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Arbitrating a Patent Issue? You Must Comply With the Notice Requirement!

by Kevin P. Casey

Patent disputes can be complex, involving difficult issues of validity, enforceability, infringement, and damages – in addition to intricate technical issues. Patent disputes often are complicated further by the advocacy of attorneys driven by the large stakes their clients have in the outcome, with costly discovery as one aspect of such advocacy. When used to resolve patent disputes, private alternative dispute resolution (ADR) procedures such as arbitration may offer benefits such as relative speed and economy; an expert arbitrator; increased fairness, reliability, and flexibility; confidential proceedings; and preservation of business relationships. Thus, arbitration may be a good option for resolving patent disputes in certain circumstances.

A. Historical Background

Historically, parties to a patent dispute had few alternatives. Courts held that agreements to resolve patent disputes privately were contrary to public policy and, hence, unenforceable. They offered two reasons. First, a patent is a matter of “public interest,” issued by the U.S. government through its U.S. Patent and Trademark Office (PTO). Second, courts feared that nonjudges were not competent to handle the complexities of a patent dispute. That judicial atmosphere prevailed until the early 1980s. In 1982, however, as the ADR movement gained momentum, Congress considered the public policy arguments against private resolution of patent disputes and found them subservient to the public policies inherent in the Federal Arbitration Act of 1925 (codified as amended at 9 U.S.C. §§ 1-14). Congress added 35 U.S.C. § 294 to the patent statute, effectively overruling the earlier judicial opinions that precluded private resolution of patent disputes and expressly stating that parties may arbitrate patent disputes. Section 294 has been useful and beneficial to both clients and the patent system in general, because the legislation made possible the private arbitration of patent issues.

B. The Relevant Law and Regulation

Section 294 is provided at the end of this article for reference, along with the PTO’s related regulation (37 C.F.R. § 1.335), with certain provisions highlighted. Subsection (c) of Section 294 addresses the public policy objection to the arbitration of patent issues by limiting the effect of the arbitrator’s decision to the parties involved in the arbitration. By requiring written notice to the PTO Director of any award made under Section 294, which the PTO regulation delegates to its Office of the Solicitor, subsections (d) and (e) are concessions to the public

interest in patents, permitting members of the public to inquire about any changes in a patent owner's rights resulting from an arbitration. Note the mandatory "shall" and "must" language of the statute and regulation, respectively, with respect to filing notice of the arbitration award with the PTO. And the requirement has some "teeth": an arbitration award is unenforceable until the PTO receives proper notice.

C. Are "Shall" and "Must" Unclear?

The Solicitor's Office does not keep records or statistics regarding the notices of arbitration awards that it receives. When the Solicitor's Office receives notice of an arbitration award, the notice is included in the file of the relevant patent. Arbitration award notices received since 2008 are available electronically in the PTO's FOIA Reading Room (<http://e-foia.uspto.gov/Foia/NOSReadingRoom.jsp>). The notices can be searched by patent number, patent application number, or date range. Arbitration award notices prior to 2008 are located in the paper patent files, which are publicly available. The Solicitor's Office receives very few notices under Section 294 of the Patent Act. For example, the Office received a total of two notices this year, two notices last year, and, to show the trend, four notices in calendar year 2015. Thus, as these data show and in the words of one representative of the Solicitor's Office, patent arbitration notices are "few and far between." Given the unequivocal language of Section 294 and the PTO's related regulation, the question is why does the PTO receive so few arbitration award notices?

D. Why Is the Notice Requirement Largely Unmet?

There are many views about, but relatively little data explaining, why the number of notices filed at the PTO Solicitor's Office is fairly small. A summary of those views follows:

1. Perhaps arbitration as a procedure to resolve patent issues such as infringement and validity is not as popular as many patent arbitrators and source providers (e.g., the American Arbitration Association (AAA), the International Institute for Conflict Prevention & Resolution (CPR), JAMS) think it should be. Some attorneys have expressed a diminished interest in arbitration of patent disputes upon learning that the award and the fact that there was an arbitration at all will be public information recorded in the patent file. The notice requirement certainly undermines some of the privacy and confidentiality advantages that normally accompany

arbitration proceedings. Nevertheless, there are undoubtedly more patent arbitration awards in the United States than the two to four per year for which notices are filed with the PTO.

2. Some have wondered about the number of arbitration awards that relate to patent validity. Many arbitrations involve awards relating solely to other patent issues: infringement, breach of license agreement or other contract, patent ownership, etc. But the statutory notice requirement goes beyond just patent validity to encompass "any right under a patent," specifically including the issue of infringement. Thus, there is a statutory obligation to report decisions on infringement, licensing, or ownership alone.

3. A public record of an arbitration award challenging the validity of a patent is a dangerous precedent for the patent owner. Although Section 294 states that the award "shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person," the courts have not yet determined whether an award of invalidity will bind the patent holder for future disputes or will hold any weight in future court or PTO proceedings. One way to address this concern, which some parties have implemented, is to draft an arbitration clause limiting the format of the award and the issues to be decided in order to avoid any possible res judicata effect of validity holdings. For example, if the arbitration clause is drafted to limit the award to determination of royalty fees and/or findings of infringement only, then there will be no award of invalidity or unenforceability on record to be relied upon in the future by third parties. The parties also might agree to a "short form" of the award reciting the bare minimum about the decision, such as whether the patent is invalid, whether one or more claims are infringed, and, if so, the amount of damages. The short form would be filed with the PTO to satisfy the notice requirement. The parties might obtain separately the benefit of the detailed findings of fact and conclusions of law that a more reasoned award might recite.

4. Section 290 of the Patent Act requires that the "clerks of the courts of the United States, within one month after the filing of an action under this title [in a patent matter] shall give notice thereof in writing to the Director." In contrast to the few notices of arbitration awards, the PTO has received thousands of notices of district court patent litigation since 2008. Notices of district court litigation are filed with the PTO at the beginning of the litigation; notices of arbitration awards are not filed, however, until the arbitration has reached a conclusion (the award).

Some arbitration matters are concluded by settlement before an award is issued, and there is no obligation to notify the PTO of such an arbitration. In fact, the AAA has advised that most patent arbitrations it administers result in a settlement before the final hearing.

5. Some have expressed the belief that the patent owner has little incentive to notify the PTO of an arbitration award because the only circumstance in which the patent owner will be concerned with enforceability of the award is when the patent is upheld as not invalid, the patent claims are found infringed, and the infringer refuses to comply with the award (e.g., pay the awarded damage amount to the patent owner). But would the patent owner not want to notify the PTO that its patent was upheld as not invalid and was found infringed even absent an enforcement issue? It seems logical that the patent owner would want the public to know that it had successfully enforced its patent – regardless of an award enforcement issue against the infringer.

6. Absent a favorable arbitration award, the patent owner has little incentive to report the award to the PTO because either the patent was held invalid or found not infringed. The patent owner would not be eager to make either outcome a matter of public record. Certainly true. First, however, the statute makes reporting a legal obligation (“the patentee, his assignee or licensee shall give notice”) and not a choice, incentive or no and regardless of the outcome. Perhaps more important, PTO Rule 1.335(c) places the reporting obligation on “any party to the arbitration proceeding” (although the permissive “may” is used in the regulation). The winning accused infringer would seem to assume the notice obligation if the losing patent owner fails to comply. (A “mixed” award that finds noninfringement but upholds the patent as not invalid should not dissuade the accused infringer from complying with the notice requirement. Section 294 expressly binds only the parties to the award, and subsection (c) allows the parties to elect to abide by any subsequent decision of a court, regardless of the outcome of the arbitration between them. Therefore, the accused infringer might lose on the issue of invalidity in the arbitration yet take advantage of a later court holding that the patent is invalid.)

7. What appears to be an underreporting of patent arbitration awards might be explained by one or more, most likely by a combination, of the views outlined above. From discussions with other patent attorneys and arbitrators, however, it is clear that many of them are unaware of the Section 294 notice requirement. Many

attorneys and arbitrators have expressed surprise when told of the requirement. Therefore, perhaps more than for any other reason, it is likely that the underreporting of patent awards to the PTO reflects a lack of knowledge about and hence enforcement of the notice requirement. This article has addressed at least that reason.

Patent Act

35 U.S.C. § 294 Voluntary arbitration.

(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, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 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 Director.** There shall be a separate notice prepared for each patent involved in such proceeding. **Such notice shall** set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall **contain a copy of the award.** If an award is modified by a court, the party requesting such modification shall give notice of such modification to

the Director. **The Director 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 Director, any party to the proceeding may provide such notice to the Director.**

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

Patent Regulation

37 CFR 1.335 Filing of notice of arbitration awards.

(a) **Written notice of any award by an arbitrator pursuant to 35 U.S.C. 294 must be filed in the Patent and Trademark Office by the patentee, or the patentee’s assignee or licensee.** If the award involves more than one patent a separate notice must be filed for placement in the file of each patent. The notice must set forth the patent number, the names of the inventor and patent owner, and the names and addresses of the parties to the arbitration. **The notice must also include a copy of the award.**

(b) If an award by an arbitrator pursuant to 35 U.S.C. 294 is modified by a court, the party requesting the modification must file in the Patent and Trademark Office, a notice of the modification for placement in the file of each patent to which the modification applies. The notice must set forth the patent number, the names of the

inventor and patent owner, and the names and addresses of the parties to the arbitration. The notice must also include a copy of the court’s order modifying the award.

(c) **Any award by an arbitrator pursuant to 35 U.S.C. 294 shall be unenforceable until any notices required by paragraph (a) or (b) of this section are filed in the Patent and Trademark Office. If any required notice is not filed by the party designated in paragraph (a) or (b) of this section, any party to the arbitration proceeding may file such a notice.**

The written notices required by this section should be directed to the attention of the Office of the Solicitor. The Office of the Solicitor will be responsible for processing such notices.



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