

A Critical Analysis of the Proposed National Patent Board

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I. INTRODUCTION

Patent disputes have become increasingly complicated and drawn out, and commentators and practitioners have grappled with various public and private solutions to the problem. Numerous changes have been made to the patent regulatory system and litigation process. Moreover, many companies have tried various alternatives to the traditional judicial system, such as arbitration, mini-trials and mediation. None of these efforts have completely satisfied private industry, however, and several companies have suggested that they might do better dealing with patent disputes on their own—without the help of courts or traditional alternative dispute resolution (ADR) techniques.

This Article sets forth a proposal for an industry-sponsored National Patent Board (NPB) to resolve patent infringement disputes. Part II briefly describes current patent regulation and the problems associated with traditional litigation and the most common methods of ADR. Part III compares the proposed NPB to the National Advertising Division (NAD) of the Council of Better Business Bureaus and the National Advertising Review Board (NARB).¹ Part IV discusses the structural design of the NPB. Part V highlights the procedural design of the NPB. Part VI concludes with some overall thoughts regarding the NPB.

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¹ The NAD and the NARB are highly successful in dealing with advertising disputes, and the proposed structure for the NPB is based largely on those organizations. This Article considers the differences between advertising substantiation claims and patent disputes and suggests what unique problems the NPB may face and what successes the NPB may yield.

II. A BRIEF HISTORY OF PATENT LAW AND PATENT LITIGATION

Protection of intellectual property rights, particularly patent rights, has ancient origins.² The governments of ancient Greece and Rome granted patents to encourage innovation and creativity.³ This tradition continued through the Middle Ages and was developed further within the British system.⁴ Not surprisingly then, American inventors have sought and obtained protection for their inventions almost since the beginning of the Republic.⁵ The Constitution grants Congress the power to issue patents.⁶ While this provision only provides general direction as to the scope of protection available to inventors, it has been construed liberally in the evolution of the patent system in the United States.⁷ The liberal construction of the patent grant has played a critical role in the development and overwhelming dominance of U.S. business in the global economy.⁸

The issuance of a patent by the United States Patent and Trademark Office (PTO) confers upon the inventor a legally recognized property interest in the patented invention, granting him the right, for a limited time, to exclude others from making, using, selling or importing the patented

² See, e.g., ERNEST B. LIPSCOMB III, LIPSCOMB'S WALKER ON PATENTS § 1:1, at 7 (3d ed. 1984).

³ See *id.*

⁴ See *id.* §§ 1:1-1:9.

⁵ See, e.g., ROBERT A. BUCKLES, IDEAS, INVENTIONS, AND PATENTS: HOW TO DEVELOP AND PROTECT THEM 6 (1957); FLOYD L. VAUGHAN, THE UNITED STATES PATENT SYSTEM: LEGAL AND ECONOMIC CONFLICTS IN AMERICAN PATENT HISTORY 13-18 (1956).

⁶ "The Congress shall have the power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . ." U.S. CONST. art. I, § 8, cl. 8.

⁷ For a thorough review of the history of the U.S. patent system, see, e.g., LIPSCOMB, *supra* note 2, at 57; Martin J. Adelman & Gary L. Francione, *The Doctrine of Equivalents in Patent Law: Questions That Pennwalt Did Not Answer*, 137 U. PA. L. REV. 673, 674-678 (1989).

⁸ See, e.g., National Patent Planning Commission, FIRST REPORT 783-784 (1943); S. Chesterfield Oppenheim, *A New Approach to Evaluation of the American Patent System*, 33 J. PAT. OFF. SOC'Y 555, 555 (1951). See generally GORDON C. BJORK, PRIVATE ENTERPRISE AND PUBLIC INTEREST: THE DEVELOPMENT OF AMERICAN CAPITALISM (1969).

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

invention in the United States.⁹ The basic requisites for patentability under U.S. law are utility, novelty and nonobviousness.¹⁰ Further, the applicant for a patent must be the original inventor,¹¹ must file within a limited time frame so as to avoid “statutory bars,”¹² must adequately disclose the invention in the “specification” of the application¹³ and must distinctly claim the invention.¹⁴

There are three types of patents available from the PTO: utility, design and plant patents. Utility patents are granted for a period of twenty years from the date of filing for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”¹⁵ Design patents are awarded for a period of fourteen years for “any new, original and ornamental design for an article of manufacture.”¹⁶ Plant patents are granted seventeen years of protection for “any distinct and new variety of plant.”¹⁷ Although the scope of patentable subject matter as limited by the above prerequisites is relatively narrow, it has been expanding in recent years, leading to controversy and uncertainty among inventors, business owners and the judiciary.¹⁸

The Patent Act¹⁹ provides broad legal remedies for protection of patent owners against violations, known as infringements, of their rights to exclusivity.²⁰ In addition, patent owners can seek declaratory judgments in

⁹ See 35 U.S.C. § 154 (1994).

¹⁰ See 35 U.S.C. §§ 101–103 (1994). See generally HERBERT F. SCHWARTZ, PATENT LAW AND PRACTICE 43–56 (Federal Judicial Center 1988).

¹¹ See 35 U.S.C. § 102(f) (1994).

¹² 35 U.S.C. § 102(b), (d) (1994).

¹³ 35 U.S.C. § 112 para. 1 (1994).

¹⁴ See generally SCHWARTZ, *supra* note 10, at 64.

¹⁵ 35 U.S.C. § 101 (1994).

¹⁶ 35 U.S.C. § 171 (1994).

¹⁷ 35 U.S.C. § 161 (1994).

¹⁸ See, e.g., *Diamond v. Diehr*, 450 U.S. 175 (1981) (holding that a process incorporating a computer is patentable subject matter); *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (holding that a live, man-made microbe is patentable as a composition of matter).

¹⁹ 35 U.S.C. §§ 101–296 (1994).

²⁰ See 35 U.S.C. § 281 (1994) (providing that a patent owner “shall have remedy by civil action for infringement of his patent”). The remedies available to the patent owner upon a judgment of infringement include preliminary or permanent injunctive relief and compensatory damages that are no less than a reasonable royalty. See 35

federal courts to establish their legal rights and responsibilities.²¹ The determination of whether infringement has occurred turns on whether someone (1) without a valid license (2) makes, uses or sells (3) the patented invention (4) within the U.S. or its territories (5) during the term of the patent.²² When infringement is alleged, four general questions must be resolved: patent validity, patent enforceability, the existence and extent of infringement and the available and appropriate relief for the patentee or the alleged infringer.²³

The resolution of the above questions—which being based on cutting-edge technology are usually extremely technical and complex—must take place at trial in the federal courts.²⁴ However, the federal court system is generally inefficient at resolving complex disputes.²⁵ The complexity of the often highly technical issues involved in patent cases frequently exacerbates the inherent inefficiency of the federal courts.²⁶ The main deficiencies of

U.S.C. §§ 283–284 (1994). Moreover, a court can increase the damages award up to three-fold if it finds appropriate circumstances, such as willful infringement. *See* 35 U.S.C. § 284 (1994). The court can also award reasonable attorney's fees to the prevailing party in "exceptional cases." *See* 35 U.S.C. § 285 (1994).

²¹ *See* Declaratory Judgment Act, 28 U.S.C. §§ 2201–2202 (1994) (providing that actions for Declaratory Judgment are governed by Rule 57 of the Federal Rules of Civil Procedure, which states "[t]he existence of another adequate remedy does not preclude a judgment for declaratory relief in cases where it is appropriate.").

²² *See* 35 U.S.C. § 271 (1994).

²³ *See* David W. Plant, *Alternative Dispute Resolution, in* PATENT LITIGATION 1993, at 197, 239 (PLI: Patents, Copyrights, Trademarks and Literary Property Course Handbook Series No. 376, 1993).

²⁴ The federal district courts have exclusive jurisdiction over patent infringement disputes. *See* 28 U.S.C. § 1338(a) (1994).

²⁵ This inefficiency has been recognized at the highest levels. In an oft-quoted speech, then-Chief Justice Warren E. Burger said:

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

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

²⁶ *See* Tom Arnold, *Fundamentals of Alternative Dispute Resolution: Why Prefer ADR, in* PATENT LITIGATION 1993, *supra* note 23, at 355, 661.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

federal patent litigation noted by commentators include inordinate time for resolution, excessive costs, lack of qualifications of the decisionmaker, the potential loss of trade secrets, public embarrassment, lack of finality and the loss of positive business relations.²⁷ Although the problems also occur in federal litigation involving other subject matters, they are particularly prevalent in patent litigation.

The owner of a patent can only exercise his right of exclusion over the patented subject matter for a limited period of time, namely twenty years from the application filing date.²⁸ Thus, patents are “wasting assets” that steadily decline in value with the passage of time. The average patent litigation takes more than five years to resolve.²⁹ However, many cases take much longer, with some lasting more than twenty years.³⁰ Thus, it is foreseeable that having received a patent grant, an owner could be completely deprived of the value of the patent due to protracted litigation. However, it is the uncertainty over the ultimate length of litigation that perhaps may be more detrimental to business than the actual length of the litigation.³¹ In today’s fast-paced business climate, predictability is more important than ever. Business owners need to know whether to make

²⁷ See generally TOM ARNOLD ET AL., PATENT ALTERNATIVE DISPUTE RESOLUTION HANDBOOK § 5 (1991).

²⁸ See 35 U.S.C. § 154(a)(2) (1994).

²⁹ See Arnold, *supra* note 26, at 660.

³⁰ See Tom Arnold, *Why Prefer ADR*, in PATENT LITIGATION 1996, at 245, 248 (PLI: Patents, Copyrights, Trademarks and Library Property Course Handbook Series No. 457, 1996).

I had one case working for 27 years. 5 remands to the trial court. 5 petitions for writ of certiorari. A simple one patent case on a simple oil well drill bit. Budgeted in the currency of when the case started back in 1953, at \$50,000 and two years, it cost tens of millions of dollars and 27 years—a dispute resolution horror story from the courts.

Id.

³¹ See Arnold, *supra* note 26, at 660.

[T]he acute time problem is not only time delay, but the fact that the time it [patent litigation] takes cannot be reliably estimated within plus or minus two years—Two years which is often critical to business planning—Whether to license or not and if so at what royalty—Whether to build the new plant or not—Whether to continue an accused infringement you think is lawful, but that is accumulating potential damages at the rate of a million dollars per month.

Id.

capital investments in production and distribution facilities and whether to continue production of a potentially infringing product when such production could result in significant damages. These business issues cannot wait for litigation to be resolved.³²

The nature of patent infringement litigation contributes significantly to the delays found in the federal system. The factual underpinnings of even the simplest patent infringement cases involve technical issues that are beyond the grasp of most people, including judges and jury members.³³ Even the most progressive district courts are hard pressed to deal with the avalanche of technical information that supports each side in their quest to uphold or impugn patent validity and enforceability or to demonstrate or deny infringement of the claims of a patent.³⁴ When that information involves technically advanced or complex technologies, as it usually does in patent litigation, even counsel for the parties, much less the judge or jury, will find comprehension difficult.³⁵

³² See ARNOLD ET AL., *supra* note 27, § 5.03. In certain areas of technology, such as information systems, computer science and communications, the advances in the technology are so rapid that even a two- or three-year wait for a decision in patent litigation could render the result moot. See Karl P. Kilb, *Arbitration of Patent Disputes: An Important Option in the Age of Information Technology*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 599, 611 (1993).

³³ See ARNOLD, *supra* note 27, § 5.02 (most judges do not have technical expertise or familiarity with patent law, and typically only spend between 0.01% to 2.0% of their time dealing with patent litigation); Kevin R. Casey, *Alternate Dispute Resolution and Patent Law*, 3 FED. CIRCUIT B.J. 1, 1 (1993). Of course, the inability of judges and juries to comprehend modern scientific evidence is not limited to patent litigation. See generally *Developments in the Law, Confronting the New Challenges of Scientific Evidence*, 108 HARV. L. REV. 1481 (1995); Deborah R. Hensler, *Science in the Court: Is There a Role for Alternative Dispute Resolution?*, 54 LAW & CONTEMP. PROBS. 171 (1991).

³⁴ See, e.g., *Hanes Corp. v. Millard*, 531 F.2d 585, 593-594 (D.C. Cir. 1976) ("Such issues involve complex and difficult questions in applying an extremely technical body of law."); see also *General Tire & Rubber Co. v. Jefferson Chem. Co. Inc.*, 497 F.2d 1283, 1284 (2d Cir. 1974) ("This patent appeal is another illustration of the absurdity of requiring the decision of such cases to be made by judges whose knowledge of the relevant technology derives primarily, or even solely, from explanations by counsel and who . . . do not have access to a scientifically knowledgeable staff.").

³⁵ See, e.g., *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 331 (1971) ("[P]atent litigation can present issues so complex that legal minds, without appropriate grounding in science and technology, may have difficulty in reaching decision."); *Nyyssonen v. Bendix Corp.*, 342 F.2d 531, 532 (1st Cir. 1965)

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

The crowding of the federal dockets also contributes to the often prolonged delays in patent litigation.³⁶ The number of civil cases has increased more than seven-fold since 1938.³⁷ Federal district court dockets are also increasingly consumed by criminal trial proceedings that cannot be delayed due to “speedy trial” considerations.³⁸ Thus, patent suits are often postponed for months or even years.³⁹ Moreover, more patent infringement suits are being filed than ever before.⁴⁰ Perhaps even more significantly, the adversarial process promotes, and sometimes requires, that the parties engage in prolonged (and expensive) pretrial discovery.⁴¹ Parties engage in numerous depositions, production requests, motions practice and appeals. Of course, it may also be in the interest of either party to delay the resolution of the case indefinitely, and there is little an opponent can do to

(“The court below in recognition of its avowed limitations, rested its decision basically on its evaluation of the relative credibility of opposing expert witnesses.”); *Harries v. Air King Prods. Co.*, 183 F.2d 158, 164 (2d Cir. 1950) (“Congress sees fit to set before us tasks which are so much beyond our powers . . . that we shall resort to the testimony of experts”); *Parke-Davis & Co. v. H.K. Mulford Co.*, 189 F. 95, 115 (S.D.N.Y. 1911), *aff’d in part, rev’d in part*, 196 F. 496 (2d Cir. 1912).

³⁶ See Casey, *supra* note 33, at 4.

³⁷ See ARNOLD, *supra* note 27, § 1.02.

³⁸ See, e.g., 18 U.S.C. § 3161(d)(2) (1994) (requiring the federal district court to bring the defendant to trial within 70 days of the filing of an indictment or information by the government).

³⁹ See ARNOLD, *supra* note 27, § 1.02.

⁴⁰ Patent infringement actions have increased steadily in recent years, with the number of patent cases up 6.8% to 1840 in 1996 and up nearly 25% over 1992. See ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS (1996).

⁴¹ See, e.g., Casey, *supra* note 33, at 1; Kenneth B. Clark & William A. Fenwick, *Structuring an Arbitration Agreement for High Technology Disputes*, 9 COMPUTER LAW. 22, 24 (1992) (“Pretrial discovery is often the largest component of litigation cost.”); Michele Galen, *Guilty!*, BUS. WK., April 13, 1992, at 60, 64 (arguing that 80% of all legal fees are incurred during discovery); David W. Platt, *ADR and Patents*, in PATENT LITIGATION 1992, at 797 (PLI: Patents, Copyrights, Trademarks and Literary Property Course Handbook Series No. 350, 1992) (asserting that preparing for trial can typically cost more than one million dollars); Report from the President’s Council on Competitiveness, *Agenda for Civil Justice Reform in America* (August 1991), *reprinted in* 60 U. CIN. L. REV. 979, 981 (1992) (stating that “[o]ver 80% of the time and cost of a typical lawsuit involves pretrial examination of facts through discovery”).

speed things along.⁴² Many commentators have suggested that ADR mechanisms could assist in cutting discovery costs and delays,⁴³ but even those mechanisms have significant drawbacks.⁴⁴

Conventional adversarial litigation, particularly patent litigation, is also extremely expensive.⁴⁵ It is estimated by many commentators that a typical patent infringement suit costs a minimum of \$500,000 to litigate.⁴⁶ These costs are for the most part out of the control of a party.⁴⁷ Per-party costs average over one million dollars per side. Many cases cost between two and five million dollars.⁴⁸ In the most extreme case, the parties spent

⁴² See Bruce B. Brunda, *Resolution of Patent Disputes by Non-Litigation Procedures*, 15 AIPLA Q.J. 73, 82 (1987).

⁴³ See, e.g., William H. Erickson, *Limited Discovery and the Use of Alternative Procedures for Dispute Resolution*, 71 DENV. U. L. REV. 303 (1994).

⁴⁴ See, e.g., Richard C. Reuben, *The Dark Side of ADR*, 14 CAL. LAW. 53 (1994) (discussing the cost-related problems of arbitration and mediation discovery referees).

⁴⁵ See generally *Industrial Innovation and Patent and Copyright Law Amendments: Hearings H.521 before the Subcomm. on Courts, Civil Liberties and the Administration of Justice of the House Committee on the Judiciary*, 96th Cong. 166, 168, 172 (1980) (statement of D.R. Dunner, President, American Patent Law Assoc.); *id.* at 592-593 (statement of S.A. Diamond, then-Commissioner of Patents & Trademarks); *id.* at 645-646 (statement of H.F. Manbeck, Jr., General Patent Counsel, General Electric Corp.); *id.* at 697 (statement of R.B. Benson, Counsel, Allis-Chalmers Corp.); Brian T. Foley, *Catch A Ride on the "Rocket Docket,"* CONN. L. TRIBUNE (Intellectual Property Supp.), Oct. 7, 1996, at 4 ("It is commonly known that patent litigation is among the most costly species of litigation."); Thomas McCarroll, *Creativity—Whose Bright Idea?*, TIME, June 10, 1991, at 45 (describing the "soaring cost of patent litigation" as ranging as high as \$250,000 to \$2 million); Brian Peckham, *Should the U.S. Patent Laws Be Abolished?*, 11 J. CONTEMP. L. 389 (1985) (citing litigation costs as one reason to consider abolishing patent laws).

⁴⁶ See, e.g., Arnold, *supra* note 26, at 662; Casey, *supra* note 33, at 4; Platt, *supra* note 41, at 797-798. This is to be compared with the average cost in 1968 of \$50,000 per case. See *Blonder-Tongue Lab. v. University of Ill. Found.*, 402 U.S. 313, 335 (1971).

⁴⁷ See Arnold, *supra* note 26, at 661 ("[T]hirty percent of the cost [of litigation] is in the control of the judge [and] [t]hirty percent is in the control of adverse counsel.").

⁴⁸ See American Intellectual Property Law Association, *Committee on Economics of Legal Practice*, REPORT OF ECONOMIC SURVEY 1995 (1996). The survey examined the total cost of a patent infringement suit from filing to final adjudication, including all fees, court costs and other expenses. The analysis was conducted for four different ranges of amount at risk—from less than \$1 million to more than \$100 million. A plurality of the cases, 46%, fell into the \$1 million to \$10 million range. The median

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

almost \$200 million combined.⁴⁹ In another recent case involving litigation over patents directed toward the anti-HIV compound AZT, the judge concluded that the parties were spending upwards of \$100,000 per day on the litigation, not including the court costs.⁵⁰ As mentioned above, a large proportion of litigation costs are incurred during discovery.⁵¹

As the value of patent rights has risen to the fore of American business consciousness,⁵² efforts to protect and enforce those rights have become more intense.⁵³ The vigor with which suits to enforce patent rights are brought, combined with the technical complexity of the issues presented in such cases, has led to prolonged, difficult and expensive litigation, as noted

legal cost for such litigation was about \$1 million, while in the \$10 million to \$100 million range, the median cost was about \$1.5 million.

⁴⁹ See *Polaroid Corp. v. Eastman Kodak Co.*, 641 F. Supp. 828 (D. Mass. 1986), *aff'd*, 789 F.2d 1556 (Fed. Cir. 1986).

⁵⁰ See *Burroughs Wellcome Co. v. Barr Lab.*, 828 F. Supp. 1208, 1210 (E.D.N.C. 1993), *aff'd in part, vacated in part*, 40 F.3d 1223 (Fed. Cir. 1994).

The sixty-year-old courtroom in New Bern, North Carolina, has been converted into a contemporary "high tech" facility utilizing "real time" court reporting and six computer-integrated video display monitors. It is highly conceivable that the cost of this trial for the parties exceeds \$100,000 per day, in addition to the time and expense associated with this court and the jury. As this case enters its fourth week of trial, the parties estimate, somewhat conservatively the court suspects, that the trial will last an additional six to eight weeks

Id.

⁵¹ See Platt, *supra* note 41, at 798.

⁵² See, e.g., McCarroll, *supra* note 45, at 44 (recognizing that inadequate protection of intellectual property costs United States' economy approximately \$80 billion in sales each year).

⁵³ The damages awards in recent patent infringement cases seem to provide justification for such vigor. See, e.g., *Polaroid Corp. v. Eastman Kodak Co.*, 17 U.S.P.Q.2d 1711, 1714 (D. Mass. 1991) (awarding a judgment of \$873,158,971); *Smith Int'l, Inc. v. Hughes Tool Co.* 229 U.S.P.Q. 81 (C.D. Cal. 1986) (awarding a judgment of \$204 million); *Pfizer Inc. v. International Rectifier Corp.*, 218 U.S.P.Q. 586 (C.D. Cal. 1983) (awarding a judgment of \$55,800,000). See generally Nancy J. Perry, *The Surprising New Power of Patents*, FORTUNE, June 23, 1986, at 57. Indeed, patent litigation has become so lucrative that syndications have sprung up offering to finance plaintiffs for a share in the damages awards. See, e.g., Daniel A. DeVito & Peter Szendro, *Legal Entrepreneurs in the Patent World*, MANAGING INTELLECTUAL PROPERTY, May 1996, at 12-13; Linda Himmelstein, *Investors Wanted—for Lawsuits*, BUS. WK., Nov. 15, 1993, at 78.

above. This trend has not gone unnoticed by either Congress or the judiciary. Several decades ago, Congress recognized that patent cases present unique difficulties and require an inordinate length of time to resolve.⁵⁴ In 1970, the Supreme Court also took notice of the problem.⁵⁵ However, although it must have recognized the problems presented by patent litigation, the federal judiciary rejected early attempts by parties to avoid litigation and pursue ADR mechanisms such as arbitration.⁵⁶

More recently, the Supreme Court issued two decisions that seem to increase pressures on the already overburdened federal judiciary.⁵⁷ In *Markman v. Westview Instruments, Inc.*, the Supreme Court concluded that the “construction of a patent, including terms of art within its claim, is exclusively within the province of the court.”⁵⁸ Similarly, in *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, the Supreme Court adopted an element-by-element evaluation of equivalents test, rather than a holistic

⁵⁴ See, e.g., STAFF OF THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS, SENATE COMMITTEE ON THE JUDICIARY, 86TH CONG., ANALYSIS OF PATENT LITIGATION STATISTICS 2 (Comm. Print 1961).

⁵⁵ See *Blonder-Tongue Lab., Inc. v. University of Ill. Found.*, 402 U.S. 313, 337 n.31 (1971). The Court cited the Annual Report of the Director of the Administrative Office of the United States Courts for the Fiscal Year ending June 30, 1970. The Court also noted that although patent cases constituted only 1–2% of all civil cases filed in the federal courts between 1968 and 1970, they required an inordinate amount of time. While 90% of all other civil litigation was concluded within three days of trial, less than half of all patent suits were concluded in such a period. Further, while less than 2% of all civil non-jury trials required 10 or more days to conclude, almost 20% of patent trials required such time periods, and patent cases accounted for more than 20% of the civil cases requiring more than 20 days to resolve. The Court also noted that in contrast to other types of civil cases, the trend in patent litigation was toward longer trials.

⁵⁶ See, e.g., *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (noting “the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain” to support the challenge of invalid patents); *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55, 63 (7th Cir. 1970) (stating that “[patent validity] questions are inappropriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents”); *Homewood Industries, Inc. v. Caldwell*, 360 F. Supp. 1201, 1204 (N.D. Ill. 1973) (rejecting private initiatives to resolve a patent dispute).

⁵⁷ See generally *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 117 S. Ct. 1040 (1997); *Markman v. Westview Instruments, Inc.*, 116 S. Ct. 1384 (1996).

⁵⁸ *Markman*, 116 S. Ct. at 1387.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

approach test.⁵⁹ One commentator noted that these new responsibilities thrust upon the federal judiciary will be resented, especially in light of the already complex and slow-moving patent disputes before it.⁶⁰

Nevertheless, the expansion in scope of patentable subject matter, the overwhelming importance of protection of intellectual property rights to U.S. industry and business and the complexity of patent litigation led to congressional efforts in the 1980s to foster alternative methods for dealing with disputes over patent rights.⁶¹ Accordingly, in 1982, Congress enacted 35 U.S.C. § 294 to provide for judicial recognition and enforcement of voluntary arbitration agreements.⁶² In 1984, Congress further expanded the role of ADR for patent disputes. First, the Patent Law Amendments Act of 1984 broadened the definition of what constitutes an “interference”⁶³ and consequently encouraged the use of arbitration to resolve this type of dispute.⁶⁴ Second, the Semiconductor Chip Protection Act of 1984⁶⁵

⁵⁹ See *Hilton Davis Chem. Co.*, 117 S. Ct. at 1049.

⁶⁰ See Janice M. Mueller, *Crafting Patents for the Twenty-First Century: Maximize Patent Strength and Avoid Prosecution History Estoppel in a Post-Markman/Hilton Davis World*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 499, 503 (1997).

⁶¹ See H.R. REP. NO. 97-542, reprinted in 1982 U.S.C.C.A.N. 2, 13. Congress recognized that alternative dispute resolution mechanisms such as voluntary arbitration would “enhance the patent system . . . [.]promote innovation” and “relieve some of the burden on the overworked Federal courts.” *Id.*

⁶² President Reagan signed Pub. L. No. 97-247, 96 Stat. 317 (1982) (codified as amended at 35 U.S.C. § 294 (1988)) on August 27, 1982. This section provides that contracts involving patents may include arbitration provisions pertaining to patent rights that will be enforced in federal courts, that such arbitration is governed by Title 9 of the United States Code, that arbitration awards may be binding on the parties (but not on others) but can be modified if the underlying patent is found invalid and that arbitration awards will be enforceable once notice of such an award is given to the Commissioner of Patents. *See id.* For a general review of the history behind § 294, see MANBECK, VOLUNTARY ARBITRATION OF PATENT DISPUTES—THE BACKGROUND TO 35 U.S.C. § 294, 268 (1988).

⁶³ An interference is a dispute between two or more applicants for patents on the same claimed subject matter. *See* Patent Law Amendments Act of 1984, 35 U.S.C. § 135(a) (1988).

⁶⁴ *See id.* Section 135(d) already provided for arbitration of interferences. *See id.* § 135(d). Thus, the expansion of the scope of what constitutes an interference effectively broadened the availability of arbitration.

⁶⁵ 17 U.S.C. §§ 901-904 (1988 & Supp. 1992).

provided for alternative dispute resolution of royalty payment disputes for innocent infringement of chip-product rights.⁶⁶

As Congress has recognized, ADR mechanisms for patent disputes are not limited to arbitration. The types of resolution mechanisms available can be fairly divided into three categories: nonbinding private procedures, including negotiation, mediation, mini-trials and summary jury trials; binding private procedures such as arbitration; and court-annexed procedures including court-ordered arbitration and the appointment of special masters.

Because of the recognized drawbacks of traditional patent litigation, at least one commentator has suggested that litigation is on its way out:

The new wisdom is don't litigate—cooperate. Turn your blockbuster patent into an industrial standard, let everyone take a license, share your technology and pocket the money. This is a simple formula, but one which does not include patent infringement. The old-style patent litigation is under threat and has become increasingly unfashionable. If it is to survive, it must either adapt or must become a protected species. There is no doubt as to which course clients will prefer.⁶⁷

The nonbinding private ADR procedures do not award results which are enforceable judgments with *res judicata* and collateral estoppel effect. In mediation, parties hire a mediator and establish the governing ground rules.⁶⁸ Typically, mediation exposes the strengths and weaknesses of each party's case.⁶⁹ A problem specific to mediation is the mediocre mediator's aim to garner a settlement, irrespective of the strengths and weaknesses of either party's case.⁷⁰ This problem can be detrimental to the holder of a patent or conversely to the challenger of a patent.

⁶⁶ See *id.* § 907. Section 907(a) provides for liability by innocent infringers only for reasonable royalties. Section 907(b) as amended provides that the amount of the royalty may be resolved by voluntary negotiation, mediation or binding arbitration. See *id.*

⁶⁷ Jeremy Phillips, *The Demise of Old-Style Patent Litigation*, *MANAGING INTELL. PROP.*, June 1996, at 2.

⁶⁸ See Beverly B. Goodwin & Laurence H. Pretty, *How to Handle Litigation of a Patent—Part I*, in *PATENT LITIGATION 1992*, at 205, 224 (PLI: Patents, Copyrights, Trademarks and Literary Property Course Handbook Series No. 343, 1992).

⁶⁹ See *id.*

⁷⁰ See *id.*

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

In mini-trials, the parties agree to the entire procedure and can include all issues or only partial issues in contention.⁷¹ Each side presents its evidence to a neutral advisor and then meets to discuss the neutral advisor's overall outlook on the case.⁷² In summary jury trials, the same process as a mini-trial occurs, except juries are utilized.⁷³ Following the presentation of evidence and witnesses, the jury issues a decision.⁷⁴ These three forms of ADR require parties to narrow the scope of their arguments and objectively evaluate the strengths and weaknesses of their cases.⁷⁵ However, these ADR procedures also delay trial if not managed properly. Such a delay, due to the existing backlog of cases, can be devastating to both parties in a dispute.⁷⁶

The binding procedures do award results which are enforceable judgments with *res judicata* and collateral estoppel effect.⁷⁷ The problem with these binding ADR procedures is that parties cannot present all of their arguments and evidence in accordance with the established rules of civil procedure and evidence.⁷⁸ Instead, the parties must deal with the admission of evidence that would have been excluded in a traditional court proceeding. In addition, arbitration awards usually contain minimal findings of fact or conclusions of law and so parties must be satisfied with a blanket award.⁷⁹ Finally, these ADR procedures are binding, thus precluding a party from challenging the award in court.⁸⁰

As noted, these traditional forms of ADR still suffer from significant drawbacks. Most notable among these is the lack of arbitrators and mediators with sufficient technical expertise in technology and patent law to provide quality judgments in a reasonable time and at a reasonable cost.

A comprehensive five-year study of federal district courts using ADR procedures by the RAND's Institute for Civil Justice revealed some surprising and sobering results. First, ADR programs had little effect on

⁷¹ *See id.* at 223.

⁷² *See id.*

⁷³ *See id.* at 224.

⁷⁴ *See id.*

⁷⁵ *See id.*

⁷⁶ *See id.*

⁷⁷ *See id.* at 223.

⁷⁸ *See id.* at 226.

⁷⁹ *See id.*

⁸⁰ *See id.*

time to disposition, litigation costs, attorneys' satisfaction or views of the fairness of case management.⁸¹ Second, other case management procedures had no major effects on cost and delay.⁸² Third, when delays were shortened, lawyers still did the same amount of work, as well as other tasks related to judicial management.⁸³ Finally, participants felt that ADR meetings were conducted before parties were ready to settle.⁸⁴ Because patent disputes are so complex and winner-take-all oriented, these weaknesses of current ADR methods make those procedures unappealing to the patent holder and patent challenger. When coupled with the delays and cost of traditional litigation, patent holders and patent challengers are in a lose-lose situation. Therefore, a new form of ADR is required.

III. A COMPARISON OF THE PROPOSED NATIONAL PATENT BOARD WITH OTHER PRIVATE COURT SYSTEMS

The problems associated with litigation and court-sponsored ADR have prompted some industries to develop their own procedural mechanisms for resolving industry-specific disputes. The most successful examples of such industry-initiated dispute resolution mechanisms are the National Advertising Review Board (NARB) and the National Advertising Division (NAD) of the Council of Better Business Bureaus. The NARB and the NAD were established in 1971 in response to complaints brought when consumer advocate Ralph Nader and the American Bar Association (ABA) began criticizing the Federal Trade Commission (FTC).⁸⁵ The FTC also began to encourage comparative ads, and there was a need for a forum to evaluate substantiation claims.⁸⁶ The NAD and the NARB's founders, the American Advertising Federation, the American Association of Advertising Agencies, the Association of National Advertisers and the Council of Better Business Bureaus, hoped to find an industry-initiated solution to a growing

⁸¹ See RAND INSTITUTE FOR CIVIL JUSTICE, *JUST, SPEEDY, AND INEXPENSIVE?: AN EVALUATION OF JUDICIAL CASE MANAGEMENT UNDER THE CJRA 1* (1996).

⁸² See *id.* at 20.

⁸³ See *id.* at 21.

⁸⁴ See *id.* at 20.

⁸⁵ See Jones, *The National Advertising Review Board Experiment in Self Regulation*, in CONSUMER TRANSACTIONS 832, 832-834 (1975).

⁸⁶ See Felix H. Kent, *Control of Ads by the Private Sector*, N.Y. L.J., Dec. 27, 1985, at 1.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

public disenchantment with advertisers.⁸⁷ The founders also wanted a system that was speedy, easily accessible in case of a problem and consistent in its decisions.⁸⁸

The NAD's and the NARB's goals are to "promote and foster the highest ethical relationship between businesses and the public through voluntary self-regulation, consumer and business education, and service excellence."⁸⁹ More specifically, the NAD and the NARB provide a forum for evaluating the truth and accuracy of national advertising⁹⁰ and a platform to develop a set of guidelines for advertisers. The NAD handles initial proceedings while the NARB reviews appeals.

The structure of the proposed NPB is based directly on those of the NAD and the NARB.⁹¹ The proponents of the NPB are attempting to address problems similar to those facing advertisers. Patent holders have become frustrated with the courts and traditional methods of ADR. The NPB is envisioned as an industry-run mechanism that will produce decisions as good or better than parties would expect from ADR or the courts, while utilizing a process that is quicker than is usually available in traditional forums.⁹² As with the NAD and the NARB, the NPB is designed to issue predictable decisions that parties will perceive as fair.⁹³ The Board's goal is to become the forum of choice for most patent infringement cases, thus freeing up courts and resulting in a low relitigation rate.⁹⁴

⁸⁷ See Norman Gottlieb, *NAD/NARB—A Voluntary Approach to Abuses in Comparative Advertising*, 64 TRADEMARK REP. 498, 499 (1974).

⁸⁸ See Janice Handler, *The Self-Regulatory System—An Advertiser's Viewpoint*, 37 FOOD DRUG COSM. L.J. 257, 257-263 (1982).

⁸⁹ Eric J. Zanut, *The National Advertising Review Board, 1971-1976*, in JOURNALISM MONOGRAPHS 3, 13-16 (Bruce H. Westley ed., 1979).

⁹⁰ The NAD holds itself responsible for "receiving or initiating, evaluating, investigating, analyzing, and holding initial negotiations with an advertiser on complaints or questions from any source involving the truth or efficacy of national advertising, or consistency with [the Children's Advertising Review Unit's (CARU)] Self Regulatory Guidelines for Children's Advertising." Debra Goldstein, *Industry Self-Regulation of Advertising National Advertising Division of the Council of Better Business Bureaus, Inc. Cases, Trends and Outlook for the Future*, 954 PLI/CORP. 19, 43 (1996).

⁹¹ See Interview with Patrick Lane, Associate General Counsel—Patent Litigation, The Procter & Gamble Company (Oct. 1996).

⁹² See Appendix *infra* at Preamble.

⁹³ See *id.*

⁹⁴ See *id.*

The NPB differs from the NAD and the NARB primarily because of the respective nature of the disputes brought before them. Because disputes brought before the NAD and the NARB usually involve the truthfulness of claims made in advertising, NAD/NARB proceedings typically revolve around discrete factual resolution and do not require significant legal expertise.⁹⁵ NPB proceedings, however, will involve highly technical subject matters and complex factual and legal issues.⁹⁶

The nature of patent disputes as compared to advertising disputes will also affect public perception of the NPB. Although one of the NAD and the NARB's goals is to resolve disputes between corporations, the organizations' ultimate goal is to protect the public interest by exposing false advertising claims.⁹⁷ Conversely, the NPB, is primarily directed to protecting and to advancing industry interests and challenges. The average consumer has little knowledge of the patent system, and patent disputes rarely directly affect public safety or buying habits. While the NAD and the NARB address broad-based issues concerning the public welfare, the NPB is largely a mechanism for resolving disputes within participating groups, including industry, universities and small inventors.⁹⁸

IV. THE STRUCTURAL DESIGN OF THE PROPOSED NATIONAL PATENT BOARD

A. *Creation, Membership, Management Structure and Funding*

To bolster credibility, the NAD and the NARB were created with the intention that they would be "completely autonomous and independent" of

⁹⁵ See Charles Shafer, *Developing Rational Standards for an Advertising Substantiation Policy*, 55 U. CIN. L. REV. 1 (1986) (discussing problems associated with substantiation claims).

⁹⁶ See ARNOLD, *supra* note 27, § 5.02; Casey, *supra* note 33, at 1.

⁹⁷ For examples of how advertising relates to the public welfare, see Patricia Auferheide, *Reregulating Children's TV*, 42 FED. COMM. L.J. 87 (1989); Dee Pridge, *How Will Consumers be Protected on the Information Superhighway*, 32 LAND & WATER L. REV. 237 (1997).

⁹⁸ See, e.g., Michael P. Chu, *An Antitrust Solution to the New Wave of Predatory Patent Infringement Litigation*, 33 WM. & MARY L. REV. 1341 (1992) (discussing practices of large corporations which are dominating patent courts around the globe with predatory patent claims).

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

other persons and organizations.⁹⁹ The organizations initially won praise for including all parties involved in advertising—companies, advertising agencies and the general public.¹⁰⁰ Similarly, the NPB has adopted a “start from scratch” approach.¹⁰¹

Both the NARB and the NAD have clearly delineated management structures. The National Advertising Review Council (NARC) is the governing body of the NARB. The NARC’s board of directors elects a chairperson and admits members of the NARB. The body is also responsible for establishing rules and procedures for the NARB and for its general management. An executive director runs day-to-day affairs, prepares periodic reports of the NARB’s activities and interfaces with the NAD and other organizations. The efforts of the director are supported by a small staff that handles administrative details such as scheduling hearings. The NAD and the NARB are funded solely by the Better Business Bureaus, which in turn receive funding from local members. As a result, no one party exerts inordinate financial control over the organization.¹⁰²

The NPB will have much of the same composition. A board of directors elected by the members will establish policy, by-laws and procedural rules.¹⁰³ The board will select administrative management and perform peer review of proposed panelists.¹⁰⁴ An executive director will be responsible for routine management of the organization, determining ripeness, recruitment of panelists and checking for conflicts of interest.¹⁰⁵ NPB members will pay dues and contribute staff (usually patent attorneys).¹⁰⁶ User fees will cover costs associated with ripeness determinations and hearings.¹⁰⁷

While the NARB and the NAD claim to represent the general public, they are nevertheless beholden to their corporate members. The NARB membership, for example, consists of forty advertisers, twenty advertising

⁹⁹ Zanot, *supra* note 89, at 13–16.

¹⁰⁰ See Jones, *supra* note 85, at 832–834.

¹⁰¹ See Appendix *infra* at I.

¹⁰² See Zanot, *supra* note 89, at 13–16.

¹⁰³ See Appendix *infra* at III.

¹⁰⁴ See *id.*

¹⁰⁵ See *id.* at IV.

¹⁰⁶ See *id.* at VII.

¹⁰⁷ See *id.*

agencies and ten members of the general public.¹⁰⁸ Since their inception, the NAD and the NARB have been criticized for being pro-business and for deciding cases from the point-of-view of an advertiser.¹⁰⁹ The NPB's membership will be open to all patent owners, generally, which should eliminate the criticism launched at the NAD and the NARB.¹¹⁰ Because the NPB will be funded by annual member dues and user fees, any bias allegations will be dependent upon the makeup of the membership. However, the NPB's policy of repaying any capital contribution is a wise public policy decision, since it defeats any claim that the NPB is a corporate tool of big business.¹¹¹

B. *Hearing Panels*

The NAD employs attorneys with experience in fields such as advertising, trade regulation, litigation and arbitration. The NAD has no formal panel review system and sees itself as more of a general investigative body.¹¹² NARB panels are made up of one member from an advertising agency, three members from corporate advertisers and one member from the general public. NARB panelists are not required to be attorneys. Panelists must disqualify themselves if they anticipate a conflict of interest with any party or any matter before the Board. A complainant and an advertiser each have the right to challenge the qualifications of any panel member and to request a replacement member.¹¹³

The NPB is not intended to be an investigative body, and there will be no appeal mechanism.¹¹⁴ As a result, the NPB panels are modeled after those at the NARB and will include three patent attorneys from an

¹⁰⁸ See Better Business Bureau, *Better Business Bureau Advertising Review Programs: The National Advertising Division* ¶ 5 (visited Feb. 20, 1998) <<http://www.bbb.org/advertising/nadproc.html#2.1>>.

¹⁰⁹ See Jones, *supra* note 85, at 832-834.

¹¹⁰ See Appendix *infra* at II.

¹¹¹ See *id.* at VII.

¹¹² See Better Business Bureau, *Better Business Bureau Advertising Review Programs: The National Advertising Division* ¶ 17 (visited Feb. 20, 1998) <<http://www.bbb.org/advertising/nadproc.html#2.1>>.

¹¹³ See Zanot, *supra* note 89, at 13-16.

¹¹⁴ See Appendix *infra* at XXXIII.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

approved list of panelists.¹¹⁵ Unlike the NARB, which has no formal qualification requirement, all NPB panelists must be admitted to practice before the United States Patent and Trademark Office and must be approved by the NPB Board.¹¹⁶ This requirement will insure that the panelists understand the complexities of patent law, one of the major criticisms of the federal judiciary. Like the NARB, NPB panels are intended to arbitrate disputes with impartiality, and panelists must recuse themselves if there is any conflict of interest.¹¹⁷ The smaller size of the NPB panels will likely be an improvement over the NARB panels, as experts in the field of ADR contend that smaller arbitration panels are more efficient than larger ones.¹¹⁸

The NPB will face more criticism than the NAD and the NARB concerning the impartiality of panel members. The NAD has a professional staff of investigators who have no real affiliation with NARB members. Thus, all initial factual findings are made by what is considered to be an impartial board. The NARB, which could be viewed as being more captive to advertiser interests, only has the power to review findings of the NAD. In contrast, if the NPB's membership consists of mostly large corporations, the NPB will be the primary and final arbiter of all disputes, and panel membership will be dominated by representatives of large corporations.¹¹⁹ As long as panelists remain impartial and disputes are primarily between businesses, the NPB may have no problem. However, as more proceedings are brought by individuals, a danger exists that the NPB will be viewed as serving the interests of its corporate members. As a result, the NPB should make membership affordable and worthwhile to all patent holders and potential patent challengers.

¹¹⁵ *See id.* at VI.

¹¹⁶ *See id.* at XLIX.

¹¹⁷ *See id.* at VI.

¹¹⁸ *See* ARNOLD, *supra* note 27, § 7.07.

¹¹⁹ *See* Appendix *infra* at III.

V. THE PROCEDURAL DESIGN OF THE PROPOSED NATIONAL PATENT BOARD

A. *Initiation of Proceedings*

The NAD acts in response to complaints by individual consumers, advertisers, Better Business Bureaus, trade associations or other groups. Local Better Business Bureaus are responsible for handling regional advertising complaints, but many complaints are referred to the NAD because they involve national advertising. Competing businesses are important sources of NAD cases, and the NAD itself conducts systematic monitoring of national broadcast, cable television and print advertising. In recent years, 20% of NAD cases have originated from consumers, 50% from competing advertisers and 30% from the NAD's monitoring program.¹²⁰ The NAD is an alternative to litigation or action by the FTC. Individuals are not precluded from using those resources, but a person may not pursue concurrent actions before the NAD and another body.¹²¹

As with the NAD, any member will be able to submit a claim before the NPB against any other member. Members of the NPB must defend actions in front of the forum. All participants must agree in advance to be bound by NPB rules.¹²² Parties may seek temporary restraining orders or preliminary injunctions while an action is pending before the NPB, but they may not initiate full-scale litigation.¹²³

The breakdown of who initiates proceedings is likely to differ greatly between the NAD and the NPB. The NPB will initiate no proceedings on its own, and large corporations will likely dominate early proceedings.¹²⁴ The attractiveness of the NPB to noncorporate members will depend on whether the Board is seen as accessible to the general public (*i.e.*, small patent holders) and is viewed as being nonbiased. This perception will depend largely on whether the aforementioned concerns are addressed by the NPB.

¹²⁰ See Better Business Bureau, *Better Business Bureau Advertising Review Programs: The National Advertising Division* ¶ 30 (visited Feb. 20, 1998) <<http://www.bbb.org/advertising/nadproc.html#2.1>>.

¹²¹ See Zanot, *supra* note 89, at 13-16.

¹²² See Appendix *infra* at XIV.

¹²³ See *id.* at X.

¹²⁴ See *id.*

B. Ripeness Determinations and Notification

For the NAD to consider a complaint, the advertising matter must be national in character, currently active, concern primarily the truth and accuracy of statements made and must not be overly technical. For matters initiated internally, the General Counsel to the NARB has final say as to whether to bring a claim. The NAD encourages confidentiality and often will not handle a case that has been brought to the attention of a third party (such as the media). The NAD always notifies the advertiser of the identity of the complainant, and an advertiser has fifteen days to respond. The complainant may submit a reply to the NAD within ten days of receiving the response.¹²⁵

Similar to an NAD proceeding, the party initiating the action before the NPB must submit a formal complaint. The executive director of the NPB will make the sole determination as to whether to allow an action.¹²⁶ The director will determine whether there is a "bona fide issue at stake."¹²⁷ Factors that will influence this decision include whether the complainant is acting on his own behalf and whether he is planning to make, use or sell the product in question.¹²⁸ The level of review is intended to be less stringent than that for a declaratory judgment action. Decisions by the executive director are nonappealable and strictly confidential.¹²⁹ If a bona fide issue is deemed not to exist, the patentee will not be notified.¹³⁰ If a bona fide issue does exist, the patentee will be given thirty days to respond.¹³¹ All counter-claims must be brought in a separate action.¹³²

The NAD has been criticized for being arbitrary with respect to the types of complaints it accepts for review. In 1972, the Consumer Federation of America analyzed thirty-four complaints brought before the NAD, of which twelve were rejected.¹³³ The NAD is supposed to put itself

¹²⁵ See Zanot, *supra* note 89, at 13-16.

¹²⁶ See Appendix *infra* at XV.

¹²⁷ *Id.*

¹²⁸ See *id.*

¹²⁹ See *id.*

¹³⁰ See *id.*

¹³¹ See *id.*

¹³² See *id.* at XXV.

¹³³ See Jones, *supra* note 85, at 834.

in the place of the consumer when deciding whether to accept a case;¹³⁴ however, the Consumer Federation found that there was no coherent standard used for review.¹³⁵ Similarly, the NPB may face some criticism of its pre-clearance decisions because the executive director is not required to give any rationale for his decision. In order to eliminate these concerns, the NPB should include a forum where a rejected party can apply for reconsideration.

C. *Inclusion of Other Interested Members*

The only parties included in an NAD proceeding are the advertiser, the complainant and the NAD review panel. No other entities are permitted access to or participation in the proceedings.¹³⁶ In contrast, the NPB will notify all members of current proceedings and will give them an opportunity to intervene subject to approval by the executive director.¹³⁷ Members who decline to participate will be bound by claim construction in the future.¹³⁸

There is less of a need to include additional parties in an advertising proceeding because the main issue at hand is usually the validity of a single manufacturer's ad. The NAD, by acting for the public good, obviates the need for additional complainants to be present. In the patent context, however, there may be multiple parties infringing the same product—many of whom are unknown at the time of the complaint. By alerting all members of a pending action and binding them by claim construction if they do not attend, there is a greater likelihood that interested parties will present themselves at one hearing.¹³⁹ This device will eliminate stale claims and potentially redundant hearings.

¹³⁴ See Arthur Best, *Controlling False Advertising: A Comparative Study of Public Regulation, Industry Self-Policing and Private Litigation*, 20 GA. L. REV. 1, 35 (1985).

¹³⁵ See Jones, *supra* note 85, at 832-834.

¹³⁶ See Zanot, *supra* note 89, at 13-16.

¹³⁷ See Appendix *infra* at XXXII.

¹³⁸ See *id.* at XXII.

¹³⁹ See *id.* at XXXII.

D. *The Hearing*

The NAD and the NARB do not have rigid procedural rules. The NAD investigation is informal and is not intended to be antagonistic or adversarial. The NAD proceedings are conducted in complete confidence, and the NAD obtains assurances from the parties that any information used in the inquiry will only be provided to persons directly involved in the proceeding. Any information that the complainant desires the NAD to consider must also be submitted to the advertiser. The advertiser can request that nonpublic information given to the NAD not be made available to the complainant.¹⁴⁰ An NARB panel hearing consists of a presentation by the NAD followed by remarks by the advertiser and challenger. Subject to prior approval by the NAD, the panel will accommodate any party that has requested an opportunity to appear and offer testimony. All parties must answer questions posed by panel members.¹⁴¹

NPB procedures will be much more adversarial. Each party must be represented by an attorney who submits a formal brief summarizing arguments to be made at the hearing.¹⁴² There is limited discovery, and the alleged infringer is required to give the patentee product samples.¹⁴³ If one party intends to rely on documents at the hearing, it must submit all relevant data and supporting documents to the other party.¹⁴⁴

The hearing itself will be held at NPB headquarters. Prior to the commencement of the hearing, the panel will identify key issues still in question and will state its inclination as to how it would rule based on the briefs.¹⁴⁵ Each party will open with a formal statement.¹⁴⁶ The scope of the arguments will be limited to materials in the briefs, although the panel may consider arguments made in other forums such as in the PTO and in a judicial hearing.¹⁴⁷ The party with the burden of proof on an issue will

¹⁴⁰ See Zanot, *supra* note 89, at 13–16.

¹⁴¹ See Better Business Bureau, *The National Advertising Review Board* (visited Nov. 10, 1997) <<http://www.bbb.org/advertising/narb.html>>.

¹⁴² See Appendix *infra* at XLV.

¹⁴³ See *id.* at XXXVII.

¹⁴⁴ See *id.* at XXXVIII.

¹⁴⁵ See *id.* at XVIII.

¹⁴⁶ See *id.* at XLI.

¹⁴⁷ See *id.*

have the first and last opportunity to address that issue.¹⁴⁸ No witness testimony will be allowed, but demonstrative evidence can be used.¹⁴⁹ The panel will question the parties, and no *ex parte* communication will be allowed.¹⁵⁰ The patentee will be required to establish infringement by a preponderance of the evidence.¹⁵¹

E. *Written Opinions*

Both the NAD and the NARB issue written opinions. NAD reports contain the parties involved, the basis of the inquiry, the issues involved, the facts and data presented and the conclusions reached. NARB decisions are similar and may also include concurring and dissenting opinions. NAD findings are supposed to be limited to the truth and accuracy of a particular ad, and decisions should be consistent with the BBB Code of Advertising¹⁵² and the Children Advertising Review Unit's Self Regulatory Guidelines for Children's Advertising. NAD opinions are published ten times a year in NAD case reports.¹⁵³

The NPB will also issue written opinions.¹⁵⁴ The opinions will designate the prevailing party, describe how the panel construed the claim and material legal and factual bases for the decision, and, when necessary, will include a dissenting opinion.¹⁵⁵ The NPB panel will be required to base its decisions on current federal patent law.¹⁵⁶ The panel may take into account prior art and will be permitted to adopt a view different from that presented by either party. The NPB panel may not make a finding of willfulness or suggest information regarding non-infringing alternatives or design arounds.¹⁵⁷

¹⁴⁸ *See id.* at XXXV.

¹⁴⁹ *See id.* at XLI.

¹⁵⁰ *See id.* at XLVI.

¹⁵¹ *See id.* at XXXV.

¹⁵² *See* Better Business Bureau, *BBB Code of Advertising* (visited Nov. 8, 1997) <<http://www.bbb.org/advertising/adcode.html.1>>.

¹⁵³ *See* Zanot, *supra* note 89, at 13-16.

¹⁵⁴ *See* Appendix *infra* at XXVI.

¹⁵⁵ *See id.*

¹⁵⁶ *See id.* at XVII.

¹⁵⁷ *See id.* at XXI, XXVIII.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

The NAD and NPB opinions will differ significantly in their content. The NAD report is essentially a finding of fact. The panel assesses whether ad claims can be substantiated given the evidence provided by the parties. Although the panel relies on formal guidelines, little formal legal precedent guides its decisions. The NPB, conversely, in addition to fact-finding on infringement claims, makes decisions as a matter of law. NAD opinions have been criticized for being too vague, and commentators have had a difficult time defining the issue at hand in decisions, much less the basis for the panel's finding.¹⁵⁸ NPB opinions may escape some of this criticism because of their expected reliance on legal precedent.

F. *Effect of Decisions*

Ten days after publication of an NAD decision, a complainant, an advertiser or the NAD may request that the NARB review a case. After the NAD has responded to the appealing party's request and prepared a case record, the appealing party has ten days to submit a letter to the NARB. If the NAD does not receive a satisfactory response from an advertiser, either changing or withdrawing an offending ad, the NAD may report the advertiser to the appropriate regulatory agency (usually the FTC).

As mentioned above, there will be no appeals taken from NPB decisions.¹⁵⁹ If a decision is in favor of an alleged infringer, a patentee will have thirty days to accept the finding and waive any infringement claim.¹⁶⁰ If the patentee reserves the right to sue despite the panel's finding, it will be required to pay the NPB fees incurred by the alleged infringer.¹⁶¹ If there is litigation in which the patentee does not improve its position, the patentee will also be required to pay the legal fees incurred by the alleged infringer.¹⁶² If the panel's decision is in favor of the patentee, the alleged infringer may accept the decision and drop production, use or sale of the infringing product, or exercise its right to sue.¹⁶³ In the latter case, the alleged infringer will risk having to pay the panel fees of the patentee or its

¹⁵⁸ See Best, *supra* note 134, at 6-7.

¹⁵⁹ See Appendix *infra* at XXXIII.

¹⁶⁰ See *id.* at XXXI.

¹⁶¹ See *id.*

¹⁶² See *id.*

¹⁶³ See *id.*

legal fees if the court does not reach findings materially different from those of the panel.¹⁶⁴

The NAD relies largely on public sentiment to ensure compliance with its decisions. Virtually all ads brought before the Division are substantiated, modified or withdrawn. Appeals are infrequent.¹⁶⁵ The NAD finds that the public exposure surrounding the outcome of its review process is sufficient to coerce most advertisers to take action to remedy any substantiation difficulties. The Division rarely has to refer measures to the FTC. However, it is questionable whether the weight of public pressure will produce similar compliance with NPB decisions. The general public shows little concern for patent disputes.¹⁶⁶ The legal community is likely to have a somewhat cynical view of NPB findings knowing that parties can always resort to litigation regardless of the panel's decision. The award of attorney's fees is the only penalty that may play some significant role in convincing a party to abide by the NPB's decision. However, the fee-shifting likely will not deter parties from filing suit and likely will only be a motivation for settlement negotiations should litigation become protracted or have an uncertain outcome.

VI. OVERALL CONCLUSIONS REGARDING THE PROPOSED NATIONAL PATENT BOARD

The proponents of the NPB have similar ideas to those of the founders of the NAD and the NARB—they seek a speedy, less costly, more efficient alternative to traditional litigation and ADR. To this end, the NAD and the NARB have largely been successful. The organizations have clearly-

¹⁶⁴ *See id.*

¹⁶⁵ *See Best, supra* note 134, at 13.

¹⁶⁶ One scholar has conducted a light-hearted history of the portrayal of lawyers in media and found:

As an accurate picture of lawyers and their day-to-day existence, [television dramas in the 1960s] fell short. Needless to say, legal work is hardly as heroic, as exciting, or even as helpful to society as these dramas portrayed. I would like to see such a lawyer "in more natural circumstances," one critic complained at the time. "How would he do at a title search, or at a long-drawn-out closing? Has he ever had any experience in patent law?"

Steven D. Stark, *Perry Mason Meets Sonny Crockett: The History of Lawyers and the Police as Television Heroes*, 42 U. MIAMI L. REV. 229, 255-256 (1987).

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

defined organizational structures that quickly react to complaints and industry concerns. Although large organizations dominate the membership and panels of the NAD and the NARB, the general public is nevertheless given a significant voice in the running of the two bodies. NAD findings have been criticized for being too vague and generally pro-business, but advertisers have, for the most part, complied with its decisions. The NPB likely will achieve similar success to that of the NAD and the NARB in regard to its general reaction time to disputes and likely will exceed the performances of those bodies in regard to the clarity of its decisions.

However, because of the nature of patent disputes, the NPB will face several unique problems. First, there is some uncertainty as to the accessibility or relevancy of the NPB to those outside the corporate realm. Because the NPB membership will not include the general public, and because patent holders form a small, select group of individuals, the NPB will not enjoy the broad recognition and attention focused on the NAD. Founding corporations will be the only parties at early proceedings. The makeup of the NPB and its target audience may change over time, but it is difficult to foresee the shape these changes will take.

The NPB can make itself more accessible to non-members and individual patent holders by making sure that large corporations do not dominate the organization. The NPB should consider imitating the NARB by admitting members of the general public. The board should find alternate forms of funding so that it is not overly dependent on the support of its founders. Finally, the NPB could hire its own staff of patent attorneys instead of relying on its members for staff.

Second, although confidentiality is an important issue in NAD proceedings, it will be critical in disputes before the NPB. The NAD is concerned with privacy primarily to protect the image of advertisers. There is no confidentiality concern with the subject matter of NAD disputes, as advertising is by definition already in the public domain. However, the voluntary participation of corporate advertisers depends on some measure of protection from frivolous claims, and an assurance that substantiation disputes, while brought to the public's attention, will not become a spectacle.

While these concerns also apply to claims that will be brought before the NPB, patent holders are more concerned with preserving trade secrets and not prejudicing their position should a dispute go to trial. Manufacturers do not wish to divulge sensitive information, especially early in the design process of a product. Furthermore, patent disputes have

traditionally involved much more protracted litigation than advertising claims.

The NPB faces a difficult task in providing dispute resolution while avoiding becoming a conduit for the disclosure of otherwise non-discoverable information subsequent to traditional judicial proceedings. The success and credibility of the NPB as a dispute resolution mechanism requires that it publish detailed reports of its findings in order to establish precedent and to explicate its reasoning. To that end, participants should provide enough information for credible findings to be made. However, the organization must guard against parties becoming overly concerned that information provided to the Board later will be misused. The NPB probably would want to err on the side of not publishing or not requiring the disclosure of too much information in order to encourage open participation by all parties in its proceedings. The NPB also should institute strong sanctions against parties determined to be using proprietary information divulged at an NPB hearing for wrongful purposes.

Lastly, no one can predict what impact the Patent Reform Act will have on intellectual property disputes. The Act may stave off litigation by informing parties at a much earlier stage of potential patent infringements. However, the Act also may promote litigation by encouraging parties to wage patent warfare before a patent has even been granted. The proponents of the NPB should monitor the effects of the Reform Act closely and be willing to modify the structure of the organization to meet industry needs.

APPENDIX
NATIONAL PATENT BOARD (NPB)
A PRIVATE PATENT COURT

The following outlines issues involved in creating a new forum for resolving patent disputes, a recommended solution for most issues and the rationale for each recommendation. NPB's goals are:

(1) Quality: decisions perceived as equal or superior to ADR/court; process perceived as fair and predictable

(2) Speed: quicker than ADR/court; provide time to avoid infringement and make meaningful decisions about product design yet avoid undue delay if the need arises to go to court

(3) Cost: less expensive than ADR/court

(4) Participation: high usage; become primary forum for patent matters; free up courts for patent cases that need to be tried

(5) Compliance: respect for decisions reflected by infrequent post-NPB litigation

I. CREATION OF AN INDEPENDENT BODY

RECOMMENDATION: A new entity should be created called the National Patent Board (NPB).

RATIONALE: Creating a new entity provides independence from any individual industry, trade association or corporate member. NPB must not only be recognized as a just and authoritative entity, but also must be distinguished from existing ADR.

II. NPB MEMBERSHIP

RECOMMENDATION: NPB membership should be open to patent owners.

OPEN QUESTION: Whether non-patent owners with sufficient nexus (*e.g.*, law firms and insurers which issue policies under which they may be obligated to defend and/or indemnify a party) should be permitted to join.

III. MANAGING AUTHORITY

RECOMMENDATION: There should be an NPB Board of Directors elected by NPB members. The Board would: establish overall policy, by-laws and procedural rules for hearings; select and supervise NPB's administrative management; perform regular peer review on panelists; form

standing committees on membership, funding, hearing procedures and panelist review.

RATIONALE: NPB members should take an active role in NPB's management to ensure that it meets its goals. The Board should be democratically elected to ensure that it is not dominated by any member or group and assure that NPB is responsive to member needs.

IV. ADMINISTRATIVE MANAGEMENT

RECOMMENDATION: Day-to-day management of NPB should be handled by a full-time Executive Director supported by a small staff to handle administrative details such as scheduling hearings, etc.

RATIONALE: NPB members are more valuable serving on the Board (and possibly on hearing panels) than attending to administrative details which are better handled by professional management.

V. SPONSORING ORGANIZATION

OPEN QUESTION: Whether NPB should be affiliated with an existing, reputable organization (e.g., CPR Institute for Dispute Resolution). Prospective NPB members are existing members of such organizations. Affiliating with such an organization may enable NPB to be formed more quickly, have broader membership and draw upon the collective experience of that organization.

VI. HEARING PANELS

RECOMMENDATION: Each hearing panel should be made up of three patent attorneys. Only high quality, experienced patent attorneys should be selected for NPB panels. It is not a prerequisite that a panelist be trained in the technology at issue, but it is preferable that at least one panelist have experience in administrative hearings. There should be strict conflict of interest rules, and panelists should be prohibited from conducting any independent investigation of a matter.

RATIONALE: It is superior to have multiple panelists so they can discuss issues in reaching a decision. Parties are more likely to accept a 3-0 decision rather than one person's view. Conflict of interest rules are necessary to ensure NPB's integrity. Prohibiting panelists from conducting independent research or investigation will ensure that matters are decided based upon the briefs and the hearing. While panelists may be trained in the discipline at issue, it is not necessary in order to obtain an informed

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

determination of patent issues, and NPB panels would have superior patent experience to non-NPB forums.

OPEN QUESTION: Whether all panelists should be full time NPB employees or whether some should be drawn on an ad hoc basis from outside counsel and the patent staffs of NPB members. [If NPB members provide panelists, they must meet the established qualifications to serve on panels. The number of panelists that a member is required to supply annually should be limited and be determined by the size of the member's patent staff. Panelists employed by NPB members should not be compensated for their time but should have all expenses reimbursed by NPB (with those amounts becoming hearing costs). If a member does not have a patent staff, it should pay higher dues to compensate for the need to use the staff of other members or non-NPB attorneys. If NPB members fulfill their annual obligation to supply panelists and additional hearings arise for which panelists are needed, NPB members may either voluntarily provide personnel or allow panels to be made up of additional full time employees or outside counsel. Having NPB panelists will ensure that NPB members take matters seriously and that decisions reflect "real world" considerations.]

VII. FUNDING

RECOMMENDATION: NPB should be funded by annual member dues to be determined by the Board. There should also be "user fees" to cover costs associated with hearings. If founding NPB members made capital contributions to finance the formation of NPB, the Board should repay those contributions over time. Each party should pay its own fees and costs (absent a subsequent fee/cost shift).

RATIONALE: Fixed operating costs (salaries and office overhead) should be paid out of annual dues. Variable costs should be paid with user fees. NPB is not intended to be a profit-making organization, and dues/fees should be set to minimize assessments. Repaying capital contributions of founding NPB members assures that all members are on equal footing.

VIII. PRIVATE v. PUBLIC PROCEEDINGS

RECOMMENDATION: NPB proceedings should be private. Neither non-party NPB members nor the public should be permitted to attend hearings or have access to materials used in the proceedings.

RATIONALE: This is a private, voluntary system. There is no constitutional obligation to open proceedings to the public. Confidential and

trade secret information will be disclosed during proceedings. Disclosing such information to the public and non-party NPB members may do competitive damage to the parties and may discourage use of NPB.

IX. BINDING NATURE OF PROCEEDINGS

RECOMMENDATION: NPB decisions should be non-binding (although parties should have the option to make the decision binding).

RATIONALE: NPB proceedings do not provide full, traditional procedural protections to which parties are accustomed in litigation, so they may perceive binding proceedings as unfair. The goal and expectation, though, is that the vast majority of decisions will be respected.

X. INITIATION OF PROCEEDINGS

RECOMMENDATION and RATIONALE: The initiating party is never obligated to use NPB instead of litigation; it always retains the right to go to court, including seeking a TRO and/or preliminary injunction. Because NPB may not be suitable for all patent disputes, the initiating party should retain the right to go to court or use ADR.

NPB should not be permitted to initiate proceedings on its own. NPB's purpose is to resolve disputes. It is reactive, not proactive. It is not charged with responsibility for independently uncovering or investigating possible instances of patent infringement.

OPEN QUESTION: Whether non-NPB members should be permitted to participate in NPB proceedings (whether as an initiating or responding party).

XI. AVOIDING THE NPB PROCESS

RECOMMENDATION: A respondent-infringer or patentee may avoid a hearing if it agrees that there is no issue.

RATIONALE: If the parties agree that there is no issue, there is no reason to have an NPB hearing.

XII. WAIVER OF HEARING

RECOMMENDATION: If all parties agree, a panel may decide a matter upon written submissions and without a hearing.

RATIONALE: If the parties agree that a hearing is unnecessary and that they want their dispute resolved written submissions (whether for reasons of cost or otherwise), NPB should permit this.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

XIII. USE OF NPB PROCESS

OPEN QUESTION: Whether an NPB member is required to participate and complete the proceeding before initiating litigation.

XIV. ENFORCEMENT OF NPB RULES

RECOMMENDATION: All NPB participants must agree in advance to be bound by NPB rules.

RATIONALE: While the results of NPB proceedings are non-binding, certain undertakings in NPB proceedings require binding commitments such as protecting the confidentiality of information, adherence to timetables, etc.

XV. RIPENESS DETERMINATIONS

RECOMMENDATION: There should be a ripeness determination procedure. Only those issues deemed to be ripe should be heard by NPB. The standard for initiating an NPB proceeding should be lower than for a declaratory judgment, *i.e.*, there need not be a “case or controversy” or an allegation of infringement. However, a party may not seek an advisory opinion from NPB. The standard to be developed should balance the competing interests of preventing litigation through early hearings and diminishing patent protection with advisory opinions. The standard should not be based on the likelihood of infringement, but whether a bona fide issue exists based upon the status of the prospective infringer’s product developmental process and its demonstrated commitment to that process.

In order to initiate a ripeness proceeding, the initiating party should be required to represent to NPB’s Executive Director that it believes there may be a bona fide issue with respect to an identified U.S. patent, that it is acting on its own behalf and that it provide evidence that it is planning to make, have made, use or sell the product. The ripeness determination should be conducted *ex parte* by the Executive Director and is not appealable. If the Executive Director determines that no bona fide issue exists, the patentee should not be advised of this determination. If the Executive Director determines that a bona fide issue does exist, that determination and the identity of the initiating party should be promptly reported to the patentee. The patentee should then have 30 days to initiate an NPB proceeding or agree that there is no issue of infringement regarding that embodiment.

RATIONALE: It is difficult to halt or modify product plans after a party invests substantial time and money. The key is to address the issue

before significant time and money is invested so that any change can be readily made. The Executive Director is responsible for screening out hypothetical or non-ripe cases. Most importantly, the current lack of such a mechanism short of declaratory judgment causes lawsuits that NPB can prevent. A party that is confident it does not infringe does not need such a proceeding, but this provides a safety net/reality check for other parties before they pass the point where product modifications can easily and inexpensively be made.

XVI. DAMAGES

OPEN QUESTION: Whether hearings should consider issues of damages or only if both parties stipulate.

XVII. APPLICABLE LAW

RECOMMENDATION: NPB panels must apply statutory and substantive law as interpreted by the United States Supreme Court and the Court of Appeals for the Federal Circuit. Panels may rely upon decisions from Federal District Courts.

RATIONALE: Allowing NPB to create substantive patent law would only inject unpredictability, just the opposite of the goal. Supreme Court and CAFC decisions establish binding legal principles. Decisions of lower courts are not binding, so the weight they are accorded should remain within the discretion of the panel.

XVIII. ISSUE DEFINITION

RECOMMENDATION: The initiating party should identify the patent claims that it believes are at issue. If a respondent-patentee believes that the product infringes additional patent claims and/or additional patents, it should promptly add them to the hearing. If the parties agree that it will take additional time to address such issues, they may stipulate to extend the hearing. If the parties are unable to agree, it should be within the discretion of the Executive Director to extend the hearing.

RATIONALE: NPB's goal is to bring clarity at an early stage, so it should resolve all patent issues surrounding a product.

XIX. MULTIPLE EMBODIMENTS

RECOMMENDATION and RATIONALE: If multiple embodiments present bona fide infringement issues, they should all be considered at one hearing.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

If participation in NPB proceedings is mandatory and a party later makes another embodiment which presents a bona fide infringement issue with respect to the same patent, it may not initiate another NPB proceeding regarding that product for at least 30 days after the decision in the first hearing. NPB's goal is to resolve issues while preserving the status quo regarding litigation options available to the parties. It is important to prevent abuse of NPB (especially if members are required to forego litigation during the pendency of NPB proceedings). This avoids having a patentee involuntarily drawn into sequential NPB hearings on a stream of products and being precluded from going to court (“well, if that infringed [did not infringe] how about this?”). The patentee should have the option of engaging in subsequent NPB proceedings or pursuing litigation.

XX. INFRINGEMENT ISSUES

RECOMMENDATION: The panel should decide issues of literal infringement and infringement under the doctrine of equivalents.

RATIONALE: Infringement issues are well suited for summary adjudication without extensive discovery.

XXI. WILLFULNESS ISSUES

RECOMMENDATION: The panel should not decide whether any infringement was willful.

RATIONALE: Willfulness issues require an investigation into counsel's opinions and their competence which is tangential to NPB's purpose.

XXII. CLAIM CONSTRUCTION ISSUES

RECOMMENDATION: The panel should decide claim construction issues.

RATIONALE: An essential element of infringement is claim construction; and indeed claim construction often resolves many infringement questions. Under *Markman v. Westview Instruments, Inc.*, 116 S. Ct. 1384 (1996), claim construction is to be decided by the court as a matter of law, so it is well suited for such proceedings.

The claim construction process may lead the panel to examine the prior art in determining the scope of presumptively valid claims, examine issues of prosecution history estoppel and address a “practicing the prior art” non-infringement defense.

XXIII. VALIDITY ISSUES

OPEN QUESTION: Whether panels should decide validity issues or only if all parties stipulate. If validity is considered, NPB must address concerns that hearings may put the patent at risk.

XXIV. ENFORCEABILITY ISSUES

RECOMMENDATION: The panel should not decide enforceability issues unless all parties stipulate.

RATIONALE: Enforceability issues normally require discovery to explore materiality and intent, so such issues are better suited for the courts or ADR. It may put the patent at risk which the patentee may be reluctant to do. It is better to forego enforceability determinations and secure higher participation than to include enforceability determinations, crowd a short hearing with additional issues and risk the opportunity to resolve meaningful infringement and claim construction issues.

XXV. COUNTERCLAIMS

RECOMMENDATION: There should be no counterclaims.

RATIONALE: If a party has a patent infringement counterclaim unrelated to the product at issue, it can initiate a separate NPB proceeding. Non-patent counterclaims are too far afield.

XXVI. WRITTEN OPINIONS

RECOMMENDATION: There should be a written opinion identifying: (1) the prevailing party; (2) the claim construction; and (3) all material legal and factual bases for the decision.

RATIONALE: For NPB to be successful, its decisions must be respected. "Up or down" decisions do not accomplish that nor do they give the parties guidance for avoiding future disputes which is an essential benefit of NPB.

XXVII. DISSENTING OPINIONS

RECOMMENDATION: There may be dissenting opinions.

RATIONALE: NPB proceedings are intended to provide the parties with guidance concerning their dispute. There is no reason to deprive the parties of a different, minority point of view.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

XXVIII. ADVISORY OPINIONS

RECOMMENDATION: No panelist or opinion should suggest non-infringing alternatives or design-around options.

RATIONALE: NPB's purpose is not to provide consulting services but rather to be an adjudicative body. A party should use its own resources to investigate non-infringing designs.

XXIX. DISSEMINATION OF OPINIONS

OPEN QUESTION: Whether opinions should be distributed to parties, to NPB members or to the public.

XXX. EFFECT ON SUBSEQUENT LITIGATION

RECOMMENDATION: Neither the initiation of an NPB proceeding nor any statement made in an NPB proceeding should form the basis for or be relied upon regarding initiation of a declaratory judgment action. Similarly, NPB proceedings should not be interpreted as constituting delay or lack of irreparability in any TRO or preliminary injunction proceeding, nor should an NPB opinion be evidence of willfulness.

RATIONALE: NPB must not distort traditional legal remedies. If NPB proceedings could be used to justify declaratory judgment actions or to defeat injunctive relief, it would distort the existing legal system and discourage participation in NPB proceedings.

XXXI. POST-NPB PROCEEDINGS

RECOMMENDATION: If the patentee loses an NPB hearing, it should have 30 days within which to affirmatively state whether it: (a) accepts the decision and waives any infringement claim regarding that embodiment; or (b) reserves its right to sue regarding that embodiment, in which case it must pay the NPB costs (including the user fee) incurred by the alleged infringer. If there is subsequent litigation in which the patentee does not improve its position, the patentee must also pay the legal fees incurred by the alleged infringer in the NPB proceeding (subject only to the discretion of the Executive Director to reduce the fees if they are deemed excessive).

If the accused infringer loses an NPB hearing and proceeds to make, have made, use or sell that embodiment, it must pay the costs (including the user fee) incurred by the patentee. If there is subsequent litigation in which the alleged infringer does not improve its position, it must also pay the legal fees incurred by the patentee in the NPB proceeding (subject only to

the discretion of the Executive Director to reduce the fees if they are deemed excessive).

RATIONALE: Parties to NPB proceedings should be given an opportunity to decide whether to abide by the decision. There should also be an incentive to abide by the decision. Requiring the loser to automatically pay costs and/or fees would discourage participation. Similarly, requiring payment of future litigation costs and/or fees would give a party incentive to "run up the bill." This a balance between encouraging participation and abiding by decisions.

XXXII. MULTI-PARTY PROCEEDINGS

RECOMMENDATION: Multi-party proceedings should be permitted. Once a proceeding is deemed ripe, all NPB members should be notified and those with a bona fide basis for participating should be given the opportunity to do so. If an NPB member declines to participate, it will be bound by the claim construction in future NPB proceedings. Findings regarding infringement will be of persuasive authority in any later NPB proceeding. Multiple parties are to share time on a per side basis. In the event that the losing party chooses not to abide by the NPB decision, it should only be responsible for the costs and fees of the original party, not the additional parties.

RATIONALE: There is no reason to have multiple proceedings when one can suffice. Multiple proceedings are contrary to efficient adjudication and business certainty.

XXXIII. APPELLATE RIGHTS

RECOMMENDATION: There should be no appeals. If parties are not motivated to reach resolution in a non-binding proceeding, an appellate procedure is not likely to resolve the dispute. If a party feels strongly enough about its position to appeal, it should go to court.

OPEN QUESTION: Whether a limited request for reconsideration (on grounds such as new CAFC law) should be permitted.

XXXIV. ENFORCEMENT MECHANISMS

OPEN QUESTION: Whether NPB should include the following additional enforcement mechanisms: NPB should publish a report concerning compliance with NPB decisions; NPB rules should require parties to stipulate that: (a) they will not seek to discover or admit into evidence in any subsequent court or ADR proceeding any of the briefs,

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

submissions or other statements made during NPB proceedings; and (b) the written opinion of the NPB panel is admissible in a subsequent court proceeding and that no party will object or otherwise attempt to preclude the admission of the opinion.

XXXV. BURDEN OF PROOF

RECOMMENDATION: The burden of proof in NPB proceedings should be in accord with decisions of the Supreme Court and the Federal Circuit.

Ripeness: A party seeking to initiate a proceeding bears the burden of proving that an issue is ripe for NPB determination.

Infringement: The patentee bears the burden of proving patent infringement by a preponderance of the evidence.

Claim Construction: Each party presents its claim construction. The panel may adopt a claim construction that differs from that urged by any party.

Validity: The alleged infringer bears the burden of proof of invalidity by clear and convincing evidence.

Enforceability: The alleged infringer bears the burden of proof of unenforceability by clear and convincing evidence.

RATIONALE: NPB's effectiveness depends upon its ability to supplant litigation and/or ADR, so its rules should mirror such forums.

XXXVI. DISCOVERY

OPEN QUESTION: Whether there should be discovery and, if so, how much.

XXXVII. PRODUCT SAMPLES/PROCESS DEMONSTRATIONS

RECOMMENDATION: The alleged infringer should be required to give the patentee product samples (or a process demonstration in the event of a process claim) sufficient for the patentee to present proof of infringement and make tests.

RATIONALE: In order to determine if infringement exists, it is often necessary to examine and test the accused product or process. As a result, it will be necessary for the alleged infringer to supply product samples (or process demonstrations) early in the proceedings. It can also be very useful to the panel to examine the accused product.

XXXVIII. EXCHANGE OF INFORMATION

RECOMMENDATION: If a party intends to rely upon data or documentary materials, it should submit them to the other party ___ days prior to its initial brief. A party submitting data and/or documents should be under a duty of good faith to turn over all relevant data and documents on that issue rather than just selected data and documents which support its position.

RATIONALE: Parties cannot be permitted to play “hide the ball” on key issues on which they present proof.

XXXIX. CONFIDENTIAL INFORMATION

RECOMMENDATION: NPB rules should contain a confidentiality provision applicable to the parties, the panel and all NPB personnel. It should provide for the return or destruction of all confidential information at a specified time at the conclusion of a proceeding. Violation of the confidentiality agreement should be sanctionable by NPB.

RATIONALE: In order to encourage parties to participate it will be necessary to protect their confidential information.

XL. PROCEDURAL RULES

RECOMMENDATION: There should be written rules of procedure for NPB hearings.

RATIONALE: NPB is intended to provide predictability so the rules should eliminate procedural uncertainty.

XLI. HEARINGS

RECOMMENDATION: There should be no witness testimony at the hearing. All parties and their representatives should be permitted to be present at all portions of the proceedings. The hearing should generally be concluded in one day. The party with the burden of proof on a particular issue should open and close with respect to that issue.

___ days prior to the hearing, the panel should identify any issues of concern to it and should indicate any inclinations on the issues. Panels may also advise the parties if there are any matters on which the panel seeks substantiation. If the panel seeks substantiation, the parties should submit it no later than ___ days in advance of the hearing.

Attorney’s arguments must be based upon matters contained in the briefs, data or documents previously submitted. Attorneys may make arguments based upon representations, although the panel may give them

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

lesser weight within their discretion. The parties may use demonstrative evidence submitted to the other party ___ days in advance of the hearing. The panel can consider arguments made to the PTO and EPO and other forums about claims in issue.

RATIONALE: There is no need for live witness testimony. If issues hinge on the credibility of witnesses, it is more likely that litigation will be required. In order to focus the hearing and show that the panel is prepared, it should advise the parties of the matters it considers significant so that the parties can know in advance how to frame their arguments.

XLII. RECORD OF PROCEEDINGS

RECOMMENDATION: There should be no transcription or other record made of the proceedings.

RATIONALE: A record is needed only when there may be subsequent proceedings that require knowledge of what happened. There will be no appeal from NPB decisions, and the statements made during the proceedings are not admissible in court or ADR. Creation of a record also adds an unnecessary air of formality.

XLIII. TIMETABLE FOR PROCEEDINGS

RECOMMENDATION: There should be a defined, expeditious, realistic timetable for the proceedings.

RATIONALE: NPB should target for resolution in 90-120 days (recognizing that proceedings cannot realistically be completed in under 2 months and 6 months fails to meet the goal of obtaining a ruling before a party commits significant capital resources).

XLIV. BRIEFS

RECOMMENDATION: There should be specific limitations on the number, length and sequence of briefs.

RATIONALE: Briefs should have ample room to address the issues and have the parties believe that they have appropriately advised the panel of their position. Opening briefs of 50 pages, opposition briefs of 50 pages and reply briefs of 25 pages should be satisfactory.

XLV. PERSONS AUTHORIZED TO PRACTICE

RECOMMENDATION: Parties should be represented at proceedings by attorneys.

RATIONALE: NPB hearings are intended to mirror results obtained in court or ADR, so attorneys should represent the parties.

XLVI. EX PARTE COMMUNICATIONS

RECOMMENDATION: There should be no ex parte communications with NPB personnel or any panelist.

RATIONALE: Ex parte communications would deprive NPB of the integrity necessary to have parties abide by its decisions.

XLVII. ROLE OF PANEL

RECOMMENDATION: The panel should be encouraged to ask questions during the hearing. Questions may be answered by a party's representative in attendance at the hearing.

RATIONALE: Questions from the panel will focus the hearing on the decisive issues and allow the parties to fully have their "day in court" on those issues. To the extent that attorneys may not know the answer to questions or believe that the answer can be better stated by a party representative, it should be permitted.

XLVIII. LOCATION FOR HEARINGS

OPEN QUESTION: Whether NPB should establish "institutional" style headquarters or have more modest quarters (perhaps traveling to a location selected by the parties).

XLIX. TECHNICAL EXPERTISE

RECOMMENDATION: All panelists must be admitted to practice before the United States Patent and Trademark Office and meet minimum qualifications established by the Board. The Board should review the qualifications and performance of all panelists annually, and no person should be permitted to serve without an affirmative vote of the Board by a two-thirds majority. Panels should not retain independent experts to advise them.

RATIONALE: Quality panelists and decisions are the key to NPB's success. A system of "merit selection" should be used to ensure that quality remains high.

ANALYSIS OF PROPOSED NATIONAL PATENT BOARD

L. FILE HISTORY

RECOMMENDATION: The entire U.S. file history should be provided to the panel by the initiating party. The panel may consider any related foreign filings. A party can rely upon anything in the public record.

RATIONALE: The panel is responsible for claim interpretation and should have this information available in order to reach an informed decision.

LI. SANCTIONS

RECOMMENDATION: NPB rules should provide for sanctions including fines, increased user fees for future matters and expulsion from NPB. Sanctions may be imposed for violation of confidentiality provisions, for making material misrepresentations or for engaging in sham proceedings (initiating “friendly” proceedings in order to establish a broad claim construction or to have NPB establish the validity of claims). Sanctions may only be imposed by the Board upon a recommendation from the panel for matters raised prior to the opinion or the Executive Director for matters raised after the opinion is issued.

RATIONALE: Panel opinions should reflect all material legal and factual issues so that if a party later alleges that a misrepresentation was made, materiality for purposes of possible sanctions can be determined from the face of the opinion. While it is important to avoid encouraging a Rule 11 type practice, it is equally important to prevent parties from abusing the informality of NPB proceedings.

LII. ANTITRUST ISSUES

RECOMMENDATION and RATIONALE: There is nothing in NPB rules or proceedings that should raise antitrust issues.

LIII. PATENT AND TRADEMARK OFFICE

RECOMMENDATION and RATIONALE: NPB proceedings do not obligate the parties to notify the PTO under either 35 U.S.C. § 294(d) or 37 C.F.R. § 1.565(a).

LIV. LEGISLATIVE HISTORY

RECOMMENDATION: NPB founders should prepare “legislative history” concerning its rules and procedures.

RATIONALE: It is inevitable that questions will arise concerning the interpretation and implementation of different NPB provisions. Having “legislative history” will be useful to the Board in resolving such questions.

LV. LENGTH OF TIME TO BECOME OPERATIONAL

RECOMMENDATION: NPB should become operational by July 1, 1998.

RATIONALE: It will likely take one year to build national support for NPB and an additional year to construct the organizational framework and put the appropriate mechanics in place.