IMPLICATIONS FOR MEDIATION OF PATENT INFRINGEMENT SUITS FROM INVESTORS IN PATENTEES CASE

By James M. Amend, Esq.

Most mediators will agree that a key to reaching a settlement is to have the right people in the room at the mediation. Unless all interested parties are represented by people having the authority to settle on their behalves, settlement is unlikely at the mediation session. In the patent infringement context, this typically means that the attendees for the patentee should include a person authorized to negotiate and approve a settlement for it and, where the matter is in litigation, lead outside counsel. The presence of the latter is particularly important where outside counsel has a contingent fee arrangement with the patentee and therefore a direct financial interest in a settlement; the interests of both must be satisfied.

Patent infringement mediations have recently become more complicated where the patentee has sold interests in its cause to investors. The use of this type of financing of patent infringement litigation has increased of late and is usually coupled with a contingent fee arrangement with outside counsel. Unfortunately, from my experience with such cases, settlement is often very difficult to achieve. In many instances, this is largely due to the fact that the investors are not represented at the mediation by persons other than the patentee and/or the investor/patentee agreement does not make clear the degree to or manner in which investor approval of a settlement is required. The frequent result is that (1) if a representative of the investors authorized to act on their behalves is not present, a good deal of time is spent on the phone between those who are present for the patentee and the absent investors (with the attendant disconnect that the investors have not experienced the negotiation process or learned additional information that has surfaced at the mediation) or (2) there is difference of opinion between the patentee and the investor representative on the terms of settlement, with no clear means of resolving that dispute. In either situation, it is highly unlikely that the matter can be resolved at that time.

Even when there is a clause in the investor/patentee agreement to the effect that investor approval of settlement terms cannot be withheld unreasonably, there is no bright line as to what is or is not unreasonable, and if there are multiple investors, they may differ among themselves as to settlement terms. To complicate matters even further, in many instances the investors want to consult their own counsel (independent of patentee's counsel) on what is a reasonable settlement. For example, in one case I mediated, the investors were not directly represented at the mediation and did not appear to understand the effect on the patentee's case of an adverse Markman ruling. They did not trust the advice they were receiving from patentee's contingent fee counsel, believing that he did not want to further prosecute the case for fear that his additional investment might not be recouped. In another, each settlement offer by the defendant was followed by a one-hour adjournment, during which the patentee representative and its counsel placed and participated in conference calls with the absent investors. Eventually, the patentee advised that some but not all of the investors were prepared to accept the defendant's last offer, which the defendant felt was a ploy to induce it to raise the offer, which it refused to do, stating that it was the patentee's job to get the recalcitrant investors to agree to the offer on the table. The case did not settle.

My suggested remedy for the foregoing investor mediation problem is as follows. First, the defendant(s) should insist that the investors be represented at the mediation by whoever is authorized by them to participate and agree to a settlement on their behalves without having to conduct a poll of absentees. Second, patentees and investors should realize that more than 80% of patent infringement cases are settled, and they should provide in their investment agreement for a clear protocol for negotiating and approving a settlement (e.g., what approval from the investors is necessary, what vote among them is necessary for approval and how an impasse can be resolved). ■

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