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INTELLECTUAL PROPERTY

Mediation of trademark disputes has advantages

This alternative to litigation is faster, more affordable and less risky.

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AS A RESULT OF THE increasing cost of litigation, mediation has become an attractive means by which to resolve trademark disputes. Mediation is generally faster, more affordable and less risky than litigation because it facilitates creativity in negotiating a mutually beneficial resolution. Intellectual property litigation is no exception. Organizations such as the American Intellectual Property Lawyers Association (AIPLA) regularly report that the median cost of intellectual property litigation and the average costs of both patent and trademark litigation continue to grow. In view of the added burdens of new electronic discovery rules, the nationwide increases in associate salaries resulting in increased hourly billing rates, and the escalating costs of retaining suitable expert witnesses, mediation should be part of any strategy for resolving Lanham Act disputes efficiently.

Generally speaking, mediation is a nonbinding form of alternative dispute resolution that is used to encourage parties to resolve disputes before trial—and often, even before the commencement of a formal litigation. Since mediation is intended to facilitate settlement, it may be used at any time, but is best used early, before the parties and the issues have hardened and before significant personal and

economic resources are expended. Once adverse parties agree to engage a mediator (or courts impose the engagement of a mediator), the mediator serves as a neutral third party who meets with both parties, separately and together, to identify the goals of each party and to facilitate negotiation. Experienced mediators recognize that most parties would prefer to resolve disputes without litigation, provided that their important business interests, which created the dispute, are resolved.

Mediation saves time and money, reduces the risks and uncertainty of litigation and conserves judicial resources. Moreover, the process is rarely damaging to parties that fail to mediate a dispute successfully, because mediators cannot be called to testify in court about what was said during mediation. Careful “shuttle diplomacy” by the mediator ensures that confidences are properly safeguarded. Even when mediation fails to result in a settlement, it is often helpful in narrowing the issues. As a result, mediation has become increasingly important as a low-risk, high-reward means of resolving disputes efficiently, in whole or in part.

The cost of claims under the Lanham Act, the federal statute governing trademark law, has grown substantially. Therefore, one of the primary reasons to use mediation for such claims is its potential to save all parties a substantial amount of money. The median cost of getting an IP case through trial is more than \$500,000 in many jurisdictions, and many cases will exceed \$1 million. In 2003, when billable rates were lower, the median cost of a trademark case was \$600,000. See AIPLA Report of the Economic Survey (2003). This figure includes the costs of discovery, attorneys and experts, all of which mediation can limit.

The costs of compliance with recent amendments to the Federal Rules of Civil Procedure, which became effective on Dec. 1, 2006, signal the growing role of mediation as a tool for resolving trademark disputes, since most trademark cases are heard in federal district courts. These amendments were made specifically to facilitate the discovery of electronic evidence and to ensure that the rules recognize the importance of electronic information. Robert K. Lu, “New Federal Rules on E-Dis-

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covery,” L.A. Lawyer, June 2006, at 12. Rule 34, which adds “electronically stored information” to the list of discoverable material, is the centerpiece of the amendments to rules 16, 26, 33, 37 and 45 because it substantially increases the amount of evidence that parties are affirmatively obligated to make discoverable. Jason Krause, “E-Discovery Gets Real,” A.B.A. J., February 2007, at 46.

Because the volume and dynamic nature of electronically stored information complicate the preservation obligations of litigants, these amendments require parties and attorneys to pay early attention to the issues of electronic discovery to ensure compliance. See the September 2005 report from the Committee on Rules of Practice and Procedure, at Rules App. C-34, available at www.uscourts.gov/rules/Reports/ST09-2005.pdf.

The costs of compliance with these new amendments underscore the value of mediation amid the escalating costs of Lanham Act litigation. Indeed, battles over interpreting ambiguity in the new amendments will undoubtedly lead to additional litigation expenditures: specifically regarding what types of electronic data are discoverable; when and how such information may be used; and how much vigilance and good faith a party must exercise to avoid sanctions. Moreover, trademark disputes commonly include marks used for consumer products that, when developed internally, can include design modifications, correspondence, computer-aided design images and reference to source materials, all of which can impose a huge, costly burden on discovery (for both parties). Similarly, evidence of use, nature and duration of use, sales transactions and data, often going back years, are also relevant, if not determinative, in trademark cases. Again, the burden of adducing and producing this information can be significant.

Recent increases in associate salaries and hourly rates further underscore the value of mediation in avoiding the increasing costs of Lanham Act litigation. During the past 13 months,

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large law firms across the country have raised associate base salaries on two separate occasions, causing first-year associate salaries to escalate among elite “going rate” firms. Associate salary increases, considered necessary to attract the best talent, inevitably support increased hourly billing rates at every level. As the cost of litigation increases, the attendant risks are not only the potential outcome, but the upfront, out-of-pocket costs for engaging in the battle.

Cases commenced and prosecuted under the Lanham Act frequently require properly supported and conducted surveys, survey evidence, economic analysis, industry-specific consultants and other experts. The fees and costs of engaging the best experts in optimal categories are potentially astronomical, often exceeding \$50,000, a minimal engagement fee for a properly conducted consumer survey, for example. Mediation initiated in the early stages of a dispute fosters active negotiation before it becomes necessary to engage costly experts.

Risks of Lanham Act litigation

Given the potential for significant damages awards and injunctive relief under the Lanham Act, the losing party in such litigation can be deeply affected. Litigating a Lanham Act claim in federal court may also compromise the integrity and value of a trademark because such public proceedings permit adverse parties to make their grievances public, thereby potentially reducing the goodwill associated with one or more trademarks. Strained relationships between a licensee and licensor, for example, that find their way into the judicial forum often include unflattering facts concerning the quality of licensed products. Consequently, third parties can point to those assertions as evidence of the uncontrolled use of a mark (thus invalidating the mark) or as evidence to rebut the presumptive strength or value of a well-known brand. The trademark license dispute inevitably compromises the value and integrity of the single asset common to both parties—the trademark.

Any party that has been ordered to pay damages under the Lanham Act knows how devastating such an order can be. In situations in which bad faith or actual confusion are demonstrated, under 15 U.S.C. 1117, the owner of a registered

trademark whose rights are violated may recover its own damages, the defendant's profits made in connection with the violation and reasonable attorney fees. If the defendant prevails and the case is found to have been brought without merit and/or if it is deemed frivolous, the court may award the defendant its attorney fees under 15 U.S.C. 1117.

In certain circumstances involving counterfeiting and intentional infringement, the awards of defendant's profits or plaintiff's damages may be increased to three times the actual damage amount. In the event of false advertising, a losing defendant may also be liable for corrective advertising to repair the reputation of the trademark owner. Furthermore, if a party elects to receive statutory damages under 15 U.S.C. 1125, such

Losing in court could compromise integrity of a trademark.

damages may surpass actual damages. In light of the potential for such large damages awards, mediation should be considered when addressing trademark disputes because it avoids the uncertainty of a devastating damages award and facilitates more controlled outcomes.

Perhaps the most potentially damaging result in a trademark dispute is the judicial imposition of an injunction. Injunctive relief may require a party to recall a product it has sold and/or to fail to satisfy customer orders or meet delivery deadlines. Customers (such as retail chains) often have the right to offset other payments as a result of these delays or recalls. In addition, customer relationships can be seriously compromised. A controlled negotiated resolution accomplished by mediation can eliminate these risks.

Court mediation programs

Mediation makes sense in most trademark disputes. Several courts, such as the Northern District of Illinois, under local rule 16.3, have programs specifically intended to encourage the use of mediation in Lanham Act disputes. A study examining the effectiveness of the Northern District of Illinois' Lanham Act Mediation Program during its first three years (1997-1999) indicates that “much

more mediation took place than had been reported. At least 32 Lanham Act cases—7.75% of all cases closed after 90 days—were mediated overall...[and] the resolution rate is most likely in the upper-60% range.” Jennifer Shack & Susan M. Yates, An Evaluation of the Lanham Act Mediation Program, U.S. District Court for the Northern District of Illinois 1 (Center for Analysis of Alternative Dispute Resolution Systems, November 2000), www.caads.org/studies/lanhamstudy.htm. Based on this study, “the majority of cases were open long enough to benefit from the program.” Jennifer Shack & Susan M. Yates, “Mediating Lanham Act Cases: The Role of Empirical Evaluation,” 22 N. Ill. U. L. Rev. 287, 302 (2002).

Other courts, such as the Northern District of California, following the lead of Judge Wayne D. Brazil, have utilized magistrate judges and early neutral evaluation programs “to create a setting that permits common sense and frank communication to break through the posturing that can so needlessly increase the cost and delay the disposition of civil litigation.” *GTE Directories Service Corp. v. Pacific Bell*, 135 F.R.D. 187, 190 (N.D. Calif. 1991). The Southern District of New York has retained a mandatory mediation program for many years, estimating that 85% of all mediated disputes result in settlement. Similarly, the International Trademark Association and the World Intellectual Property Organization have developed programs to educate the public about the benefits of mediation in trademark disputes and provide access to well-regarded alternate dispute resolution panels.

The benefits of early mediation are so great in trademark disputes that it is often recommended that settlement agreements and other contracts provide for informal dispute resolution (such as mediation) as a required first step to address disputes that might arise between the parties. Mediation should be a part of any successful strategy for resolving trademark disputes efficiently and avoiding the increasing costs and risks of Lanham Act litigation. **NLJ**

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