I. INTRODUCTION

Over the past decade, the legal landscape has opened doors for opportunistic non-practicing entities (“NPEs”) to get rich with low upfront costs. More commonly and pejoratively known as “patent

* Harvard Law School, J.D. 2013; University of Florida, B.S. 2010. Thanks to Professor David A. Hoffman and Peter L. Michaelson for their insightful guidance. A special thanks to my Article Editor, Meg Sullivan, for her patience and critical feedback. Finally, thanks to the editors of the *Harvard Journal of Law & Technology* for their dedication and support throughout this process. All opinions are the author’s.
trolls,” NPEs are non-inventive entities that do not practice (i.e., use, manufacture, or market) their patented technologies. NPEs can obtain patent rights, including ownership rights and the right to enforce patents on a contingent fee basis, through many sources. For example, companies undergoing bankruptcy might assign patent rights to NPEs for a low cost, and NPEs also may act as intermediaries between small innovators and large research companies. Although the value of NPEs to society is debatable, NPEs are commonly thought to threaten the financial success of research companies by initiating cost-and time-intensive litigation or by demanding large licensing fees.

The modern prevalence of the NPE is likely owed, in part, to its successful business strategy. NPEs can obtain patent rights cheaply when companies are forced to auction their patents during bankruptcy and, because NPEs do not need to invest in research or product development, their overhead costs are relatively low. Under the modern American litigation system, an NPE that sues a research company for patent infringement and loses is typically not liable for the target company’s litigation fees. Therefore, although a plaintiff NPE may

3. See Schwartz, supra note 1 (manuscript at 1–3), for an excellent discussion of the conceptualization of NPEs and the role that they play in the modern patent system.
5. See Schwartz, supra note 1 (manuscript at 2–3).
be risking potential invalidation of the patent, it will probably not face huge monetary losses. Because NPEs can win large damages in court and would not be liable for the research company’s court costs, many of the targets of these suits choose to settle out of court by paying the NPEs lump sums or licensing fees. NPEs tend to target small research companies that do not have the funds to engage in litigation, likely because settlement is a lucrative outcome for the NPE.

Mediation, along with other forms of alternative dispute resolution (“ADR”), has been growing in popularity as a means of resolving complex patent disputes. Many scholars propose that mediation saves parties time and money and improves the quality of outcomes compared with litigation. While little research has been published on the topic of mediating with NPEs, the International Institute for Conflict Prevention and Resolution (“CPR”) Patent Mediation Task Force, among others, has encouraged the practice. Before resources such as training programs or court-sponsored mediation programs are devoted to promoting mediation to resolve disputes with NPEs and reduce the burden on the court system, it is important to understand whether the parties, federal courts, and society stand to benefit from mediating these disputes. This Note will attempt to unpack the costs and benefits to stakeholders of resolving patent disputes with NPEs through mediation. Unfortunately, there is no clear definition of the term “NPE” accepted in the literature. For the purposes of this Note, NPEs are simply defined as the heterogeneous group of companies that do not practice their inventions. This definition includes small inventors and universities, even though these entities are not traditionally referred to as “patent trolls.” The value of NPEs to industry is also debatable, but a thorough analysis of this issue is beyond the scope of this Note.

9. Even though large firms are the most frequent individual targets, the majority of suits are filed against smaller firms with less than $100 million in revenue. Mark Hachman, *Apple is the Company Most Targeted by Patent Trolls*, TechHive, Aug. 27, 2013, http://www.techhive.com/article/2047549/apple-now-is-the-company-most-targeted-by-patent-trolls.html.


13. See Fitzgerald, supra note 2, at 363–67 (proposing that CLE and law school curricula encourage mediating patent disputes with NPEs and legislative action to promote ADR clauses in licensing agreements).

II. MEDIATING PATENT DISPUTES

Historically, American courts have been reluctant to encourage the use of ADR for patent cases. Congress passed the Federal Arbitration Act ("FAA") in 1925, making arbitration agreements enforceable in court.\(^\text{15}\) After the FAA passed, courts held that this statute did not apply to issues of patent infringement and invalidity,\(^\text{16}\) even though these issues were not expressly excluded under the statute.\(^\text{17}\) In the 1969 case Lear, Inc. v. Adkins, the Supreme Court reaffirmed the intuition of earlier courts, finding that a patent licensee — who had negotiated a license that expressly prohibited all future validity challenges to the patent by the licensee — could still sue.\(^\text{18}\) The Court reasoned that the public’s interest in patent validity was greater than the parties’ interest in contracting freely and the licensor’s reliance on the contract’s terms.\(^\text{19}\) In the following years, innovation — measured by the number of patents issued as well as research and development spending — stagnated in the United States even though it was growing abroad.\(^\text{20}\) Responding to criticism of this trend and in an attempt to reduce the burden on the federal court system,\(^\text{21}\) Congress amended the Patent Act in 1982 explicitly to ensure that arbitrated patent agreements would be enforceable.\(^\text{22}\)

Recent estimates of the number of patent cases that are currently resolved through ADR are sparse and vary widely. One study, conducted in 1997 with an admittedly small sample size, found that co-


\(^{16}\) See, e.g., Hanes Corp. v. Millard, 531 F.2d 585, 588–600 (D.C. Cir. 1976) (finding that arbitrators lacked the expertise to decide the complex questions of law and fact involved in questions of patent validity and infringement, but that the dispute over royalty payments was appropriate for resolution by arbitration); Zip Mfg. Co. v. Pep Mfg. Co., 44 F.2d 184, 186 (D. Del. 1930) (holding that patent validity and infringement are “inherently unsuited to the procedure of arbitration statutes”).


\(^{19}\) See id. at 669–71.


\(^{21}\) Kevin R. Casey, Alternative Dispute Resolution and Patent Law, 3 FED. CIR. B.J. 1, 3 n.8 (1993).

porations, no matter their size, do not favor mediation to resolve patent disputes.²³ Comparing mediation to binding arbitration and court trials, a 1993 study estimated that 60–70% of patent cases that otherwise would not settle were settled through mediation.²⁴ Other studies highlight that although the number of patent cases brought to court is increasing, the number of such cases that reach trial has remained relatively constant, suggesting that ADR is becoming increasingly relevant to patent disputes.²⁵ A recent study conducted by the World Intellectual Property Organization (“WIPO”) indicated that ADR is increasingly considered as a dispute resolution option worldwide.²⁶ However, even though mediation has expanded as a means to resolve patent disputes over the last several decades, it is not clear whether mediation is as widespread in patent disputes involving NPEs. Part III details the primary obstacles the parties face when considering mediation with an NPE as a method for dispute resolution.

III. BARRIERS TO SETTLING DISPUTES INVOLVING NON-PRACTICING ENTITIES

Several key aspects of patent disputes involving NPEs make the parties reluctant to settle. Many of these factors are not mediation-specific and would prevent the parties from reaching settlement whether or not a third-party neutral was involved. The important question is whether an experienced mediator can help the parties overcome these barriers. Whether settlement itself should be considered a good outcome is still a matter of debate; Part V discusses the societal impact of encouraging settlement of NPE disputes.

First, some industries may still harbor antiquated perceptions about the worthiness of outcomes reached using ADR methods.²⁷ For example, some companies fear that other members of the industry will criticize them for failing to litigate disputes.²⁸ Additionally, the company targeted by an NPE may resist mediation to avoid becoming a bulls-eye for more litigation, speculating that knowledge of their willingness to negotiate a settlement in mediation could induce other

²³ Those surveyed reported that both large and small corporations use mediation or arbitration in no more than 30% of their patent cases. See Eugene R. Quinn, Jr., Using Alternative Dispute Resolution To Resolve Patent Litigation: A Survey of Patent Litigators, 3 MARQ. INTELL. PROP. L. REV. 77, 100 (1999).
²⁴ Casey, supra note 21, at 10.
²⁵ Quinn, supra note 23, at 81.
²⁶ See Player, supra note 10, at 56.
²⁸ Id.
NPEs to bring patent infringement claims against them. Companies may wish to send a message to all NPEs that they are willing to pursue the case in court in order to discourage future claims.

Second, research companies may have emotional barriers to mediating with NPEs. As highlighted by the pejorative term “patent troll,” many entrepreneurs view NPEs as thieves who abuse the patent system for personal profit. Emotions can prevent parties from reaching settlement in mediation by blocking effective communication. If emotions are a significant barrier for the parties, a mediator can try to manage the parties’ emotions and bring the parties to an agreement.

On the other hand, given the extravagant cost of patent litigation, small companies likely do not have the luxury of standing up to NPEs on principle, and therefore this barrier to mediation may not always be a significant concern.

Third, from the NPE’s perspective, the potential value of a favorable court judgment may be so high that it outweighs the cost-saving benefits of mediation. Patents that have been litigated and found valid, particularly at the Federal Circuit level, are more valuable to patent holders than unlitigated patents because the decision has a deterrent effect on potential infringers and increases the rates of negotiated licenses.

Fourth, new standards for granting permanent injunctions and declaratory judgments may reduce research companies’ incentives to settle. In the past, taking a case to court meant risking a permanent injunction on the manufacture or sale of the research company’s product, potentially causing huge economic hardship for the company. Knowing this, NPEs would have had significant leverage in settlement discussions and their incentives to submit to mediation or arbitration would have been low. In 2006, the Supreme Court released a paradigm-shifting decision in eBay Inc. v. MercExchange L.L.C., changing the standard from essentially automatic injunctions to a multifactor test under the district court’s discretion.

30. See id.
31. See Schwartz, supra note 1 (manuscript at 3). Whether or not this view is accurate is a matter of debate. See id.
34. See Casey, supra note 21, at 6.
35. See id.
36. See Larson, supra note 1, at 18.
relief to parties, even if they prove patent infringement. The court’s determination is based on multiple factors, including how the parties practice the invention. The recent change in the standard for granting permanent injunctions in patent infringement suits may impact whether research companies and NPEs are willing to resolve disputes out of court, particularly through mediation. The eBay standard makes litigation a less risky, though no less expensive, option for research companies and encourages research companies that can afford litigation to meet NPEs in court. Another seminal Supreme Court case, MedImmune, Inc. v. Genentech, Inc., made declaratory judgments available to companies without requiring them to breach a licensing agreement first. The opportunity to bring a declaratory judgment action without risking the penalties for breaching licensing agreements may make it easier for research companies to threaten litigation if they can afford to do so. In turn, however, the threat of defending a declaratory judgment in a venue chosen by the research company also may change the risk calculus for NPEs and make ADR a more viable option.

In sum, parties face several emotional and perceptual roadblocks to settling patent disputes involving NPEs. Mediators may be able to manage roadblocks that are a significant barrier to the parties. However, mediators are unlikely to be able to resolve some barriers to settlement, such as the potential value of a court judgment and the risk calculus based on standards for granting permanent injunctions and declaratory judgments.

38. Id. at 393–94.
39. Id. at 393.
40. See Fitzgerald, supra note 2, at 345–46; Larson, supra note 1, at 18. Conversely, others predict that if research companies are more likely to consider litigation, NPEs may be more amenable to resolving disputes through ADR, and this will increase the rate of mediated settlements. See id.
41. See Larson, supra note 1, at 18–19 (citing MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007)).
42. See id. at 19. The Supreme Court heard Medtronic, Inc. v. Boston Scientific Corp. on November 5, 2013 to determine whether the licensee or the patentee would have the burden of proof on infringement when the licensee brings a declaratory judgment action under MedImmune. Medtronic, Inc. v. Boston Scientific Corp., SCOTUSBLOG, http://www.scotusblog.com/case-files/cases/medtronic-inc-v-boston-scientific-corp/ (last visited Dec. 20, 2013). Where this burden lies will also affect each party’s willingness to enter mediation.
43. See BUTLER, supra note 33, at 17, 19, for a discussion of the private caucus as a tool to manage parties’ emotions.
IV. ADVANTAGES AND DISADVANTAGES TO ENGAGING IN MEDIATION WITH NON-PRACTICING ENTITIES

Patent infringement suits are costly, time-intensive, and unpredictable.44 Over the years, many parties have looked to experienced mediators to provide the advantage of reasonable outcomes, lower costs, quicker results, and preserved business relationships. While mediation brings considerable benefits to the table in patent cases, some of mediation’s most significant advantages are diminished when the case involves an NPE.

A. Companies Cannot Always Benefit from Mediation’s Cost-Savings

For many companies, the choice to litigate, mediate, arbitrate, or negotiate will be a monetary consideration based on anticipated billed hours, discovery, court costs, and the probability of a favorable judgment. In comparison with litigation, mediation can save parties time and money. However, mediating with NPEs is not as effective when the research company does not have the resources to threaten litigation. Furthermore, because mediation is voluntary and does not preclude litigation, NPEs can still use the threat of litigation to drive up licensing fees.

Mediation can resolve some patent disputes with less time and money than litigation. The average length of a patent suit is 1.12 years,45 and the average time before a final judgment is rendered is 12.3 years from the date the patent is filed.46 In general, patent litigation is associated with large time delays and excessive cost.47 Patent mediation, on the other hand, can take as little as six and up to fifteen months to complete.48 Some have estimated that mediation costs less than half as much as litigation.49 The American Intellectual Property Law Association 2009 Report of the Economic Survey found that median litigation costs are $3 million through discovery and $5.5 million in total for suits with more than $25 million at risk, while binding ar-

44. See Jay Gordon Taylor, Avoiding Costs of Intellectual Property Litigation: Think “Mediation”, INSIDE IND. BUS., http://www.insideindianabusiness.com/contributors.asp?ID =913 (last visited Dec. 20, 2013); Larson, supra note 1, at 16 (discussing the high costs of discovery in patent cases, especially when there is a high amount at risk in the litigation).
49. Id. at 771–72.
Mediating with Non-Practicing Entities

Arbitration may cost fifty to seventy-five percent of that figure.\textsuperscript{50} Mediation is typically even less costly than arbitration because it obviates the need to collect and present as much evidence to the third-party neutral.\textsuperscript{51} Objecting to the mantra that mediation can save parties time and money as compared with litigation, some scholars have argued that seeking a bargain on the cost of resolving disputes “could be penny-wise and pound-foolish,” since attorneys’ fees and court costs are often dwarfed by the value of damages and injunctive relief at stake in litigation.\textsuperscript{52} However, this argument undervalues the importance of risk management to the parties. Each litigant must consider the possibility of losing and the larger potential costs that would entail. Mediation provides additional security to both parties because, unlike litigation and arbitration, the parties must agree to the settlement. Therefore, if parties have the resources to threaten NPEs with litigation, mediation is a viable option.

As discussed in Part I, NPEs tend to target small research companies that do not have the resources to meet the NPE in court. For disputes involving small research companies, mediation should be compared to negotiating without a third-party neutral. In a typical patent case, the mediator may still lower the cost of dispute resolution by proposing creative solutions and adding value. However, as discussed more thoroughly in Part IV.C, there are few opportunities to create value in disputes involving NPEs. Mediators may save the parties money by bringing the parties to an agreement sooner, but the parties must weigh this advantage against the price of the mediator.

Finally, mediation does not solve the essential cost problem facing research companies targeted by NPEs: the cost of litigation encourages NPEs to demand exorbitant licensing fees, to which small research companies have no reasonable alternative.\textsuperscript{53} Mediation does not solve this cost problem because litigation is still available and can be used as a bargaining chip to negotiate licenses. Measures could be taken to make mediation a mandatory first step in patent disputes, or a step mandated at the judge’s discretion, but the anticipated cost of litigation will still affect the parties’ bargaining positions. Any proposed solutions that would deny NPEs access to the courts would be detrimental to the key mediation principle of voluntariness.\textsuperscript{54}

\textsuperscript{50} Larson, \textit{supra} note 1, at 16.
\textsuperscript{51} Id.
\textsuperscript{54} See BUTLER, \textit{supra} note 33, at 4 (describing the principle that participation in mediation should be voluntary).
B. Unlike Judges and Juries, Skilled Patent Mediators Are Experts in Patent Law

Patent mediation can be particularly effective at saving disputants time and money compared with litigation because skilled mediators can bypass the learning curve required for district courts and juries to understand the complex technological and legal aspects of patent law. Judges and juries are ill-equipped to comprehend the specialized technologies involved in patent disputes and to distinguish between conflicting authorities. Because patent attorneys must lead a crash course in the science necessary to understand the invention and patent at issue, patent litigation costs parties enormous amounts of money before legal matters are even reached. A mediator skilled in patent law can provide a neutral assessment of each party’s chances at litigation. This ability is particularly useful when the outcome of the case at trial is highly uncertain or if attorneys have become prey to bias after spending months assessing the value of a case. Because parties have a choice of mediators, they can select a mediator with the necessary experience in patent law, which reduces the need for additional expert testimony and eliminates time spent educating the judge or jury.

Because the evidence presented in patent cases is often highly technical and potentially misleading, the courts grappling with the admissibility of expert scientific testimony have produced a large body of law to admit high quality studies and weed out junk science. Therefore, some scholars argue that mediation, which is not bound by the Federal Rules of Evidence, will produce lower quality results because substandard research will be admissible. Far from being sus-

56. Paradise, supra note 47, at 247–48 (discussing how arbitrators are better equipped to comprehend the technologies, prior art, and infringing devices than judges and juries).
57. See Tran, supra note 55, at 321.
58. Some mediators adopt an evaluative approach to mediation, judging the dispute with fresh eyes and enhancing both parties’ understanding of the strengths and weaknesses of their legal positions. See James H. Stark, The Ethics of Mediation Evaluation: Some Troublesome Questions and Tentative Proposals, from an Evaluative Lawyer Mediator, 38 S. TEX. L. REV. 769, 775–79 (1997), for a thorough list of arguments and counter-arguments for whether the mediator should play an evaluative role.
60. See, e.g., Daubert v. Merrell Dow Pharm., Inc., 509 U.S. 579, 589–90, 597 (1993) (holding that, for scientific evidence to be admissible, it must rest on a reliable foundation of scientifically valid reasoning and methodology).
61. See, e.g., Paradise, supra note 47, at 272 (describing how some scientists engage in “data dredging” — after-the-fact statistical manipulation that yields biased information — and third-party neutrals may be swayed by this evidence); Marion M. Lim, ADR of Patent Disputes: A Customized Prescription, Not an Over-the-Counter Remedy, 6 CARDOZO J. CONFLICT RESOL. 155, 178–79 (2004) (arguing that admitting all expert testimony will
ceptible to junk science, however, experienced mediators are well prepared to understand the relative values of studies. According to the CPR report on patent mediation, veteran practitioners of patent mediation strongly advise that the mediator have patent mediation experience and knowledge of patent law. Additionally, the height of the bar for admissibility in court may be overstated. Even as it attempted to weed out junk science in *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, the Supreme Court set low evidentiary standards for admissibility with the intent that evidence be admitted and its value debated in court using more evidence.

As discussed earlier in this Part, however, NPEs often target small companies that cannot honestly threaten litigation. If the dispute is between an NPE and a weak company, then mediation is the disputants’ alternative to negotiating a licensing agreement without a neutral. In settlement discussions, the mediator cannot effectively “reality test,” that is, provide a neutral assessment of each party’s chances in litigation and test their expectations, because both parties know that litigation is an unlikely option. Of course, whether or not a weak party can meet the NPE in court is not always so cut and dry, so the mediator may still be able to bring parties to an agreement sooner than bargaining without a neutral. Parties must weigh the cost of paying and educating the mediator, even a skilled mediator, against the limited benefits of including the mediator in these settlement discussions.

**C. There Are Few Opportunities for Value Creation in Mediations with Non-Practicing Entities**

Mediation is reputed to improve negotiated outcomes by increasing the creative ability of the parties to structure total value-maximizing solutions and preserving relationships among parties. The solutions that come out of mediation are flexible, rational and cater to the parties’ interests. Scholars typically identify cases involving multiple disputes or continuing relationships as better suited for negotiations than single-issue disputes with no relationships, which

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62. INT’L INST. FOR CONFLICT PREVENTION AND RESOL., supra note 12, at 10–12. While the CPR report advises that the mediator have mediation experience and knowledge of patent law, it also advises that it is not essential for the patent mediator to have technical subject matter expertise. Technical expertise would only be necessary to resolve the few issues in patent cases that turn on highly technical issues, and outside experts can be used in these cases. The report emphasizes that both mediation and patent skills are required for the mediator to effectively assist the parties and reality test. *See id.*

63. See 509 U.S. at 596.

64. See Heinze, supra note 27, at 343–44.

65. See id. at 346.
lead to adjudications and win-lose outcomes.66 Because NPEs do not manufacture or market the technologies for which they own patents, they do not need reciprocal licenses from the alleged infringer.67 Thus, the possibility for value creation through mutual licenses is highly limited. Furthermore, NPEs need not invest in continuing business relationships with their adversaries because they will not need reciprocal trade or licensing agreements in the future. Because patent disputes that involve NPEs are largely distributive, meaning that there is nothing but money to trade, mediation may be unsatisfactory to the parties.

Even though there are few possibilities for value creation, an experienced mediator may have the ability to create some value. For example, a mediator may facilitate a trade among the parties of information about the industry and competitors who also use technologies covered by the NPE’s patent.68 Mediators also may learn about the parties by speaking with them privately and, for this reason, they can offer solutions that the parties or their attorneys could not.69 Mediation may be worth a try if only to explore creative solutions that had not occurred to the parties themselves.

D. Confidentiality Is of Less Concern in Disputes Involving Non-Practicing Entities

The technologies at issue in patent cases often are intertwined with information a disputant wants to keep private. Attorneys in patent cases bill countless hours redacting confidential information from document productions in response to discovery requests,70 and parties frequently fight over whether certain information must be disclosed. In mediation, parties may elect to have the mediator review confidential information to make a decision on the particular issue or decide its relevance.71 Because mediation is confidential, information shared between the disputants will not be shared with the public as it might be if it were included in public court documents.72 Parties also may

66. See, e.g., id. at 340.
68. Telephone Interview with Peter L. Michaelson, N.Y. Branch Chair, Chartered Inst. of Arbs. (July 15, 2013).
69. See BUTLER, supra note 33, at 19–20.
71. See BUTLER, supra note 33, at 17–20.
72. Paradise, supra note 47, at 263–64.
choose to elect one key person on each side, such as counsel, to review confidential information from the other side.\textsuperscript{73}

While inter-party confidentiality is highly valuable in disputes between research companies, it is less valuable in disputes between research companies and NPEs because NPEs do not practice the technologies. The chance that the NPE would gain a competitive advantage by using the research company’s trade secrets is slim. Both mediating and negotiating without a third-party neutral will keep any of the research company’s confidential information out of public court documents.

\textbf{E. Mediation Can Increase the Predictability of Outcomes}

Patent litigation faces a host of constraints and uncertainties because of its unique blend of law and science.\textsuperscript{74} Jurors, and frequently judges, do not have the scientific backgrounds necessary to understand and make informed decisions on bet-the-company patent litigation.\textsuperscript{75} Without adequate scientific training, judges and juries may not be able to make rational, informed decisions. Irrational and uninformed decisions could be based on any number of factors, making outcomes difficult to predict. Furthermore, the winner in patent litigation is often the party that is best able to educate the judge and jury through expert witness testimony.\textsuperscript{76} Some commentators have criticized ADR as being a poor method for resolving high stakes patent litigation because court judgments can be predicted relatively well based on the Federal Rules of Civil Procedure, the Federal Rules of Evidence, and stare decisis.\textsuperscript{77} However, this is contrary to a large body of evidence that litigated outcomes are difficult to predict, and mediation will be more predictable in any case, since parties may choose whether or not to accept the settlement.

If the outcome of the litigation is highly uncertain, then mediators may help the parties reach an agreement that seems reasonable to both sides. Like many of the often-cited advantages of mediation discussed earlier in this Part, enhanced predictability of dispute outcomes applies only as compared with litigation, but not negotiation without a neutral. If the target company is small and cannot realistically threaten

\textsuperscript{73} See INT’L INST. FOR CONFLICT PREVENTION AND RESOL., supra note 12, at 15–16.
\textsuperscript{75} See id.; Paradise, supra note 47, at 254 (detailing the absurdity of submitting highly complex questions to ignorant judges and juries and expecting them to produce reliable and fair judgments).
\textsuperscript{76} See Larson, supra note 1, at 17 (describing how litigants battle to win over the judge and jury in patent litigation).
\textsuperscript{77} E.g., Lim, supra note 61, at 174–75.
\textsuperscript{78} E.g., Paradise, supra note 47, at 254.
to mount a defense in litigation, then the predictability of the outcome is not a core concern for the research company.

V. SOCIETAL ADVANTAGES AND DISADVANTAGES TO ENCOURAGING MEDIATION WITH NON-PRACTICING ENTITIES

Mediation can alleviate the crowding of court dockets and can save the court system, and ultimately taxpayers, the expense of protracted litigation.79 Because the outcomes of patent litigation are so unpredictable and district court decisions are often reversed, district court rulings are too expensive relative to their value.80 Mediation can help to reduce these costs. Despite potential societal benefits of mediation, scholars still worry that mediation thwarts the public’s interest in legal precedent and disincentivizes innovation. Throughout the following Section, mediation will be compared only with litigation unless otherwise specified.

A. Mediation Reduces Pressure on Court Dockets

Because judges and juries must be educated about complex issues and adversaries often clog the docket with extraneous motions and discovery requests, patent litigation can become very time intensive.81 Patent cases may take weeks to litigate, putting pressure on federal courts that already are overburdened.82 It is important to recognize that all civil litigation is expensive and NPEs are not solely blameworthy for this problem. However, the number of cases that NPEs bring contributes to what is a bigger problem in the American litigation system.83

Although passed in part to limit the power of NPEs, the America Invents Act (“AIA”) could contribute to the problem of overburdened courts. Under the AIA, NPEs may no longer consolidate claims over the same patent by joining multiple unrelated defendant companies together in one lawsuit.84 NPEs may not join together multiple defendants unless the claims arise out of the same transaction or occurrence.85 NPEs still will bring patent infringement suits and, because multiple defendants cannot be joined together, NPEs may file even

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79. See Casey, supra note 21, at 4; Larson, supra note 1, at 16 (describing the steadily increasing burden on district courts’ caseloads); Elleman, supra note 48, at 766–67 (describing how the crowding of court dockets slows down processing of patent cases).
80. See Tran, supra note 55, at 323.
81. Paradise, supra note 47, at 252.
82. See id.
83. See Schwartz, supra note 1 (manuscript at 6).
85. Id.
more claims. Because mediation encourages settlement, it may reduce the number of cases resolved in court and ameliorate dockets crowded with patent infringement suits brought by NPEs.

B. Mediation Reduces the Total Cost of Dispute Resolution

As discussed in Part IV.A, mediation reduces the cost of dispute resolution for the parties. Reducing the total cost of resolving patent disputes is intuitively desirable; however, some argue that a low cost of resolving patent disputes harms the patent system because it discourages the development of work-around technologies. The basis of this argument is that if dispute resolution costs are high, parties will develop work-around technologies rather than copy others’ work. This argument assumes that companies review the patent landscape before investing in research and product development. However, this practice is cost prohibitive for many companies, especially start-ups. Additionally, some of the patents that NPEs hold will thwart companies’ expectations because the patents are not practiced and may cover technologies that companies perceive as common or obvious. Therefore, small companies may not have actual notice of patents until they have already invested in product development. Even if litigation costs do encourage work-around technologies, they do so at great expense to small companies that do not have the resources to search for unanticipated patents. Furthermore, this argument assumes that more work-around technologies are better, which may be true in some instances, but it seems equally likely that less time and money spent on litigation will free companies to pursue the best solution and create more life-enhancing technologies.

C. Promoting Mediation Will Not Deny the Public Valuable Legal Precedent

For years, courts have held that “the question of patent validity is so vested with public interest that it can only be settled within the federal court system.” Judicial precedent from patent litigation is equally as important to developing a robust legal system as in other practice areas. Scholars have argued that mediated settlements disserv[e] the public by denying it legal precedent. For example, law professor Owen Fiss has argued that adjudication is funded by public money and

87. Lim, supra note 61, at 175.
88. Heinze, supra note 27, at 337.
renders a public good, and settlement deprives the court of the opportunity to interpret laws.90 Pushing back, some scholars suggest that patent cases are unlikely to implicate important constitutional or statutory interpretation issues,91 and if this is true, then the value of the precedent does not override the societal benefits of mediation.

Even if mediation is advanced as a means of settling disputes with NPEs, disputes that are more likely to promote changing legal norms or involve important issues will still be litigated. The best-funded patent cases are more likely to include the most valuable technologies, since companies are willing to spend more to protect their most valuable inventions. These same cases likely stand to create the most significant precedent because well-funded cases can employ the attorneys best able to make creative arguments and persuade judges to make new law. If we also assume that these most valuable technologies are more likely to be litigated whether or not mediation is available,92 then cases with groundbreaking potential likely will be litigated. If these assumptions are correct, promoting mediation in patent disputes would not deprive the public of the most valuable legal precedent. Unfortunately, this phenomenon also would take away some of the best candidates for mediation in terms of saving the parties money and unburdening the court system.

D. Mediation’s Effect on the Incentive to Invent

Some commentators have suggested that, because of the unique role patents play in incentivizing innovation, the public interest is best served by litigating patent disputes. For example, Matthew Zisk has argued that patent mediation ultimately will have a chilling effect on technology innovation and competition because patents that unnecessarily restrict competition will remain in force.93 He begins his argument by noting that studies have shown that the number of patents in a given field is inversely correlated with the number of competitors undertaking research in that field.94 Because patents give their owners a right to exclude others from making or using their patented inventions, licensees cannot be certain of reaping the benefits of their improvements. Therefore, competitors have no incentive to research and make improvements to inventions they would have to license. The development of patent law is motivated by the desire to reward inven-

90. Id.
94. Id. at 495.
tors and encourage investment in innovations. According to Zisk, the concern is that patents granted by the United States Patent and Trademark Office (“USPTO”) that subsequently are found to be invalid have the same potential to restrict competition before this determination, but this restriction is not balanced by the appropriate incentives to innovate.95 Because mediation will remove patent cases from the public realm, the public will not benefit from litigation invalidating patents that unnecessarily restrict competition.96 In sum, litigating and invalidating patents improves the quality of patents that will be enforced. This in turn maximizes the benefit of innovation that is the quid pro quo of patent law.

In a similar vein, other scholars suggest that lowering the costs of resolving patent disputes disincentivizes innovation because the high costs of resolving patent disputes encourages parties to develop alternative technologies rather than challenge the existing patent’s validity.97 Resolving patent disputes with win-win solutions in mediation may even pose antitrust problems because private agreements between competitors act as barriers-to-entry for new potential competitors.98

However, patent settlements are essential to the operation of the patent system, which would dissolve if all patent disputes had to be litigated to the end.99 As exemplified by the high rate of reversal by the Federal Circuit, patent litigation does not help society determine the “correct” result every time, in part due to the complex nature of these cases.100 Therefore, patent litigation is not an effective means of weeding out the “bad” patents from the patent landscape. Furthermore, the USPTO, responsible for reviewing patent applications and issuing patents, should be the gatekeeper rather than the courts.101

Another general benefit of mediated settlements, at least when they do not implicate antitrust concerns, is that settlements can reflect the fact that issues in law are frequently not black and white and patent law should not always create winners and losers. Sometimes, only mediation “has a chance of doing substantial justice . . . where fair-

95. Id.
96. Such litigation can benefit the public through collateral estoppel. The Supreme Court held that a patentee may be collaterally estopped from arguing patent validity by an earlier judgment on the merits finding patent invalidity, to which the accused-infringer was not a party. Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found., 402 U.S. 313, 350 (1971).
98. Id.
100. See Tran, supra note 55, at 323.
101. Id. at 324 (arguing that the USPTO has “the requisite technical competence to weed out ‘bad’ patents, not the courts”).
ness obtainable by an ADR process is simply not obtainable at the court house." 102 Mediation may be able to accommodate the grayscale of many patent fact patterns. However, the ability of a research company to set the terms of its license depends more on its ability to litigate the case than on the strength of the asserted patent. Many “bad” patents will therefore probably continue to be enforced.

VI. CONCLUSION

Research companies that can afford to threaten litigation have unrealized opportunities to use mediation to solve their patent disputes with NPEs. Mediation is relatively efficient, affords parties flexible solutions, and avoids some of the common problems related to scientific evidence at trial. However, the small companies that NPEs often target have little to gain by employing a third party neutral, since the neutral will have little value to add and educating the neutral about the specific facts of the case will be costly. Mediation has the potential to alleviate the burden on the federal court system from suits brought by NPEs, but it does so without creating valuable precedent and while leaving anti-competitive patents valid.