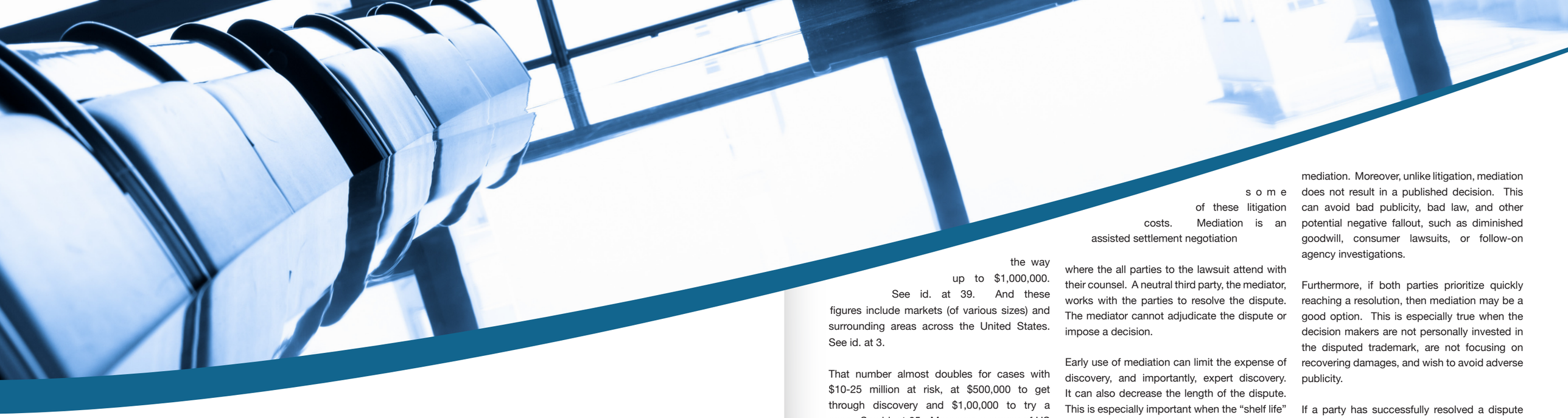

The Use of Early Mediation Strategies in Lanham Act Disputes

Lanham Act disputes involve client assets that often are considered the most valuable assets of a business. Most often they involve brand names (trademarks and service marks), which the business has invested time, energy, and money in creating valuable goodwill. Such disputes often involve advertising claims and are frequently between direct competitors. Given the issues involved, costs in such cases can escalate quickly, even in cases which are not considered to be "bet the company" disputes. These cases are often disruptive of and a distraction from business for executives of the company, and many courts have determined that these cases are excellent candidates to alternative dispute resolution at an early stage.

Use of mediation in intellectual property suits has increased from 28.6% of respondents in 1997, to 49.3% in 2011. See Thomas J. Stipanowich & J. Ryan Lamare, Living with ADR: Evolving Perceptions and Use of Mediation, Arbitration and Conflict Management in Fortune 1,000 Companies 28 (2012). Yet, this percentage is lagging behind other types of litigation, including personal injury (70.5% in 2011), commercial/contract (83.5% in 2011), and employment disputes (85.5% in 2011), showing that an opportunity exists for greater use of early mediation in trademark disputes. See id.

With the rising cost of trademark litigation, early mediation can be a low-risk, high-reward path to the expedient resolution of a dispute. When used early, it can save the parties significant time and money.

The Rising Costs of Trademark Litigation

The median cost of taking a trademark case through discovery, with $1-10 million at risk (i.e., the amount of the risk, or the worth of the claim), is $350,000. See David A. Divine, Richard W. Goldstein, AIPLA Report of the Economic Survey 2013 35 (2013). The median cost of taking it through trial is $550,000. See id. But this number ranges from less than $500,000, all the way up to $1,000,000. See id. at 39. And these figures include markets (of various sizes) and surrounding areas across the United States. See id. at 3.

That number almost doubles for cases with $10-25 million at risk, at $500,000 to get through discovery and $1,00,000 to try a case. See id. at 35. Moreover, a survey of US mid-sized companies in 2005 showed that industrial, manufacturing, energy, retail/wholesale, and technology/communications companies all viewed intellectual property litigation as the most expensive type of litigation. See Fulbright & Jaworski L.L.P., Second Annual Litigation Trends Survey Findings 16 (2005). Median billing rates for IP attorneys have steadily risen since the 1990s. See id. at 50.

Furthermore, many judges and courts have become frustrated with litigants who clog their dockets with cases pending for a substantial time. The Committee on Rules of Practice and Procedure of the Judicial Conference of the United States ("Committee") has suggested that various limits on e-discovery should be added to the Federal Rules of Civil Procedure. Comm. on Rules of Practice and Procedure of the Judicial Conference of the U.S., Preliminary Draft of Proposed Amendments to the Fed. Rules of Bankr. and Civ. Pro. (Aug. 2013). For instance, the Committee suggests adding broad limits, such as requiring proportionality between discovery and the needs of the case, and quantifiable limits, including limiting the number of requests for admission to 245 per party. See id. at 264. But as it currently stands with e-discovery, protective orders, and the very nature of highly contentious litigation, costs escalate quickly. Indeed, some courts and judges require discovery be completed in four to six months and may set hard deadlines which necessitate parties working quickly to complete discovery. Legal expenses quickly escalate.

When Early Mediation Makes Sense for the Parties

Early mediation in trademark cases can prevent some of these litigation costs. Mediation is an assisted settlement negotiation where the all parties to the lawsuit attend with their counsel. A neutral third party, the mediator, works with the parties to resolve the dispute. The mediator cannot adjudicate the dispute or impose a decision.

Early use of mediation can limit the expense of discovery, and importantly, expert discovery. It can also decrease the length of the dispute. This is especially important when the "shelf life" of the product or service is short, as it often is for media and technology.

Mediation, however, is not appropriate in all situations. For example, if a key decision maker for one of the parties refuses to work productively with the opposing party to seek a resolution, then it is less likely that the parties can resolve the dispute through mediation. This is compounded if there is a history of ill will between the parties. Additionally, successful mediation is less likely if one party is committed to litigation because it believes it has the superior legal position, wants to maximize its damages award, obtain treble or punitive damages, wants to send a message to other potential infringers, or hurt the name and reputation of the opposing party.

On the other hand, mediation is and should be less confrontational than litigation. For the parties that initially had a business relationship, or are interested in starting one, the reduced hostility of mediation can help develop this possibility. Early mediation will also decrease the "bad blood" that builds up over the course of litigation, especially during discovery. Similarly, it is also more likely that mediation will be successful if the parties have a business relationship, such as licensor-licensee, or manufacturer-distributor, assuming the past relationship has been amicable and the parties wish to continue that relationship. If the relationship has not been amicable, this poses more of a challenge to the mediator, but it still does not rule out the benefit of mediation.

Another benefit of mediation is confidentiality. What takes place during a mediation is confidential, and a mediator cannot be called to testify about what was said during the mediation. Moreover, unlike litigation, mediation does not result in a published decision. This can avoid bad publicity, bad law, and other potential negative fallout, such as diminished goodwill, consumer lawsuits, or follow-on agency investigations.

Furthermore, if both parties prioritize quickly reaching a resolution, then mediation may be a good option. This is especially true when the decision makers are not personally invested in the disputed trademark, are not focusing on recovering damages, and wish to avoid adverse publicity.

If a party has successfully resolved a dispute through mediation before, or the key decision makers are familiar with and committed to mediation, that also increases the likelihood that the current dispute can be resolved through mediation. This is likely, given that in 2011, a survey of Fortune 1,000 companies showed that 98% of respondents' companies had used mediation at least once. See Stipanowich & Lamare, supra, at 28. That was a 10% increase since 1997. See id.

Finding a Mediator with Trademark and Industry Experience

Whether to mediate is not the only decision. Parties must also carefully select an appropriate mediator for their case. Nothing dooms a mediation to failure more than using a mediator who is not appropriate for the case in dispute. While this deficiency can be overcome with skilled lawyers who are invested in the process, the key advantage to mediation (a skilled neutral) is gone if the mediator does not have the relevant expertise.

One option for the parties is to mediate in front of the magistrate judge assigned to the case. The magistrate judge is a cost-effective option. Importantly, the magistrate judge, by virtue of his or her position, can command the respect of the parties, and thus may be more successful in ensuring the parties participate in good faith. Furthermore, attorneys that frequently practice in the district generally wish to avoid gaining a reputation of being unreasonable and difficult, and thus may be more cooperative with a judicial officer.

But if the parties want the magistrate to be the ultimate trier of fact for the case, they may not want the magistrate judge to mediate their case.

Even if the magistrate is only deciding discovery disputes, parties may be concerned that statements made in the mediation will affect future decisions by the judge. Additionally, magistrate judges' settlement calendars are often congested, and time allocated to parties would be very limited compared to private mediators who often agree to keep mediation active as long as the parties are making progress.

Further, the magistrate judge may have limited experience with trademark law, or the particular industry in which the parties are involved. Choosing a neutral with the relevant legal or industry background can help focus the parties on the legal and business realities that they face. An experienced neutral may also have creative ideas, that require an in-depth understanding of trademark law, for how the parties can resolve their dispute. They can help the parties see beyond the dispute and find other ways of working together. A mediator with legal or industry expertise will also have greater credibility with the key decision makers of the parties. Finally, an experienced mediator will know when to put the parties in different rooms, and more importantly, when and how to push parties when necessary.

The Trademark Mediator Network through the International Trademark Association (INTA) is a good place to start to find a private mediator with the relevant experience. To join this network, attorneys must have at least 10 years of intellectual property or trademark experience. JAMS also may have experienced mediators, and allows parties to search by legal expertise. Before hiring a mediator, it is best to talk to other lawyers or parties that have previously worked with the mediator, to ensure that he or she will be a good fit for the dispute.

Even if the parties do not walk out of a mediation with a resolution, mediation can help narrow the issues. It is an opportunity to make movement in settlement discussions and can lead the parties to an out-of-court resolution. The neutral can help the parties see the case from a third-party's perspective, and more specifically, better understand the weaknesses of their case. This is where the importance of a strong, experienced mediator comes in. If he or she can give the parties a realistic view of the strengths and weaknesses of each case, the key decision makers may reevaluate their positions, and become more open to resolving the dispute. Thus, early mediation can decrease the costs, length, and risks of Lanham Act litigation.

Conclusion

At some point in virtually all cases the parties will have a settlement discussion with a judicial officer or a mediator present. This can take place after both parties invest substantial time and money in a dispute, which can never be recouped. Or, it can take place at an early stage with the prospect that the litigation can end on terms that are acceptable to both sides without a substantial investment. Even if early mediation fails, it enables the parties to better understand their respective positions, and often the start of a dialogue is a basis on which to successfully settle a case later. The benefits of an early mediation go beyond simply saving money. An early resolution removes the uncertainty that is inherent in all litigation. Moreover, it allows the parties to avoid the time, distraction, and potential negative publicity of litigation and to refocus such time and energy on the company business.

Floyd Mandell and Julia Kasper
Katten Muchin Rosenman LLP