THE ROLE OF MEDIATION IN TRADEMARK DISPUTES

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I. Introduction

In a consumer-based economy, the economic health of a company is based in part on the strength of its trademarks. As trademarks have become a powerful intellectual property right, companies have invested time and capital in establishing and protecting these rights. In doing so, disputes over trademark rights have inevitably arisen. To resolve disputes, parties have turned to litigation, and sometimes to alternative dispute resolution. This paper proposes that based on the hurdles faced in litigation and the nature of many trademark disputes today, mediation may be the best form of dispute resolution for trademark disputes.

Part II of this paper discusses common difficulties faced by litigants in intellectual property disputes. Part III explains how alternative dispute resolution has been used beneficially in intellectual property disputes generally. Part IV focuses on trademark disputes and discusses why and how alternative dispute resolution can particularly benefit this area of intellectual property law. Possible limitations of alternative dispute resolution in resolving trademark disputes are considered in Part V, and Part VI proposes mediation as the best type of alternative dispute resolution for trademark disputes and explains the benefits for first considering mediation in a trademark dispute.

II. Background and Difficulties in Intellectual Property Litigation

Litigation in general is often seen as an undesirable process and a last resort for resolving a dispute. Intellectual property (IP) litigation in particular is notoriously difficult for both parties, likely due to the complicated, sometimes technical nature of the dispute subject matter.

A. Intellectual Property Litigation Expenses

According to an American Intellectual Property Law Association survey, the average cost of an IP suit is more than $400,000.[1] Patent litigation is usually the most expensive; for example, a recent litigation between Polaroid and Kodak[2] has been estimated to cost $100 million for each side.[3] Trademark and unfair competition suits and copyright suits on average cost more than $500,000.[4]

Such high costs can in part be explained by the fact that many IP disputes involve more complicated or specialized fields. Because of this, the discovery process can be burdensome and expensive.[5] The complicated nature of IP disputes creates other difficulties as well. Judges or jurors not trained in the particular areas of expertise required to understand patent, copyright, or trademark disputes may have to be taught for the purpose of trial.[6] The cost of teaching may include hiring expert witnesses and taking more time during trial, all of which is cost expended by the parties themselves.[7] Furthermore, IP disputes are shadowed in some amount of uncertainty and speculation when it comes to determining damages.[8] Because intellectual properties are intangible, it can be challenging for the parties to produce evidence to justify the actual damages they seek, and even more challenging for the fact-finder to arrive at the appropriate amount based on the evidence submitted by the different parties.[9] The production of evidence, along with the discovery process and hiring of experts, all add to high cost of litigation in an IP dispute.

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[1] Kevin M. Lemley, *I'll Make Him an Offer He Can't Refuse: A Proposed Model for Alternative Dispute Resolution in Intellectual Property Disputes*, 37 Akron L. Rev. 287, 311 (2004).
[2] *See* Polaroid Corp. v. Eastman Kodak Corp., 789 F.2d 1556 (Fed. Cir.), cert. denied, 479 U.S. 850 (1986).
[3] Manny D. Pokotilow, *Why Alternative Dispute Resolution Should Be Used for Intellectual Property Disputes*, 16 NO. 7 J.Proprietary Rts. 17 (2004).
[4] Id.
[5] David Allen Bernstein, *A Case for Mediating Trademark Disputes in the Age of Expanding Brands*, 7 Cardozo J. Conflict Resol. 139, 156 (2005).
[6] See Steven J. Elleman, *Problems in Patent Litigation: Mandatory Mediation May Provide Settlement Solutions*, 12 Ohio St. J. on Disp. Resol. 759, 772 (1997).
[7] Bernstein, at 156.
[8] Lemley, at 302.
[9] *Id.* at 304.

B. Length of Intellectual Property Trials

Related to the difficulty of high expenses in IP lawsuits is problem of the long length of time needed to resolve an IP issue through trial.[10] The median amount of time for the final judgment of a litigated patent suit is about 7.5 years.[11] Reasons for such a long trial time include not only the complicated subject matter and speculative damages which lengthen the initial trial time, but also the fact that intellectual property disputes are highly susceptible to appeals.[12] This is because intellectual property laws are enforced not simply through clear cut rules, but through reasonableness determinations that give the fact-finder a wide range of discretion.[13] Additionally, the resulting damages are often very high, and such high and speculative damages give the losing party much incentive to appeal.[14] IP disputes may take years just to complete trial, only to take more time in the appellate process. In the end, the final verdict may be unsatisfying even for the winning party who has expended much time and money through the years of litigating that issue.

III. Alternative Dispute Resolution Used in Intellectual Property Disputes

The difficult nature of the average intellectual property litigation creates great incentives for seeking solutions through alternative dispute resolution (ADR). Alternatives to litigation may benefit both parties by decreasing expenditures of time and money and also potentially finding a solution that is favorable to both parties.

ADR offers ways to alleviate several of the burdens associated with IP litigation. While the discovery process of certain IP disputes is expensive and extensive for both parties, the

[10] *See* Bernstein, at 156.
[11] *See* Marion M. Lim, *ADR of Patent Disputes: A Customized Prescription, Not an Over-the-Counter Remedy*, 6 Cardozo J. Conflict Resol. 155, 169 (2004).
[12] Lemley, at 304.
[13] *Id.*
[14] *Id.*

parties who agree to attempt resolution through ADR may also agree to limit the scope of discovery. They would be in a position to set their own limitations to minimize the financial costs of discovery,[15] or a neutral third party can set limits for them.[16] Either way, a fair limit on discovery can be established, and the parties can focus on reaching a resolution without suffocating each other with discovery.

Because of the highly specialized knowledge required to understand many IP disputes, ADR offers the opportunity for parties to select a neutral third party who, through training and experience, will understand the subject matter of the dispute more efficiently than judges or juries who lack the training or experience.[17] For example, parties to a patent dispute can hire a neutral third party who has knowledge in scientific or technical concepts.[18] Parties to a copyright dispute can hire a neutral third party who is comfortable making detailed distinctions between books, movies, songs, or computer programs.[19] Parties to a trademark dispute can hire a neutral third party who is qualified to interpret surveys describing various consumer reactions to trademark names and source identifiers.[20] While such requirements in understanding may be difficult to meet for the average courtroom fact finder, a mediator or arbitrator specializing in a particular IP area could more easily understand the issue of the dispute.

Additionally, the problem of speculative damages in IP disputes could also be addressed through ADR. Most IP disputes do not require a result where one party walks away with all the rights of an issue.[21] Intellectual properties are often examined in terms of bundles of rights, and rights to any issue can be licensed in discrete portions. The parties themselves are in the best

[15] Pokotilow, at 450.
[16] Scott Blackmand and Rebecca M. McNeill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 Am. U. L. Rev. 1709, 1727 (1998).
[17] Elleman, at 772.
[18] *See* Blackmand and McNeill, at 1721.
[19] *See Id.* at 1719.
[20] *See Id.* at 1725-26.
[21] *Id.* at 1716

position to evaluate what rights they need in a resolution, and ADR offers a process where the goal of each party need not be to walk away with everything they can take. Rather, ADR allows the parties to reach a resolution where both parties take the rights they need, without the painful expenses of money and time that would have been expended in trial.

IV. Advantages of Alternative Dispute Resolution in Trademark Law

One of the reasons why ADR is so suitable for resolving IP disputes is that IP issues are often technical or difficult in nature. This is especially visible in patent law and copyright law issues that either require a high level of technical knowledge or a high ability to understand the finer differences between expressions of ideas. Because trademark law is not as technically demanding as patent law or as detail-oriented as copyright law, one might make the argument that neutral third parties with specialized knowledge may not be as essential in trademark law as in other areas of IP law.[22] However, such an idea overly simplifies the complexities of trademark law and the characteristics of trademark disputes which make it one area of IP disputes that is especially suitable for resolution through ADR.

A. Trends in Trademark Protection

Because of the importance companies place on their trademarks and the unique protection offered by trademark law, trademark disputes have the potential to be the most heavily litigated of IP disputes.[23] With the continued development of commerce and expansive global commercial growth come an importance in brands and protection of trademarks.[24] Companies who wish to either build a consumer base and reputation or protect their existing consumer base and reputation will look for ways to establish and secure their trademarks. A strong trademark,

[22] Bernstein, at 155.
[23] *Id*. at 162.
[24] *Id*. at 143.

while intangible in itself, can create tangible assets for a company through product sales and product line extension strategies.[25]

Furthermore, trademark law is unique from other types of IP laws in that it protects a company's trademarks for as long as the company is using the mark. While patents are only protected for 20 years after filing,[26] and copyrights are protected for 70 years after the death of the author,[27] trademarks could be infinitely protected. For this reason, and for the reason that companies recognize the importance of trademark protection to their consumer base and revenue, companies have invested time and money in establishing and protecting trademarks. Infringement on this property may result in litigation, but as will be discussed, resolution through ADR offers many benefits over litigation.

B. Limiting Scope of Discovery in Trademark Disputes

Trademark disputes often require more expensive discovery than many other types of IP disputes.[28] A trademark case is built on the "likelihood of confusion" factor; in other words, the question is whether customers will be confused as to the source of the products bearing the marks in question.[29] In order to examine a mark's likelihood of confusion, both parties will normally submit survey evidence analyzing consumer reactions to a mark to determine whether the mark is confusing.[30] Such surveys can be very expensive, often costing $40,000 or more.[31] Rather than having both parties expend time and money to conduct surveys, the parties could

[25] *See Id.* at 144.
[26] *See* United States Patent and Trademark Office website, General Information Concerning Patents, *available at* http://uspto.gov/go/pac/doc/general/#patent.
[27] The length of copyright protection may vary depending on a number of factors, but the point is that copyrights are protected for a set duration.
[28] Copyright cases rarely require extensive discovery or documentation. *See* Blackmand and McNeill, at 1717.
[29] *Id*. at 1725-26.
[30] Bernstein, at 157.
[31] *Id*.

save a significant amount of money by agreeing to limit the scope of discovery. In reality, the parties themselves likely have a good understanding of the market they command or of the market they hope to enter,[32] and agreeing to limit such surveys would relieve them of the burden of proving the strengths and weaknesses they likely already know about their positions.

C. Faster Resolutions and the Continued Use of a Trademark

Trademark litigation, like other types of IP litigation, often take years before a final verdict is reached. In addition to the constraints of a busy court docket, parties to a trademark litigation may also face delays from a final verdict through repeated appeals. One example of a long and treacherous trademark litigation is found in the dispute over the slogan: "Gatorade is Thirst Aid for That Deep Down Body Thirst."[33] When plaintiff Sands, the owner of the registered trademarks covering THIRST-AID and "First Aid for Your Thirst" filed suit for trademark infringement in 1984,[34] the trial took six years, and Sands won almost $43 million.[35] However, defendant Quaker, the manufacturers of Gatorade appealed, and in 1992, the Seventh Circuit remanded.[36] On the first remand, in 1993, a final reward for Sands was entered for $26.5 million.[37] Quaker appealed again, and the case was remanded in part again, and after another year in the appellate process, a final judgment of about $27 million was awarded to Sands in 1995,[38] eleven years after the initial filing.

Lengthy trials and likely appeals amount to a long time before parties can begin to even deal with the final verdict. While trademark litigation might take many years, most methods of

[32]Trademark disputes often involve one party wanting to expand its customer base and reputation by entering a new market, and the other party wants to protect its customer base and reputation. *See* Bernstein, at 159.
[33] *See* Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 949 (7th Cir. 1992).
[34] *Id*. at 951.
[35] *See* Sands, Taylor & Wood v. Quaker Oats Co., 1990 WL 251914, at 26 (N.D. Ill. 1990).
[36] Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 963 (7th Cir. 1992).
[37] Sands, Taylor & Wood Co. v. Quaker Oats Co., 1993 WL 204092, at 8 (N.D. Ill. 1993).
[38] Sands, Taylor & Wood Co. v. Quaker Oats Co., 1995 WL 221871, at 3 (N.D. Ill. 1995).

ADR can produce a solution in less than a year.[39] The time saving benefits of ADR can be especially important in trademark disputes. Because trademarks are typically used in advertising, faster resolution is necessary to prevent parties from experiencing loss of business and suffering financial setbacks.[40] The value of a trademark lies in consumer recognition of the mark or brand name, and if a company is prevented from using a particular mark, it may lose revenue through lost customers. Additionally, many companies use the goodwill of their brands to expand their product lines.[41] They rely on the consumer recognition of existing brand names to market new product lines stamped with that brand.[42] This saves the company money in advertising and market entry costs.[43] If a company was prevented from using a trademark, the company would also have to forego activities such as product line expansion, stunting the company's planned growth. Thus, while a company might be enjoined from using a mark while awaiting a long trial, the speedy resolution of trademark disputes through ADR would be a much better alternative for a company who depends on a good mark.

D. Creative Solutions Benefiting Both Parties to a Trademark Dispute

The parties in trademark disputes often have existing business relationships.[44] The parties may already have a license agreement or a franchise relationship concerning the issue, and often have license or franchise relationships outside of the dispute.[45] While trial often declares a winner and precludes one party from any continued use of the trademark in issue, this result is often not the best one for all parties. Perhaps the solution could be as simple as

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[39] *See* Kyle-Beth Hilfer, *A Practical Guide to Arbitrating IP Disputes, The Intellectual Property Strategist*, Vol. 10, No. 8, Pg. 1 (May, 2004).
[40] See International Trademark Association website, Why Mediations?, *available at* http://www.inta.org/index.php?option=com_content&task=view&id=683&Itemid=222&getcontent=4.
[41] Bernstein, at 144.
[42] *Id*.
[43] Sara Stadler Nerlson, *The Wages of Ubiquity in Trademark Law*, 88 Iowa L. Rev. 731, 779 (2003).
[44] Blackmand and McNeill, at 1726.
[45] *Id*.

modifying an existing agreement.[46] Such a resolution would be reached more efficiently through ADR than through litigation. Through ADR, the parties may avoid the problem of having to teach the fact finder all about the parties' histories and prior dealings, only to have the fact finders make a ruling that is likely more black and white than necessary. Furthermore, the solution bypasses the problem of damages and the speculative distribution of rights that might result from litigation. As previously discussed, the intangible character of intellectual property makes it more difficult for the fact finder to rule on, and parties familiar with the issue and the history are in a better position to work together for a mutually beneficial solution.[47]

V. Limitations of Alternative Dispute Resolution in Trademark Litigation

Though using ADR could offer many benefits over litigation in trademark disputes, there are disadvantages as well. For example, there is usually no direct appellate review after ADR.[48] This means that if a solution is reached and one party is dissatisfied with the results, it must bring the case to be heard de novo if it wishes to change the results.[49] Then, the time and money the parties had been hoping to save would still have to be spent, in addition to the time and money already spent in the ADR process.

Another problem is that trademark owners may want to send a deterrent message to potential infringers. Because ADR can be confidential when parties express the desire for confidentiality on certain issues, and because there is no precedential value in ADR solutions, trademark owners might have difficulty in deterring other people from infringing their trademarks.[50] Although these are inherent weaknesses in ADR because precedential value is

[46] *Id.*
[47] Lemley, at 304.
[48] Bernstein, at 161.
[49] *Id.*
[50] In determining whether mediation would be the best approach, the nature of the desired resolution should be considered. Litigation may be preferred if it is important for either of the parties to send a deterrent message to third

only obtained through the court system, and public vindication and deterrence is best established through precedential value, these considerations may not be as important in the majority of trademark cases, especially because of the nature of trademark disputes today.[51]

VI. Potential of Mediation in Trademark Law

Mediation could serve as the most beneficial form of ADR in trademark disputes.[52] Since many disputes rise between parties who already have an existing business relationship, preserving such a relationship would be a priority of both parties.[53] While litigation would surely disrupt existing relationships and jeopardize the possibility of friendly agreements in the future, mediation would allow parties to maintain their relationship by working together for a desirable solution.[54] Even arbitration may not be the best form of ADR; while it is more efficient than litigation in terms of time and cost in reaching a solution, arbitration still declares a "winner" in the dispute.[55] However, in trademark disputes where parties have reached agreements in the past and hope to cooperate in the future, naming a winner may not be an ideal approach. A ruling where the winner takes all the rights might even be detrimental to the winner in the long run because the parties might have existing licenses or other agreements that are unrelated to the dispute.[56] Mediation is a less confrontational form of ADR in that it focuses on each party's commitment to creating a mutually beneficial solution.[57] The parties themselves reach agreements with the help of a mediator. Thus, the focus is on mutual benefits and not on one-sided winning.

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parties. *See* International Trademark Association website, Why Mediations?, *available at* http://www.inta.org/index.php?option=com_content&task=view&id=683&Itemid=222&getcontent=4.

[51] *See* Bernstein, at 161.

[52] *Id*. at 159.

[53] Blackmand and McNeill, at 1726.

[54] Bernstein, at 159.

[55] Lemley, at 306.

[56] Blackmand and McNeill, at 1726.

[57] Lemley, at 306.

While there are limitations to the power of mediation and other forms of ADR in resolving trademark disputes, mediation has great potential in any trademark dispute where the parties are not pursuing permanent injunctions or permanent removal of trademark rights. More importantly, mediation has potential in all trademark disputes where parties have ongoing relationships that they wish to protect. The structure of business relationships and trademark agreements make ADR, especially mediation, an important option to consider when facing any trademark dispute.

VII. Conclusion

Trademark law has become important in recent years, largely because commercial growth has increased the need to protect trademarks. Interest in protecting trademarks has naturally resulted in disputes between companies intending to expand their consumer base and reputation through marks that others claim. Such disputes have undergone litigation, but the statistics on the length of time and cost of the average trademark litigation show that there may be better alternatives for resolving trademark disputes. ADR has potential to decrease the cost of reaching a resolution by limiting discovery expenses and the costs hiring of experts to teach untrained judges or jurors. ADR can also reach a solution in less than a year, which would save both parties much time considering the lengthy average trial times and the great potential for appeals. Perhaps most importantly, ADR, and especially mediation, allows parties to create their own solutions without trial, and without declaring a winner. Such a solution can be mutually beneficial and preserve ongoing business relationships between parties. ADR does have limitations, especially if parties are pursuing permanent injunctions or removal of rights, or if parties want to send a clear deterrent message to potential infringers. However, because

trademark disputes often arise from parties who have existing relationships, mediation is a constructive form of dispute resolution uniquely structured to serve parties in trademark disputes.

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