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Alternate Dispute Resolution and Patent Law

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I. Introduction

Litigation is ill-adapted to resolve today's more complex disputes. Intellectual property (patent, trademark, copyright, and trade secret) law disputes are among the most complex civil actions because they involve difficult validity, enforceability, infringement, and damages issues.¹ Patent suits, involving intricate technical issues, are particularly complicated. Moreover, patent disputes often are complicated further by the advocacy of attorneys driven by the large stakes their clients have in the outcome.² Excessive, lengthy, and costly discovery is one manifestation of such advocacy. A well-recognized need exists, therefore, for procedures alternative to litigation which can resolve patent disputes.

II. 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."³ Second, courts feared

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¹ Although the focus of this section is on patent disputes, ADR is also appropriate for the other forms of intellectual property. *See, e.g., 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION* § 32:56 at 794 (2d ed. 1984) ("it appears that there are no legal barriers to arbitration of trademark disputes"); *The Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1199, 2 U.S.P.Q.2d 1499, 1505 (7th Cir. 1987) ("federal law does not forbid arbitration of the validity of a copyright"); Center for Public Resources, Inc., *ADR in Technology Disputes*, at 7 (1987) (trade secret controversies have gone to ADR).

² When Polaroid won its patent infringement battle against Eastman Kodak, it received an injunction which essentially forced Kodak out of the instant camera business and \$873,158,971. *See Polaroid Corp. v. Eastman Kodak Co.*, 641 F. Supp. 828, 228 U.S.P.Q. 305 (D. Mass. 1985) (enjoining Kodak), *aff'd* 789 F.2d 1556, 229 U.S.P.Q.561 (Fed. Cir.), *cert. denied*, 479 U.S. 850 (1986); *Polaroid Corp. v. Eastman Kodak Co.*, 16 U.S.P.Q.2d 1481 (D. Mass. 1990) (initial damage award); *Polaroid Corp. v. Eastman Kodak Co.*, 17 U.S.P.Q.2d 1711 (D. Mass. 1991) (amending prior damage award to correct clerical errors in original calculation).

³ *See, e.g., Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55, 62-63, 167 U.S.P.Q. 10, 15 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971); *Foster Wheeler Corp. v. Babcock & Wilcox Co.*, 440 F. Supp. 897, 901, 195 U.S.P.Q. 649, 651 (S.D.N.Y. 1977); *Babcock & Wilcox Co. v. Public Service Co. of Indiana*, 193 U.S.P.Q. 161, 163 (S.D. Ind. 1976); *Diematic Mfg. Corp. v. Packaging Industries, Inc.*, 381 F. Supp. 1057, 1061, 184 U.S.P.Q. 410, 413 (S.D.N.Y. 1974), *cert. denied*, 423 U.S. 913 (1975); *Homewood Indus., Inc. v. Caldwell*, 360 F. Supp. 1201, 1204, 179 U.S.P.Q. 701, 703 (N.D. 111. 1973).

that nonjudges were not competent to handle the complexities of a patent dispute.⁴ That judicial atmosphere prevailed until the early 1980's and may explain the remnant hesitancy to resolve patent disputes by ADR.⁵

III. Relevant Statutes

In 1982, as the ADR movement gained momentum,⁶ 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.⁷ Congress added 35 U.S.C. § 294 to the patent statute, effectively overruling the earlier judicial opinions which precluded private resolution of patent disputes and expressly stating that parties may arbitrate patent disputes.⁸ Congress later expanded the scope of informal resolution of intellectual property disputes when it enacted two more statutes. The Patent Law Amendments Act of 1984 provides for arbitration of patent interferences,⁹ and the Semi-conductor Chip Protection Act of 1984 sanctions litigation of disputes over royalties payable for innocent infringement of chip product rights *unless* they are resolved by voluntary negotiation, mediation, or binding arbitration.¹⁰ Congress has approved tools other than litigation, therefore, for parties to resolve patent disputes.¹¹

⁴ See, e.g., *Hanes Corp v. Millard*, 531 F.2d 585,593-94,189 U.S.P.Q. 331, 336-37 (D.C. Cir. 1976) ("Such issues [in a patent dispute] involve complex and difficult questions in applying an extremely complicated body of law. They are questions that may be unfamiliar to arbitrators, particularly if members of the panel are not [patent] lawyers or are citizens of a foreign country"). For a general discussion of how arbitration regarding patents was viewed in the 1930's, see Deller, *The Use of Arbitration in Patent Controversies*, 211. *PAT. OFF. Soc'y* 209 (1939).

⁵ Unfortunately, patent attorneys as a group have not sought out non-judicial alternatives actively. *T. ARNOLD; PATENT ALTERNATIVE DISPUTE RESOLUTION HANDBOOK* 1.04 at 1-6 (1991); *Use of Alternate Dispute Resolution Techniques to Settle Patent Disputes-A Survey*, 43 *THE RECORD OF THE ASS'N OF THE BAR OF THE CITY OF N.Y.* 590 (June 1988) ("ADR is very little used to resolve patent disputes").

⁶ 1983 amendments to Rule 16(c) of the Fed. R. Civ. P. cover subjects to be discussed at pre-trial conferences" and include "(7) the possibility of settlement or the use of extra judicial procedures to resolve the dispute."

⁷ 9 U.S.C. §§ 1-14 (1982).

⁸ Congress believed that voluntary arbitration of patent disputes would advance the public interest, "enhance the patent system . . . promote innovation" and "relieve some of the burden on the overworked Federal courts. "HOUSE JUDICIARY COMMITTEE, PATENT AND TRADEMARK OFFICE AUTHORIZATIONS, AMENDMENTS, SCHEDULE OF FEES. H.R. No. 97542, 97th Cong., 2d Sess. 13 (1982), *reprinted in* 1982 U.S. CODE CONG. & ADMIN. NEWS 765.

⁹ H.R. 6286; Pub. L. No. 98-6220. The relevant portion of the Act added a new subsection (d) to 35 U.S.C. § 135. "An 'interference' is a proceeding instituted in the Patent and Trademark Office (PTO) before the Board to determine any question of patentability and priority of invention between two or more parties claiming the same patentable invention." 37 C.F.R. § 1.601(1) (1988). See also 35 U.S.C. § 135 (1982). For a discussion of arbitrating interference proceedings, see A. BERNSTEIN, *ARBITRATION IN RESOLUTION OF INTERFERENCES* (available from Caesar, Rivise, Bernstein, Cohen & Pokotilow, Ltd., Philadelphia, Pennsylvania) There also is an existing form of administrative adjudication in the PTO reexamination procedure. 35 U.S.C. §§ 301-307 (PTO asked to review the patentability of the subject matter of an already issued patent). Because the adverse party has limited participation, the technique is useful only in certain cases.

¹⁰ H.R. 6163, Pub. L. No. 98-620, codified at 17 U.S.C. § 901, et seq.

¹¹ Although the U.S. has overcome its policy objections to the arbitration of patent disputes. not all countries have done so. The U.S. and over fifty other countries are members of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (see 9 U.S.C. § 201 et seq_) and have agreed to recognize and enforce commercial arbitration agreements and awards. See O. Giberga, *Enforcement of Foreign Arbitrat Awards Under The UN. Convention*, Foreign Business Practices, U.S. Department of Commerce (1975) (country-by-country evaluation of the foreign arbitration picture). Many foreign courts refuse, however, to enforce awards in arbitrations of patent invalidity and infringement issues. This was especially true before 35 U.S.C. § 294 was enacted. In 1987, the ICC Court of Arbitration decided its first U.S. patent controversy. The ICC Court of Arbitration is the International Chamber of Commerce in Paris, which administers arbitration. The arbitral tribunal noted that 35

IV. Guidelines For Use of ADR In Patent Disputes

A. Why Choose ADR in Patent Disputes?

The benefits of ADR may include relative speed and economy; an expert facilitator; increased fairness, reliability, and flexibility; confidential proceedings; and preservation of business relationships (less adversarial). Thus, there are many reasons to favor ADR over litigation in resolving patent disputes.

The United States federal district courts are so overloaded with criminal cases that their major civil cases, especially patent cases, suffer delay.¹² It may take years to try a patent case. With the modern life-span of products becoming shorter, therefore, litigation is impractical. Time is of particular concern because a patent is a wasting asset with only seventeen years of life. In contrast, with the proper contract clause, an arbitration of even a complex patent dispute can normally be completed in under a year. Moreover, patent cases typically cost at least half a million dollars to litigate.¹³ Binding arbitration of the same dispute may cost 50-75% of that figure.¹⁴

In order to realize the savings in time and money possible with ADR, it is essential that contract clauses commit the arbitrator's time, call for expedited handling and case management initiatives, and require control by the arbitrator. In response to the growing demand for the arbitration of patent disputes, the American Arbitration Association (AAA), which oversees a large number of arbitrations, has developed and published special rules for patent litigation. Because there are many different sets of AAA rules, parties should be sure to specify by contract when they adopt AAA patent rules.

The ability to select a judge or facilitator with expertise in a particular field is one of the primary advantages of using ADR for patent cases. Patent disputes often involve specialized, complex issues in both law and technology unknown to most trial court judges.¹⁵ Most trial judges have little technical training. In ADR, contrary to litigation, the parties can select a judge with specified qualifications. One recommended contract specification for a neutral arbitrator in a patent case states: "The arbitrator shall have solicited not less than five patents and tried at least one case for each the patentee and the accused infringer, and shall have a general familiarity with

U.S.C. § 294 specifically sanctioned the arbitration of U.S. patent disputes and decided that it had jurisdiction to arbitrate the dispute. The arbitrators upheld the validity of the patent and decided that the patent was not infringed. Jarvin, *Arbitrating International Disputes*, 23 LES NOUVELLES 15, 31 (March 1988).

¹² The federal district courts have exclusive jurisdiction over patent and copyright cases and original jurisdiction over trademark cases. 28 U.S.C. § 1338(a) (1982). The Speedy Trial Act of 1974, Pub. L. No. 96-43, 93 Stat. 327 (Aug. 2, 1979) (codified in 18 U.S.C.), has crowded district court trial dockets with criminal cases and made protracted patent infringement trials, which typically require between a week and a month to try, a nuisance to be avoided.

¹³ See American Intellectual Property Law Association, *Report of Economic Survey 1991*. Table 37 at 28-29. The parties in the *Polaroid v. Kodak* patent infringement suit (see *supra* note 2) combined, however, to spend nearly \$200,000,000. T. ARNOLD, *supra* note 5, § 1.03 at 1-4 to 1-5.

¹⁴ T. ARNOLD. *supra* note 5, § 5.03 at 5-4. Other studies have shown, however, that, although arbitration can reduce private costs of litigation (by about 20% for defendants; statistically insignificant savings for plaintiffs), there is no clear evidence that it speeds up cases or reduces public costs. Marcotte, *Avoiding Courts*, A.B.A. J. at 27 (Dec. 1990).

¹⁵ Most trial judges only infrequently preside over patent disputes. Typically, they spend from 0.01 to 2.0 percent of their time on such disputes and, consequently, are unlikely to know patent law. T. ARNOLD, *supra* note 5, § 5.02 at 5-2

the vocabulary of . . . [subject matter]."¹⁶ When the facilitator is familiar with both the law and the technology, the learning curve may be diminished and the quality of judgment enhanced.

In addition to possibly saving time and money, ADR provides an additional advantage: the ability to predict when the dispute will be resolved. When a business person must decide whether to invest millions of dollars in a production facility, or when the potential liability for an alleged patent infringement is increasing rapidly, a resolution of a patent matter in a certain few months rather than an uncertain many years is of great help. The early finality of decision, absent with the right of appeal in litigation but present in binding ADR, can be extremely important when key business decisions must be made in a timely fashion.

Unlike court trials, most ADR proceedings are private by agreement. ADR hearings usually do not yield transcripts or written opinions in which trade secrets or other confidential information may be compromised (or in which the "dirty linen" of a loss is aired). Even if there is an opinion, it is usually not published. Confidentiality is advantageous when intellectual property matters are involved because the parties must often disclose and discuss technology or financial matters which they would rather not make available to competitors, media, or the general public.

Note that ADR does fall short of litigation in the patent arena in at least one aspect. There is value in having a patent reexamined in federal court and sustained as valid by the U.S. Court of Appeals for the Federal Circuit.¹⁷ Clearly, the decision of a facilitator will not have the same deterrent effect against infringement by others as a judicial determination would. Once a patent is held valid in court, industry tends to give that patent more respect and the patentee can recover its costs by enforcing the precedential value of the decision.¹⁸

U.S. litigation is extremely adversarial. It can sever even the strongest of otherwise successful relationships between licensor and licensee, seller and buyer, employee and employer, and the like. Arbitration is somewhat less adversarial, mini-trials tend to be neutral, and mediation often avoids the problem, to a large extent, by bringing adversaries together and into agreement.

Uniform agreement is now apparent among the federal judiciary and the Congress that ADR techniques may, and sometimes should, be used in patent cases.

B. When to Choose ADR Over Patent Litigation

Despite the potential benefits of ADR, one should not assume that ADR is always better than litigation for patent disputes; the benefits may not be realized in a particular case. The parties must first consider, therefore, whether their dispute is appropriate for ADR. Some parties may feel, for example, that the only way to effectively handle an important patent dispute is to entrust the outcome to formal litigation procedures where rights can be aggressively vindicated

¹⁶ T. ARNOLD, *supra* note 5. § 5.02 at 5-2.

¹⁷ The Federal Circuit has exclusive jurisdiction of an appeal from a final decision of a district court if the jurisdiction of the district court is based, in whole or in part, on 28 U.S.C. § 1338. *See supra* note 12. The appellate court has enforced provisions to arbitrate in a patent infringement action. *Rhone-Poulenc Specialties Chimiques v. SCAM Corp.*, 769 F.2d 1569, 226 U.S.P.Q. 873 (Fed. Cir. 1985).

¹⁸ T. ARNOLD. *supra* note 5. § 5.05 at 5-6. Pursuant to 35 U.S.C. § 294(c): "An award by an arbitrator. . . shall be final and binding between the parties but shall have no force or effect on any other person." On the other hand, the patentee may choose ADR over litigation because a finding of invalidity in ADR has no effect on others. The result is contrary to *Blonder-Tongue Laboratories, Inc. v. University of Illinois Found.*, 402 U.S. 313 (1971) (a patentee given a fair opportunity to litigate a patent and who suffers a judgment of invalidity is barred from relitigating the same patent), which applies to judicial decisions.

(an historical bias perhaps unrealistic today).¹⁹ If both parties do not agree that ADR will serve their mutual interests, it cannot work; the alternative procedures are essentially voluntary.

ADR is a likely alternative to traditional litigation when one or more of the following conditions are present:

- a. The parties have an ongoing business relationship.
- b. The parties are about the same size and have comparable but not dominant market shares of the disputed technology (an attempt by one party to "drive out" the other is unrealistic and neither party will view a jury trial as a forum to emphasize differences in size).
- c. The dispute is factual or at least does not involve unsettled legal issues.
- d. Each party must be able to afford to lose or subsequent litigation is likely.
- e. The parties' reputations are as tough competitors who are honest and fair.
- f. The parties have reasonably stable businesses; otherwise, the economic leverage of a trial properly timed may be desirable.
- g. Each party has a fairly aggressive patent policy yet is vulnerable to the patents of others.
- h. The parties are in a business which requires them to risk a major portion of their net worth to start a new product.
- i. The parties compete in the government arena, where the litigation and subject matter are complex (legally and technically), and 28 U.S.C. § 1498 precludes injunctive relief against the government or its contractors.
- j. A dispute would be publicly embarrassing.
- k. Valuable evidence exists only in the form of hearsay or unauthenticated handwritten notes inadmissible at a trial but useful in ADR.

ADR is not likely to be a good alternative when:

- a. The parties' principals are emotional and want to drive their adversary out of business.
- b. One or both parties typically bet on long shots.
- c. The parties have not already been involved in traditional litigation.
- d. The dispute involves a small patent owner who wants to "shoot craps" with a jury against a large corporation; generally, juries are thought most sympathetic in cases with emotional content like inequitable conduct.
- e. The client wants a test case to set precedent.
- f. One of the parties seeks injunctive relief.
- g. The case depends on facts not in the client's possession, requiring the full discovery typically only litigation can provide.

C. Which Type of ADR Is Best?

Assuming that the balance of risks and benefits of ADR versus those of litigation favors the former in a particular case, the parties then must match their case with the most appropriate form of ADR. One way to organize the forms of ADR is by ranking them according to the extent to which they approximate the structure and rules of binding litigation in court: private judging (binding),²⁰ arbitration (usually binding), summary jury trial (not binding), mini-trial (not binding), mediation (not binding), negotiation. The ADR processes are often blended to produce

¹⁹ See generally Brenda, *Resolution of Patent Disputes by Non-Litigation Procedures*, 15 A.I.P.L.A. Q.J. 74,76-77 (1987).

²⁰ For a general discussion of the "rent-a-judge" process, see T. ARNOLD, *supra* note 5, at ch. 9.

a variety of hybrids,²¹ and the vocabulary of ADR is not uniform.

The parties can contract for whatever variations on the different ADR types, and of the hybrids among them, they desire. A discussion of the general considerations of ADR is left to others.²² Note that it may be best to submit certain aspects of a patent dispute, rather than the entire case, to ADR.

The arbitration of patent disputes is governed almost exclusively by 35 U.S.C. § 294 and the Federal Arbitration Act, made applicable to patent arbitration by 35 U.S.C. § 294(b).²³ A growing number of intellectual property disputes are arbitrated each year under the auspices of the AAA.²⁴ "Baseball" arbitration is a special type of binding arbitration which presupposes that each party has equal access to the same facts.²⁵ Unfortunately, this is not the case in most patent disputes, especially before expensive discovery has occurred. Thus, baseball arbitration of patent disputes may have limited use.

The summary jury trial was originally developed for cases where the parties differ in their opinions of how a jury will perceive evidence.²⁶ In patent cases, the parties usually disagree over several factual and legal issues; a jury's opinion on any one issue will not resolve the case. In addition, summary jury trials are normally court-ordered. Consequently, at least one party usually participates unwillingly and may present less than a complete case, preferring not to yield discovery. Thus, although good faith presentations can occur in forced summary jury situations, they often do not. This is especially true for patent cases. It appears, therefore, that the chance of success in most patent summary jury trials is relatively poor.²⁷

Of all the ADR techniques, the mini-trial is most closely associated with patent

²¹ See, e.g., T. ARNOLD, *supra* note 5, at ch. 15 (discussing several hybrid processes, including mediation and arbitration). The parties may use binding arbitration to resolve an issue of patent infringement. Then, if the arbitrator finds for the patentee, the parties may agree to mediate the amount of damages to be awarded. Perhaps the foremost advantage of ADR is its flexibility, the ability of the parties to develop procedures that can be molded on site to meet the needs and interests of any particular dispute.

²² See, e.g., DONOVAN LEISURE NEWTON AND IRVINE ADR PRACTICE BOOK (J. Wilkinson ed. 1990. ALTERNATE DISPUTE RESOLUTION: PRACTICE AND PERSPECTIVES (BNA) (M. Matthews ed. 1990).

²³ For a discussion of patent arbitration under 35 U.S.C. § 294, see T. ARNOLD, *supra* note 5, at ch. 7; Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J. 3 (1983); Dresser, *Agreements to Arbitrate Patent Disputes*, 67 J. PAT. & TRADEMARK OFF. SOC'Y 551 (1985); Field, *Patent Arbitration: Past, Present and Future*, 24 IDEA 235 (1984); Plant, Hoellering, Villa, Roper, Manbeck & Brown, *Patent Arbitration: What You Need to Know - Walk-Through Demonstration* (1985) (a how-to series of articles for arbitration of patent disputes); Schlicher, *The Patent Arbitration Law: A New Procedure for Resolving Patent Infringement Disputes*, 40 ARB. J. 7 (1985); Tupman, *Arbitration of Intellectual Property Disputes Under U.S. Law*, 42 ARB. J. 3 (1987); Turner, *Arbitration of Patent Disputes, Including a Comparison with Court Litigation*, Chapter 8, Proceedings of the Southwestern Legal Foundation 25th Annual Institute on Patent Law (1987).

²⁴ American Arbitration Association, *Patent Arbitration Rules* at 3 (1986). The AAA maintains a National Panel of Patent Arbitrators and can offer or appoint persons. The Center for Public Resources, Inc. also offers to participate and has a panel of arbitrators. So do the Licensing Executives Society (for disputes arising out of technology transfer agreements) and the International Chamber of Commerce in Paris.

²⁵ Baseball arbitration is frequently used by professional athletic teams and their players in contract salary disputes. Its value extends, however, to other disputes where all parties know all the facts. Each party submits a written proposal setting out its view of an acceptable award. The arbitrator then must select one of the two proposed awards and cannot decide on his or her own.

²⁶ See LAMBROS, THE JUDGES ROLE IN FOSTERING VOLUNTARY SETTLEMENT, ALTERNATE DISPUTE RESOLUTION: A HANDBOOK FOR JUDGES (1987); Lambros, *The Summary Jury Trial and Other Alternative Dispute Resolution*, 103 F.R.D. 461 (1984); Posner, *The Summary Jury Trial and Other Alternative Dispute Resolution: Some Cautionary Observations*, 52 U. CHI. L. REV. 366 (1986). Cases well-suited for summary jury trial are those involving a reasonableness standard of liability.

²⁷ T. ARNOLD, *supra* note 5, § 11.04 at 11-3.

disputes.²⁸ It is particularly well-suited for resolving complex disputes, such as patent infringement cases, involving mixed questions of law and fact.²⁹ The goal is that, armed with an understanding of the strengths and weaknesses of their own case, the opponent's case, and the apparent skills of counsel on both sides, the parties will settle.³⁰

In certain situations, a mini-trial would almost certainly fail to produce settlement. One of these is where the key figure on one party's team wants to litigate. It takes agreement to avoid litigation. A case which involves flatly contradictory evidence is also unsuited for a mini-trial. Third, where the risk to either or both parties is great, the chance of mini-trial success is low. A good example of this is a case of patent infringement where the net effect of the injunction the plaintiff seeks is to put the defendant out of business. Simply too much is at stake. For a mini-trial to have a good chance, each party must be able to live with the results.³¹

Besides simple negotiation, mediation is perhaps the fastest, most costeffective means to settle a dispute and settles perhaps 60 or 70% of the cases that would otherwise not settle. Mediation is especially effective, in contrast to binding arbitration or court trials, in cases involving three to five parties each with different positions. Mediation is now commonly used to settle large, complex intellectual property disputes. Often mediation is part of one of the other ADR procedures.³² In addition to deciding which form of ADR is best, recognition of the optimal point at which to propose and implement ADR requires sage judgment of counsel. Early ADR risks disclosure of a key document, star witness, or other "surprise" which would offer a tactical advantage at a future trial. But later ADR, after discovery has precluded much surprise, loses much of its costsavings value.

D. Is There A Choice?

About thirty federal district courts are now referring most to nearly all of their cases to some form of nonbinding, court-ordered ADR (most commonly mediation) before a case goes to trial.³³ Court-ordered ADR is often called "court-annexed" ADR. In 1990, several courts were instructed to use court-annexed arbitration as a pilot study project.³⁴ Several district courts also require parties in certain disputes to submit to ADR before they are allowed to argue the case in

²⁸ Perhaps this is because the mini-trial initially developed in a 1977 patent infringement case, *Telecredit Inc. v. TRWV, Inc.*, No. CV 74-1127-RF (C.D. Cal. 1977), conducted by James F. Davis, a former patent trial commissioner at the U.S. Court of Claims. That case is discussed by Green, *Recent Developments in Alternate Forms of Dispute Resolution, Panel Discussion at the First Annual Judicial Conference of the United States Court of Appeals for the Federal Circuit*, 100 F.R.D. 513, 515 (1983). Because the procedure is not a "trial" at all, it might better be called a moderated settlement conference.

²⁹ See generally, Borovoy & Janicke, *The Mini-Trial Approach to Resolving Patent Disputes*, 11 Am. INTELL. PROP. L. Assoc. Q.J. 258 (1983); Davis, *Resolving Patent disputes by Arbitration and Mini-Trial*, 65 J. PAT. OFF. SOC'Y 275 (1983); Green, *Growth of the Mini-Trial*, 9 LITIGATION 12 (1982); Hoellering, *The Mini-Trial*, 37 ARS. J. 48(1982); OLSEN, *AN ALTERNATIVE FOR LARGE CASE DISPUTE RESOLUTION, PROCESSES OF DISPUTE RESOLUTION* 613 (1989).

³⁰ In *Telecredit v. TRIV*, *supra* note 28, for example, the parties settled within thirty minutes of the close of the mini-trial presentations (with multi-million dollars in suit). T. ARNOLD, *supra* note 5, § 10.02 at 10-2 n.4. Other cases have met with similar success. *Id.* at § 10.02, 10-6.

³¹ T. ARNOLD, *supra* note 5, § 10.06 at 10-7.

³² See generally T. ARNOLD, *supra* note 5, at ch. 13; Center for Public Resources, Inc., *ADR and the Courts: A Manual for Judges and Lawyers*, 57-69, 119-59 (1987).

³³ T. ARNOLD, *supra* note 5, § 10.06 at 10-7.

³⁴ For a listing of these courts and the guidelines they must follow, see 28 U.S.C. § § 651-658 (1990) (listing powers of arbitrators and court guidelines).

court.³⁵ Court-annexed ADR is not yet of great importance in patent cases, however, because the potential damages in most patent disputes (usually hundreds of thousands to millions) are often greater than the maximum amounts required for most court-mandatory arbitration (usually \$100-150 thousand).³⁶

Early Neutral Evaluation is a fairly novel tool with a potentially large impact on patent litigation.³⁷ Two forms of court-annexed ADR already important in patent disputes are the use of magistrates and special masters.³⁸ Litigants in civil cases before district courts may consent to have their cases heard before a U.S. magistrate judge. Upon consent of all the parties, the magistrate judge "may conduct any or all proceedings in a jury or nonjury civil matter and order entry of judgment in the case." 28 U.S.C. § 636(c)(1) (1982).³⁹ Trial before a magistrate may be desirable, in a patent case, for a number of strategic reasons.⁴⁰ A district court may grant authority to a neutral individual to oversee and act as a special master for a select part of a case. Fed. R. Civ. P. 53.⁴¹ For example, in a patent case, a special master might be appointed to:

- (1) Resolve all discovery disputes and decide all non-dispositive motions raised before trial;
- (2) Report recommendations to the court on all dispositive motions such as those for summary judgment; and
- (3) Conduct the trial on all equitable claims and defenses, before trial of the legal claims and defenses to the jury, and report recommended orders to the court.⁴²

As docket backlogs increase and patent cases become more complex, judges may be expected to take more advantage of the special master provision to afford parties a reasonably

³⁵ See, e.g., N.D. Calif. Rule 500-2, Mandatory Arbitration (requiring mandatory arbitration for all civil actions in which the United States is not a party which (i) seek relief less than \$150,000 and (ii) are founded on diversity of citizenship; certain cases in which the United States is a party are also covered by the rule).

³⁶ See, e.g., M.D. Fla. Rule 8.02 (court-annexed arbitration for cases where damages do not exceed \$ 150,000); W.D. Mich. Rule 43(c) (damages less than \$ 100,000); W.D. Mo. Rule 30 (C)(1) (compulsory non-binding arbitration required for cases where damages are less than S 100,000).

³⁷ The U.S. District Court for the Northern District of California recently implemented an early neutral evaluation program. See Brazil, *Lawyers Get Tips on Using Early Neutral Evaluation From One ENE Originator and Experienced Trial Lawyer*, in *Alternate Dispute Resolution: Practice and Perspectives*, *supra* note 22, at 83 (U.S. Magistrate Wayne D. Brazil was one of the originators of the program); Levine, *Perspective of Lawyers, Clients, and Evaluators Detailed in Survey of early Neutral Evaluations*, in *Alternate Dispute Resolution: Practice and Perspectives*, *supra* note 22, at 87. The U.S. District of Columbia has followed suit. Bar Report, vol. 18, no. 2, at 1 (D.C. Bar, Oct. – Nov. 1989).

³⁸ See generally Bovee, *Court Review of Magistrate's & Master's Decisions*, 12 AM. INTELL. PROP. L. ASSOC. Q.J. 245 (1984); Coolley, *Magistrates and Masters in Patent Cases*, 66 J. PAT. & TRADEMARK OFF. SOC'Y 374 (1984).

³⁹ The Federal Magistrate Act of 1979, Pub. L. No. 96-82, 93 Stat. 643 (Oct. 10, 1979) (codified at 18 U.S.C. § 3401; 28 U.S.C. §§ 604, 631, 633-636, 1915).

⁴⁰ For example, negative publicity may be avoided because most magistrate decisions are not published. A quicker resolution is possible because magistrates have calendars which are relatively open as compared to judges; magistrates do not try felony criminal cases and the criminal offenses tried before magistrates are usually not subject to the Speedy Trial Act. See generally Coolley, *Magistrates: What They Are and How They Can be Strategically Used in Patent Litigation*, 12 AM. INTELL. PROP. L. ASSOC. Q.J. 186 (1984); Burnett, *The Potential for Greater Utilization of Magistrates in Intellectual Property Cases as Viewed by a Magistrate*, 12 AM. INTELL. PROP. L. ASSOC. Q.J. 201 (1984); Parrett, *The Expanded Authority of U.S. Magistrates: Has Congress Exceeded Constitutional Limits?* 12 AM. INTELL. PROP. L. ASSOC. Q.J. 212 (1984).

⁴¹ Pursuant to Fed. R. Civ. Proc. 53(a), a district judge may appoint a special master when the issues are complicated.

⁴² T. ARNOLD, *supra* note 5, § 16.07 at 16-5.

timely final judgment, help clear their crowded court dockets, and/or avoid unfamiliar issues.⁴³

It appears, therefore, that parties to patent disputes may not be able to avoid ADR in certain cases. Moreover, there is a debate in the profession on whether lawyers have a duty, enforced by canons of professional responsibility, to inform clients about the availability of ADR.⁴⁴

V. Conclusion: The Future

It is undisputed that about 95% of all civil litigation settles.⁴⁵ Thus encouraged, enthusiasm for ADR is spreading. Over 625 companies have now filed a Corporate Policy Statement with the Center for Public Resources, Inc., stating publicly that they will explore ADR before litigation. That Statement removes another impediment to ADR: the perception that suggesting ADR reflects a weak case. The myriad forms of ADR also continue to expand, now including the concept of a small claims court for patent disputes.⁴⁶ In today's world, therefore, let alone tomorrow's, the intellectual property community must learn about and use ADR.⁴⁷

⁴³ See generally Brazil, *Special Masters in Complex Cases: Extending the Judiciary or Reshaping Adjudication*, 53 U. CHI. L. REV. 394 (1986); Williams & Thierstein, *Use of Masters in Litigation*, 12 AM. INTELL. PROP. L. ASSOC.Q.J. 227 (1984).

⁴⁴ See Sander & Prigoff, *Professional Responsibility: Should There Be A Duty To Advise Of ADR Options?* A.B.A. J. 50-51 (Nov. 1990). Some states, such as Colorado, Missouri, and Oregon, require lawyers to advise clients of alternatives to litigation.

⁴⁵ Wuiff, *A Mediation Primer*, in DONOVAN LEISURE NEWTON & IRVINE ADR PRACTICE BOOK, *supra* note 22, at 114.

⁴⁶ Lee, *President's Page*, American Intellectual Property Law Association Bulletin at 186 (Dec. 1990). The AIPLA Committee on Legislative Priorities proposed a special Limited Claim Practice for small patent cases so that litigants in such cases could get a prompt decision. It defined "small" cases as those in which the plaintiff sought damages of less than \$1 million and no injunctive relief. The procedure proposed would strictly control discovery, preclude a jury, limit each party to three witnesses, and mandate a total trial of no more than four days.

⁴⁷ Litigation is sometimes unavoidable despite the benefits of ADR. Whether litigation or ADR is used to resolve a dispute, however, each party should perform a basic risk analysis to determine for itself the merits of the case. One useful aspect of such an analysis is a decision-tree. In a decision-tree analysis, the possible outcomes from a decision, including intervening uncertain events such as the ruling of a judge or jury, are defined, assessed as to probabilities, and evaluated. The ultimate costs or benefits of different outcomes are discounted by the intervening probabilities upon which the defined outcomes depend. An objective, comparative evaluation of the decision options can then be made. Necessary decisions follow within the framework of that analysis. Of course, other qualitative or subjective factors such as risk aversion, for example, must be considered, too. A decision tree allows the client-counsel team to analyze ADR or litigation tactics objectively and to adopt reasonable tactics and strategy. See generally Prestia, *Is Litigation 'Manageable'?*, in 2 RATNER & PRESTIA INSIGHT (Winter 1991); Victor, *Litigation RiskAnalysist™ andADR*, in DONOVAN LEISURE NEWTON & IRVINE ADR PRACTICE BOOK, *supra* note 22, ch. 17; T. ARNOLD, *supra* note 5, § 6.03 at 6-3.