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In This Issue

New Procedural Rights for IP Owners and the Promotion of Judicial Economy and Efficiency through the use of Arbitration in Civil Actions against the USPTO

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SYNOPSIS

Compulsory, forum-administered arbitration of suits in federal district court seeking review of Patent Office Board decisions affirming examiners' final rejections of patent applications (35 U.S.C. 145) and in ex parte patent reexaminations (35 U.S.C. 306), and of the Director's decisions on petitions for reconsideration of patent term adjustments (35 U.S.C. 154(b) (4)), is enabled by proposed legislation amending these statutes and by court rules implementing the arbitral procedure. The proposal extends the ADR concepts contained in antecedent legislation, case law, and official statements by the Executive Branch, while satisfying all constitutional, statutory, judicial, and public policy requirements.[2] According to the proposed legislation, upon plaintiff's motion and without dismissing the action, the judge assigned to a case would refer the issues to a court Administrator for arbitration by a party-approved tribunal of court-certified arbitrators. The tribunal's decision would be announced in a reasoned arbitral award which the court would then enter in the form of a judgment as though the case had gone to trial, and which would be binding on the parties, but non-precedential. Arbitrators' fees and expenses would be borne by the plaintiff consistent with the current fee-shifting provisions of § 145.

I. INTRODUCTION

Recent judicial precedents, ongoing case law developments, and administrative enactments have caused the scope and duration of U.S. patent rights to depend increasingly upon the records of administrative proceedings in patent applications and patent reexaminations. This trend impacts the task of interpreting patents so that their owners, and enterprises faced with third-party patents, can make informed business decisions affecting patent enforcement; licensing; and research, development, and marketing plans. The situation becomes acute when a patent is tested in the sobering realities of threatened or actual litigation or in the cold light of licensing negotiations. As a result, scope-restricting amendments and representations made in the U.S. Patent and Trademark Office ("Patent Office" or "USPTO") to hasten the allowance of claims are contraindicated in favor of administrative appeals to the Patent Office Board of Patent Appeals and Interferences ("Board") and, if necessary, subsequent judicial review of adverse decisions of the Board.[3]

Optimizing the quality of patent applications by front-loading the effort (and cost) of patent procurement into the pre-filing stage can increase the odds of obtaining allowance of claims initially presented. Such "best practices" are informed by the growing

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importance of patent drafting and prosecution as key factors in the interpretation of words in a specification and the construction of claims, and in holdings of patent scope and enforceability. But also it implicates the need for greater confidence in and reliance on appellate practice in patent procurement under conditions of optimal efficiency and economy in a process that promotes truth and accuracy in the result.

The Patent Office is one of those federal agencies whose final decisions are expressly subject by statute to dual routes of judicial review.[4] Thus, patent applicants, and owners of patents in *ex parte* patent reexamination, who are dissatisfied with the Board's decisions on appeals from examiners' rejections[5] can seek judicial review either (i) by appealing directly to the Court of Appeals for the Federal Circuit,[6] or (ii) by suing the Patent Office under 35 U.S.C. § 145 (patent applicants) or § 306 (patent owners) in the U.S. District Court for the District of Columbia. The two routes of judicial review are mutually exclusive.[7]

A patentee dissatisfied with the USPTO's determination of a patent term adjustment[8] can seek judicial review by civil action under 35 U.S.C. § 154(b)(4).

II. COMPARATIVE ASPECTS OF CIVIL ACTIONS AGAINST THE PATENT OFFICE VS. DIRECT APPEALS TO THE FEDERAL CIRCUIT

Lawsuits in D.C. federal district court seeking review of Board decisions offer several advantages to applicants or patent owners, as plaintiffs, in comparison to direct appeals to the Federal Circuit.

First, the district court reviews Board decisions *de novo* as to the operative facts if additional evidence or different evidentiary modalities are proffered by either party.[9] Thus, the plaintiff is afforded an opportunity not only to reargue the applicable law (which the court reviews *de novo* in any event), but also to buttress its case with evidence newly obtained, or which was before the Board if reintroduced in a different form, e.g., as expert testimony.[10] In contrast, Federal Circuit review is strictly limited to "the record before the Patent and Trademark Office."[11]

Second, unlike the Federal Circuit, the district court may consider new issues upon a showing of good cause why they were not presented below.[12]

Third, negotiated settlements -- usually accompanied by agreed-upon claim amendments -- are possible in § 145 actions.

Fourth, judgments in § 145 actions are appealable as of right to the Federal Circuit[13] which reviews them without deference to the district court's *ratio decidendi* after examining the district court's findings of fact under the "clear error" standard of review.[14] This contrasts with the more deferential "substantial evidence" standard applicable at the district court level when no new proofs are presented,[15] and in direct appeals from the Board to the Federal Circuit.[16]

The foregoing observations would seem to validate the role of civil actions against the Patent Office as a hybrid of trial and appellate practices.[17] Yet, such suits are usually avoided in favor of direct appeals to the Federal Circuit.[18] Why? There are several reasons.

First, there is a significant financial disincentive against suing under § 145 because all expenses -- including those of the Patent Office -- from commencement of the action through trial and judgment are taxed to the plaintiff.[19] In the aggregate, a plaintiff's outlay resulting from such expense-shifting can exceed the cost of a direct appeal to the Federal Circuit.

Second, many in the patent bar perceive that there is less than optimal certainty of obtaining correct results in trials of § 145 actions, particularly when the subjects matter involved are technologically complex. Federal district court judges cannot always be expected to have scientific or engineering backgrounds sufficient to enable them to appreciate what are often non-intuitive nuances of the technological issues that must be decided. The end result is an increased risk of reversible error and the consequent need to appeal from the district court to the Federal Circuit for review upon a less deferential "clear error" standard.[20]

Third, because of the court's case load, it is often difficult to achieve expedition in civil actions against the Patent Office so as to (i) minimize both delay in commencement and loss of duration of the injunctive enforceability of exclusive rights conveyed under a patent that may ultimately issued on an application, or (ii) avoid undue delay in the practicable disposition, assertion, or licensing of a patent whose claims have been rejected in an *ex parte* reexamination proceeding.

In such a setting, arbitration presents an attractive alternative to litigating to trial and judgment before a D.C. federal district court judge, incorporating the advantages of civil action in the district court, while offsetting some of the disadvantages.

III. CONCEPTS OF ADR IN RELATION TO THE PRESENT LEGISLATIVE AND RULE-MAKING PROPOSALS

ADR Methodologies in the Federal Context

The term "alternative means of dispute resolution" (ADR) is defined in the *Alternative Dispute Resolution Act of 1998* ("ADRA")[21] as "any process or procedure... in which a neutral third party participates to assist in the

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resolution of issues in controversy."[22] Non-adjudicative ADR includes mediation and mini-trials; adjudicative ADR is most often associated with arbitration.

Arbitration

"Arbitration" connotes an adversarial, adjudicative ADR proceeding in which the operative facts and apposite law implicated in a dispute are presented, through testimonial and/or documentary evidence and attorney argument, to a tribunal of one or more arbitrators or "neutrals" with opportunities for cross-examination and rebuttal.

The arbitral tribunal serves as both fact-finder and decision-maker in a process that usually involves a hearing, followed by briefings and deliberations culminating in an arbitral award. Depending on the ground rules, the award may include findings of fact and conclusions of law in support of the tribunal's decision. In such a case the arbitral award is termed a "reasoned award."

Arbitrations involving issues of federal law are governed by the Federal Arbitration Act ("FAA").[23] For procedural matters not spelled out in the ground rules of the arbitral proceeding, the Federal Rules of Civil Procedure serve as the default rules.[24]

Properly conducted, an arbitration results in an award that is definitive, final, binding, and mutually dispositive of the parties' claims and defenses. The award is not merely advisory but rather, becomes binding (enforceable) when confirmed by an appropriate court.[25]

A fundamental aspect of arbitration is that the scope of judicial review of arbitral awards is very limited compared to appellate review of judgments entered following court trials. Thus, a party to an arbitration generally has no right to judicial review of the underlying merits (proofs, ratio decidendi and holding) decided in the award. However, under the FAA an award can be challenged and vacated on the basis of (a) corruption, fraud, or undue means in procuring the award, (b) previously undisclosed non-evident partiality, malice or bias, or corruption on the part of an arbitrator, (c) arbitrator misconduct that unduly prejudices a party's case, (d) an arbitrator's exceeding his or her powers, or so imperfectly executing them that a mutual, final, and definitive award upon the terms of reference was not made, (e) non-arbitrability of the dispute, and/or (f) entry of the award entered in the wrong jurisdiction.[26]

Forum-Administered Arbitration

"Forum-*administered* arbitration" is the type of arbitral proceeding contemplated by the present proposal. It is to be understood more narrowly than "court-*annexed* arbitration"[27] in that the court itself, by its own rules and administrative personnel, supervises the arbitration of, and without dismissing, cases pending before it by a tribunal of arbitrators who have been certified by, and are answerable directly to, the court. This enables and implements direct judicial control of the process.

The legislation and court rules proposed herein require reasoned arbitral awards explaining the tribunal's factual analysis and legal conclusions. This minimizes the vulnerability of such awards to vacatur on any of the foregoing statutory (FAA) bases or on judicially created grounds such as overriding public policy, total irrationality, and arbitrary and capricious decision making in manifest disregard of the operative law.[28] Also, arbitrability and jurisdiction are non-issues because the D.C. federal district court would directly administer the arbitral proceeding and enter the award as a judgment under an express, detailed statutory mandate. Furthermore, the constitutionality of compulsory arbitration involving government agencies was analyzed and confirmed in a report prepared in the U.S. Department of Justice which reverses over 150 years of government opposition to binding arbitration by independent arbitral tribunals.[29]

IV. PROPOSED LEGISLATION

In commercial settings, "arbitration is a creature of contract"[30] which is typically used for non-judicial resolution of disputes between entities whose rights and obligations may or may not be governed by applicable law. Normally, a party cannot be compelled to arbitrate a dispute if it has not agreed to do so.[31] In contrast, the present proposal calls for a statutory deployment of an ADR methodology for dealing with issues embedded in civil actions against the Patent Office that goes beyond traditional, voluntary arbitration and the *ADRA*. In particular, the proposed legislation enables forum-administered arbitral review of the Board's decisions through compulsory (mandatory) proceedings upon an incontestable motion of the plaintiff-applicant or plaintiff-patent owner, as the case may be.

The proposed legislation provides an optional avenue within the existing framework of federal district court review of administrative decisions in patent cases. Because such legislation operates beyond the jurisdiction of the defendant-agency, it would neither be affected by nor require any changes in the Patent Office Rules of Practice.[32] And because it is designed to complement the current appellate process without displacing it, the proposal would not alter or diminish the plaintiff's access to existing judicial procedures. And it comports with the generally favorable attitude of Congress and among jurists and the business community toward the use of innovative ADR methodologies in judicial settings.[33]

The non-reviewability of judgments entered as confirmations of arbitral awards in many cases would be a desirable trade-off in lieu of appeal, making arbitration an attractive alternative to litigating cases to trial. This is particularly true in the present judicial environment that places an increasingly high premium on patent draftsmanship and efficient prosecution, coupled with appeals from examiners' rejections in lieu of amending claims or presenting claim-narrowing arguments in order to obtain the allowance of patent applications or certification of the validity of patent claims undergoing reexamination.

A. Amendment of 35 U.S.C. § 145 and § 306

To enable the forum-administered arbitration of civil actions against the Patent Office seeking review of Board affirmances of examiners' final rejections of patent applications and in *ex parte* patent reexaminations, it is proposed to augment § 145 as follows wherein changes are indicated in boldface with additions underscored and deletions in brackets:

§ 145. Civil action to obtain patent, **or to certify validity of patent claims in reexamination; arbitration**.

(a) An applicant **for patent, or the owner in an ex parte reexamination of a patent who is** dissatisfied with the decision of the Board of Patent Appeals and Interferences in an appeal under section 134(a) **or (b)** of this title may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, have remedy by civil action **as plaintiff** against the Director in the United States District Court for the District of Columbia if commenced within such time after such decision, not less than sixty days, as the Director appoints.

(b) Upon motion of the plaintiff made between the time of completion of the service and filing of the pleadings in the action commenced in accordance with paragraph (a) of this section and the earlier of the filing of any motion of plaintiff for summary judgment or the completion of pretrial discovery, the court shall, without dismissing the action, order and directly administer the arbitration of the issues pleaded, based on the record then obtaining and as may be further developed during the arbitration by a tribunal of one or more arbitrators.

(c) A person may receive compensation for services and expenses as an arbitrator in the action, which shall be paid for by the plaintiff in accordance with paragraph (f) of this section, but such person shall not be an employee of any government and shall receive no pay or employment benefits from any government by reason of his or her status or service as an arbitrator under this section.

(d) The court may adjudge, **or as the case may be, the tribunal may render an award that shall be entered as a judgment upon submission of the award to and confirmation thereof by the court,** that such applicant is entitled to receive a patent for his invention **or that such owner is entitled to a certificate of reexamination confirming the patentability of his invention**, as specified in any of his claims involved in the decision of the Board of Patent Appeals and Interferences, as the facts in the case may appear and such adjudication **or judgment entered on the award** shall authorize the Director to issue such patent or **such certificate as the case may be** on compliance with the requirements of law. **An arbitral award shall be reasoned and non-precedential as to all the issues, shall be binding only on the parties to the action, and shall not be subject to trial de novo or otherwise reviewed on the merits by the court.**

(e) The appointment and compensation of the arbitrator(s), the entire arbitration proceedings and the evidence therein, the arbitral award, and the confirmation and entry of such award as a judgment shall be part of the court record in the action as the court may direct and shall be in accordance with the rules established therefor by the court and shall be governed by title 9 and title 28, United States Code, to the extent such rules and such titles are not inconsistent with this section. The court shall give notice of its judgment to the Director who shall, upon receipt of the notice, enter the same in the application file or in the reexamination record of the patent, as the case may be.

(f) All the expenses of the proceedings **under this section** shall be paid by the **[applicant] plaintiff, except that if arbitration is ordered under paragraph (b) of this section, then thereafter only taxable costs under section 1920 of title 28, United States Code and the compensation of each arbitrator for his or her services and expenses incurred during the course of the proceedings shall be paid by the plaintiff**.

Because § 145 is incorporated by reference in § 306, no amendment of the latter section is required to effect the proposed legislation in the context of patent reexamination.

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The proposal augments and partitions the single paragraph of current § 145 into six subsections (a) through (f) to facilitate the introduction of the following precepts.

First, clarifying language has been added in subsections (a) and (d) to correct a legislative oversight in not explicitly enabling civil actions by patent owners in *ex parte* reexaminations.

Second, subsection (b) requires the court to grant plaintiff's motion for referral of the action to arbitration on terms of reference which are embodied in the pleadings. The defendant-Patent Office cannot oppose the motion, which only the plaintiff can make. Such an incontestable motion must be made during the period between the time the issues have been joined in the pleadings and the scheduled close of pretrial discovery (or the filing of an earlier motion by plaintiff for summary judgment). These requirements ensure that if the plaintiff desires arbitration, then it must initiate the process within the appropriate time frame so that the arbitral proceeding and award can be conducted and rendered effectively. It can be expected that the motion would be made shortly after the pleadings are in, and the terms of reference in the order granting the motion would include the issues pleaded as well as any issues to be decided in pending motions.

Third, under subsection (b), the court, upon granting plaintiff's motion, refers the entire case to arbitration. In doing so, the court would not dismiss the complaint; rather, the court would maintain the case on its docket in order to retain jurisdiction consistent with the forum-administered nature of the proceeding, which is conducted under the court's own rules that are beyond the control of the Patent Office in keeping with the constitutional requirements of the Judicial Vesting Clause.[34]

Fourth, under subsections (b), (c), and (f), the arbitral tribunal -- consisting of one or more arbitrators -- is in effect a structured jury of independent experts who know that their compensation and expenses will be taxed to the plaintiff. Subsection (f), in addition to softening the expense-shifting burden on the plaintiff, is in harmony with the constitutional prohibition under the Appointments Clause[35] against arbitrators being government employees by virtue of any payments to them by the court or by the Patent Office.

Fifth, under subsections (b), (d), and (e), the arbitral proceeding is governed by the *FAA* (title 9, U.S.C.) and the *Federal Judiciary Act* (title 28, U.S.C.). All of the issues raised in the pleadings must be decided on the basis of the factual record that was before the Board, and which may be supplemented by additional evidence or further developed in the same manner as if the case had gone to trial. When the action is terminated upon entry of the arbitral award as a judgment of the court, the entire record of the proceeding becomes part of the record in the case.

Sixth, under subsection (d), the award (i) must be reasoned as to all issues decided, (ii) is submitted to the assigned judge for confirmation and entry as a judgment, (iii) is binding only on the defendant-Patent Office, and the plaintiff-applicant or patent owner, (iv) is not subject to trial *de novo*, and (v) may not be reviewed on the merits.

B. Amendment of 35 U.S.C. § 154(b)(4)

To enable the compulsory, forum-administered arbitration of civil actions against the Patent Office seeking review of the Director's decisions on petitions for reconsideration of patent term adjustments, it is proposed to augment § 154(b)(4) as indicated by underscoring in boldface as follows:

§ 154 Contents and term of patent; provisional rights

* * *

(b) Adjustment of Patent Term –

* * *

(4) Appeal of patent term adjustment determination–

(A) An applicant dissatisfied with a determination made by the Director under paragraph (3) shall have remedy by a civil action against the Director filed in the United States District Court for the District of Columbia within 180 days after the grant of the patent. Chapter 7 of title 5, **and the arbitration, expense, and taxation of costs provisions of section 145 of title 35** shall apply to such action. Any final judgment resulting in a change to the period of adjustment of the patent term shall be served on the Director, and the Director shall thereafter alter the term of the patent to reflect such change.

Section 154(b)(4)(A) cites the Administrative Procedure Act ("APA")[36] rather than § 145 as the basis for the district court's review of administrative patent term adjustment determinations. The proposed arbitration provisions of § 145 are made applicable to § 154(b)(4)(A) by parallel amendment of the latter.

V. PROPOSED COURT RULES

To implement the kind of arbitration described herein, it is proposed to supplement the civil rules of the U.S. District Court for the District of Columbia with a set of rules the highlights of which are as follows.[37]

A. Purpose and Scope of the Proposed Rules

The proposed court rules provide an "Arbitration Program" to be administered directly by the court itself through an "Administrator of the Arbitration Program" --

- a court employee appointed to the position by the Chief Judge. Additional court employees may be appointed to serve as "Assistant Administrators" by the Chief Judge in consultation with the Circuit Executive. One of the key roles of the Administrator is to promote the avoidance of improprieties and misunderstandings by serving as a conduit for communications between the arbitrator(s) and the assigned judge, and between the parties and the arbitrators. Another job of the Administrator would be to construe and apply the applicable court rules in consultation with the assigned judge in situations where a sole arbitrator cannot decide, or the arbitrators (if there be more than one) are unable to agree among themselves, on what the correct interpretation should be and/or how they are to be applied in the case.

B. Qualifications, Certification, Panel, Registry, Oath, Training and Status of Court- Certified Arbitrators

Certification of Arbitrators

The proposed rules establish requirements for court-certification of those qualified to apply for membership in a standing panel of arbitrators. The requirements include (i) U.S. citizenship, domicile, and residency, (ii)(a)(1) registration to practice before the Patent Office, (ii)(a)(2) state or D.C. bar admission, (ii)(b) admission to the bar of the D.C. federal district court, (iii) appropriate technical education, and professional experience, and (iv) the absence of any government-derived compensation.

Registry of Panel Members

The court would establish and maintain a publicly accessible registry of its certified arbitrators which would include their resumes and hourly billing rates.

Oath, Training, and Status of Arbitrators

Arbitrators would be required to take an appropriate oath and undergo training as the court may prescribe. To avoid constitutional issues, arbitrators would have the status of independent contractors.[38]

C. Referral of a Case to Arbitration

Motion for Arbitration; Terms of Reference

Under the proposed rules, the option to arbitrate can be exercised only by timely written motion of the plaintiff in accordance with existing court rules for referral of the action to arbitration of all the issues pleaded which form the terms of reference set forth in the motion. The plaintiff's proposed terms of reference are subject to modification based on the defendant's objection(s) or counterproposal(s), and plaintiff's reply thereto within the time limits set forth. In all other respects the motion is incontestable. The motion for referral to arbitration may be made at any time between the filing of the last responsive pleading and the time set for the close of discovery or the filing of an earlier motion by plaintiff for summary judgment.

D. Appointment of Arbitrator(s) to Serve on a Case Tribunal

Each case referred to arbitration would be heard by one or more arbitrators (an odd number) who would constitute the arbitral tribunal. The plaintiff may request multiple arbitrators; otherwise the tribunal would consist of a sole arbitrator.

Selection and Appointment of Arbitrators

Candidates for the tribunal are selected by the Administrator from the panel for the parties' consideration and approval. The administrator would submit the names of those selected by the parties to the assigned judge who will then issue an order confirming their appointments to serve on the tribunal. Alternatively, the parties, with the approval of the assigned judge, may themselves select as members of the tribunal arbitrators who may or may not be on the panel.

E. Obligations, Powers, and Immunities of Tribunals and Arbitrators Serving on Tribunals

To maintain the integrity of the arbitral process, and protect the arbitrators' own professional interests as well as those of the parties, the rules explicitly set forth the disclosure obligations, standards for disqualification, powers, and immunities of and procedures for complaints against arbitrators serving on tribunals. With respect to the tribunal's authority, the following aspects of it should be particularly noted.

Construction of Claims in Patent Applications and in Patents Undergoing Reexamination

Since 1982, compulsory arbitration of <u>any</u> and <u>all</u> issues of contention between consenting parties in patent cases has been permitted by statute.[39] Further, there are no legal precedents that would preclude arbitral tribunals in § 145 actions from construing claims in patent applications or in patents undergoing reexamination in assessing their validity in light of relevant evidence presented under the terms of reference. Indeed, the appropriateness, merits, and advantages of arbitrating patent claim construction issues *in lieu* of full-court Markman hearings in patent infringement litigations have recently been noted.[40] To be sure, claim constructions by arbitral tribunals in § 145 actions would not be conclusive against third parties or in courts in subsequent cases involving such claims.[41] However, just as the citation of non-precedential Federal Circuit opinions is permitted in cases before that court, so too arbitrated claim constructions should be admissible as evidence in future cases, subject to whatever evidentiary weight the courts

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would choose to accord them. And, given the credentials and expertise of arbitrators serving on tribunals in § 145 actions -- which actions are adversarial rather than administrative in nature -- one would expect that such weight could be substantial.

Discovery; Subpoenas

The FAA confers authority on arbitral tribunals to issue subpoenas for the production of documents and testimony of witnesses deemed relevant to the issues presented in the terms of reference.[42] Such subpoenas are enforceable in the same manner as if they had been issued by the court in the district in which the arbitral proceeding is taking place.[43]

The U.S. Court of Appeals for the District of Columbia in a recent case involving the subpoena power of a district court, dispelled any doubt that an agency of the federal government can be subpoenaed under Rule 45 of the Federal Rules of Civil Procedure to produce documents and testimony in a civil action against that agency. In particular, the court held that "the Government is a 'person' that is subject to subpoena under Rule 45 regardless of whether or not it is a party to the underlying litigation."[44]

Therefore, the Patent Office, as an agency of the federal government, can, like any other person, be compelled by subpoena issued by an arbitral tribunal to produce relevant evidence, both testimonial and documentary in a civil action under 35 U.S.C. § 145.

F. Arbitration Procedures

The rules contain detailed provisions for carrying out pre-hearing procedures, conducting evidentiary hearings, pre- and post- hearing briefings, and closing of the hearings.

G. Award and Judgment

The arbitral award would be (i) based on a majority vote of the arbitrators, (ii) reasoned with respect to the operative facts and applicable law, (iii) in writing and signed by the arbitrators, and (iv) submitted to the Administrator within two (2) months following the close of the hearing. The Administrator then forwards it to the assigned judge and mails copies to the parties. When the judge confirms the award, the Clerk of the Court then enters it as a judgment and sends copies of it to the parties, whereupon the entire record of the arbitral proceeding becomes part of the court record in the case.

Challenges to Award

The rules set forth the timeframe and procedure for challenging an arbitral award, on the non-substantive grounds discussed above, prior to its confirmation and entry as a judgment.

Settlement During Arbitration

The arbitral proceeding may be terminated by a consent award reflecting the terms and conditions upon which the parties may choose to settle the dispute.

Availability of the Arbitral Record

The entire record of the arbitral proceeding would be publicly available so as to optimize the evidentiary (if not binding) effect of the award in future disputes stemming from the patent application or the patent in reexamination.

H. Taxation of Costs and Expenses; Compensation of Arbitrators

The rules conclude with specific provisions and procedures for the taxing of costs and expenses -- including the compensation of the arbitrators -- consistent with the court's obligation under 35 U.S.C. § 145(f) as proposed to be amended. In particular, the court (through the assigned judge or the Administrator) assesses all costs and the Patent Office's expenses incurred before the case was referred to arbitration, and all costs and each arbitrator's vouchered fees and expenses (but not the Patent Office's expenses) incurred thereafter. These are then taxed to the plaintiff by the Clerk of the Court.

VI. THE BENEFITS AND ADVANTAGES OF ARBITRATION UNDER THE PRESENT PROPOSAL

The arbitration of disputes between private entities and the federal government is not new. What is new and innovative is the synthesis of the present proposal from the novel and legally and constitutionally sound combination of established precepts from which the following advantages flow:

Under the court rules proposed herein, the D.C. federal district court's standing panel of certified arbitrators would include a spectrum of patent practitioners who

are steeped in the tenets of their craft by years of professional experience and who are possessed of meaningful expertise in specific industries and technologies appropriate to the cases on which they serve, to a degree rarely found among Article III courts. As lawyers who are both members of the Patent Office bar and officers of the D.C. federal district court, their activities would be strictly informed by the codes of ethics and standards of conduct prevailing in that forum.[45]

Compared to litigating patent cases to trial, particularly in the context of disputes with the Patent Office, arbitration of the type proposed herein presents an attractive alternative because it affords multiple benefits not available in a trial, including: (i) selective and focused expertise and experience of the arbitrator(s) with consequent greater expedition and efficiency at lower cost, (ii) privacy during the course of the proceeding in a locale convenient to the parties, and (iii) finality. These benefits inure not only to the parties; the public also gains from having access to a record in a proceeding that ultimately becomes part of the overall record of the action as well as the prosecution history of the patent or patent application. Thus, plaintiffs who are confident in the merits of their cases should feel comfortable by-passing the time and expense associated with educating a generalist trial judge on technical and industry-specific issues. Parties attuned to the process will appreciate its precision in the identification and application of apposite law to the evidence at hand in arriving at a result whose probability of accuracy one can expect to be greater than in a regular trial.

The holdings and *ratio decidendae* in arbitral awards under the present proposal would be non-precedential in subsequent cases, thus leaving undisturbed the judiciary's precedent-setting function and the principle of uniformity of appellate review, while at the same time obviating any concerns over results that might conflict with the *corpus juris* embodied in past and future patent-law rulings of the Board and the courts. Indeed, the continuing development of substantive patent law is amply provided for in other judicial settings.

Prompt, efficient, and correct resolution of disputes is important in today's fast-changing markets, where important technologies can become obsolete before matters in dispute involving them are tried and before any appeals are decided or where markets can quickly become so saturated with infringements that litigation and appeal procedures cannot repair the damage by the time such procedures are concluded.[46] The recent histories of the computer, communications, and semiconductor industries, in particular, illustrate the rapidity of product life cycles where superseding technological advances occur on a regular basis. The interposition of arbitrators with the requisite experience and skill sets in the pertinent technologies will invariably result in substantial savings in time and money compared to trials and appeals. The arbitral process proposed herein does so in part by substantially eliminating the need for expensive tutorials and expert testimony, thereby saving the time and expense that would be required to educate the court.[47] And while arbitration expenses overall are usually substantial, they are generally less than 50% of the cost of litigating to trial.[48]

A major benefit of arbitration under the present legislative and rule-making proposals is the opportunity to engage disinterested, non-activist neutrals (i) who, as officers of the court by virtue of being members of the bar thereof, are directly answerable to the assigned judge, (ii) who are fully conversant in patent law and in the technologies underlying the dispute, and (iii) who are professionally motivated, by financial compensation[49] and a personal commitment to maintaining the integrity of the process, to perform with optimal intensity of effort in arriving expeditiously at correct and timely results, undistracted by administrative duties and unencumbered by philosophical biases fed by preconceived notions of being able to set precedent. While no arbitration process can claim infallibility, and not all arbitral awards are entirely immune from challenge, nevertheless, in the instant setting it is unlikely that the court would be asked to entertain a challenge to an award under the statutory criteria of the FAA or as being arbitrary and capricious in (non-statutory) manifest disregard of the operative law.[50]

There are no legal, constitutional, or public policy impediments to the use of arbitration to resolve lawsuits against the Patent Office. And several indicators suggest that § 145, § 306, and § 154(b)(4) actions readily lend themselves to it and from which palpable public benefits will flow.

First, arbitrators would perform the role of fact finders in technical fields suited to their expertise, thereby

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in effect constituting them as a hybrid between (i) a blue-blue-ribbon traverse jury[51] sitting in equity unencumbered by the trappings of the lay jury trial system,[52] special masters, and pretrial motions, and (ii) an appellate tribunal, whose scope of arbitral authority is clearly delineated by the proposed legislation and by the very nature of the proceeding itself.

Second, the arbitration would be comparatively straightforward. Because the issues (terms of reference) to be arbitrated are delineated in the pleadings, there would be no questions about the scope of the tribunal's jurisdictional authority to make awards. Thus, identification of the issues in contention and questions of their arbitrability, jurisdiction, choice of law, venue, and execution of awards in foreign countries -- often overarching concerns in the arbitration of other types of disputes -- would not be implicated.

Third, forum-administered arbitration offers real advantages to patent applicants, and to patent owners in *ex parte* reexaminations and patent term adjustment cases in a setting that (i) utilizes the district court's own local rules without the expense of participation by commercial ADR service providers, (ii) avoids Patent Office administrative rule-making, and (iii) comports with legislative antecedents. These include an entirely optional, nonprecedential, flexible, conclusive, time-saving, and cost-effective way of resolving dissatisfaction with the Patent Office's administrative (Board) reviews of examiner's final rejections by enabling applicants and patentees to enlist the services of proficient, neutral decision makers.

Fourth, legislative history indicates that Congress has had a continuing desire for cost reduction, speed, and more streamlined procedures and evidence rules to aid an overburdened federal judiciary.[53] These same considerations apply to civil actions under § 145: the arbitrability of such actions would encourage patent applicants and patent owners in many cases to avail themselves of § 145 while at the same time decreasing the workloads of the D.C. federal district court and the Federal Circuit. It would reduce delays throughout both courts' dockets and increase judicial efficiency.

Fifth, because arbitration can significantly shorten the time required for review of Board decisions, it could (if a party asserting a patent in an infringement action were so inclined to use it) promote synchrony between patent litigation and the *ex parte* reexamination of patents-in-suit, which in turn supports the argument for staying litigation pending reexamination, a concept that is disfavored by some courts. Thus for example, the court in *NTP Inc. v. Research in Motion Ltd.*,[54] citing Federal Circuit precedent,[55] noted that it "is under no obligation to delay its own proceedings by yielding to ongoing patent proceedings, regardless of their relevancy to infringement claims which the court must analyze." Referring to the "lengthy, complex, fair and fully exhaustive" trial and appellate process of the case so far, the court stated that "[e]ven in the unlikely event that all final [Patent Office] actions were taken in the next few months, [the plaintiff-patent owner], if not satisfied, could appeal the PTO's findings. Reality and past experience dictate that several years might very well pass from the time that a final office action is issued by the PTO to when the claims are finally and officially 'confirmed' after appeals."[56]

Finally, one might question the arbitrability of suits against the Patent Office on the grounds that arbitrations in patent cases should be confined to determining the rights of private entities, rather than in cases entailing the granting of rights (e.g., the issuance of patents or the certification of patent claims) enforceable against the public.[57] But that argument ignores the fact that Congress long ago provided for the voluntary arbitration of patent disputes in interferences[58] and in cases involving patent validity, infringement and enforceability.[59] Arbitration of these disputes affects the public interest notwithstanding that patent rights are determined privately. Also worth noting is the fact that civil actions are sometimes concluded by pretrial settlement agreements. And just as an arbitral award of priority in an interference does not preclude the public from subsequently testing the patentability of the invention, so too, after a patent is granted or patent claims are certified in reexamination following the entry of judgment on an arbitral award in a § 145 action, the public can still challenge the patent since the award and judgment, albeit relevant, admissible, and potentially persuasive in subsequent cases, are neither conclusive nor do they estop third parties from litigating issues of patent validity.

VII. CONCLUSION

The present proposal does not advocate any changes in substantive patent law. Instead, it will create new *procedural* rights for intellectual property owners while promoting economy and efficiency in the judicial review of administrative decisions of the Patent Office.

Informed by legislative considerations, validated by constitutional analysis, tacitly endorsed by the U.S. Department of Justice, and justified by recent judicial holdings, the present proposal responds to the need for a shift in the focus of patent procurement away from the traditional give-and-take between patent applicants/owners and Patent Office examiners toward an emerging new paradigm that elevates the importance of optimal patent draftsmanship, aggressive prosecution, and greater precision in the appeals process. This article

seeks to invite appropriate legislative interest and action at the interfaces of patent procurement, government agency litigation, and administrative law.

Congress, the federal judiciary, inventors, the business community, and the intellectual property bar are thus presented with a unique and historic opportunity for innovative groundbreaking legislative and rule-making initiatives in the adjective law of patents. Enacted, these proposals will inevitably benefit the creators, owners, and legitimate users of inventions and patent assets, the investment community, the federal court system, the Patent Office, and, ultimately, the public at large.

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[1] Partner, Dickstein Shapiro LLP and member of the Alternative Dispute Resolution, Legislative Oversight & Amicus Briefs, and Patent Law & Practice Committees of the NYIPLA. The views expressed herein are solely those of the author.

[2] The author's full report on which this article is based can be obtained by emailing him at millercharles@dicksteinshapiro.com.

[3] During the U.S. government's FY 2006, the number of appeals from the Board's decision in patent cases rose 18.2% over the previous year's total. Source: *IPO Daily News*, January 17, 2007.

[4] *Civil Actions Against the United States, its Agencies, Officers and Employees*, ch. 1 & 6 (2d ed. Thomson West 2003).

[5] 35 U.S.C. § 134(a); 37 C.F.R. § 1.303(a). During the USPTO's FY 2006, some 3,349 *ex parte* appeals in patent cases were filed with the Board and 2,874 appeals were decided. (Source: *USPTO's Performance and Accountability Report for Fiscal Year 2006*, pt. 5.3, tbl. 14).

[6] 35 U.S.C. §§ 141-144; 28 U.S.C. § 1295(a)(4)(A); 37 C.F.R. §§ 1.301 and 1.303(a), (b). The USPTO has no right of appeal and hence cannot itself seek judicial review of Board decisions. *Abbott Labs v. Brennan*, 952 F.2d 1346, 21 U.S.P.Q.2d 1192 (Fed. Cir. 1992); *In re Alappat*, 33 F.3d 1526, 31 U.S.P.Q. 2d 1545 (Fed. Cir. 1994).

[7] 28 U.S.C. § 1295(a)(4)(A).

[8] 35 U.S.C. § 154(b)(3)(B); 37 C.F.R. §§ 1.702-1.705.

[9] *Mazzari v. Rogan*, 323 F.3d 1000, 1004, 66 U.S.P.Q.2d 1049, 1054 (Fed. Cir. 2003).

[10] *Winner Int'l Royalty Corp. v. Wang*, 202 F.3d 1340, 1344-48, 53 U.S.P.Q.2d 1580, 1583-86 (Fed. Cir. 2000).

[11] 35 U.S.C. § 144, first sentence; also *In re Varga*, 511 F.2d 1175, 1178, 185 U.S.P.Q. 47, 50 (C.C.P.A. 1975).

[12] *DeSeversky v. Brenner*, 424 F.2d 857, 858-59, 164 U.S.P.Q. 495, 496 (D.C. Cir. 1970); *Dotolo v. Quigg*, 12 U.S.P.Q.2d 1032, 1035 (D.D.C. 1989); *In re Watts*, 354 F.3d 1362, 1365, 69 U.S.P.Q.2d 1453, 1457 (Fed. Cir. 2004).

[13] 28 U.S.C. § 1295(a)(4)(C).

[14] *Winner Int'l*, 202 F.3d at 1344-5, 53 U.S.P.Q.2d at 1583 ("We review the district court's factual findings for clear error and its conclusions of law *de novo* as with any bench trial").

[15] 5 U.S.C. § 706(2)(E).

[16] *In re Gartside*, 203 F.3d 1305, 1311, 53 U.S.P.Q. 2d 1769, 1775 (Fed. Cir. 2000).

[17] *Winner Int'l*, 202 F.3d at 1345, 53 U.S.P.Q.2d at 1584 (referring to civil actions under 35 U.S.C. § 146).

[18] During the USPTO's FY 2006, there were 22 civil actions against the USPTO compared with 42 appeals to the Federal Circuit. (Source: USPTO's *Performance and Accountability Report for Fiscal Year 2006*, pt. 5.3, tbl. 25). Since the enactment of Title 35 of the U.S. Code in 1953, there have been far fewer reported trial court decisions in § 145 cases compared to the number of reported Court of Customs and Patent Appeals and Federal Circuit decisions in direct appeals under § 141. *See also*, D.S. Chisum *et al.*, *Principles of Patent Law*, 130 (3d ed. Foundation Press 2004) ("In practice, a vast majority of appeals are taken directly to the Federal Circuit").

[19] The last sentence in § 145 states that "All the expenses of the proceedings shall be paid by the applicant."

[20] *See* Kimberly A. Moore, *Are District Court Judges Equipped to Resolve Patent Cases?*, 35 Intell. Prop. L. Rev. 3 (West Group 2003).

[21] 28 U.S.C. §§ 651-658.

[22] 28 U.S.C. § 651(a)., [23] 9 U.S.C. § 1 *et seq.*

[24] Fed. R. Civ. P. 81(a)(3)., [25] 9 U.S.C. § 9.

[26] 9 U.S.C. § 10; also, *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568, 569 (1985) (Article III of the U.S. Constitution allows binding arbitration, with judicial review only for fraud, misrepresentation, or other misconduct); Katherine A. Helm, *The Expanding Scope of Judicial Review of Arbitral Awards: Where Does the Buck Stop?*, Disp. Resol. J. 16-26 (Nov. 2006/Jan. 2007).

[27] The term "court-*annexed* arbitration" connotes arbitral proceedings in pending court actions which are often administered by commercial ADR service providers.

[28] *Wilko v. Swan*, 346 U.S. 427, 436-37 (1953).

[29] Memorandum prepared in 1995 by Assistant U.S. Attorney General Walter E. Dellinger, III of the Office of Legal Counsel at the request of the Associate Attorney General John Schmidt, entitled *Constitutional Limitations on Federal Government Participation in Binding Arbitration*. The Memorandum is available at www.usdoj.gov/dc/arbitration.fn.htm[ADR]. *See also*, 7 World Arb. & Mediation Rep. 23 (Dec. 1995/ Jan. 1996). The policy enunciated in the Memorandum is binding on all Executive Branch Agencies and represents their official positions. *See Tenaska Washington Partners II, L.P. v. United States*, 34 Fed. Cl. 434 (Ct. Fed. Cl. 1995).

[30] *United Steelworkers of Am. v. Am. Mfg. Co.*, 363 U.S. 564, 570 (1960) (Brennan, J., concurring).

[31] *Howsam v. Dean Witter Reynolds, Inc.*, 537 U.S. 79, 83 (2002) citing *Steelworkers v. Warrior & Gulf Nav. Co.*, 363 U.S. 574, 582 (1960).

[32] 37 C.F.R. chap. 1.

[33] *Howsam*, 537 U.S. at 83 citing *Moses H. Cone Memorial Hosp. v. Mercury Const. Corp.*, 460 U.S. 1, 24-25 (1983).

[34] U.S. Const. art. III, § 1., [35] U.S. Const. art. II, § 2, cl. 2., [36] 5 U.S.C. chap. 7.

[37] The text of the proposed court rules is contained in the full report.

[38] 18 U.S.C. §§ 201-211., [39] 35 U.S.C. § 294.

[40] Stephen P. Gilbert, *Arbitrating to Avoid Markman Do-Over*, Disp. Resol. J., 60-64 (Aug./Sept. 2006).

[41] See 35 U.S.C. § 145(d) as proposed to be amended., [42] 9 U.S.C. § 7.

[43] *Dynegy Midstream Servs., LP v. Trammochem Div. of Transammonia, Inc.*, 451 F.3d 89 (2d Cir. 2006).

[44] *Yousuf v. Samantar*, 451 F.3d 248, 255-57 (D.C. Cir. 2006); *In re Vioxx Prods. Liab. Litig.*, 235 F.R.D. 334, 342 (E.D. La. 2006) ("reading Rules 30(a)(1) and 30(b)(6) in conjunction, a party may take the deposition of a governmental agency, and compel the attendance of witnesses through the use of a Rule 45 subpoena.").

[45] Also, the District Court for the District of Columbia has adopted the Rules of Professional Conduct of the District of Columbia Circuit Court of Appeals. *See* D.D.C. L.Cv.R. 83.12 and D.D.C. L.Cv.R. 83.16.

[46] Jennifer J. Mills, *Alternative Dispute Resolution in International Intellectual Property Disputes*, 11 Ohio St. J. on Disp. Resol. 227 - 31 (1996); Konstantinos Petrakis, *The Role of Arbitration in the Field of Patent Law*, 52 Disp. Resol. J. 24 (Fall 1997).

[47] Steven J. Elleman, *Problems in Patent Litigation: Mandatory Mediation May Provide Settlement and Solutions*, 12 Ohio St. J. on Disp. Resol. 759, 771-72 (1997).

[48] Thomas L. Creel, *Factors in Deciding Whether to Use ADR in Patent Disputes*, Alternative Dispute Resolution Guide 33 (AIPLA Alt. Disp. Resol. Comm. ed., 1995).

[49] 28 U.S.C. § 658(a) ("The district court shall . . . establish the amount of compensation, if any, that each arbitrator or neutral shall receive for services rendered in each case under this Chapter.").

[50] *Wilko v. Swan*, 346 U.S. at 436-37 ("the interpretations of the law by the arbitrators in contrast to manifest disregard are not subject, in the federal courts, to judicial review").

[51] See *Black's Law Dictionary*, 860-61 (7th ed. 1999).

[52] Jury trials under the Sixth Amendment are not available in Section 145 actions; *see Joy Tech. v. Quigg*, 12 U.S.P.Q.2d 1112, 1114 *further opinion*, 732 F. Supp. 227, 14 U.S.P.Q. 2d 1432 (D. D.C. 1989), *aff'd*, 959 F.2d 226, 22 U.S.P.Q.2d 1153 (Fed. Cir. 1992) ("there is no right to a jury trial under 35 U.S.C. § 145.").

[53] H.R. Rep. No. 97-542, reprinted in 1982 *U.S. C.C.A.N.* 765, 777.

[54] 397 F.Supp.2d 785, 76 U.S.P.Q.2d 1857 (E.D. Va.), *aff'd*, 418 F.3d 1282 (Fed. Cir. 2005), *cert. denied*, 2006 U.S. LEXIS 1053 (Jan. 23, 2006).

[55] *Medichem S.A. v. Eng'g Rolabo S.L.*, 353 F.3d 928, 69 U.S.P.Q. 2d 1283 (Fed. Cir. 2003) and *Viskase Corp. v. Am. Nat'l Can Co.*, 261 F.3d 1316, 59 U.S.P.Q. 2d 1823 (Fed. Cir. 2001).

[56] *See* fn. 54.

[57] Citing *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614 (1985), the Court of Appeals for the Second Circuit in *JLM Industries v. Stolt-Nielsen SA*, 387 F.3d 163 (2d Cir. 2004) held that nothing in the *Sherman Act* or in its legislative history suggests that antitrust claims based on either horizontal or vertical conspiracies between competitors are inappropriate for arbitration -- regardless of complexity of the issues or notions of public policy.

[58] 35 U.S.C. § 135(d) enacted as part of the *Patent Law Amendments Act of 1984*, P.L. 98-622 § 202, 98 Stat. 33, 86-87 (Nov. 8th, 1984).

[59] 35 U.S.C. § 294 enacted as part of the *Patent Law Amendments Act of 1982*, P.L. 94-287 § 17(b)(1), 96 Stat. 322 (Aug. 27, 1982).