolution Form
1. $O^F + N^F$	A	Excellent	ADR	Mediation
2. $O^F + N$	A	Excellent	ADR	Mediation
3. $O + N^F$	A	Excellent	ADR	Mediation
4. $O + N$	A	Excellent	ADR	Mediation
5. $O^F + N^A$	B	Very Good	ADR	Arb-Med
6. $O^A + N^F$	B	Very Good	ADR	Arb-Med
7. $O^A + N$	B	Good	ADR	Arb-Med
8. $O + N^A$	B	Good	ADR	Arb-Med
9. $O^A + N^A$	C	Poor	Trial	Trial or Arbitration

The likelihood of agreement column derives statistical confirmation from the Lanham Act Mediation Program (Program).<sup>208</sup> The Program generated agreements in two-thirds of all mediated disputes. The chart lists a “Very Good” or better rating for two-thirds of the disputes and

208. See *supra* Section III. The author realizes one correlation does not establish statistical certainty, but the correlation of the chart’s projections with the Program’s results shows the chart was not generated in a completely arbitrary fashion. The hypotheses presented in this article are substantiated to some degree by the Program’s results.

coincides with the results of the Program.

Utilizing the chart, the Proposal will submit each dispute to trial or an appropriate form of alternative dispute resolution. Each dispute will be discussed in turn in the following subsections. But first, it is important to address the issue of forcing parties to submit to binding ADR. While there is some authority to force parties to enter non-binding ADR,<sup>209</sup> no authority exists to force parties to enter binding ADR.<sup>210</sup> Despite the arguments against forced ADR, compulsory mediations from contractual provisions enjoy success rates as high as 50 percent.<sup>211</sup> Nonetheless, like the Lanham Act Mediation Program, the parties must first agree to enter the Proposal before the Proposal can take effect.

#### *A. Group A Disputes*

In this group, the chances of an effective mediation are excellent. Within the possible scenarios in this group, both parties are either committed to the fundamental interest or a hybrid where the fundamental and adversarial interests are somewhat equal. The key component is that neither party is committed to the adversarial interest. The owner is readily willing to allow use for payment or may be readily convinced to allow use for payment. The infringer is readily willing to pay for use or may be readily convinced to pay for use. The parties' interest commitments are aligned, and mediation will almost certainly yield a mutual agreement. Consequently, the Proposal adopts a sophisticated form of mandatory mediation. The mediation is mandatory, but it is only imposed in Group A disputes where both parties are willing to enter a licensing agreement. Thus, the Proposal resolves the debate of whether or not to use mandatory mediation. The Proposal only uses mandatory mediation for disputes where both parties are willing to enter a licensing agreement.

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209. In Texas, the court may force the parties in a pending dispute to ADR. TEX. CIV. PRAC. & REM. CODE ANN. § 154.021(a) (Vernon 1987). See *Walton v. Canon, Short & Gaston*, 23 S.W.3d 143, 150 (Tex. App. 2000). Although the court can exercise this right against the parties' will, the court may not force the parties to reach an agreement. *Decker v. Lindsay*, 824 S.W.2d 247, 251 (Tex. App. 1992).

210. In some fundamental disputes, the right to have a trial is so imperative that courts refuse to enforce mandatory arbitration clauses, much less impose court-ordered ADR. Reginald B. Henderson, *Pre-Dispute Mandatory Arbitration Agreements and ERISA Fiduciary Claims: The Courts Unfortunately Declare them a Perfect Match*, 26 AM. J. TRIAL ADVOC. 27, 33-35 (2002).

211. Diane H. Banks, *Paths to Mediation, with Sample Clauses*, 14 UTAH B.J. 26 (2001).

### *B. Group B Disputes*

In this group, one party is committed to the adversarial interest. However, mediation is still likely to yield an agreement between the parties. If during the course of the mediation the party committed to the adversarial interest shifts to the hybrid, a settlement will likely result. Since the point of mediation is to facilitate such a shift, the odds are good this shift will occur. When the other party is committed to the fundamental interest, the odds of settlement are slightly higher, thus justifying the “Very Good” versus the “Good” ratings. The Proposal subjects these parties to arb-med, which invokes a hybrid form of mandatory and voluntary mediation. The mediation is mandatory, but it takes place after a binding arbitration decision. The parties are free to pursue a licensing agreement in the mediation or they can stonewall the mediation and rely solely on the arbitration award. Arb-med works extremely well for Group B disputes because the party committed to the adversarial interest will desire to use bluff and delay tactics against the other party. Arb-med defeats the purpose of this strategy: the party must decide to accept the verdict or work to reach an agreement. If the adversarial party does not desire the binding decision, that party will quickly shift to the hybrid during the mediation phase. If the adversarial party wants the binding decision, the parties may forego the wasted negotiations.

### *C. Group C Disputes*

In this group, both parties are committed to the adversarial interest. To reach an agreement, both parties must shift to the hybrid. While this dual shift is possible, it is unlikely. Additionally, Group C encompasses disputes where, although both parties are not necessarily committed to the adversarial interest, the dispute needs to advance to trial or arbitration. For instance, the dispute may present a novel question of law where a precedent must be established. Mediation is not appropriate in all cases, and this scenario is a glowing example. Between these two parties mediation would constitute wasted time and expense. The Proposal bypasses mediation altogether in these disputes, relying on the court to decide whether the parties will go to trial or arbitration.

### *D. Determining the Parties' Classifications*

Under the Proposal, the court will have a board of mediators and arbitrators specializing in all areas of intellectual property. Each party

will submit an “ADR Brief” to the court, which the court will advance to the board of mediators and arbitrators.<sup>212</sup> The plaintiff must submit its ADR Brief within 20 days of filing the complaint. The defendant must submit its ADR Brief within 20 days of filing the answer. In the ADR Brief, the parties will provide a statement of the case as well as a summary of their proposed arguments. The parties will further provide statements of: (1) their willingness to settle the dispute; (2) their willingness to enter a licensing agreement; (3) their preferred form of dispute resolution; and (4) if applicable, their reasons why the case should proceed to trial. The court’s mediators and arbitrators will serve on three-member panels. The panels will review the ADR Briefs and classify the parties as committed to the fundamental interest, adversarial interest, or the hybrid. After classifying the parties, the panel will use the chart to refer the dispute to the appropriate format and inform the court of the panel’s decision.

The parties will not exchange ADR Briefs. The parties will only submit confirmation letters to each other that the ADR Brief has been submitted. Preventing the parties from exchanging ADR Briefs will preserve the integrity of the Proposal. If the parties exchanged ADR Briefs, the defendant will always have the chance to abuse the process by falsely representing its interest commitment. Moreover, both parties will be less forthcoming in their briefs if the briefs are exchanged. The purpose of the ADR Brief is to facilitate the panel’s decision in classifying the dispute to efficiently resolve the dispute. If the parties exchanged briefs, the parties would always have an incentive to present false representations in the brief to gain a tactical advantage. However, these false representations would only hinder an agreement and thus injure the parties.

If the dispute falls into Group A or Group B, the court will refer the case to mediation or arb-med as the chart dictates. Also, if both parties indicate in their ADR Briefs that mediation is their preferred form of dispute resolution, the panel will refer the case to mediation. The panel may forego any review in these disputes. At this point, the Proposal will follow typical procedures for mediation and arb-med. For mediation, the parties will select the mediator. For arb-med, the parties will select an arbitrator and a mediator. In arb-med sessions under the Proposal, the arbitrator will never serve as the mediator. If the dispute falls into

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212. The board of mediators and arbitrators will consist of experts in all areas of intellectual property much like the Program’s board. See <http://www.ilnd.uscourts.gov/legal/wdadr/> (last visited 10/26/03).

Group C, the panel will forward the decision to the court along with a recommendation of whether the case should be settled through trial or binding arbitration. The court will have the discretion to decide whether the dispute proceeds to arbitration or litigation.

*E. The Facial Inequity of Binding v. Non-Binding ADR*

Under the Proposal, parties in a Group A dispute enter non-binding ADR whereas parties in a Group B dispute enter binding ADR. However, the Proposal does not show favoritism to parties in Group A. Rather, the Proposal attempts to give these parties the greatest flexibility in reaching an agreement, for they are the most likely to reach an agreement. If the mediation is unsuccessful, the mediator will refer the case back to the court along with an opinion of whether the case should proceed to trial or arbitration. The court will then set the case for resolution in the proper forum. The Proposal does not adopt the med-arb format given the weakness of this ADR form. Mediation derives its success from the parties' abilities to discuss freely all aspects of the dispute. Under med-arb, the parties have a significant incentive to hold back information and objectives with the looming threat of binding arbitration soon following the mediation.

Parties in Group B disputes enter arb-med to foster an agreement. The parties enter mediation only after a final decision has been made by the arbitrator. Once in mediation, the parties know there is an envelope containing a decision that declares them as the winner or loser. The mediator can use this decision as an effective tool for intense reality testing. The parties experience the "anything can happen" feeling described by Judge Chasanow,<sup>213</sup> and they still have an opportunity to settle rather than gamble on the ruling. The arb-med format fosters agreement whereas the med-arb format stifles agreement. The Proposal subjects all parties in Group A and Group B to the same levels of binding and non-binding ADR, but it switches the order and timing to foster agreement between the parties.

Also, using the arb-med format for Group B disputes will defeat a potential abuse of process by the parties. One drawback to mediation is that a party may falsely represent its intentions to enter mediation in order to gain additional discovery. In other words, an O<sup>A</sup> could falsely represent itself as an O in the ADR Brief. By doing so, the dispute would be referred to mediation even though O<sup>A</sup> has no intention of

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213. Eveleth, *supra* note 175, at 8.

settling the dispute. Thus, O<sup>A</sup> could abuse the mediation process to gain additional information about the infringer and delay the resolution process. Arb-med alleviates this problem by creating a disincentive to abuse the mediation process. If an O<sup>A</sup> falsely represents itself as an O, it will first subject itself to a binding arbitration. A party committed to the adversarial interest can gain nothing by falsely holding itself out as committed to the hybrid.

## VI. EFFECTS OF THE PROPOSAL

The Proposal presents a sophisticated dispute resolution program for intellectual property disputes that best serves the parties' interests. The parties themselves gain the most benefits from the Proposal. The parties enjoy a more efficient, cost-effective method of resolving their disputes. They get to avoid the hardships and mental anguish associated with litigation. The Proposal focuses on their interests, and they have complete power in forming the solutions. Courts benefit from the Proposal as well by allowing mediation, arbitration, and arb-med to clear up jam-packed dockets. The significant decrease in discovery, motion practice, and jury selection will allow courts to divert attention to more pressing matters. Judges can devote their efforts to intellectual property cases presenting novel questions of law and other disputes properly suited for trial.

The Proposal proves most challenging for attorneys. While this article has expounded upon the perils of litigation for clients, litigation is an attractive option for lawyers. While litigation is difficult work, it does grant lawyers the benefit of repetition and familiarity. If every dispute enters litigation with no possibility of ADR, the lawyer takes the same approach for every case: file the claim or answer, undergo discovery, contemplate settlement, engage in motion practice, and then prepare for trial until the ever likely 11th hour settlement. For arbitration, the preparation is quite similar. It is the mediation component of the Proposal that mandates additional preparation by the attorneys.

Mediation provides a number of pitfalls for which the attorney must prepare. In mediation, the client actively participates in the resolution. While this is great from the client's perspective, it is nothing short of a nightmare for attorneys. Every attorney has a war story of a client dooming the case at some point during litigation.<sup>214</sup> If a client can doom

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214. During a clerkship, this author worked on a case where the client had allowed a default judgment to be entered against him before he ever notified his lawyer. Countless other examples

the case during litigation (where the client does not actively participate in the resolution), imagine the damage the client can cause in mediation where he speaks freely to the opposing party. Attorneys must spend additional hours and days preparing clients for mediation, that would be unnecessary in preparing for litigation. The attorney must prepare the client thoroughly for everything that can be said, that cannot be said, and the time to say it. Once in the mediation, both the attorney and client will talk at some point. They must carefully review their strategies to ensure they stay on the same page throughout the mediation. An attorney using hardball tactics in the mediation may falsely impress upon the client that the attorney is deviating from their game plan.

Moreover, a successful mediation presents danger for the attorney. Even though the parties reach an agreement, the attorneys still must reduce the agreement to a proper contract. While the litigators themselves usually draft the mediation agreements, it is a good idea to involve corporate and antitrust lawyers to finalize the agreement.<sup>215</sup> Especially in complex litigation, a poorly drafted mediation agreement may provide a springboard for further disputes.<sup>216</sup> After all the preparation and work with the client before and during the mediation, the attorney must exercise the most caution at the conclusion of a successful mediation.

## VII. CONCLUSION

Through the use of mediation, arbitration, arb-med, and even litigation, the Proposal sets forth a program to effectively resolve intellectual property disputes based upon the parties' interests. Ironically, the Proposal imposes the most challenges upon attorneys. Following the spirit of the law, there is no better way to design such a sophisticated program. Law exists to govern and protect the people; meeting their needs should always take precedence. Alleviating the court dockets serves as a natural consequence of meeting the parties' needs. If the judicial process is able to promote justice more efficiently, the parties receive the benefits. By placing additional burdens on attorneys, the Proposal meets the needs of the people and entrusts to attorneys the responsibilities they have sworn to uphold. Attorneys for intellectual property clients must effectively evaluate the client's

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abound and often make interesting conversations among attorneys at dinners and parties.

215. Paul R. Gupta, *Settlement Agreements and IP Disputes: Practice Pointers for Practitioners*, 19 E-COMMERCE L. & STRATEGY 1 (2002).

216. *Id.*

advantages and risks calculus to prepare the client for every form of dispute resolution. By doing so, attorneys will assist clients in properly formulating legal strategies to maximize the value of their IPAs. The Proposal will allow more of these strategies to end in a sit-down with Don Corleone rather than a costly full-scale war.