

Problems in Patent Litigation: Mandatory Mediation May Provide Settlements and Solutions

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I. INTRODUCTION

The system currently in place in the United States for granting and protecting patents has been around for many years. For most of that time, it has served its purpose well and operated in a fairly effective and efficient manner. In recent years, however, developments in science and technology have produced a new generation of advances that are increasingly complex. Correspondingly, the legal system has had difficulty adapting to the new technology.

The difficulty in adaptation to recent scientific advances has been particularly prominent in patent litigation actions. It has been noted that judges and juries may be susceptible to rendering under-informed decisions in these cases. Furthermore, the new ideas and inventions embodied in patents often must be quickly placed into the marketplace, or the technology embedded in the patent risks obsolescence. Therefore, it is of paramount importance that patent disputes be resolved promptly to avoid such a result. Unfortunately, the current system of patent litigation is quite slow and inefficient. Excessive discovery costs, high fees for expert witnesses and the temporal and monetary costs of "educating" judges and juries in scientific principles and patent law all contribute to shortcomings of civil patent litigation.

This Note will first examine various problems with the current system of litigation in the context of patent disputes. It will next explore alternative dispute resolution (ADR) as a means to address some of the shortcomings of litigation. Finally, this Note will propose and examine the desirability of a system of mandatory ADR for patent disputes.

II. BACKGROUND

The power of Congress to award patents to inventors for their new inventions is provided in the Constitution.¹ Congress first authorized the issuance of patents for certain inventions in the Patent Act of 1790.² Since

¹ "The Congress shall have Power . . . 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." U.S. CONST. art. I, § 8, cl. 8.

² Act of Apr. 10, 1790, ch. 7, 1 Stat. 109 (1790) (repealed 1793).

the Patent and Trademark Office (PTO) was established in 1836,³ over five million patents have been awarded to various inventors.⁴ Utility patents are awarded to inventors for their innovations that meet the three basic statutory requirements of novelty, utility and nonobviousness.⁵ Once granted, a patent affords its holder a series of powerful rights, including the right to exclude others from making, using or selling the claimed invention.⁶ A copy of the patent, which includes the patentee's enabling description of the invention, is kept by the PTO and is available to the public to read and inspect.⁷ After the term of the patent expires, anyone in the United States is free to make or use the technology. Thus, our patent system effectively offers inventors a monopoly, for a limited time,⁸ in exchange for full disclosure of the invention.⁹

Patent law is quite a fertile field for litigation.¹⁰ The most common form of patent litigation is an action in patent infringement, wherein the patent holder alleges that a second party has infringed upon one or more of the claims of the patent.¹¹ Other common *inter partes* patent issues include disputes as to licensing agreements, challenges to the validity of the patent and interference proceedings.¹²

³ See FLOYD D. VAUGHAN, *THE UNITED STATES PATENT SYSTEM: LEGAL AND ECONOMIC CONFLICTS IN AMERICAN PATENT HISTORY* 19 (1956).

⁴ See *In re Fressola*, 22 U.S.P.Q. 2d (BNA) 1828, 1830 (1992).

⁵ See 35 U.S.C. §§ 101-103 (1988).

⁶ See 35 U.S.C. § 154 (1988).

⁷ See 35 U.S.C. §§ 112-113 (1988) (requiring the applicant to submit a written description and drawing, as necessary, of the invention specific enough to allow a person skilled in the area to make and use the invention). See also *Guaranty Trust Co. v. Union Solvents Corp.*, 54 F.2d 400, 403 (D. Del. 1931) (noting that the inventor "pays" for the patent by fully disclosing the invention in such a way to allow others to make or use it).

⁸ Recent General Agreement of Tariffs and Trade (GATT) legislation has changed the patent term to twenty years from the date of application. See Kenneth J. Burchfiel, *U.S. GATT Legislation Changes Patent Term*, 77 J. PAT. & TRADEMARK OFF. SOC'Y 222 (1995).

⁹ The rights enjoyed by a patentee are the reward offered to the inventor in exchange for the benefits the public receives after the patent expires. See *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 401-402 (1911).

¹⁰ See PETER D. ROSENBERG, *PATENT LAW FUNDAMENTALS* § 17.00, at 17-3 to 17-4 (2d ed. 1980).

¹¹ Infringement is defined in 35 U.S.C. § 271(a) (1988). "[W]hoever without authority makes, uses, or sells any patented invention, within the United States during the term of the patent therefor infringes the patent." *Id.*

¹² Interference proceedings are held within the PTO to determine which of two or more parties is the inventor of the claimed invention. It is termed an interference proceeding because the hearing takes place whenever the Commissioner of Patents has reason to believe

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III. INEFFICIENCIES AND COMPLICATIONS IN PATENT LITIGATION

Most patent disputes are resolved through the standard civil litigation action. The complainant files suit, usually in federal court,¹³ and the case is placed on the docket and ultimately resolved. There are, however, many problems with the current system that render it unsatisfactory in several respects. Although some of the problems are inherent in our judicial system and pervade all litigation actions, many of the problems are more pronounced in the area of patent litigation. Of course, no system of resolving disputes can be completely free of imperfections, and the ultimate appraisal lies in comparing one system's benefits and drawbacks with the available alternatives. In several of the problems detailed below, however, the shortcomings of patent litigation may be alleviated or eliminated through the use of ADR.

A. *Lost Opportunities*

A major problem with patent litigation arises from the high cost of lost opportunities. Patents possess value largely because they represent advances over the current, existing state of technology. The cost of lost opportunities due to time spent in litigation to determine the status of a patent, or to clarify terms in a patent-related contract, may diminish, or even completely dissipate, the value of the patent.¹⁴ It has been noted that "[w]hat is today's innovation is tomorrow's obsolete product."¹⁵ Thus, prompt resolution of patent disputes is very important to the patent owner.¹⁶ Although patent holders may continue to market their patents during the pendency of patent disputes, the uncertainty of the outcome of the lawsuits often discourages

an application "interferes" with another pending application or unexpired patent. See 35 U.S.C. § 135 (1988).

¹³ Federal district courts have exclusive jurisdiction over patent infringement cases. See 28 U.S.C. § 1338(a) (1988).

¹⁴ See William F. Heinze, *Patent Mediation: The Forgotten Alternative in Dispute Resolution*, 18 AIPLA Q.J. 333, 344 (1991) (discussing the high costs of lost opportunities).

¹⁵ Roger S. Borovoy, *Alternative Means of Resolving High Technology Disputes*, in PATENT ANTITRUST 1989, at 539, 542 (PLI Patents, Copyrights, Trademarks & Literary Property Course Handbook Series No. 270) [hereinafter PLI/Pat].

¹⁶ See Karl P. Kilb, Note, *Arbitration of Patent Disputes: An Important Option in the Age of Information Technology*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 599, 611 (1993) (discussing the need for quick resolution of patent disputes in the computer industry).

parties from further developing and marketing their inventions.¹⁷ The litigation process thus delays many new ideas from reaching the marketplace.

New technological advances now arise at an ever-increasing rate, and the time frame for which each new invention has significant utility or value is steadily shrinking. Further, the advent of the "information highway" and other electronic communication and informational services will continue to increase the potential for patent disputes,¹⁸ placing more and more scientific advances in the hands of the courts. It is poor policy to allow these advances, embodied in the form of patents, to be fettered in the courtroom, instead of freeing the new technology to be put to productive uses.

B. Costs

Another problem with the current litigation system arises because patent litigation is particularly costly.¹⁹ Fees for discovery, experts, court costs and attorney fees can put an immense financial strain on parties to a patent litigation action. When signing a bill into law that authorized enforceable arbitration of patent disputes,²⁰ President Reagan specifically noted the "inordinately high cost of patent litigation" as a justification for the measures.²¹ Although most of these litigation costs are also present in a typical civil action, the expenses are often significantly more pronounced in patent disputes.

The largest factor contributing to patent litigation costs is usually the high cost of discovery.²² Discovery can be a meticulous procedure in any civil litigation case, but in high-technology dispute each round of discovery usually discloses another layer of problems that must be explored.²³ Thus, discovery becomes a painstaking process, much like peeling an onion,²⁴ and may take years to complete. Each successive round of discovery, of course, further escalates costs.

¹⁷ See Gregg A. Paradise, *Arbitration of Patent Infringement Disputes: Encouraging the Use of Arbitration Through Evidence Rules Reform*, 64 *FORDHAM L. REV.* 247, 251-252 (1995).

¹⁸ See Kilb, *supra* note 16, at 611.

¹⁹ See Paradise, *supra* note 17, at 253.

²⁰ See 35 U.S.C. § 294 (1988). For further discussion of this legislation, see *infra* Part IV.A.

²¹ Statement on Signing the Patent and Trademark Office Appropriations Bill, II *PUB. PAPERS* 1087 (Aug. 28, 1982).

²² See Paradise, *supra* note 17, at 253.

²³ See Borovoy, *supra* note 15, at 541.

²⁴ See *id.*

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Another factor contributing to the high expense of patent cases is their heavy reliance upon expert testimony. Both parties normally require experts to bolster their case, and the outcome of the dispute often hinges upon their testimony.²⁵ Thus, expert witnesses must spend long hours preparing for their testimony, and may testify at great length, both of which increases their fees. Attorney fees may also be higher in patent cases because the attorneys may spend significant amounts of time learning the technical subject matter underlying the patent. The attorney must first invest time to understand the underlying scientific principles before he or she can effectively argue the case on its merits,²⁶ and this time is of course billed to the client.

C. *Unfair Advantages*

Delays in patent litigation may place disparate burdens on the parties due to differing impacts of the uncertainties of the litigation. For example, litigation involving the validity of the patent may provide an incentive for the patent holder to delay the litigation. Although deferrals and postponements may hurt the nonpatent holder due to the economic harm of lost opportunities,²⁷ the patent holder does not experience a corresponding harm. Similarly, in cases in which the patent holder sues an alleged infringer, the uncertainty of the litigation may prevent the alleged infringer from further developing, manufacturing or marketing the product, and this "lost time" imposes a hardship upon that party. One party may thereby impose economic losses on its opponent through use of tactical stalling techniques. The possibility for parties to benefit from intentional delay is both unfair and inefficient.²⁸ This is especially problematic because many products and methods possess only a limited window of opportunity to gain entry into the marketplace.

²⁵ See Paradise, *supra* note 17, at 275.

²⁶ The attorney must, in turn, educate the judge and jury as to the underlying scientific principles. This extra time in the courtroom further escalates costs and contributes to other problems discussed further in this Note.

²⁷ The nonpatent holder may continue to market the product during the course of litigation, but the uncertainty surrounding the legality or profitability of doing so may effectively prevent this. See Paradise *supra* note 17 and accompanying text.

²⁸ But see Borovoy, *supra* note 15, at 542 for discussion that it may be in the interest of the defendant to avoid delays because the plaintiff may accept less from the defendant in exchange for a speedier resolution.

D. Prolonged Proceedings

The current patent litigation system is also problematic in the length of time required to resolve cases that go to trial.²⁹ Longer delays increase costs,³⁰ but protracted litigation can also cause other, distinct problems. Delays and lengthy trials cause frustration and reduce the public's confidence in the court system. Time lapses also contribute to lost and unavailable evidence, thus increasing the risk of error at trial.³¹ Delays can also further aggravate the high cost of lost opportunities. Finally, it is a goal of the federal court system to provide for speedy resolution of disputes.³²

The primary factor contributing to lengthy patent trials, even more so than regular trials, is the significant amount of time afforded to discovery. Discovery in patent cases is usually detailed and meticulous, and thus very time-consuming.³³ Additional time delays, although fairly minor when compared to the prolonged periods of discovery, may also occur in the courtroom. Once at trial, attorneys often have to invest time in educating judges and juries as to either the technical background of the subject matter or a basic background of patent law.

Our justice system strives to provide speedy resolution of disputes, but timeliness has been a particular problem with patent cases. The average time to resolve a patent infringement suit, from filing to final appellate determination, is over one-third of the former seventeen-year life of a patent.³⁴

²⁹ In 1968, 1969 and 1970, while more than 90% of civil cases were resolved within three full days of trial, while less than 50% of patent cases were resolved in the same amount of time. See Kilb, *supra* note 16, at 602. Note, however, that most patent cases, like other disputes, settle prior to trial.

³⁰ As noted in Part III.B.

³¹ See Edward A. Bernstein, *Law & Economics and the Structure of Value Adding Contracts: A Contract Lawyer's View of the Law & Economics Literature*, 74 OR. L. REV. 189, 206 (1995).

³² The Federal Rules of Civil Procedure are to be "construed and administered to secure the just, speedy, and inexpensive determination of every action." FED. R. CIV. P. 1. See also *Brown Shoe Co. v. United States*, 370 U.S. 294, 306 (1962) (stating that these principles are the "touchstones of federal procedure").

³³ See Borovoy, *supra* note 15, at 541.

³⁴ See Tom Arnold, *Alternative Dispute Resolution in Intellectual Property Cases*, in PATENT LITIGATION 1992, at 667, 672 (PLI/Pat Series No. G-350). The term of a patent has since been extended from seventeen years from date of issue to twenty years from date of filing of the application. See *supra* note 8 and accompanying text.

E. *Complexity of Patent Law and Scientific Principles: Uneducated Verdicts*

An additional problem with the current system arises from the complex technology that often underlies the basic dispute in patent cases. The fact-finder often has difficulty understanding the basic technology behind the dispute, which can result in unfair outcomes. For example, a defendant in a patent litigation suit may utilize a manufacturing process that produces exactly the same end result as the plaintiff's patented process. However, if the end result of the defendant's process is accomplished in a different manner from that of the plaintiff, there is no patent infringement.³⁵ Difficulties may arise because the differences between the two processes will often entail fine distinctions that invoke complex principles of science or engineering. It may be challenging for even a highly skilled attorney to explain these differences to the fact-finder. Even if the distinction is well explained, it may be unreasonable to expect the judge or jury to comprehend the science behind the technical explanation.³⁶

Thus, underinformed, or even flatly uninformed, verdicts may be rendered at trial.³⁷ Decisions based upon inappropriate or irrelevant grounds, or perhaps upon nothing more than mere guessing, may decide these highly consequential lawsuits. Indeed, the U.S. Supreme Court noted that "patent litigation can present issues so complex that legal minds, without appropriate grounding in science and technology, may have difficulty in reaching decision [sic]."³⁸

Besides the complexity of the information, the sheer volume of factual information presented at trial burdens the judge and jury even further. Patent trials are often lengthy to begin with, and evidence tends to multiply

³⁵ "A patented process is infringed only by the unauthorized performance of substantially the same process steps in substantially the same way to accomplish substantially the same result." *Devex Corp. v. General Motors Corp.*, 667 F.2d 347, 358 (3d Cir. 1981) (citing *Int'l Glass Co. v. United States*, 408 F.2d 395, 400), *aff'd*, 461 U.S. 648 (1983).

³⁶ Judge Friendly once noted, "This patent appeal is another illustration of the absurdity of requiring the decision of such cases to be made by judges whose knowledge of the relevant technology derives primarily, or even solely, from explanations by counsel . . ." *General Tire & Rubber Co. v. Jefferson Chem. Co., Inc.*, 497 F.2d 1283, 1284 (2d Cir. 1974), *cert. denied*, 419 U.S. 968 (1974).

³⁷ *See Paradise*, *supra* note 17, at 254 (questioning the overall quality and fairness of court judgments in patent litigation cases).

³⁸ *Blonder-Tongue Lab. Inc. v. University of Ill. Found.*, 402 U.S. 313, 331 (1971). Further, the important task of claim interpretation is exclusively in the hands of the court. *See Markman v. Westview Instruments, Inc.*, 116 S. Ct. 1384 (1996).

exponentially as the number of issues increases.³⁹ Thus, in order to appropriately analyze the dispute, the fact-finder is expected to not only retain the extensive amounts of factual information presented, but to also accurately apply the newly learned scientific principles to those facts. This, clearly, is a demanding and somewhat unrealistic expectation.⁴⁰

Furthermore, the area of patent law itself is unique and unlike other traditional areas of law. It can be difficult to master, even for those trained in law. Decisions in several patent cases reveal that some judges, too, can have an underlying ignorance of patent law.⁴¹

Somewhat abating the problem of uneducated verdicts is the fact that under 28 U.S.C. Section 1295, the Court of Appeals for the Federal Circuit (CAFC) has exclusive jurisdiction of appeals from district courts in cases relating to patents. The CAFC has thereby accumulated a great deal of experience in patent cases and has displayed a solid technical grasp of many issues. Nevertheless, it is inefficient to rely upon an appellate body to correct oversights and errors in the lower courts. Furthermore, the CAFC does not have the time or resources to micromanage district courts, and it would presumably prefer to guide policy rather than review for errors. Finally, parties do not always have the resources available to appeal to the CAFC.

F. *Overcrowded Dockets*

Another problem with the current system, perhaps a symptom of all of the other problems, is the congested dockets of the court system. The overloaded system slows the resolution time for patent disputes, and the lengthy nature of patent litigation further burdens the system. The federal courts are already crowded,⁴² and the number of intellectual property

³⁹ Cf. David W. Plant, *Arbitration of Patent Cases*, in PATENT LITIGATION 1986, at 137, 144 (PLI/Pat Series No. 233).

⁴⁰ See Seymour E. Hollander, *Patent Counsel Debate Pros and Cons of ADR*, NAT'L L.J., Jan. 27, 1997, at C20 (noting that the issue of infringement of a patent may be beyond the grasp of any juror in complex cases).

⁴¹ See Arnold, *supra* note 34, at 674-675 (discussing misunderstandings and contradictions by judges at both the trial and appellate levels).

⁴² See David W. Plant, *ADR and Patents*, in PATENT LITIGATION 1992, at 797, 800 (PLI/Pat Series no. G-350). *But see* J. Stratton Shartel, *Legislation Authorizing Mandatory Arbitration Should Be Scrapped*, 8 No. 8 INSIDE LITIG. 2, Sept. 1994 (discussing Federal Court Management Statistics reporting that the number of cases tried in federal trial courts has been cut by one-third since the 1970s).

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actions filed is rapidly increasing.⁴³ Thus, a method of dispute resolution that could ease the load on the court system and lead to quicker resolution of disputes would be a welcome improvement. A system for resolving patent disputes that helps to reduce costs, is more efficient, helps to ensure well-educated verdicts and eases the workload on the federal courts is unquestionably preferable to the current system.⁴⁴ Incorporating ADR processes into the current litigation system may help provide several of these desired results with few or no adverse effects.

IV. BENEFITS ADR CAN BRING TO PATENT DISPUTES

A. Federal Initiatives

Historically, courts have looked unfavorably upon the use of ADR to resolve questions of patent validity and infringement.⁴⁵ The reasoning of the tribunals was that these issues raise strong public policy concerns, and thus resolution of these issues should remain in the exclusive jurisdiction of the federal court system.⁴⁶

However, the federal-level reluctance to endorse ADR for patents has changed in recent years. In 1982, Congress amended the Patent Act, adding Section 294, which ensured that agreements to submit patent disputes to arbitration are enforceable in court.⁴⁷ Thus, disputes as to patent validity, infringement and enforceability may now be submitted to binding arbitration. The House Committee on the Judiciary reported favorably upon the use of arbitration, noting:

⁴³ From 1972 to 1987, the number of intellectual property actions among the 1,000 largest corporations nearly doubled. See Plant, *supra* note 42, at 800.

⁴⁴ It has been recognized that a strong need exists for "procedures alternative to litigation which can resolve patent disputes." Kevin R. Casey, *Alternative Dispute Resolution and Patent Law*, 3 FED. CIRCUIT B.J. 1, 1 (1993).

⁴⁵ See, e.g., *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55, 63 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971); *Foster Wheeler Corp. v. Babcock & Wilcox Co.*, 440 F. Supp. 897, 901 (S.D.N.Y. 1977); see also *United States v. Singer Mfg. Co.*, 374 U.S. 174, 199-200 (1963) (White, J., concurring).

⁴⁶ In *Beckman*, the court adopted the district court's reasoning in noting:

The complex principles of patent law which a court must consider and apply when deciding issues of validity and infringement, affect important questions of public policy and public rights. In considering the validity of patent claims, a court makes decisions crucial not only to the parties involved, but of vital importance to the public generally.

433 F.2d at 63.

⁴⁷ See 35 U.S.C. § 294 (1988).

The advantages of arbitration are many: it is usually cheaper and faster than litigation; it can have simpler procedural and evidentiary rules; it normally minimizes hostility and is less disruptive of ongoing and future business dealings among the parties; it is often more flexible in regard to scheduling . . . and, arbitrators are frequently better versed than judges and juries in the area of trade customs and the technologies involved in these disputes.⁴⁸

This legislation represents a federal policy favoring voluntary resolution of patent disputes by the parties themselves.⁴⁹ Furthermore, Congress has also passed legislation that allows for the arbitration of in patent interferences.⁵⁰ The statute serves to broaden what constitutes an interference and simultaneously encouraged the use of arbitration to settle interference disputes.⁵¹

Further, in May, 1996 Executive Order 12988 on Civil Justice Reform became effective. That order enumerates guidelines that encourage federal agency litigation counsel to consider the possibility of using ADR in civil actions against the agency.⁵² Indeed, one area in which ADR may be utilized is in civil actions against the United States Patent and Trademark Office.⁵³ The judicial branch has also expressed its approval for ADR techniques. The United States Supreme Court recently endorsed general arbitration for Security Exchange Act and RICO⁵⁴ claims against stockholders, and claims under the Sherman Act in international commerce.⁵⁵ Several other decisions by the Court have demonstrated approval of ADR techniques in a variety of other settings.⁵⁶ Thus, recent

⁴⁸ H.R. REP. No. 97-542, 97th at 12 (1982).

⁴⁹ See Sol L. Goldstein, *Arbitration of Disputes Relating to Patent Validity or Infringement*, 72 ILL. B.J. 350, 351 (1984).

⁵⁰ See 35 U.S.C. § 135(d) (1994).

⁵¹ See Kilb, *supra* note 16, at 605-606.

⁵² See Charles E. Miller et al., *Executive Order Allows PTO Action Arbitration*, NAT'L L.J., Jan. 27, 1997, at C18.

⁵³ See *id.*

⁵⁴ Racketeer Influenced and Corrupt Organization Act (RICO), 18 U.S.C. §§ 1961-1968 (1994).

⁵⁵ See Robert D. Raven, *Alternative Dispute Resolution: Expanding Opportunities*, in *MEDIATION AND ARBITRATION: A HANDBOOK FOR ATTORNEYS AND THEIR CLIENTS II-62, II-63* (Charles A. Cooper et al. eds., 1991).

⁵⁶ See, e.g., *Rodriguez de Quijas v. Shearson/American Express, Inc.*, 490 U.S. 477 (1989); *United Paperworkers Int'l Union v. Misco, Inc.*, 484 U.S. 29 (1987); *Perry v. Thomas*, 482 U.S. 483 (1987); *Southland Corp. v. Keating*, 465 U.S. 1 (1984).

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federal mandates demonstrate an approval of ADR in general and also specifically support the application of ADR to patent disputes.

B. *ADR Overview*

ADR techniques vary widely and are not subject to any uniform definitions.⁵⁷ In fact, ADR processes are often designed without a firm definition and remain malleable so that the participants may mold the procedures to their own liking.⁵⁸ Nevertheless, this section briefly describes some common characteristics of the two forms of ADR that are analyzed in this Note: arbitration and mediation.

1. *Arbitration*

Arbitration is a process that usually involves the presentation of the dispute to a fact-finder, who then renders a decision, opinion or award. The arbitrator, or panel of arbitrators, reviews the evidence and oversees the proceedings, and in this sense is similar to a judge. Both parties usually retain counsel to present their cases through both documents and argument.

Discovery is typically quite limited in arbitration proceedings,⁵⁹ and rules of evidence usually do not apply unless the parties agree otherwise.⁶⁰ Evidence is received during the hearing and its credibility weighed by the arbitrator.⁶¹

Arbitration is further subdivided into the categories of binding and nonbinding.⁶² In nonbinding arbitration, the arbitrator renders a decision that neither party is compelled to follow. The arbitrator furnishes the decision to communicate his perspective on the various claims, and to thereby instigate further settlement talks between the parties.⁶³ In contrast, when binding arbitration is utilized, the arbitrator renders a definitive award that is enforceable in court. A written opinion is often issued to supplement or explain the award. When "arbitration" is used, most intend the term to

⁵⁷ See Arnold, *supra* note 34, at 711.

⁵⁸ See Donald A. Rowe, *Issues re ADR Procedures*, in ALTERNATIVE DISPUTE RESOLUTION GUIDE 19 (American Intellectual Property Law Association Alternative Dispute Resolution Committee ed., 1995).

⁵⁹ See *id.* at 20.

⁶⁰ See *id.* at 21.

⁶¹ See Arnold, *supra* note 34, at 728.

⁶² See David W. Plant, *Overview of ADR Procedures*, in ALTERNATIVE DISPUTE RESOLUTION GUIDE, *supra* note 58, at 3.

⁶³ See Arnold, *supra* note 34, at 726-727.

connote "binding arbitration." Unless otherwise specified, this Note will follow the same convention.

2. Mediation

"Mediation" also encompasses a wide range of ADR techniques. At its core, however, mediation entails a procedure for facilitating voluntary settlement, wherein no adjudications or decisions are imposed.⁶⁴ Instead, the mediator communicates directly with the parties or their counsel and may even allow the parties to talk directly to each other. The mediator may also caucus privately with each party to cultivate open lines of communication.⁶⁵

The mediator does not pass judgment on the parties' respective claims, but instead strives to bring the parties to a better understanding of where their points of agreement and difference lie.⁶⁶ The mediator may then use this information to help bring the parties to a common ground. Mediation is purely voluntary, and the mediator cannot bind the parties to any particular result.⁶⁷ The process requires compromise and cooperation, and therefore, the mediator's skill is crucial to the success of the mediation.⁶⁸

There are a variety of options for parties who wish to utilize ADR to commence ADR proceedings. Parties that have previous dealings may agree to submit their disputes to arbitration, mediation or one of the many other forms of ADR (including neutral evaluation, summary jury trials, minitrials, final-offer arbitration or various hybrids of these techniques).

As noted earlier, binding arbitration agreements involving patents are now enforceable by the courts.⁶⁹ When settlements are reached through mediated agreements, enforcement of the agreements is governed primarily by contract law.⁷⁰ Many patent disputes, however, arise between parties that have not had any previous dealings. In these cases, in order to use ADR,

⁶⁴ See Plant, *supra* note 62, at 5.

⁶⁵ See *id.*

⁶⁶ See NANCY H. ROGERS & CRAIG A. MCEWEN, *MEDIATION: LAW, POLICY, PRACTICE* 8 (1989).

⁶⁷ See *id.* at 1.

⁶⁸ See Plant, *supra* note 62, at 5.

⁶⁹ 35 U.S.C. § 294 (1988).

⁷⁰ See NANCY N. ROGERS & R. SALEM, *A STUDENT'S GUIDE TO MEDIATION AND THE LAW* 156 (1987) (citing Robert P. Burns, *The Enforceability of Mediated Agreements: An Essay on Legitimation and Process Integrity*, 2 OHIO ST. J. ON DISP. RESOL. 93 (1986)).

the parties must agree to submit their dispute to ADR after the dispute has arisen.⁷¹

Another manner in which to enter ADR proceedings is under “court-annexed” or “judicial” arbitration or mediation. Courts will not usually mandate arbitration without the parties’ consent, so mandatory mediation is the more common of the two. However, when mandatory arbitration is in fact directed, once the parties participate in the arbitration proceedings, the decision may become binding if neither party makes a timely request for a trial *de novo*.⁷² Conversely, if the court so wishes, the award given by the arbitrator may be completely nonbinding and given solely to facilitate settlement talks.⁷³

C. Arbitration of Patent Disputes

Arbitration offers many advantages over the current system of patent litigation. One major advantage of arbitration over patent litigation is attributed to the fact that the parties may select an arbitrator who is experienced and knowledgeable in the area of patent law. It is, in fact, strongly recommended that the chosen arbitrator be familiar with the body of patent law.⁷⁴ Furthermore, if the patent at issue involves a complicated area of technology, the parties may also select an arbitrator with technical expertise in that particular field.

Having an arbitrator who is familiar with patent law, or, if necessary, the underlying technology, to rule on the case will help to eliminate many of the problems highlighted above. The use of expert testimony may be significantly decreased. Less time will be spent in the courtroom “educating” the fact-finder,⁷⁵ and arbitration can be structured by the parties to proceed much faster than litigation. One commentator noted 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.⁷⁶ The same commentator further notes that if the arbitration is handled with skill and

⁷¹ It should be noted that it is generally more difficult to get parties to agree to submit their claims to ADR after, as opposed to before, the triggering event has occurred. See Plant, *supra* note 39, at 140.

⁷² See Arnold, *supra* note 34, at 737–738.

⁷³ See *id.* at 726–728.

⁷⁴ See Borovoy, *supra* note 15, at 545; See also Goldstein, *supra* note 49, at 352.

⁷⁵ See Rowe, *supra* note 58, at 25.

⁷⁶ See Arnold, *supra* note 34, at 679. However, it has been noted that procedural formalities and a reluctance of arbitrators to sanction parties in order to control their attorneys may make some arbitrations as time consuming as litigation. See Heinze, *supra* note 14, at 342.

experience, he can "almost guarantee" that arbitration costs should be less than fifty percent of the litigation costs of a patent infringement suit.⁷⁷ Furthermore, the use of an individual with technical expertise as an arbitrator should serve to virtually eliminate any problems arising from uneducated verdicts.

The streamlined discovery procedures utilized in arbitration can result in significant time and cost savings.⁷⁸ The problems of protracted litigation leaving a patent out-dated and diminished in value, will, in turn, also be diminished. Furthermore, although the incentive for parties to delay the proceedings will still be present, their ability to do so will be severely undermined.

A common criticism of arbitration is that the arbitrators are often perceived as rendering "compromise verdicts" in which they simply split the difference between both parties' demands.⁷⁹ When this happens, both parties may walk away unsatisfied.⁸⁰ However, this may be an unfair criticism as it has been noted that both judges and juries also regularly render compromise verdicts.⁸¹ Nevertheless, this issue remains a common complaint among parties to arbitration.

Another criticism of arbitration is that it may not solve the underlying dispute between the parties.⁸² If there is a more fundamental disagreement or source of animosity between the parties, arbitration will usually only resolve the current, surface dispute without mending the deeper conflict. However, the same shortcoming is also present in patent litigation. Furthermore, because the proceedings in arbitration are less adversarial,⁸³

⁷⁷ See *id.* Another writer noted that the cost of arbitration may be as low as 10% of the cost of traditional litigation. See Thomas L. Creel, *Factors in Deciding Whether to Use ADR in Patent Disputes*, in ALTERNATIVE DISPUTE RESOLUTION GUIDE, *supra* note 58, at 33.

⁷⁸ See Kenneth B. Clark & William A. Fenwick, *Structuring An Arbitration Agreement for High Technology Disputes*, 9 No. 9 COMPUTER LAW. 22, 23 (1992). However, it has also been noted that streamlined discovery may also undercut the quality of fact-finding. See Patrick Johnston, *Civil Justice Reform: Juggling Between Politics and Perfection*, 62 FORDHAM L. REV. 833, 878 (1994). Furthermore, many attorneys and clients may avoid arbitration because of the lack of conformity to the rules of evidence. See Paradise, *supra* note 17, at 269-273.

⁷⁹ See Heinze, *supra* note 14, at 339.

⁸⁰ See *id.*

⁸¹ See CPR TECHNOLOGY COMMITTEE, ALTERNATIVE DISPUTE RESOLUTION IN TECHNOLOGY DISPUTES 8 (1993) [hereinafter TECHNOLOGY DISPUTES]; See also Arnold, *supra* note 34, at 685.

⁸² See Heinze, *supra* note 14, at 343.

⁸³ See Paradise, *supra* note 17, at 264; See also Heinze, *supra* note 14, at 346. But see Stephen B. Goldberg, *The Mediation of Grievances*, 77 NW. U. L. REV. 270, 276 (1982)

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and are carried out on a smaller scale than full-blown litigation, arbitration will be more successful than litigation at maintaining relationships between disputants.⁸⁴

Traditionally, parties have avoided arbitration when the dispute involves the potential for very high gains or losses.⁸⁵ The predictability provided by the Federal Rules of Evidence, the Federal Rules of Civil Procedure and *stare decisis* may be reasons to turn to the courts for high-stake disputes. Furthermore, when clients are faced with large gains or losses, they tend to feel more secure if they have invested large amounts of resources into bolstering their position. Because of the large monetary values that patents may possess, it is often difficult to persuade clients to submit a high-stakes patent dispute to arbitration.⁸⁶ It has been noted that to do so may be considered by the client to be "penny-wise and pound-foolish."⁸⁷

However, it should be noted that whatever resources one side invests in litigation, the other is sure to attempt to match. This is not to say parties should not invest significant resources into strengthening their position, but doing so does not always help put a party in a better position than it would have been in without investing the resources. This is especially true when both sides have nearly equal resources. In order for arbitration to be used in patent disputes, clients should be counseled that they need not fear the process simply because it costs less. They should be instructed that arbitration still seeks a fair and just result, and that simply because it costs less does not mean it is "poor justice." Not every case will be appropriate for arbitration.⁸⁸ However the cost savings that ADR can offer may be substantial. In fact, it has been argued that ADR techniques offer their best savings during high-stake disputes, because it is in these cases that clients stand to save the most legal fees.⁸⁹ It has also been noted that ADR may function at its best during high-stake disputes.⁹⁰

(noting that the adversarial nature of arbitration is responsible for excessive delays, high costs and formality in arbitration proceedings).

⁸⁴ See Arnold, *supra* note 34, at 675.

⁸⁵ See Creel, *supra* note 77, at 32.

⁸⁶ See *id.*

⁸⁷ Hollander, *supra* note 40, at C20.

⁸⁸ Common examples include disputes where the law is uncertain, where nonmonetary relief is being sought, or where a party has a significant procedural advantage in litigation. See Rowe, *supra* note 58, at 18.

⁸⁹ See Heinze, *supra* note 14, at 345.

⁹⁰ See Arnold, *supra* note 34, at 677.

D. Mediation of Patent Disputes

Although arbitration of patent disputes can help to alleviate many of the problematic aspects of patent litigation, mediation may provide an even more attractive alternative. Mediation has many of the same characteristics as arbitration, and thus brings many of the same advantages to the proceedings. Streamlined discovery, less reliance upon expert testimony and the presence of expert fact-finders help to reduce costs, save money and produce better-educated decisions. Furthermore, the stigma of compromise verdicts often associated with arbitration is avoided because any settlements reached are arrived at voluntarily.

Mediation provides an additional advantage over arbitration and litigation in that it better preserves future business relations between parties.⁹¹ Because mediation is usually less adversarial than both litigation and arbitration, it is easier to continue friendly business relations after the process is completed.⁹² Furthermore, because the nature of mediation proceedings is nonadversarial and cooperative, the parties may work out a solution to a long-standing problem that has been a recurring source of friction and thus permanently remove the troublesome source. As a result, a valuable client or supplier may be retained, and the parties are enabled to successfully continue a mutually advantageous business relationship. This reduces the transaction costs associated with developing and establishing new business ties.⁹³

Often, voluntary settlement of patent disputes may be inhibited by the technical nature of the dispute. Even if the parties want to settle, corporate executives with the authority to settle may not understand the issues underlying the dispute. Through participation in mediation proceedings, the corporate executives may become more relaxed, more informed as to the issues and more amenable to settlement.⁹⁴ Thus, mediation may provide more settlements in high-technology disputes than would otherwise exist.

Finally, complex cases of a technical nature are particularly well-suited to resolution by mediation.⁹⁵ ADR procedures can offer flexibility and creativity in resolving the dispute,⁹⁶ which can be particularly helpful in patent disputes. Patent disputes are, by nature, more susceptible to win-win

⁹¹ See Creel, *supra* note 77, at 32.

⁹² See TECHNOLOGY DISPUTES, *supra* note 81, at 3.

⁹³ See Creel, *supra* note 77, at 35.

⁹⁴ See TECHNOLOGY DISPUTES, *supra* note 81, at 17.

⁹⁵ See *id.*

⁹⁶ See Raven, *supra* note 55, at II-65.

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solutions than are, for example, general civil tort cases.⁹⁷ In particular, licensing arrangements allow for creative solutions that may be arrived at through mediation but would remain largely unavailable in court-imposed decisions.⁹⁸ Also, it has been found that mediation is a highly successful method of dispute resolution that should help increase the overall settlement of patent disputes.⁹⁹

V. A PROPOSED SOLUTION: MANDATORY ADR FOR PATENT DISPUTES

ADR presents several options that may help to cut costs, save time and increase party satisfaction. However, the use of ADR needs to be increased. There remains a lingering perception among many practicing attorneys that ADR provides less worthwhile outcomes than litigation.¹⁰⁰ Furthermore, lack of education in ADR methods remains a hindrance to adequate usage. Although ADR procedures are widely available throughout the United States, many attorneys are not fully aware of them.¹⁰¹ For example, arbitration of patent disputes under 35 U.S.C. Section 294 has not been utilized as much as expected by its drafters.¹⁰² It has been noted that patent disputes rarely pass through mediation or arbitration but instead usually proceed directly to litigation.¹⁰³ Ideally, patent attorneys should consider the possibility of utilizing ADR for each of their cases.

In addressing the under-utilization of ADR, it has been noted that some corporations have adopted policies that require their management to explore ADR options before turning to the courts.¹⁰⁴ This may help increase usage of ADR, but the time and expense it would take to educate the many corporations that remain unaware of such options can be quite high. Even when informed as to its potential benefits, many corporations may still not

⁹⁷ See Margaret E. Anderson, *Intellectual Property Mediations: Special Techniques For a Special Field*, 3 TEX. INTELL. PROP. L.J. 23, 24 (1994).

⁹⁸ See Creel, *supra* note 77, at 35.

⁹⁹ Ninety percent of mediations conducted by the American Arbitration Association result in settlement. See Yaroslav Sochynsky, *How to Approach Your Client About Mediation*, in *MEDIATION AND ARBITRATION: A HANDBOOK FOR ATTORNEYS AND THEIR CLIENTS*, *supra* note 55, at II-11.

¹⁰⁰ See Heinze, *supra* note 14, at 338.

¹⁰¹ See Raven, *supra* note 55, at II-62 (noting that although attorneys may have heard of ADR, its virtues are often not well understood).

¹⁰² See Creel, *supra* note 77, at 31; See also Paradise, *supra* note 17, at 248 (stating that most patent attorneys and their clients avoid arbitration in general).

¹⁰³ See Hollander, *supra* note 40, at C20.

¹⁰⁴ See *id.*; see also Heinze, *supra* note 14, at 347.

seriously consider ADR as an option. Further, although most patent disputes involve corporations as parties, many disputes involve noncorporate entities that may prove even harder to reach and "educate" than the corporations.

The potential benefits of ADR in the context of patent disputes indicate that serious consideration should be given to initiating mandatory ADR for patent cases.¹⁰⁵ If this initiative were adopted, it could be instituted by requiring the parties to a patent dispute to submit their claims to an ADR procedure before their case could be heard in court. This Note will next explore both the possibilities of instituting mandatory arbitration or mandatory mediation in the context of patent disputes.

A. Mandatory Arbitration

As discussed above, arbitration provides many advantages over patent litigation. Proponents of mandatory arbitration claim that it leads to quicker disposition of cases,¹⁰⁶ reduces out-of-pocket expenses¹⁰⁷ and adds the other advantages of arbitration. However, several problems arise once arbitration is made mandatory. One problem that may arise is that arbitration may simply become another hurdle to be cleared on the way to litigation. If the parties have the right to appeal the arbitrator's decision to the courts and are steadfastly determined to present their case to a court of law, the arbitration proceedings may become a mere formality that wastes both time and resources. Furthermore, mandatory arbitration may abridge a party's right to a trial by jury.¹⁰⁸ Mandatory arbitration may also constitute an unlawful delegation of judicial power,¹⁰⁹ or a denial of due process.¹¹⁰ This is not to say mandatory arbitration must be avoided, but it does appear to be problematic in several respects.

¹⁰⁵ A survey by the American Intellectual Property Law Association in 1995 found that ADR was considered by patent practitioners to be "effective" fifty percent of the time. See COMMITTEE ON ECON. LEG. PRACTICE, AMERICAN INTELL. PROP. L. ASS'N, REPORT OF ECONOMIC SURVEY 1995, at 72.

¹⁰⁶ See Daoud A. Awad, Note, *On Behalf of Mandatory Arbitration*, 57 S. CAL. L. REV. 1039, 1053-1054 (1984) (examining a study comparing the speed of disposition of cases in mandatory arbitration to litigation).

¹⁰⁷ See *id.* at 1054.

¹⁰⁸ See *id.* at 1045-1047.

¹⁰⁹ Article III of the United States Constitution vests the judicial power of the United States in the judiciary. For a discussion of this issue, see *id.* at 1048-1049.

¹¹⁰ See *id.* at 1049-1050.

B. *Mandatory Mediation*

For reasons discussed above, mandatory mediation may be a more attractive option. Although participation in the program would be mandatory, no binding result ensues. Thus, several problems associated with mandatory arbitration, such as the denial of the right to a jury trial, denial of due process and the potential unlawful delegation of power are all avoided. Furthermore, costs due to the "additional hurdle" problem are also greatly reduced. Once the mediation commences, if there is absolutely no possibility of settlement, the mediator will be able to quickly recognize this fact. The parties will then be free to leave mediation quickly after investing only a minimum of resources. Mediation can also provide superior performance over arbitration through benefits such as better-preserved business relations and increased flexibility in fashioning a settlement.

Furthermore, the mediator may occasionally be able to bring parties together who were convinced, prior to the mediation, that they were worlds apart. The mediator may uncover that the parties' positions are not as divergent as initially thought, or the mediator may come up with a previously unconsidered, creative solution to bring the parties to an agreement.¹¹¹

Although there will be some additional problems and costs associated with mandatory mediation,¹¹² the overall benefits due to increased settlements should pay large dividends. Utilizing a professional mediator and forcing the parties to seriously consider settlement should increase settlement levels.¹¹³ This will lead to quicker resolutions and lower costs, both of which are particular problems in the area of patent disputes. The costs to society that arise from courtroom delays of new technology will also be reduced. Mediation may also cause better perceptions of the court system by parties who participate in the proceedings.¹¹⁴ Indeed, aside from the time and relatively modest costs associated with patent mediation,

¹¹¹ See Rowe, *supra* note 58, at 17.

¹¹² Some problems that may arise with mandatory mediation include defining what level of participation is required to have successfully "completed" the mediation, and how to determine or enforce that level of participation. See ROGERS & MCEWEN, *supra* note 66, at 49-52 (1989). There may also be difficulties in defining what constitutes a "patent dispute": for example, should a dispute involving a licensing agreement be classified as a patent dispute?

¹¹³ The fact that mediation is forced does not appear to have a serious effect on the rate of settlement. See *id.* at 47.

¹¹⁴ In at least one study, parties expressed higher levels of satisfaction with mediation than with court proceedings. See Craig A. McEwen & Richard J. Maiman, *Small Claims Mediation in Maine: An Empirical Assessment*, 33 ME. L. REV. 236, 256-257 (1981).

"[t]here seems to be little downside risk for participation in a non-binding procedure"¹¹⁵ Unfortunately, mediation "may also be the least understood [form of ADR] by intellectual property attorneys."¹¹⁶ Thus, a program of mandatory mediation can bring the advantages of a beneficial, under-utilized process to the parties in a patent dispute. This can benefit our court system and society as a whole.

VI. CONCLUSION

Patent litigation has many characteristics that set it apart from other standard civil litigation actions. Its complex technical characteristics lead to greater costs, time expenditures, use of experts and potential for confusion. Patent mediation provides an attractive alternative. Not only are there significant time and money savings, but the parties may present their claims to a neutral third party who will better understand the basic nature of the dispute. Furthermore, the inherent advantages of mediation, such as helping to preserve relations and proposing creative solutions, are also brought to the proceedings. The advantages of mediation appear to be so beneficial that they may warrant making mediation a mandatory process for all parties to a patent dispute.

This is a proposal that, at the very least, deserves further consideration, or perhaps implementation on a trial basis. Further study and experimentation will determine whether the concept is indeed a beneficial one. It is clear, however, that some sort of reform in the area of patent litigation is needed, and mandatory mediation is a step in the right direction toward the ever-present goal of improving our judicial system.

¹¹⁵ Rowe, *supra* note 58, at 19.

¹¹⁶ James F. McKeown, *Characteristics of Neutrals and Advocates*, in ALTERNATIVE DISPUTE RESOLUTION GUIDE, *supra* note 58, at 44.