



IP Dispute Resolution Review

VOL. I, SPRING 2015

IN THIS ISSUE

The New “Clear Error” Standard of Review in Patent Infringement Mediation page 1

Trademark Trial Appeal Board Decisions Now Have Preclusive Effect page 1

Engaging Panelists for Neutral Analysis Provides Invaluable Insight. page 4

Protecting Confidentiality of Patent Infringement Settlements: Is Mediation Necessary? page 5

Ensuring the Right Insurance Coverage for Data Breach page 6

The New “Clear Error” Standard of Review in Patent Infringement Mediation

By Hon. James Ware (Ret.)

In January 2015, in *Teva v. Sandoz*, the United States Supreme Court modified the standard of review and in so doing has created a basis for why parties should not see the appellate process as an opportunity to re-litigate the case.

In *Teva*, the Supreme Court held that when a district judge interprets the meaning of the words and phrases of a patent claim and, in so doing, decides a subsidiary question of fact, on appeal the Federal

Circuit must review that factual decision under the “clear error” standard of review. In other words, the Federal Circuit must accept the district court’s findings of fact unless upon review the Federal Circuit is left with a definite and firm conviction that a mistake has been committed.

In the coming year, we will see the effect of *Teva* in the claim construction rulings of district courts. The Supreme Court provided some guidance on

(Continued on page 2)

Trademark Trial Appeal Board Decisions Now Have Preclusive Effect

By Hon. Rosalyn Chapman (Ret.)

More than 12 years ago, based upon a prior Trademark Trial Appeal Board (TTAB) decision finding a “likelihood of confusion,” I applied the principle of collateral estoppel to preclude the defendant in a trademark infringement action from re-litigating whether the use of its trade name resulted in a “likelihood of confusion” with the plaintiff’s registered trademark (*Alberto-Culver Co. v. Trevive, Inc.*, 199 F. Supp.2d 1004, 1012-1016 (C.D. Cal. 2002)). At the time, neither the

Supreme Court nor the Ninth Circuit had addressed the issue, and the other circuit courts were split.

Now the Supreme Court has spoken. On March 24, 2015, the Supreme Court held that federal courts adjudicating trademark infringement actions “should give preclusive effect to TTAB decisions if the ordinary elements of issue preclusion are met” (*B&B Hardware, Inc. v. Hargis Industries, Inc.*, 2015 WL 1291915, at

(Continued on page 3)



The New “Clear Error” Standard of Review in Patent Infringement Mediation (Continued from page 1)

how the standard should be applied. Specifically, when the district court interprets the scope of the claim based on intrinsic evidence only (the patent claim and specification, along with the patent prosecution history), that is a determination of law that must continue to be reviewed *de novo*. However, in cases in which the district court looks beyond the intrinsic evidence and consults extrinsic evidence (e.g., dictionaries, witness testimony) to decide a subsidiary fact, the “clear error” standard applies to the findings of fact, and those findings should not be disturbed by the Federal Circuit unless the Circuit finds that the district court’s findings are clearly erroneous.



“In most patent infringement cases, one of the best times to mediate is immediately after the Markman ruling.”

Potentially, in every claim construction, the parties will dispute a subsidiary question of fact; namely, at the time of the invention, what would the language of the patent claim mean to a skilled artisan reading the patent documents? Prior to *Teva*, under the *de novo* standard, the Federal Circuit was legally entitled to ignore the district court’s findings and to

make its own decision about those issues.

Now under *Teva*, if there is a dispute over how a skilled artisan would have understood the language, the district judge might take evidence, usually in the form of expert witness opinion testimony, or consult dictionaries and make findings about what are the qualities of a skilled artisan and how such an artisan would have understood the patent at the time of the invention. On appeal, these findings of fact will be binding, unless the Federal Circuit finds that they were clearly erroneous. If the district court’s account of the evidence is plausible in light of the record, viewed in its entirety, the Federal Circuit may not reverse it even if the Circuit is convinced that had it been sitting as the fact finder, it would have evaluated the evidence differently.

In the *Teva* decision, the Supreme Court emphasizes that, of course, the *de novo* standard still applies to review on appeal of questions of law decided by the district court. For example, having decided how a skilled artisan would have understood the claim language, the district judge still must decide if the inventor intended the words of the patent claim to mean what a skilled artisan would have understood. The district judge might conclude that the inventor acted as his or her own lexicographer and in the patent documents defined the words differently.

Given the deferential nature of the “clear error” standard, during mediation, parties might be influenced to be less sanguine about the prospect of a reversal on appeal and more willing to recognize the risk of an adverse outcome.

A successful mediation replaces the uncertainties of litigation with the sureties of a negotiated settlement. Presuming both sides are reasonable and negotiating in good faith, there is often a direct relationship between the flexibility of a party and the degree of certainty that party has about the outcome of the litigation. A higher degree of certainty about the outcome of the litigation will be reflected in a higher amount of inflexibility over the terms of settlement. When the opposing party has a similar

attitude, but sees the case as certainly coming out differently, mediation can reach an impasse. A skillful mediator can help the parties by providing them with an evaluation of their justifications.

The timing of mediation is just as important. In some cases, mediation is as early as the issuance of a cease and desist letter. In others, the case might not settle until the parties are on the proverbial courthouse steps. In most patent infringement cases, one of the best times to mediate is immediately after the Markman ruling. The district judge will have interpreted the scope of the claims of the patent. The mediator can use the claim construction order to facilitate an analysis of both infringement contentions and any invalidity affirmative defenses. Up to now, however, the *de novo* appeal standard has been a factor that has been used by parties to justify a high degree of certainty and a low amount of flexibility, even if the claim construction potentially weakens that party’s position.

The change in standards might cause an increase in fact disputes. Therefore, an additional role neutrals can play is to assist litigants to narrow the number of subsidiary factual disputes or, when they are presented, provide the parties with a neutral evaluation of them.

Mediating patent infringement cases is challenging because of the complexity of the technical and legal issues involved and the enormity of the potential financial risks. Although lagging behind commercial mediation, mediation is being chosen by parties in these types of cases. Parties resort to mediation to assist them with evaluating the strength and weaknesses of their respective cases and to facilitate a meaningful discussion with the opposing parties. ■



Judge James Ware (Ret.)

is a full-time arbitrator and mediator with JAMS. Prior to joining JAMS, he spent 24 years as a judge and 16 years

as a civil litigator. He can be reached at jware@jamsadr.com.

Trademark Trial Appeal Board Decisions Now... (Continued from page 1)

3 (2015)). Justice Ginsburg concurred, and Justices Thomas and Scalia dissented.

In 1993, B&B registered SEALTIGHT for threaded or unthreaded metal fasteners and other related hardware, e.g., self-sealing nuts, bolts, screws, rivets and washers, for use in the aerospace industry. In 1996, Hargis sought to register SEALTITE for self-piercing and self-drilling metal screws for use in the manufacture of metal and post-frame buildings. B&B opposed Hargis's registration. In 2002, the Patent and Trademark Office published SEALTITE in the Official Gazette, which prompted opposition proceedings before the TTAB. The TTAB determined that SEALTITE could not be registered because it "so resembles" SEALTIGHT "as to be likely to cause confusion." Hargis did not appeal to the Federal Circuit or seek review in the district court.

B&B filed an action against Hargis in the district court for trademark infringement, unfair competition and false designation of origin. The district court denied B&B's motion for summary judgment, refusing to give preclusive effect to the TTAB decision, and the matter went to a jury, which returned verdicts against B&B on all claims. On appeal, the Eighth Circuit affirmed the district court, with Circuit Judge Colloton dissenting (*B&B Hardware, Inc. v. Hargis Industries, Inc.* (8th Cir. 2013)).

In reversing the Eighth Circuit, the Supreme Court made three key determinations. First, it concluded that "in those situations in which Congress has authorized agencies to resolve disputes, 'courts may take it as given that Congress has legislated with the expectation that the principle [of issue preclusion] will apply, except when a statutory purpose to the contrary is evident'" (*B&B Hardware, Inc.*, 2015 WL 1291915, at *7 (citation omitted; brackets in original)). Second,

it concluded that there is no reason why Congress would not want TTAB decisions to receive preclusive effect, as "nothing in the Lanham Act bars the application of issue preclusion" in those cases in which the ordinary elements of issue preclusion are met (*Id.* at *9). Third, it concluded that "the same likelihood-of-confusion standard applies to both registration and infringement" (*Id.* at *10). In this regard, the Supreme Court noted the following: (i) "the operative language is essentially the same" for purposes of registration and infringement; (ii) "the likelihood-of-confusion language...has been central to trademark registration since at least 1881"; and (iii) "district courts can cancel registrations during infringement litigation, just as they can adjudicate infringement in suits seeking judicial review of registration decisions" (*Id.* at *11-*13).

B&B Hardware, Inc. provides a "bright line" for the use of TTAB decisions finding a "likelihood of confusion" in trademark infringement actions: "So long as the other ordinary elements of issue preclusion are met, when the usages adjudicated before the TTAB are materially the same as those before the district court, issue preclusion should apply" (*Id.*). As a result, registration proceedings before the TTAB will become more hotly contested and, perhaps more importantly, will become a major factor for counsel to consider in deciding how to best protect a client's mark. ■



Hon. Rosalyn Chapman (Ret.) is an experienced JAMS neutral who handles complex, multi-party IP disputes. She served for 16 years as Magistrate Judge in the United States District Court for the Central District of California before joining JAMS. She can be reached at rchapman@jamsadr.com.

*Justice Ginsburg's concurrence is "[o]n the understanding" that when the registration proceeding is a comparison of marks in the abstract and apart from their marketplace usage, there will be no preclusive effect in a later infringement suit (*B&B Hardware, Inc.*, 2015 WL 1291915, at *14).



Lastly, the Supreme Court opined the following:

*"The importance of registration is undoubtedly why Congress provided for de novo review of TTAB decisions in district court. It is incredible to think that a district court's adjudication of particular usages would not have preclusive effect in another district court. Why would unchallenged TTAB decisions be different? Congress' creation of this elaborate registration scheme, with so many important rights attached and backed up by plenary review, confirms that registration decisions can be weighty enough to ground issue preclusion" (Id. at *14)."*

Engaging Panelists for Neutral Analysis Provides Invaluable Insight

By Leslie Gordon

Recently, lawyer Roland Tellis was facing an upcoming summary judgment motion in a high-stakes securities case. In preparation, Tellis hired three JAMS neutrals, all retired district court judges with similar profiles to the real judge in the case. The three neutrals were asked to give blind opinions of Tellis's motion, meaning none of them knew which side was asking for the mock ruling. All three neutrals decided the case the same way, but for three widely different reasons. The case wound up settling.

"I'd do it again, for sure," Tellis says of hiring neutrals for the pre-motion analysis.

While simulated juries often provide insight into case themes and likeability of witnesses, dispositive motions sometimes also need that kind of experiential treatment. Plus, "just like when a trial lawyer interviews a juror after trial, there was a ton of value in speaking with retired judges who gave the opinions," adds Tellis, who co-manages Baron & Budd's Los Angeles office. "We were also able to bounce the reasoning of the different judges off each other and discovered ways to position the motion before it was too late."

In addition to learning the strengths and weaknesses of their clients' positions, lawyers have found that mock rulings can be used for strategic purposes during settlement discussions. "It can provide a leverage point that can be pretty compelling," he says. For Tellis, engaging neutrals in this way is worthwhile whenever it's critical to handicap the odds or when you can't leave the decision to chance.

"I view it as a reality check," adds Stuart Sender, an intellectual property litigator at Budd Larner in New Jersey. "You get so engrossed in details of your case, you start breathing your case." So asking former judges to evaluate pleadings and preside

over mock trials before the real thing provides an important outside perspective, "a fresh pair of eyes," Sender says. "That feedback is invaluable."

Matthew Becker, a patent litigator at Axinn, Veltrop & Harkrider in Connecticut, believes that mock trials can be particularly helpful when neutrals "track the tendencies of the trial judge." While he frequently conducts mock trial exercises with colleagues at his firm or in-house lawyers, Becker points out that all of those lawyers "have horses in the race." So using an outside neutral can be particularly helpful in those situations when the lawyer seeks a fresh perspective. "Despite your best efforts, being as immersed in the issues as lawyers tend to be, working day and night, it can sometimes be difficult to identify every potential attack on your position. In these situations, a neutral can provide valuable feedback."

Patent lawyer Dominick Conde has been hiring neutrals for this purpose for years. Recently, he engaged three former judges to evaluate what he calls a "clopensing"-part opening argument, part closing argument-in a pharmaceutical case. He's also used neutrals early in litigation to vet case theories and has conducted mock trials with live witnesses, a particularly beneficial exercise for the witnesses themselves, explains Conde, a partner at Fitzpatrick, Cella, Harper & Scinto in New York. Using neutrals in this way often has a broader benefit beyond the case itself, Conde adds. "It's always helpful to get insight into how judges think. Lawyers don't normally get the opportunity in a non-courtroom setting to pick judges' brains about these issues."

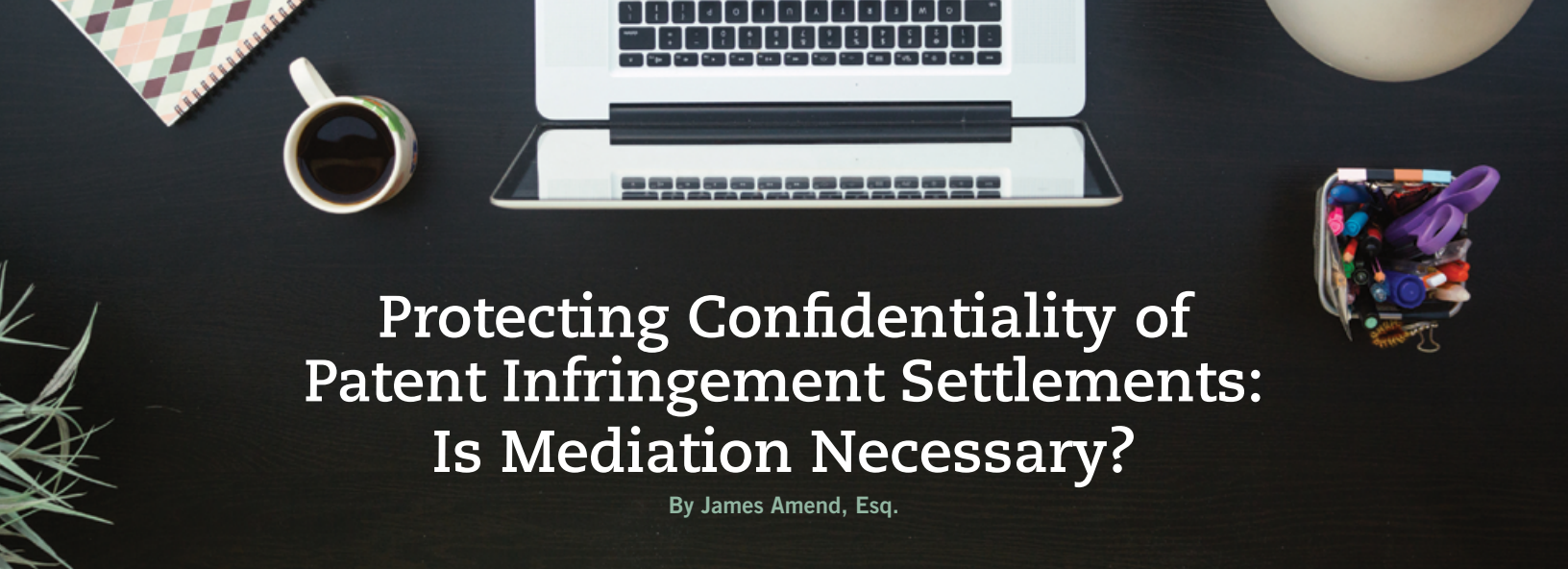
Neutral analysis exercises are also beneficial at the appellate level. Matthew Lembke has hired former appellate judges as many as 10 times to read briefs

and hear oral arguments before the real thing. "Obviously, they have real-world experience, and their reaction gives a real-world perspective" on the issues, explains Lembke of Bradley Arant Boult Cummings in Birmingham, Alabama. "We discuss the way the case should be argued and the points that are more likely to resonate." Invariably, during the exercise, Lembke gets thrown at least one question that he'd not anticipated. "They're questions raised by brief, and I'm often too close" to the issues to have considered them. Also invariably, Lembke ends up getting asked those very questions later during the real oral argument.

"A former judge will frequently ask hard questions, and there's nothing better for an advocate than to have those questions asked before going into the courtroom," says Robert Heim, a litigator with Dechert in Philadelphia. At the appellate level, mock arguments are especially helpful when there are multiple issues. "A former justice can provide thoughtful views on how all of the issues should be balanced in the argument." Afterwards, former judges give valuable advice about "how to use your time, how to deal with questions you need to answer but may not have time to. They also explain nuances of court procedures that you wouldn't get just by reading about them."

The cases most ripe for this kind of exercise are those with "great monetary value or with precedential impact to the industry," Lembke says. Every client he's presented the option to has authorized him to do it. "And in every instance I've done this, it's made me better prepared." ■

Leslie Gordon is a freelance legal affairs journalist and corporate writer/editor for law firms and other professional service firms.



Protecting Confidentiality of Patent Infringement Settlements: Is Mediation Necessary?

By James Amend, Esq.

In the settlement of most patent infringement cases by license, the parties agree to keep the license terms and their negotiations confidential. The patentee does not want the license terms to serve as precedent in other assertions of the patent(s), and/or the defendant does not want other potential patent plaintiffs to believe that it is a “soft touch.” The Federal Circuit has held that such confidentiality provisions may not shield the license terms or their negotiations from either disclosure or admissibility on the issue of damages in other suits brought under the same

“...the negotiations in this case did not result from mediation but from settlement negotiations between two sides without the assistance of a third-party mediator. We are not aware of any state that recognizes a settlement privilege outside the context of mediation.”

patent(s). However, it has intimated that this may not be the case if the negotiations were conducted in, and the settlement the result of, a mediation. It appears that conducting patent infringement settlement negotiations in mediation maximizes the prospects for protecting at least the confidentiality of those negotiations, if not the license terms themselves.

In *ResQNet.com v. Lansa, Inc.* (Fed. Cir. 2010), the Federal Circuit held that of many licenses entered into by the patentee, “the most reliable license in this record arose out of [the settlement of] litigation.” This was followed by its decision in *In re MSTG, Inc.*, where it upheld a district court order that documents relating to the negotiation history of licenses resulting from the settlement of other suits under the same patents must be produced, in spite of confidentiality provisions in them. It held that there was no settlement negotiation privilege under federal law, and it saw no need to create one. But of particular interest here are the Federal Circuit’s comments on the relevance of mediation to its ruling. It said the following:

“Although all states have apparently enacted a statutory mediation privilege, [citing] the negotiations in this case did not result from mediation but from settlement negotiations between two sides without the assistance of a third-party mediator. We are not aware of any state that recognizes a settlement privilege outside the context

of mediation. Thus, failure to recognize a federal settlement privilege will not ‘frustrate the purposes’ of any state legislation....”

While this is *dicta*, it appears that the Federal Circuit probably will recognize a privilege for patent settlement negotiations conducted in a mediation, at least to the extent that they are protected from disclosure by applicable mediation law. This prediction was reinforced in *Avocent v. Raritan* (SDNY 2011), in which the district court, citing *ResQNet*, ruled that settlement negotiations resolving an earlier case brought by the same plaintiff were immune from discovery because they were conducted under state mediation rules.

Thus, although the question of a mediation privilege protecting settlement negotiations appears to still be open at the Federal Circuit, all signs point to its existence. Mediation appears to offer the best chance for confidentiality of patent settlements. ■



James M. Amend, Esq. has more than 40 years of intellectual property experience, including seven years as Chief Circuit Mediator for

the United States Court of Appeals for the Federal Circuit. He is based out of JAMS Chicago but available nationwide. He can be reached at jamend@jamsadr.com.



Ensuring the Right Insurance Coverage for Data Breach

By Bruce A. Friedman, Esq.

When a company falls victim to a computer system hack, there are many tasks ahead for the CEO and all C-level executives. They must investigate the breach, repair the system, recover data, contact affected customers, reassure shareholders and take steps to ensure it never happens again. As important as all of this is, the CEO and General Counsel should also be reviewing the company's insurance policies to assess what coverage they have against losses and lawsuits by customers and shareholders. The good news is that even if the company does not hold a cyber-insurance policy, current coverage will likely help mitigate some of the risk it now faces. This will require a careful evaluation of General Liability, Directors and Officers, and Crime policies.

Comprehensive General Liability (CGL) policies are the bedrock of commercial insurance and cover property damage and bodily injury claims. They also include coverage for various offenses, including invasion of privacy. Depending on the wording of the invasion of privacy offense, and absent an exclusion for losses resulting from cyber-attack or data breaches (new policies may exclude claims arising out of data breach since insurers generally exclude claims covered under policies that are written for specific risks), a CGL policy should cover invasion of privacy claims arising out of data breach.

D&O policies provide coverage for the directors and officers of a corporation,

and possibly the corporation itself, for wrongful acts defined broadly to include acts, errors or omissions. Obviously, a claim for invasion of privacy arising out of a data breach would be based upon a contention that the entity did not take adequate steps (an omission) to protect its system from hacking which resulted in the data breach and the dissemination of customers' private information. Such a claim by shareholders, again, absent an exclusion for claims arising out of data breaches, would likely be covered under a D&O policy. D&O policies exclude invasion of privacy claims, however.

Commercial crime policies often include computer fraud coverage for loss or damage to property resulting from the use of a computer to fraudulently transfer that property. This coverage is found in fidelity policies such as Banker's Blanket Bonds and other crime policies issued to financial institutions and businesses. Insurers construe this policy to provide coverage for losses resulting from computer hacking.

First-party losses for repair and replacement of the operating system as well as business interruption losses resulting from the system going down may be covered under the company's property and business interruption policies. Courts have found that damage to or corruption of data is property damage. Again, absent exclusions for damage to data or computer systems, these policies may provide coverage.

Many insurers now offer Cyber Insurance policies with the first- and third-party features outlined above. Considering the prevalent risk of cyber-attack, these policies will soon become a part of the insurance programs of all major businesses. The likely inclusion of exclusions in traditional policies for losses resulting from cyber-attacks and data breaches will necessitate the purchase of Cyber insurance.

As with any potentially damaging event in the life of a company, a data breach requires swift action. Meeting with insurers and a neutral to design the resolution and settlement process should be promptly scheduled. With the number of hacked corporate computer systems on the rise, companies would be wise to assess their current insurance policies to ensure they are covered for data breaches, and make appropriate adjustments. ■



Bruce A. Friedman, Esq., is a JAMS neutral, based in Southern California. He is an accomplished dispute resolution professional

who has mediated and arbitrated a wide range of disputes, including insurance, class action, professional liability, business, real estate and entertainment and copyright matters. He can be reached at bfriedman@jamsadr.com.