

ADR OF PATENT DISPUTES: A CUSTOMIZED PRESCRIPTION, NOT AN OVER-THE-COUNTER REMEDY

*Marion M. Lim**

I. INTRODUCTION

Eureka! DoubleMe Corporation just discovered “Clone-IT.”¹ Believing “Clone-IT” to be the first invention of its kind, DoubleMe invested a great deal of resources into its inventive efforts and kept its research and experiments top secret. After DoubleMe completed the necessary paperwork and paid the requisite fees, the United States Patent and Trademark Office issued it a patent for “Clone-IT.”

A few months later, DoubleMe Corporation received a cease and desist letter from Biopromise Corporation ordering it to stop making, using and selling “Clone-IT.” The letter accused DoubleMe of infringing on “Clone-ME”² that was first invented by Biopromise Corporation. The letter demanded that DoubleMe immediately cease all activity related to “Clone-IT.” Biopromise threatened to sue DoubleMe so as to prevent irreparable damage to the established reputation and financial success of Biopromise Corporation.

DoubleMe Corporation must defend its patent against the large and powerful Biopromise Corporation. DoubleMe could expect to spend one million dollars³ in litigation costs in federal district

* Senior Notes Editor, *Cardozo Journal of Conflict Resolution*. A.B., Brown University, 2000; J.D. Candidate, Benjamin N. Cardozo School of Law, Yeshiva University, June 2005. The author would like to thank Professor Alan Wolf, Adjunct Professor of Law, Benjamin N. Cardozo School of Law, and Professor of Physics, The Cooper Union, for his mentorship and insight throughout every stage that resulted in the publication of this Note.

¹ “Clone-IT” is a hypothetical invention invented by DoubleMe Corporation, a fictitious entity.

² “Clone-ME” is a hypothetical invention invented by Biopromise Corporation, a fictitious entity. “Clone-ME” is substantially similar to “Clone-IT” and both are used for purposes of example and comparison throughout this Note. “Clone-IT” and “Clone-ME” are not intended to have any significance beyond this Note or reference to any patented, patent pending or unpatented invention in existence.

³ See Michael C. Elmer, Presentation, *The Economics and Risk Analyses of Patent Litigation in the United States*, (June 9, 2003) – “U.S. Costs to Litigate Patent Infringement Suit (U.S.)” at 16. The cost to litigate a patent infringement suit in U.S. District Court through the discovery phase is a median figure of \$996K for suits where the valued risk is

156 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

court. If DoubleMe prevails, litigation costs will increase to a total of two million dollars⁴ because Biopromise Corporation will undoubtedly appeal the decision to the United States Court of Appeals for the Federal Circuit for the issue of claim construction to be reviewed *de novo*. If either party remains unsatisfied, the United States Supreme Court may hear their appeal on petition for certiorari.

If the dispute proceeds to trial, the parties will encounter the bewilderment of a jury struggling to understand what cloning technology entails. However, this assembly of tech-naïves is, ironically, empowered to decide the ultimate issue of whether “Clone-IT” infringes “Clone-ME.” Several years could elapse between the day DoubleMe first received the cease and desist letter to the day a final judgment is rendered in this dispute.⁵ Remarkably, in one patent case, litigation continued for twenty-five years.⁶ By the end of this protracted adversarial process, if DoubleMe wins, they will have accrued two million dollars⁷ in litigation costs and will hold a patent validated by the Federal Circuit or Supreme Court. The precedential value of DoubleMe’s patent can be enforced against Biopromise Corporation and other potential infringers to enjoin them from making, using or selling its invention that is now patent

\$1M to \$25M in the New York City area. The median cost for less than \$1M risk is \$251K and for greater than \$25M risk is \$1,505K. Statistics are based on the 2001 Report of Economic Survey published by the American Intellectual Property Law Association. *Id.* See also Samson Vermont, *Litigation Risk Analysis: The Economics of Patent Litigation, Part IV: More Patent Facts and Stats*, 2 Pat. Strat. & Mngmt. (Oct. 2001), available at http://www.hunton.com/files/tbl_s47Details/FileUpload265/388/Risk_Reward_4.pdf (last visited Nov. 21, 2004) [hereinafter Vermont, *Part IV*]. The average cost to litigate cases where there is less than \$1M at stake, occurring 5% of the time, is \$500K. The average cost for \$1-10M at stake, occurring 43% of the time, is \$1.3M. For cases where there is \$10 - 100M at stake, occurring 46% of the time, the average cost is \$2.9M. For cases exceeding \$100M at stake, occurring 8% of the time, the cost is approximately \$6.5M. *Id.*

⁴ See Elmer, *supra* note 3, at 16. Where the valued risk is \$1M to \$25M the cost to litigate a patent infringement suit through appeal to the U.S. Court of Appeals for the Federal Circuit is a median figure of \$1,999K for suits originally filed in the New York City area. The median cost for less than \$1M risk is \$501K and for greater than \$25M risk is \$2,998K. Statistics are based on the 2001 Report of Economic Survey published by the American Intellectual Property Law Association. *Id.*

⁵ See Elmer, *supra* note 3, at 12. The average time to trial in U.S. District Court is approximately two years. The average time to trial in a patent case filed in the Southern District of New York is 22 months. *Id.* See also Vermont, *Part IV, supra* note 3, at 4 (reporting that the average time to resolve a patent dispute through litigation is 1.12 years).

⁶ See *Hughes Aircraft Co. v. U.S.*, 140 F.3d 1470 (Fed.Cir. 1998), *rehearing, en banc, denied*, 148 F.3d 1384 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1177 (1999). This case was originally filed in 1973. *Id.*

⁷ See Elmer, *supra* notes 3-4 and accompanying text.

protected.⁸ However, at the close of litigation, DoubleMe may have only a fraction, or none, of its twenty-year patent monopoly term remaining in which it has exclusive rights to “Clone-IT.” Alternatively, if DoubleMe loses, its patent will be invalidated and it will be left without any rights to practice the invention. DoubleMe will have exorbitant legal fees plus any additional costs if the court awards damages or royalty payments to Biopromise Corporation as compensation for DoubleMe’s infringement of “Clone-ME.”

Can Alternative Dispute Resolution (“ADR”)⁹ help DoubleMe and Biopromise resolve this infringement dispute over

⁸ The doctrine of *res judicata* embodies the notion that a final judgment on the merits issued by a competent court is binding on and/or constitutes a bar to the same claims or issues in subsequent litigation. See BLACK’S LAW DICTIONARY 1312 (7th ed. 1999). The two branches of this doctrine, claim preclusion and issue preclusion (also referred to as collateral estoppel), have different applications, but a similar policy objective which is to ensure finality in the judicial process, harbor respect and reliance on judicial decisions, relieve overcrowded dockets and promote fairness to the parties. See 18 JAMES WM. MOORE ET AL., MOORE’S FEDERAL PRACTICE ¶ 131.10[1][a] (3d ed. 1999). Claim preclusion bars relitigation of claims that were previously litigated and resulted in a final judgment. This bar applies to any legal theory, cause of action or defense that could have been raised in that action. On the other hand, issue preclusion prohibits subsequent suits on issues that were actually litigated and necessary to the judgment in the prior action, even if the issues subsequently presented are part of a different claim. *Id.* See also *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 326 (1979) (discussing distinction between claim and issue preclusion). In the context of patent law, following a full and fair litigation, a determination of patent invalidity may be used as a defense in a subsequent litigation involving the same patent even if the parties differ. See *Blonder-Toungue Lab., Inc. v. Univ. of Illinois Found. et al.*, 402 U.S. 313 (1971). In the hypothetical dispute between DoubleMe and Biopromise, if a court invalidates the “Clone-IT” patent, DoubleMe may raise this as a defense in any subsequent litigation pursuant to collateral estoppel. However, the *Blonder-Toungue* doctrine does not apply to prior determinations of patent validity. If the “Clone-IT” patent is validated, the issue may be relitigated in a subsequent proceeding, although DoubleMe will have the weight of a favorable judicial decision on their side. See discussion regarding the significance of judicial validation of patents *infra* Part V.D. For issue preclusion as applied to the scope of a patent, the courts are split. Compare *TM Patents, L.P. v. IBM Corp.*, 72 F. Supp. 2d 370, 375-80 (S.D.N.Y. 1999) (holding that issue preclusion applies to a prior *Markman* ruling on claim construction because the results of the *Markman* hearing were sufficiently “final” to permit application of collateral estoppel. The court stressed that the goal of *Markman* was to ensure uniformity of claim construction, and to promote finality and judicial economy), with *Graco Children’s Products v. Regalo Int’l LLC*, 77 F. Supp. 2d 660, 664-65 (E.D. Pa. 1999) (ruling that collateral estoppel does not apply to *Markman* determinations of claim construction where the jury verdict was based on the doctrine of equivalents and claim construction was not essential to the final judgment. The court reasoned that applying collateral estoppel to claim construction would discourage settlements and encourage appeals).

⁹ For purposes of this Note, the ADR methods discussed with respect to patent disputes will be limited to arbitration and mediation, unless otherwise noted. The term “ADR” used hereinafter refers only to the alternative dispute resolution methods of arbitration and mediation as applied to patent law.

158 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

“Clone-IT” and “Clone-ME” while avoiding the high cost and drawn-out nature of patent litigation? This Note will analyze ADR and traditional litigation in the context of patent disputes, individually and comparatively, beginning first by exploring the history of the United States patent system. This study will focus on the patent bargain theory and the events leading up to the creation of the United States Court of Appeals for the Federal Circuit (“Federal Circuit”). The Federal Circuit hears all appeals of claims involving federal patent law, except those cases in which the only patent claim is introduced as a counterclaim.¹⁰ Second, a comparison of patent litigation, patent arbitration and patent mediation will be discussed, as well as the basis for a historical aversion towards submitting patent disputes to ADR.

The third section will be an examination of the characteristics of ADR that commentators and practitioners believe to be therapeutic for the sore spots of patent litigation. This survey will include ADR’s ability to resolve disputes faster and cheaper than litigation, render more educated verdicts, create flexible solutions and provide confidentiality over the subject matter of the dispute. Fourth, this Note will scrutinize ADR’s proposed capability to heal by considering the unique attributes of litigation, such as the Federal Rules of Civil Procedure, the Federal Rules of Evidence and the ability to appeal, all of which are highly desirable to a disputing party, but do not exist in an ADR proceeding. This investigation will continue with an analysis of the potential for arbitrator bias, the adversarial nature of the relationship between disputing parties and the importance of the public interest in patent validity. This Note will recognize the use of the substantial cost of litigation as an incentive to encourage the development of new inventions and will suggest implementing cost control measures to reduce the cost of the current patent litigation scheme. Finally, this Note will propose to restrict the future use of ADR for patent disputes. The expectations and hopes of ADR’s success in the patent context must be depreciated. The realization that patent disputes are ill-suited for the privatized nature of ADR may be painful for advocates of alternative dispute resolution. Despite its well-known shortcomings,

¹⁰ See *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 833-34 (2002). The Supreme Court ruled that where a plaintiff’s well-pleaded complaint does not allege claims arising under federal patent law, a patent counterclaim no longer confers appellate jurisdiction upon the Federal Circuit. *Id.* This decision overruled the Federal Circuit’s unanimous en banc decision in *Aerojet-Gen. Corp. v. Mach. Tool Works*, 895 F.2d 736 (Fed. Cir. 1990) (holding that the Federal Circuit has appellate jurisdiction over counterclaims that “arise under” federal patent law).

which will be discussed in Parts IV and V, patent litigation secures the proper place of patents in the public domain and reinforces their instrumental role in the advancement of science and technology. These important public interests demand that issues of patent validity and infringement be resolved in the courtroom.

II. THE UNITED STATES PATENT SYSTEM

A. The Patent Bargain

Patents were one of the many British legal concepts introduced to the American colonies during the seventeenth century.¹¹ The Constitutional Convention of 1789 endorsed the creation of a national patent system by authorizing Congress “to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”¹² The Patent and Trademark Office (“PTO”) was established in 1836¹³ and implemented a formal system of patent application examination.

The PTO grants patent rights for inventions that meet several statutory requirements, including that the invention be novel,¹⁴ useful¹⁵ and not obvious.¹⁶ These rights are solely negative rights, which allow the patentee to exclude others from making, using, offering to sell or selling the claimed invention without authority for a limited time.¹⁷ This government grant of monopoly rights to an

¹¹ See ALAN L. DURHAM, *PATENT LAW ESSENTIALS* 1 (Quorum Books 1999).

¹² U.S. CONST. art. I, § 8, cl. 8.

¹³ See DURHAM, *supra* note 11, at 2.

¹⁴ See 35 U.S.C. § 102(a)(2004) (“A person shall be entitled to a patent unless the invention was known or used by others . . . before the invention thereof by the applicant for patent . . .”).

¹⁵ See 35 U.S.C. § 101(2004) (requiring that patents be granted for “new and useful” inventions); U.S. CONST. art. I, § 8, cl. 8 (authorizing Congress “to promote the progress of science and useful arts.”).

¹⁶ See 35 U.S.C. § 103(a) (2004) (“A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.”).

¹⁷ See 35 U.S.C. § 271(a) (2004) (“Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.”).

160 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

inventor is viewed as a bargain in which the inventor discloses¹⁸ everything he knows about the invention to the public in exchange for a limited monopoly of twenty years.¹⁹ The theory underlying the patent bargain is that public disclosure of information promotes innovation, encourages advancements in technology and fosters the global competitiveness of domestic industries.²⁰

Once the PTO examines and allows a patent application, the patent issues and becomes a matter of public record. Prior to 1999, the PTO kept all pending patent applications confidential until issued or abandoned. In an effort to conform U.S. patent law to the laws of other countries, Congress enacted legislation in 1999 that requires publication of any applications, which have not received approval by the PTO within eighteen months, unless the applicant certifies that he will not seek patent protection abroad.²¹ Early publication of the information alerts researchers to focus inventive efforts elsewhere or enables them to build upon the disclosed knowledge sooner. This utilitarian justification for the eighteen-month publication rule furthers the goal of the patent system to promote the advancement of science.²² Publication also serves to define the scope of patented inventions, giving notice to those who may be liable for potentially infringing the patented invention.

B. The Creation of the United States Court of Appeals for the Federal Circuit

The following brief history of the Federal Circuit provides background to understand the patent litigation process. Additionally, the relevance and significance of the Federal Circuit in the context of this Note will be discussed in Parts IV.C, V.C, V.D and VI.²³ Proposals for a national court of patent appeals were

¹⁸ See 35 U.S.C. § 112 (2004) (“The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains . . . to make and use the same . . .”).

¹⁹ See 35 U.S.C. § 154 (a)(2) (2004); DURHAM, *supra* note 11, at 2.

²⁰ See generally DURHAM, *supra* note 11, at 2.

²¹ See 35 U.S.C. § 122(b)(1)(A) (2004).

²² See ROBERT PATRICK MERGES & JOHN FITZGERALD DUFFY, *PATENT LAW AND POLICY: CASES AND MATERIALS* 63 (3d ed. 2002) (discussing the rationale for why “[t]he justifications for early publication are wholly utilitarian”).

²³ See discussion *infra* Parts IV.C, V.C, V.D and VI.

presented to Congress as early as 1887.²⁴ In 1972, a Congressional study of the federal appellate system by the Hruska Commission found that patent law would benefit from a national unifying court acting as an intermediate between the United States District Courts and the United States Supreme Court.²⁵ These findings were widely debated and a proposal to merge the Court of Customs and Patent Appeals and the Court of Claims into a new court – the United States Court of Appeals for the Federal Circuit – was set forth in 1978.²⁶ Congress and President Reagan approved the proposal on April 2, 1982.²⁷

The Federal Circuit was created “[i]n an effort to promote greater uniformity in certain areas of federal jurisdiction and relieve the pressure on the dockets of the Supreme Court and the courts of appeals for the regional circuits.”²⁸ The Federal Circuit is the only U.S. court of appeals defined exclusively by the types of cases it hears, rather than by its geographical boundaries. The Federal Circuit absorbed the jurisdiction of the Court of Customs and Patent Appeals, and jurisdiction was extended to appeals from the Court of Claims and the Court of International Trade, all appeals relating to patents²⁹ and appeals from several federal administrative boards.³⁰

²⁴ See Paul M. Janicke, Symposium, *The Federal Circuit and Antitrust: To Be Or Not To Be: The Long Gestation of the U.S. Court of Appeals for the Federal Circuit (1887-1982)*, 69 ANTITRUST L.J. 645, 645 (2002).

²⁵ See *id.* at 651-55 (reporting that the Hruska Commission advocated a national court with unrestricted subject matter jurisdiction to avoid the tendency of specialized courts “to get out of touch with the mainstream of legal and societal thinking” by hearing only a limited class of cases. The commission’s survey of patent practitioners found that the absence of a central authority on patent law was the source of doctrinal instability, disparity of decisions in various circuits and forum shopping to find favorable circuits).

²⁶ See *id.* at 654-55 (discussing the proposal set forth by the Office for Improvements in the Administration of Justice which sought “to improve the federal appellate system without the perceived negative tradeoffs of the Hruska Commission’s idea for an intermediate appellate court with unrestricted subject matter jurisdiction”).

²⁷ See *id.* at 659. See also The U.S. Court of Appeals for the Federal Circuit: “An Act To Establish a United States Court of Appeals for the Federal Circuit, To Establish a United States Claims Court, and for Other Purposes,” at http://air.fjc.gov/history/landmark/22a_bdy.html (last visited Nov. 21, 2004) [hereinafter Establishment Act].

²⁸ Establishment Act, *supra* note 27.

²⁹ After the U.S. Supreme Court decision in *Holmes Group*, the Federal Circuit no longer has appellate jurisdiction over cases in which the sole patent claim is introduced as a counterclaim. See *Holmes Group*, *supra* note 10.

³⁰ See Federal Courts Improvement Act of 1982, 96 Stat. 25 (Apr. 2, 1982). The Act abolished the United States Court of Customs and Patent Appeals and the Court of Claims. The twelve judges from these combined courts were reassigned to serve as judges on the Federal Circuit. *Id.*

III. UNDERSTANDING PATENT DISPUTES

A. The Patent Litigation Process

A patent holder may file suit against an accused infringer in a United States District Court.³¹ If the patent is held valid and infringed, the patentee may be awarded damages as compensation for past infringement and in most cases, a court will issue a permanent injunction that requires the infringer to cease the infringing activity.³² On the other hand, if a patent is deemed invalid, the patent holder's monopoly rights are revoked and the accused is free to continue the activity in question. The accused infringer may also bring a declaratory judgment action against the patent holder asserting non-infringement or patent invalidity.³³ "Litigation, or the threat of litigation, is what gives a patent its 'teeth.'"³⁴

Patent litigants are entitled to a trial by jury, unless waived by consent of the parties.³⁵ The interpretation of patent claims, which define the breadth of a patent holder's rights, is a question of law to be decided by a judge,³⁶ whereas infringement is a question of fact for the jury.³⁷ Following a final judgment of any United States District Court, a litigant may appeal the decision to the Federal Circuit³⁸ and may eventually succeed in appealing the decision of the Federal Circuit on writ of certiorari to the United States Supreme Court.

³¹ See 28 U.S.C. § 1338(a) (2004) ("The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents . . . [s]uch jurisdiction shall be exclusive of the courts of the states in patent . . . cases.").

³² See generally DURHAM, *supra* note 11, at 151-161.

³³ See 28 U.S.C. § 2201(a) (2004); *Phillips Plastics Corp. v. Kato Hatsujou K.K.*, 57 F.3d 1051, 1052 (Fed. Cir. 1995) (requiring that the accused infringer acted or prepared to act in a potentially infringing manner and that there was action by the patentee which created a reasonable apprehension of litigation in order to file a declaratory judgment action in patent cases).

³⁴ DURHAM, *supra* note 11, at 151.

³⁵ See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996) ("[T]here is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.").

³⁶ See *id.* at 372.

³⁷ See *Hilton Davis Chemical Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1520 (Fed. Cir. 1995)(en banc).

³⁸ See 28 U.S.C. § 1295 (2004); Thomas G. Field, III., *The Role of Stare Decisis in the Federal Circuit*, 9 FED. CIRCUIT B. J. 203, 209 (1999) ("Short of the Supreme Court, the Federal Circuit is the ultimate arbiter of appeals from the Patent and Trademark Office (PTO) and the only route of appeal from federal district court decisions involving patent questions.").

B. Resolving Patent Disputes by Alternative Methods

Alternative Dispute Resolution encompasses a broad range of flexible methods for resolving disputes. These methods range from adjudicative at one end of the spectrum to consensual at the other end. With each step along this ADR Continuum,³⁹ the procedures are less formal and the outcome is less dependent on neutral third parties and increasingly within the control of the disputing parties.⁴⁰ Alternative Dispute Resolution is designed to resolve disputes faster, at a lower cost and more informally than traditional litigation.⁴¹ In an arbitration proceeding, a neutral third party renders a decision after a hearing in which both parties have an opportunity to state their position.⁴² Arbitration is identified with the adjudicative end of the ADR Continuum, while mediation is considered consensual or facilitative.⁴³ In mediation, a neutral third party helps the disputants reach an agreement, but has no authority to impose a decision on the parties.⁴⁴

i. Patent Arbitration

The enactment of 35 U.S.C. § 294 in 1983 intended to facilitate arbitration of patent disputes.⁴⁵ Under this statute, Congress authorized contracting parties to voluntarily agree to submit their current and future disputes in patent cases to resolution by arbitration.⁴⁶ The voluntary arbitration proceeding is confidential and the

³⁹ The ADR Continuum encompasses the range of options and remedies available to parties seeking alternative dispute resolution. The options begin with negotiation at the consensual informal end of the spectrum. The dispute resolution methods continue on with facilitation, mediation, early neutral evaluation, arbitration and end with litigation at the adjudicative formal end of the spectrum. With each step along the continuum from negotiation to litigation, the parties increasingly concede control over the dispute resolution process. See The ADR Continuum, available at http://www.nycourts.gov/ip/adr/What_Is_ADR.shtml (last visited Nov. 21, 2004).

⁴⁰ See *id.*

⁴¹ See Am. Intellectual Property Law Ass'n, *Alternative Dispute Resolution Committee: Bulletin No.1: ADR Options* (June 2002).

⁴² See BLACK'S LAW DICTIONARY 100 (7th ed. 1999).

⁴³ See The ADR Continuum, *supra* note 39; Am. Intellectual Property Law Ass'n, *supra* note 41.

⁴⁴ See BLACK'S LAW DICTIONARY 996 (7th ed. 1999).

⁴⁵ See 35 U.S.C. § 294 (2004) (providing for voluntary arbitration of various patent disputes). *But cf.* discussion of infrequent use of 35 U.S.C. § 294, *infra*, note 77.

⁴⁶ See 35 U.S.C. § 294(a) (2004) ("A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract.").

164 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

resulting award⁴⁷ is final and not subject to appeal. The award is binding unless the parties agree to subsequent modification of the award if the patent is declared invalid or unenforceable in the future.⁴⁸ The end result of the arbitration is binding solely upon the parties in the proceeding and has no precedential effect.⁴⁹ The arbitral award is enforceable after notice of an award is filed with the PTO.⁵⁰ Although Section 294's purpose was to address the growing concerns of lengthy and costly patent litigation by providing an alternative dispute resolution, this type of arbitration remains unattractive to practitioners for reasons that will be discussed further in Part III.C.⁵¹

Arbitrating parties in intellectual property disputes that do not proceed under 35 U.S.C. § 294 may choose to govern the proceeding themselves or may select an administering agency,⁵² such as the American Arbitration Association.⁵³ As few as one and as many as three arbitrators conduct a hearing which may last for a duration of days to weeks applying the selected agency's arbitration rules. Neither the Federal Rules of Civil Procedure nor the Federal Rules of Evidence apply to the proceedings, unless the parties agree oth-

⁴⁷ See Am. Intellectual Property Law Ass'n, *supra* note 41 (noting that the resulting outcome of an arbitration proceeding is referred to as an "award").

⁴⁸ See 35 U.S.C. § 294(c) (2004)

An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration.

Id.

⁴⁹ See *id.* See also Eugene R. Quinn, Jr., *Using Alternative Dispute Resolution to Resolve Patent Litigation: A Survey of Patent Litigators*, 3 MARO. INTELL. PROP. L. REV. 77 (1999) (guaranteeing that an arbitration award under § 294 "will not have any res judicata or collateral estoppel effect on future litigation between the patentee and third parties not involved in the arbitration").

⁵⁰ See 35 U.S.C. § 294(d) (2004) ("When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Director."). See also Quinn, *supra* note 49, at 98 ("35 U.S.C. 294 requires arbitration awards to be placed in the file wrapper.").

⁵¹ See discussion *infra* Part III.C. See also discussion of infrequent use of 35 U.S.C. § 294, *infra*, note 77.

⁵² See, e.g., Am. Intellectual Property Law Ass'n, *supra* note 41.

⁵³ See AAA – Arbitration, Mediation and other forms of Alternate Dispute Resolution (ADR) – Welcome, at <http://www.adr.org/index2.1.jsp?JSPssid=15779> (last visited Nov. 21, 2004). Founded in 1926, the AAA is a nonprofit, public service organization that offers a wide range of dispute resolution services in the United States and abroad. *Id.*

erwise.⁵⁴ The arbitral award can be binding or non-binding on the parties and is usually given without a written opinion stating the rationale for the award.⁵⁵

ii. Patent Mediation

Mediation is considered “assisted communications for agreement”⁵⁶ and is premised on a theory of informed consent of the parties.⁵⁷ This dispute resolution process is highly flexible and informal, often allowing mutually advantageous solutions, and is the most widely used ADR process.⁵⁸ A neutral third party mediator will meet jointly and/or separately with the disputing parties to hear their legal positions and interests in the dispute and help the parties achieve a non-binding resolution by governing all procedural aspects of the mediation.⁵⁹ Like arbitration, the Federal Rules of Civil Procedure and the Federal Rules of Evidence do not apply.⁶⁰ The mediation is private and confidential,⁶¹ unless the parties agree otherwise, and there is no transcript of the proceeding. The parties and the appointed neutral may withdraw from the mediation by written notice at any time before a written settlement agreement is effected.⁶² Successful mediation generally results in a party-created compromise to end the dispute or an agreement as to a further action to resolve the dispute, such as arbitration or traditional litigation.⁶³

⁵⁴ See, e.g., AAA – Arbitration, Mediation and other forms of Alternative Dispute Resolution – Patent Arbitration Rules, Rule 30, available at http://www.adr.org/index2.1.jsp?JSPssid=15747&JSPsrc=upload\LIVESITE\Rules_Procedures\National_International\...\.focusArea\commercial\AAA133current.htm (last visited Nov. 21, 2004) (explaining that “conformity to legal rules of evidence shall not be necessary”).

⁵⁵ See, e.g., Am. Intellectual Property Law Ass’n, *supra* note 41.

⁵⁶ *What is Mediation?*, at <http://mediate.com/articles/what.cfm> (last visited Nov. 21, 2004).

⁵⁷ See *id.* (emphasizing that “[as] long as participants understand the nature of a contemplated mediation process and effectively consent to participate in the described process, virtually any mediation process is possible and appropriate”).

⁵⁸ See CPR Institute for Dispute Resolution – Introduction, at <http://www.cpradr.org/cprintro.htm> (last visited Nov. 21, 2004).

⁵⁹ See, e.g., CPR Institute for Dispute Resolution – The CPR Mediation Procedure, at http://www.cpradr.org/m_proced.htm (last visited Nov. 21, 2004).

⁶⁰ See *id.*

⁶¹ Cf. Quinn, *supra* note 49, at 98-99 (distinguishing mediation from arbitration by virtue of the fact that “[w]hen a patent case is mediated there is no disclosure requirement akin to 35 U.S.C. 294(d)”). When the nature of a dispute mandates confidentiality of the proceedings, mediation is the favorable option. *Id.*

⁶² See The CPR Mediation Procedure, *supra* note 59.

⁶³ See Am. Intellectual Property Law Ass’n, *supra* note 41.

166 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

C. Historical Aversion to Resolving Patent Disputes by ADR

Before the enactment of the Federal Arbitration Act (“FAA”) in 1925, the prevailing view of arbitration in American courts was the English common law rule that agreements to arbitrate current disputes could be unilaterally revoked and any agreements to arbitrate future disputes were unenforceable.⁶⁴ After Congress passed the FAA, courts held that it did not apply to disputes regarding patent validity and infringement,⁶⁵ even though patents were not among the selected classes of disputes that Congress expressly exempted from arbitration in the FAA.⁶⁶ In 1969, the United States Supreme Court reconfirmed judicial opposition to arbitration of patent validity and infringement in *Lear, Inc. v. Adkins*,⁶⁷ by holding that a licensee could challenge the validity of a licensed patent in court, despite an express provision in the licensing contract which prohibited disputing the validity of a patent, because the public interest in patent validity overrode the private right of contract.⁶⁸ The Supreme Court declared that an invalid patent restrains “full and free competition in the use of ideas which are in

⁶⁴ See Konstantinos Petrakis, *The Role of Arbitration in the Field of Patent Law*, 52 DISP. RESOL. J. 24 (1997) (suggesting that such opposition to arbitration was a result of ancient courts resisting any procedures that would usurp their jurisdiction) (quoting *United States Asphalt Refining Co. v. Trinidad Lake Petroleum Co.*, 222 F. 1006, 1012 (S.D.N.Y. 1915) (citing *Scott v. Avery*, 5 House of L. 811 [1856])).

⁶⁵ See *Zip Mfg. Co. v. Pep Mfg. Co.*, 44 F.2d 184, 186 (D. Del. 1930) (ruling that patent validity and infringement are “inherently unsuited to the procedure of arbitration statutes”); *Hanes Corp. v. Millard*, 531 F.2d 585, 588-599 (D.C. Cir. 1976) (promulgating that arbitrators lack the requisite skills and knowledge to decide issues of patent validity and infringement which involve complex and highly technical questions of law and fact). See also *Leesona Corp. v. Cotwool Mfg. Corp.*, 204 F. Supp 141, 143 (W.D.S.C. 1962), *aff’d* 315 F.2d 538 (4th Cir. 1963) (maintaining that patent validity and infringement issues are not within the purview of the Federal Arbitration Act). *But see* *Hanes Corp.*, 531 F.2d 585 (holding that a dispute over royalty payments is appropriate for resolution by arbitration, while remanding the issue of patent validity for determination by a court); Petrakis, *supra* note 64, at 25 (“Since the enforcement and interpretation of many aspects of a patent license agreement are more a question of contract law than patent law, courts have upheld agreements to arbitrate controversies that arise from a patent licensing agreement.”).

⁶⁶ See 9 U.S.C. § 1 (2004) (enumerating exceptions to operation of title with no mention of patent disputes).

⁶⁷ 395 U.S. 653 (1969).

⁶⁸ See *id.* at 677 (Black, J., concurring) (“The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without approval of the State.”).

reality a part of the public domain,”⁶⁹ and as such, patents should be openly challenged in court, rather than in private proceedings.⁷⁰

In the years following the decision in *Lear*, the historical aversion to arbitration was set aside. In the early 1980s, the Supreme Court significantly broadened the realm of patentable subject matter to include genetically engineered organisms⁷¹ and processes that implemented computer programs.⁷² As the scope of patentable inventions widened, the number of patents issued⁷³ and infringement actions initiated⁷⁴ increased as well. The prolonged and costly nature of patent litigation, the value of high technology and heightened competition in the marketplace eventually led to Congress’s enactment of 35 U.S.C. § 294 in response to these problems.⁷⁵ Legislative history suggests that proponents of voluntary arbitration believed that it would serve to enhance the U.S. patent system, encourage innovation and reduce the caseload of overburdened federal courts.⁷⁶ However, commentators point out an interesting fact about Congress’ attempt to market 35 U.S.C.

⁶⁹ *Id.* at 670. See also Matthew B. Zisk, *Mediation and Settlement of Patent Disputes in the Shadow of the Public Interest*, 14 OHIO ST. J. ON DISP. RESOL. 481, 498 (1999) (attesting that *Lear, Inc. v. Adkins* “may be interpreted to argue against public encouragement of private mediated settlements”).

⁷⁰ See *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55, 63 (7th Cir. 1970), *cert denied*, 401 U.S. 976 (1971) (“[Q]uestions of patent validity are inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents.”); *Diematic Mfg. Corp. v. Packaging Industries, Inc.*, 381 F. Supp. 1057, 1061 (S.D.N.Y. 1974), *appeal dismissed*, 516 F.2d 975 (2d Cir. 1975), *cert. denied*, 423 U.S. 913 (1975) (“[T]he grave public interest in issues of patent validity and infringement renders them inappropriate for determination in arbitration proceedings.”).

⁷¹ See *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (holding that manufactured bacteria with a plasmid is patentable).

⁷² See *Diamond v. Diehr*, 450 U.S. 175 (1981) (providing algorithms are patentable).

⁷³ See Vermont, *Part IV, supra* note 3, at 1 (reporting that patent application filings increased by 17% from 1990 to 1994. From 1997 to 1999, filings increased 25% and the number of issued patents increased 61%).

⁷⁴ See Vermont, *Part IV, supra* note 3, at 3 (“The number of patent suits is growing more than three times faster than the number of non-patent civil suits.” Approximately 1170 patent suits were filed in 1991 and in the year 2000, 2486 patent suits were filed).

⁷⁵ See Petrakis, *supra* note 64, at 28 (quoting the conclusion of the Position Paper by the Committee for Economic Development, Subcommittee on Technology Policy, March 1979, as claiming that “the expenses and disruptions caused by patent lawsuits undermined research and development efforts of American companies and an effective response to this development entailed the adoption of arbitration”). A few years later, Congress approved a mechanism for the voluntary arbitration of patent disputes, including patent validity and infringement, codified in 35 U.S.C. § 294. *Id.* But see discussion of infrequent use of 35 U.S.C. § 294, *infra*, note 71.

⁷⁶ See Petrakis, *supra* note 64, at 28.

168 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

§ 294 as a magic potion for patent law ills. “Section 294 . . . has been used infrequently, and is generally disfavored by patent practitioners.”⁷⁷ A limited survey of patent litigators conducted in 1997 showed that “corporations, regardless of size, do not generally embrace either mediation or arbitration as a means for resolving patent disputes.”⁷⁸

IV. ADR’S PROPOSAL TO CURE THE DEFECTS OF PATENT LITIGATION

A. Arbitration and Mediation Resolve Disputes Faster

Proponents of ADR cite lost opportunities as a major drawback of the traditional patent litigation system.⁷⁹ The average time to resolution, settlement or otherwise, of a patent suit is 1.12 years.⁸⁰ However, “[f]or the average litigated patent, final judg-

⁷⁷ See John Berryhill, *Public Interest Considerations in Private Resolution of Patent Disputes*, available at <http://www.johnberryhill.com/patdis.html> (last visited Nov. 21, 2004) (highlighting that arbitration under 35 U.S.C. § 294 has been much less than expected) citing Thomas L. Creel, *Factors in Deciding Whether to Use ADR in Patent Disputes*, in Donald A. Rowe, *Issues re ADR Procedures, in Alternative Dispute Resolution Guide* at 33 (American Intellectual Property Law Association Alternative Dispute Resolution Committee ed., 1995) (noting that arbitration under § 294 has been utilized much less than had been anticipated). See also Steven J. Elleman, Note & Comment, *Problems in Patent Litigation: Mandatory Mediation May Provide Settlements and Solutions*, 12 OHIO ST. J. ON DISP. RESOL. 759, 771 (1997) (“[A]rbitration of patent disputes under 35 U.S.C. Section 294 has not been utilized as much as expected by its drafters.”). Statistics regarding the usage of 35 U.S.C. § 294 by patent practitioners were unable to be obtained for this Note. In lieu of the unavailability of this empirical data, numerous commentators as well as the survey by Eugene Quinn, *infra* note 78, are cited to support this proposition.

⁷⁸ Quinn, *supra* note 49, at 99. Survey respondents reported the following: 67% stated that large corporations (more than 500 employees) use mediation to resolve 30% or fewer patent cases; 77% stated that large corporations use arbitration to resolve 30% or fewer patent cases; 64% of small corporations (500 or fewer employees) use mediation to resolve 30% or fewer patent cases; and 69% of small corporations use arbitration to resolve 30% or fewer patent cases. *Id.* at 99-100. Quinn concludes that this data “demonstrate[s] that corporations are highly selective when it comes to using ADR to resolve patent disputes.” *Id.* The survey was conducted in the fall of 1997. With 132 survey responses, the response rate was approximately less than 50%. *Id.* at 108-109. The survey consisted of 32 questions and respondents were asked to base their answers on their experience as patent litigators. Respondents ranged in geographic location, years of patent litigation experience and size of the firm where employed. *Id.* at 110-116.

⁷⁹ See Elleman, *supra* note 77, at 761-62; Tom Arnold, *Why Litigate? ADR Offers A Better Way*, 531 PLI/P at 727 (September 1998).

⁸⁰ See Samson Vermont, *Risk & Reward: The Economics of Patent Litigation, Part 1* (July 2001) available at http://www.hunton.com/files/tbl_s47Details%5CFileUpload265%5

ment is not rendered until after the mid-point of the patent's term, i.e., 12.3 years after the patent application was filed. (The median is about 7.5 years).⁸¹ Strikingly, there have been cases lasting as long as twenty-five years.⁸² However, through arbitration or mediation, patent disputes may be resolved in less than a year.⁸³ Lengthy trials are predominantly due to the prolonged nature of discovery in high technology disputes, as well as time spent in educating the judge and jury in the background necessary to understand the case.⁸⁴ ADR advocates argue that the litigation process delays new ideas in reaching the marketplace, resulting in lost opportunities for the patent holder, because the time spent in court determining validity or infringement issues exhausts a significant portion of the twenty year⁸⁵ patent term.⁸⁶ "The cost of lost opportunities . . . may diminish, or even completely dissipate, the value of the patent."⁸⁷

B. Arbitration and Mediation Are Less Expensive

Another problem identified with current patent litigation practice is the associated cost. The average cost of patent litigation is two million dollars.⁸⁸ The contributing factors that make patent

C379%5CRisk_Reward.pdf (last visited Nov. 21, 2004) (reporting the average time for resolution of a patent dispute is 1.12 years) (citing Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C.L. REV. 889, 908 (reporting a mean of 1.12 years for resolution of patent suits filed in district court from 1995-1999)).

⁸¹ Vermont, *Part IV*, *supra* note 3, at 4.

⁸² See, e.g., *Hughes Aircraft*, *supra* note 6.

⁸³ See Elleman, *supra* note 77, at 771 (suggesting that "the time frame for patent arbitration is often as little as six months, and it need never take more than twelve to fifteen months").

⁸⁴ See *id.* at 764 (mentioning time consuming discovery and the necessity for educating the judge and jury in background technology as reasons for lengthy patent trials).

⁸⁵ Patents issued during and after 1995 have a term of twenty years from the application filing date. See 35 U.S.C. § 154(a)(2) (2004). Patents issued before 1995 have a term of seventeen years from the date of issue. The statute was amended to increase the patent term due to lengthy PTO application and approval processes and to prohibit abuse by applicants delaying patent prosecution intentionally to defeat competitors. See DURHAM, *supra* note 11, at 123-124.

⁸⁶ See Elleman, *supra* note 77, at 761-62.

⁸⁷ *Id.* at 761.

⁸⁸ See Bill Robinson, *IP Litigation Strategies: Patents: Markman Hearings (Part 2)*, at http://library.lp.findlaw.com/articles/file/00156/009197/title/Subject/topic/Intellectual%20Property%20Law_Patent/filename/intellectualpropertylaw_1_235 (last visited Nov. 21, 2004) (citing the 2003 Report of Economic Survey published by the American Intellectual

170 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

litigation costs significantly pronounced are high discovery costs, heavy reliance on expert testimony and attorney fees.⁸⁹ In authorizing voluntary arbitration of patent disputes, President Reagan noted the “inordinately high cost of patent litigation”⁹⁰ as one justification for enacting 35 U.S.C. § 294. Advocates of ADR contend that the cost of arbitrating or mediating patent disputes could range from approximately ten to fifty percent of the costs usually associated with traditional litigation by selecting an arbitrator trained in patent law, decreasing reliance on expert testimony and streamlining discovery procedures.⁹¹

C. Arbitration Provides Early Finality

Another element of patent litigation that contributes to overall cost is the appellate procedure. In *Markman v. Westview Instruments*,⁹² the United States Supreme Court held that the construction of claims in patent disputes is a question of law to be decided by a judge.⁹³ Consequently, the Federal Circuit will review the claim interpretations of district court judges by a *de novo* standard, engendering “the practical effect of forcing the parties to completely relitigate the issue of patent infringement on appeal.”⁹⁴ This potentially undermines the federal judicial system and contributes to the delay and cost of patent litigation because the losing party in a patent infringement suit will always appeal to the Federal

Property Lawyers Association, which states that the average cost of patent litigation is \$2M, trademark litigation is \$600K and other IP litigation is between \$500K and \$800K).

⁸⁹ Elleman, *supra* note 77, at 762-63 (reasoning that discovery in high technology disputes is particularly prolonged and expensive. Patent attorneys must spend considerable amounts of time to understand the underlying scientific principles and technology of a case in order to argue the merits effectively. This time, in addition to time used in obtaining and preparing expert witnesses for trial, results in escalated legal fees).

⁹⁰ Statement on Signing the Patent and Trademark Office Appropriations Bill, II Pub. Papers 1087 (Aug. 28, 1982).

⁹¹ See Elleman, *supra* note 77, at 771-72 (citing a commentator’s assurance that with a skilled arbitrator, the “costs should be less than fifty percent of the litigation costs of a patent infringement suit”). See also Arnold, *supra* note 79, at 756 (“We have done patent infringement suits via ADR, as counsel, for \$60,000. In the courthouse it is hard to find the patent case where you can assure the client of a budget under a million.”).

⁹² 517 U.S. 370 (1996).

⁹³ See *id.* at 372.

⁹⁴ Kimberly M. Ruch-Alegant, Note, *Markman: In Light of De Novo Review, Parties to Patent Infringement Litigation Should Consider the ADR Option*, 16 TEMP. ENVTL. L. & TECH. J. 307 at 308 (1998).

Circuit provided he has the necessary resources.⁹⁵ In contrast, an arbitral award is final and binding,⁹⁶ except in cases where a party can prove that there has been manifest disregard of the law or fraud.⁹⁷ The early finality of an arbitration decision is a beneficial facet of ADR which provides advantages to businesses in predicting when disputes will be resolved and in deciding key issues such as whether to invest in production costs.⁹⁸

D. Arbitrators Have Relevant Expertise in Patent Law

Other remarks about the shortcomings of litigation emerge from a comparison of arbitrators and mediators with judges and juries. Since a jury always decides the issue of patent infringement,⁹⁹ critics of litigation propose that this results in uneducated verdicts.¹⁰⁰ Infringement actions are tried in federal district court in the first instance, where district court judges will be interpreting the meaning of patent claims.¹⁰¹ Since the judge and jury often do not have a scientific or technical background, ADR proponents contend that this results in unfair outcomes.¹⁰² Furthermore, the notion that ju-

⁹⁵ See *id.* at 316 (emphasizing that the federal appellate system was intended to protect litigants against unfair results and “not meant to be a forum for attorneys to try alternative strategies”). De novo review of claim construction can often lead to a de novo review of underlying facts, which does not bode well for judicial efficiency. Once the Federal Circuit judge has discerned the proper meaning of a claim, the issue of infringement may be remanded to the district court or decided by the Federal Circuit, both of which are not in the interests of judicial economy. *Id.* at 316-17.

⁹⁶ *But cf.* CPR Institute for Dispute Resolution, *supra* note 59. Following mediation, the parties are free to initiate or continue litigating the dispute in court regardless of the outcome of the proceeding. *Id.*

⁹⁷ See Berryhill, *supra* note 77; Seymour E. Hollander, *Patent Counsel Debate Pros and Cons of ADR*, NAT'L L. J., C20 (Jan. 27, 1997). *But see* *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). The “Lear doctrine” states that the public has a strong interest in patent validity, which should be determined by courts, and suggests that an arbitration of patent validity may not be binding on the parties. *Id.*

⁹⁸ See Kevin R. Casey, *Alternative Dispute Resolution and Patent Law*, 3 FED. CIR. B. J. 1, 5 (1993).

⁹⁹ See *Hilton Davis Chemical Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1520 (Fed. Cir. 1995)(en banc).

¹⁰⁰ See Elleman, *supra* note 77, at 765 (“The fact finder often has difficulty understanding the basic technology behind the dispute, which can result in unfair outcomes.”).

¹⁰¹ See Markman, *supra* note 35, at 377.

¹⁰² See Danny Ciraco, *Forget the Mechanics and Bring in the Gardeners*, 9 U. BALT. INTEL. PROP. L. J. 47, 74 (2000). See also Berryhill, *supra* note 77 (claiming that it is unreasonable to expect judges and juries to properly evaluate the technical subject matter in patent suits and that savings in time and cost may be achieved by appointing an expert arbitrator).

172 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

ries will favor the underdog on the issue of infringement¹⁰³ and patent holders on the issue of validity¹⁰⁴ strengthens the argument that judges and juries yield uneducated and unfair outcomes.

Arbitrators¹⁰⁵ are touted as superior to a judge and jury because they can be selected based on their particular field of expertise relevant to the dispute.¹⁰⁶ Supporters of ADR claim that an arbitrator's proficiency in the relevant subject matter of the dispute avoids the potential risks of uneducated and unfair verdicts that are present in litigation. This adds to savings in time and cost by decreasing the need for additional expert testimony and reducing the amount of time spent in educating the fact finder in the background technology necessary to understand the dispute because the arbitrator will already have a command of such information.¹⁰⁷

E. Mediation Allows for Flexible and Creative Solutions

ADR enthusiasts believe that a fundamental distinguishing characteristic of alternative dispute resolution procedure as compared to traditional court litigation is the ability to craft "win-win solutions." The following example best illustrates this idea:

The importance of distinguishing between disputants' needs and desires can be illustrated by the story of two cooks who had one orange between them. Each cook wanted the entire orange for a different recipe. They decided to cut the orange in half and each make smaller portions. The first cook squeezed the juice and threw away his peel. The second cook peeled her half and threw away the pulp. Both cooks desired an entire orange; but each of them only needed the pulp or peel.¹⁰⁸

¹⁰³ See Gregg A. Paradise, Note, *Arbitration of Patent Infringement Disputes: Encouraging the Use of Arbitration Through Evidence Rules Reform*, 64 *FORDHAM L. REV.* 247, 265 (1995) (observing that juries tend to favor small companies or individual inventors based on a perception that larger and more powerful companies are taking advantage of them).

¹⁰⁴ See Hollander, *supra* note 97, at C20 (stating that the general trend is for juries to favor patentees on the issue of validity because the jury affords weight to the initial approval of the patent by the PTO and to the judge's instruction regarding the statutory presumption of validity).

¹⁰⁵ *But cf.* Ciraco, *supra* note 102, at 74. In contrast to arbitration, it is not necessary for a mediator to have relevant expertise in patent law in order to resolve a dispute because the mediator's role is only to facilitate discussion. *Id.*

¹⁰⁶ See Casey, *supra* note 98, at 5.

¹⁰⁷ See Elleman, *supra* note 77, at 771-72.

¹⁰⁸ William F. Heinze, *Patent Mediation: The Forgotten Alternative in Dispute Resolution*, 18 *AIPLA Q. J.* 333, 344 (1991).

In litigation and, to some extent, arbitration, the decision maker must choose which cook receives the orange based on each cook's reason for deserving the orange. However, in mediation, if the mediator can expose that each cook's reason for wanting the orange is to complete different recipes, then the mediator can suggest a solution in which both cooks win.¹⁰⁹ The cooks trade pulp for peel and each cook is able to make full portions. Those who promote ADR of patent disputes believe that the "fairness obtainable by an ADR process is simply not obtainable at the courthouse."¹¹⁰

F. Arbitration and Mediation Provide Confidentiality of the Dispute

The nature of the technology involved in some patent disputes may lead disputing parties to seek resolution by ADR because it affords privacy. All patent arbitration hearings are confidential and the evidence, testimony and resulting ruling from the arbitration cannot be used in subsequent proceedings.¹¹¹ Mediation is confidential to the extent that the parties desire and agree to it, although confidentiality may be waived in writing.¹¹² Since reasoned opinions and transcripts of the proceeding are not published in arbitration¹¹³ or mediation,¹¹⁴ preventing the public from gaining

¹⁰⁹ *See id.* at 344 ("A mediator, unlike a judge or counselor, can encourage disputants to focus on this latter question by helping them to distinguish their true needs – those things that must take place for settlement – from their original desires."). *See also* Ciraco, *supra* note 102, at 57-60 (analogizing the court system to a machine and mediation to an organism in asserting that mediation is flexible and adapts to parties and their respective interests to resolve conflicts).

¹¹⁰ Arnold, *supra* note 79, at 756 (contending that ADR provides disputing parties with flexible and fair solutions which, unlike litigation, operate to preserve future business relationships between parties).

¹¹¹ *See* AAA – Arbitration, Mediation and other forms of Alternative Dispute Resolution – Code of Ethics for Arbitrators in Commercial Disputes, Canon VI at B at http://www.adr.org/index2.1.jsp?JSPssid=15718&JSPsrc=upload\LIVESITE\Rules_Procedures\Ethics_Standards/code.html (last visited Nov. 21, 2004) ("Unless otherwise agreed by the parties, or required by applicable rules or law, an arbitrator should keep confidential all matters relating to the arbitration proceedings and decision.").

¹¹² *See What is Mediation?*, *supra* note 56 (listing and explaining why confidentiality is an important attribute of mediation).

¹¹³ *See* AAA – Patent Arbitration Rules, *supra* note 54, at Rule 22 and 41.

¹¹⁴ *See What is Mediation?*, *supra* note 56 ("Mediation discussions and all materials developed for a mediation are not admissible in any subsequent court or other contested proceeding, except for a finalized and signed mediated agreement.").

174 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

knowledge of trade secret information, pioneering technology or the “dirty linen”¹¹⁵ of a loss is a heralded advantage of ADR over litigation.¹¹⁶

V. WHY ADR CANNOT ALLEVIATE THE CHRONIC HEADACHES OF PATENT LITIGATION

A. When the Stakes Are High, Bargains Are Foolish

It is argued that ADR methods offer the greatest potential for cost savings in high-stake disputes, such as patent disputes, because these clients stand to save the most legal fees.¹¹⁷ However, when there are often “many millions at stake, to look for a bargain dispute resolution mechanism in this environment could be penny-wise and pound-foolish.”¹¹⁸ Parties traditionally avoid ADR where the dispute involves potentially high gains or grave losses¹¹⁹ because the predictability provided by the Federal Rules of Civil Procedure, the Federal Rules of Evidence and *stare decisis* renders the courts a better forum for such disputes.¹²⁰ “The stakes are often so

¹¹⁵ Casey, *supra* note 98, at 5 (“Confidentiality is advantageous when intellectual property matters are involved because the parties must often disclose and discuss technology or financial matters which they would rather not make available to competitors, media or the general public.”).

¹¹⁶ See Paradise, *supra* note 103, at 263-64 (opining that “public release of this information potentially could be more damaging than the loss of the case” and that such information is protected by employing arbitration).

¹¹⁷ See Heinze, *supra* note 108, at 345.

¹¹⁸ Hollander, *supra* note 97, at C20.

¹¹⁹ See, e.g., *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556 (Fed. Cir. 1986). Kodak was forced to cease production of a multi-million dollar line of instant cameras and Polaroid received an award of \$873,158,971. *Id.* “In no other area of civil litigation are the potential rewards for the victor more abundant or the penalties for the loser more catastrophic.” DURHAM, *supra* note 11, at *x*. See also Zisk, *supra* note 69, at 491 (noting that the stakes in patent infringement suits are generally far greater than most civil suits).

¹²⁰ See Paradise, *supra* note 103, at 270-273 (concluding that the lack of evidence rules in arbitration deters parties from arbitrating patent infringement disputes). The advantages of a lack of rules of evidence include an increased pool of qualified arbitrators to include those not formally trained in the rules of evidence and reduced costs by admitting evidence without a preliminary determination of admissibility and by admitting evidence that might otherwise be inadmissible under the rules. These advantages, however, are outweighed by the disadvantages of uncertainty and unpredictability, potential for admission of unreliable false evidence or “junk science,” differing expectations of the parties, and the possibility of a “battle of experts” or “an expensive [evidentiary] free-for-all.” *Id.* at 272. “This battle claims as its victims nearly all of the advantages of arbitration, including savings in cost, time, and quality. With the possibility of this result present in arbitrations, the parties

high that the legal fees do not seem high *in comparison*; so companies put the legal pedal to the metal.”¹²¹ More importantly, where the cost of resolving patent disputes is low, there will be a disincentive to develop new inventions, which undermines the express purpose of the U.S. patent system.¹²²

B. Effectuating Cost Control Measures Can Reduce Patent Litigation Costs

While ADR will remain a cost effective alternative to litigation, this reality should not overlook the possibility of revamping the existing litigation scheme in favor of reduced costs. An experienced practitioner in the intellectual property field observed that most clients remain uninvolved in the tactics, strategy and cost control of a case, essentially surrendering “ownership” of the dispute to a law firm.¹²³ Implementing cost control is essential to reducing the cost of patent litigation. Foremost, clients should select lead counsel based on integrity, merit and availability.¹²⁴ Clients must play an active role in legal staffing by utilizing more experienced attorneys and in-house counsel to reduce costs and avoid overstaffing of the litigation team. The technological capabilities of a law firm should also be a consideration for clients in choosing representation. Appropriate application of technology to patent litigation can result in cost savings as well, such as maintaining an electronic database of discovery documents, using video or tele-

might well choose to engage in full-blown litigation.” *Id.* at 272-73. *See also* Berryhill, *supra* note 77 (disagreeing with commentators who suggest retaining rules of evidence and civil discovery in arbitration proceedings because this would “correspondingly reduce the major advantage of ADR, i.e., cost reduction . . . [i]f the cost incentive for ADR is reduced, so is the corresponding disincentive to litigation”).

¹²¹ Samson Vermont, *Litigation Risk Analysis: The Economics of Patent Litigation, Part III*, 2 Pat. Strat. & Mngmt. (Sept. 2001), available at http://www.hunton.com/files/tbl_s47Details%5CFileUpload265%5C386%5CRisk_Reward_3.pdf (last visited Nov. 21, 2004) (emphasis in original).

¹²² *See* Berryhill, *supra* note 77 (asserting that one theory of the social utility of patents in promoting technological advancement is premised on the notion that a patent holder will exercise his exclusive rights that are backed by the threat of legal action, or at least that the cost of litigation exceeds the cost of developing a technological alternative).

¹²³ *See* Robinson, *supra* note 88.

¹²⁴ *See id.* (stressing that the proper choice of lead counsel will require less monitoring by the client and provide opportunities for counsel and client to work collaboratively in developing and adhering to budget plan).

176 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

phonic depositions for nonessential parties and avoiding excessive photocopying or scanning of case documents.¹²⁵

C. Finality Is a Double-Edged Sword

Although proclaimed as a benefit by ADR advocates for the efficiency and reliability that ADR provides, finality is a double-edged sword. Since parties can appeal to the Federal Circuit to seek *de novo* review of claim construction, a disincentive exists to submit the dispute to arbitration or mediation unless cost is a limiting factor.¹²⁶ Thirty-eight percent of judgments relating to patent validity and thirty-seven percent of judgments of infringement are appealed to the Federal Circuit.¹²⁷ The Federal Circuit reverses these district court judgments of validity and infringement twenty-two and twenty percent of the time, respectively.¹²⁸ Fifty-four percent of published decisions of patent invalidity and forty-four percent of published decisions validating a patent are also appealed to the Federal Circuit.¹²⁹ Clearly, patent litigants frequently use the favorable appellate structure and procedure of the Federal Circuit to take multiple bites of the apple.¹³⁰ To a litigant with sufficient

¹²⁵ See *id.*

¹²⁶ See Ronald J. Schutz, panel discussion, *Patent Litigation: View from the Bar and Bench*, available at http://library.lp.findlaw.com/articles/file/00990/008941/title/Subject/topic/Intellectual%20Property%20Law_Patent/filename/intellectualpropertylaw_1_235 (last visited Nov. 21, 2004) (“[T]here’s no certainty at trial – everyone gets two trials in a patent case – they get their trial in the district court and they get their 15 minute trial at the Federal Circuit.”).

¹²⁷ See Vermont, *Part IV*, *supra* note 3, at 3.

¹²⁸ See *id.*

¹²⁹ See *id.*

¹³⁰ See also Symposium, *Knowing Your Toolset: How To Use ADR To Your Advantage During Patent Litigation*, 44 *IDEA* 247 (2004). Douglas Doskocil, partner at Goodwin Proctor, LLP., highlights the disadvantages of binding arbitration of patent disputes. These include the arbitrator’s freedom not to apply Federal Circuit law and the absence of any rights to appeal the arbitrator’s decision, except for a few narrow exceptions. *Id.* at 260. Mr. Doskocil states:

[I]f you think you can convince the Federal Circuit that [the arbitrator] got the claim construction wrong, it doesn’t matter because you agreed to abide by what this arbitrator decided. So there are a lot risks with this and it can be just as expensive, oftentimes, as the litigation . . . You might spend a million dollars getting ready for arbitration and do all this case development . . . [t]he problem is, in the end, that arbitrator doesn’t have to follow the same rules. So it could be just as costly, but you’ll have more uncertainty.

Id. at 261.

2004]

A CUSTOMIZED PRESCRIPTION

177

resources to appeal, the early finality that arbitration provides does not taste as sweet.

D. Patents Are Fortified Through Judicial Validation
and PTO Re-examination

Arguments regarding finality and judicial economy that weigh in favor of ADR over patent litigation fail to give due regard to the value of having a patent validated by the Federal Circuit. “Except on those occasions when the Supreme Court intervenes, the Federal Circuit is the ultimate authority on interpreting patent laws, and all inferior courts, as well as the Patent Office are bound by its interpretations.”¹³¹ Once the Federal Circuit reviews and validates a patent, it is afforded significantly more respect in the industry than patents that have not yet been confirmed by a court. A patent holder who passes muster with the Federal Circuit can recover for infringement by enforcing the precedential value of the decision.¹³² “Clearly, the decision of a facilitator will not have the same deterrent effect against infringement by others as a judicial determination would.”¹³³

In creating a re-examination procedure by which anyone, including the patent holder, can have the PTO reconsider the validity of issued claims, Congress and the PTO recognized the magnitude of validated patents¹³⁴ and “if the patent survives the process, it is likely to be stronger than ever.”¹³⁵ The purpose of this re-examination proceeding is to clarify the validity of a patent prior to and/or as an alternative to litigation.¹³⁶ On the other hand, ADR does not facilitate such an in-depth review of an issued patent or provide such an essential mechanism for confirming a patent’s validity that can be asserted against others. Re-examination provides parties to patent disputes with a fast and inexpensive proxy to litigation for resolving issues of validity, eliminating the need for ADR under these circumstances.

¹³¹ DURHAM, *supra* note 11, at 7.

¹³² See Casey, *supra* note 98, at 6; Paradise, *supra* note 103, at 268.

¹³³ Casey, *supra* note 98, at 6. See also Paradise, *supra* note 103, at 266 (admitting that parties who propose resolution by arbitration may be perceived as having a weak case).

¹³⁴ See 35 U.S.C. § 302 (2004) (“Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 of this title.”). See also 35 U.S.C. §§ 303-307 (2004).

¹³⁵ DURHAM, *supra* note 11, at 39.

¹³⁶ See *id.* at 38.

178 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

E. Adherence to the Federal Rules of Evidence and Federal Rules of Civil Procedure in Court Avoids a Battle of the Experts and Junk Science

The overall use of expert testimony in patent litigation is more restricted than in arbitration. Expert testimony on the background technology of the invention is freely permissible to aid the judge and jury in understanding the dispute.¹³⁷ However, other use of extrinsic expert evidence¹³⁸ is limited to situations where the construction of the patent claim remains unclear after an initial assessment of intrinsic evidence.¹³⁹ Admissible expert testimony must assist the trier of fact,¹⁴⁰ must rest on a reliable foundation,¹⁴¹ but must not instruct the jury on the applicable law.¹⁴² Federal judges may appoint an independent expert witness,¹⁴³ special master or specialized law clerk to serve as a technical advisor to the court¹⁴⁴ as an added measure to safeguard accurate fact finding.

The formal rules of evidence do not apply in ADR proceedings, having the practical effect of allowing all types of evidence into the proceeding, particularly the testimony and reports of ex-

¹³⁷ See *Key Pharms. v. Hercon Lab. Corp.*, 161 F.3d 709, 716 (Fed. Cir. 1998) (“[T]rial courts generally can hear expert testimony for background and education on the technology implicated by the presented claim construction issues, and trial courts have broad discretion in this regard.”).

¹³⁸ See *Vitronics Corp. v. Conceptronic, Inc.*, 90 F.3d 1576, 1578 (Fed. Cir. 1996) (declaring that extrinsic evidence is properly relied upon where intrinsic evidence is insufficient to enable the court to interpret the meaning of the claims at issue). See also *Key Pharms.*, 161 F.3d at 716 (“[I]f the meaning of a disputed claim term is clear from the intrinsic evidence—the written record—that meaning, and no other, must prevail; it cannot be altered or superseded by witness testimony or other external sources simply because one of the parties wishes it were otherwise.”).

¹³⁹ Intrinsic evidence, or the patent record, includes the issued patent and the prosecution history file. See *Key Pharms.*, *supra* note 137, at 716.

¹⁴⁰ See FED. R. EVID. 702.

¹⁴¹ See *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 597 (1993) (holding that scientific evidence must . . . provid[e] a four factor analysis).

¹⁴² See FED. R. EVID. 704; see also *Bausch & Lomb, Inc. v. Alcon Lab., Inc.*, 79 F. Supp. 2d 252, 254-255 (W.D.N.Y. 2000).

¹⁴³ See FED. R. EVID 706. The court appointed expert witness may be deposed, called to testify and cross-examined by the parties. Courts routinely appoint expert witnesses to resolve conflicting expert testimony presented at trial. See Arti K. Rai, Symposium: Patent System Reform, Article, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 Berkeley Tech. L. J. 877, 893 (2002).

¹⁴⁴ See Rai, *supra* note 143, at 892-93. Such technical advisors are considered party-neutral and cannot testify in court. Their role is limited to assisting the judge and jury in understanding the relevant science and technology and their opinion on the merits of other testimony is not permitted. *Id.*

pert witnesses that might otherwise be inadmissible in court.¹⁴⁵ Expert testimony is permitted on the meaning of patent claims without restraint, which ADR commentators believe may result in a more knowledgeable decision.¹⁴⁶ Nonetheless, “the lack of rules of evidence cuts two ways.”¹⁴⁷ As a consequence of admitting all expert testimony, it is likely that the arbitrating parties will engage in a “battle of experts.” Since “[t]his battle claims as its victims nearly all of the advantages of arbitration, including savings in cost, time and quality . . . the parties might well choose to engage in full-blown litigation.”¹⁴⁸ Another disadvantage of arbitration is that it is highly susceptible to “junk science” testimony, a fundamental concern that is assuaged by the Federal Rules of Evidence.¹⁴⁹ Junk science testimony is highly unreliable, but highly effective, in swaying arbitrators to believe the dubious propositions set forth.¹⁵⁰

The foregoing limitations placed on the use of expert testimony in federal court are the result of carefully crafted rules that were created with the intent of promoting accurate fact finding. “Facts are critical in patent law”¹⁵¹ and central to the determina-

¹⁴⁵ See Paradise, *supra* note 103, at 270. Automatically admitting the plethora of scientific and technical evidence relating to patent disputes, without a preliminary determination of admissibility under the Federal Rules of Evidence results in reduced costs as well. The parties save costs by not having to convert evidence into admissible form. Since the arbitrator need not be versed in the Federal Rules of Evidence, the potential pool of qualified arbitrators to choose from is larger and their associated fees will be less than that of an arbitrator who is capable of making evidentiary rulings. *Id.*

¹⁴⁶ See Sandra J. Franklin, *Arbitrating Technology Cases: Why Arbitration May Be More Effective Than Litigation When Dealing With Technology Issues*, 80 MICH. B. J. 30, 32 (July 2001) (“The Supreme Court favors [judicial] determination of patent construction issues, with technical experts giving guidance but not testimony. Expert testimony on patent claims can be given in an arbitration, however, and often forms the basis for an informed arbitral award.”); Richard H. Kreindler, *Arbitration: A Creative Alternative to Intellectual Property Litigation in Light of Two Recent U.S. Supreme Court Decisions*, 9 WORLD ARB. & MEDIATION REP. 13, 16 (January 1998)

To the extent expert testimony is considered critical to the claim construction and such testimony is allowed in arbitration, this may be a reason to favor arbitration of such claims. This relates to the so-called Markman hearing, in which experts testify as to the meaning of terms of art, but this testimony is not evidence, and expert testimony is not usable to vary the terms of a claim.

Id.

¹⁴⁷ Paradise, *supra* note 103, at 271.

¹⁴⁸ *Id.* at 271-72.

¹⁴⁹ See FED. R. EVID. 702 and 704. See also *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 597 (1993); *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 141 (1999) (holding that the Daubert factors extend to all expert testimony that is based on specialized knowledge).

¹⁵⁰ See Paradise, *supra* note 103, at 272.

¹⁵¹ Rai, *supra* note 143, at 881.

180 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

tions of patent scope, validity and infringement.¹⁵² An arbitrator who renders an award based wholly or partly on junk science testimony unjustifiably risks broadening or narrowing the scope of a patent holder's rights. This, in effect, would be a rescission of the patent bargain because the public should be entitled to rely on the meaning of the claims as published in the issued patent.¹⁵³

F. An Arbitrator's Expertise in a Field Comes With a Price —
The Price of Impartiality

The benefit of having an arbitrator or mediator with the requisite technical or scientific background may have an associated cost as well — the cost of non-neutrality.¹⁵⁴ Party-appointed arbitrators may be handpicked specifically to construe the meaning of a patent claim favorably to the appointing party.¹⁵⁵ For example, if the hypothetical parties, DoubleMe and Biopromise, choose to arbitrate the infringement dispute, DoubleMe, the accused infringer, would select an arbitrator who will construe Biopromise's patent rights narrowly. DoubleMe will seek an arbitrator likely to render a judgment of non-infringement, allowing them to continue manufacturing "Clone-IT."

The choice of arbitrator, based on the arbitrator's knowledge and disposition, becomes a key determinant in the outcome of the proceeding. One party will desire an arbitrator who is knowledgeable about patent law and the underlying technology, whereas the

¹⁵² See *id.*

¹⁵³ See *Key Pharms. v. Hercon Lab. Corp.*, 161 F.3d 709, 716 (Fed. Cir. 1998) (emphasizing that competitors should be entitled to rely on the public record of a patent). An arbitral award based on junk science that broadens or narrows the claim construction of a patent has undermined the public notice and disclosure functions of the patent system. *Id.*

¹⁵⁴ See *Employers Ins. of Wausau v. National Union Fire Ins. Co.*, 933 F.2d 1481, 1490 (9th Cir. 1991) ("'Familiarity with a discipline,' while in some aspects a virtue of arbitration, 'often comes at the expense of complete impartiality.'") quoting *Morelite Constr. Corp. v. New York City Dist. Council Carpenters Benefit Funds*, 748 F.2d 79, 83 (2d Cir. 1984).

¹⁵⁵ By agreement the parties are free to designate an arbitrator or method of appointing an arbitrator. See *e.g.*, AAA – Patent Arbitration Rules, *supra* note 54, at Rules 11-14. The parties must file a notice of appointment with the AAA. Alternatively, by party request, the AAA will provide a list of qualified panel members from which an appointment may be made. *Id.* at Rule 13. If the parties fail to make an appointment within the specified time, the AAA shall make the appointment from panel members. *Id.* at Rule 12-14. Each party may designate their own arbitrator ("party-appointed arbitrator") and additionally appoint a neutral arbitrator who will serve as chairperson. *Id.* at Rule 14. All appointees "shall be skilled in patent law." *Id.* at Rule 12.

opposing party will likely prefer an arbitrator with no relevant knowledge of the patent field. This should be cause for alarm because there is a high potential for denying a patent holder his entitled rights during the course of a manipulated private proceeding that is not subject to appeal. Moreover, where a party-appointed arbitrator unjustly narrows the construction of patent claims behind closed doors, there is a societal cost — loss of notice to the public domain.

G. Parties to a Patent Dispute Are True Adversaries Who Want Their Day in Court

The adversarial nature of the relationship between parties is a defining characteristic of most patent disputes. This is incongruent to the relationship between parties that are well-suited for ADR because adversarial parties place little value on maintaining future business relationships,¹⁵⁶ a trumpeted advantage of ADR.¹⁵⁷ A patent holder and an accused infringer can hardly be considered parties willing to cooperate to reach a mutually beneficial solution.¹⁵⁸ The nature of the parties, by itself, results in a situation where parties to patent disputes cannot realize the benefits that ADR provides.

Furthermore, the delineation of patent rights and remedies do not lend themselves to “win-win solutions.” Rather, fairness in the patent context is comprised of an “all-or-nothing” scheme. The patentee has a right to a remedy by civil action against an infringer,¹⁵⁹ provided there has been no inequitable conduct or fraud.¹⁶⁰ A willful infringer may be liable for damages, lost profits

¹⁵⁶ See Berryhill, *supra* note 77 (“Unlike the relationship between parties to a labor dispute, a construction contract, a commercial transaction between seller and buyer, or even divorcing parents raising children, the parties to a patent dispute are not engaged in a mutual enterprise where cooperation is socially desirable.”).

¹⁵⁷ See Elleman, *supra* note 77, at 774 (emphasizing that arbitration and mediation better preserve future business relations between disputing parties than litigation); Paradise, *supra* note 103, at 264 (maintaining that arbitration operates to preserve commercial relationships by virtue of being less adversarial than litigation).

¹⁵⁸ See also Symposium, *supra* note 130 (conceding that “[m]ediation is useless if the other side is not willing to talk.”). *Id.* at 259.

¹⁵⁹ See 35 U.S.C. § 281 (2004) (“A patentee shall have remedy by civil action for infringement of his patent.”).

¹⁶⁰ See 37 C.F.R. § 1.56 (2004); Manual of Patent Examining Procedure § 2001 (outlining duty of disclosure and duty of candor required in filing a patent application).

182 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

or reasonable royalties to the patent holder.¹⁶¹ The court has discretion to issue an injunction ordering the infringer to cease all infringing activity.¹⁶² If the patentee prevails, he will hold a validated patent and continue to exercise his monopoly rights. While the fairness of an ADR process may not be available in the courtroom,¹⁶³ equity and justice in the resolution of patent disputes are achieved without the need to separate the pulp of an orange from its peel.

Larger economic concerns dictate that ADR “win-win solutions” in patent disputes between rival manufacturers should not be permitted because “establishing cooperative ‘win-win’ relationships is exactly the sort of behavior that the anti-trust statutes were designed to prevent.”¹⁶⁴ “Another perceived problem with arbitration is that some patent attorneys believe that arbitrators have a tendency to ‘split the baby.’”¹⁶⁵ Owing to the notion that arbitrators are reluctant to choose between conflicting positions of the parties, and instead render “compromise verdicts,”¹⁶⁶ parties believe they will feel unsatisfied and posit that they “will not receive a full measure of justice,”¹⁶⁷ which could be obtained if they litigate the issue in court.

¹⁶¹ See 35 U.S.C. § 284 (2004) (“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.”).

¹⁶² See 35 U.S.C. § 283 (2004) (A court “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable”).

¹⁶³ See Arnold, *supra* note 79.

¹⁶⁴ Berryhill, *supra* note 77 (disapproving of “win-win solutions” in patent disputes because such private agreements between competitors can operate to exclude all other competitors from entering the market. “Win-win” settlements that result in pooled license or non-enforcement agreements have been declared invalid because they violate anti-trust statutes). See also Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806, at 816 (1945) (“The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.”).

¹⁶⁵ Paradise, *supra* note 103, at 268.

¹⁶⁶ Elleman, *supra* note 77, at 772 (identifying “compromise verdicts” as a common criticism in which arbitrators are perceived as splitting the differences between the demands of the parties often leaving parties unsatisfied). *But see id.* at 774 (“[T]he stigma of compromise verdicts often associated with arbitration is avoided [in mediation] because any settlements reached at are arrived at voluntarily.”). See also Heinze, *supra* note 108, at 339 (“Arbitrators have also been criticized for their tendency to compromise, rather than choose, between conflicting positions.”).

¹⁶⁷ Paradise, *supra* note 103, at 268.

H. Litigate to Uphold Your End of the Patent Bargain

The secrecy of ADR patent proceedings is antithetical to the patent bargain and the patent system as a whole. There is something unseemly about granting monopoly rights in exchange for disclosure of knowledge, only to challenge and, in some instances, modify that disclosed knowledge in a subsequent private proceeding.

[I]t is important to realize that an inventor need not seek a patent and a patent holder need not choose to litigate. Where the patent is granted and the case is filed, the patent holder is asking the state to enforce a set of rights that the state granted in exchange for disclosure of all the relevant details about the patentability of the invention. *The outcome of a litigation [sic] is relevant to the patentability and should thus arguably be disclosed as part of the exchange for the patent rights.*¹⁶⁸

Published decisions within a court system serve many invaluable purposes, one of which is to draw attention to inadequacies or signal defects in the law.¹⁶⁹ “The broader society loses these types of benefits when disputants utilize quasi-secret arbitration to resolve all their patent disputes.”¹⁷⁰ Keeping patent proceedings confidential not only denies the public notice and suppresses problematic laws, but also withholds the empirical data that is necessary to evaluate whether ADR is efficacious in resolving patent disputes.¹⁷¹ Unlike litigation, relatively few people know what transpires during an ADR proceeding, and even fewer, if any, are authorized to speak about it. If either the “Clone-IT” or “Clone-ME” patent is invalidated through ADR, other inventors are not informed of this outcome and will lose an opportunity to design an improved invention to further the cloning industry.

¹⁶⁸ Zisk, *supra* note 69, at 507-08 (emphasis added).

¹⁶⁹ See Paul M. Janicke, Symposium 2002, *The Future of Patent Law: Maybe We Shouldn't Arbitrate: Some Aspects of the Risk/Benefit Calculus of Agreeing to Binding Arbitration of Patent Disputes*, 39 HOUS. L. REV. 693, 725 (2002). The U.S. Court of Appeals for the Federal Circuit is an example of decision-generated reform. This court was created in response to years of inconsistent judicial opinions by the varying circuit courts in an effort to promote uniformity in patent law. *Id.* Another example of substantive reform is the legislative overruling of *Deep South Packing Co., Inc. v. Laitram Corp.*, 406 U.S. 518 (1972), by the 1988 amendments to the patent act codified in 35 U.S.C. 271(f). *Id.*

¹⁷⁰ Janicke, *supra* note 169, at 725.

¹⁷¹ See *id.* at 726 (recognizing that “in recent years scholars and other commentators on the patent system have sensed an increasing need for empirical data as a way to avoid cliché-ridden assessments of how the system is actually working”).

I. Public Interest in Patent Validity

“Success and cost savings to the parties, however, do not provide a rationale for public support for [ADR] of cases for which there might be an overriding public interest in public adjudication.”¹⁷² By virtue of the nature of a patent, which is a grant of rights against all others, there is a strong public interest in the validity of patents. If a patent is declared invalid, this judgment affects the parties to the dispute as well as any member of the general public who wishes to use the invention and who is now free to do so without first seeking the patentee’s permission.¹⁷³ The importance of public adjudication of patent disputes can be appreciated by considering the broader effects of an issued patent that is in fact invalid.¹⁷⁴ The invalidity may be a result of a variety of factors, many of which may not be obvious or even ascertained without the disclosure and discovery procedures that take place in federal court litigation due to the complex technical disposition of the subject matter.¹⁷⁵

In submitting cases involving invalid patents to ADR, an increased possibility exists that the invalidity will never be discovered and “the public runs the risk that it will grant exclusive rights without receiving the benefits that justify the grant of those exclusive rights.”¹⁷⁶ Congress has recognized and addressed the importance of the public interest in preventing private dispute resolution from shielding invalid patents by requiring public disclosure in patent arbitration agreements¹⁷⁷ and interference settlements.¹⁷⁸ Even

¹⁷² Zisk, *supra* note 69, at 494-95.

¹⁷³ See Berryhill, *supra* note 77 (reasoning that patent validity and invalidity judgments are asymmetric in their collateral estoppel effects because following a judgment of validity, the statutory presumption of validity is undisturbed in that instance, but the judgment is not preclusive of a subsequent challenge to validity on other grounds. However, a judgment of invalidity results in non-mutual collateral estoppel).

¹⁷⁴ A judicial determination of patent invalidity will be binding and not subject to relitigation in subsequent proceedings pursuant to the doctrine of *res judicata*. See *supra* note 10.

¹⁷⁵ See Zisk, *supra* note 69, at 481-82 (comparing public and private adjudication of patent disputes).

¹⁷⁶ *Id.* at 481. ADR enables a patent holder to evade litigation of a weak or invalid patent. *Id.* at 503.

¹⁷⁷ *Id.* at 500-501 (asserting that the public interest against allowing invalid patents to survive private settlement is addressed in 35 U.S.C. § 294). Pursuant to the statute, an arbitrator is required to consider defenses of invalidity raised during the proceeding, which is to be addressed in a written award that must be filed with the PTO. The written award becomes part of the patent prosecution history and is available to the public. *Id.* See also 35 U.S.C. § 294(d), *supra* note 50.

2004]

A CUSTOMIZED PRESCRIPTION

185

the Supreme Court has acknowledged the paramount public interest in patent validity in holding that courts are required to render a judgment on validity even if the case would be resolved sooner by first considering the issue of infringement.¹⁷⁹

There is an important economic facet to the public interest in patent validity because as a limited monopoly, patents can have a chilling effect on competition. In response to an issued patent, competitors will concentrate on increased research and development in an effort to conceive a patentable invention that is outside the scope of and does not infringe on any issued patents. From the perspective of this rationale underlying patent law, grave concerns emerge where ADR of patent disputes leads to a reduced awareness of invalid patents, resulting in decreased efforts in research and development.¹⁸⁰ Correspondingly, prior adjudications of patent invalidity or judicial determinations of the scope of patents are often instrumental in determining whether an invention will achieve commercial success or whether a manufacturer should invest in product development.¹⁸¹ The availability of such pragmatic information to guide future conduct is not facilitated by ADR of patent validity actions.

¹⁷⁸ See *Zisk*, *supra* note 69, at 501-02 (noting that the Sixth Circuit opined that 35 U.S.C. § 135(c) is intended to prevent procuring invalid patents via private settlement). 35 U.S.C. § 135(c) requires that any private settlement agreement that is reached by the parties after an interference proceeding has been declared by the PTO must be filed with the PTO to become part of the public record. *Id.*

¹⁷⁹ See *Cardinal Chem. Co. v. Morton Int'l.*, 508 U.S. 83, 99-100 (1993). The court observed that although a judgment of noninfringement would terminate a case if considered before patent validity, a determination which is more difficult than infringement, the countervailing concerns of party interest, certainty of patent validity to guide future actions and the strong public interest in validity were sufficient to overcome issues of efficient management of a court's docket. *Id.*

¹⁸⁰ See *Zisk*, *supra* note 69, at 495-96 ("If an issued patent is invalid but not obviously so, there is no reason to believe that it will not also lead to decreased competition."). As property rights, patents raise "quasi-public issues" that are inappropriate for ADR. *Id.*

¹⁸¹ See *Berryhill*, *supra* note 77 (emphasizing that "the application of non-mutual collateral estoppel to invalidity judgments is economically significant . . . [and] it is commonplace for manufacturers to conduct a study of issued patents in order to determine the risk of patent infringement"). Since the scope of the PTO's determination of validity is limited, as compared to the resources available to a party in a patent action, most grounds for invalidity materialize only as a result of civil discovery. *Id.*

186 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

J. Public Disclosure Fuels the Advancement of Science

It has been said that in 1899, Patent Commissioner Charles H. Duell recommended that the United States Patent Office close because all inventions important to the world had already been patented.¹⁸² Fortunately, the Commissioner was mistaken and the field of patents experienced unprecedented growth over the past two hundred years, with optimistic inventors continuously seeking to build “a better mouse-trap.”¹⁸³ Despite the evolution of the patent system, the theory behind patent law persists over time. Clearly reflected in the Constitution,¹⁸⁴ that theory is that patent protection provides the necessary encouragement for industrial advancement.

An inventor makes a discovery, strikes a bargain with the PTO, receives a limited monopoly and discloses everything he knows about his invention.

Such disclosure furthers the development of technology because it obviates the need to reinvent the wheel: the information gained by other persons working in related areas enables them to develop improvements to the patented technology or to develop other inventions on the basis of the information disclosed in the patent.¹⁸⁵

An inventor who fears that others with greater power or resources will reap the rewards of his work may abandon his laboratory. Without patent protection, society would lose the benefit of many useful inventions. What if Thomas Edison had abandoned his laboratory out of fear that others would use his inventions? Yet, an inventor willing to enter the patent bargain to ensure that he harvests the fruits of his labor is likely to invest his time, resources and skills to develop new technologies.¹⁸⁶

Public disclosure of information is fundamental to patent theory and scientific advancement is principled on the dissemination and use of this information by others in the field. The outcomes of ADR patent disputes do not endow the public with information that can be improved upon by other inventors. Rather, mediated disputes result in clandestine judgments of patent validity and infringement issues.¹⁸⁷ The outcomes of arbitrated disputes under 35 U.S.C. § 294 will be known only to those persistent and tenacious

¹⁸² See DURHAM, *supra* note 11, at *ix*.

¹⁸³ *Id.*

¹⁸⁴ See U.S. CONST. art. I, § 8, cl. 8.

¹⁸⁵ Zisk, *supra* note 69, at 481.

¹⁸⁶ See DURHAM, *supra* note 11, at 2.

¹⁸⁷ See *supra* notes 61, 111-16 and accompanying discussion in Part IV.F.

2004]

A CUSTOMIZED PRESCRIPTION

187

individuals who are aware of the pending dispute, knowledgeable of patent arbitration rules and follow the procedures to request the prosecution history file from the PTO to view the disclosed arbitral award.¹⁸⁸ Stepping out of the courthouse, these alternative methods take the resolution of these disputes from their right place in the public domain and, ultimately, fail to promote the advancement of science.

VI. BUILDING “BETTER MOUSE-TRAPS” IN THE FUTURE WILL ONLY BE POSSIBLE WITH PUBLIC ADJUDICATION OF PATENT DISPUTES

The individual fields of ADR and patents both exhibited tremendous growth in recent years, becoming respected and indispensable entities of today’s American legal system. While at first glance, ADR may appear to be the new drug that will cure the symptoms of patent litigation that cause its infirmities, this Note questions such a prescription in light of the patent bargain theory and the goals of the patent system. This Note has examined the arguments advanced on behalf of ADR and litigation to conclude that ADR is not a panacea for the deficiencies of patent litigation. The high stakes nature of most patent disputes; *de novo* review on appeal; the Federal Rules of Civil Procedure; the Federal Rules of Evidence; the adversarial relationship of the parties; the significance of judicially validated patents; and the importance of the public interest in patent validity — all necessitate that parties take their disputes to court.

The enactment of 35 U.S.C. § 294 was an anemic attempt to alleviate patent litigation problems, which is evinced by its continued unpopularity.¹⁸⁹ The low value and inapplicability of arbitration to patent disputes are self-evident given the failure of 35 U.S.C. § 294’s to plant roots within patent law after over twenty years in existence.¹⁹⁰ Conversely, during this same twenty-year period, the Court of Appeals for the Federal Circuit firmly established itself as a central and fundamental entity of the United States patent system by hearing litigated patent cases. Many com-

¹⁸⁸ See Manual of Patent Examining Procedure § 103; 37 C.F.R. § 1.14 (outlining procedures and fees required for any person to obtain a copy of the prosecution history of a patent).

¹⁸⁹ See *supra* notes 77-78.

¹⁹⁰ See discussion of infrequent use of 35 U.S.C. § 294, *supra* note 77.

188 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

mentators and practitioners believe the Federal Circuit has fulfilled its mandate of increasing predictability and uniformity to patent law.¹⁹¹ Professor Rochelle Cooper Dreyfuss concludes that the Federal Circuit

has begun to make patent law more accurate, precise, and coherent. Its ability to accomplish this task derives largely from the high volume of patent appeals that it hears, which gives the court an overview of the full range of issues and forces it to construct an integrated picture of the law as a whole.¹⁹²

If the use of ADR to resolve patent cases becomes widespread in the future, it would undoubtedly undermine the express purpose set out in creating the Federal Circuit. Furthermore, such an imagined prevalence of patent ADR would be ignorant of the reasons for the Federal Circuit's success today and of the research spanning over a decade that resulted in the creation of the court.

¹⁹¹ See FEDERAL TRADE COMMISSION REPORT, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* at 4 (Oct. 2003) available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (last visited Nov. 20, 2004) ("The Court of Appeals for the Federal Circuit, the sole court for most patent appeals, has brought stability and increased predictability to various elements of patent law. This has reduced legal uncertainty and facilitated business planning."); Steven Andersen, *Federal Circuit Gets Passing Marks To Date But There's A Lot Of Room For Improvement*, CORP. LEGAL TIMES, March 2000, at col. 1 (quoting Frank Porcelli, appellate practice group chairman at Fish & Richardson and Harvard patent law professor, "When you think of why the Court was created and what the situation was in 1982, it's achieved a great deal of what it was commissioned to achieve. It's rectified a lot of problems that existed – lack of consistency among the circuits and lack of development in case law."); Jonathan Ringel, *Federal Circuit Brings Uniformity To Patent Law*, PA. L. WKLY., Nov. 26, 2001, at S5 ("Twenty years later, patent lawyers generally agree that the Federal Circuit has succeeded in bringing more uniformity to patent case law, making the patent system stronger in the process."). *But see* Andersen, CORP. LEGAL TIMES, March 2000, at col. 1 (discussing panel inconsistency, vague standards and uncertainty in claim interpretation post-*Markman* as common criticisms of the court); Larry D. Thompson, *Adrift on a Sea of Uncertainty: Preserving Uniformity in Patent Law Post-Vornado Through Deference to the Federal Circuit*, 92 GEO. L.J. 523, 526-27 (2004) (recognizing that the Supreme Court's decision in *Vornado* threatens the uniformity of patent jurisprudence and may result in increased forum-shopping within the circuit courts when a patent appeal presents the sole patent issue as a counterclaim. Thompson suggests that circuit courts must adhere to a rule of deference to the Federal Circuit when deciding patent counterclaims in order to preserve uniformity and reduce forum shopping.); R. Polk Wagner and Lee Petherbridge, *Is the Federal Circuit Succeeding? An Empirical Assessment of Judicial Performance*, 152 U. PENN. L. REV. 1105, 1111-12 (2004) (reporting study results of Federal Circuit claim construction jurisprudence). The data shows polarization among judges and panel-dependency of claim construction analysis. *Id.* They conclude that "whether the Federal Circuit is succeeding is a question which remains remarkably open . . . [but], many findings are unquestionably encouraging, suggesting that the court's effort to meet its mandate is both well underway and moving in the right direction." *Id.* at 1113.

¹⁹² Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 24 (1989).

Returning to the dispute between DoubleMe and Biopromise set out in the beginning of this Note, ADR is unlikely to help these parties reach a resolution. ADR supporters concede that patent litigation is justified when the technology at issue is “pioneering and fundamental to the existence of the company.”¹⁹³ If cloning technology is essential to the commercial success and livelihood of either DoubleMe or Biopromise Corporation, they will choose to litigate. More significantly, litigation is the only way to establish legal precedent and one way to fortify the value and respect of a patent within an industry. It seems difficult to imagine these two powerhouse rival corporations having a friendly chat about who gets the pulp and who gets the peel.¹⁹⁴ DoubleMe Corporation and Biopromise Corporation will spend the two million dollars litigating up to the Federal Circuit with the insurance of the Federal Rules of Civil Procedure, the Federal Rules of Evidence and *stare decisis* available in court. Each corporation will seek to emerge victorious from the lawsuit by holding their validated patent, invalidating their adversary’s infringing patent and driving the adversary competitor out of the market.

Technological breakthroughs, such as “Clone-IT” and “Clone-ME,” “illustrate the power of innovation to increase prosperity and improve the quality of our lives.”¹⁹⁵ Knowledge and the dissemination of information is the quid pro quo considered by the Constitution and Congress in granting a limited patent monopoly.¹⁹⁶ Always mindful of the inventor’s bargain with the public, this Note proposes that the use of ADR should be narrowly tailored and pre-

¹⁹³ Petrakis, *supra* note 64, at 30.

¹⁹⁴ *Cf.* ADR may be a practical substitute to litigation for small patent holders of equal and finite resources. Consider a hypothetical basement inventor, John Jones, who one day discovers that his neighbor Sammy Smith, a hypothetical garage inventor, has created “Clone-U.” Jones believes that “Clone-U” infringes on his patented “Clone-ALL” and seeks to order Smith to stop making, using and selling “Clone-U.” Assuming, *arguendo*, that the cloning technology involved in producing these inventions does not break new ground in the relevant scientific field and that neither party seeks to establish a legal precedent, ADR seems a viable option for Jones and Smith. Submitting their dispute to arbitration or mediation may resolve things faster and cheaper than traditional litigation, especially if the expense of a lost opportunity is devastating to either individual. Conscious of the potential costs and benefits that are associated with choosing arbitrators and mediators who are well versed in patent law, the parties should make sure that a neutral arbitrator or mediator presides over the dispute in order to best protect their individual patent rights. Perhaps they will arrive at a mutually agreeable solution, such as working together as co-inventors, a resolution that would not violate antitrust statutes. For John Jones and Sammy Smith’s patent dispute, ADR might be just the right medicine.

¹⁹⁵ FEDERAL TRADE COMMISSION REPORT, *supra* note 191, at 1.

¹⁹⁶ See *Brenner v. Manson*, 383 U.S. 519, 534-35 (1966).

190 *CARDOZO J. OF CONFLICT RESOLUTION* [Vol. 6:155]

scribed only when it will not consequently encumber the “progress of science and the useful arts.”¹⁹⁷ If DoubleMe successfully defends their patent in court, Biopromise will pay lost profits or a reasonable royalty and will be enjoined from any further activity relating to “Clone-*ME*.” DoubleMe will own a property right in “Clone-*IT*” and will reap the benefits of their invention, including increased profits and an enhanced ability to compete in the market. The development of new products and technologies by other companies and inventors relying on the work and disclosure of DoubleMe’s invention will be facilitated. The world will benefit from “Clone-*IT*” *only if* DoubleMe and Biopromise resolve their dispute in the courtroom.

¹⁹⁷ U.S. CONST. art. I, § 8, cl. 8.