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How and Why to use Mediation to Settle Intellectual Property Disputes

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HOW AND WHY TO USE MEDIATION TO SETTLE INTELLECTUAL PROPERTY DISPUTES

By Manny Pokotilow
Caesar Rivise, PC
ADR Options

Urgency at Start of IP Case

- Investigation by property owner
- Preparation of complaint
- Need for prompt action
- Notice of Infringement
- Complaint served
- Need for Preliminary Injunction?

Urgency at Start of IP Case

- Accused infringer obtains defense counsel
- Investigation whether there is infringement
- Defense prepared
- Both sides work towards winning case
- Search for Experts
- Searches of records by both sides

Trademark Cases

- Comparison of marks
- How marks are used
- Searches for third party marks
- Determining strength of mark
- Likelihood of confusion?
- Surveys & Survey experts
- Damages

Patent Cases

- Comparison of Claims with accused product
- Validity Study
- Study of Prosecution History
- Determining meaning of claim elements
- Search for technical experts
- Search for damages experts

Copyright Cases

- What was copied?
- Purpose of copied portion
- Amount and purpose of original work copied
- Comparison of copied portion with original
- Is it a fair use?
- Search for damages experts

Trade Secret Cases

- What is the trade secret?
- What was misappropriated?
- Was there an agreement between the parties?
- Was misappropriated information sufficiently kept secret?
- What was done to keep information secret?
- How was the information misappropriated?
- Damages and technical experts needed

What Was Missed

- The view from a mile high
- The opportunity to settle
- The burden on the parties
- What would make sense for both sides
- A win for either party is most often inadequate
- The cost to both sides

IP Litigation is too Expensive

- “Our litigation system is too costly, too painful, too destructive, and too inefficient for civilized people.” Chief Justice Warren E. Berger
- Median cost of mediation \$100,000
- 2019 AIPLA Report of the Economic Survey:
 - Median cost of Patent Litigation \$4Million
- Untold cost to litigants

Shortcomings of IP Litigation

- Delays in scheduling
- Inability to have a trial on a date certain
- Expert witnesses are busy professionals
- Key witnesses are needed run company
- Perception of facts change during discovery
- Discovery can get extended
- Judges' criminal dockets can extend trial of the case

Shortcomings of IP Litigation (cont)

- Desired result often not achieved even by the winning Party
 - Injunctions are not granted
 - Damages are inadequate
 - Defendants litigation costs are greater than a settlement would have cost.

Why Mediation?

- “Mediation focuses on the parties’ interests to resolve the dispute, rather than declare a winner.” Kevin M. Lemley, *I’ll make him an offer he can’t refuse: A Proposed Model for Alternate Dispute Resolution in Intellectual Property Disputes* 37 Akron L.Rev. 287, 306.
- Provides an alternative to “winning” or “losing”

Why Mediation? (cont.)

- “The standard option of litigation is a closed universe of possibilities.” David Allen Bernstein, *A Case for Mediating Trademark Disputes in the Age of Expanding Brands*, 7 *Cardosa J. Conflict Resol*, 139, 149 (2005).
- Mediation opens the universe of results that are possible
- Facilitates resolution of the issues

Why Mediation? (cont.)

- Costs are reduced
- Key people are able to do their jobs
- Confidentiality of business maintained
- Stress of parties reduced
- Reduces risks
- Resolution is faster

Choosing a Mediator

- A mediator should have good facilitative skills
- Experience
- A background in the IP of the case
- Patience
- Good sense of humor
- Endurance
- Confidence
- Ability to probe without offending
- A good listener

Preparation for a Mediation

- Prepare mediation statement
- Identify right person to represent client
- Prepare the representative
- Representative should have
 - Full authority to settle
 - Knowledge sufficient to represent client
 - Good problem solving skills
 - Knowledge of risks

Preparation for Mediation (cont.)

- Preparation of opening statement
- Preparation of risk and cost benefit analysis
- Learn client's objectives
- Prepare step-by-step plan for taking opening position on settlement and next steps in bargaining process
- Explore with client possible creative solutions
- Determine client's bottom line

Preparation for Mediation (cont.)

- Determine a rationale for each settlement position
- Determine which issues your client can be flexible
- Prepare Agreement in advance to bring with you to mediation
- Agreement should cover all issues.

The Mediation Process

- The parties meet with a mediator
- Mediator is a facilitator
- Prior to mediation both sides exchange confidential mediation statements.
- At the mediation:
 - Mediator meets with parties and attorneys
 - Mediator advises both parties of confidentiality of communications to mediator
 - During conference among all participants each side explains case from its perspective
 - Mediator speaks to each side separately

Have Mediation as Early as Possible

- Costs are substantially reduced
- Risks are reduced
- Delays are reduced
- Valuable time of key employees saved
- Public disclosure of confidential information eliminated
- Bad publicity is reduced or prevented

How to Get to Mediation

- Call attorney for other side before preparing cease and desist letter or filing of complaint
- Call attorney for other side before preparing response or Answer
- Have client call opposing party's principal
- Propose early mediation

Thank you

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The Attributes of ADR That Make It Advantageous for IP Cases

This article explores the factors that make mediation, and sometimes mediation in combination with arbitration, a good alternative to IP litigation and shows you how to get to the end of your client's dispute.

By Manny D. Pokotilow | March 31, 2020 at 02:51 PM

Manny Pokotilow of Caesar Rivise and ADR Options. Manny Pokotilow of Caesar Rivise and ADR Options.

What a substantially long career in intellectual property (IP) has shown me about IP controversies is that when you get into court with any IP controversy, it becomes very expensive for the client. The 2019 AIPLA Report of the Economic Survey shows that the range of costs for a patent infringement suit with \$10 million to \$25 million at risk, cost in a range of \$2 to \$9 million with a median cost of approximately \$4 million. However, mediation cost less than \$100,000 per case on average. For trademark, copyright and trade secret litigation with the same amount of money at risk, the range of litigation costs are not substantially lower. When IP litigation starts, the costs go up almost immediately upon the service of discovery. That is also when the grief begins for your clients. That is why I recommended to all of my clients that we try to settle matters as soon as possible. Not only is the cost of litigation reduced, speed and ease of resolution are enhanced. These are very important factors why mediation should be your preferred method of dispute resolution. This article explores the factors that make mediation, and sometimes mediation in combination with arbitration, a good alternative to IP litigation and shows you how to get to the end of your client's dispute.

Shortcomings of IP Litigation

In addition to the high expense of IP litigation, there are various factors that make the expense of the litigation go up higher than expected and cause continuing dismay for the parties. For example, delays in the scheduling of a case caused by having your assigned judge having to sit on criminal cases and, in particular, long trials. Cases in which the trial judge is unable to give you a date certain for trying a case and putting you on a calendar list for the start of trial. That factor is always complicated by your list of witnesses, who are highly paid, very busy professionals. In addition, the perceived facts for many of the factors which are used for determining patent, trademark or copyright infringement are often subject to change during the course of discovery and during the course of preparation for trial. Facts and perceptions of not only your case, but that of the opposing party, can change, not only during the course of discovery, but also during trial, witnesses can perform in an unexpected manner. Added discovery may change the length of the lawsuit, the manner in which it is tried and can also change the costs and risks of litigation. Discovery and trial preparation often take a client away from the running of a business from which he/she cannot be spared.

It often seems to the parties that justice is not achieved when IP litigation is completed. In substantially all patent, trademark and copyright infringement suits, the reason the suit was brought by the plaintiff was to stop infringement. If an injunction is not granted to stop the infringement, which often happens,

no matter the damages granted, the amount seems inadequate to the plaintiff. Sometimes the attorney fees paid are more than the award. For a victorious defendant a win is hardly a victory when the cost of defense exceeds what the plaintiff sought initially.

Why Mediation?

“Mediation focuses on the parties’ interests to resolve the dispute, rather than declare a winner,” according to Kevin M. Lemley, “I’ll make him an offer he can’t refuse: A Proposed Model for Alternate Dispute Resolution in Intellectual Property Disputes,” 37 Akron L.Rev. 287, 306.

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That is, mediation is a form of settlement negotiations between the parties that uses a mediator to facilitate the negotiations between a combination of the attorneys and the parties present. The results need not be binary, i.e., win or lose.

The mediator is preferably a person with good facilitative skills. When I look for a mediator, I prefer that the mediator has good mediation skills and preferably experience with the type of litigation involved. When mediating intellectual property cases with these credentials the mediator should be able to settle over 80% of the IP litigation when all parties enter mediation voluntarily. The reason is that the mediator can lead the parties to solutions that are not just agreeing on the amount of the damages that will be paid. Or, agreeing that one side will agree to stop using the intellectual property of the other. It can, for example, lead to one side licensing the other. The parties can agree to geographical limitations.

The process of mediation normally begins with the parties agreeing to meet with the mediator, exchange confidential mediation statements and then sitting down at a mediation conference where each party has an opportunity to present its side of the case. The people attending a mediation conference are the parties, or a representative with the authority to settle the case, their respective counsel and the mediator. The mediator often permits each party or its counsel to explain the case from its perspective to the mediator and the other party. Upon completion of the presentations, the mediator meets with each party separately, to determine on a confidential basis, what each party hopes to get. When an experienced mediator determines what each party is seeking from the litigation, the mediator most often is able to guide the parties toward a solution that each party finds better than if they were to take a chance with a trial.

Finally, even when the parties cannot agree to a final resolution of IP litigation, a mediator can be useful in helping the parties resolve many of the disputes between the parties. If the parties are relatively close in settling the matter through mediation, except for one or more issue, the parties can settle with an agreement to have a limited arbitration on the one issue and having the arbitration heard within a short period of time. With the resolving of that one issue by arbitration it can wrap up a settlement.

Getting the Parties to Mediation

The earlier you can get the parties to mediation, the more that can be saved by the parties. Too often parties wait for discovery to be half over before either party will consider settlement. Because of the facilitative nature of mediation that enhances settlement I recommend that it be considered before even sending a cease and desist letter. There is nothing better than to call opposing counsel and suggest mediation. This can be done at the time your client is charged with infringement or prior to your filing a complaint. There is normally a reluctance of attorneys to call an opposing party because of the fear by either the attorney or the client that it be seen as a sign of weakness. But, as I have said to many a client, what does it matter? It does not mean your client is giving anything away. The other attorney can say no or get the other party to agree. If you are afraid opposing counsel will not tell her client you suggested mediation, suggest to your client that she call the opposing party directly and suggest mediation. If your client does it early or later in the case, it can lead to a favorable settlement. Everyone comes out a winner with a prompt settlement. Finally, what practicing a long time has shown me is that I have kept many clients for a long time because I kept them out of litigation with the above practices.

Manny Pokotilow is senior counsel with Caesar Rivise. He is also a mediator and arbitrator with ADR Options having successfully resolved over 50 disputes in highly complex matters in all areas of intellectual property His practice of over 40 years has consisted of all aspects of intellectual property law, particularly litigation, involving the enforcement of patents, trademarks, copyrights and trade secrets.

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I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes

Kevin M. Lemley

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

*Kevin M. Lemley**

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.¹ 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.² 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.³ 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.”⁴ Simply put, intellectual property law grants rights to inventors and innovators so they can profit from their developments.⁵ With the ability to profit, intellectual property owners have an incentive to produce new innovations for society to enjoy.⁶ Without intellectual property rights, infringers could easily exploit these new innovations and steal profits from the owners.⁷ Innovators would

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.⁸

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

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.¹⁷ Copyright

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.¹⁸ 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.¹⁹ Trademark law offers protection forever so long as the owner renews the mark.²⁰ Patents protect inventions that are useful, new, and non-obvious.²¹ A patent protects the invention for 20 years from the filing of the patent.²² Trade secrets consist of any secret, valuable information that can be used in business to gain an actual or potential advantage.²³ Trade secret protection lasts indefinitely until competitors or the general public discovers the secret information.²⁴

A. *Value of Intellectual Property Rights*

Intellectual property consists of heavy fixed costs and low marginal costs.²⁵ Intellectual property requires significant expense to create because owners must commit substantial amounts of funds and time to develop each IPA.²⁶ 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.²⁷ Without legal protection, infringers have the power to free ride the intellectual property, and the owner alone incurs the substantial fixed costs.²⁸ Absent legal protection, infringers essentially steal the initial investment of the owner and can sell their infringing product at the lower marginal cost.²⁹ The owner is forced to sell at the marginal cost in order to retain any significant market share.³⁰

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.³¹

Intellectual property law allows the owner, rather than infringers, to derive economic value from the IPA.³² As evidence of this economic value, owners currently generate revenue from their IPAs.³³ Owners use intellectual property to secure substantial amounts of borrowed capital.³⁴ Numerous companies receive a substantial amount of investment dollars based on the companies' intellectual property rights.³⁵ Moreover, these companies spend an increasing amount of money each year to obtain protection for their intellectual property rights.³⁶ 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.³⁷ In other words, market power is the ability to establish prices above the marginal cost.³⁸ The IPA is merely one component in a production process that comprises several complementary factors.³⁹ These complementary factors include manufacturing, distribution, marketing, and labor components.⁴⁰ The intellectual property owner must utilize these factors in conjunction with the IPA to realize the commercial value of the IPA.⁴¹

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

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.⁴⁴ The most fundamental concept regarding value is simply stated: value does not equal price.⁴⁵ Price only defines the dollar amount at which the IPA trades in a market.⁴⁶ Value defines the utility of the IPA to the buyer and seller.⁴⁷ The buyer and seller base the exchange on the distinction between value and price.⁴⁸ 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.⁴⁹ Price and value share an integral relation.⁵⁰ 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.⁵¹ Value is the range of numbers the parties use to negotiate a price.⁵²

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.⁵³ 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.⁵⁴ 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.⁵⁵ Is it worth the risk of losing the secret to obtain licensing profits? Trademarks and copyrights have no time or secrecy considerations for

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.⁵⁶ 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.⁵⁷ 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

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.⁵⁸ 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.

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.⁵⁹

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.

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.⁶⁰ 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

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.⁶¹ 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) $O + N^A$

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”⁶² 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

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.⁶³ The defendant's profits "are probably the best possible measure of damages available."⁶⁴ 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.⁶⁵ 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."⁶⁶ 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.⁶⁷ Alternatively, plaintiffs in trademark cases, like those in patent cases, may win damages of a reasonable royalty rate.⁶⁸ The reasonable royalty rate is based on hypothetical

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).⁶⁹ However, these damages are rarely awarded in trademark cases.⁷⁰

Damages in intellectual property disputes are extremely difficult to calculate.⁷¹ Two primary factors contribute to this difficulty. First, all three intellectual property statutes grant the factfinder wide discretion in assigning damage awards.⁷² 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.⁷³ 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.⁷⁴

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.⁷⁵ While the statute does not specifically set a standard for treble damages, most courts award treble damages based on some variation of willful infringement.⁷⁶ The Lanham Act also provides an award of reasonable attorney fees in

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

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."⁸³ While the Patent Act allows an award of reasonable attorney's fees, such awards are relatively rare.⁸⁴

The Copyright Act allows statutory damages up to \$150,000 per infringement for willful infringement.⁸⁵ 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.⁸⁶ Unlike the other intellectual property statutes, the Copyright Act does not limit attorney's fees awards to exceptional cases.⁸⁷ Some courts award attorney's fees to prevailing plaintiffs in copyright actions absent unusual circumstances.⁸⁸ However, a number of courts require prevailing plaintiffs to prove

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); Seatrax, 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.⁸⁹ Alternatively, some courts award attorney's fees to successful defendants in an attempt to deter frivolous and unreasonable lawsuits.⁹⁰

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

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.⁹¹ In 1983, The Quaker Oats Co. (Quaker) acquired the manufacturer of Gatorade.⁹² Quaker immediately developed a new marketing campaign centered on the now famous “Gatorade is Thirst Aid for That Deep Down Body Thirst.”⁹³ Quaker subsequently aired the first “Gatorade is Thirst Aid” commercials on television in 1984.⁹⁴ Sands filed suit for trademark infringement in 1984.⁹⁵ 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 1990.⁹⁶ Quaker appealed and, in 1992, the Seventh Circuit vacated the prejudgment interest and remanded the case for recalculation utilizing a reasonable royalty rate.⁹⁷ 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 1993.⁹⁸ However, Quaker appealed again, and the Seventh Circuit sharply criticized the remanded verdict.⁹⁹ Consequently, the case was remanded in part again, and the appellate procedure consumed another year.¹⁰⁰ 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.¹⁰¹

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

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

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

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.¹¹⁴ The mediator serves as a translator, guiding the parties to reach an agreement.¹¹⁵ 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.¹¹⁶ Mediation deflects the focus of the dispute away from rights, winners, and losers.¹¹⁷ Instead, mediation focuses on the parties' interests and mutual gains.¹¹⁸ As a result, mediation gives the parties an opportunity to reinforce their relationships with one another.¹¹⁹ 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.¹²⁰

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.¹²¹ Mediation focuses on each party's interest commitment to assist the parties in creating a mutually beneficial agreement.¹²² Stated differently, mediation focuses on the parties' interests to resolve the dispute rather than declare a winner.¹²³ 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.¹²⁴ 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.

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

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.¹³⁹ Therefore, the parties will likely hold back vital

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).¹⁴⁰ The ADRA requires each federal district court to implement an ADR program and specifically authorizes courts to compel civil litigants into mediation.¹⁴¹ The ADRA allows the district courts substantial flexibility and discretion in designing their ADR programs.¹⁴² Courts have the ability to determine the extent of the program, what ADR forms to use, and what disputes are subject to the program.¹⁴³ 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.¹⁴⁴ Mandatory ADR programs force civil litigants to make serious choices about settlement early in their

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.¹⁴⁵ 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.¹⁴⁶

In 1996, the District Court for the Northern District of Illinois implemented The Lanham Act Mediation Program (Program).¹⁴⁷ The Program was specifically designed to provide mediation services for trademark disputes.¹⁴⁸ Under the Program, all cases are assigned to the Program, but individual parties may choose whether or not to participate.¹⁴⁹ 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.¹⁵⁰ This figure warrants mentioning again: in two-thirds of all disputes submitted to mediation, the parties reached an agreement.¹⁵¹

The Program serves as the best evidence of mediation's strength in fostering mutual agreements in intellectual property disputes.¹⁵² 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 litigation¹⁵³ as well as the

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 (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.¹⁵⁴ 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.¹⁵⁵ Any serious pursuit of mediation presents a question of risk management.¹⁵⁶ The lawyer best serves the client by strategically analyzing the advantages/risks calculus and by providing complete information and options.¹⁵⁷ Consequently, the lawyer must analyze the calculus the moment a dispute arises.¹⁵⁸ Intellectual property disputes impose great expense on the parties through burdensome discovery processes, particularly in high-tech disputes.¹⁵⁹ Additionally, intellectual property disputes are often incredibly time sensitive.¹⁶⁰ Moreover, intellectual property disputes often consist of complex facts and involve a significant degree of technical know-how.¹⁶¹ 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

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.¹⁶² Intellectual property litigation typically spans several years with total costs commonly exceeding hundreds of thousands or even millions of dollars.¹⁶³ 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.¹⁶⁴ The highly competitive nature of litigation encourages the parties to exaggerate their claims and thus drive up the costs of litigation.¹⁶⁵ These exaggerated positions ignite the costs of seeking the "truth" when both parties have expanded the bounds of the dispute.¹⁶⁶ Additionally, the court system establishes a great quantum of merit upon evidentiary procedure, witness credibility, and burdens of proof.¹⁶⁷ The result is a painstaking process surrounded by opportunities for delay.¹⁶⁸ 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.¹⁶⁹

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,¹⁷⁰ parties still incur substantial costs from the time of filing the claim through discovery.¹⁷¹ These costs diminish the value of 11th hour settlements.¹⁷² 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.¹⁷³ 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.¹⁷⁴ With these factors, litigation may offer a bittersweet victory, even for successful litigants.¹⁷⁵ Proceeding to trial is a huge gamble.¹⁷⁶ “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.”¹⁷⁷ Once the judge or jury has deliberated to make the decision, the owner truly realizes his lack of say in the final decision.¹⁷⁸ 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.¹⁷⁹ Mediation often saves about eighty percent of the total costs of litigation.¹⁸⁰ 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

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.¹⁸¹ 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.”¹⁸² 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.¹⁸³ 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.¹⁸⁴ Tom Monaghan, the former owner of Domino’s Pizza, once described the litigation experience as Chinese water torture.¹⁸⁵ After eventually winning the case, Mr. Monaghan commented, “I cried like I’d never cried before in my life.”¹⁸⁶ Along with the mental anguish, intellectual property disputes utilize a painstaking discovery process.¹⁸⁷ The discovery process forces the parties to suffer intangible losses in the form of lost time.¹⁸⁸ The parties themselves, as well as key employees, often spend hours in depositions; the lost time can never be recovered.¹⁸⁹

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

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.¹⁹⁴ However, swift resolution cannot come at the sacrifice of confidentiality.¹⁹⁵ Confidentiality is often crucial in intellectual property disputes.¹⁹⁶ Mediation guarantees the parties privacy and confidentiality.¹⁹⁷ Arguably, confidentiality is the most important advantage mediation offers.¹⁹⁸ 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.¹⁹⁹ Not surprisingly, confidentiality is probably the most frequently discussed issue in mediation.²⁰⁰ Along with confidentiality, the parties in intellectual property disputes seek expertise in the factfinder to deal with complex issues.²⁰¹ Mediation offers this expertise by the mediator, expertise that juries and judges often lack.²⁰² By providing the necessary expertise, mediation saves the parties additional time and effort, as well as providing more equitable results.²⁰³

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.²⁰⁴ In other words, the

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.²⁰⁵

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,

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,²⁰⁶
- (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

206. 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:

Parties	Group
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.²⁰⁷

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,

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).²⁰⁸ 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,²⁰⁹ no authority exists to force parties to enter binding ADR.²¹⁰ Despite the arguments against forced ADR, compulsory mediations from contractual provisions enjoy success rates as high as 50 percent.²¹¹ 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.

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.²¹² 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

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,²¹³ 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^A could falsely represent itself as an O in the ADR Brief. By doing so, the dispute would be referred to mediation even though O^A has no intention of

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

settling the dispute. Thus, O^A 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^A 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.²¹⁴ If a client can doom

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.²¹⁵ Especially in complex litigation, a poorly drafted mediation agreement may provide a springboard for further disputes.²¹⁶ 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

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.*

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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.

A CASE FOR MEDIATING TRADEMARK DISPUTES IN THE AGE OF EXPANDING BRANDS

*By: David Allen Bernstein**

I. INTRODUCTION

By some estimates, the word “Nike” is worth \$7 billion, and “Coca Cola” is worth ten times that amount.¹ In today’s explosive economic society, perhaps nothing carries more weight than the eternal brand.² Companies are spending more effort and money on building solid brands because they know that consumers often respond better to a logo or slogan than to the quality of the product.³ In addition, strong slogans, “with their range of denotations and connotations, are simply among the most powerful words in our dictionary.”⁴ And not just the dictionary – they are also among the most powerful words in our economy. Just ask Nike.

Companies are also beginning to recognize that trademark law, based on designation of source,⁵ offers the best possibility

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¹ James Gleick, *Get Out of My Namespace*, N.Y. TIMES, March 21, 2004, § 6, Column 1 (Magazine Desk) at 44.

² See DAVID A. AAKER, *MANAGING BRAND EQUITY* (1991).

A brand is a distinguishing name and/or symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors. A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical.

Id. at 7; See also Jerre B. Swann, David A. Aaker & Matt Reback, *Trademarks and Marketing*, 91 TRADEMARK REP. 787, 792 (2001) (claiming that “[c]ompanies building brands . . . are now challenged by the realization that brands encompass not only consumer awareness, but also perceived quality, customer loyalty, and a rich set of associations.”).

³ See Swann, Aaker & Reback, *supra* note 2, at 796. “Consumers today typically look beyond mere quality . . . they want to satisfy psychological as well as physical needs, and they are often more concerned with identifying themselves than with identifying the source of the goods they buy.” *Id.*

⁴ *Id.* at 800.

⁵ According to the Lanham Act, a trademark is “any word, name, symbol, or device” used “to identify or distinguish . . . [its owner’s] goods.” 15 U.S.C. § 1127. A trademark is entitled to

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among intellectual property (“IP”) rights for long-term protection, as opposed to the limited term protections available through patent and copyright law.⁶ This has led to a rise in trademark registration,⁷ which in turn will create significant costs as businesses must make legal expenditures for trademark protection and defense in trademark litigation.

While many companies are becoming more active in protecting their trademarks, or “marks,” many are also expanding their brands. Mammoth companies, such as The Virgin Group, have continued to grow empires of “lucrative extensions” of their brands, leading them to sell diverse products such as music, beverages, and clothes, as well as to provide services such as airfare, rail service, and financial services.⁸ However, as companies expand, there is the potential that companies will utilize brand names identical to those already in use by other companies offering different products or services.⁹ Consequently, there is an increase in costly trademark litigation, resulting from efforts to prevent consumer confusion.

This Note proposes that there is an alternative method that ensures the viability of brand names while avoiding litigation. Companies must be willing to enter a process which will explore the possibility of a mutually beneficial solution, perhaps in the form of a settlement agreement allowing both parties to use the mark or brand name. The process best suited to guide such parties and achieve such a result is mediation.

protection against another’s use that is “likely to cause confusion . . . as to the source of origin of such goods” 15 USC § 1114.

⁶ Kevin M. Lemley, *I’ll Make Him an Offer He Can’t Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes*, 37 *AKRON L. REV.* 287, 289 (2004). Currently, copyright protection spans the life of the author plus seventy years. Patent protection lasts for twenty years from the filing of the patent. Trademark law grants unending protection, so long as the owner renews the mark and continues to use it.

⁷ A report released by The United States Patent and Trademark Office (PTO) shows close to a 500% increase in trademark registrations from 1984 to 2004. United States Patent and Trademark Office Performance and Accountability Report Fiscal Year 2004, *available at* http://www.uspto.gov/web/offices/com/annual/2004/060416_table16.html (last visited Nov. 8, 2005).

⁸ Swann, Aaker & Reback, *supra* note 2, at 811 (listing “Virgin Express,” “Virgin Direct,” “Virgin Rail,” “Virgin Cola,” “Virgin Radio,” “Virgin TV,” “Virgin Jeans,” “Virgin Records,” and even “Virgin Bride” as examples of the many subsidiaries created by a massive corporation in an attempt to exploit consumer faith in brands).

⁹ United Airlines and United Van Lines, for example. The question is: What would happen if United Airlines decided it wanted to use special vans to shuttle its passengers from an airport terminal to a nearby location, and decided to call this offshoot something like United Van Services?

Of course, to date, even mutually beneficial settlement agreements have not always held strong. When such agreements are subsequently violated, the courts are called upon to resolve the dispute,¹⁰ as in *Apple Corps. Ltd. v. Apple Computer Inc.*¹¹ In this case, the defendant signed two separate agreements in the past twenty years, agreeing to stay out of the music business, only to return with the most important music product and service of our generation: iPod and iTunes.¹² This case provides a tangible example of the problem of expanding brands, and shows why and how the parties should be willing to create a non-confrontational safeguard for unforeseeable changes in the business relationship.

This Note will first explain the problem by briefly detailing the history and purpose of trademark law and then proceeding with a discussion of the growing trend of expanding brands. It will then present specific examples of cases, such as the ongoing *Apple v. Apple* case, and the case of *DC Comics v. Kryptonite Corp.*, which represent this problem. Next, this Note will define the three most commonly recognized forms of alternative dispute resolution (“ADR”), arbitration, mediation, and negotiation, and explain their role in our legal system. The third section will explain why ADR offers an attractive option for intellectual property conflicts. This will be followed by an established example of the use of ADR in trademark disputes. Finally, this Note will clarify the reasons for using mediation specifically in trademark disputes that involve the problem of expanding brands.

¹⁰ See *DC Comics v. Kryptonite Corp.*, 336 F.Supp.2d 324 (S.D.N.Y. 2004) (summary judgment for plaintiff granted with reference to the “kryptonite” trademark in connection with bike locks and other products after plaintiff’s license of limited rights to use was violated).

¹¹ No. HC-2003-CO2428, 2004 WL 960848 (Ch. Apr. 7, 2004).

¹² Jefferson Graham, *Beatles record label sues Apple Computer—again*, USA TODAY, September 20, 2004, at 4B (providing figures which show that since “it opened iTunes, Apple has dominated digital music. With sales of 125 million digital downloads, it has an estimated 70% market share.”); see also MSN Money, Robert Walberg, *How Far Can Apple Ride the iPod Craze?*, <http://moneycentral.msn.com/content/P94963> (posted Nov. 11, 2004) (claiming that as a result of the iPod, Apple is the “envy of the tech world and the stock is trading at its highest level in four years”).

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RESULTING TRADEMARK DISPUTES

A. Background of Trademark Law

While copyright and patent protections are explicitly set forth in the Constitution,¹³ trademark law has a different history and, most likely, a very different future. As mentioned previously, copyright and patent law provide authors and inventors with limited periods of protection for ideas and expressions.¹⁴ There are important policy reasons for allowing only limited periods of protection, the most significant of which is that these protections constitute government-sanctioned monopolies.¹⁵ The Constitution mentions nothing of unfair competition or trademark law, and no organized federal law on the subject appeared for at least a hundred years after the Constitution was written.¹⁶ In the late eighteenth century, there was no need for protection of unfair competition practices.¹⁷ But as technology progressed and consumers began to purchase goods from growing companies rather than local merchants, the need to protect business clientele and reputations became impor-

¹³ U.S. CONST. art. I, § 8, Cl. 8.

¹⁴ See discussion of the various protections, *infra*, note 6.

¹⁵ Cf. Melville Nimmer, *Nimmer on Copyright*, § 1.03(A) (1976) (explaining that the framers of the Constitution had in mind a “pervading public policy against according private economic monopolies in the absence of overriding countervailing considerations.”).

¹⁶ See J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 5:3 (4th ed. 2003). The Supreme Court refused the first attempt at federal legislation in this area, the Act of 1870, in the *Trademark Cases* of 1879. The Court rejected the argument that Congress had the power under the patent and copyright clause to regulate trademarks and held that trademarks were not any form of invention or writing with any modicum of originality. A new statute created in 1881 allowed trademark registration in commerce with foreign nations, and later, in 1905, the first real federal trademark registration to resemble what we see today was passed in the Act of 1905. *Id.*

¹⁷ See Gerard N. Magliocca, *From Ashes to Fire: Trademark and Copyright in Transition*, 82 N.C.L. REV. 1009, 1014-17 (2004) (explaining how at that time, people “purchased almost exclusively from local craftsmen . . .”).

[It was] almost impossible for consumers to afford anything that was made in a distant location. As a result, people were personally acquainted with the manufacturers of their products When consumers were deciding whose goods to buy, therefore, they made an evaluation based on their personal knowledge of a producer’s reputation for quality. A trademark in this context was a representation by a craftsman that an item was made by him and that all the weight of his individual reputation was behind it.

Id.

tant.¹⁸ At that point, existing tort law began to expand to protect consumers from commercial fraud.¹⁹ Over time, as commerce developed further and later exploded, the resulting concept of trademark law became one of designation of source in a busy industrial society.²⁰ When companies are diligent in building a consumer base and a reputation represented symbolically by trademarks, it is important to prevent others from diluting,²¹ profiting from, or otherwise harming those trademarks and therefore those reputations. As commerce becomes increasingly global in nature, there is a stronger desire for protective trademark law.

B. Expanding Brands

Over the past twenty or thirty years, tremendous worldwide commercial growth has facilitated a simultaneous rise in the importance of brands.²² As companies look for better ways to secure their economic holdings and reputations, what has emerged is a concept of branding, or attaching trademarks, to each and every

¹⁸ *Id.* at 1017. The Industrial Revolution changed everything by bringing all of the individual communities into one market, which led to “the development of corporations that each made a variety of items and dissolved the assumption that firms made only a single good.” *Id.* Because this eliminated much of the need for local craftsman, consumers began to rely on some form of trademarks for identity and information about products and producers.

¹⁹ See McCarthy *supra* note 16, at § 5:2. The nineteenth century saw the beginning of a common law version of tort law that dealt with fraud and deceit called “passing off” or “palming off” which eventually developed into trademark law. In essence, this protected against individuals selling their goods while claiming that they were produced by someone else.

²⁰ *Id.* at § 3:8, 3:9. At first, in the early twentieth century, this was a strict requirement of designation of source, in which a trademark had to clearly identify the exact producer to the consumer. Now, trademarks do not need to serve this function, but instead their function has been “softened by the courts to mean that the consumer expected all goods with the same mark to come from a single, but anonymous or indistinguishable source.” *Id.* at § 3:9.

²¹ J. Thomas McCarthy, *Symposium: Trademark In Transition: Institute For Intellectual Property & Information Law Symposium: Proving A Trademark Has Been Diluted: Theories Or Facts?*, 31 HOUS. L. REV. 713, 715 (2004) (defining “dilution” as the “lessening of the capacity of a famous mark to identify and distinguish goods or services” whether or not there is competition or a likelihood of confusion).

²² See Swann, Aaker & Reback, *supra* note 2, at 794. A “brand” is when a product and its source have merged in the eyes of the consumer. It helps consumers to “differentiate between goods and is ‘the essence of competition.’” *Id.* Beginning in the 1960’s, “demand for high-quality, national brands was exploding.” *Id.* at 789-90. *Cf.* Sara Stadler Nelson, *The Wages of Ubiquity in Trademark Law*, 88 IOWA L. REV. 731, 778 (2003) (identifying another shift in “branding philosophy in 1988, when a series of trademark acquisitions made it obvious that brands had significant value.”). *Id.* In fact, after companies realized that there was a new value in equity and in their financial statements, the need for and use of trademarks became more aggressive and widespread.

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product or service available for sale by a particular producer.²³ This development can create valuable assets other than a company's tangible products or other physical assets.²⁴ As this growth continues, so does the need to protect the trademarks, sometimes at high costs, that consumers associate with each company.²⁵

Many companies are using the power of their brand to help expand their product lines.²⁶ According to some studies, the resulting products, called "brand extensions" or "line extensions," make up 95% of new product introductions.²⁷ Because brand names have such a powerful presence among consumers, companies assume that the goodwill they have gained in their brand will extend to any new product they choose to sell and stamp with that brand.²⁸ Brand extensions also save companies money in advertising and market entry costs by allowing them to immediately draw a certain customer base merely because of the goodwill previously earned on other products.²⁹ As companies which previously offered limited products or services look to break into new categories with brand or line extensions, there is a definite likelihood of increased conflicts.

In some cases, companies are willing to compromise, which allows both parties to continue to use the brand in separate product or service areas.³⁰ This compromise, also known as a consent to

²³ See Nelson, *supra* note 22, at 778. The first goal for most companies acknowledging this new dynamic in marketing was "brand-stretching" or "brand extensions" in which the brand was attached to "an ever-wider variety of products." *Id.*

²⁴ See AAKER, *supra* note 2, at 208. "The most real and marketable assets of many firms are the brand names that they have developed." *Id.*

²⁵ See Swann, Aaker, & Reback, *supra* note 2, at 794. A brand is "the essence of competition." *Id.* As a result, companies which hold strong brands have to maintain "flexibility in the face of aggressive competitors, who are constantly entering the market or repositioning around an attractive variation on [their] benefits in an effort to leapfrog over established players." *Id.* at 805.

²⁶ See Nelson, *supra* note 22, at 779. In many cases, without complete knowledge of possible effects, companies extend their brands. Although scholars claim it can be harmful in the long run, "most new products now bear existing brands." *Id.* See also AAKER, *supra* note 2, at 208. "Brand extensions are a natural strategy for the firm looking to grow by exploiting its assets." *Id.*

²⁷ See AAKER, *supra* note 2, at 208.

²⁸ See Swann, Aaker & Reback, *supra* note 2, at 806. "[A] brand is an owner's badge of identity and its reservoir of good will." *Id.*

²⁹ See Nelson, *supra* note 22, at 779 (stating that brand extensions save money and reduce risk).

³⁰ The federal trademark system used by the PTO creates different classifications of products or services in which a company may register its trademark. See Lanham Act, 15 U.S.C. § 1112 (giving the director of the PTO the power to create such categories); see also United States Patent and Trademark Office International Schedule of Goods and Services, at <http://www.uspto.gov/web/offices/tac/doc/basic/international.htm> (last visited Nov. 8, 2005) (listing 45 cur-

use agreement,³¹ is the optimal solution, and one which more companies should consider as the problem of expanding brands continues. Despite these agreements, there may still be some obstacles in the relationship as a result of violations of the agreement, thus, increasing the threat of litigation.³²

C. Brand Conflicts in Court

Over the past twenty years, there have been a number of cases which exhibit the problem of expanding brands³³ and the conflicts that can arise, despite attempts to reach a compromise outside of litigation. While the following two cases are examples of the problem and the need for better resolution techniques, they do not represent successful instances of the solution this Note advocates. In both cases, negotiations attempted to address the problem, and it is unclear precisely what, if any, other ADR techniques were employed. And in both cases, despite communication and various attempts at conflict resolution, the parties ended up in contentious litigation. These cases are paradigmatic of the problem, and may offer future parties a glance into what may lie ahead if they do not commit to ADR in good faith.

rent categories of goods or services). Different parties can register a similar mark in different categories, and use the mark concurrently so long as one party does not try to exploit another. Trademark registrants today, however, often choose to register in all categories, leaving no room for another company to operate with the same mark absent litigation or a shared-use agreement.

³¹ See McCarthy, *supra* note 16, at § 18:80 (referring to contracts between parties in which they agree to simultaneous use of a trademark so long as their products or services do not interfere with each other).

³² *Id.* McCarthy discusses cases where parties later broke the agreements for various reasons, and the reactions of several courts to these cases.

³³ See Frank M. Sullivan v. CBS Corp., 385 F.3d 772 (7th Cir. 2004) (affirming summary judgment for television series producers and network in a case where parties fought over the name “Survivor” in reference to music and merchandise related to the “Survivor” television series, as well as the plaintiff’s band name); Times Mirror Magazines Inc. v. Field & Stream Licenses Co., 294 F.3d 383 (2d. Cir. 2002) (owner of trademark in “Field & Stream” sued competing owner for breach of their co-existence and settlement agreements); Johnson Publishing Co. v. Willitts Designs Int’l, 1998 WL 341618 (N.D.Ill. 1998) (regarding co-existence agreement as to “EBONY” in conjunction with a magazine and collectible figurines); Phillips Products Co. v. R.H. Phillips, Inc., 2003 WL 23527080 (D.Minn. 2003) (enforcement of co-existence agreement regarding use of “Phillips” in various trademarks).

i. *Apple v. Apple*

This problem is best exemplified in the case mentioned previously – *Apple Corps. Ltd. v. Apple Computer Inc.*³⁴ In the late 1970's, the importance of trademarks in the entertainment industry was minimal, compared to copyrights, as our country finally neared completion of the 1976 Copyright Act, a lengthy revision of federal copyright laws.³⁵ As a result, most people in the industry were more concerned with finding out what copyright protections they would be afforded under this new statute. The Beatles, however, had been very protective of their intellectual property rights and had formed Apple Corps. to protect these rights.³⁶ In 1980, George Harrison discovered an advertisement in a magazine for a young company named Apple Computer, and realized the potential for consumer confusion between it and his own Apple Corps.³⁷ Shortly thereafter, Apple Corps. sued Apple Computer in an attempt to prevent such confusion and the two parties eventually settled out of court.³⁸ As part of the settlement agreement, reached in 1981, the parties conceded that each could continue to use the name “Apple” so long as Apple Computer did not enter the music industry, and Apple Corps did not enter the computer industry.³⁹ The cost for these rights to Apple Computer, the latecomer to the name,⁴⁰ was \$80,000.⁴¹ But ten years later, the two parties were in dispute again, this time as a result of new musical hardware available for Apple computers.⁴² After making their way through sev-

³⁴ See *infra* p. 203.

³⁵ 17 U.S.C.A. §§ 101-810, 1101. The overhaul of copyright law lasted over twenty years. In 1955, the Register of Copyrights started a program, funded by Congress, which would study 35 copyright issues. See Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L.REV. 857, 871 (1987). Throughout the 1960's, there were House Subcommittee hearings addressing troublesome issues in the reform, such as cable television systems, and, by 1976, a number of compromises helped to ensure passage of the bill. *Id.* at 876-78.

³⁶ Roger Lowe, *An Apple A Decade, Keeps The Lawyers At Work*, THE LONDON TIMES, September 7, 2004, at 12. The Beatles also considered Apple Corps. a vehicle through which they could sign other musicians and fund various creative projects. Despite a number of such projects in the late 1960's and early 1970's, the label produced nothing new between 1976 and 1996.

³⁷ *Id.*

³⁸ See Graham, *supra* note 12.

³⁹ See *Apple Corps. Ltd. v. Apple Computer Inc.*, No. HC-2003-CO2428, 2004 WL 960848, ¶¶ 1, 6 (Apr. 7, 2004).

⁴⁰ In trademark law terminology, this is known as the “junior user.”

⁴¹ See Lowe, *supra* note 36.

⁴² *Id.* The hardware which Apple had discovered, MIDI (Musical Digital Interface), enables computers to create, edit, and record music.

eral English and European courts, the parties once again settled.⁴³ In 1989, the parties came to another agreement, but this time, a much larger amount of money was involved. Apple Computer agreed to pay \$26.5 million to continue using this hardware – and agreed once again not to enter the “music industry.”⁴⁴ But this volatile relationship was just gearing up for the largest battle yet.

The onslaught of the digital music age in the late 1990’s surprised many and left a reeling music industry uncertain of how to counter the massive amount of music slipping through their hands onto the computers of eager downloaders.⁴⁵ Apple Computer convinced many music companies, long thought to be inflexible, that people would pay to download music, so long as the format was simple and the cost of a song was less than the price of a cup of coffee.⁴⁶ The iPod, a portable digital music player, and iTunes, an internet digital music outlet, transformed the music industry and technology industry in ways that are still dazzling analysts.⁴⁷

Apple Computer, which produced them both, must have been aware that it was violating its agreement with Apple Corps. In September of 2004, the most recent suit between these parties went before the Chancery Division in England, where Apple Computer sought removal to California.⁴⁸ The judge, who noted that the 1981 agreement “created obscurity and difficulty for lawyers to debate in future years,” ultimately ruled that the jurisdiction was proper,

⁴³ See *Apple Corps. Ltd.* at ¶ 11. The court discusses the path of the 1989 litigation, tracing it through the European Commission and the High Court in England, where it took a hundred days before settlement talks were started. *Id.*

⁴⁴ See Graham, *supra* note 12.

⁴⁵ See Tia Hall, *Music Piracy and the Audio Home Recording Act*, 2002 DUKE L. & TECH. REV. 23 (2002) (explaining how the music industry believed in 1999 that 25% of all CDs were unauthorized copies, and that home ownership of CD burners and the rise of digital music on the internet contributed to the economic woes of the industry).

⁴⁶ See Walberg, *supra* note 12 (theorizing that a large part of the success of iTunes is that the music industry backs it because of its ease of use and the fact that the cost appeals to consumers).

⁴⁷ See *The Meaning of iPod*, THE ECONOMIST, June 12, 2004, at Technology Quarterly Section (calling Apple CEO, Steve Jobs, “among the leaders in the creation of digital music technologies”); John Stones, *Putting the Bite Back On*, MARKETING WEEK, October 7, 2004, at 26 (heralding iTunes as the “undisputed market leader” with a 70% share of legal downloads”); see also Scott Van Camp, *They March To His Rhythm*, BRANDWEEK, October 11, 2004, at News Section (observing the cultural impact of the iPod and its impact on the music industry).

⁴⁸ See *Apple Corps. Ltd. v. Apple Computer Inc.*, No. HC-2003-CO2428, 2004 WL 960848 (Apr. 7, 2004). The bulk of the case addresses the claim by Apple Computer that the license agreement was signed in California, meaning California law should govern and should be the appropriate venue for the action. The court ultimately rejected this contention, which led the parties to reinstate settlement negotiations.

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and the case would go forward in England, where it was filed.⁴⁹ At this point, the parties resumed negotiations, with speculation reaching a fevered pitch as to the terms or ability of the parties to make a deal. *Forbes Magazine* reported that the two companies “are close to a settlement that would dwarf the \$26.5 million paid in 1991. It could be ‘the biggest legal settlement in legal history’ according to one lawyer,” excluding class action suits.⁵⁰ It is also speculated that the terms might involve creative solutions such as bringing the Beatles catalog, perhaps the most valuable in the world, to Apple’s iTunes. This would be an industry coup, as many of the digital music stores have been courting Apple Corps. in hopes of obtaining those rights for years.⁵¹

Despite two previous, unsuccessful negotiated agreements, both parties are still more interested in resolving the case outside of court than spending years tied up in the court system. It is important for both parties to resolve this dispute quickly and in a way that they can both continue to use the name “Apple” profitably and capitalize on the reputations they have established for themselves. More importantly, staying out of court allows both parties to think creatively and find new ways for the companies to work together, and profit together.

ii. *DC Comics v. Kryptonite Corp.*

Another recent case concerning expanding brand problems involves DC Comics, owner of a trademark in “kryptonite,” against Kryptonite Corp., a manufacturer of bicycle locks and other products.⁵² In 1983, after years of settlement negotiations, the parties reached an agreement that allowed restricted use of certain marks associated with the “kryptonite” mark so long as they were limited to certain products and devices.⁵³ Now, DC Comics claims that the limitations in the agreement were breached in the 1990’s when Kryptonite Corp. applied for trademark applications for the use of

⁴⁹ *Id.*

⁵⁰ Arik Hesseldahl, *Strange Tales of the Two Apples*, FORBES MAGAZINE, available at http://www.forbes.com/technology/2004/09/17/cx_ah_0917tentech.html (posted Sept. 17, 2004).

⁵¹ Arik Hesseldahl, *Two Apples Heading Back to Court*, FORBES MAGAZINE, available at http://www.forbes.com/2003/09/12/cx_ah_0912aapl.html (posted Sept. 12, 2003). In addition, according to the same rumors, ex-Beatle Paul McCartney could potentially join the board of Apple Computers. This rumor is unsubstantiated and doubtful, according to Hesseldahl. *Id.*

⁵² *DC Comics v. Kryptonite Corp.*, 336 F.Supp.2d 324 (S.D.N.Y. 2004).

⁵³ See Mark Hamblett, *DC Comics’ ‘Kryptonite’ Trademark Survives Court Challenge by Maker of Bicycle Locks*, NEW YORK LAW JOURNAL, September 22, 2004, available at <http://www.nylawyer.com/news/04/09/092204b.html> (last visited November 28, 2004).

the mark in connection with items other than those contained in the original agreement.⁵⁴ DC Comics filed suit in the Southern District of New York, and the judge issued several summary judgment rulings favorable to DC Comics in a September 2004 opinion.⁵⁵ Judge Richard Owen refused, however, to dismiss a claim that DC breached a contract with Kryptonite Corp. on limited trademark use, leaving that issue to be decided later at trial.⁵⁶ Although the breach of contract claim itself may not be ideal for conflict resolution, if the parties are both interested in continuing to capitalize on the “kryptonite” mark, their best chance is to engage in some form of ADR on that issue, and try to formulate a fair and equitable result.

D. The Problem with Going to Court

The problem with these cases and many others⁵⁷ is that the standard option of litigation is a closed universe of possibilities. To Apple and Apple, DC Comics and Kryptonite Corp., and any other similarly situated parties, litigation offers a limited, strictly regulated system. At trial, the judge or jury is likely to award a simple judgment, granting use of the trademark to one party or the other. This could result in a potentially fatal blow to one of the litigants. ADR, on the other hand, offers an open universe of possibilities, whereby the parties can fashion their own solution and continue to grow and work together indefinitely, adjusting to all changes in the relationship as they arise.

III. ALTERNATIVE DISPUTE RESOLUTION

Alternative dispute resolution has been a growing legal option for years, gaining special recognition in commercial law, employ-

⁵⁴ See *Superman Publisher Beats Kryptonite*, CNNMONEY.com, at <http://money.cnn.com/2004/09/23/news/midcaps/kryptonite> (last visited Feb. 20 2006) (claiming products such as tote bags, briefcases, helmets, pants, jerseys, and computer software were planned for production).

⁵⁵ See Hamblett *supra* note 53.

⁵⁶ See Helen Peterson, *It's a Super Trademark Mess*, N.Y. DAILY NEWS, Thursday, Sept. 23, 2004 at <http://www.nydailynews.com/news/local/story/234760p-201654c.html> (last visited Nov. 28, 2004). The judge found that Kryptonite has been associated with the Superman character for over sixty years, and deserves protection.

⁵⁷ See cases listed previously, *supra* note 33.

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ment law, and divorce law.⁵⁸ It is often recognized as giving the parties a faster, less expensive method of conflict resolution by offering an alternative to the huge, grinding machine that is the American legal system.⁵⁹ As former Chief Justice Warren E. Burger said in 1984 to the American Bar Association, “Our litigation system is too costly, too painful, too destructive, too inefficient for a civilized people.”⁶⁰

There are numerous forms of ADR which engage different processes, parties, and costs. Some of these forms are adjudicative, some are binding, some are both, and some are neither.⁶¹ The distinctions between these forms are clear, and each has its own benefits and shortcomings which the parties must consider prior to initiating the process.⁶²

The most common and least adjudicative form of ADR is settlement negotiations.⁶³ In nearly all civil cases, parties try to resolve their issues through their attorneys in some form of settlement negotiation before moving forward.⁶⁴ Cases presenting a high level of animosity,⁶⁵ or involving an exorbitant amount of

⁵⁸ NATIONAL INSTITUTE FOR TRIAL ADVOCACY, *ARBITRATION ADVOCACY*, Ch. 2, § 2.2 (1997). Alternative Dispute Resolution is used frequently for varying business, construction, employment, insurance, securities, real estate, family, and health care disputes.

⁵⁹ See Thomas M. Onda, *RESOLVE!*, 689 *PLI/Pat* 61, 63 (2002). Onda also discusses how the options available in ADR, and mediation in particular, are usually not limited by statutory restraints or a court's orders, thus making it more conducive to creative solutions. *Id.*

⁶⁰ Manny D. Pokotilow, *Why Alternative Dispute Resolution Should Be Used for Intellectual Property Disputes*, 16 *NO. 7 J.PROPRIETARY RTS.* 17 (2004) (citing Burger's remarks to the American Bar Association in 1984).

⁶¹ See Leslie J. Lott, *Litigation Strategy Effective Use of ADR in Intellectual Property Disputes*, 579 *PLI/Pat* 395, 398 (1999) (theorizing that “the combinations and permutations are virtually unlimited. Generally, however, the different forms of ADR can be categorized into two categories, binding and non-binding.”).

⁶² See generally Michael H. Diamant & Elizabeth M. Zoller, *Strategies for Mediation, Arbitration, and Other Forms of Alternative Dispute Resolution*, SJ055 *ALI-ABA* 131, 135-36 (2004) (explaining the various disadvantages of ADR in general, and arbitration in particular).

⁶³ *Id.* at 133. “Settlement is the process of establishing a range of compromise options until the parties involved in a dispute reach an agreement.” *Id.*

⁶⁴ See Lott *supra* note 61, at 399. Negotiations are “almost universally employed in pre-litigation dispute resolution” and are usually informal, which detracts in some cases from the gravity given to the matter by advocates. *Id.* These discussions will often continue through the entire litigation process.

⁶⁵ See Thomas J. Speiss & Stephen M. Levine, *An Analysis of the Factors That Determine When and How to Resolve a Trademark Dispute*, 11 *RICH. J.L. & TECH.* 1, 11 (2004) (citing psychological barriers such as personal animus as leading parties to “incorrectly and unjustifiably assume the motives and intentions of the other parties,” which makes success of negotiations unlikely); *but cf.* Diamant & Zoller, *supra* note 62, at 135 (explaining that if a trademark infringement is willful, the parties are likely to be more hostile, and such cases are not likely to benefit from negotiations).

money, are often poor candidates for resolution by basic settlement negotiations. The more valuable benefit of this process is that it opens the door of communication between parties, which is a crucial first step.

Arbitration is the most comprehensive and, ordinarily, most restrictive form of ADR. In arbitration, the outcome and subsequent remedy are determined by a third party.⁶⁶ This is generally known as binding arbitration and there is usually no appeal or judicial review, except when alleging an abuse or impropriety of the arbitrator(s).⁶⁷ There is also a process known as non-binding arbitration, which is more like mediation, in which the “orientation of the procedure is to aid the parties to make their own settlement.”⁶⁸ In cases where a court has ordered arbitration, it is frequently non-binding.⁶⁹

In arbitration, the parties sometimes adopt specific provisions and rules to help govern the process. Various entities have created guidelines which can be adopted and/or modified to provide more alternatives for parties and to make the process easier.⁷⁰ Contracts sometimes contain arbitration clauses which help determine important factors, such as choice of law, venue, and the scope of power of the arbitrator.⁷¹ One appealing aspect of arbitration is that it is confidential, and arbitral awards are not published unless the parties agree otherwise.⁷² Ultimately, arbitration offers the parties a chance to have a neutral party hear their claims and adjudicate –

⁶⁶ See Scott Blackmand and Rebecca M. McNeill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 AM. U. L. REV. 1709, 1713 (1998). In arbitration, parties can select one private arbiter or a panel of three arbiters to resolve their dispute.

⁶⁷ See Diamant, Zoller, & Bautista, *Strategies for Mediation, Arbitration, and Other Forms of Alternative Dispute Resolution*, SK074 ALI-ABA 205, 230 (2005). The highest courts in California and New York have both found that an arbitral award will be overturned only in a case where the arbitrator exceeded his powers. *Id.*

⁶⁸ *Id.* at 231.

⁶⁹ See Diamant and Zoller, *supra* note 62, at 142. The parties can, however, agree to make the arbitration binding if they so desire. In such cases, the final judgment is entered on the arbitration award following Rule 58 of the Federal Rules of Civil Procedure, or the proper state rule or Statute.

⁷⁰ See *id.*; see also Diamant & Zoller, *supra* note 62, at 142. The Uniform Arbitration Act provides guidelines upon which the parties and the neutral can rely, as does the Federal Arbitration Act.

⁷¹ See Diamant & Zoller, *supra* note 62, at 148. Other issues which arbitration clauses may address are the scope of the arbitration itself, whether the arbitrator can award punitive damages, and who will have to pay fees and expenses.

⁷² See Kyle-Beth Hilfer, *A Practical Guide to Arbitrating IP Disputes*, *The Intellectual Property Strategist*, Vol. 10, No. 8, Pg. 1 (May, 2004) (explaining how confidentiality is often “invaluable” for protecting intellectual property in some types of cases, such as trade secrecy cases). Rule 23 of the AAA’s Commercial Rules helps further the privacy factor by excluding any non-essen-

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just as they would have in court, but according to rules set by the parties, and for a cheaper total cost on a faster timetable.

Sometimes litigants merely need the assistance of a neutral third-party to help guide them through the difficulties of negotiations toward a settlement, which the parties themselves reach. This non-adjudicative⁷³ facilitated negotiation process is called mediation.⁷⁴ In such cases, the mediator will often hold numerous sessions with the parties separately to help determine what they are seeking, and at what cost.⁷⁵ The mediator guides the process, but has no power to render a conclusive decision. If the mediator believes that a reasonable settlement can be reached, he may encourage continued negotiations. If he believes that no further efforts would be helpful, he can end the process.⁷⁶ Each state has procedural rules for mediation that help to define the mediator's conduct,⁷⁷ and usually the mediator must be well-versed in the relevant substantive law.⁷⁸ Although mediators do not have the authority to render a formal decision, they can help by means of "caucuses," in which they separate the parties and go back and forth between the parties to try and bring them closer to an agreement.⁷⁹ Courts can impose mandatory supervised mediation by statute or court order, and some courts, such as the United States District Court for the Northern District of Ohio, require it in all civil cases.⁸⁰ The underlying goal of mediation is to help the parties

tial audience members during the testimony of other witnesses and giving the arbitrators the discretion to determine which other third-party attendees should be allowed. *Id.*

⁷³ See Diamant, Zoller & Bautista, *supra* note 67, at 207. Non-adjudicative methods are those in which the "authority to reach and enforce a resolution to a dispute remains exclusively with the parties." *Id.*

⁷⁴ See Blackmand & McNeill, *supra* note 66, at 1714. This can be useful in cases where the parties have a critical business relationship and hope to resolve the issue in a less adversarial manner, but need help doing so.

⁷⁵ See Pokotilow *supra* note 60, at 18 (explaining that frequently, the "bottom line" for the two parties is close enough that a settlement can be reached).

⁷⁶ *Id.* The mediator is given a certain amount of leeway to use, if necessary, a creative solution which might prevent the parties from holding on to the animosity that naturally occurs in most litigation.

⁷⁷ *Cf.* Hilfer, *supra* note 72, at 1 (describing how a number of states, including New Jersey, Nevada, North Carolina, and others have adopted the Revised Uniform Arbitration Act which expands the original 1955 Uniform Arbitration Act's provisions).

⁷⁸ See Diamant & Zoller, *supra* note 62, at 137-41.

⁷⁹ Lott, *supra* note 61, at 406.

⁸⁰ See Diamant & Zoller *supra* note 62, at 137 (explaining that mediation is ordered by this court in cases where the parties are "generally aware of the strengths and weaknesses of the case" or at any prior time if the parties agree to it and the court approves); *cf.* Lott *supra* note 61, at 406 (discussing how the United States District Court for the Southern District of Florida

come together to reach an agreement without resorting to a formal adjudication.

And then there are the variations and hybrids. One of the unique benefits of ADR is that parties can manipulate it to create a process that works towards everyone's best interest. This allows for combinations of the different types of ADR mentioned above such as Med-Arb⁸¹ or Co-Med Arb.⁸² One other possibility is the "mini-trial." In such proceedings, management figures from both parties present complete evidence, not including live testimony, to a judge, jury, or neutral.⁸³ After this stage, the parties will meet to try and reach a settlement with the help of a facilitator who can issue a binding or non-binding decision.⁸⁴ Another variation of mini-trials is private proceedings, in which the parties themselves, not representatives, hire a judge and agree to abide by his or her determinations.⁸⁵ Some scholars have also suggested that a combination of early neutral evaluation⁸⁶ and mediation works well in trademark disputes.⁸⁷

has local rules which contain a provision that requires mandatory mediation of almost every civil case).

⁸¹ See Lott, *supra* note 61, at 401. "Med-Arb is a proceeding in which the parties have agreed to participate in mediation, and to submit to arbitration in any aspect of the dispute which has not been resolved by mediation." *Id.*

⁸² *Id.* at 401-02. This process is the same as Med-Arb, except that different people oversee the mediation and arbitration portions of the process, allowing the parties to select the right person for each segment of the proceeding.

⁸³ See Pokotilow, *supra* note 60, at 19.

⁸⁴ *Id.* In this way, mini-trials can resemble mediation if they are not binding or arbitration if they are binding. *Id.*

⁸⁵ *Id.*

⁸⁶ Early neutral evaluation ("ENE") is a "non-adjudicative, facilitated evaluation process, the purpose of which is to make case management and settlement more efficient." Diamant & Zoller, *supra* note 62, at 136. In ENE, the evaluator attempts to identify strengths and weaknesses of the arguments, much like a mediator would do, but in the end produces only a "non-binding oral assessment of the merits of the case to each party." *Id.*

⁸⁷ See Koorosh Afshari, *Trademark Infringement Primer*, 800 PLI/Pat 333, 364 (2004) (arguing that ENE/mediation can be conducted with little formal or informal discovery, which may work well in trademark disputes).

IV. WHY AND HOW MEDIATION IS RIGHT FOR MANY TRADEMARK DISPUTES

A. ADR in IP Disputes Generally

There are several reasons why ADR is particularly relevant for intellectual property and, specifically, trademark disputes. Intellectual property litigation is frequently more complicated and difficult to comprehend than other types of litigation.⁸⁸ In addition, the monetary costs of IP litigation can be astronomical, often as a result of the costly discovery process necessary in such disputes.⁸⁹ Because of the lengthy discovery process typical of IP disputes, they often drag on for excessive periods of time.⁹⁰ One of the best reasons to apply ADR to IP disputes, however, is its ability to provide a flexible resolution which benefits all parties.⁹¹ No matter which type of IP law is at issue, ADR offers at least the possibility of a cheaper, faster, more creative, and mutually beneficial solution. As one Article has commented, “[t]he world of intellectual property law calls for dispute resolution mechanisms as fast-paced and efficient as the evolution of the underlying technology and ideas which are the subject of the disputes.”⁹²

Intellectual property law protects ideas, expressions of ideas, and names (or reputations) in patent law, copyright law, and trademark law, respectively.⁹³ Success in patent law, in particular, requires an ability to understand scientific or technical concepts.⁹⁴ This obligation might prevent key figures in the process – e.g., ju-

⁸⁸ See Blackmand & McNeill, *supra* note 66, at 1716. “Frequently, the legal issues require an arbiter to develop an understanding of the underlying technology involved Highly technical issues also present a substantial economic incentive to favor ADR methods.” *Id.*

⁸⁹ *Cf.* Lemley, *supra* note 6, at 311 (explaining how, in IP cases, the courts place a strong emphasis on evidentiary procedure and witness credibility, which can greatly delay the case and thus drive up the costs of the trial).

⁹⁰ See Pokotilow, *supra* note 60, at 17 (citing examples of patent cases which lasted as long as 26 years); see also Stephen Anway, *Mediation in Copyright Disputes: From Compromise Created Incentives to Incentive Created Compromises*, 18 OHIO ST. J. ON DISP. RESOL. 439, 450 (2003) (claiming “the high cost of copyright litigation is . . . exacerbated by the unusually long and time-consuming disposition of copyright cases.”).

⁹¹ See Onda, *supra* note 59, at 68-73 (identifying mediation as a better option than litigation for parties who would be “satisfied with a resolution that a court could not grant”).

⁹² Carmen Collar Fernandez & Jerry Spolter, *International Intellectual Property Dispute Resolution: Is Mediation a Sleeping Giant?*, 53 AUG DISP. RESOL. J. 62 (1998).

⁹³ See Lemley, *supra* note 6, at 289-290 (describing how “each area of intellectual property conveys a different set of rights and extends protection for a different period of time.”).

⁹⁴ See generally Brian Panka, *Use of Neutral Fact-Finding to Preserve and Uphold the Disclosure Purpose of the Patent System*, 2003 J. DISP. RESOL. 531 (2002).

rors or judges – from clearly understanding the issues before them.⁹⁵ In ADR, parties can select neutrals that are familiar with the particular type of technology or process at issue.⁹⁶ This will likely result in a fairer resolution to both parties, as the neutral can concentrate on the details and specifics of the case, as opposed to trying to learn or better understand the technical process.⁹⁷ Copyright law is not scientific or technical like patent law. Instead, it deals with the expression of ideas in a fixed tangible medium, focusing on whether there is some level of originality in a creative work.⁹⁸ Although it may sound like a simple task for a typical jury or judge, making such detailed distinctions between books, movies, songs, or computer programs (among other things) can be difficult and confusing.⁹⁹ Once again, the presence of an informed neutral that is familiar with copyright law can make the process more efficient and tolerable for both parties.

At the other end of the intellectual property spectrum, far from ideas and expressions, is trademark law, which protects names or source identifiers. Not as technically demanding as patent law, nor as detail-oriented as copyright law, trademark law might seem like the least practical candidate for alternative dispute resolution based on the “expertise factor.”¹⁰⁰ However, trademark experts are better qualified to interpret the surveys which are frequently submitted as evidence and understand the crucial questions of “use” and “reliability” in trademark infringement cases.¹⁰¹ As a result, a neutral that is particularly familiar with trademark law and the data involved is a more desirable option than the average judge or jury.¹⁰²

⁹⁵ See Blackmand & McNeill, *supra* note 66, at 1716. Many people do not have the ability to identify distinctions between and/or infringements of products such as sophisticated computer software, or processes such as plant cloning. This is why expert witnesses, who can carefully explain such concepts and distinctions, are so crucial in patent cases.

⁹⁶ See Panka, *supra* note 94, at 531 (describing patent law as a “highly complicated body of law often dealing with highly technical and complex innovations” and theorizing that “neutral fact-finding” should be used as a precursor to patent disputes).

⁹⁷ See Hilfer, *supra* note 72, at 1.

⁹⁸ See Nimmer, *supra* note 15, § 2.01.

⁹⁹ Cf. Anway, *supra* note 90, at 453-55 (identifying the ambiguity in modern copyright cases as a reason for divergent results and mediation as a means of circumventing such problems at trial).

¹⁰⁰ See Blackmand & McNeill, *supra* note 66, at 1725-26. Because trademark infringement relies heavily on “likelihood of confusion,” it often looks directly at the opinion of the “ordinary observer,” which would seem to make a jury or judge perfect for such a case.

¹⁰¹ *Id.*

¹⁰² *Id.*

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One of the most commonly cited reasons for relying on ADR in IP disputes is its potential to save all parties a tremendous amount of money.¹⁰³ According to a survey conducted by the American Intellectual Property Law Association in 2001, the average cost of an IP suit ranges from \$400,000 upward.¹⁰⁴ Patent litigation is often the most expensive type of IP suit, as can be seen in the litigation between Polaroid and Kodak.¹⁰⁵ According to Tom Arnold, a patent litigator and author, the suit may have totaled \$100 million in expenses for both sides.¹⁰⁶ Although they may not always be quite as costly, trademark and unfair competition suits “rarely cost less than \$500,000 by the time trial starts.”¹⁰⁷ Copyright suits may be in the same approximate range as well.¹⁰⁸ A portion of these high costs come from the need for extensive and sometimes expensive discovery.¹⁰⁹ ADR can save money by limiting the scope of discovery, as agreed to by both parties looking to minimize financial costs.¹¹⁰ In trademark disputes, discovery often consists of survey evidence, which can be appropriately limited or streamlined by a neutral or by the parties entering the mediation or arbitration.¹¹¹ These surveys can often be prohibitively expensive.¹¹²

In addition to monetary concerns, IP lawsuits may take a long time to litigate, which can have adverse effects on a company’s business.¹¹³ It is crucial in patent disputes that a speedy resolution is

¹⁰³ See Fernandez and Spolter, *supra* note 92, at 62 (arguing that gigantic corporations “simply cannot afford the . . . resources to sit around . . . waiting years and spending millions to resolve disputes pertaining to trademarks, copyrights, patents, and trade secrets.”).

¹⁰⁴ See Lemley, *supra* note 6, at 311.

¹⁰⁵ See *Polaroid Corp. v. Eastman Kodak Corp.*, 789 F.2d 1556 (Fed. Cir.), *cert. denied*, 479 U.S. 850 (1986); *Polaroid Corp. v. Eastman Kodak Corp.*, 867 F.2d 1415 (Fed. Cir.), *cert. denied*, 490 U.S. 1047 (1989).

¹⁰⁶ See Pokotilow, *supra* note 60, at 17.

¹⁰⁷ *Id.*

¹⁰⁸ *Cf.* Anway, *supra* note 90, at 449-50. “According to a recent study, the median cost of a copyright infringement suit is \$100,000 through discovery and \$200,000 through trial The average cost of mediation, by contrast, is \$50,000” *Id.*

¹⁰⁹ See Diamant & Zoller, *supra* note 62, at 134. Also, the cost of hiring expert witnesses, who are crucial in intellectual property disputes, can be high.

¹¹⁰ See Anway, *supra* note 90, at 450.

¹¹¹ See Blackmand & McNeill, *supra* note 66, at 1727. The survey evidence usually presented in trademark disputes has to do with the degree of consumer confusion resulting from the infringing mark.

¹¹² See Paul W. Reidl, *Understanding Basic Trademark Law: A Primer on Global Trademark Protection*, 839 PLI/Pat 175, 208 (2005) (speculating that some such surveys can cost \$40,000 or more).

¹¹³ See Fernandez & Spolter, *supra* note 92, at 62. “International, multibillion-dollar corporations engaged in the pursuit of business profits derived from intellectual property simply cannot

found, because the patent at issue could become obsolete or invalid before the resolution of a lengthy trial or discovery.¹¹⁴ Although businesses locked in copyright and trademark disputes do not face the types of dangers typical of a lengthy trial, there is still a genuine concern for swift resolution. Because trademarks are utilized primarily in advertising, there is a need for immediate resolution to prevent companies from experiencing devastating financial setbacks.¹¹⁵ ADR also saves time by allowing the parties to begin negotiations immediately, without having to wait months or years to appear on a court docket.¹¹⁶

B. Previous Successful Use of ADR in Trademark Disputes

ADR has been used increasingly throughout the field of trademark law, with many positive results. The best example of this is in the area of internet domain name disputes.¹¹⁷ That field has been using arbitration for several years with moderate success.¹¹⁸ The most common disputes in that area arise from “cybersquatters” who purchased domain names corresponding to names of famous people or brands in the mid-1990s, at the beginning of the internet boom, and are now hoping to sell the domain names back to the celebrities or companies for huge profits.¹¹⁹ These situations arise

afford the time and resources to sit around with a phalanx of attorneys waiting years and spending millions” *Id.* See also Pokotilow, *supra* note 60, at 17 (explaining how the Kodak litigation took almost twelve years working its way through the courts).

¹¹⁴ See Lemley, *supra* note 6, at 314.

¹¹⁵ See *Litigation vs. Mediation Options*, International Trademark Association website, <http://www.inta.org/adr/options.html> (last visited Nov. 28, 2004).

¹¹⁶ See Diamant & Zoller, *supra* note 62, at 134; see also Hilfer, *supra* note 72 (stating that most arbitrations can be resolved in under a year, compared to the often multi-year process for intellectual property litigation).

¹¹⁷ Kyle-Beth Hilfer, *Arbitration Gains Acceptance as a Means of Resolving IP Disputes*, THE INTELLECTUAL PROPERTY STRATEGIST (April 7, 2004). In 1999, the Internet Corporation for Assigned Names and Numbers [ICANN] created the Uniform Domain Name Dispute Resolution Policy [UDRP], which explains a mandatory, nonbinding arbitration system to deal with domain name cases. These cases often deal with claims of bad faith or abusive registration of trademarks as domain names. The UDRP has become a crucial tool in expediting these cases while establishing a required arbitral system, and its success is notable in the search for cheaper, faster ways to resolve trademark disputes. See also Gleick, *supra* note 1 (claiming that, “traditional namespaces are overlapping and melting together . . .”).

¹¹⁸ See Edward C. Anderson and Timothy S. Cole, *The UDRP- A Model for Dispute Resolution in E-Commerce?*, 6 J. SMALL & EMERGING BUS. L. 235, 255 (citing the UDRP as “efficient, relatively inexpensive . . . competently administered, and enforceable.”).

¹¹⁹ See Amanda Rohrer, *UDRP Decisions Overridden: How Sallen Undermines the System*, 18 OHIO ST. J. ON DISP. RESOL. 563, 568 (2003). Cybersquatters register domain names using

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out of bad faith actions of the cybersquatters and trigger contentious disputes.¹²⁰ Another common dispute in the trademark field exists where companies that sell products or services in different “product categories” try to resolve who has the right to the name on the internet.¹²¹

The UDRP, *supra* FN 117, has been a successful innovation by providing parties that seek to use a trademark on the internet with a firm set of standards and guidelines, as well as a warning of what will follow if their domain name infringes another’s trademark.¹²² Thus far, the system has been effective and promising, though not without its difficulties.¹²³ Nevertheless, it shows a more economical and practical method of resolving one form of trademark disputes without having to resort to lengthy and expensive court proceedings.

It is important to note that arbitration is the method of conflict resolution required by the UDRP for domain name disputes, because most of these disputes are contentious and involve bad faith actions of cybersquatters.¹²⁴ There is a resulting need for a more formal and adjudicative ADR process, such as arbitration. Mediation’s non-adjudicative, less combative process is less appropriate in such a context, but more appropriate, however, to address the expanding brand problem.

other people’s trademarks intentionally, with the hope of extorting money. They usually register the name and later sell or license the domain name to companies which have spent money and hard work building goodwill in their mark.

¹²⁰ Cf. ICANN, Uniform Dispute Resolution Policy, at <http://www.icann.org/udrp/udrp-policy-24oct99.htm> (last visited Nov. 8, 2005). The UDRP defines the elements of bad faith use, which include parties that have acquired the domain name “primarily for the purpose of selling, renting, or otherwise transferring” it or registering it to prevent someone else, such as a competitor, from doing so. *Id.*

¹²¹ See Adam Chase, *A Primer On Recent Domain Name Disputes*, 3 VA. J.L. & TECH. 3 (1998). Chase notes that this is actually a problem that is a result of the difference between trademark law in the physical world and on the internet. In the physical world, different companies can use “United” as part of their trademarks so long as they are in different businesses, but on the internet, only one can use united.com. *Id.*

¹²² See Karen Webb, Comment, *The Appeal of the Internet – Looking at the Uniform Dispute Resolution Policy and How It is Newly Influenced by the Anticybersquatting Consumer Protection Act*, 43 SANTA CLARA L. REV. 1431, 1439-42 (2003).

¹²³ See Rohrer, *supra* note 119, at 576-83 (explaining how the lack of precedent, lack of appeal process, and fact that such decisions are not given deference or allowed to preempt litigation are critical flaws in the current system).

¹²⁴ See Webb, *supra* note 122, at 1439.

C. The *Real* Reason for Mediation in Trademark Disputes

While all of the reasons for the use of ADR in IP disputes cited thus far are important, the most compelling reason is more of a forward-looking factor and less of a “bottom-line.” Advocates for mediation often claim that it can help the parties fashion a creative solution which will benefit both parties.¹²⁵ Because mediation “focuses on the parties’ interests to resolve the dispute rather than declare a winner,” it is uniquely positioned to serve trademark law.¹²⁶ Mediation gives parties an opportunity to design a solution which will be constructive or beneficial to both parties, unlike trial litigation or even arbitration.¹²⁷ This is particularly appropriate because trademark disputes could often be resolved by helping the parties find or create some form of shared rights, either in the form of a settlement or consent to use agreement, a royalty, or some other mutually beneficial exchange.¹²⁸ Often when dealing with trademark and unfair competition disputes, each party has a clear goal in mind.¹²⁹ In the types of disputes cited earlier involving brand conflict, one party usually wants to expand its own customer base and reputation by entering a new market,¹³⁰ and the other party wants to protect its customer base and reputation. There are often logical solutions to many of these disputes, and it usually revolves around monetary compromise, shared rights, or both.¹³¹ Mediation is well-suited to solve this problem.¹³² Once again, if the litigants are interested in an open universe of possible solutions,

¹²⁵ See Lemley, *supra* note 6, at 306 (explaining that “mediation focuses on the parties’ interests to resolve the dispute rather than declare a winner,” making it the most appropriate form of ADR for many trademark disputes); see also Onda, *supra* note 59; Anway, *supra* note 90.

¹²⁶ Lemley, *supra* note 6, at 306.

¹²⁷ See Diamant & Zoller, *supra* note 62, at 138-46.

¹²⁸ See Blackmand and McNeill, *supra* note 66, at 1716.

¹²⁹ See *Litigation vs. Mediation Options*, International Trademark Association website, <http://www.inta.org/adr/options.html> (last visited Nov. 28, 2004) (explaining that mediation may be appropriate if the parties would be content with solutions that a court could not provide, want to avoid an “all-or-nothing” court decision, or if “extraneous business considerations dictate a speedy resolution,” all of which occur often in trademark disputes).

¹³⁰ Referred to in some cases as “cross-branding.” See DAVID ARNOLD, *THE HANDBOOK OF BRAND MANAGEMENT* 155-56 (1992).

¹³¹ See Blackmand & McNeill, *supra* note 66, at 1726. “Often, a reasonable resolution may involve modification of the existing license from one party to the other, or the creation of an additional agreement. In such situations, there is a substantial benefit to avoiding outright litigation not only in terms of time and expense saved, but also in being able to formulate the solution that best meets the needs of the parties and the situation.” *Id.*

¹³² See Erik Schafer, *The Use of Arbitration and Mediation for Protecting Intellectual Property Rights: A German Perspective*, 94 *TRADEMARK REP.* 695, 699 (2004) (explaining how mediation

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mediation offers the flexibility to make that relationship work in the future.¹³³

As discussed earlier, mediation is a less confrontational, more constructive form of ADR.¹³⁴ After the initial tensions dissolve in many trademark cases, the idea of having a neutral party work through the remaining problems is appealing. In addition, because mediation focuses on creating a dialogue between the parties, it is more likely to result in an agreement that “will be more acceptable in the long run than one imposed by a court [or an arbitrator].”¹³⁵

In cases where parties are pursuing permanent injunctions or permanent removal of trademark rights,¹³⁶ mediation is not the proper ADR mechanism. However, there are also cases where a clear agreement can be reached which benefits both parties, but which the parties might not identify without the help of a neutral third-party. This is what mediation is designed to do. There is tremendous potential for mediation to be a successful solution to trademark disputes, and it is for this reason that federal courts like the Northern District Court of Illinois have required mediation in Lanham Act cases before proceeding to trial.¹³⁷ The results have been positive thus far, suggesting that this is the answer for many aggrieved trademark litigants.¹³⁸ Ultimately, mediation is best used for trademark disputes when: the parties are interested in creating and continuing a business relationship. Furthermore, mediation is effective where parties are “reasonable and disposed toward settlement”¹³⁹ and where they would be satisfied with a creative

narrows the complexity of conflicts “by identifying and concentrating on the parties’ economic needs and interests.”).

¹³³ See *id.* at 701. “[Mediation is] especially suited to situations in which the parties must collaborate permanently or over a long period of time.” *Id.*

¹³⁴ See *Anway, supra* note 90, at 441-44. Mediators attempt to “gain the trust of the parties by proceeding in an impartial and deferential manner.” *Id.* Because mediators often inspire a free flow of information between the parties, the parties are usually better informed and more open to creative or unpredictable solutions.

¹³⁵ Peter K. Yu, *Toward a Nonzero-Sum Approach to Resolving Intellectual Property Disputes*, 70 U. CIN. L. REV. 569, 593 (2002), quoting JAY FOLBERG & ALISON TAYLOR, *MEDIATION: A COMPREHENSIVE GUIDE TO RESOLVING CONFLICTS WITHOUT LITIGATION* 10 (1984).

¹³⁶ See *Bayer Healthcare LLC v. Nagrom, Inc.*, No.03-2448-KHV, 2004 U.S. Dist. LEXIS 19454 (D. Kansas Sept. 7, 2004); *Petmed Express, Inc. v. Medpets.com Inc.*, 336 F.Supp. 2d 1213 (S.D. Florida 2004).

¹³⁷ See Jennifer Shack & Susan M. Yates, *Mediating Lanham Act Cases: The Role of Empirical Evaluation*, 22 N. ILL. U. L. REV. 287 (2002).

¹³⁸ See *id.* at 322 (concluding, based on analysis of survey results, that the Lanham Act Mediation Program in the Northern District of Illinois is “sufficiently effective that it should be continued” and that some relatively minor implementations could make it even more successful).

¹³⁹ See Shack & Yates, *supra* note 137, at 316.

and less drastic outcome. These are the types of cases which will often result from an expanding brand conflict.

D. Disadvantages of ADR in Trademark Law

Of course, there are several disadvantages of using any form of ADR in trademark disputes. One major problem with ADR is that there is usually no direct appellate review.¹⁴⁰ If a party is left dissatisfied, it can bring the case to federal court to be heard *de novo*, which means many of the costs which were supposed to be avoided are reintroduced.¹⁴¹ Another important factor is that third parties cannot be compelled to participate, meaning it may be difficult to get some witnesses or experts to testify.¹⁴² Also, there are times when trademark plaintiffs are interested in successfully litigating in order to send a deterrent message to potentially infringing third parties.¹⁴³ ADR may not offer this effect because of its confidentiality and its lack of precedential value.¹⁴⁴ Perhaps the critical weakness of using ADR in trademark disputes is the inability to obtain a permanent injunction, an award often sought in trademark infringement cases.¹⁴⁵ From a purely economic standpoint, these considerations may not be as important in cases involving brand extensions as they are in traditional trademark cases.

V. CONCLUSION

There is an impending litigation explosion in our commercial world resulting from the trademark and brand expansions initiated by many corporations today. Because trademark law offers the potential for infinite protection, it offers the strongest economic promise for IP rights in the future. Furthermore, the increasing value of brands has led many companies to focus on these more

¹⁴⁰ See Diamant & Zoller, *supra* note 62, at 134.

¹⁴¹ See Diamant, Zoller & Bautista, *supra* note 67, at 229.

¹⁴² See *Hull Municipal Lighting Plant v. Massachusetts Municipal Wholesale Electric Co.*, 609 N.E.2d 460 (Mass. 1993).

¹⁴³ See Onda, *supra* note 59, at 72 (listing this under the category of “Nature of Desired Resolution” in the column presenting reasons not to use ADR in trademark disputes).

¹⁴⁴ See Diamant & Zoller, *supra* note 62, at 134.

¹⁴⁵ See Speiss & Levine, *supra* note 65, at 2 (expounding that “perhaps the single most important factor in the outcome of trademark litigation is whether preliminary injunctive relief is granted.”).

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vigorously than improving the quality of their products. All of this leads to the natural conclusion that lawsuits in this area of law will multiply exponentially. Mediation is the option most likely to help more parties walk away with a faster resolution and more capital left to invest elsewhere. More importantly, mediation, with its non-adjudicative, constructive methods will help commercial entities create new opportunities to co-exist and grow their respective businesses, leaving an open universe of possibilities for the future without disabling one or both parties indefinitely.

THE ROLE OF MEDIATION IN TRADEMARK DISPUTES

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I. Introduction

In a consumer-based economy, the economic health of a company is based in part on the strength of its trademarks. As trademarks have become a powerful intellectual property right, companies have invested time and capital in establishing and protecting these rights. In doing so, disputes over trademark rights have inevitably arisen. To resolve disputes, parties have turned to litigation, and sometimes to alternative dispute resolution. This paper proposes that based on the hurdles faced in litigation and the nature of many trademark disputes today, mediation may be the best form of dispute resolution for trademark disputes.

Part II of this paper discusses common difficulties faced by litigants in intellectual property disputes. Part III explains how alternative dispute resolution has been used beneficially in intellectual property disputes generally. Part IV focuses on trademark disputes and discusses why and how alternative dispute resolution can particularly benefit this area of intellectual property law. Possible limitations of alternative dispute resolution in resolving trademark disputes are considered in Part V, and Part VI proposes mediation as the best type of alternative dispute resolution for trademark disputes and explains the benefits for first considering mediation in a trademark dispute.

II. Background and Difficulties in Intellectual Property Litigation

Litigation in general is often seen as an undesirable process and a last resort for resolving a dispute. Intellectual property (IP) litigation in particular is notoriously difficult for both parties, likely due to the complicated, sometimes technical nature of the dispute subject matter.

A. Intellectual Property Litigation Expenses

According to an American Intellectual Property Law Association survey, the average cost of an IP suit is more than \$400,000.¹ Patent litigation is usually the most expensive; for example, a recent litigation between Polaroid and Kodak² has been estimated to cost \$100 million for each side.³ Trademark and unfair competition suits and copyright suits on average cost more than \$500,000.⁴

Such high costs can in part be explained by the fact that many IP disputes involve more complicated or specialized fields. Because of this, the discovery process can be burdensome and expensive.⁵ The complicated nature of IP disputes creates other difficulties as well. Judges or jurors not trained in the particular areas of expertise required to understand patent, copyright, or trademark disputes may have to be taught for the purpose of trial.⁶ The cost of teaching may include hiring expert witnesses and taking more time during trial, all of which is cost expended by the parties themselves.⁷ Furthermore, IP disputes are shadowed in some amount of uncertainty and speculation when it comes to determining damages.⁸ Because intellectual properties are intangible, it can be challenging for the parties to produce evidence to justify the actual damages they seek, and even more challenging for the fact-finder to arrive at the appropriate amount based on the evidence submitted by the different parties.⁹ The production of evidence, along with the discovery process and hiring of experts, all add to high cost of litigation in an IP dispute.

¹ Kevin M. Lemley, *I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes*, 37 Akron L. Rev. 287, 311 (2004).

² See *Polaroid Corp. v. Eastman Kodak Corp.*, 789 F.2d 1556 (Fed. Cir.), cert. denied, 479 U.S. 850 (1986).

³ Manny D. Pokotilow, *Why Alternative Dispute Resolution Should Be Used for Intellectual Property Disputes*, 16 NO. 7 J. Proprietary Rts. 17 (2004).

⁴ *Id.*

⁵ David Allen Bernstein, *A Case for Mediating Trademark Disputes in the Age of Expanding Brands*, 7 Cardozo J. Conflict Resol. 139, 156 (2005).

⁶ See Steven J. Elleman, *Problems in Patent Litigation: Mandatory Mediation May Provide Settlement Solutions*, 12 Ohio St. J. on Disp. Resol. 759, 772 (1997).

⁷ Bernstein, at 156.

⁸ Lemley, at 302.

⁹ *Id.* at 304.

B. Length of Intellectual Property Trials

Related to the difficulty of high expenses in IP lawsuits is problem of the long length of time needed to resolve an IP issue through trial.¹⁰ The median amount of time for the final judgment of a litigated patent suit is about 7.5 years.¹¹ Reasons for such a long trial time include not only the complicated subject matter and speculative damages which lengthen the initial trial time, but also the fact that intellectual property disputes are highly susceptible to appeals.¹² This is because intellectual property laws are enforced not simply through clear cut rules, but through reasonableness determinations that give the fact-finder a wide range of discretion.¹³ Additionally, the resulting damages are often very high, and such high and speculative damages give the losing party much incentive to appeal.¹⁴ IP disputes may take years just to complete trial, only to take more time in the appellate process. In the end, the final verdict may be unsatisfying even for the winning party who has expended much time and money through the years of litigating that issue.

III. Alternative Dispute Resolution Used in Intellectual Property Disputes

The difficult nature of the average intellectual property litigation creates great incentives for seeking solutions through alternative dispute resolution (ADR). Alternatives to litigation may benefit both parties by decreasing expenditures of time and money and also potentially finding a solution that is favorable to both parties.

ADR offers ways to alleviate several of the burdens associated with IP litigation. While the discovery process of certain IP disputes is expensive and extensive for both parties, the

¹⁰ See Bernstein, at 156.

¹¹ See Marion M. Lim, *ADR of Patent Disputes: A Customized Prescription, Not an Over-the-Counter Remedy*, 6 Cardozo J. Conflict Resol. 155, 169 (2004).

¹² Lemley, at 304.

¹³ *Id.*

¹⁴ *Id.*

parties who agree to attempt resolution through ADR may also agree to limit the scope of discovery. They would be in a position to set their own limitations to minimize the financial costs of discovery,¹⁵ or a neutral third party can set limits for them.¹⁶ Either way, a fair limit on discovery can be established, and the parties can focus on reaching a resolution without suffocating each other with discovery.

Because of the highly specialized knowledge required to understand many IP disputes, ADR offers the opportunity for parties to select a neutral third party who, through training and experience, will understand the subject matter of the dispute more efficiently than judges or juries who lack the training or experience.¹⁷ For example, parties to a patent dispute can hire a neutral third party who has knowledge in scientific or technical concepts.¹⁸ Parties to a copyright dispute can hire a neutral third party who is comfortable making detailed distinctions between books, movies, songs, or computer programs.¹⁹ Parties to a trademark dispute can hire a neutral third party who is qualified to interpret surveys describing various consumer reactions to trademark names and source identifiers.²⁰ While such requirements in understanding may be difficult to meet for the average courtroom fact finder, a mediator or arbitrator specializing in a particular IP area could more easily understand the issue of the dispute.

Additionally, the problem of speculative damages in IP disputes could also be addressed through ADR. Most IP disputes do not require a result where one party walks away with all the rights of an issue.²¹ Intellectual properties are often examined in terms of bundles of rights, and rights to any issue can be licensed in discrete portions. The parties themselves are in the best

¹⁵ Pokotilow, at 450.

¹⁶ Scott Blackmand and Rebecca M. McNeill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 Am. U. L. Rev. 1709, 1727 (1998).

¹⁷ Elleman, at 772.

¹⁸ See Blackmand and McNeill, at 1721.

¹⁹ See *Id.* at 1719.

²⁰ See *Id.* at 1725-26.

²¹ *Id.* at 1716

position to evaluate what rights they need in a resolution, and ADR offers a process where the goal of each party need not be to walk away with everything they can take. Rather, ADR allows the parties to reach a resolution where both parties take the rights they need, without the painful expenses of money and time that would have been expended in trial.

IV. Advantages of Alternative Dispute Resolution in Trademark Law

One of the reasons why ADR is so suitable for resolving IP disputes is that IP issues are often technical or difficult in nature. This is especially visible in patent law and copyright law issues that either require a high level of technical knowledge or a high ability to understand the finer differences between expressions of ideas. Because trademark law is not as technically demanding as patent law or as detail-oriented as copyright law, one might make the argument that neutral third parties with specialized knowledge may not be as essential in trademark law as in other areas of IP law.²² However, such an idea overly simplifies the complexities of trademark law and the characteristics of trademark disputes which make it one area of IP disputes that is especially suitable for resolution through ADR.

A. Trends in Trademark Protection

Because of the importance companies place on their trademarks and the unique protection offered by trademark law, trademark disputes have the potential to be the most heavily litigated of IP disputes.²³ With the continued development of commerce and expansive global commercial growth come an importance in brands and protection of trademarks.²⁴ Companies who wish to either build a consumer base and reputation or protect their existing consumer base and reputation will look for ways to establish and secure their trademarks. A strong trademark,

²² Bernstein, at 155.

²³ *Id.* at 162.

²⁴ *Id.* at 143.

while intangible in itself, can create tangible assets for a company through product sales and product line extension strategies.²⁵

Furthermore, trademark law is unique from other types of IP laws in that it protects a company's trademarks for as long as the company is using the mark. While patents are only protected for 20 years after filing,²⁶ and copyrights are protected for 70 years after the death of the author,²⁷ trademarks could be infinitely protected. For this reason, and for the reason that companies recognize the importance of trademark protection to their consumer base and revenue, companies have invested time and money in establishing and protecting trademarks. Infringement on this property may result in litigation, but as will be discussed, resolution through ADR offers many benefits over litigation.

B. Limiting Scope of Discovery in Trademark Disputes

Trademark disputes often require more expensive discovery than many other types of IP disputes.²⁸ A trademark case is built on the "likelihood of confusion" factor; in other words, the question is whether customers will be confused as to the source of the products bearing the marks in question.²⁹ In order to examine a mark's likelihood of confusion, both parties will normally submit survey evidence analyzing consumer reactions to a mark to determine whether the mark is confusing.³⁰ Such surveys can be very expensive, often costing \$40,000 or more.³¹ Rather than having both parties expend time and money to conduct surveys, the parties could

²⁵ *See Id.* at 144.

²⁶ *See* United States Patent and Trademark Office website, General Information Concerning Patents, *available at* <http://uspto.gov/go/pac/doc/general/#patent>.

²⁷ The length of copyright protection may vary depending on a number of factors, but the point is that copyrights are protected for a set duration.

²⁸ Copyright cases rarely require extensive discovery or documentation. *See* Blackmand and McNeill, at 1717.

²⁹ *Id.* at 1725-26.

³⁰ Bernstein, at 157.

³¹ *Id.*

save a significant amount of money by agreeing to limit the scope of discovery. In reality, the parties themselves likely have a good understanding of the market they command or of the market they hope to enter,³² and agreeing to limit such surveys would relieve them of the burden of proving the strengths and weaknesses they likely already know about their positions.

C. Faster Resolutions and the Continued Use of a Trademark

Trademark litigation, like other types of IP litigation, often take years before a final verdict is reached. In addition to the constraints of a busy court docket, parties to a trademark litigation may also face delays from a final verdict through repeated appeals. One example of a long and treacherous trademark litigation is found in the dispute over the slogan: “Gatorade is Thirst Aid for That Deep Down Body Thirst.”³³ When plaintiff Sands, the owner of the registered trademarks covering THIRST-AID and “First Aid for Your Thirst” filed suit for trademark infringement in 1984,³⁴ the trial took six years, and Sands won almost \$43 million.³⁵ However, defendant Quaker, the manufacturers of Gatorade appealed, and in 1992, the Seventh Circuit remanded.³⁶ On the first remand, in 1993, a final reward for Sands was entered for \$26.5 million.³⁷ Quaker appealed again, and the case was remanded in part again, and after another year in the appellate process, a final judgment of about \$27 million was awarded to Sands in 1995,³⁸ eleven years after the initial filing.

Lengthy trials and likely appeals amount to a long time before parties can begin to even deal with the final verdict. While trademark litigation might take many years, most methods of

³²Trademark disputes often involve one party wanting to expand its customer base and reputation by entering a new market, and the other party wants to protect its customer base and reputation. *See* Bernstein, at 159.

³³*See* Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 949 (7th Cir. 1992).

³⁴*Id.* at 951.

³⁵*See* Sands, Taylor & Wood v. Quaker Oats Co., 1990 WL 251914, at 26 (N.D. Ill. 1990).

³⁶Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 963 (7th Cir. 1992).

³⁷Sands, Taylor & Wood Co. v. Quaker Oats Co., 1993 WL 204092, at 8 (N.D. Ill. 1993).

³⁸Sands, Taylor & Wood Co. v. Quaker Oats Co., 1995 WL 221871, at 3 (N.D. Ill. 1995).

ADR can produce a solution in less than a year.³⁹ The time saving benefits of ADR can be especially important in trademark disputes. Because trademarks are typically used in advertising, faster resolution is necessary to prevent parties from experiencing loss of business and suffering financial setbacks.⁴⁰ The value of a trademark lies in consumer recognition of the mark or brand name, and if a company is prevented from using a particular mark, it may lose revenue through lost customers. Additionally, many companies use the goodwill of their brands to expand their product lines.⁴¹ They rely on the consumer recognition of existing brand names to market new product lines stamped with that brand.⁴² This saves the company money in advertising and market entry costs.⁴³ If a company was prevented from using a trademark, the company would also have to forego activities such as product line expansion, stunting the company's planned growth. Thus, while a company might be enjoined from using a mark while awaiting a long trial, the speedy resolution of trademark disputes through ADR would be a much better alternative for a company who depends on a good mark.

D. Creative Solutions Benefiting Both Parties to a Trademark Dispute

The parties in trademark disputes often have existing business relationships.⁴⁴ The parties may already have a license agreement or a franchise relationship concerning the issue, and often have license or franchise relationships outside of the dispute.⁴⁵ While trial often declares a winner and precludes one party from any continued use of the trademark in issue, this result is often not the best one for all parties. Perhaps the solution could be as simple as

³⁹ See Kyle-Beth Hilfer, *A Practical Guide to Arbitrating IP Disputes*, *The Intellectual Property Strategist*, Vol. 10, No. 8, Pg. 1 (May, 2004).

⁴⁰ See International Trademark Association website, *Why Mediations?*, available at http://www.inta.org/index.php?option=com_content&task=view&id=683&Itemid=222&getcontent=4.

⁴¹ Bernstein, at 144.

⁴² *Id.*

⁴³ Sara Stadler Nerlson, *The Wages of Ubiquity in Trademark Law*, 88 Iowa L. Rev. 731, 779 (2003).

⁴⁴ Blackmand and McNeill, at 1726.

⁴⁵ *Id.*

modifying an existing agreement.⁴⁶ Such a resolution would be reached more efficiently through ADR than through litigation. Through ADR, the parties may avoid the problem of having to teach the fact finder all about the parties' histories and prior dealings, only to have the fact finders make a ruling that is likely more black and white than necessary. Furthermore, the solution bypasses the problem of damages and the speculative distribution of rights that might result from litigation. As previously discussed, the intangible character of intellectual property makes it more difficult for the fact finder to rule on, and parties familiar with the issue and the history are in a better position to work together for a mutually beneficial solution.⁴⁷

V. Limitations of Alternative Dispute Resolution in Trademark Litigation

Though using ADR could offer many benefits over litigation in trademark disputes, there are disadvantages as well. For example, there is usually no direct appellate review after ADR.⁴⁸ This means that if a solution is reached and one party is dissatisfied with the results, it must bring the case to be heard *de novo* if it wishes to change the results.⁴⁹ Then, the time and money the parties had been hoping to save would still have to be spent, in addition to the time and money already spent in the ADR process.

Another problem is that trademark owners may want to send a deterrent message to potential infringers. Because ADR can be confidential when parties express the desire for confidentiality on certain issues, and because there is no precedential value in ADR solutions, trademark owners might have difficulty in deterring other people from infringing their trademarks.⁵⁰ Although these are inherent weaknesses in ADR because precedential value is

⁴⁶ *Id.*

⁴⁷ Lemley, at 304.

⁴⁸ Bernstein, at 161.

⁴⁹ *Id.*

⁵⁰ In determining whether mediation would be the best approach, the nature of the desired resolution should be considered. Litigation may be preferred if it is important for either of the parties to send a deterrent message to third

only obtained through the court system, and public vindication and deterrence is best established through precedential value, these considerations may not be as important in the majority of trademark cases, especially because of the nature of trademark disputes today.⁵¹

VI. Potential of Mediation in Trademark Law

Mediation could serve as the most beneficial form of ADR in trademark disputes.⁵² Since many disputes rise between parties who already have an existing business relationship, preserving such a relationship would be a priority of both parties.⁵³ While litigation would surely disrupt existing relationships and jeopardize the possibility of friendly agreements in the future, mediation would allow parties to maintain their relationship by working together for a desirable solution.⁵⁴ Even arbitration may not be the best form of ADR; while it is more efficient than litigation in terms of time and cost in reaching a solution, arbitration still declares a “winner” in the dispute.⁵⁵ However, in trademark disputes where parties have reached agreements in the past and hope to cooperate in the future, naming a winner may not be an ideal approach. A ruling where the winner takes all the rights might even be detrimental to the winner in the long run because the parties might have existing licenses or other agreements that are unrelated to the dispute.⁵⁶ Mediation is a less confrontational form of ADR in that it focuses on each party’s commitment to creating a mutually beneficial solution.⁵⁷ The parties themselves reach agreements with the help of a mediator. Thus, the focus is on mutual benefits and not on one-sided winning.

parties. *See* International Trademark Association website, Why Mediations?, available at http://www.inta.org/index.php?option=com_content&task=view&id=683&Itemid=222&getcontent=4.

⁵¹ *See* Bernstein, at 161.

⁵² *Id.* at 159.

⁵³ Blackmand and McNeill, at 1726.

⁵⁴ Bernstein, at 159.

⁵⁵ Lemley, at 306.

⁵⁶ Blackmand and McNeill, at 1726.

⁵⁷ Lemley, at 306.

While there are limitations to the power of mediation and other forms of ADR in resolving trademark disputes, mediation has great potential in any trademark dispute where the parties are not pursuing permanent injunctions or permanent removal of trademark rights. More importantly, mediation has potential in all trademark disputes where parties have ongoing relationships that they wish to protect. The structure of business relationships and trademark agreements make ADR, especially mediation, an important option to consider when facing any trademark dispute.

VII. Conclusion

Trademark law has become important in recent years, largely because commercial growth has increased the need to protect trademarks. Interest in protecting trademarks has naturally resulted in disputes between companies intending to expand their consumer base and reputation through marks that others claim. Such disputes have undergone litigation, but the statistics on the length of time and cost of the average trademark litigation show that there may be better alternatives for resolving trademark disputes. ADR has potential to decrease the cost of reaching a resolution by limiting discovery expenses and the costs hiring of experts to teach untrained judges or jurors. ADR can also reach a solution in less than a year, which would save both parties much time considering the lengthy average trial times and the great potential for appeals. Perhaps most importantly, ADR, and especially mediation, allows parties to create their own solutions without trial, and without declaring a winner. Such a solution can be mutually beneficial and preserve ongoing business relationships between parties. ADR does have limitations, especially if parties are pursuing permanent injunctions or removal of rights, or if parties want to send a clear deterrent message to potential infringers. However, because

trademark disputes often arise from parties who have existing relationships, mediation is a constructive form of dispute resolution uniquely structured to serve parties in trademark disputes.

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