

## A CASE FOR MEDIATING TRADEMARK DISPUTES IN THE AGE OF EXPANDING BRANDS

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### I. INTRODUCTION

By some estimates, the word “Nike” is worth \$7 billion, and “Coca Cola” is worth ten times that amount.<sup>1</sup> In today’s explosive economic society, perhaps nothing carries more weight than the eternal brand.<sup>2</sup> Companies are spending more effort and money on building solid brands because they know that consumers often respond better to a logo or slogan than to the quality of the product.<sup>3</sup> In addition, strong slogans, “with their range of denotations and connotations, are simply among the most powerful words in our dictionary.”<sup>4</sup> And not just the dictionary – they are also among the most powerful words in our economy. Just ask Nike.

Companies are also beginning to recognize that trademark law, based on designation of source,<sup>5</sup> offers the best possibility

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<sup>1</sup> James Gleick, *Get Out of My Namespace*, N.Y. TIMES, March 21, 2004, § 6, Column 1 (Magazine Desk) at 44.

<sup>2</sup> See DAVID A. AAKER, *MANAGING BRAND EQUITY* (1991).

A brand is a distinguishing name and/or symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors. A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical.

*Id.* at 7; See also Jerre B. Swann, David A. Aaker & Matt Reback, *Trademarks and Marketing*, 91 TRADEMARK REP. 787, 792 (2001) (claiming that “[c]ompanies building brands . . . are now challenged by the realization that brands encompass not only consumer awareness, but also perceived quality, customer loyalty, and a rich set of associations.”).

<sup>3</sup> See Swann, Aaker & Reback, *supra* note 2, at 796. “Consumers today typically look beyond mere quality . . . they want to satisfy psychological as well as physical needs, and they are often more concerned with identifying themselves than with identifying the source of the goods they buy.” *Id.*

<sup>4</sup> *Id.* at 800.

<sup>5</sup> According to the Lanham Act, a trademark is “any word, name, symbol, or device” used “to identify or distinguish . . . [its owner’s] goods.” 15 U.S.C. § 1127. A trademark is entitled to

140 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

among intellectual property (“IP”) rights for long-term protection, as opposed to the limited term protections available through patent and copyright law.<sup>6</sup> This has led to a rise in trademark registration,<sup>7</sup> which in turn will create significant costs as businesses must make legal expenditures for trademark protection and defense in trademark litigation.

While many companies are becoming more active in protecting their trademarks, or “marks,” many are also expanding their brands. Mammoth companies, such as The Virgin Group, have continued to grow empires of “lucrative extensions” of their brands, leading them to sell diverse products such as music, beverages, and clothes, as well as to provide services such as airfare, rail service, and financial services.<sup>8</sup> However, as companies expand, there is the potential that companies will utilize brand names identical to those already in use by other companies offering different products or services.<sup>9</sup> Consequently, there is an increase in costly trademark litigation, resulting from efforts to prevent consumer confusion.

This Note proposes that there is an alternative method that ensures the viability of brand names while avoiding litigation. Companies must be willing to enter a process which will explore the possibility of a mutually beneficial solution, perhaps in the form of a settlement agreement allowing both parties to use the mark or brand name. The process best suited to guide such parties and achieve such a result is mediation.

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protection against another’s use that is “likely to cause confusion . . . as to the source of origin of such goods . . . .” 15 USC § 1114.

<sup>6</sup> 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, 289 (2004). Currently, copyright protection spans the life of the author plus seventy years. Patent protection lasts for twenty years from the filing of the patent. Trademark law grants unending protection, so long as the owner renews the mark and continues to use it.

<sup>7</sup> A report released by The United States Patent and Trademark Office (PTO) shows close to a 500% increase in trademark registrations from 1984 to 2004. United States Patent and Trademark Office Performance and Accountability Report Fiscal Year 2004, *available at* [http://www.uspto.gov/web/offices/com/annual/2004/060416\\_table16.html](http://www.uspto.gov/web/offices/com/annual/2004/060416_table16.html) (last visited Nov. 8, 2005).

<sup>8</sup> Swann, Aaker & Reback, *supra* note 2, at 811 (listing “Virgin Express,” “Virgin Direct,” “Virgin Rail,” “Virgin Cola,” “Virgin Radio,” “Virgin TV,” “Virgin Jeans,” “Virgin Records,” and even “Virgin Bride” as examples of the many subsidiaries created by a massive corporation in an attempt to exploit consumer faith in brands).

<sup>9</sup> United Airlines and United Van Lines, for example. The question is: What would happen if United Airlines decided it wanted to use special vans to shuttle its passengers from an airport terminal to a nearby location, and decided to call this offshoot something like United Van Services?

Of course, to date, even mutually beneficial settlement agreements have not always held strong. When such agreements are subsequently violated, the courts are called upon to resolve the dispute,<sup>10</sup> as in *Apple Corps. Ltd. v. Apple Computer Inc.*<sup>11</sup> In this case, the defendant signed two separate agreements in the past twenty years, agreeing to stay out of the music business, only to return with the most important music product and service of our generation: iPod and iTunes.<sup>12</sup> This case provides a tangible example of the problem of expanding brands, and shows why and how the parties should be willing to create a non-confrontational safeguard for unforeseeable changes in the business relationship.

This Note will first explain the problem by briefly detailing the history and purpose of trademark law and then proceeding with a discussion of the growing trend of expanding brands. It will then present specific examples of cases, such as the ongoing *Apple v. Apple* case, and the case of *DC Comics v. Kryptonite Corp.*, which represent this problem. Next, this Note will define the three most commonly recognized forms of alternative dispute resolution (“ADR”), arbitration, mediation, and negotiation, and explain their role in our legal system. The third section will explain why ADR offers an attractive option for intellectual property conflicts. This will be followed by an established example of the use of ADR in trademark disputes. Finally, this Note will clarify the reasons for using mediation specifically in trademark disputes that involve the problem of expanding brands.

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<sup>10</sup> See *DC Comics v. Kryptonite Corp.*, 336 F.Supp.2d 324 (S.D.N.Y. 2004) (summary judgment for plaintiff granted with reference to the “kryptonite” trademark in connection with bike locks and other products after plaintiff’s license of limited rights to use was violated).

<sup>11</sup> No. HC-2003-CO2428, 2004 WL 960848 (Ch. Apr. 7, 2004).

<sup>12</sup> Jefferson Graham, *Beatles record label sues Apple Computer—again*, USA TODAY, September 20, 2004, at 4B (providing figures which show that since “it opened iTunes, Apple has dominated digital music. With sales of 125 million digital downloads, it has an estimated 70% market share.”); see also MSN Money, Robert Walberg, *How Far Can Apple Ride the iPod Craze?*, <http://moneycentral.msn.com/content/P94963> (posted Nov. 11, 2004) (claiming that as a result of the iPod, Apple is the “envy of the tech world and the stock is trading at its highest level in four years”).

142 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]II. THE PROBLEM OF EXPANDING BRANDS AND  
RESULTING TRADEMARK DISPUTES

## A. Background of Trademark Law

While copyright and patent protections are explicitly set forth in the Constitution,<sup>13</sup> trademark law has a different history and, most likely, a very different future. As mentioned previously, copyright and patent law provide authors and inventors with limited periods of protection for ideas and expressions.<sup>14</sup> There are important policy reasons for allowing only limited periods of protection, the most significant of which is that these protections constitute government-sanctioned monopolies.<sup>15</sup> The Constitution mentions nothing of unfair competition or trademark law, and no organized federal law on the subject appeared for at least a hundred years after the Constitution was written.<sup>16</sup> In the late eighteenth century, there was no need for protection of unfair competition practices.<sup>17</sup> But as technology progressed and consumers began to purchase goods from growing companies rather than local merchants, the need to protect business clientele and reputations became impor-

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<sup>13</sup> U.S. CONST. art. I, § 8, Cl. 8.

<sup>14</sup> See discussion of the various protections, *infra*, note 6.

<sup>15</sup> Cf. Melville Nimmer, *Nimmer on Copyright*, § 1.03(A) (1976) (explaining that the framers of the Constitution had in mind a “pervading public policy against according private economic monopolies in the absence of overriding countervailing considerations.”).

<sup>16</sup> See J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 5:3 (4th ed. 2003). The Supreme Court refused the first attempt at federal legislation in this area, the Act of 1870, in the *Trademark Cases* of 1879. The Court rejected the argument that Congress had the power under the patent and copyright clause to regulate trademarks and held that trademarks were not any form of invention or writing with any modicum of originality. A new statute created in 1881 allowed trademark registration in commerce with foreign nations, and later, in 1905, the first real federal trademark registration to resemble what we see today was passed in the Act of 1905. *Id.*

<sup>17</sup> See Gerard N. Magliocca, *From Ashes to Fire: Trademark and Copyright in Transition*, 82 N.C.L. REV. 1009, 1014-17 (2004) (explaining how at that time, people “purchased almost exclusively from local craftsmen . . .”).

[It was] almost impossible for consumers to afford anything that was made in a distant location. As a result, people were personally acquainted with the manufacturers of their products . . . . When consumers were deciding whose goods to buy, therefore, they made an evaluation based on their personal knowledge of a producer’s reputation for quality. A trademark in this context was a representation by a craftsman that an item was made by him and that all the weight of his individual reputation was behind it.

*Id.*

tant.<sup>18</sup> At that point, existing tort law began to expand to protect consumers from commercial fraud.<sup>19</sup> Over time, as commerce developed further and later exploded, the resulting concept of trademark law became one of designation of source in a busy industrial society.<sup>20</sup> When companies are diligent in building a consumer base and a reputation represented symbolically by trademarks, it is important to prevent others from diluting,<sup>21</sup> profiting from, or otherwise harming those trademarks and therefore those reputations. As commerce becomes increasingly global in nature, there is a stronger desire for protective trademark law.

### B. Expanding Brands

Over the past twenty or thirty years, tremendous worldwide commercial growth has facilitated a simultaneous rise in the importance of brands.<sup>22</sup> As companies look for better ways to secure their economic holdings and reputations, what has emerged is a concept of branding, or attaching trademarks, to each and every

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<sup>18</sup> *Id.* at 1017. The Industrial Revolution changed everything by bringing all of the individual communities into one market, which led to “the development of corporations that each made a variety of items and dissolved the assumption that firms made only a single good.” *Id.* Because this eliminated much of the need for local craftsman, consumers began to rely on some form of trademarks for identity and information about products and producers.

<sup>19</sup> See McCarthy *supra* note 16, at § 5:2. The nineteenth century saw the beginning of a common law version of tort law that dealt with fraud and deceit called “passing off” or “palming off” which eventually developed into trademark law. In essence, this protected against individuals selling their goods while claiming that they were produced by someone else.

<sup>20</sup> *Id.* at § 3:8, 3:9. At first, in the early twentieth century, this was a strict requirement of designation of source, in which a trademark had to clearly identify the exact producer to the consumer. Now, trademarks do not need to serve this function, but instead their function has been “softened by the courts to mean that the consumer expected all goods with the same mark to come from a single, but anonymous or indistinguishable source.” *Id.* at § 3:9.

<sup>21</sup> J. Thomas McCarthy, *Symposium: Trademark In Transition: Institute For Intellectual Property & Information Law Symposium: Proving A Trademark Has Been Diluted: Theories Or Facts?*, 31 HOUS. L. REV. 713, 715 (2004) (defining “dilution” as the “lessening of the capacity of a famous mark to identify and distinguish goods or services” whether or not there is competition or a likelihood of confusion).

<sup>22</sup> See Swann, Aaker & Reback, *supra* note 2, at 794. A “brand” is when a product and its source have merged in the eyes of the consumer. It helps consumers to “differentiate between goods and is ‘the essence of competition.’” *Id.* Beginning in the 1960’s, “demand for high-quality, national brands was exploding.” *Id.* at 789-90. Cf. Sara Stadler Nelson, *The Wages of Ubiquity in Trademark Law*, 88 IOWA L. REV. 731, 778 (2003) (identifying another shift in “branding philosophy in 1988, when a series of trademark acquisitions made it obvious that brands had significant value.”). *Id.* In fact, after companies realized that there was a new value in equity and in their financial statements, the need for and use of trademarks became more aggressive and widespread.

144 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

product or service available for sale by a particular producer.<sup>23</sup> This development can create valuable assets other than a company's tangible products or other physical assets.<sup>24</sup> As this growth continues, so does the need to protect the trademarks, sometimes at high costs, that consumers associate with each company.<sup>25</sup>

Many companies are using the power of their brand to help expand their product lines.<sup>26</sup> According to some studies, the resulting products, called "brand extensions" or "line extensions," make up 95% of new product introductions.<sup>27</sup> Because brand names have such a powerful presence among consumers, companies assume that the goodwill they have gained in their brand will extend to any new product they choose to sell and stamp with that brand.<sup>28</sup> Brand extensions also save companies money in advertising and market entry costs by allowing them to immediately draw a certain customer base merely because of the goodwill previously earned on other products.<sup>29</sup> As companies which previously offered limited products or services look to break into new categories with brand or line extensions, there is a definite likelihood of increased conflicts.

In some cases, companies are willing to compromise, which allows both parties to continue to use the brand in separate product or service areas.<sup>30</sup> This compromise, also known as a consent to

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<sup>23</sup> See Nelson, *supra* note 22, at 778. The first goal for most companies acknowledging this new dynamic in marketing was "brand-stretching" or "brand extensions" in which the brand was attached to "an ever-wider variety of products." *Id.*

<sup>24</sup> See AAKER, *supra* note 2, at 208. "The most real and marketable assets of many firms are the brand names that they have developed." *Id.*

<sup>25</sup> See Swann, Aaker, & Reback, *supra* note 2, at 794. A brand is "the essence of competition." *Id.* As a result, companies which hold strong brands have to maintain "flexibility in the face of aggressive competitors, who are constantly entering the market or repositioning around an attractive variation on [their] benefits in an effort to leapfrog over established players." *Id.* at 805.

<sup>26</sup> See Nelson, *supra* note 22, at 779. In many cases, without complete knowledge of possible effects, companies extend their brands. Although scholars claim it can be harmful in the long run, "most new products now bear existing brands." *Id.* See also AAKER, *supra* note 2, at 208. "Brand extensions are a natural strategy for the firm looking to grow by exploiting its assets." *Id.*

<sup>27</sup> See AAKER, *supra* note 2, at 208.

<sup>28</sup> See Swann, Aaker & Reback, *supra* note 2, at 806. "[A] brand is an owner's badge of identity and its reservoir of good will." *Id.*

<sup>29</sup> See Nelson, *supra* note 22, at 779 (stating that brand extensions save money and reduce risk).

<sup>30</sup> The federal trademark system used by the PTO creates different classifications of products or services in which a company may register its trademark. See Lanham Act, 15 U.S.C. § 1112 (giving the director of the PTO the power to create such categories); see also United States Patent and Trademark Office International Schedule of Goods and Services, at <http://www.uspto.gov/web/offices/tac/doc/basic/international.htm> (last visited Nov. 8, 2005) (listing 45 cur-

use agreement,<sup>31</sup> is the optimal solution, and one which more companies should consider as the problem of expanding brands continues. Despite these agreements, there may still be some obstacles in the relationship as a result of violations of the agreement, thus, increasing the threat of litigation.<sup>32</sup>

### C. Brand Conflicts in Court

Over the past twenty years, there have been a number of cases which exhibit the problem of expanding brands<sup>33</sup> and the conflicts that can arise, despite attempts to reach a compromise outside of litigation. While the following two cases are examples of the problem and the need for better resolution techniques, they do not represent successful instances of the solution this Note advocates. In both cases, negotiations attempted to address the problem, and it is unclear precisely what, if any, other ADR techniques were employed. And in both cases, despite communication and various attempts at conflict resolution, the parties ended up in contentious litigation. These cases are paradigmatic of the problem, and may offer future parties a glance into what may lie ahead if they do not commit to ADR in good faith.

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rent categories of goods or services). Different parties can register a similar mark in different categories, and use the mark concurrently so long as one party does not try to exploit another. Trademark registrants today, however, often choose to register in all categories, leaving no room for another company to operate with the same mark absent litigation or a shared-use agreement.

<sup>31</sup> See McCarthy, *supra* note 16, at § 18:80 (referring to contracts between parties in which they agree to simultaneous use of a trademark so long as their products or services do not interfere with each other).

<sup>32</sup> *Id.* McCarthy discusses cases where parties later broke the agreements for various reasons, and the reactions of several courts to these cases.

<sup>33</sup> See Frank M. Sullivan v. CBS Corp., 385 F.3d 772 (7th Cir. 2004) (affirming summary judgment for television series producers and network in a case where parties fought over the name “Survivor” in reference to music and merchandise related to the “Survivor” television series, as well as the plaintiff’s band name); Times Mirror Magazines Inc. v. Field & Stream Licenses Co., 294 F.3d 383 (2d. Cir. 2002) (owner of trademark in “Field & Stream” sued competing owner for breach of their co-existence and settlement agreements); Johnson Publishing Co. v. Willitts Designs Int’l, 1998 WL 341618 (N.D.Ill. 1998) (regarding co-existence agreement as to “EBONY” in conjunction with a magazine and collectible figurines); Phillips Products Co. v. R.H. Phillips, Inc., 2003 WL 23527080 (D.Minn. 2003) (enforcement of co-existence agreement regarding use of “Phillips” in various trademarks).

i. *Apple v. Apple*

This problem is best exemplified in the case mentioned previously – *Apple Corps. Ltd. v. Apple Computer Inc.*<sup>34</sup> In the late 1970's, the importance of trademarks in the entertainment industry was minimal, compared to copyrights, as our country finally neared completion of the 1976 Copyright Act, a lengthy revision of federal copyright laws.<sup>35</sup> As a result, most people in the industry were more concerned with finding out what copyright protections they would be afforded under this new statute. The Beatles, however, had been very protective of their intellectual property rights and had formed Apple Corps. to protect these rights.<sup>36</sup> In 1980, George Harrison discovered an advertisement in a magazine for a young company named Apple Computer, and realized the potential for consumer confusion between it and his own Apple Corps.<sup>37</sup> Shortly thereafter, Apple Corps. sued Apple Computer in an attempt to prevent such confusion and the two parties eventually settled out of court.<sup>38</sup> As part of the settlement agreement, reached in 1981, the parties conceded that each could continue to use the name “Apple” so long as Apple Computer did not enter the music industry, and Apple Corps did not enter the computer industry.<sup>39</sup> The cost for these rights to Apple Computer, the latecomer to the name,<sup>40</sup> was \$80,000.<sup>41</sup> But ten years later, the two parties were in dispute again, this time as a result of new musical hardware available for Apple computers.<sup>42</sup> After making their way through sev-

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<sup>34</sup> See *infra* p. 203.

<sup>35</sup> 17 U.S.C.A. §§ 101-810, 1101. The overhaul of copyright law lasted over twenty years. In 1955, the Register of Copyrights started a program, funded by Congress, which would study 35 copyright issues. See Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L.REV. 857, 871 (1987). Throughout the 1960's, there were House Subcommittee hearings addressing troublesome issues in the reform, such as cable television systems, and, by 1976, a number of compromises helped to ensure passage of the bill. *Id.* at 876-78.

<sup>36</sup> Roger Lowe, *An Apple A Decade, Keeps The Lawyers At Work*, THE LONDON TIMES, September 7, 2004, at 12. The Beatles also considered Apple Corps. a vehicle through which they could sign other musicians and fund various creative projects. Despite a number of such projects in the late 1960's and early 1970's, the label produced nothing new between 1976 and 1996.

<sup>37</sup> *Id.*

<sup>38</sup> See Graham, *supra* note 12.

<sup>39</sup> See *Apple Corps. Ltd. v. Apple Computer Inc.*, No. HC-2003-CO2428, 2004 WL 960848, ¶¶ 1, 6 (Apr. 7, 2004).

<sup>40</sup> In trademark law terminology, this is known as the “junior user.”

<sup>41</sup> See Lowe, *supra* note 36.

<sup>42</sup> *Id.* The hardware which Apple had discovered, MIDI (Musical Digital Interface), enables computers to create, edit, and record music.

eral English and European courts, the parties once again settled.<sup>43</sup> In 1989, the parties came to another agreement, but this time, a much larger amount of money was involved. Apple Computer agreed to pay \$26.5 million to continue using this hardware – and agreed once again not to enter the “music industry.”<sup>44</sup> But this volatile relationship was just gearing up for the largest battle yet.

The onslaught of the digital music age in the late 1990’s surprised many and left a reeling music industry uncertain of how to counter the massive amount of music slipping through their hands onto the computers of eager downloaders.<sup>45</sup> Apple Computer convinced many music companies, long thought to be inflexible, that people would pay to download music, so long as the format was simple and the cost of a song was less than the price of a cup of coffee.<sup>46</sup> The iPod, a portable digital music player, and iTunes, an internet digital music outlet, transformed the music industry and technology industry in ways that are still dazzling analysts.<sup>47</sup>

Apple Computer, which produced them both, must have been aware that it was violating its agreement with Apple Corps. In September of 2004, the most recent suit between these parties went before the Chancery Division in England, where Apple Computer sought removal to California.<sup>48</sup> The judge, who noted that the 1981 agreement “created obscurity and difficulty for lawyers to debate in future years,” ultimately ruled that the jurisdiction was proper,

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<sup>43</sup> See *Apple Corps. Ltd.* at ¶ 11. The court discusses the path of the 1989 litigation, tracing it through the European Commission and the High Court in England, where it took a hundred days before settlement talks were started. *Id.*

<sup>44</sup> See Graham, *supra* note 12.

<sup>45</sup> See Tia Hall, *Music Piracy and the Audio Home Recording Act*, 2002 DUKE L. & TECH. REV. 23 (2002) (explaining how the music industry believed in 1999 that 25% of all CDs were unauthorized copies, and that home ownership of CD burners and the rise of digital music on the internet contributed to the economic woes of the industry).

<sup>46</sup> See Walberg, *supra* note 12 (theorizing that a large part of the success of iTunes is that the music industry backs it because of its ease of use and the fact that the cost appeals to consumers).

<sup>47</sup> See *The Meaning of iPod*, THE ECONOMIST, June 12, 2004, at Technology Quarterly Section (calling Apple CEO, Steve Jobs, “among the leaders in the creation of digital music technologies”); John Stones, *Putting the Bite Back On*, MARKETING WEEK, October 7, 2004, at 26 (heralding iTunes as the “undisputed market leader” with a 70% share of legal downloads”); see also Scott Van Camp, *They March To His Rhythm*, BRANDWEEK, October 11, 2004, at News Section (observing the cultural impact of the iPod and its impact on the music industry).

<sup>48</sup> See *Apple Corps. Ltd. v. Apple Computer Inc.*, No. HC-2003-CO2428, 2004 WL 960848 (Apr. 7, 2004). The bulk of the case addresses the claim by Apple Computer that the license agreement was signed in California, meaning California law should govern and should be the appropriate venue for the action. The court ultimately rejected this contention, which led the parties to reinstate settlement negotiations.

148 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

and the case would go forward in England, where it was filed.<sup>49</sup> At this point, the parties resumed negotiations, with speculation reaching a fevered pitch as to the terms or ability of the parties to make a deal. *Forbes Magazine* reported that the two companies “are close to a settlement that would dwarf the \$26.5 million paid in 1991. It could be ‘the biggest legal settlement in legal history’ according to one lawyer,” excluding class action suits.<sup>50</sup> It is also speculated that the terms might involve creative solutions such as bringing the Beatles catalog, perhaps the most valuable in the world, to Apple’s iTunes. This would be an industry coup, as many of the digital music stores have been courting Apple Corps. in hopes of obtaining those rights for years.<sup>51</sup>

Despite two previous, unsuccessful negotiated agreements, both parties are still more interested in resolving the case outside of court than spending years tied up in the court system. It is important for both parties to resolve this dispute quickly and in a way that they can both continue to use the name “Apple” profitably and capitalize on the reputations they have established for themselves. More importantly, staying out of court allows both parties to think creatively and find new ways for the companies to work together, and profit together.

ii. *DC Comics v. Kryptonite Corp.*

Another recent case concerning expanding brand problems involves DC Comics, owner of a trademark in “kryptonite,” against Kryptonite Corp., a manufacturer of bicycle locks and other products.<sup>52</sup> In 1983, after years of settlement negotiations, the parties reached an agreement that allowed restricted use of certain marks associated with the “kryptonite” mark so long as they were limited to certain products and devices.<sup>53</sup> Now, DC Comics claims that the limitations in the agreement were breached in the 1990’s when Kryptonite Corp. applied for trademark applications for the use of

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<sup>49</sup> *Id.*

<sup>50</sup> Arik Hesseldahl, *Strange Tales of the Two Apples*, FORBES MAGAZINE, available at [http://www.forbes.com/technology/2004/09/17/cx\\_ah\\_0917tentech.html](http://www.forbes.com/technology/2004/09/17/cx_ah_0917tentech.html) (posted Sept. 17, 2004).

<sup>51</sup> Arik Hesseldahl, *Two Apples Heading Back to Court*, FORBES MAGAZINE, available at [http://www.forbes.com/2003/09/12/cx\\_ah\\_0912aapl.html](http://www.forbes.com/2003/09/12/cx_ah_0912aapl.html) (posted Sept. 12, 2003). In addition, according to the same rumors, ex-Beatle Paul McCartney could potentially join the board of Apple Computers. This rumor is unsubstantiated and doubtful, according to Hesseldahl. *Id.*

<sup>52</sup> *DC Comics v. Kryptonite Corp.*, 336 F.Supp.2d 324 (S.D.N.Y. 2004).

<sup>53</sup> See Mark Hamblett, *DC Comics’ ‘Kryptonite’ Trademark Survives Court Challenge by Maker of Bicycle Locks*, NEW YORK LAW JOURNAL, September 22, 2004, available at <http://www.nylawyer.com/news/04/09/092204b.html> (last visited November 28, 2004).

the mark in connection with items other than those contained in the original agreement.<sup>54</sup> DC Comics filed suit in the Southern District of New York, and the judge issued several summary judgment rulings favorable to DC Comics in a September 2004 opinion.<sup>55</sup> Judge Richard Owen refused, however, to dismiss a claim that DC breached a contract with Kryptonite Corp. on limited trademark use, leaving that issue to be decided later at trial.<sup>56</sup> Although the breach of contract claim itself may not be ideal for conflict resolution, if the parties are both interested in continuing to capitalize on the “kryptonite” mark, their best chance is to engage in some form of ADR on that issue, and try to formulate a fair and equitable result.

#### D. The Problem with Going to Court

The problem with these cases and many others<sup>57</sup> is that the standard option of litigation is a closed universe of possibilities. To Apple and Apple, DC Comics and Kryptonite Corp., and any other similarly situated parties, litigation offers a limited, strictly regulated system. At trial, the judge or jury is likely to award a simple judgment, granting use of the trademark to one party or the other. This could result in a potentially fatal blow to one of the litigants. ADR, on the other hand, offers an open universe of possibilities, whereby the parties can fashion their own solution and continue to grow and work together indefinitely, adjusting to all changes in the relationship as they arise.

### III. ALTERNATIVE DISPUTE RESOLUTION

Alternative dispute resolution has been a growing legal option for years, gaining special recognition in commercial law, employ-

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<sup>54</sup> See *Superman Publisher Beats Kryptonite*, CNNMONEY.com, at <http://money.cnn.com/2004/09/23/news/midcaps/kryptonite> (last visited Feb. 20 2006) (claiming products such as tote bags, briefcases, helmets, pants, jerseys, and computer software were planned for production).

<sup>55</sup> See Hamblett *supra* note 53.

<sup>56</sup> See Helen Peterson, *It's a Super Trademark Mess*, N.Y. DAILY NEWS, Thursday, Sept. 23, 2004 at <http://www.nydailynews.com/news/local/story/234760p-201654c.html> (last visited Nov. 28, 2004). The judge found that Kryptonite has been associated with the Superman character for over sixty years, and deserves protection.

<sup>57</sup> See cases listed previously, *supra* note 33.

150 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

ment law, and divorce law.<sup>58</sup> It is often recognized as giving the parties a faster, less expensive method of conflict resolution by offering an alternative to the huge, grinding machine that is the American legal system.<sup>59</sup> As former Chief Justice Warren E. Burger said in 1984 to the American Bar Association, “Our litigation system is too costly, too painful, too destructive, too inefficient for a civilized people.”<sup>60</sup>

There are numerous forms of ADR which engage different processes, parties, and costs. Some of these forms are adjudicative, some are binding, some are both, and some are neither.<sup>61</sup> The distinctions between these forms are clear, and each has its own benefits and shortcomings which the parties must consider prior to initiating the process.<sup>62</sup>

The most common and least adjudicative form of ADR is settlement negotiations.<sup>63</sup> In nearly all civil cases, parties try to resolve their issues through their attorneys in some form of settlement negotiation before moving forward.<sup>64</sup> Cases presenting a high level of animosity,<sup>65</sup> or involving an exorbitant amount of

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<sup>58</sup> NATIONAL INSTITUTE FOR TRIAL ADVOCACY, ARBITRATION ADVOCACY, Ch. 2, § 2.2 (1997). Alternative Dispute Resolution is used frequently for varying business, construction, employment, insurance, securities, real estate, family, and health care disputes.

<sup>59</sup> See Thomas M. Onda, *RESOLVE!*, 689 PLI/Pat 61, 63 (2002). Onda also discusses how the options available in ADR, and mediation in particular, are usually not limited by statutory restraints or a court's orders, thus making it more conducive to creative solutions. *Id.*

<sup>60</sup> Manny D. Pokotilow, *Why Alternative Dispute Resolution Should Be Used for Intellectual Property Disputes*, 16 NO. 7 J.PROPRIETARY RTS. 17 (2004) (citing Burger's remarks to the American Bar Association in 1984).

<sup>61</sup> See Leslie J. Lott, *Litigation Strategy Effective Use of ADR in Intellectual Property Disputes*, 579 PLI/Pat 395, 398 (1999) (theorizing that “the combinations and permutations are virtually unlimited. Generally, however, the different forms of ADR can be categorized into two categories, binding and non-binding.”).

<sup>62</sup> See generally Michael H. Diamant & Elizabeth M. Zoller, *Strategies for Mediation, Arbitration, and Other Forms of Alternative Dispute Resolution*, SJ055 ALI-ABA 131, 135-36 (2004) (explaining the various disadvantages of ADR in general, and arbitration in particular).

<sup>63</sup> *Id.* at 133. “Settlement is the process of establishing a range of compromise options until the parties involved in a dispute reach an agreement.” *Id.*

<sup>64</sup> See Lott *supra* note 61, at 399. Negotiations are “almost universally employed in pre-litigation dispute resolution” and are usually informal, which detracts in some cases from the gravity given to the matter by advocates. *Id.* These discussions will often continue through the entire litigation process.

<sup>65</sup> See Thomas J. Speiss & Stephen M. Levine, *An Analysis of the Factors That Determine When and How to Resolve a Trademark Dispute*, 11 RICH. J.L. & TECH. 1, 11 (2004) (citing psychological barriers such as personal animus as leading parties to “incorrectly and unjustifiably assume the motives and intentions of the other parties,” which makes success of negotiations unlikely); *but cf.* Diamant & Zoller, *supra* note 62, at 135 (explaining that if a trademark infringement is willful, the parties are likely to be more hostile, and such cases are not likely to benefit from negotiations).

money, are often poor candidates for resolution by basic settlement negotiations. The more valuable benefit of this process is that it opens the door of communication between parties, which is a crucial first step.

Arbitration is the most comprehensive and, ordinarily, most restrictive form of ADR. In arbitration, the outcome and subsequent remedy are determined by a third party.<sup>66</sup> This is generally known as binding arbitration and there is usually no appeal or judicial review, except when alleging an abuse or impropriety of the arbitrator(s).<sup>67</sup> There is also a process known as non-binding arbitration, which is more like mediation, in which the “orientation of the procedure is to aid the parties to make their own settlement.”<sup>68</sup> In cases where a court has ordered arbitration, it is frequently non-binding.<sup>69</sup>

In arbitration, the parties sometimes adopt specific provisions and rules to help govern the process. Various entities have created guidelines which can be adopted and/or modified to provide more alternatives for parties and to make the process easier.<sup>70</sup> Contracts sometimes contain arbitration clauses which help determine important factors, such as choice of law, venue, and the scope of power of the arbitrator.<sup>71</sup> One appealing aspect of arbitration is that it is confidential, and arbitral awards are not published unless the parties agree otherwise.<sup>72</sup> Ultimately, arbitration offers the parties a chance to have a neutral party hear their claims and adjudicate –

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<sup>66</sup> See Scott Blackmand and Rebecca M. McNeill, *Alternative Dispute Resolution in Commercial Intellectual Property Disputes*, 47 AM. U. L. REV. 1709, 1713 (1998). In arbitration, parties can select one private arbiter or a panel of three arbiters to resolve their dispute.

<sup>67</sup> See Diamant, Zoller, & Bautista, *Strategies for Mediation, Arbitration, and Other Forms of Alternative Dispute Resolution*, SK074 ALI-ABA 205, 230 (2005). The highest courts in California and New York have both found that an arbitral award will be overturned only in a case where the arbitrator exceeded his powers. *Id.*

<sup>68</sup> *Id.* at 231.

<sup>69</sup> See Diamant and Zoller, *supra* note 62, at 142. The parties can, however, agree to make the arbitration binding if they so desire. In such cases, the final judgment is entered on the arbitration award following Rule 58 of the Federal Rules of Civil Procedure, or the proper state rule or Statute.

<sup>70</sup> See *id.*; see also Diamant & Zoller, *supra* note 62, at 142. The Uniform Arbitration Act provides guidelines upon which the parties and the neutral can rely, as does the Federal Arbitration Act.

<sup>71</sup> See Diamant & Zoller, *supra* note 62, at 148. Other issues which arbitration clauses may address are the scope of the arbitration itself, whether the arbitrator can award punitive damages, and who will have to pay fees and expenses.

<sup>72</sup> See Kyle-Beth Hilfer, *A Practical Guide to Arbitrating IP Disputes*, *The Intellectual Property Strategist*, Vol. 10, No. 8, Pg. 1 (May, 2004) (explaining how confidentiality is often “invaluable” for protecting intellectual property in some types of cases, such as trade secrecy cases). Rule 23 of the AAA’s Commercial Rules helps further the privacy factor by excluding any non-essen-

152 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

just as they would have in court, but according to rules set by the parties, and for a cheaper total cost on a faster timetable.

Sometimes litigants merely need the assistance of a neutral third-party to help guide them through the difficulties of negotiations toward a settlement, which the parties themselves reach. This non-adjudicative<sup>73</sup> facilitated negotiation process is called mediation.<sup>74</sup> In such cases, the mediator will often hold numerous sessions with the parties separately to help determine what they are seeking, and at what cost.<sup>75</sup> The mediator guides the process, but has no power to render a conclusive decision. If the mediator believes that a reasonable settlement can be reached, he may encourage continued negotiations. If he believes that no further efforts would be helpful, he can end the process.<sup>76</sup> Each state has procedural rules for mediation that help to define the mediator's conduct,<sup>77</sup> and usually the mediator must be well-versed in the relevant substantive law.<sup>78</sup> Although mediators do not have the authority to render a formal decision, they can help by means of "caucuses," in which they separate the parties and go back and forth between the parties to try and bring them closer to an agreement.<sup>79</sup> Courts can impose mandatory supervised mediation by statute or court order, and some courts, such as the United States District Court for the Northern District of Ohio, require it in all civil cases.<sup>80</sup> The underlying goal of mediation is to help the parties

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tial audience members during the testimony of other witnesses and giving the arbitrators the discretion to determine which other third-party attendees should be allowed. *Id.*

<sup>73</sup> See Diamant, Zoller & Bautista, *supra* note 67, at 207. Non-adjudicative methods are those in which the "authority to reach and enforce a resolution to a dispute remains exclusively with the parties." *Id.*

<sup>74</sup> See Blackmand & McNeill, *supra* note 66, at 1714. This can be useful in cases where the parties have a critical business relationship and hope to resolve the issue in a less adversarial manner, but need help doing so.

<sup>75</sup> See Pokotilow *supra* note 60, at 18 (explaining that frequently, the "bottom line" for the two parties is close enough that a settlement can be reached).

<sup>76</sup> *Id.* The mediator is given a certain amount of leeway to use, if necessary, a creative solution which might prevent the parties from holding on to the animosity that naturally occurs in most litigation.

<sup>77</sup> *Cf.* Hilfer, *supra* note 72, at 1 (describing how a number of states, including New Jersey, Nevada, North Carolina, and others have adopted the Revised Uniform Arbitration Act which expands the original 1955 Uniform Arbitration Act's provisions).

<sup>78</sup> See Diamant & Zoller, *supra* note 62, at 137-41.

<sup>79</sup> Lott, *supra* note 61, at 406.

<sup>80</sup> See Diamant & Zoller *supra* note 62, at 137 (explaining that mediation is ordered by this court in cases where the parties are "generally aware of the strengths and weaknesses of the case" or at any prior time if the parties agree to it and the court approves); *cf.* Lott *supra* note 61, at 406 (discussing how the United States District Court for the Southern District of Florida

come together to reach an agreement without resorting to a formal adjudication.

And then there are the variations and hybrids. One of the unique benefits of ADR is that parties can manipulate it to create a process that works towards everyone's best interest. This allows for combinations of the different types of ADR mentioned above such as Med-Arb<sup>81</sup> or Co-Med Arb.<sup>82</sup> One other possibility is the "mini-trial." In such proceedings, management figures from both parties present complete evidence, not including live testimony, to a judge, jury, or neutral.<sup>83</sup> After this stage, the parties will meet to try and reach a settlement with the help of a facilitator who can issue a binding or non-binding decision.<sup>84</sup> Another variation of mini-trials is private proceedings, in which the parties themselves, not representatives, hire a judge and agree to abide by his or her determinations.<sup>85</sup> Some scholars have also suggested that a combination of early neutral evaluation<sup>86</sup> and mediation works well in trademark disputes.<sup>87</sup>

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has local rules which contain a provision that requires mandatory mediation of almost every civil case).

<sup>81</sup> See Lott, *supra* note 61, at 401. "Med-Arb is a proceeding in which the parties have agreed to participate in mediation, and to submit to arbitration in any aspect of the dispute which has not been resolved by mediation." *Id.*

<sup>82</sup> *Id.* at 401-02. This process is the same as Med-Arb, except that different people oversee the mediation and arbitration portions of the process, allowing the parties to select the right person for each segment of the proceeding.

<sup>83</sup> See Pokotilow, *supra* note 60, at 19.

<sup>84</sup> *Id.* In this way, mini-trials can resemble mediation if they are not binding or arbitration if they are binding. *Id.*

<sup>85</sup> *Id.*

<sup>86</sup> Early neutral evaluation ("ENE") is a "non-adjudicative, facilitated evaluation process, the purpose of which is to make case management and settlement more efficient." Diamant & Zoller, *supra* note 62, at 136. In ENE, the evaluator attempts to identify strengths and weaknesses of the arguments, much like a mediator would do, but in the end produces only a "non-binding oral assessment of the merits of the case to each party." *Id.*

<sup>87</sup> See Koorosh Afshari, *Trademark Infringement Primer*, 800 PLI/Pat 333, 364 (2004) (arguing that ENE/mediation can be conducted with little formal or informal discovery, which may work well in trademark disputes).

#### IV. WHY AND HOW MEDIATION IS RIGHT FOR MANY TRADEMARK DISPUTES

##### A. ADR in IP Disputes Generally

There are several reasons why ADR is particularly relevant for intellectual property and, specifically, trademark disputes. Intellectual property litigation is frequently more complicated and difficult to comprehend than other types of litigation.<sup>88</sup> In addition, the monetary costs of IP litigation can be astronomical, often as a result of the costly discovery process necessary in such disputes.<sup>89</sup> Because of the lengthy discovery process typical of IP disputes, they often drag on for excessive periods of time.<sup>90</sup> One of the best reasons to apply ADR to IP disputes, however, is its ability to provide a flexible resolution which benefits all parties.<sup>91</sup> No matter which type of IP law is at issue, ADR offers at least the possibility of a cheaper, faster, more creative, and mutually beneficial solution. As one Article has commented, “[t]he world of intellectual property law calls for dispute resolution mechanisms as fast-paced and efficient as the evolution of the underlying technology and ideas which are the subject of the disputes.”<sup>92</sup>

Intellectual property law protects ideas, expressions of ideas, and names (or reputations) in patent law, copyright law, and trademark law, respectively.<sup>93</sup> Success in patent law, in particular, requires an ability to understand scientific or technical concepts.<sup>94</sup> This obligation might prevent key figures in the process – e.g., ju-

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<sup>88</sup> See Blackmand & McNeill, *supra* note 66, at 1716. “Frequently, the legal issues require an arbiter to develop an understanding of the underlying technology involved . . . . Highly technical issues also present a substantial economic incentive to favor ADR methods.” *Id.*

<sup>89</sup> *Cf.* Lemley, *supra* note 6, at 311 (explaining how, in IP cases, the courts place a strong emphasis on evidentiary procedure and witness credibility, which can greatly delay the case and thus drive up the costs of the trial).

<sup>90</sup> See Pokotilow, *supra* note 60, at 17 (citing examples of patent cases which lasted as long as 26 years); see also Stephen Anway, *Mediation in Copyright Disputes: From Compromise Created Incentives to Incentive Created Compromises*, 18 OHIO ST. J. ON DISP. RESOL. 439, 450 (2003) (claiming “the high cost of copyright litigation is . . . exacerbated by the unusually long and time-consuming disposition of copyright cases.”).

<sup>91</sup> See Onda, *supra* note 59, at 68-73 (identifying mediation as a better option than litigation for parties who would be “satisfied with a resolution that a court could not grant”).

<sup>92</sup> Carmen Collar Fernandez & Jerry Spolter, *International Intellectual Property Dispute Resolution: Is Mediation a Sleeping Giant?*, 53 AUG DISP. RESOL. J. 62 (1998).

<sup>93</sup> See Lemley, *supra* note 6, at 289-290 (describing how “each area of intellectual property conveys a different set of rights and extends protection for a different period of time.”).

<sup>94</sup> See generally Brian Panka, *Use of Neutral Fact-Finding to Preserve and Uphold the Disclosure Purpose of the Patent System*, 2003 J. DISP. RESOL. 531 (2002).

rors or judges – from clearly understanding the issues before them.<sup>95</sup> In ADR, parties can select neutrals that are familiar with the particular type of technology or process at issue.<sup>96</sup> This will likely result in a fairer resolution to both parties, as the neutral can concentrate on the details and specifics of the case, as opposed to trying to learn or better understand the technical process.<sup>97</sup> Copyright law is not scientific or technical like patent law. Instead, it deals with the expression of ideas in a fixed tangible medium, focusing on whether there is some level of originality in a creative work.<sup>98</sup> Although it may sound like a simple task for a typical jury or judge, making such detailed distinctions between books, movies, songs, or computer programs (among other things) can be difficult and confusing.<sup>99</sup> Once again, the presence of an informed neutral that is familiar with copyright law can make the process more efficient and tolerable for both parties.

At the other end of the intellectual property spectrum, far from ideas and expressions, is trademark law, which protects names or source identifiers. Not as technically demanding as patent law, nor as detail-oriented as copyright law, trademark law might seem like the least practical candidate for alternative dispute resolution based on the “expertise factor.”<sup>100</sup> However, trademark experts are better qualified to interpret the surveys which are frequently submitted as evidence and understand the crucial questions of “use” and “reliability” in trademark infringement cases.<sup>101</sup> As a result, a neutral that is particularly familiar with trademark law and the data involved is a more desirable option than the average judge or jury.<sup>102</sup>

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<sup>95</sup> See Blackmand & McNeill, *supra* note 66, at 1716. Many people do not have the ability to identify distinctions between and/or infringements of products such as sophisticated computer software, or processes such as plant cloning. This is why expert witnesses, who can carefully explain such concepts and distinctions, are so crucial in patent cases.

<sup>96</sup> See Panka, *supra* note 94, at 531 (describing patent law as a “highly complicated body of law often dealing with highly technical and complex innovations” and theorizing that “neutral fact-finding” should be used as a precursor to patent disputes).

<sup>97</sup> See Hilfer, *supra* note 72, at 1.

<sup>98</sup> See Nimmer, *supra* note 15, § 2.01.

<sup>99</sup> Cf. Anway, *supra* note 90, at 453-55 (identifying the ambiguity in modern copyright cases as a reason for divergent results and mediation as a means of circumventing such problems at trial).

<sup>100</sup> See Blackmand & McNeill, *supra* note 66, at 1725-26. Because trademark infringement relies heavily on “likelihood of confusion,” it often looks directly at the opinion of the “ordinary observer,” which would seem to make a jury or judge perfect for such a case.

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

156 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

One of the most commonly cited reasons for relying on ADR in IP disputes is its potential to save all parties a tremendous amount of money.<sup>103</sup> According to a survey conducted by the American Intellectual Property Law Association in 2001, the average cost of an IP suit ranges from \$400,000 upward.<sup>104</sup> Patent litigation is often the most expensive type of IP suit, as can be seen in the litigation between Polaroid and Kodak.<sup>105</sup> According to Tom Arnold, a patent litigator and author, the suit may have totaled \$100 million in expenses for both sides.<sup>106</sup> Although they may not always be quite as costly, trademark and unfair competition suits “rarely cost less than \$500,000 by the time trial starts.”<sup>107</sup> Copyright suits may be in the same approximate range as well.<sup>108</sup> A portion of these high costs come from the need for extensive and sometimes expensive discovery.<sup>109</sup> ADR can save money by limiting the scope of discovery, as agreed to by both parties looking to minimize financial costs.<sup>110</sup> In trademark disputes, discovery often consists of survey evidence, which can be appropriately limited or streamlined by a neutral or by the parties entering the mediation or arbitration.<sup>111</sup> These surveys can often be prohibitively expensive.<sup>112</sup>

In addition to monetary concerns, IP lawsuits may take a long time to litigate, which can have adverse effects on a company’s business.<sup>113</sup> It is crucial in patent disputes that a speedy resolution is

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<sup>103</sup> See Fernandez and Spolter, *supra* note 92, at 62 (arguing that gigantic corporations “simply cannot afford the . . . resources to sit around . . . waiting years and spending millions to resolve disputes pertaining to trademarks, copyrights, patents, and trade secrets.”).

<sup>104</sup> See Lemley, *supra* note 6, at 311.

<sup>105</sup> See *Polaroid Corp. v. Eastman Kodak Corp.*, 789 F.2d 1556 (Fed. Cir.), *cert. denied*, 479 U.S. 850 (1986); *Polaroid Corp. v. Eastman Kodak Corp.*, 867 F.2d 1415 (Fed. Cir.), *cert. denied*, 490 U.S. 1047 (1989).

<sup>106</sup> See Pokotilow, *supra* note 60, at 17.

<sup>107</sup> *Id.*

<sup>108</sup> *Cf.* Anway, *supra* note 90, at 449-50. “According to a recent study, the median cost of a copyright infringement suit is \$100,000 through discovery and \$200,000 through trial . . . . The average cost of mediation, by contrast, is \$50,000 . . . .” *Id.*

<sup>109</sup> See Diamant & Zoller, *supra* note 62, at 134. Also, the cost of hiring expert witnesses, who are crucial in intellectual property disputes, can be high.

<sup>110</sup> See Anway, *supra* note 90, at 450.

<sup>111</sup> See Blackmand & McNeill, *supra* note 66, at 1727. The survey evidence usually presented in trademark disputes has to do with the degree of consumer confusion resulting from the infringing mark.

<sup>112</sup> See Paul W. Reidl, *Understanding Basic Trademark Law: A Primer on Global Trademark Protection*, 839 PLI/Pat 175, 208 (2005) (speculating that some such surveys can cost \$40,000 or more).

<sup>113</sup> See Fernandez & Spolter, *supra* note 92, at 62. “International, multibillion-dollar corporations engaged in the pursuit of business profits derived from intellectual property simply cannot

found, because the patent at issue could become obsolete or invalid before the resolution of a lengthy trial or discovery.<sup>114</sup> Although businesses locked in copyright and trademark disputes do not face the types of dangers typical of a lengthy trial, there is still a genuine concern for swift resolution. Because trademarks are utilized primarily in advertising, there is a need for immediate resolution to prevent companies from experiencing devastating financial setbacks.<sup>115</sup> ADR also saves time by allowing the parties to begin negotiations immediately, without having to wait months or years to appear on a court docket.<sup>116</sup>

### B. Previous Successful Use of ADR in Trademark Disputes

ADR has been used increasingly throughout the field of trademark law, with many positive results. The best example of this is in the area of internet domain name disputes.<sup>117</sup> That field has been using arbitration for several years with moderate success.<sup>118</sup> The most common disputes in that area arise from “cybersquatters” who purchased domain names corresponding to names of famous people or brands in the mid-1990s, at the beginning of the internet boom, and are now hoping to sell the domain names back to the celebrities or companies for huge profits.<sup>119</sup> These situations arise

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afford the time and resources to sit around with a phalanx of attorneys waiting years and spending millions . . . .” *Id.* See also Pokotilow, *supra* note 60, at 17 (explaining how the Kodak litigation took almost twelve years working its way through the courts).

<sup>114</sup> See Lemley, *supra* note 6, at 314.

<sup>115</sup> See *Litigation vs. Mediation Options*, International Trademark Association website, <http://www.inta.org/adr/options.html> (last visited Nov. 28, 2004).

<sup>116</sup> See Diamant & Zoller, *supra* note 62, at 134; see also Hilfer, *supra* note 72 (stating that most arbitrations can be resolved in under a year, compared to the often multi-year process for intellectual property litigation).

<sup>117</sup> Kyle-Beth Hilfer, *Arbitration Gains Acceptance as a Means of Resolving IP Disputes*, THE INTELLECTUAL PROPERTY STRATEGIST (April 7, 2004). In 1999, the Internet Corporation for Assigned Names and Numbers [ICANN] created the Uniform Domain Name Dispute Resolution Policy [UDRP], which explains a mandatory, nonbinding arbitration system to deal with domain name cases. These cases often deal with claims of bad faith or abusive registration of trademarks as domain names. The UDRP has become a crucial tool in expediting these cases while establishing a required arbitral system, and its success is notable in the search for cheaper, faster ways to resolve trademark disputes. See also Gleick, *supra* note 1 (claiming that, “traditional namespaces are overlapping and melting together . . . .”).

<sup>118</sup> See Edward C. Anderson and Timothy S. Cole, *The UDRP- A Model for Dispute Resolution in E-Commerce?*, 6 J. SMALL & EMERGING BUS. L. 235, 255 (citing the UDRP as “efficient, relatively inexpensive . . . competently administered, and enforceable.”).

<sup>119</sup> See Amanda Rohrer, *UDRP Decisions Overridden: How Sallen Undermines the System*, 18 OHIO ST. J. ON DISP. RESOL. 563, 568 (2003). Cybersquatters register domain names using

158 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

out of bad faith actions of the cybersquatters and trigger contentious disputes.<sup>120</sup> Another common dispute in the trademark field exists where companies that sell products or services in different “product categories” try to resolve who has the right to the name on the internet.<sup>121</sup>

The UDRP, *supra* FN 117, has been a successful innovation by providing parties that seek to use a trademark on the internet with a firm set of standards and guidelines, as well as a warning of what will follow if their domain name infringes another’s trademark.<sup>122</sup> Thus far, the system has been effective and promising, though not without its difficulties.<sup>123</sup> Nevertheless, it shows a more economical and practical method of resolving one form of trademark disputes without having to resort to lengthy and expensive court proceedings.

It is important to note that arbitration is the method of conflict resolution required by the UDRP for domain name disputes, because most of these disputes are contentious and involve bad faith actions of cybersquatters.<sup>124</sup> There is a resulting need for a more formal and adjudicative ADR process, such as arbitration. Mediation’s non-adjudicative, less combative process is less appropriate in such a context, but more appropriate, however, to address the expanding brand problem.

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other people’s trademarks intentionally, with the hope of extorting money. They usually register the name and later sell or license the domain name to companies which have spent money and hard work building goodwill in their mark.

<sup>120</sup> Cf. ICANN, Uniform Dispute Resolution Policy, at <http://www.icann.org/udrp/udrp-policy-24oct99.htm> (last visited Nov. 8, 2005). The UDRP defines the elements of bad faith use, which include parties that have acquired the domain name “primarily for the purpose of selling, renting, or otherwise transferring” it or registering it to prevent someone else, such as a competitor, from doing so. *Id.*

<sup>121</sup> See Adam Chase, *A Primer On Recent Domain Name Disputes*, 3 VA. J.L. & TECH. 3 (1998). Chase notes that this is actually a problem that is a result of the difference between trademark law in the physical world and on the internet. In the physical world, different companies can use “United” as part of their trademarks so long as they are in different businesses, but on the internet, only one can use united.com. *Id.*

<sup>122</sup> See Karen Webb, Comment, *The Appeal of the Internet – Looking at the Uniform Dispute Resolution Policy and How It is Newly Influenced by the Anticybersquatting Consumer Protection Act*, 43 SANTA CLARA L. REV. 1431, 1439-42 (2003).

<sup>123</sup> See Rohrer, *supra* note 119, at 576-83 (explaining how the lack of precedent, lack of appeal process, and fact that such decisions are not given deference or allowed to preempt litigation are critical flaws in the current system).

<sup>124</sup> See Webb, *supra* note 122, at 1439.

C. The *Real* Reason for Mediation in Trademark Disputes

While all of the reasons for the use of ADR in IP disputes cited thus far are important, the most compelling reason is more of a forward-looking factor and less of a “bottom-line.” Advocates for mediation often claim that it can help the parties fashion a creative solution which will benefit both parties.<sup>125</sup> Because mediation “focuses on the parties’ interests to resolve the dispute rather than declare a winner,” it is uniquely positioned to serve trademark law.<sup>126</sup> Mediation gives parties an opportunity to design a solution which will be constructive or beneficial to both parties, unlike trial litigation or even arbitration.<sup>127</sup> This is particularly appropriate because trademark disputes could often be resolved by helping the parties find or create some form of shared rights, either in the form of a settlement or consent to use agreement, a royalty, or some other mutually beneficial exchange.<sup>128</sup> Often when dealing with trademark and unfair competition disputes, each party has a clear goal in mind.<sup>129</sup> In the types of disputes cited earlier involving brand conflict, one party usually wants to expand its own customer base and reputation by entering a new market,<sup>130</sup> and the other party wants to protect its customer base and reputation. There are often logical solutions to many of these disputes, and it usually revolves around monetary compromise, shared rights, or both.<sup>131</sup> Mediation is well-suited to solve this problem.<sup>132</sup> Once again, if the litigants are interested in an open universe of possible solutions,

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<sup>125</sup> See Lemley, *supra* note 6, at 306 (explaining that “mediation focuses on the parties’ interests to resolve the dispute rather than declare a winner,” making it the most appropriate form of ADR for many trademark disputes); see also Onda, *supra* note 59; Anway, *supra* note 90.

<sup>126</sup> Lemley, *supra* note 6, at 306.

<sup>127</sup> See Diamant & Zoller, *supra* note 62, at 138-46.

<sup>128</sup> See Blackmand and McNeill, *supra* note 66, at 1716.

<sup>129</sup> See *Litigation vs. Mediation Options*, International Trademark Association website, <http://www.inta.org/adr/options.html> (last visited Nov. 28, 2004) (explaining that mediation may be appropriate if the parties would be content with solutions that a court could not provide, want to avoid an “all-or-nothing” court decision, or if “extraneous business considerations dictate a speedy resolution,” all of which occur often in trademark disputes).

<sup>130</sup> Referred to in some cases as “cross-branding.” See DAVID ARNOLD, *THE HANDBOOK OF BRAND MANAGEMENT* 155-56 (1992).

<sup>131</sup> See Blackmand & McNeill, *supra* note 66, at 1726. “Often, a reasonable resolution may involve modification of the existing license from one party to the other, or the creation of an additional agreement. In such situations, there is a substantial benefit to avoiding outright litigation not only in terms of time and expense saved, but also in being able to formulate the solution that best meets the needs of the parties and the situation.” *Id.*

<sup>132</sup> See Erik Schafer, *The Use of Arbitration and Mediation for Protecting Intellectual Property Rights: A German Perspective*, 94 *TRADEMARK REP.* 695, 699 (2004) (explaining how mediation

160 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

mediation offers the flexibility to make that relationship work in the future.<sup>133</sup>

As discussed earlier, mediation is a less confrontational, more constructive form of ADR.<sup>134</sup> After the initial tensions dissolve in many trademark cases, the idea of having a neutral party work through the remaining problems is appealing. In addition, because mediation focuses on creating a dialogue between the parties, it is more likely to result in an agreement that “will be more acceptable in the long run than one imposed by a court [or an arbitrator].”<sup>135</sup>

In cases where parties are pursuing permanent injunctions or permanent removal of trademark rights,<sup>136</sup> mediation is not the proper ADR mechanism. However, there are also cases where a clear agreement can be reached which benefits both parties, but which the parties might not identify without the help of a neutral third-party. This is what mediation is designed to do. There is tremendous potential for mediation to be a successful solution to trademark disputes, and it is for this reason that federal courts like the Northern District Court of Illinois have required mediation in Lanham Act cases before proceeding to trial.<sup>137</sup> The results have been positive thus far, suggesting that this is the answer for many aggrieved trademark litigants.<sup>138</sup> Ultimately, mediation is best used for trademark disputes when: the parties are interested in creating and continuing a business relationship. Furthermore, mediation is effective where parties are “reasonable and disposed toward settlement”<sup>139</sup> and where they would be satisfied with a creative

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narrows the complexity of conflicts “by identifying and concentrating on the parties’ economic needs and interests.”).

<sup>133</sup> See *id.* at 701. “[Mediation is] especially suited to situations in which the parties must collaborate permanently or over a long period of time.” *Id.*

<sup>134</sup> See *Anway, supra* note 90, at 441-44. Mediators attempt to “gain the trust of the parties by proceeding in an impartial and deferential manner.” *Id.* Because mediators often inspire a free flow of information between the parties, the parties are usually better informed and more open to creative or unpredictable solutions.

<sup>135</sup> Peter K. Yu, *Toward a Nonzero-Sum Approach to Resolving Intellectual Property Disputes*, 70 U. CIN. L. REV. 569, 593 (2002), quoting JAY FOLBERG & ALISON TAYLOR, *MEDIATION: A COMPREHENSIVE GUIDE TO RESOLVING CONFLICTS WITHOUT LITIGATION* 10 (1984).

<sup>136</sup> See *Bayer Healthcare LLC v. Nagrom, Inc.*, No.03-2448-KHV, 2004 U.S. Dist. LEXIS 19454 (D. Kansas Sept. 7, 2004); *Petmed Express, Inc. v. Medpets.com Inc.*, 336 F.Supp. 2d 1213 (S.D. Florida 2004).

<sup>137</sup> See Jennifer Shack & Susan M. Yates, *Mediating Lanham Act Cases: The Role of Empirical Evaluation*, 22 N. ILL. U. L. REV. 287 (2002).

<sup>138</sup> See *id.* at 322 (concluding, based on analysis of survey results, that the Lanham Act Mediation Program in the Northern District of Illinois is “sufficiently effective that it should be continued” and that some relatively minor implementations could make it even more successful).

<sup>139</sup> See Shack & Yates, *supra* note 137, at 316.

and less drastic outcome. These are the types of cases which will often result from an expanding brand conflict.

#### D. Disadvantages of ADR in Trademark Law

Of course, there are several disadvantages of using any form of ADR in trademark disputes. One major problem with ADR is that there is usually no direct appellate review.<sup>140</sup> If a party is left dissatisfied, it can bring the case to federal court to be heard *de novo*, which means many of the costs which were supposed to be avoided are reintroduced.<sup>141</sup> Another important factor is that third parties cannot be compelled to participate, meaning it may be difficult to get some witnesses or experts to testify.<sup>142</sup> Also, there are times when trademark plaintiffs are interested in successfully litigating in order to send a deterrent message to potentially infringing third parties.<sup>143</sup> ADR may not offer this effect because of its confidentiality and its lack of precedential value.<sup>144</sup> Perhaps the critical weakness of using ADR in trademark disputes is the inability to obtain a permanent injunction, an award often sought in trademark infringement cases.<sup>145</sup> From a purely economic standpoint, these considerations may not be as important in cases involving brand extensions as they are in traditional trademark cases.

#### V. CONCLUSION

There is an impending litigation explosion in our commercial world resulting from the trademark and brand expansions initiated by many corporations today. Because trademark law offers the potential for infinite protection, it offers the strongest economic promise for IP rights in the future. Furthermore, the increasing value of brands has led many companies to focus on these more

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<sup>140</sup> See Diamant & Zoller, *supra* note 62, at 134.

<sup>141</sup> See Diamant, Zoller & Bautista, *supra* note 67, at 229.

<sup>142</sup> See *Hull Municipal Lighting Plant v. Massachusetts Municipal Wholesale Electric Co.*, 609 N.E.2d 460 (Mass. 1993).

<sup>143</sup> See Onda, *supra* note 59, at 72 (listing this under the category of “Nature of Desired Resolution” in the column presenting reasons not to use ADR in trademark disputes).

<sup>144</sup> See Diamant & Zoller, *supra* note 62, at 134.

<sup>145</sup> See Speiss & Levine, *supra* note 65, at 2 (expounding that “perhaps the single most important factor in the outcome of trademark litigation is whether preliminary injunctive relief is granted.”).

162 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 7:139]

vigorously than improving the quality of their products. All of this leads to the natural conclusion that lawsuits in this area of law will multiply exponentially. Mediation is the option most likely to help more parties walk away with a faster resolution and more capital left to invest elsewhere. More importantly, mediation, with its non-adjudicative, constructive methods will help commercial entities create new opportunities to co-exist and grow their respective businesses, leaving an open universe of possibilities for the future without disabling one or both parties indefinitely.