

Mediator medium

THE CASE:

Various cases
Various courts
Various dates

Can mediation protect patent settlement licence negotiations from later discovery in the US? **Roderick “Rod” M Thompson** explores

Patent litigation is time consuming, expensive and sometimes of crucial importance to the parties involved.

Patent cases almost always settle. These characteristics make mediation, and its near-ironclad confidentiality protection, a potentially attractive tool for the parties and counsel to efficiently resolve their patent disputes. Under a perhaps unlikely scenario, however, prior licence/settlement negotiations may become relevant to the issue of what is a reasonable royalty under the patent damages statute in subsequent patent enforcement actions against third parties. Parties and counsel will want to keep in mind that the strong confidentiality protections of mediation may, in these circumstances unique to patent cases, be narrowed by court order.

Background

It is well-established that prior licence/settlement negotiations may be relevant to the issue of what is a reasonable royalty under the patent damages statute.¹ Further, in patent cases there is no settlement negotiation privilege to protect such communications from discovery.² The negotiations in *In re MSTG*, however, “did not result from mediation but from settlement negotiations between two sides without the assistance of a third-party mediator”.³ These cases set up, but did not decide, the issue of the discoverability of such settlement negotiations in the mediation context.

One district court decision directly addressed this discoverability issue: *US Ethernet Innovations LLC v Acer Inc.*⁴ There, a third-party embroiled in litigation with the patent owner over the same patents in another court sought discovery of mediation documents used in the court-ordered mediation that had resulted in a settlement. The moving party argued that the documents were potentially relevant to the reasonable royalty issue and therefore were

discoverable. Both parties to the mediation opposed the motion.

The *US Ethernet* court ordered production of “final settlement agreements, the draft redlined versions, and emails and other communications that reflect the negotiations,” but not documents protected by “the mediation privilege”.⁵ It commented that court-ordered mediation is not the same as mere settlement negotiations. “Arms’ length settlement negotiations are more clearly relevant than negotiations under the umbrella of court-ordered mediation during the press of litigation.”⁶ Because there were also private mediations covered by the same discovery requests, however, the court did not limit its holding to court-ordered mediations. “The court concludes that the mediation privilege protects against discovery for documents and information in formal mediation.”⁷ It ordered production only of “emails and other communications that reflect the negotiations and that are not subject to the mediation privilege”.⁸

The *US Ethernet* court did not address the basis for the referenced mediation privilege. In a non-patent case, the Ninth Circuit later held that although state law controlled the issue of enforcing a settlement agreement (a breach of contract claim), federal common law applied to the issue of mediation privilege where “the underlying action that was allegedly settled contained both federal and state claims.”⁹ Federal courts have exclusive jurisdiction over patent cases, and the Federal Circuit handles appeals.¹⁰

Another district court considered what standard the Federal Circuit would apply in ruling on a request for discovery of mediation communications allegedly relevant to the reasonable royalty issue.¹¹ The lower court predicted the Federal Circuit likely would adopt a standard “at least as restrictive as that adopted by the Second Circuit in *In re*

Teligent Inc.”¹² The *In re Teligent* decision fashioned a three-pronged demonstration of need “(1) a special need for the confidential material, (2) resulting unfairness from a lack of discovery, and (3) that the need for the evidence outweighs the interest in maintaining confidentiality.” All three factors are required to warrant disclosure of mediation communications. *In re MSTG* quoted the *In re Teligent* standard with apparent approval, without reaching the issue of discoverability of mediation communications. In sum, it seems safe to assume that courts in patent cases would require an exacting showing of need before entertaining a discovery request.

Impact on the effectiveness of mediation in patent litigation

The parties should be aware of this risk that, under the current state of the law on patent damages, a court may later find certain communications in patent mediation potentially relevant and discoverable in a subsequent case asserting the same patent(s). When contemplating settlement negotiations and the possible use of mediation, the parties to a patent dispute should consider this hazard and spell out how they wish to handle it in their agreement to mediate. While not binding on third parties, the agreement can document the parties’ reliance on the confidentiality protections of mediation. Further, any third party seeking such discovery would have to clear several practical hurdles.

By the time a motion seeking to compel production of mediation documents might be filed, some documentary evidence of the communications may not be available. Many mediators have document retention policies that call for the destruction of all but a handful of documents. Mediators typically do not retain notes or other records about completed mediations.¹³ Moreover, communications with the mediator, especially those made in

caucus under an express understanding that they would not be disclosed to the opposing party, should be of little or no relevance to the reasonable royalty issue. It is the negotiation between the parties, not confidences disclosed only to the mediator, that could be relevant and possibly discoverable.

There is even weaker support for depositions of mediation participants. Federal courts have considered ordering the deposition of a mediator under unusual circumstances outside the context of patents or commercial disputes.¹⁴ In addition, any deposition of lawyers or clients in the context of a patent mediation would raise difficult privilege issues. An order compelling a deposition would require an even more stringent showing of need than under the *In re Teligent* standard. A court-ordered deposition of any patent mediation participant is far-fetched at best.

Only patent litigation settlement negotiations that are reduced to writing and exchanged between the parties should be potentially relevant and subject to discovery under *ResQNet.com*. The parties to a mediation (and the mediator) should bear this narrow and unlikely scenario in mind. While the contours of the confidentiality protections of patent mediation are uncertain, there is much greater protection against disclosure of such communications in mediation than in its absence. Notwithstanding the remote possibility of discovery, mediation should continue to be an effective and attractive means for resolving patent disputes, both before and after a lawsuit is filed. This raises a couple of intriguing questions:

- Does the extra protection offered by mediation confidentiality provide an effective vehicle for avoiding discovery under *ResQNet.com*? If so, is there anything wrong with that outcome?
- Incentive for misuse of mediation in patent cases? Should a patent owner, confident that settlement negotiations carried out in any “formal mediation” have only the slightest risk of subsequent discovery, use that tool to its advantage?

What will transpire during a mediation is of course difficult to predict. Timing can be an issue. Patent mediation before damages discovery or a claim construction ruling is thought more likely to be unsuccessful. Indeed, historically, parties and counsel have shown some reluctance to use mediation in patent cases.¹⁵ But patent cases are often mediated. And patent settlements may contain a licence, and licence negotiations may occur during patent mediation.

What if the patent owner and accused infringer successfully conduct settlement

negotiations outside of mediation to reach a tentative agreement on the reasonable royalty issue? Can they defer finalisation of the actual licence until they commence a formal mediation to protect those earlier negotiations from discovery? It would likely be too late. It is the already conducted licence negotiations themselves, the back-and-forth between the parties on royalty rates and terms, that may be relevant to a reasonable royalty, not the formal finalisation of a licence. More interesting is the situation where the parties have talked enough to have a feel that an agreement on royalty rates/terms may be within reach, though still beyond their grasp – exactly the stage where a skilled mediator could add value. There is nothing wrong with the parties using the full protections of mediation confidentiality to shield genuine negotiations from discovery.

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The patent owner/plaintiff is the party with the strongest at least theoretical incentive to try to use mediation confidentiality to block future discovery efforts by another accused infringer and is in the best position to evaluate the remote risk. The defendant/accused infringer would generally have less concern or awareness of the risk (perhaps not knowing or caring about the existence of other accused infringers) but typically would share in the desire to keep everything confidential. Again, the parties to a patent mediation would be wise to consider this issue beforehand and make their desires expressly in the mediation agreement.

Finally, there is the patent mediator’s perspective. An experienced and effective patent mediator will want to protect his or her reputation for being effective and willing to protect confidentiality zealously – a core advantage of the process. But a mediator will not want to participate in a sham or contrived process intended by the parties solely to hide already concluded licence negotiations from future discovery. Mediators (and parties) should

be aware of these dynamics and remain vigilant not to let the remote possibility of discovery jeopardise the integrity or effectiveness of the mediation process. The *ResQNet.com* site is no longer active.

Footnotes

1. See *ResQNet.com, Inc v Lansa, Inc*, 594 F.3d 860, 869-73 (Fed Cir 2010).
2. (*In re MSTG, Inc*, 675 F.3d 1337 (Fed Cir 2012) (“settlement negotiations related to reasonable royalties and damage[s]... not protected by a settlement negotiation privilege”).
3. (At 675 F.3d 1347).
4. 2014 US Dist LEXIS 45682 (ND Cal 2014).
5. (*Id.*, at 5).
6. (*Id.*).
7. (*Id.*, at 5, n.1).
8. (*Id.*, at 5).
9. (*In re TFT-LCD (Flat Panel) antitrust litigation* 835 F.3d 835 F.3d 1155,1158 (9th Cir 2016)).
10. (35 USC sections 1295(a), 1338(a)).
11. (*Avocent Redmond Corp v Raritan Americas, Inc* 2011 US Dist LEXIS 109596 (SDNY 2011)(denying discovery of mediation communications).
12. 640 F.3d 53, 57 -58 (2d Cir 2011).
13. It would be more difficult, but perhaps not impossible, to fashion a viable theory of relevance for discovery into communications about an unsuccessful mediation that did not result in a licence.
14. For a thoughtful and thorough discussion of issues raised by the prospect of an *in camera* examination of a mediator, see *Olam v Congress Mortg Co*, 68 F. Supp. 2d 1110 (N D Cal 1999) (mediator testimony considered where individual plaintiff alleged that undue influence by her counsel during the mediation caused her to sign a settlement agreement and all parties waived mediation confidentiality).
15. The Sedona Conference Working Group Series, ‘Commentary on patent litigation best practices: patent-mediation chapter’ (April 2017), chapter editors Roderick Thompson and Mark Wine, at 2. (“As parties’ and counsels’ patent mediation experiences improve, it is anticipated that they will seek out mediation with greater frequency, which will lead to a greater number of patent infringement cases being settled earlier and more economically for the greater benefit of the parties and the judiciary.”)

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