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Patent Arbitration: Past, Present and Future

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PATENT ARBITRATION: PAST, PRESENT AND FUTURE*

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I. INTRODUCTION

Most attorneys have heard of arbitration, but few have more than a vague idea of what it is or have any experience with it.[1] Patent attorneys are no exception, and many are no doubt wondering about the implications of §294.[2] It was enacted in August of 1982, and went into

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[1] Part of the reason is its lack of coverage in most law schools. Where a course *is* offered, it is frequently a seminar. *See, e.g.,* DIRECTORY OF LAW TEACHERS 1983-84, 752-53 (West, 1983). As a consequence, most students do not have the opportunity to take it. Moreover, it would be surprising if most of the courses did not focus primarily or exclusively on the use of arbitration in industrial relations, thus encouraging students to think of arbitration's utility far more narrowly than is warranted. (*See, e.g.,* Reilly, note 6, *infra,* at 24.)

[2] P.L. 97-247, §17, 96 Stat. 322-23 (1982) reads:

> (b)(1) Title 35, United States Code, is amended by inserting after section 293 the following new section of chapter 29:
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> "§294. Voluntary arbitration
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> "(a) 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. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

effect in February 1983: Why was it needed and passed, and what does it mean?

The short answer to why it was needed is that several cases had raised doubts about the extent to which patent disputes could be resolved by arbitration. It was passed as a result of hard work by some patent attorneys and, more importantly, a political climate which was,

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"(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

"(c) 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 to [sic] 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. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

"(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

"(e) The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner."

(2) The analysis for chapter 29 of title 35 of the United States Code is amended by adding at the end the following:

"294. Voluntary arbitration."

(c) Sections 5, 6, 8 through 12, and 17(b) of this Act shall take effect six months after enactment.

Approved August 27, 1982

For a relatively recent survey of patent attorneys' attitudes (but before §294), *see PTC Research Report* . . . . , 22 IDEA 271 (1982). Also, since this paper was written an entire issue of the A.P.L.A.J. has been devoted to the topic (vol. 11 no. 4).

and is, relatively favorable to patents, on the one hand, and arbitration, on the other.

Its meaning can be addressed in two senses: (1) The *practical* meaning, *i.e.,* why would anyone want to arbitrate a patent case even if they could? and (2) The *legal* meaning, *e.g.,* what issues can be resolved in patent arbitration? While most of this paper will deal more with legal than nonlegal considerations, it may be helpful initially to consider the utility of arbitration generally and patent arbitration specifically.

Having briefly discussed arbitration relative to other methods of resolving disputes, the paper will then discuss the history of the arbitration provision. Unfortunately, the formal legislative history is exceedingly brief. As has been seen with the '52 Patent Act in general, this can cause difficulty.[3] Fortunately, §294 is not very complex, but, then, neither is §103. However, with care and planning, §294 will prove more useful and far less troublesome.

II. ARBITRATION

Arbitration is a process of resolving a dispute by a binding third-party decision. Parties do not go to arbitration, as they would not go to litigation, if they can settle through negotiation or mediation.[4] Thus, arbitration is a supplement, not an alternative, to any process short of binding third-party determination.[5] In this way, arbitration resembles litigation. There are also other similiarities, but there are important differences.

First, the arbitrator (or arbitration panel), unlike a judge, is chosen by the parties. If there is a single arbitrator, s/he is chosen from a list provided by, *e.g.,* the American Arbitration Association (hereinafter A.A.A.). Each party ranks the list in order of preference, with the most mutually acceptable arbitrator being chosen. In the case of three-person panels, each party may pick one arbitrator with the third

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[3] *See, e.g.,* Graham v. John Deere Co., 383 U.S. 1, 14-17 (1966), discussing the legislative history of §103. *Compare* Dawson Chemical Co. v. Rohm and Haas Co., 448 U.S. 176, 202-15 (1980), discussing the legislative history of §271.

[4] "Mediation" (or "conciliation") involves a third party who attempts to facilitate efforts of the principal disputants to reach agreement. Mediators have no capacity to bind the principals to anything.

[5] For an interesting discussion of an innovative use of nonbinding third-party assistance, *see* Davis, *A New Approach to Resolving Costly Litigation,* 61 J.P.O.S. 482 (1979). Of course, that process could have predeceded either litigation or arbitration. *See also* Newman, *Pacific Industrial Property Association: Non-Binding Conciliation Between Japanese and American Companies,* 18 IDEA 91 (1977).

chosen as above, or they may choose from three lists, each of which emphasizes different expertise.[6]

Second, the arbitrator is usually an expert with reference to at least one major element of the controversy. The person need not be an attorney, particularly where the controversy can be resolved by reference to trade custom rather than formal external legal standards. Also, the person need not be an attorney where the issue is primarily factual; *e.g.*, was contract performance consistent with specifications?

Third, unlike a judge who derives authority from a constitution and statutes, an arbitrator's power is derived from expressed consent of the parties. The consent is usually expressed in a contract clause which sets forth the metes and bounds of the arbitrator's power and obligations in exercising it. If the parties were so inclined, they could insist on all of the accoutrements of a court trial, *i.e.*, Federal Rules of Civil Procedure, Federal Rules of Evidence, a written decision applying the law of a particular jurisdiction, and so forth.[7] However, an arbitration proceeding is usually far less formal, and, in fact, the A.A.A. discourages an award/decision having one word more than absolutely necessary to resolve the issue(s) presented.[8] Such awards are more difficult to challenge: if the arbitrator doesn't state findings of fact, one cannot argue whether they are "clearly erroneous" or based on "substantial evidence on the record considered as a whole." If one does not give reasons, a decision cannot be faulted as capricious and arbitrary, illogical, inconsistent with the law or the language of the contract, or whatever.[9] Nevertheless, such awards are enforced subject to fundamental process limits.[10]

Fourth, arbitration is not open to the public. No one other than

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[6] *See* A.A.A. Commercial Arbitration Rule 15(1982). *See also, e.g.*, Reilly, *The Administrative Machinery of the American Arbitration Association* 18(4) IDEA 23, 25 (1977). Finally, it bears mentioning that the A.A.A. was a set of Patent Arbitration Rules. These can be referenced in future arbitration clauses or substituted by agreement of the parties for the Commercial Rules. *See* Patent Arbitration Rules 13-15 (1983). (Hereinafter, we will assume a single arbitrator.)

[7] *See, e.g.*, Carmichael, *The Arbitration of Patent Disputes,* 38 ARB. J. 3 (1983). At 9, Mr. Carmichael sets forth sample clauses, one of which [c.] provides for discovery under the Federal Rules of Civil Procedure. *See also* note 63, *infra.*

[8] *See, e.g.*, McGovern, *The "Case" for Expanded Review of Commercial Arbitration Awards,* 18(4) IDEA 67, 77 (1977). *See also* DOMKE ON COMMERCIAL ARBITRATION §29.06 (1980).

[9] *Id. See also* Asken, note 10, *infra,* at 88-89.

[10] *See generally,* Asken, *The Case for the Status Quo,* 18(4) IDEA 81 (1977). *See also* note 36 and discussion, *infra.*

parties and witnesses need be permitted to attend.[11]

Other, sometimes cited, differences are more open to debate. There are three of these which are closely related. The first *potential* difference is time: Arbitration can be quick, if: (1) The arbitrator's schedule is not crowded; (2) S/he understands the basics of the matters in controversy without extensive educational efforts by the parties; and (3) The parties *want* it to be quick. If one party or the other wants to drag things out with, *e.g.*, challenges to jurisdiction, it will take considerable effort by the arbitrator and the other party to move the process along.[12]

The second potential difference is money: Time, of course, is money, but it is more complicated than that. On the one hand, the A.A.A. and most arbitrators charge fees.[13] On the other, there may be savings from using fewer witnesses and less attorney time in hearings, *etc.* How this may work out in a particular case is subject to some uncertainty; all things considered, arbitration is nevertheless reported to be cheaper.[14]

The final, and probably the most important difference between arbitration and litigation is the potential effect on the relationship between the parties. Litigation is often perceived as polarizing parties: *i.e.*, at the start, we have two persons with ligitimate differences of opinion; at the end, we have certified enemies. I am not sure why this is less likely to be true for arbitration. Yet good evidence of its truth is afforded by arbitration's being a fixture in contracts governing long-term relationships, *e.g.*, between unions and employers.[15] This is not to say, however, that, if you start with certified enemies, arbitration will magically turn them into friends. On the contrary, it is in

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[11] *See* A.A.A. Commercial Arbitration Rule 25(1982). This has been one of the principal concerns of opponents of patent arbitration. *See, e.g.*, Curley, *Arbitration of Patent Antitrust Disputes: Business Expediency v. Public Interest,* 18(4) IDEA 107, 110-111 (1977). *See also* Patent Arbitration Rule 25 (1983).

[12] *See, e.g.*, Reilly, note 6, *supra,* at 24.

[13] *Id.* at 26. *See also* A.A.A. Commercial Arbitration Rules 48-51 (1982), Patent Arbitration Rules 48-51 (1983).

[14] *See, e.g.*, Goldsmith, *Patent, Trademark and Copyright Arbitration Guide,* 53 J.P.O.S. 224, 238 (1971). *See also* Bowes, *Arbitration of Patent Disputes,* 18(4) IDEA 49, 50 (1977); Janicke and Borovoy, *Resolving Patent Disputes by Arbitration,* 62 J.P.O.S. 337 (1980).

[15] *See, e.g.*, Reilly, note 6, *supra,* at 24. (In the Boston region, labor cases are exceeded only slightly by uninsured motorist cases — and the two account for the overwhelming bulk of the docket.) *See also* Janicke and Borovoy, note 14, *supra,* at 359.

precisely those circumstances that arbitration may prove to be as slow and expensive as litigation.[16]

With that brief background, we can now consider the arbitration of *patent* disputes.

III. PAST: PATENT ARBITRATION PRIOR TO PASSAGE OF §294

Notwithstanding a 1930 case suggesting that patent disputes should be *per se* unarbitrable,[17] over the years they have been repeatedly resolved by arbitration. This is discussed in a widely distributed article by Harry Goldsmith. His paper is a summary report of several years of ongoing cooperation between the N.Y. Patent Law Association and the A.A.A. and is accurately entitled "Patent, Trademark and Copyright Guide."[18] Although the data was not presented by category, in 1971, Mr. Goldsmith reported that an aggregate of 40 to 50 cases were on the annual docket of the A.A.A., alone.[19]

Ironically, just about the same time that the N.Y.P.L.A. and the A.A.A. began to explore the use of arbitration in patent and related disputes and to sort out the kinds of dispute for which it was most suitable, a series of cases cast a cloud over the *patent* component of the effort. One of the most significant of these was *Beckman Instruments.*[20] Relying primarily on *Lear,* the 7th Circuit in that case held that validity was an issue inappropriate for arbitration.[21] Moreover, a subsequent decision in the D.C. Circuit held that *scope* was also inappropriate for arbitration.[22]

While some might think that this left infringement as an arbitrable issue,[23] I find it difficult to imagine a case where infringement would be seriously in question and the scope of the claims would not be. However, by the mid to late '70s, there seemed to be little basis for

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[16] Note 12, *supra. See also* Janicke and Borovoy, note 14, *supra,* at 359.

[17] Zig Mfg. Co. v. Pep Mfg. Co., 44 F.2d 184 (D.Del. 1930).

[18] Note 14, *supra.*

[19] *Id.* at 226.

[20] Beckman Instruments, Inc. v. Technical Development corp., 433 F.2d 55 (7th Cir. 1970), *cert. den.* 401 U.S. 976 (1971).

[21] *Id.* at 62-3.

[22] Hanes Corp. v. Millard, 531 F.2d 585, 593 (D.C. Cir. 1976). Nevertheless, the court, at 594 (note 7), and at 600, indicated that the district court could defer on such issues pending the outcome of arbitration on appropriate issues.

[23] Janicke and Borovoy, note 14, *supra,* is premised in part on that, *but see* note 24, *infra.*

finding patent disputes *per se* nonarbitrable.[24] Thus these later decisions did not challenge the legality of arbitration for resolving a host of other issues. Such issues can arise in almost any contract, for example, determining royalties due.[25]

About this time, the idea of arbitration also began to catch the fancy of other patent groups, including the A.B.A. Patent Section,[26] the A.P.L.A.,[27] and the Licensing Executives Society.[28] Thus a provision was included in the omnibus patent revision bill introduced in the 93d Congress.[29] That provision passed the Senate in the 94th Congress.[30]

That version of §294 expressedly permitted the arbitration of both validity and infringement. However, it was criticized by the patent bar for being limited to agreements covering *present* disputes only; in other words, it did not allow parties to a long-term contract to agree to arbitrate future disputes.[31] Another alleged shortcoming concerned an ambiguity with regard to whether an arbitrator had to consider *all* possible defenses (as listed in §282). At least one patent attorney was afraid that an arbitrator would have to consider all of those defenses regardless of whether they were raised.[32]

These and more fundamental concerns were discussed at a PTC Conference held in Boston in 1976.[33] On the one side were people basically hostile to patent arbitration and concerned about potential inhibition of competition.[34] On the other were those looking for resolution of dis-

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[24] Note 22, *supra*. Moreover Janicke and Borovoy, note 14, *supra*, at 357, concluded that what little authority there was on patent arbitration did not address the arbitrability of *present* disputes.

[25] *E.g.*, note 22.

[26] *E.g.*, HOUSE REPORT 97-542 [to accompany H.R. 6260] 13, 97th Cong. 2d Sess. (1982). *See also* A.B.A. 1982 PATENT TRADEMARK COPYRIGHT SECTION, COMM. REPS., 83, and Goldsmith, note 31, *infra*, at 31.

[27] *See, e.g., Patent Law Revision: Hearings on S.1321 Before the Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary*, 93d Cong., 1st Sess., 42-71 (1973).

[28] Brenner, *Licensing Executives Society Inquiry Into Arbitration: A Discussion*, 18(4) IDEA 101 (1977). *See also* Carmichael, note 7, *supra*, at 8.

[29] S.2504 (1973).

[30] S.2255. *See* 122 CONG. REC. 4489-4530 (1976). *See also* Goldsmith, *Addendum: Patent . . . Arbitration Guide*, 18(4) IDEA 29, 33-5 (1977).

[31] *See* Goldsmith, *The Arbitration of Patent Disputes*, 34 ARB. J. 28, 30.

[32] *Id. See also*, Bowes, note 14, *supra*, at 52-53.

[33] *Foreword*, 18(4) IDEA (1977).

[34] Curley, note 11, *supra; also* Ransom, *Policy Issues in Using Arbitration . . . . , id. at 113*. Neither of these speakers confined themselves to antitrust issues; they were also skeptical (or worse) with regard to arbitrating patent validity.

putes by arbitrators competent to deal with technical issues.[35] As program chairman, I tried to fashion a compromise.[36] Seeing that the former seemed to be leery of hanky-panky in a nonpublic forum, I suggested that opinions be required and that they be subjected to review more intensive than that available to review other kinds of arbitration awards.[37] While this seemed to offer advantages over the use of a master,[38] the patent bar didn't like it (apparently because of the lack of finality).[39] At least I got agreement on *something:* the antitrust people didn't like it *either.*[40]

Notwithstanding this personal disappointment, I nevertheless expected to see further attention given to the topic during the Carter Administration's review of the patent system overseen by Jordan Baruch.[41] If any reference to arbitration appears therein, I have not found it. Yet that review *did* call attention to the importance of patents in spurring the innovation necessary to maintain a favorable balance of trade.[42] Moreover, it called attention to the need for more effective ways for resolving patent disputes.[43] This, of course, is central to the value of patents as incentives to innovation.[44]

Meanwhile, only a few patent disputes were being referred to arbitration.[45] While, in 1980, J.P.O.S. published an excellent account

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35 *Bowes, note 14, supra;* Brenner, note 28, *supra;* and Goldsmith, note 30, *supra. See also* Gambrell and Kimball, *Arbitration and Antitrust . . . .*, 18(4) IDEA 119 (1977).

36 Field, *Introduction,* 18(4) IDEA 1 (1977); *also* Gambrell and Kimball, note 35, *supra;* McGovern, note 8, *supra.*

37 Field, note 36, *supra,* at 3-4.

38 Why this is true, if it is, is unclear. *See, e.g.,* WRIGHT *et al.,* FEDERAL PRACTICE AND PROCEDURE: CIVIL 2d §2603 (West, 1983). *Compare* L. WHINERY, THE ROLE OF THE EXPERT IN PATENT LITIGATION, Study No. 8, Subcomm. P.T.C., Senate Comm. on the Judiciary, 89th cong., 1st Sess., 8-17 (1958).

39 Field, note 37, *supra.*

40 *Id.*

41 *See, e.g., Public Symposium on Patents,* Transcript of the final session, held at the Dept. Commerce, Jan 24, 1979 (N.T.I.S. PB 290412).

42 *See Industrial Innovation: Joint Hearing Before the Senate Comm. on Commerce, Science, and Transportation* [2 parts], 96th Cong., 1st Sess. (1979), *e.g.,* Part 1, at 51-67.

43 *Id.* Part 1, at 56.

44 To the extent that patents cannot be reliably or cost-effectively enforced, their incentive value, whatever it might otherwise be in furthering innovation, drops accordingly. *But see* note 45, *infra,* at 176.

45 In 1982, the A.A.A. reported that it was aware of only one patent arbitration involving infringement or validity in 1980, and none in 1981. *See* U.S. CONGRESS, OFFICE OF TECHNOLOGY ASSESSMENT, PATENTS AND THE COMMERCIALIZATION OF NEW TECHNOLOGY (DRAFT REPORT), 175 (June 21, 1982).

of the arbitration of a particular dispute,[46] apparently most patent attorneys were scared off by the uncertainty generated by cases such as *Beckman*.[47]

In June 1982, a draft report on the patent system was circulated by the Congressional Office of Technology Assessment.[48] It speculated that somewhere between 5,000 and 15,000 patent disputes are resolved privately each year whereas only 300 or 400 go to litigation.[49] While the vast majority of private resolutions occur as two-party settlements, this data goes far in answering those who simplistically oppose patent arbitration because of its privacy. Moreover, it was used to support a tentative endorsement of patent arbitration.[50]

It is interesting that §294, which was contained in H.R. 6260 (primarily addressing patent fees), had *already* passed the House[51] and was passed by the Senate less than two months later.[52] Shortly thereafter, it was signed by President Reagan.[53] I know neither what went on behind the scenes nor the effect that the O.T.A. effort might have had on its passage. However, as noted above, the legislative history is scant indeed. So far as I have been able to determine, it consists of a three-paragraph statement which accompanied S.2255 in the 94th

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[46] Janicke and Borovoy, note 14, *supra*.

[47] Note 45, *supra;* notes 20-22 and discussion, *supra*.

[48] Note 45, *supra*.

[49] *Id.* at 18-19.

[50] *Id.* at 28 and 173-79. At 179, it was concluded that:

> In summary, binding voluntary arbitration of patent disputes will benefit those parties that are able to agree to the proceedings and exercise discipline in the proceedings; however, potentials for abuse exist. The frequency with which voluntary arbitration will be used is subject to speculation, but because the parties must agree to the arbitration and its finality, its use is not likely to be widespread. While questions of the effect of arbitration on society exist, they are not susceptible to quantification. The policymaker can minimize any negative effects on society by requiring that issues of patentability over prior art be resolved through reexamination by the Patent and Trademark Office or by requiring the decision of the arbitrator to be placed in the public record of the patent.

There is, of course, nothing "official" about this draft report. So far as I have been able to determine, the whole effort was aborted and, unfortunately, no "final" report ever issued.

[51] On June 8; *see* 128 CONG. REC. H3203-206.

[52] On August 12; *see* 128 CONG. REC. S10293-294.

[53] On Aug. 27, 1982; note 2, *supra*.

Congress[54] and brief remarks in the House Report accompanying H.R.6260.[55] While the latter does not discuss the differences between this provision and the one which had previously passed the Senate (and, indeed, does not seem to recognize their existence),[56] the significance of the changes seems straightforward. This is particularly true in view of the published criticisms discussed above.

IV. PRESENT: NONDEBATABLE ASPECTS OF §294

Section 294 removes all of the uncertainty about patent arbitration with regard to several key issues and most of it with regard to a couple of others.

A. *Patent Arbitration Is Governed By Title 9*

Subsection (b) recites that:

> Arbitration of [patent] disputes, awards . . ., and confirmation of awards shall be governed by title 9, United States Code, to the extent that it is not inconsistent with this section.

The major way in which title 9 might be inconsistent with §294 is probably the requirement for recording awards with the P.T.O.[57] However, given the contents of §290, this is not surprising.[58] The major effect of subsection (b) would, thus, seem to be one of foreclosing efforts to *require* patent arbitration to be conducted differently or reviewed differently from any other arbitrable subject matter.[59]

B. *Ordinary Contract Issues Are Arbitrable*

It is interesting that §294 clearly states that validity and infringement may be arbitrated but makes no mention of ordinary contract issues. Notwithstanding the 1930 case to the contrary,[60] no one has seriously questioned their arbitrability in recent years.[61] Indeed,

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[54] *Patent Law Revision,* S. REP. NO. 94-642 (to accompany S.2255), 94th Cong., 1st Sess., at 42 (1976).

[55] *Patent and Trademark Authorization,* H.R.REP. NO. 97-542 (to accompany H.R.6260), 97th Cong., 2d Sess., at 12-13 (1982).

[56] *Id.* Although the report cites S.2504 (note 29, *supra*), there is no reference to S.2255 (note 30, *supra*) and no suggestion that this provision differs from those (which *were* identical).

[57] *See* subsections (d) and (e), note 2, *supra.*

[58] It requires clerks of U.S. courts to notice the P.T.O. with reference to complaints filed and judgments/decisions rendered. It also obligates the Commissioner to enter such notices in the files of the patents in controversy.

[59] Notes 33-40 and discussion, *supra. See also* note 50, *supra.*

[60] Note 17, *supra.*

[61] *See, e.g.,* Curley, note 11, *supra,* at 111-12; Ransom, *id.* at 118.

several of the decisions casting doubts on the arbitration of validity or scope actually held ordinary contract matters to be proper for arbitration.[62] Thus, it is clear that one can agree to arbitrate any questions which might arise about amounts of royalty due, rights to inspect books, or whatever.[63]

C. *Future Disputes Are Covered*

While as mentioned above, earlier versions of §294 permitted the arbitration of existing disputes only, subsection (a), as enacted, also permits the inclusion of arbitration provisions in ongoing contracts. Although some patent attorneys have questioned the wisdom of agreeing in advance to arbitration,[64] experience will no doubt show ways to avoid problems.[65] Yet, it is now clear that parties have the freedom to contract to resolve future validity and infringement problems as well as basic contract issues.

D. *Defenses In General*

In still another respect, §294 is an improvement over its predecessor. Subsection (b) recites that defenses shall be considered by the arbitrator *if* raised by a party. The earlier version lacked that condition and created the possibility that all defenses[66] would have to be examined regardless of being raised. While this may seem silly, it is better that the issue has been straightforwardly put to rest.[67]

V. FUTURE: COLLATERAL EFFECTS, REMEDIES, AND MISCELLANEOUS ISSUES

Notwithstanding that subsection (c) states that an award shall have no force or effect on a nonparty, legal uncertainties remain with regard to collateral effects and remedies. No doubt there will be other issues not yet spotted.

A. *Validity*

Consider the collateral effects of a validity determination for example. Should an arbitrator hold one or more claims invalid or implicitly

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[62] *E.g,* note 22, *supra.*

[63] *But see* Levin v. Ripple Twist Mills, Inc., 416 F.Supp. 876, 880-81 (D.E.D. Pa. 1976). *See also* note 7, *supra.*

[64] *See, e.g., Arbitration and Patent Problems,* 21 ARB. J. 98, 111 (1966).
However, one will want to avoid having ordinary contract issues of all within the jurisdiction of states which do not recognize the validity of future disputes clauses. *See, e.g.,* Janicke and Rirovoy, note 14 *supra,* at 352-53.

[65] *E.g.,* note 7, *supra. Compare Levin,* note 63, *supra.*

[66] Bowes, note 14, *supra,* at 52-53.

[67] Note 2, *supra.*

reduce their scope by a finding of noninfringement, it is hard to believe that this will not work to the advantage of third parties. Indeed, any attempt to enforce a claim invalidated during arbitration would create a risk of serious problems.[68]

Conversely, if the patentee wins, one would expect an attempt to introduce the award into evidence in subsequent action against other infringers. Granted, that the determination would not be *binding,* if the art were the same, it would seem to be material and relevant in strengthening the §282 presumption.[69] However, this remains to be decided by the Court of Appeals for the Federal Circuit.[70]

Yet at a purely practical level, if arbitrators are respected, their awards, alone, might serve to deter challenges to validity.

Three questions remain, however. First, assuming that the patentee prevails, would an *opinion* by the arbitrator strengthen his position with regard to subsequent potential challenges, or would it merely open the award up to reversal?[71] The answer to that question also awaits decision by the new Court of Appeals.

The second question is whether a patentee would get more benefits from having questions of validity resolved by reexamination before the P.T.O.[72] Any answer ventured here may be wildly speculative. However, it is clear that reexamination suffers from some serious defects.[73]

The third question concerns fraud on the Patent Office. If the patent survives arbitration, fraud would seem to vanish as a threat. Yet if one or more claims are invalidated, there may be a risk that fraud will be asserted. This is one area where I, for one, would opt for a written arbitrator's opinion.[74] Assuming no fraud, I would hope that an expert discussion of the art would reduce this risk. Moreover, whether the discussion came from the P.T.O. or an arbitrator, at least there would be something to be *admitted* regardless of whether or not it was binding in subsequent action.[75]

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[68] Not only would it risk antitrust litigation, *but see also,* Stevenson v. Sears, Roebuck & Co., 713 F.2d 705, 712-13 (Fed. Cir. 1983). *However compare* note 45, *supra,* at 178-79.

[69] *See,* note 7, *supra,* at 7-8.

[70] *See, e.g.,* Pravel, *How Will the Court of Appeals for the Federal Circuit Review the Evidence in a Patent Infringement Suit?,* 65 J.P.O.S. 32 (1983).

[71] *See* note 45, *supra,* at 179; Davis, note 5, *supra;* note 8, *supra;* note 10, *supra.*

[72] Note 45, *supra,* at 178-79.

[73] *See, e.g.,* 1983 A.P.L.A. BULLETIN 389-91, 435-37.

[74] *Compare* note 71 and discussion, *supra.*

[75] *See generally,* Digital Equipment Corp. v. Diamond, 653 F.2d 701 (1st Cir. 1981).

B. *Misuse*

Misuse is an even more difficult issue with potential collateral effects as between the *same* parties. However, before collateral effects can occur, misuse has to be determined to be a defense coming within §282(4) as an "other fact or act made a defense *by this title.*"[76]

Assuming that misuse can be brought in, *e.g.,* because of its discussion in §271(d),[77] what effect might this have on a subsequent antitrust suit by the infringer? On the one hand, the arbitrator might find a patent valid and infringed, awarding damages in spite of an asserted misuse defense. On the other s/he might find the patent valid, infringed and misused. Either way, a patentee may nevertheless be put to the expense of defending an antitrust suit. To hold that a finding of no misuse would bar an antitrust suit between the parties is to make antitrust issues arbitrable. Certainly there is no basis in the legislative history of §294 for such a holding.[78] Moreover, unlike fraud, which is inherently related to validity and often is resolved by resort to technical expertise, an opinion on misuse, even if admissible, may not be likely to carry as much weight.[79]

Given this situation, parties might consider explicitly excluding misuse from the arbitrator's jurisdiction or avoid getting into arbitration in circumstances where a misuse defense is an above-average possibility.[80]

C. *Remedies*

Although the problem is not as complex as those just discussed, some mention of remedies seems necessary. Section 294 makes no mention of remedies. Does this mean that arbitrators are limited to traditional remedies,[81] or do they have the power, *e.g.,* to award treble

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[76] Carmichael, note 7, *supra,* at 7, appears to believe that such issues do fall within that provision.

[77] *See generally, Dawson,* note 3, *supra.*

[78] There is little sentiment anywhere for antitrust issues being arbitrable; *see* Gambrell and Kimball, note 35, *supra.* Rather there is considrable opinion to the contrary; *see, e.g.,* Curley, note 11, *supra;* Ransom, *id.* at 113.

[79] Unless perhaps the arbitrator were a retired trial judge with experience in antitrust litigation. For a general discussion of the relationship between misuse and antitrust, *see* Lowin, *Whether Patented or Unpatented . . . .,* 23 IDEA 77 (1982) — particularly at 103.

[80] Perhaps this will not occur as a matter of course insofar as attorneys seem reluctant to arbitrate cases where there is a great deal at stake. *See PTC Research Report,* note 2, *supra; see also* note 45, *supra,* at 176.

[81] *See* A.A.A. Commercial Arbitration Rule 43(1982). Patent Arbitration Rule 43 (1983) explicitly confers power to enjoin infringement. Without more, the arbitrator seems to have more latitude than an American judge.

damages[82] and/or attorney fees?[83] The latter seems more in accord with §294, for to hold otherwise might be a counter incentive to use arbitration and be at odds with the thrust of that section (insofar as can be determined from its scant history). Assuming that the parties have the capacity to resolve the issue between themselves, it would be a good idea to address the issue in the contract.

D. *Miscellaneous Issues and Conclusion*

One would have to be an optimist, indeed, not to anticipate still other unresolved issues. However, the patent bar should take heart from having a single appellate court with jurisdiction over most of them.[84]

Not only is it a court with judges having an excellent grasp of patent law and policy, but it is also in a unique position to guide and encourage the development of arbitration as an alternative to patent litigation. Moreover where, as with validity, there are three, rather than two, options, it is in a position to coordinate their use.[85]

Thus, notwithstanding a few loose ends, patent disputes are susceptible to quicker, cheaper, and, most importantly, more predictable resolution than ever before. If this does not strengthen the patent system, our bar will have to look to itself for the cause.

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[82] 35 U.S.C. §284.

[83] 35 U.S.C. §285. *See also Stevenson,* note 68, *supra.*

[84] Apparently including antitrust disputes when linked with a substantial patent dispute. *See* 28 U.S.C. §1295. *Compare* S.REP. NO. 97-275, 97th Cong., 2d Sess., 19, *reprinted in* [1982] U.S. CODE CONG. & AD. NEWS, 29.

[85] Deciding, for example, under what circumstances a stay of one would be appropriate pending resolution of an issue by another. *See, e.g.,* notes 22 and 63, *supra.*

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