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ARBITRATION OF PATENT INFRINGEMENT DISPUTES: ENCOURAGING THE USE OF ARBITRATION THROUGH EVIDENCE RULES REFORM

GREGG A. PARADISE

INTRODUCTION

Patent infringement litigation is becoming increasingly prevalent in today's high-technology society. New computer and electronic devices are gradually dominating more aspects of life. There is increasing competition among manufacturers for the exclusive rights to build and market these new inventions.¹ Along with this competition comes a predictable flurry of patent infringement disputes which have led many parties to court.²

Standard litigation in the federal court system, however, is ill-equipped to handle the complex issues presented in patent infringement cases.³ Patent infringement claims usually require comprehension of complex inventions, related prior art, and alleged infringing devices. The testimony given by experts in the technology is often conflicting. Judges and jury members who lack technical expertise often are overwhelmed and confused by such material and lack the

1. See Owen Edwards, *Technology Meets the Toady*, Forbes, Dec. 7, 1992, at 130 (highlighting increasing competition in the software industry); James C. Cooper & Kathleen Madigan, *Business Outlook: The Economy Must Keep its Speed Down to Swerve Away From Inflation*, Bus. Wk., May 8, 1989, at 31 (noting world-wide increasing competition in the manufacturing sector).

Exclusive rights to make, use, and sell inventions are granted through the patent laws of the United States which are promulgated in Title 35 of the United States Code. For purposes of this Note, "inventions" shall include processes, machines, manufactures, and compositions of matter as they are defined in Title 35. 35 U.S.C. § 101 (1994). See *infra* part I.A for a detailed discussion of United States patent laws.

2. This Note will focus its attention on disputes related to patents. Most of the issues discussed in this Note, however, are equally applicable to disputes involving other forms of intellectual property such as trademarks, copyrights, and trade secrets. See, e.g., *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199 (7th Cir. 1987) ("[F]ederal law does not forbid arbitration of the validity of a copyright . . ."); 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 32.56, at 32-257 (3d ed. 1992) ("[I]t appears that there are no legal barriers to arbitration of trademark disputes . . ."); Center for Public Resources, Inc., ADR in Technology Disputes 7 (1987) (stating that trade secret controversies have gone to ADR).

3. The federal district courts have exclusive jurisdiction over patent infringement disputes under 28 U.S.C. § 1338(a) (1988). See generally Donald Shelby Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 Wash. L. Rev. 633, 644-50 (1971) (discussing the breadth of federal court jurisdiction over patent cases).

background to resolve the conflicting assertions.⁴ This confusion can lead to lengthy trials and improper judgments.⁵

The United States court system is not designed for accurate, efficient resolution of major disputes such as patent infringement cases. Indeed, former Chief Justice Warren E. Burger stated:

[Primary reliance on the adversarial process as a means of resolving disputes is] a mistake that must be corrected. . . . For some disputes, trials will be the only means, but for many claims, trials by the adversarial contest must in time go the way of the ancient trial by battle and blood. Our system is too costly, too painful, too destructive, [and] too inefficient for a truly civilized people.⁶

Arbitration of patent infringement disputes in many instances, however, overcomes the deficiencies of court litigation. The features of arbitration that can lead to its superiority over litigation include: relative speed and economy, privacy, convenience, informality, reduced likelihood of damage to ongoing business relationships, simpler procedural and evidentiary rules, and the ability to select arbitrators who are experts and are familiar with the subject matter of the dispute.⁷ Further, the entire nature of arbitration is flexible and may be adapted to the needs of the parties.⁸

Although arbitration is superior to litigation for the resolution of many patent disputes, most patent attorneys and their clients still avoid arbitration.⁹ One of the obstacles to widespread use of arbitra-

4. See Tom Arnold, *Fundamentals of Alternative Dispute Resolution: Why Prefer ADR, in Patent Litigation 1993*, at 655, 661 (Practising L. Inst.: Patents, Copyrights, Trademarks, and Literary Property Course Handbook [hereinafter PLI/Pat] Series No. 376, 1993).

5. See *id.* at 660-61.

6. Chief Justice Warren E. Burger, *Mid-Year Meeting of ABA*, 52 U.S.L.W. 2471, 2471 (Feb. 28, 1984).

7. See H.R. Rep. No. 542, 97th Cong., 2d Sess. 12-13 (1982), reprinted in 1982 U.S.C.C.A.N. 765, 776-77 (citing *Zip Mfg. Co. v. Pep Mfg. Co.*, 44 F.2d 184 (D. Del. 1930) and *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55 (7th Cir. 1970), cert. denied, 401 U.S. 976 (1971)); Tom Arnold et al., *Patent Alternative Dispute Resolution Handbook* § 5 (1991). The *Patent Alternative Dispute Resolution Handbook* is the leading book entirely devoted to the resolution of patent disputes through alternative dispute resolution including binding arbitration. This Note will therefore make frequent reference to this book and Tom Arnold's related articles. See Arnold, *supra* note 4.

The advantages of arbitration over litigation are addressed fully *infra* part II.C.

The American Bar Association's Section on Patent, Trademark and Copyright Law has endorsed the use of arbitration for resolving disputes involving patent validity and infringement. H.R. Rep. No. 542, 97th Cong., 2d Sess. 13 (1982), reprinted in 1982 U.S.C.C.A.N. 765, 777.

8. See Bruce B. Brunda, *Resolution of Patent Disputes By Non-Litigation Procedures*, 15 AIPLA Q.J. 73, 82-83 (1987). See generally James N. Dresser, *Agreements to Arbitrate Patent Disputes*, 67 J. Pat. & Trademark Off. Soc'y 551 (1985) (reviewing several provisions parties may include in an arbitration agreement).

9. PTC Research Foundation, *Alternatives to Court Litigation in Intellectual Property Disputes: Binding Arbitration and/or Mediation—Patent and Nonpatent Issues*, 22 IDEA - J.L. & Tech. 271, 275 (1981).

tion in patent disputes is the lack of conformity to rules of evidence.¹⁰ Although the absence of rules of evidence in some respects is an advantage of arbitration,¹¹ it also leads to several major deficiencies. Without rules of evidence, patent arbitrations often become a "battle of experts," destroying the cost and efficiency advantages arbitration holds over litigation.¹² Additionally, although arbitrators usually have a scientific background, they may improperly consider unreliable and irresponsible evidence such as affidavits that have not been cross-examined and the testimony of "junk scientists."¹³

This Note examines the use of binding arbitration in patent infringement disputes and advocates the adoption of a modified version of the Federal Rules of Evidence for use in patent arbitrations. The Federal Rules of Evidence should be the standard by which arbitrators decide whether to admit testimony, and judge the credibility and qualifications of "expert" witnesses. Certain allowances must be made in the rules, however, to retain the advantages of arbitration.¹⁴ Part I of this Note discusses patent infringement litigation in the federal court system, including the requirements of patent infringement litigation, the current state of such litigation in the federal courts, and the problems associated with litigation of this type. Part II focuses on the arbitration of patent disputes. This part describes the availability of patent arbitration, its characteristics, and its advantages over litigation. Part III outlines the problems associated with the absence of rules of evidence in patent arbitration proceedings. Part IV proposes the use of a modified version of the Federal Rules of Evidence in patent arbitrations. The proposed changes include permitting the admission of experts' reports and certain forms of hearsay evidence that are beneficial to the efficient resolution of patent infringement disputes. In order to implement these changes involving use of a modified version of the Federal Rules of Evidence, this Note advocates the use of three-member arbitration panels, of which at least one arbitrator is skilled in applying rules of evidence, or requiring all arbitrators to possess a basic understanding of the application of rules of evidence. This Note concludes that such changes are necessary to encourage participants in patent infringement disputes to take advantage of the benefits of arbitration.

10. See American Arbitration Association ("AAA"), *Patent Arbitration Rules*, Rule 30, at 14 (1993) [hereinafter *Patent Arbitration Rules*] ("[C]onformity to legal rules of evidence shall not be necessary.").

11. See discussion *infra* part III.A.

12. See David W. Plant, *Alternative Dispute Resolution*, in *Patent Litigation 1988*, at 197, 239 (PLI/Pat Series No. 258, 1988); see discussion *infra* part III.A.

13. See Tom Arnold, *Setting Up the Arbitration*, in *Patent Litigation 1993*, at 703, 707 (PLI/Pat Series No. 376, 1993); see discussion *infra* part III.A.

14. See discussion *infra* part IV.

I. DEFICIENCIES OF PATENT LITIGATION IN THE FEDERAL COURTS

The current system of litigating most patent infringement disputes in the federal district courts is riddled with problems. Some of these deficiencies stem from the complex nature of the patent laws themselves. Many of the troubles, however, are attributable to the nature of litigation, the motives of the parties involved, and the inability of the federal district courts to adjudicate patent infringement disputes efficiently and effectively.

A. *The United States Patent System*

Article I of the United States Constitution empowers 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."¹⁵ Congress exercised this right by establishing the Patent & Trademark Office ("PTO"), and by granting exclusive rights, for seventeen years, to "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . ."¹⁶ These patents grant a virtual monopoly over the invention to the inventor and thus are quite valuable.¹⁷

The class of inventions and processes that are eligible for patent protection is quite narrow. To obtain a patent, the invention must be (1) of patentable subject matter,¹⁸ (2) useful,¹⁹ (3) novel,²⁰ and (4) non-obvious.²¹ Further, the applicant for the patent must (1) be the

15. U.S. Const. art. I, § 8, cl. 8.

16. 35 U.S.C. § 101 (1994); see 35 U.S.C. §§ 154, 271(a) (1994).

17. See generally Edmund W. Kitch, *Patents: Monopolies or Property Rights?*, 8 Res. in L. & Econ. 31, 33 (1986) (discussing the great value of patents and questioning whether such an exclusive grant is necessary to encourage creative invention).

18. 35 U.S.C. § 101 (1994). For an invention to be of patentable subject matter it must fall within one of the classes defined by § 101. Specifically, patents are available for "any . . . process, machine, manufacture, or composition of matter, or . . . any improvement thereof." *Id.* A "process" is further defined as any "process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material." 35 U.S.C. § 100(b) (1994).

19. 35 U.S.C. § 101. "For a product or process to be useful it must, at the very least, work, although it does not have to work perfectly or even better than any competing products or processes that might exist." Herbert F. Schwartz, *Patent Law and Practice* 45 (Federal Judicial Center 1990) (footnotes omitted).

20. 35 U.S.C. § 102(a) (1994). An invention is "novel" if no identical invention exists in the "prior art" as defined by the law. See Schwartz, *supra* note 19, at 46.

21. 35 U.S.C. § 103 (1994). An invention is "non-obvious" if it is not merely a simple extension of existing "prior art" which would be "obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." *Id.*; see Schwartz, *supra* note 19, at 51.

original inventor,²² (2) avoid the statutory time bars,²³ (3) adequately disclose the invention,²⁴ and (4) distinctly claim the invention.²⁵

Under 35 U.S.C. § 271(a), "whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent."²⁶ When someone is accused of infringing a patent there are four general issues that must be resolved.²⁷ These issues are: whether or not the patent is valid, whether or not the patent is enforceable, whether or not the patent has been infringed, and to what relief, if any, either the patentee or the accused infringer is entitled.²⁸ Typically, all of these issues are resolved at trial in the federal courts.²⁹

B. *Problems Associated with Patent Litigation in the Federal Courts*

The federal court system, generally, is inefficient at resolving complex disputes.³⁰ The nature of patent infringement disputes exacerbates these inefficiencies.³¹ Thus, patent disputes are particularly plagued by the shortcomings of adversarial litigation.

1. Time

Patent owners can exercise their exclusive rights to make, use, or sell their inventions for seventeen years from the date the patent is granted.³² Patents, therefore, as "wasting assets," steadily decrease in value.³³ The average patent case takes more than five years to be decided in the courts.³⁴ Some cases have even lasted for more than twenty years; longer than the life of the patent in question.³⁵

Perhaps even more important than the length of time a typical patent infringement case takes to wind its way through the courts, is the complete lack of predictability as to how long the process will take.³⁶ Businesses have an essential need to know when a dispute will be decided. They need to be able to answer questions such as whether to

22. 35 U.S.C. § 102(f) (1994).

23. *Id.* § 102(b), (d) (1994).

24. *Id.* § 112 para. 1 (1994).

25. *See* Schwartz, *supra* note 19, at 64.

26. 35 U.S.C. § 271(a) (1994).

27. *See* Plant, *supra* note 12, at 227.

28. *Id.*

29. *See supra* note 3.

30. *See supra* note 6 and accompanying text.

31. *See supra* notes 4-5 and accompanying text.

32. 35 U.S.C. § 154 (1994). Design patents issued for "any new, original and ornamental design for an article of manufacture," 35 U.S.C. § 171 (1994), are granted only for a term of 14 years. 35 U.S.C. § 173 (1994).

33. *See* Arnold, *supra* note 4, at 658.

34. *Id.*

35. *Id.*

36. *Id.* at 659.

build a new production facility,³⁷ or whether to continue producing the allegedly infringing product and risk paying enormous damages.³⁸ By the time the case is resolved in the courts, the answers to these questions may be moot.

Several factors contribute to these time delays. The first is the very nature of patent infringement suits. These cases involve complex technical information that require significant time for a judge or jury to comprehend fully. More blame usually lies, however, with the competing adversaries. One or both of the parties typically will extend the length of the proceedings through numerous deposition requests, multitudes of motions, and several levels of appeals.³⁹ One party often may keep the matter from final resolution for many years.

Even when both parties do not indulge in delay tactics and are ready to litigate, the doors of the federal district courthouse are often difficult to pass through. Currently, the federal district courts' civil dockets are very overcrowded.⁴⁰ The number of civil cases alone has increased almost sevenfold since 1938.⁴¹ An even greater burden on the court dockets are criminal cases subject to the Speedy Trial Act of 1974.⁴² Courts do not have the time to hear lengthy patent cases

37. See Kevin R. Casey, *Alternate Dispute Resolution and Patent Law*, 3 Fed. Circuit B.J. 1, 5 (1993); Arnold, *supra* note 7, § 5.03.

38. See Arnold, *supra* note 7, § 5.03; Arnold, *supra* note 4, at 659. The issue of speed is perhaps of greatest importance in the computer industry, especially with regard to software protection suits. The rate of change of the technology in this area is so fast that waiting two or three years for a decision could render the result moot. See David Bender, *Alternative Dispute Resolution and the Computer-Related Dispute: An Ideal Marriage?*, 7 Computer Law., May 1990, at 9, 12 & n.13; Karl P. Kilb, *Arbitration of Patent Disputes: An Important Option in the Age of Information Technology*, 4 Fordham Intell. Prop. Media & Ent. L.J. 599, 611 & n.66 (1993) (citing Management Sys. Assocs. v. McDonnell Douglas Corp., 762 F.2d 1161 (4th Cir. 1985)).

James F. Henry, President of the Center for Public Resources, stated, "[i]n an era when product lives are measured in months and litigation is measured in decades, you can't afford litigation." *Controlling Litigation Costs with a Neutral Third Party*, N.Y. Times, Sept. 23, 1990, § 3, at 6.

39. A party who feels they have an economic or temporal advantage over its adversary may often use these tactics and can better afford to extend indefinitely the length of the trial. See Brunda, *supra* note 8, at 76-77.

This problem of delay is not unique to patent litigation. It is often encountered in virtually all types of litigation. The problem of delay is especially troubling with respect to patent litigation, however, because of the "wasting" nature of patent rights. See *supra* note 33 and accompanying text.

40. Casey, *supra* note 37, at 4.

41. Arnold, *supra* note 7, § 1.02 (citing Dayton, *The Myth of Alternate Dispute Resolution in the Federal Courts 2* (1990)).

42. The Speedy Trial Act Amendments Act of 1979, Pub.L. No. 96-43, 93 Stat. 327 (1979) (codified in scattered sections of 18 U.S.C.). One provision of this Act requires that a defendant be brought to trial within 70 days after the filing of an indictment or information. 18 U.S.C. § 3161(d)(2) (1988). Thus, district courts must hear these cases in a timely manner and often must delay hearing other civil cases.

which typically take several weeks to litigate.⁴³ Thus, patent cases often lie dormant for many months or years.⁴⁴

2. Cost

All litigation is expensive. Patent litigation, however, is particularly costly. Most patent cases cost \$500,000 at a minimum to litigate, and average over one million dollars in costs per party.⁴⁵ Frequently, cases will cost between two and five million dollars.⁴⁶ In one recent case, *Polaroid Corp. v. Eastman Kodak Co.*,⁴⁷ the parties spent almost \$200,000,000 combined.⁴⁸ In another case, Judge Malcolm J. Howard of the Eastern District of North Carolina postulated that it cost over \$100,000 a day for Burroughs Wellcome Co. to defend its patent on the drug azidothymidine (commonly known as "AZT").⁴⁹ That estimate did not include the costs of the court and jury.⁵⁰

Often, the largest component of these exorbitant litigation costs is attributable to discovery.⁵¹ Almost eighty percent of all legal fees are incurred during discovery.⁵² Zealous attorneys, fighting for large stakes for their clients, often seek "[e]xcessive, lengthy, and costly dis-

43. See Arnold, *supra* note 7, § 1.02. In 1969-70, for example, patent cases comprised more than 20% of all civil cases requiring more than 20 days to fully litigate. Kilb, *supra* note 38, at 602. In that same time period, patent cases only accounted for one to two percent of the total number of civil cases filed each year in the district courts. *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 336 & n.29 (1971).

44. In fact some believe that "[t]echnology disputes are among those which may have to wait in line at the courthouse doors. According to Robert Raven, immediate past president of the American Bar Association, access to the civil side of most metropolitan area federal courts *could be closed within two years.*" American Bar Association, *Technology-Based Dispute Resolution: Court Crisis a Factor in ADR Choice*, 26 ABA Info. Update Dispute Resol. 2 (Spring/Summer 1990) (emphasis added).

45. See Arnold, *supra* note 4, at 662 (noting that patent cases routinely cost over one million dollars per party); Casey, *supra* note 37, at 4 (noting that patent cases typically cost at least half a million dollars to litigate) (citing American Intellectual Property Law Association, Report of Economic Survey 1991, Table 37, at 28-29 (1991)); David W. Platt, *ADR and Patents, in Patent Litigation 1992*, at 797, 798 (PLI/Pat Series No. 350, 1992) (stating that the cost to prepare for trial can easily exceed one million dollars).

46. Arnold, *supra* note 4, at 662; see Platt, *supra* note 45, at 798.

47. 641 F. Supp. 828 (D. Mass.) (enjoining Kodak), *aff'd*, 789 F.2d 1556 (Fed. Cir.), *cert. denied*, 479 U.S. 850 (1986); *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q.2d (BNA) 1481 (D. Mass. 1990) (awarding damages); *Polaroid Corp. v. Eastman Kodak Co.*, 17 U.S.P.Q.2d 1711 (BNA) (D. Mass. 1991) (amending prior damage award to correct clerical errors in original calculation).

48. Casey, *supra* note 37, at 4 n.13.

49. *Burroughs Wellcome Co. v. Barr Lab.*, 828 F. Supp. 1208, 1210 (E.D.N.C. 1993), *aff'd in part, vacated in part*, 40 F.3d 1223 (Fed. Cir. 1994).

50. *Id.*

51. See Casey, *supra* note 37, at 1; see also Kenneth B. Clark and William A. Fenwick, *Structuring an Arbitration Agreement for High Technology Disputes*, 9 Computer Law. 22, 24 (1992) ("Pretrial discovery is often the largest component of litigation cost."). This problem of discovery costs is familiar to all types of litigations.

52. Michele Galen, *Guilty!*, Bus. Wk., Apr. 13, 1992, at 60, 64.

covery."⁵³ Costs for discovery can accumulate at an alarming rate. Discovery has been compared to peeling an onion because "[e]ach layer exposes another layer of problems that you must explore."⁵⁴ For each of these layers, which may take anywhere from a day to a week to sift through, one or more lawyers for each side must be present.⁵⁵ In certain cases, these exorbitant costs can be justified;⁵⁶ in many cases, however, these expenses are not warranted.

3. Quality of Judgments

The quality and fairness of court judgments in patent infringement cases is quite suspect.⁵⁷ The outcomes of jury trials are largely unpredictable.⁵⁸ One commentator has characterized the jury system in the following manner: "When the experts disagree, we submit the question to six to twelve jurors completely ignorant of the subject matter both technically and legally" and expect them to produce justice and equity.⁵⁹ While this problem is present in all jury trials, it is particularly problematic with respect to patent infringement cases due to their highly technical nature.

Unfortunately, bench trials are not necessarily more reliable. Patent disputes are very complicated "because they involve difficult validity, enforceability, infringement, and damages issues."⁶⁰ Most judges do not have technical expertise or experience with patent law.⁶¹ They are neither scientists nor engineers and typically spend between 0.01% and 2.0% of their total court time dealing with patent litigations.⁶²

In *General Tire & Rubber Co. v. Jefferson Chem. Co.*,⁶³ Judge Friendly stated: "This patent appeal is another illustration of the absurdity of requiring the decision of such cases to be made by judges

53. *Casey*, *supra* note 37, at 1. This aspect is particularly troublesome because, to a large extent, a party's litigation costs are controlled by the judge and opposing counsel. See *Arnold*, *supra* note 4, at 664 ("[T]hirty percent of the cost [of litigation] is in the control of the judge [and] [t]hirty percent of the cost is in the control of adverse counsel.").

54. Roger S. Borovoy, *Alternative Means of Resolving High Technology Disputes*, in *Patent Antitrust* 1989, at 539, 540 (PLI/Pat Series No. 270, 1989).

55. *Id.* The cost to the witness, often an employee of one of the parties to the suit, for several days of lost work must not be forgotten either.

56. Polaroid recovered \$873,158,971 from Kodak. *Polaroid Corp. v. Eastman Kodak Co.*, 17 U.S.P.Q.2d (BNA) 1711, 1714 (D. Mass. 1991).

57. See *Arnold*, *supra* note 4, at 664.

58. *Id.*

59. *Id.*

60. *Casey*, *supra* note 37, at 1; see also *Hanes Corp. v. Millard*, 531 F.2d 585, 593-94 (D.C. Cir. 1976) ("Such issues [as patent scope and validity] involve complex and difficult questions in applying an extremely technical body of law.").

61. See *Arnold*, *supra* note 7, § 5.02. *Arnold* cites others problems with judges, in general, such as incompetence and "stupidity." *Arnold*, *supra* note 4, at 665-66.

62. See *Arnold*, *supra* note 7, § 5.02.

63. 497 F.2d 1283 (2d Cir.), *cert. denied*, 419 U.S. 968 (1974).

whose knowledge of the relevant technology derives primarily, or even solely, from explanations by counsel and who . . . do not have access to a scientifically knowledgeable staff."⁶⁴ The district court judges in many cases simply do not have the experience or the resources to try these cases efficiently and justly.⁶⁵

II. ARBITRATION OF PATENT INFRINGEMENT DISPUTES

Because of the inadequacies of resolving patent infringement disputes through litigation in the federal courts, a better method must be found and utilized. This new method must rid itself of the time, cost, and quality deficiencies of litigation. In many cases, arbitration can provide this remedy.

A. Congressional Authorization of Arbitration for the Resolution of Patent Infringement Disputes

Prior to 1982, patent infringement disputes could not be settled privately through arbitration.⁶⁶ Courts regularly held that agreements reached through arbitration were unenforceable because they were against the "public interest."⁶⁷ Courts also contended that arbitrators were not qualified to resolve patent cases because they were too complex.⁶⁸

64. *Id.* at 1284.

65. *See* Parke-Davis & Co. v. H.K. Mulford Co., 189 F. 95, 115 (S.D.N.Y. 1911), *aff'd in part, rev'd in part*, 196 F. 496 (2d Cir. 1912). *See generally* Blonder-Tongue Lab. v. Univ. of Ill. Found., 402 U.S. 313, 331 (1971) ("[P]atent litigation can present issues so complex that legal minds without appropriate grounding in science and technology, may have difficulty in reaching decision."); *Nyyssonen v. Bendix Corp.*, 342 F.2d 531, 532 (1st Cir. 1965) ("The court below in recognition of its avowed limitation rested its decision basically on its evaluation of the relative credibility of opposing expert witnesses."), *cert. denied*, 382 U.S. 847 (1966); *Harries v. Air King Prods. Co.*, 183 F.2d 158, 164 (2d Cir. 1950) ("Congress sees fit to set before us tasks which are so much beyond our powers . . . that we shall resort to the testimony of experts . . .").

66. *See* Casey, *supra* note 37, at 2-3.

67. *See, e.g.* Beckman Instruments v. Technical Dev. Corp., 433 F.2d 55, 63 (7th Cir. 1970) ("[Patent validity] questions are inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents."), *cert. denied*, 401 U.S. 976 (1971); *Foster Wheeler Corp. v. Babcock & Wilcox Co.*, 440 F. Supp. 897, 901 (S.D.N.Y. 1977); *Diematic Mfg. Corp. v. Packaging Indus.*, 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); *Homewood Indus. v. Caldwell*, 360 F. Supp. 1201, 1204 (N.D. Ill. 1973), *aff'd*, 566 F.2d 1175 (7th Cir. 1977). The Supreme Court recognized a similar public interest in challenging invalid patents in *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (recognizing "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain").

68. *See, e.g.* Hanes Corp. v. Millard, 531 F.2d 585, 593-94 (D.C. Cir. 1976) ("Such issues [in a patent dispute] involve complex and difficult questions in applying an extremely technical body of law. They are questions that may be unfamiliar to arbitrators . . .").

The number of patent cases filed each year has increased along with the scope of patentable subject matter.⁶⁹ Early 1980s Supreme Court decisions extended patent protection to live, human-made microorganisms,⁷⁰ and to processes including digital computer programs.⁷¹ This increased caseload exacerbated existing deficiencies in the litigation of patent infringement disputes,⁷² and caused Congress to reexamine the ban on arbitration of such disputes.⁷³

This reexamination led Congress to enact Public Law 97-247, which provides for voluntary arbitration of patent infringement disputes.⁷⁴

69. See Kilb, *supra* note 38, at 603-04.

70. *Diamond v. Chakrabarty*, 447 U.S. 303, 309-10 (1980).

71. *Diamond v. Diehr*, 450 U.S. 175, 187 (1981).

72. See discussion *supra* part I.B.

73. The House Report accompanying the passage of the Federal Arbitration Act of 1924, ch. 213, § 1, 43 Stat. 883 (current version at 9 U.S.C. §§ 1-14, 201-208 (1988)), states:

The need for the law arises from an anachronism of our American law. Some centuries ago, because of the jealousy of the English courts for their own jurisdiction, they refused to enforce specific agreements to arbitrate upon the ground that the courts were thereby ousted from their jurisdiction. This jealousy survived for so long a period that the principle became firmly embedded in the English common law and was adopted with it by the American courts. The courts have felt that the precedent was too strongly fixed to be overturned without legislative enactment, although they have frequently criticised the rule and recognized the illogical nature and the injustice which results from it.

H.R. Rep. No. 96, 68th Cong., 1st Sess. 1-2 (1924).

74. Act of Aug. 27, 1982, Pub. L. No. 97-247, § 17(b)(1), 96 Stat. 317, 322 (codified as amended at 35 U.S.C. § 294 (1988)). See H.R. Rep. No. 542, 97th Cong., 2d Sess. 12-13 (1982), *reprinted in* 1982 U.S.C.C.A.N. 765, 776-77.

Section 294 became effective on February 27, 1983 and provides:

(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.

(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 [title 35] 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 [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. 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

The House Judiciary Committee stated that this statutory authorization of patent arbitration would "benefit both the parties to these disputes and the public."⁷⁵ The Judiciary Committee noted the many benefits that arbitration provides for the parties,⁷⁶ as well as two ways that arbitration serves the public.⁷⁷ According to the Committee, the public will benefit from arbitration because it "will enhance the patent system and thus will encourage innovation," and "could relieve some of the burdens on the overworked Federal courts."⁷⁸

Two years later, the Patent Law Amendments Act of 1984⁷⁹ added subsection (d) to § 135 of Title 35, expanding the scope of arbitration to patent interferences in the PTO.⁸⁰ Finally, the Semiconductor Chip Protection Act of 1984⁸¹ enacted a prohibition against certain litigations of chip-product rights unless an attempt is first made to resolve the dispute through voluntary negotiation, mediation, or binding arbitration.⁸² Section 294 generally allows for the arbitration of patent infringement disputes.⁸³ Two avenues to arbitration are provided:

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.

35 U.S.C. § 294 (1994).

75. Act of Aug. 27, 1982, H.R. Rep. No. 542, 97th Cong., 2d Sess. 13 (1982), reprinted in 1982 U.S.C.C.A.N. 765, 777.

76. *Id.* These benefits, which will be discussed in detail *infra* part II.C, include relative speed and economy, privacy, convenience, informality, reduced likelihood of damage to ongoing business relationships, simpler procedural and evidentiary rules, and the ability to select arbitrators who are experts and familiar with the subject matter of the dispute.

77. H.R. Rep. No. 542, 97th Cong., 2d Sess. 13 (1982), reprinted in 1982 U.S.C.C.A.N. 765, 777.

78. *Id.*; see *supra* notes 40-44 and accompanying text.

79. Pub. L. No. 98-622 (codified at 35 U.S.C. § 294(d) (1994)).

80. An "interference" is declared when two or more patent applications pending in the PTO at the same time, or when a pending patent application and an already issued patent, claim the same subject matter. 37 C.F.R. § 1.601 (1994).

81. Patent Law Amendments Act of 1984, Pub. L. No. 98-620 (codified at 17 U.S.C. § 907 (1994)).

82. *Id.* This Note is primarily concerned only with the implications and requirements of 35 U.S.C. § 294.

It should also be noted that the 1994 amendments to the Tariff Act of 1930 provide that the United States International Trade Commission may terminate any investigation when the parties to the dispute agree to submit the matter to arbitration. 19 U.S.C. § 1337(c) (1994).

83. 35 U.S.C. § 294(a) (1988).

preexisting agreements to arbitrate under contract,⁸⁴ and agreements in writing to settle existing disputes by arbitration.⁸⁵ Title IX of the United States Code governs patent arbitrations conducted pursuant to § 294.⁸⁶ Under Title IX, a district court may stay court proceedings to allow the parties to resolve the dispute by arbitration.⁸⁷ A district court also has the power to enforce a contract provision requiring the parties to arbitrate their dispute.⁸⁸

Once an arbitration award is rendered, it is final and binding upon the parties,⁸⁹ subject to a limited number of exceptions providing for vacation or modification of the award.⁹⁰ Under no circumstances, however, may a court review the substantive findings of an arbitrator.⁹¹ An arbitration award may only be vacated if: "[it] was procured by corruption, fraud, or undue means,"⁹² "there was evident partiality

84. An arbitration clause may, thus, be included in any patent contract such as a patent license agreement. The American Arbitration Association recommends that the following standard patent arbitration clause be used:

Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association under its Patent Arbitration Rules and judgment on the award rendered by the arbitrator(s) may be entered in any Court having jurisdiction thereof.

AAA, *Introduction to Patent Arbitration Rules*, *supra* note 10, at 4 (1993).

The Supreme Court has stated that any ambiguities concerning the effects of arbitration clauses and issues able to be included, should be resolved in favor of arbitration. *Moses H. Cone Memorial Hosp. v. Mercury Constr. Corp.*, 460 U.S. 1, 24-25 (1983).

85. 35 U.S.C. § 294(a) (1994). The AAA also provides a contract term for the submission of existing patent disputes to arbitration. AAA, *Introduction to Patent Arbitration Rules*, *supra* note 10, at 4.

86. 9 U.S.C. §§ 10-11 (1988); *see also* 35 U.S.C. § 294(b) (1994).

87. 9 U.S.C. § 3 (1988).

88. *Id.* § 4.

89. Patent arbitration awards are not binding on anyone other than the parties to the particular dispute. 35 U.S.C. § 294(c) (1994) (stating that an arbitration award "shall have no force or effect on any other person" besides the parties to the dispute).

Patent arbitration awards are unenforceable until reported, in writing, to the Commissioner of Patents in the PTO. 35 U.S.C. § 294(d)-(e) (1994).

90. 35 U.S.C. § 294(c) (1988). Vacation and modification of arbitration awards are controlled by 9 U.S.C. §§ 10-11 (1988 & Supp. V 1993) respectively.

91. *See Commonwealth Coatings Corp. v. Continental Casualty Co.*, 393 U.S. 145, 149 (1968) ("[Arbitrators] have completely free rein to decide the law as well as the facts and are not subject to appellate review.").

92. 9 U.S.C. § 10(a)(1) (Supp. V 1993); *see, e.g., Bonar v. Dean Witter Reynolds, Inc.*, 835 F.2d 1378, 1383-84 (11th Cir. 1988) (vacating arbitration award because of perjury of expert witness for investors). Courts generally apply a three-part test to determine if an arbitration award should be vacated because of corruption, fraud or undue means. Under this test a movant must: (1) present clear and convincing evidence that the fraud occurred, (2) show that the fraud could not have been discovered prior to or during the arbitration through the exercise of due diligence, (3) show that the fraud was materially related to an arbitration issue. *Id.* at 1383; *LaFarge Conseils et Etudes, S.A. v. Kaiser Cement & Gypsum Corp.*, 791 F.2d 1334, 1339 (9th Cir. 1986).

or corruption in the arbitrators,"⁹³ there was other arbitrator misconduct,⁹⁴ "the arbitrators exceeded their powers,"⁹⁵ antitrust concerns existed,⁹⁶ or other public policy concerns existed.⁹⁷

The standard to be employed by courts in determining whether to vacate an arbitration award is one of "manifest disregard."⁹⁸ This standard is " ' something beyond and different from a mere error in the law ' [M]anifest disregard will be found where an 'arbitrator 'understood and correctly stated the law but proceeded to ignore it.' " ⁹⁹

B. *An Overview of Patent Arbitration Disputes*

While the availability, enforceability, modification, and vacation of arbitrations are governed by statute, the rules of the arbitration hearing are governed almost entirely by the parties' contract to arbitrate. These contracts may be extremely detailed and cover all of the rules of the arbitration, or they may simply designate that the arbitration will be covered by an established set of rules such as the American Arbitration Association ("AAA") Patent Arbitration Rules.¹⁰⁰

93. 9 U.S.C. § 10(a)(2) (Supp. V 1993); see *Florasynth, Inc. v. Pickholz*, 750 F.2d 171, 173-74 (2d Cir. 1984) (stating the standards by which arbitrators will be disqualified for evident partiality, and ratifying the resignation of a panel of arbitrators who felt they could not be impartial). The Second Circuit noted that evident partiality means more than a mere appearance of bias. *International Produce, Inc. v. A/S Rosshavet*, 638 F.2d 548, 551-52 (2d Cir.), cert. denied, 451 U.S. 1017 (1981). This is a higher standard than that applied to disqualifying judges. *Id.* at 551. Courts will seldom question the decision of an arbitrator to recuse herself; "[t]hat decision is better left to the discretion of the individual arbitrator." *Florasynth*, 750 F.2d at 174 (citing *Wolfson v. Palmieri*, 396 F.2d 121, 125 (2d Cir. 1968)).

94. 9 U.S.C. § 10(a)(3) (Supp. V 1993). The statute defines sufficient misconduct as refusing to postpone a hearing without just cause, refusing to hear pertinent and material evidence, or other misbehavior which may prejudice the rights of a party. *Id.*

95. 9 U.S.C. § 10(a)(4) (Supp. V 1993); see *Barbier v. Shearson Lehman Hutton Inc.*, 948 F.2d 117, 122 (2d Cir. 1991) (arbitrators exceeded their authority by awarding punitive damages because parties chose New York law which prohibits arbitrators from awarding punitive damages).

96. See *Cobb v. Lewis*, 488 F.2d 41, 47-50 (5th Cir. 1974) (holding that antitrust claims are generally not subject to arbitration).

97. See, e.g., *United Paperworkers Int'l Union v. Misco, Inc.*, 484 U.S. 29, 43 (1987) (holding that a court may vacate an arbitration award because enforcement of it "would violate 'some explicit public policy' that is 'well defined and dominant, and is to be ascertained "by reference to the laws and legal precedents and not from general considerations of supposed public interests" ' ") (quoting *W.R. Grace & Co. v. Rubber Workers*, 461 U.S. 757, 766 (1982) (citations omitted)).

98. See *Fahnestock & Co. v. Waltman*, 935 F.2d 512, 516 (2d Cir.), cert. denied, 502 U.S. 942 (1991).

99. *Id.* (quoting *Siegel v. Titan Indus. Corp.*, 779 F.2d 891, 892-93 (2d Cir. 1985)) (citations omitted).

100. See *supra* note 10. A suggested patent arbitration clause is noted *supra* note 84.

While this Note will often reference the AAA Patent Arbitration Rules, the ideas contained herein apply equally to arbitrations governed by private contracts. The ideas expressed by this Note *infra* will encourage changes to the AAA Patent Arbitra-

The AAA is the most well-known and utilized arbitration administrator.¹⁰¹ In response to the addition of 35 U.S.C. § 294, the AAA in 1983 promulgated a uniform set of rules for use in arbitration of patent disputes.¹⁰² The AAA Patent Arbitration Rules are important because, even when parties create their own arbitration agreement and rules, the AAA Rules are the usual starting point from which they work.¹⁰³

The scope of the remedies available to arbitrators is quite broad. The AAA Patent Arbitration Rules state that “[t]he arbitrator may grant any remedy or relief that the arbitrator deems just and equitable and within the scope of the agreement of the parties.”¹⁰⁴ Thus, unless specifically excluded, remedies such as injunctions and specific performance are available.¹⁰⁵

A typical patent arbitration hearing begins with the patent owner stating their case for infringement.¹⁰⁶ This claim is usually followed by rebuttal and reply periods.¹⁰⁷ During the hearing, a party may typically raise any defense available under 35 U.S.C. § 282.¹⁰⁸ The arbitration usually proceeds through a “question and answer” period, during which participation by the arbitrator is common.¹⁰⁹ Arguments for invalidity and unenforceability of the patent and arguments that the accused product does not infringe the patent are then presented by the accused infringer.¹¹⁰ This is followed by similar rebuttals and replies.¹¹¹ After the hearing, the arbitrator considers the evidence and, usually within a short period of time, reaches a decision and in-

tion Rules and recommend that these changes be adopted by all parties to patent arbitrations whether they utilize the AAA’s rules or their own.

101. Arnold, *supra* note 7, § 7.02[1]. In 1990 alone, the AAA administered over 60,000 cases involving claims of over \$2.5 billion. *Id.*

102. See *Patent Arbitration Rules*, *supra* note 10.

103. Cf. Casey, *supra* note 37, at 8-9 (“A growing number of intellectual property disputes are arbitrated each year under the auspices of the AAA.”). See generally Ronald E. Myrick & Penelope Smith Wilson, *Licensing Rights to Software*, in *Technology Licensing and Litigation 1993*, at 467, § 1022.2 (PLI/Pat Series No. 354, 1993) (suggesting use of AAA Patent Arbitration Rules); Kilb, *supra* note 38, at 607-08 (noting possible use of AAA rules).

104. *Patent Arbitration Rules*, *supra* note 10, Rule 42, at 16.

105. *Id.*

106. Brunda, *supra* note 8, at 82. It is important to note that the structure of the hearing, as with any other characteristic or rule of an arbitration, is entirely subject to change by the parties or by the arbitrator under the powers granted in the arbitration agreement.

107. *Id.*

108. 35 U.S.C. § 294(b) (1994); see also 35 U.S.C. § 282 (1994) (stating the various defenses).

109. Brunda, *supra* note 8, at 82. Patent arbitration panels typically consist of one or three arbitrators depending on the wishes of the parties involved. Cf. *Patent Arbitration Rules*, *supra* note 10, Rule 16, at 11 (providing that the default number of arbitrators shall be one). Wherever this Note makes reference to a single arbitrator it should be interpreted as either an arbitrator or arbitrators.

110. Brunda, *supra* note 8, at 82.

111. *Id.*

forms the parties of such decision.¹¹² The parties then notify the Commissioner of Patents of the award and it becomes fully binding.¹¹³

C. *The Advantages of Arbitration of Patent Disputes over Litigation*

The use of arbitration is not a complete panacea for the ills of patent infringement litigation. In many disputes the use of arbitration is less desirable than litigation or even inappropriate.¹¹⁴ There are a vast number of patent disputes, however, that are prime candidates for the numerous advantages and savings of arbitration. The following is a discussion of these superior features of arbitration.

1. Cost

When President Ronald Reagan signed the patent arbitration bill,¹¹⁵ he stated that one of the chief reasons for allowing arbitration of patent disputes was "the inordinately high cost of patent litigation."¹¹⁶ The cost of arbitrating a patent dispute usually is less than eighty-five percent of the cost of litigating the same dispute.¹¹⁷ With good case management and an experienced arbitrator, the costs should fall to less than half of those incurred in litigation.¹¹⁸

These savings can be attributed to several factors. One factor is that transcripts of the proceedings usually are not required and the possibility of appeal is severely curtailed.¹¹⁹ The largest savings, though, come from the ability to eliminate "blunderbuss discovery requests and to avoid discovery disputes."¹²⁰ For example, a clause in the arbi-

112. The amount of time the arbitrator may take to render a decision is often included in the agreement to arbitrate to ensure speedy resolution of the dispute, which is a principal advantage of arbitration over litigation. See *infra* part II.C.2.

113. See 35 U.S.C. § 294(d)-(e) (1988) ("The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner.").

114. See *infra* part II.D.

115. See *supra* note 74.

116. Statement on Signing the Patent and Trademark Office Appropriations Bill, 1982 Pub. Papers 1087; see *supra* part I.B.2 (discussing the high costs of patent litigation in the federal courts).

117. See Arnold, *supra* note 4, at 657.

118. See Arnold, *supra* note 7, § 5.03. Some commentators question the extent of cost savings offered by arbitration. They argue that there are costs special to arbitration, such as payment of the arbitrator, that can offset savings. Brunda, *supra* note 8, at 82. Others have noted that attorneys involved in patent arbitration usually will put in about the same amount of time as they would preparing for a trial. Bill Schuurman & D.C. Toedt, III, *Analyzing the New Dangers of Potential Patent Controversies: A General Guide*, 41 Bus. Law. 727, 742 (1986). Another cost related problem with arbitration is that due to the accelerated nature of arbitration proceedings, the payment of costs associated with the arbitration are due sooner, which might be more burdensome for some parties. Brunda, *supra* note 8, at 82. Overall, though, the evidence indicates that parties to an arbitration should realize significant cost savings in most disputes.

119. See Arnold, *supra* note 7, § 5.03.

120. Clark & Fenwick, *supra* note 51, at 25; see *supra* notes 51-56 and accompanying text.

tration agreement can regulate discovery.¹²¹ Moreover, many states restrict or prohibit discovery in arbitrations,¹²² and the discovery provisions of the Federal Rules of Civil Procedure are not available in arbitrations governed by Title IX.¹²³ In either case, the arbitrator must control the discovery process for these cost savings to be realized.¹²⁴

2. Time

Another advantage of arbitration in patent disputes is the dramatic time savings. Some have noted that saving time is the "principal advantage" of arbitration.¹²⁵ Arbitration of a patent dispute rarely exceeds twelve to fifteen months.¹²⁶ Often, with good case management by the arbitrator, the entire dispute can be resolved in as little as six months.¹²⁷ Further, it is much easier to predict when the dispute will be finally resolved through arbitration than with litigation.¹²⁸ Predictability is possible because parties can include a clause in the arbitration agreement requiring that a decision be rendered by the arbitrator within a stated time period, often one year.¹²⁹

Arbitration is also free from many of the time-delaying processes present in litigation, such as extended discovery and several levels of appeal that can unpredictably extend litigation.¹³⁰ Arbitrations are resolved more quickly than litigation because of their streamlined nature. The limited discovery, for example, saves a significant amount of

121. See, e.g., Arnold, *supra* note 7, § 7.15[2] n.132.

122. Clark & Fenwick, *supra* note 51, at 24; see, e.g., Cal. Civ. Proc. Code § 1283 (West 1982) (restricting discovery in arbitrations). The AAA Patent Arbitration Rules also place restrictions on discovery, vesting the arbitrator with the power to eliminate most requests. See *Patent Arbitration Rules*, *supra* note 10, Rules 29, 31-33, at 13-14. Thus, under the AAA Rules, parties do not have a quantified right to the taking of any depositions. See Plant, *supra* note 12, at 234.

123. Fed. R. Civ. P. 81(a)(3); see 9 U.S.C. §§ 1-14 (1994); *Foremost Yarn Mills, Inc. v. Rose Mills, Inc.*, 25 F.R.D. 9, 11 (E.D. Pa. 1960).

124. See Roger M. Milgrim, *Arbitration: An Important Remedial Technique to Resolve Disputes Related to Technology Licenses and to Corporate Ownership and Control*, in *Alternative Dispute Resolution and Risk Management: Controlling Conflict and its Costs*, at 59, § 4.5.2 (Practising Law Institute: Litigation and Administrative Practice Course Handbook [hereinafter *PLI/Lit*] Series No. 338, 1987).

125. Schuurman & Toedt, *supra* note 118, at 742.

126. See Arnold, *supra* note 4, at 668.

127. *Id.*

128. See Casey, *supra* note 37, at 5; see *supra* notes 36-38 and accompanying text (discussing the importance of knowing when the dispute will be resolved).

129. See Tom Arnold & Robert J. McAughan, Jr., *Alternate Dispute Resolution*, in *Patent Litigation 1990*, at 213, 232 (PLI/Pat Series No. 300, 1990); see also Arnold, *supra* note 13, at 714 (suggesting that the arbitration contract could include a clause to "reward the arbitrator with a bonus if he renders a decision within a particular time period").

130. See *supra* notes 32-44 and accompanying text.

time,¹³¹ as well as money.¹³² Resolution time also is decreased because most arbitrators are experts in the field relevant to the dispute.¹³³ The arbitrator's "learning curve" is therefore much steeper than that of an inexperienced judge or jury.¹³⁴ Further, the arbitrator can communicate with the parties and any expert witnesses in the language of the field, thereby facilitating presentation of the issues and testimony.¹³⁵

3. Quality of Judgments

Unlike judges and juries, arbitrators can be specifically sought out for their expertise in the field of the dispute.¹³⁶ For example, if the dispute involves a company that has allegedly infringed a patent on a pharmaceutical product, the arbitrator could be a chemical engineer who has worked in the pharmaceutical industry. The AAA maintains a National Panel of Patent Arbitrators to match parties to an arbitration with arbitrators "having experience in patent law and/or special technical expertise" related to their dispute.¹³⁷

Those arbitrators who are not experts in the particular field of the dispute, usually have at least a general scientific background. The arbitrator, therefore, has the ability to better understand the dispute and more fairly resolve it¹³⁸—another prime advantage of arbitration.¹³⁹

4. Secrecy / Privacy

Additionally, all patent arbitration hearings are completely confidential.¹⁴⁰ Unlike court trials, there are no constitutional requirements for open arbitrations.¹⁴¹ Further, evidence, testimony, and rulings from an arbitration may not be used in future proceedings.¹⁴² This secrecy benefits corporations that do not want the facts of a case to become public or want to protect the subject matter of the dispute

131. See *supra* notes 125-29 and accompanying text.

132. See *supra* notes 115-24 and accompanying text.

133. See Arnold, *supra* note 7, § 5.02 n.4; Casey, *supra* note 37, at 5; Bryan Niblett, *Intellectual Property Disputes: Arbitrating the Creative*, *Dispute Resolution J.*, Jan. 1995, at 64, 65.

134. Casey, *supra* note 37, at 5; see Arnold, *supra* note 7, § 5.02 n.4.

135. Niblett, *supra* note 133, at 65.

136. See Arnold, *supra* note 4, at 669-70; Milgram, *supra* note 124, § 4.5.3; *Patent Arbitration Rules*, *supra* note 10, Rules 12-13, at 9-10.

137. AAA, *Patent Arbitration Rules*, *supra* note 10, Rule 4, at 6.

138. See *supra* note 135 and accompanying text.

139. Casey, *supra* note 37, at 5.

140. Brunda, *supra* note 8, at 83; Milgrim, *supra* note 124, § 4.5.4; Arnold, *supra* note 7, § 5.05; see *Hotels Condado Beach v. Union De Tronquistas Local 901*, 763 F.2d 34, 39 (1st Cir. 1985); AAA, Code of Ethics for Arbitrators in Commercial Disputes Canon VI, at 10 (1994) (requiring an arbitrator to "be faithful to the relationship of trust and confidentiality inherent in that office").

141. See Arnold, *supra* note 7, § 5.05.

142. Brunda, *supra* note 8, at 83.

from publication.¹⁴³ Some parties to an arbitration want to keep private the "dirty linen" of a loss.¹⁴⁴ Others have more specific, legitimate concerns of protecting trade secrets, financial matters, or lists of clients from their competitors.¹⁴⁵ With fast changing technology and tight industry competition, public release of this information potentially could be more damaging than the loss of the case. All of this sensitive information is protected by the very nature of arbitration, and impossible to protect in public litigation.¹⁴⁶

5. Preservation of Commercial Relationships

Another advantage of arbitration is that it is less adversarial than litigation. The parties' business relationship, such as licensor/licensee, seller/buyer, or employer/employee, is more likely to remain intact.¹⁴⁷ One commentator characterizes arbitrations as "only half as adversarial" as litigation.¹⁴⁸

One reason for this may be that, in litigation, very often one party will try to extend and delay the proceedings as much as possible.¹⁴⁹ Not only is this process more expensive for the other parties, but it tends to infuriate them. These tactics are often perceived as unfair or underhanded and the victim of such tactics is often reluctant to form future business agreements with the adversary who subjected him to them.

6. Flexibility

Finally, arbitration is completely flexible.¹⁵⁰ Most terms of arbitration may be modified by the parties. These adapted terms are enforced under contract law by the courts.¹⁵¹ Arbitration agreements are interpreted "in accordance with the intentions of the parties as therein expressed and in the light of the facts and circumstances surrounding the negotiations for and execution of the agreement."¹⁵²

143. Casey, *supra* note 37, at 5; see Arnold, *supra* note 7, § 5.05.

144. Casey, *supra* note 37, at 5.

145. Niblett, *supra* note 133, at 65.

146. These benefits of secrecy and privacy in patent infringement arbitration are equally beneficial in all other types of commercial arbitration.

147. Casey, *supra* note 37, at 6; see Niblett, *supra* note 133, at 65-66; Arnold, *supra* note 7, § 5.06.

148. Arnold, *supra* note 7, § 5.06.

149. See *supra* note 39 and accompanying text.

150. See H.R. Rep. No. 542, 97th Cong., 2d Sess. 13 (1982), reprinted in 1982 U.S.C.A.N. 765, 777 (listing flexibility of arbitration as one of the advantages of arbitration).

151. 35 U.S.C. § 294(a) (1994) (stating that arbitration agreements "shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract").

152. Local No. 725, Int'l Union of Operating Eng'rs v. Standard Oil Co., 186 F. Supp. 895, 899 (D.N.D. 1960); see also S.A. Mineracao Da Trindade-Samitri v. Utah Int'l, Inc., 576 F. Supp. 566, 569-70 (S.D.N.Y. 1983) ("An arbitration clause must be

Flexibility allows the parties to choose those arbitration terms best suited to resolving their particular dispute. Some parties may want to specify that the dispute must be resolved within six months or a year, while other parties may wish to provide for expanded discovery.¹⁵³ In this manner, the parties can best utilize all of the other advantages provided by arbitration.

D. Possible Limitations on the Effectiveness of Patent Arbitration

Despite the inherent advantages of arbitration, some commentators believe that patent arbitration will not be used very often.¹⁵⁴ For example, only ten percent of patent attorneys responding to a survey indicated that they would agree to arbitrate patent disputes on the issue of validity involving claims of more than \$1,000,000.¹⁵⁵ Several factors underlie this reluctance.

Many large companies have a general policy against arbitration because they perceive it as favoring smaller companies.¹⁵⁶ Others note, however, that juries tend to favor smaller companies.¹⁵⁷ Both of these ideas are rooted in the belief that laypeople, as opposed to judges, will usually side with an underdog they perceive is being persecuted by big business. This argument does not transfer well from juries to arbitrators, however. Patent arbitrators are generally experts in the field of the dispute, and many have worked for large corporations in the past.¹⁵⁸ As such, they are not likely to share jurors' biases in favor of smaller businesses. This argument, therefore, does not support resort to litigation.

interpreted in accordance with the intention of the parties."), *amended by*, 579 F. Supp. 1049 (S.D.N.Y.), *aff'd*, 745 F.2d 190 (2d. Cir. 1984).

153. Other issues that parties may want to address in an arbitration agreement include: the law to govern the case; a severability clause to isolate only those issues ripe for arbitration; selection of arbitrators; questions to be decided by the arbitrators; selection of the locale for the arbitration; sequence of the proceedings; nature or type of award; form, content, and time for issuing the arbitrator's award; and arbitrator's fees. Dresser, *supra* note 8, at 555-60.

154. See, Norman H. Zivin & Wendy E. Miller, *An Overview of a Patent Law Suit and the Decision to File*, in Patent Litigation 1991, at 81, 82 (PLI/Pat Series No. 320, 1991).

155. PTC Research Foundation, *supra* note 9, at 278 (Question #6(d)). It is noteworthy, however, that approximately 70% (35 out of 51 on the issue of validity, 37 out of 51 on the issue of infringement and 36 out of 51 on the issue of damages) of the survey respondents said they would agree to arbitrate patent disputes with claims of less than \$100,000. *Id.* at 277-78. A recent survey indicated that corporations "overwhelmingly favor arbitration for disputes involving smaller stakes, but only a very small percentage prefer arbitration where the risks exceed six figures." William M. Wesley & Donald A. Peterson, *Patent Arbitration*, 4 Alternative Disp. Res. Rep. (BNA) No. 2, at 30 (Jan. 18, 1990).

156. See Zivin & Miller, *supra* note 154, at 82.

157. Brunda, *supra* note 8, at 76.

158. See *supra* note 133.

Reluctance to arbitrate is often caused by worries about negotiating leverage and posturing by the parties. Sometimes parties know that the law or the facts are against them and would rather roll the dice with a jury.¹⁵⁹ Often the party who can most afford a protracted court battle will see the threat of litigation as a means of coercing the other side into a settlement.¹⁶⁰ Others worry that by proposing arbitration they will be perceived as having a weak case.¹⁶¹ This perception can be overcome, however, by adopting a general corporate policy of seeking arbitration in all disputes.¹⁶²

The lack of full discovery in arbitration is another concern. Some attorneys feel that full discovery is essential to patent infringement litigation because it is often impossible to prove that infringement has occurred without extensive discovery.¹⁶³ Uncontrolled discovery, however, is inconsistent with goals of arbitration such as minimized cost and time.¹⁶⁴ Rule 30 of the Patent Arbitration Rules provides for limited discovery,¹⁶⁵ and arbitrators have the power to issue "pseudo-subpoenas."¹⁶⁶ These subpoenas can be used, for example, to secure the testimony of the original inventor of the invention in question, to force the disclosure of vital records necessary to prove infringement or invalidity, or to obtain technical information pertaining to the inventions at issue. Using this power, an arbitrator who is knowledgeable in the field of the dispute and discusses discovery concerns with the participants can ensure that sufficient discovery is accomplished by both parties.

Some parties are reluctant to utilize arbitration to resolve patent disputes because under the "*Lear* doctrine,"¹⁶⁷ it appears that an arbitrator's findings of patent validity may not bind even the parties to the

159. *See id.*; Zivin & Miller, *supra* note 154, at 82. Some litigants also like to take a chance with a jury in hopes of obtaining extremely large awards. *See Brunda, supra* note 8, at 76. This perceived advantage of trying a patent case to a jury is somewhat diminished following the Federal Circuit's recent landmark ruling in *Markman v. Westview Instruments, Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc). In *Markman*, the Federal Circuit restricted the use of juries in patent cases to decide certain issues. *Id.* at 970-71. *Markman* held that the issue of claim interpretation, determining the scope and meaning of the individual claims of a patent, "is a matter of law exclusively for the court." *Id.* This issue, often a central aspect of a patent infringement case, will now be decided only by the judge. *Id.* Thus, both the jury's role and the perceived advantage of having a jury are lessened.

160. *Brunda, supra* note 8, at 76.

161. *Id.* at 77.

162. *Id.*

163. *See Zivin & Miller, supra* note 154, at 100; Milgrim, *supra* note 124, § 4.6.3.

164. *See Plant, supra* note 12, at 227.

165. *See, Patent Arbitration Rules, supra* note 10, Rule 30, at 14; *see also supra* notes 116-120 and accompanying text.

166. *See Arnold, supra* note 7, § 7.03[4]. The Federal Arbitration Act provides that "arbitrators . . . may summon in writing any person to attend before them . . . as a witness and in a proper case to bring with . . . them any book, record, document, or paper which may be deemed material as evidence in the case." 9 U.S.C. § 7 (1994).

167. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

arbitration, and those findings may be reargued in court.¹⁶⁸ The “*Lear* doctrine” holds that the public has a strong interest in the determination of the validity of patents, and that such determination is only properly conducted by the federal courts.¹⁶⁹ In *Lear*, the Supreme Court held that a licensee of a patent may challenge the validity of that licensed patent in court, notwithstanding the licensing contract.¹⁷⁰ The Supreme Court indicated that this holding was required because of the strong public interest in the patent as a monopoly.¹⁷¹

Several federal courts of appeals have further held that licensees may reargue in court that patents are invalid after entering into consent orders or dismissals with prejudice.¹⁷² Similar contractual agreements to arbitrate may be treated similarly.¹⁷³

The Federal Circuit has indicated, however, that it will not follow this reasoning with respect to consent judgments including a statement of validity of a patent.¹⁷⁴ The Federal Circuit noted that:

The Supreme Court in *Lear* did not consider the policy concerns evoked when preserving the finality of a judgment, but only the policies involved in resolving the right of a patent licensee to challenge the validity of the licensed patent in a suit for royalties under the contract. . . .

The application of res judicata principles, thus, involves a public policy totally absent from *Lear*.¹⁷⁵

168. See Sol L. Goldstein, *Arbitration of Disputes Relating to Patent Validity or Infringement*, 72 Ill. B.J. 350, 353 (1984).

169. *Lear*, 395 U.S. at 663-64. The “*Lear* doctrine” only applies to questions of the validity of a patent and not to other questions which may be resolved through arbitration such as infringement. See *id.* at 676.

170. *Id.* at 673-74.

171. *Id.* at 663-64. The Supreme Court noted that:

‘It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly’

. . . .

. . . Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor’s discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. *Id.* at 663-64, 70 (quoting *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892)).

172. See, e.g., *Kraly v. National Distillers and Chem. Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974) (“We conclude that National Distillers, the licensee, is not estopped from challenging the validity of the patent, even though a prior consent decree incorporated an understanding not to challenge the validity of the patent.”); *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425, 427 (9th Cir.), cert. denied, 404 U.S. 873 (1971) (“We think the rationale of *Lear* requires us to hold that the covenant of Golden State and Gold, in the settlement agreement of July 23, 1962, not to contest the validity of MCA’s patent, is void on its face and unenforceable.”).

173. See Goldstein, *supra* note 168, at 353.

174. *Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 483 (Fed. Cir. 1991).

175. *Id.* at 476.

The public policy advocating strong enforcement of res judicata decisions is more compelling than that associated with enforcing arbitration decisions. It is unclear, however, how the Federal Circuit will rule on this issue with respect to arbitration. It is possible, given prior rulings, that the Federal Circuit will hold that parties to an arbitration may not relitigate the issue of patent validity.¹⁷⁶

Some benefit may result, therefore, from forgoing arbitration and having a patent reexamined in a federal court. If the Court of Appeals for the Federal Circuit sustains the patent as valid, it will then be "respected by industry to a degree significantly beyond the respect normally obtained by patents which have not yet been confirmed by a court of appeals."¹⁷⁷

This validation process, however, is quite lengthy and expensive.¹⁷⁸ While a finding by the Federal Circuit of patent validity is the most secure type of judgment obtainable, its high cost is usually not justified. All patents, before being granted, go through a very rigorous examination by the PTO.¹⁷⁹ Further, in an arbitration the arbitrator will review and rule on the validity of the patent with the aid of information provided by both sides of the dispute. The Federal Circuit is unlikely to find a patent invalid after it had been issued by the PTO,¹⁸⁰ and reinspected and approved by an experienced patent arbitrator. This slight possibility does not justify the expense that would be incurred in relitigating the issue of patent validity up to the Federal Circuit.

Another perceived problem with arbitration is that some patent attorneys believe that arbitrators have a tendency to "split the baby."¹⁸¹ They believe that arbitrators will always compromise somewhat in their rulings and that the parties will not receive a full measure of justice.¹⁸² Coupled with this fear is the concern that if they receive a judgment that they think is less than fair, their right to appeal is severely restricted.¹⁸³

176. See Goldstein, *supra* note 168, at 353.

177. Arnold, *supra* note 7, § 5.05.

178. See *supra* parts I.B.1 - B.2.

179. See Gould v. General Photonics Corp., 534 F. Supp. 399, 404 (N.D. Cal. 1982).

180. See *Wilson Sporting Goods Co. v. David Geoffrey & Assocs.*, 904 F.2d 677, 685 (Fed. Cir.), *cert. denied*, 498 U.S. 992 (1990). Courts seldom reverse a finding of patent validity because patents that have been issued by the PTO carry a presumption of validity. See *id.* The plaintiff in a patent infringement case always has the burden of proving infringement, but "this burden . . . does not, of course, in any way undermine the presumed validity of [the plaintiff's] actual patent claims." *Id.*

181. See William F. Heinze, *Patent Mediation: The Forgotten Alternative in Dispute Resolution*, 18 Am. Intell. Prop. L. Ass'n Q.J. 333, 339 & n.35 (1991); Bender, *supra* note 38, at 10.

182. See Heinze, *supra* note 181, at 339.

183. See *supra* notes 89-99 and accompanying text; see also Plant, *supra* note 12, at 223 (arguing that parties to an arbitration must be willing to abide by a judgment from which there is no substantive appeal); Milgrim, *supra* note 124, § 4.5.8 (noting limited grounds of appeal); Beverly B. Goodwin & Laurence H. Pretty, *How to Handle Liti-*

Notwithstanding these potential drawbacks, arbitration is still more desirable than litigation in many situations. In addition to the described advantages of cost,¹⁸⁴ time,¹⁸⁵ quality,¹⁸⁶ secrecy/privacy,¹⁸⁷ preservation of commercial relationships,¹⁸⁸ and flexibility,¹⁸⁹ plaintiffs also should want to arbitrate because, with arbitration, they will receive any awards or damages in "real time."¹⁹⁰ Receiving a sum of money five to fifteen years in the future, even if it is a greater amount, is not as beneficial as receiving it within one year, guaranteed.¹⁹¹ The money may be needed immediately to fund expansion or research or possibly even to stave off bankruptcy. Defendants also should want to arbitrate patent disputes because plaintiffs are more likely to accept less money now than after a trial which may yield a huge jury award.¹⁹²

In sum, the stated advantages offered by arbitration outweigh the limitations mentioned above. Arbitration is superior to litigation for the resolution of many patent infringement disputes. Notwithstanding this superiority, however, many attorneys and their clients are still hesitant to utilize arbitration in patent disputes because of the lack of conformity to rules of evidence in patent arbitrations.

III. A DOUBLE-EDGED SWORD: IMPLICATIONS OF THE LACK OF EVIDENCE RULES IN PATENT INFRINGEMENT ARBITRATIONS

Rule 30 of the AAA Patent Arbitration Rules states that "conformity to legal rules of evidence shall not be necessary."¹⁹³ At first blush,

gation of a Patent — Part 1, in How to Handle Basic Patent Problems, at 205, 206 (PLI/Pat Series No. 343, 1992) (stating that "as a practical matter no appeal lies from an arbitral award").

184. See *supra* part II.C.1.

185. See *supra* part II.C.2.

186. See *supra* part II.C.3.

187. See *supra* part II.C.4.

188. See *supra* part II.C.5.

189. See *supra* part II.C.6.

190. Borovoy, *supra* note 54, at 543.

191. See *id.* Of course, losing parties in arbitration, just like losing parties in court, may not always pay the judgments they owe promptly. The beneficiary of an arbitration award, however, has simple recourse in the federal district courts to have the arbitration award confirmed. 9 U.S.C. § 9 (1994). "A confirmation proceeding under 9 U.S.C. § 9 is intended to be summary: confirmation can only be denied if an award has been corrected, vacated, or modified in accordance with the Federal Arbitration Act." Taylor v. Nelson, 788 F.2d 220, 225 (4th Cir. 1986).

192. See Borovoy, *supra* note 54, at 543.

193. *Patent Arbitration Rules, supra* note 10, Rule 30, at 14; see also *Hoteles Condado Beach v. Union De Tronquistas*, 763 F.2d 34, 38 (1st Cir. 1985) ("Arbitration proceedings are not constrained by formal rules of procedure or evidence."). The Center for Public Resources requires a minor limitation on evidence rules in arbitrations through CPR Rule 11.2 which requires that "the [arbitration] tribunal shall apply the lawyer-client privilege and the work product immunity." CPR Rule 11.2 (1988).

this provision does not appear to be controversial. After all, it conforms to the concept of arbitration as a more relaxed, more flexible, and more open forum than litigation.¹⁹⁴ While rules of evidence "keep out unreliable, irresponsible evidence,"¹⁹⁵ conformity to formal rules of evidence "keep[s] out much inexpensive evidence of a type we all rely upon in day to day business," and explains events that "either no evidence or evidence very expensive to come by or introduce [can]."¹⁹⁶ While some may be enticed by the prospect of discarding the Federal Rules of Evidence, the lack of evidence rules in arbitration deters many parties from arbitrating patent infringement cases.

A. *Advantages of a Lack of Rules of Evidence*

Several clear, undeniable advantages result from the absence of formal evidence rules in patent infringement arbitrations. The first benefit involves the qualifications of the arbitrators. One commentator notes that if formal rules of evidence are implemented in arbitration proceedings, one of the arbitrators must be a former judge or experienced litigator.¹⁹⁷ This argument is based on the notion that an arbitrator without such experience would be unable to make correct evidentiary rulings based on the law. Thus, if no evidence rules are utilized in the arbitration, the potential pool of arbitrators to choose from is larger. Additionally, such an experienced arbitrator is sure to demand a larger fee due to the scarcity of qualified individuals, and this will cut away at the cost savings of arbitration.

The greatest advantages of the lack of evidence rules, however, are realized in the admission of technological evidence such as computer-generated reports, exhibits, and other documents.¹⁹⁸ It is quite expensive and time-consuming to determine if this type of evidence, common to cases involving high-technology and patents, is admissible under the Federal Rules of Evidence.¹⁹⁹ Because it is expensive and sometimes impossible to place this evidence into admissible form, the lack of formal evidence rules operates as a cost saver.²⁰⁰

194. See *supra* part II.B - C.

195. Arnold, *supra* note 7, § 7.18.

196. *Id.*

197. See Clark & Fenwick, *supra* note 51, at 25. Non-attorneys can serve as arbitrators, however, even if rules of evidence are used provided that the arbitrators receive adequate training in applying rules of evidence. See *infra* p. 128 (discussing requiring arbitrators to complete basic training in application of rules of evidence before arbitrating patent cases).

198. See *id.*

199. *Id.*; see *infra* notes 245-47 and accompanying text.

200. See Clark & Fenwick, *supra* note 51, at 25. For example, any technical document that is proposed to be admitted under formal evidence rules must first be authenticated and explained by an expert witness at great expense to the party seeking to introduce the evidence. Fed. R. Evid. 901. Rule 901 states that "authentication" is "a condition precedent to admissibility" and "is satisfied by evidence sufficient to support a finding that the matter in question is what the proponent claims." *Id.*

B. *Disadvantages of a Lack of Rules of Evidence*

As alluded to earlier, the lack of rules of evidence cuts two ways. While some factors favor dispensing with all rules of evidence, such a decision would slice away at the reliability and quality of arbitration.

Without conformity to evidence rules, uncertainty and unpredictability abound as to what will be admissible.²⁰¹ In some cases, not all of the evidence will be admitted or considered,²⁰² while in others, immaterial or prejudicial evidence, or both, will influence the outcome.²⁰³ Affidavits that have not been cross-examined, for example, are particularly unreliable and are often admitted in arbitrations.²⁰⁴ Without evidence rules, false affidavits or other unreliable evidence might erroneously be relied upon by an arbitrator.²⁰⁵ Vesting an arbitrator with nearly complete discretion and little accountability²⁰⁶ can easily cause the parties to lose control of the proceedings and suffer unpredictable results.

Another general problem is that without predetermined evidence rules, the two parties could come to the hearing with vastly different expectations as to what evidence will be allowed.²⁰⁷ These different expectations could quickly lead to strife between the participants, thus canceling one of the benefits of arbitration—maintaining good relations between the parties.²⁰⁸ Other surprises may occur if one side appears at the arbitration bearing evidence on new issues, raising new defenses, or even seeking new remedies.²⁰⁹

An absence of evidence rules in patent cases also can lead to “an expensive [evidentiary] free-for-all.”²¹⁰ The two parties may engage in a “battle of experts”—a war of attrition in which each party presents an excessive number of expert witnesses in an effort to counter those called by the other.²¹¹ This battle claims as its victims

201. *See id.*; Arnold, *supra* note 4, at 685.

202. *See* Plant, *supra* note 12, at 226.

203. *See* Arnold, *supra* note 13, at 733.

204. Arnold, *supra* note 13, at 733. One commentator has postulated that the average uncross-examined affidavit contains at least “one falsehood for every page or three” and “not infrequently a falsehood per paragraph.” *Id.* at 734.

205. *See* Arnold, *supra* note 7, § 7.18.

206. *See* Goodwin & Pretty, *supra* note 183, at 207.

207. *See* Arnold, *supra* note 7, § 7.18.

208. *See id.*; *supra* part II.C.5.

209. *See* Arnold, *supra* note 7, § 7.18. This problem of surprise is usually avoided in litigation by careful judicial supervision of the discovery process under the Federal Rules of Civil Procedure. *See* Federal Reserve Bank v. Carey-Canada, Inc., 123 F.R.D. 603, 606 (D. Minn. 1988); McKay v. Ashland Oil, Inc., 120 F.R.D. 43, 48 (E.D. Ky. 1988); Bobby M. Harges, *The Promise of the Mandatory Summary Jury Trial*, 63 Temp. L. Rev. 799, 808-09 (1990). Since discovery is severely curtailed with arbitration, the problem must be addressed through other measures. *See infra* note 241 and accompanying text.

210. Plant, *supra* note 12, at 242.

211. *See* Peter J. Scavello & Carol Leva, *Effective Use of Technical Experts*, in PLI Continuing Legal Assistant Training (R) Workshops For Legal Assistants 1994: Basic

nearly all of the advantages of arbitration, including savings in cost, time, and quality.²¹² With the possibility of this result present in arbitrations, the parties might well choose to engage in full-blown litigation.

Finally, a lack of conformity to rules of evidence opens the doors of the arbitration to the testimony of "junk scientists." These witnesses testify on theories that are neither recognized widely within their field nor scientifically founded. Junk scientists are said to "discard enough 'bad' data to make the remaining 'good' points look important. . . . Professional statisticians call this 'data dredging.'"²¹³ Junk scientists of this sort generally are unreliable, and may sway an arbitrator. They have "much of the same form but none of the . . . substance" of true scientists.²¹⁴ Commentators have noted that jurors are often swayed by junk scientists.²¹⁵ This is because "true expert[s] will assert [their] scientific conclusions cautiously, while the 'junk scientist' will confidently articulate the truth of scientifically dubious propositions."²¹⁶

While generally less impressionable than jurors, there remains the chance that arbitrators could be similarly swayed by junk scientists. In any arbitration, the most preferable situation is for the arbitrator to be an expert in the exact technical field of the dispute.²¹⁷ In many situations, however, this is not possible. There are only a limited number of experts in any particular technical field, and even fewer who have the legal training necessary to be arbitrators under the system pro-

Litigation, Legal Research And Writing, at 329, 332 (PLI/Lit Series No. 501, 1994) ("[O]pposing attorneys attempt at trial to inundate the jury with the most respected, most qualified, or most numerous expert witnesses to bolster their positions.").

Under the AAA Patent Arbitration Rules, an arbitrator has some power to limit the amount of discovery that takes place. *Patent Arbitration Rules*, *supra* note 10, Rules 30-31, at 14. The arbitrator is obligated, however, to "afford a full and equal opportunity to all parties for the presentation of any material and relevant evidence." *Id.*, Rule 28, at 13. Under these constraints it is unclear how much an arbitrator could permissibly limit the presentation of relevant, yet excessive, evidence.

212. The presence of an expert in the field of the dispute as one of the arbitrators can somewhat mitigate the probability of entrance into such a battle. *See Bender*, *supra* note 38, at 12. First, the attorneys will feel less of a need to present as much expert testimony with the knowledge that the arbitrator is already quite knowledgeable in the area. *Id.* Second, the experts that do testify may take less extreme, and possibly less deceiving, positions because they know that they are dealing with a factfinder that is experienced in the field. *Id.*

213. Peter W. Huber, *Galileo's Revenge: Junk Science in the Courtroom* 27 (1991).

214. *Id.* at 2.

215. Michael S. Jacobs, *Testing the Assumptions Underlying the Debate About Scientific Evidence: A Closer Look at Juror "Incompetence" and Scientific "Objectivity"*, 25 Conn. L. Rev. 1083, 1091 (1993).

A National Law Journal survey reported that, in civil trials, 36% of those polled said that expert testimony "made a great deal of difference," 32% said it "made some difference," 16% said it "did not make much difference," and 13% said it "had no impact" on the outcome of the trial. *Expert Witnesses Found Credible by Most Jurors*, Nat'l L.J., Feb. 22, 1993, at S4.

216. Jacobs, *supra* note 215, at 1091.

217. *See supra* notes 133-35.

posed by this Note.²¹⁸ Often, arbitrators will have a general technical background but lack training in the precise field of the dispute.²¹⁹ Thus, the arbitrator may still be susceptible to confusion by skilled junk scientists. Without rules of evidence, it is difficult to prevent junk scientists' testimony from possibly influencing the outcome of the arbitration.

IV. A PROPOSAL: MODIFIED USE OF THE FEDERAL RULES OF EVIDENCE IN PATENT INFRINGEMENT ARBITRATIONS

Given the problems presented by a complete lack of evidentiary rules, and the potential benefits of arbitration, another solution must be found. Some commentators suggest that conformity to rules of evidence, such as the Federal Rules of Evidence, may benefit arbitration.²²⁰ Use of the Federal Rules in their standard form, however, cancels many of the benefits of arbitration discussed above.²²¹ Thus, this Note contends that a hybrid approach, using the Federal Rules of Evidence as a starting point, should be utilized in all patent infringement arbitrations. The Federal Rules of Evidence provide an excellent baseline because they are widely used, well understood, and generally successful in protecting the integrity of evidence. The Federal Rules preserve basic reliability and predictability of evidence, preclude immaterial and prejudicial evidence, minimize the possibility of surprise evidence, issues, defenses, or remedies, prevent the occurrence of a "battle of experts," and exclude the testimony of "junk scientists."²²²

Use of rules of evidence in arbitration, however, requires the arbitrator to be skilled in applying rules of evidence which could reduce the pool of available arbitrators.²²³ There are two ways to overcome this potential shortcoming. First, three-person panels may be used in

218. This Note proposes that a modified form of the Federal Rules of Evidence should be utilized in all patent arbitrations. See *infra* part IV.

219. See *supra* notes 133-35 and accompanying text.

220. See, e.g., Tom Arnold, *Suggested Form of Contract to Arbitrate a Patent or Other Commercial Dispute, Annotated*, C976 ALI-ABA 229, 249 (1994) [hereinafter *Suggested Form of Contract to Arbitrate*] (including use of Federal Rules of Evidence in proposed agreement to arbitrate); Tom Arnold, *Contracts to Arbitrate Patent and Other Commercial Disputes*, 10 *Alternatives to High Cost Litig.* 191, 194 (1992) (noting that the adoption of evidence rules is an important consideration for the parties to an arbitration of a patent dispute); Plant, *supra* note 12, at 241-42 (suggesting that conformity to rules of evidence such as the Federal Rules of Evidence, along with tight control by the arbitrator may prevent the arbitration hearing from becoming an "expensive free-for-all").

221. See *supra* part III.B; Arnold, *Suggested Form of Contract to Arbitrate*, *supra* note 220, at 249 n.62 ("[Use of the Federal Rules of Evidence] will sacrifice great amounts of the savings in time and money that arbitration potentially affords.").

222. See Clark & Fenwick, *supra* note 51, at 25; see also *supra* part III.B.

223. See *supra* notes 218-19 and accompanying text.

the arbitration.²²⁴ In this manner it may be easier to construct a panel of which one arbitrator has expertise in the exact technical area of the dispute while one of the other arbitrators has the legal expertise required to conduct the hearing, especially ruling on evidentiary matters. The use of three person arbitration panels does, of course, increase the cost of the arbitration proceedings.²²⁵

A second, possibly superior, option is to require all arbitrators to know or learn basic rules of federal evidence practice sufficient to conduct an arbitration hearing under this proposal. Attorneys will already possess this knowledge. Non-attorneys, however, should be required to complete basic training in the Federal Rules of Evidence in order to serve as arbitrators of patent cases. This training does not need to be overly burdensome and can be justified by the substantial fees patent arbitrators can demand.²²⁶

As mentioned above, several changes must be made to the basic structure of the Federal Rules of Evidence in order to preserve the advantages of arbitration over litigation. First, reports from experts expected to testify at the arbitration hearing must be submitted to the arbitrator, preferably prior to the date of the arbitration hearing. Second, parties must be permitted, perhaps even required, to submit summaries of testimony to be offered, and these summaries should be entered into evidence in lieu of reading in depositions. Finally, the hearsay rules must be relaxed to allow some evidence such as reports, documents, and some testimony, to be admitted without following all of the costly procedures for authenticating such items.

These proposed changes should be included in all arbitration agreements and also incorporated into the AAA Patent Arbitration Rules.²²⁷ It is important for the AAA to adopt these changes because parties often turn to these rules when trying to arbitrate an existing dispute to which there is no prior agreement regarding arbitration.²²⁸

224. See *supra* note 109. Three-person arbitration panels may have other advantages as well such as making it easier to balance the expertise required for the case. See Arnold, *supra* note 13, at 711. Arnold, for example, suggests that a panel for a patent arbitration case could be composed of a chemist, a businessperson, and a patent lawyer. *Id.* Another potential benefit of having a three-person panel of arbitrators is that the quality of the judgment may be higher "due to the debates and interactions between the arbitrators." *Id.* at 712.

225. *Id.* This increase in cost results not only from paying three arbitrators instead of one. It also arises from scheduling difficulties and increased editing requirements of each arbitrators' written work by the other two arbitrators. *Id.* This increase in cost, however, should not be significant enough to destroy the cost savings realized by arbitration over litigation.

226. Arbitrators of patent disputes set their own fees which are recorded and published by the AAA prior to the parties choosing the arbitrators for their dispute. These fees typically are between \$500 and \$1000 per day of work on the case but can be as high as \$1500 per day. Telephone Interview with American Arbitration Association, in New York, N.Y. (Sept. 11, 1995).

227. See *supra* note 100.

228. See Dresser, *supra* note 8, at 553.

These rules are the most effective solution because they are generally viewed as neutral and have a known interpretation;²²⁹ thus, parties are more likely to be swayed to accept arbitration of their patent dispute if the Federal Rules of Evidence apply, albeit in modified form.

A. *Submission of Experts' Reports and Summaries of Testimony*

Experts' reports often are critical in cases involving technology-related issues.²³⁰ Both sides of a patent infringement dispute commonly present expert reports to prove distinctions and similarities between the accused infringer's invention and the patent owner's invention, and to illustrate the process by which the accused infringer's invention was developed.²³¹ The parties should submit these reports to the arbitrator in advance of the arbitration hearing date so that the arbitrator may review them before the hearing.²³²

The parties to an arbitration also should submit brief written summaries of all of the testimony and evidence they plan to present. These summaries need only be two to three pages long, but must fully and accurately describe the testimony they represent. Both the attorneys and witnesses must declare that the report is accurate to the best of their knowledge.²³³ These summaries will be entered into evidence and used in the final adjudication process, subject to cross-examination requirements outlined below.²³⁴

There are several advantages to this process. First, by presubmitting all of the experts' reports, arbitrators can familiarize themselves

229. *See id.*

230. *See* Clark & Fenwick, *supra* note 51, at 25.

231. *See* Goodwin & Pretty, *supra* note 183, at 225 (discussing the various roles of technical experts in patent disputes).

232. *See supra* notes 210-11 and accompanying text. An appropriate time for these submissions may be at the Administrative Conference and Preliminary Hearing required by the AAA Patent Arbitration Rules. *Patent Arbitration Rules, supra* note 10, Rule 9, at 7-8.

233. This rule is analogous to the requirements of Fed. R. Civ. P. 11(b), which states in pertinent part:

By presenting to the court (whether by signing, filing, submitting, or later advocating) a pleading, written motion, or other paper, an attorney or unrepresented party is certifying that to the best of the person's knowledge, information, and belief, formed after an inquiry reasonable under the circumstances,— (1) it is not being presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. Fed. R. Civ. P. 11(b).

234. A process somewhat similar to this, used in commercial arbitrations, has been referred to as the "witness-statement format." Arnold, *supra* note 7, § 7.18. It has been estimated that "more than half of all direct evidence in commercial arbitrations is now presented in affidavit form of witness statements." *Id.* Summaries of anticipated witness testimony are also utilized in lieu of live testimony in summary jury trials. *See* Lucille M. Ponte, *Putting Mandatory Summary Jury Trial Back on the Docket: Recommendations on the Exercise of Judicial Authority*, 63 *Fordham L. Rev.* 1069, 1076-77 (1995).

with the reports prior to the arbitration hearing.²³⁵ Presubmission will minimize the "learning curve" time of resolution, and will help to lower the costs of the arbitration.²³⁶ Because the arbitrator already will have been presented with the relevant information and will not need to hear an attorney lead the experts through an oral discussion of their testimony at the arbitration hearing, the extent of the direct oral testimony will be greatly decreased or even eliminated.²³⁷ The submission of summaries of other non-expert witnesses' testimony will have similar effects.

Using this approach, all parties involved in the arbitration will save both time and money. Shorter testimony by all witnesses will decrease the length of the arbitration hearing, cutting down on attorney and arbitrator costs. The compensation paid to experts will also be reduced because they will spend less time testifying at the hearing.

Questions remain, however, as to the reliability of testimony presented in this form. To maintain the integrity, accuracy, and quality of the proceedings, all witnesses must be subject to cross-examination by opposing counsel. The opportunity to cross-examine witnesses will help to ensure that the testimony provided through experts' reports and summaries of testimony will be as accurate and truthful as if it had been given at the arbitration hearing as direct oral testimony.²³⁸ For complete fairness, the party presenting the witness also must have the opportunity to redirect the examination of the witness.

Use of this process also will result in increased quality of judgment. In most cases, the experts' reports and summaries of testimony provided to the arbitrators will be more intelligible than several hours of direct oral testimony. In an affidavit, witnesses may highlight and thoughtfully explain key points and ideas, upon reflection, instead of while bounded by the impatient and awkward process of eliciting evidence through interrogatories. Further, the arbitrator will have had an opportunity to form questions for the witness to further challenge the competency of the testimony.²³⁹ Thus, not only is this process faster and less costly, but it can also be more accurate.

This method also can alleviate some of the need for discovery.²⁴⁰ If the opposing party is provided with all of the experts' reports, and

235. See Clark & Fenwick, *supra* note 51, at 25.

236. See *supra* notes 128-34 and accompanying text.

237. Due process with respect to each of the witnesses will still be maintained with this approach as the opposing party will still have the opportunity to fully cross-examine each witness presented during the arbitration.

238. See Arnold, *supra* note 7, § 7.18 (stating "the preservation of the right of cross-examination [of witnesses who have provided affidavit testimony] provides relative reliability and induces candor in the original statements.")

239. Arbitrators are allowed and encouraged to question witnesses directly to more fully understand their testimony. See *supra* note 109 and accompanying text.

240. See Brunda, *supra* note 8, at 82.

summaries of testimony from all of the witnesses, they have less need for discovery. This process, too, saves cost and time.

A final benefit of this process is that, by requiring each side to disclose the content of their evidence before the hearing, the risk of surprise issues or defenses being raised is minimized.²⁴¹ The problem of surprise is unique to arbitration as the lengthy discovery process associated with standard patent litigation is intended to remove the risk of surprise of this nature.²⁴² This problem of surprise is more likely to occur with each relaxation of the rules of evidence and procedure. With no rules forbidding such actions, surprise of this nature probably will occur. The mandatory pre-hearing submission of evidence and testimony advocated by this Note eases this problem and restores arbitration to a comparable position to litigation on this matter.

B. *Admission of Certain Forms of Hearsay Evidence*

The final adaptation that must be made to the Federal Rules of Evidence when used in patent infringement arbitrations involves a relaxation of the rules regarding hearsay. The Federal Rules of Evidence define hearsay as "a statement, other than one made by the declarant while testifying at the trial or hearing, offered in evidence to prove the truth of the matter asserted."²⁴³ Statements that are hearsay may not be admitted under the Federal Rules unless they qualify under one of the exceptions to the hearsay rules provided by Rules 803 and 804, or are not hearsay by definition under Rule 801(d).²⁴⁴

Hearsay evidence is often sought to be used in patent cases to prove a variety of aspects of both parties' arguments. These uses include: proving when and where the allegedly infringing invention was made, used, or sold; proving circumstances surrounding the original prosecution of the patented invention; and also proving important facts relevant to the prior art. This hearsay testimony can range from unauthenticated, or unable to be authenticated documents, to oral or written testimony by witnesses of acts or occurrences.

Documents procured from the opposing party by way of discovery or disclosure are a common source of evidence that is often very difficult to be authenticated. These documents are especially important in patent infringement cases because, without them, parties are often unable to prove all aspects of their claims.²⁴⁵ Without help from the opposing party, it is sometimes impossible for the party wishing to

241. See *supra* notes 207-09 and accompanying text.

242. See Fed. R. Civ. P. 26(b)(1) ("Parties may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim of defense or any other party . . .").

243. Fed. R. Evid. 801(c).

244. See Fed. R. Evid. 801(d), 802-04.

245. See *supra* notes 198-200 and accompanying text.

introduce the evidence to satisfy the hearsay exceptions in the Federal Rules of Evidence.²⁴⁶ The specific problem is the difficulty of proving the document was recorded "in the course of a regularly conducted business activity, and . . . [that] it was the regular practice of that business activity to make" such report.²⁴⁷

While the party wishing to offer these documents may be unable to prove their admissibility under the Federal Rules of Evidence, such documents may be of highly probative value. Examples of such documents include records of scientific activities, results of tests performed, and timetables of production of the invention in question.²⁴⁸ All of these may prove dispositive in determining the validity of a patent or determining whether an infringement has occurred. Without some kind of special exception, however, the arbitrator will not be able to use this evidence in making a ruling.

Because this evidence is often of questionable reliability, this Note proposes that it should be admitted only if certain safeguards are in place. Hearsay testimony not admissible under the Federal Rules of Evidence must be corroborated; otherwise, it should not be considered by the arbitrator.²⁴⁹ Under the system advocated by this Note, this corroboration may be shown through circumstances indicated by other evidence or other non-hearsay testimony that supports the credibility of the proffered hearsay testimony. By this process, more reliable evidence will be considered by the arbitrator without as much prejudicial evidence clouding the decision.

CONCLUSION

Arbitration is clearly superior to litigation for the resolution of most patent infringement disputes. Arbitration is less costly, less time consuming, of higher quality, more private, and more flexible. Plaintiffs and defendants, patent holders and accused patent infringers, all have reasons to prefer arbitration. Nonetheless, many patent attorneys and their clients remain hesitant to fully exploit the advantages of arbitra-

246. See Fed. R. Evid. 803(6) ("Records of regularly conducted activity"); Fed. R. Evid. 803(7) ("Absence of entry in records kept in accordance with the provisions of paragraph (6)").

247. Fed. R. Evid. 803(6). These documents also often do not satisfy the requirements of Rule 902(9) providing for self-authentication of commercial paper and related documents. Fed. R. Evid. 902(9). This is because these documents are often unsigned and unattributable and are, therefore, not within the scope of accepted documents under "general commercial law." *Id.* They are also usually not admissible under Rule 801(d)(2) as admissions by a party-opponent, again because they are usually unsigned and unattributable to anyone. Fed. R. Evid. 801(d)(2).

248. See Clark & Fenwick, *supra* note 51, at 25.

249. It is assumed that an arbitrator, like a judge ruling on the admissibility of evidence in a trial, is able to consciously disregard evidence that is ultimately declared inadmissible, and not be influenced by it when rendering a decision.

tion.²⁵⁰ The greatest of these parties' fears involves the complete lack of rules of evidence currently applicable to patent arbitrations.

To encourage more parties to patent disputes to take advantage of arbitration, a modified version of the Federal Rules of Evidence must be employed. Under this system, the advantages of arbitration are preserved without sacrificing the admission of useful, probative evidence, while still excluding unreliable, irresponsible evidence. This system requires the use either of three-person arbitration panels or that all arbitrators be trained in application of the Federal Rules of Evidence. Further benefits of decreased cost and time, increased quality of resolution, secrecy and flexibility, and preservation of commercial relationships will result from the presubmission of experts' reports to arbitrators. Thus, through these reforms, an appropriate balance is achieved, and patent attorneys and their clients can enter arbitration more assured that the final outcome will be both just and fair.

250. See PTC Research Foundation, *supra* note 9, at 275.

