

Mediation and Settlement of Patent Disputes in the Shadow of the Public Interest

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I. INTRODUCTION

This Article explores the question of whether or not the public's interest in patent validity is sufficient to warrant mandatory judicial scrutiny or public disclosure of infringement suit settlements coming out of court-sponsored mediations.

The public's interest in the validity of patents stems from the status of patents in the United States as limited monopolies granting a set of exclusive rights to patent owners.¹ This grant of exclusive rights provides some incentive to inventors and their backers to invest in research and development. This incentive comes from the protection given inventions that means investors and their backers are better assured of a possible return on their investment. This grant of exclusive rights is justified because it is made in exchange for the valid, full disclosure of an invention. Such disclosure furthers the development of technology because it obviates the need to reinvent the wheel: the information gained by other persons working in related areas enables them to develop improvements to the patented technology or to develop other inventions on the basis of the information disclosed in the patent. The combination of the added investment incentive given to inventors and the information gained by other persons working in related areas leads to significant benefits for the public in the form of new technological developments.

Where a patent is invalid, the public runs the risk that it will grant exclusive rights without receiving the benefits that justify the grant of those exclusive rights. As is discussed in Part II below, some issued patents turn out to be invalid for a variety of reasons. Such invalidity may not be obvious from the face of the patent, and absent the disclosures that come out of the discovery process in federal court litigation, the invalidity may

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¹ See *infra* Part II.

never be discovered. If cases involving invalid patents are removed from adjudication in a public forum by a court-sponsored mediation program, discovery may be cut off, and the chances that the invalidity of the patent at issue will remain undiscovered will increase.

At the point at which a patent owner seeks to employ the power of the courts to enforce the patent, there is arguably no longer an absolute right to keep private those matters relating to the settlement of the dispute. There is precedent for a public interest limitation to the ability of private parties to settle their disputes out of the public view. The United States Congress has responded to the public's interest in patent invalidity by requiring disclosure to the public of the settlements of patent cases under several circumstances. For interference cases in the United States Patent and Trademark Office (PTO), private settlements must be placed in the public file associated with the patent in the PTO.² Furthermore, before Congress acted in 1982 to allow arbitration of patent disputes, the courts had consistently held that arbitration of patent disputes was contrary to the public interest.³ When Congress acted to allow arbitrations of court cases and interferences, it included provisions to require public disclosure of the terms and reasons for the settlements that result.⁴

As the application of alternative dispute resolution (ADR) methods to patent disputes increases,⁵ and particularly as federal judges require increased use of mediation,⁶ the question of whether it is desirable to remove patent cases from public adjudication in the federal courts needs to

² See *infra* Part V.C.

³ See *infra* note 95 and accompanying text.

⁴ See *infra* notes 96-104 and accompanying text.

⁵ David Plant has observed that:

Since the 1978 TRW-Telecredit minitrial in [the patent] field, ADR has been tentatively explored here and skeptically utilized there, until perhaps the last half dozen years during which many forms of ADR have been enthusiastically explored and confidently utilized. The signs of the times suggest even wider and more creative applications of ADR. We should all be fully prepared.

David W. Plant, *ADR in IP Disputes*, in INTELLECTUAL PROPERTY LAW INSTITUTE: 1995, at 57, 79 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 416, 1995).

⁶ Elizabeth Plapinger and Donna Stienstra have observed that "[m]ediation has eclipsed arbitration as the primary ADR process in the federal district courts. Nearly half the 94 district courts now offer—and many permit judges to require—mediation." Elizabeth Plapinger & Donna Stienstra, *Federal Court ADR: A Practitioner's Update*, 14 ALTERNATIVES TO HIGH COSTS LITIG. 7, 7 (1996).

be addressed. While a fair number of commentators have examined and discussed the efficacy of ADR in general (and arbitration and mini-trials specifically) as they relate to patent disputes, much of this discussion is very general and serves primarily to introduce the concepts and definitions of the various available ADR methods.⁷ Very little has been published on the application of mediation processes to disputes over patents, and, in the ADR literature, even less has been published on mediation processes applied to patent infringement disputes.⁸

Requiring judicial scrutiny or public disclosure of settlements arising out of court-sponsored mediation programs would not be cost free. For example, scrutiny or disclosure could lead to a decrease in the incentives for the settlements that these programs are supposed to foster. If mediation and settlement of patent infringement suits is a desirable process, then the benefits flowing from scrutiny or disclosure of settlements would need to outweigh any loss of benefits flowing out of the mediation of these disputes.

Those who advocate mediation of patent infringement disputes advance the same reasons advanced by advocates of mediation for general types of suits.⁹ Patent infringement suits are believed by commentators and some judges to take up a disproportionate amount of judicial resources.¹⁰ If mediation can contribute to a lessening of federal court caseloads, then mediation of patent disputes can have a significant impact on those

⁷ See generally Tom Arnold, *Why ADR*, in PATENT LITIGATION 1996, at 245 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 457, 1996); Kevin R. Casey, *Alternate Dispute Resolution and Patent Law*, 3 FED. CIRCUIT B.J. 1 (1993); Eric D. Green, *Alternative Dispute Resolution in Patent and Antitrust Cases*, in PATENT ANTITRUST 1989, at 479 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 270, 1989).

⁸ See Margaret E. Anderson, *Intellectual Property Mediations: Special Techniques for a Special Field*, 3 TEX. INTELL. PROP. L.J. 23, 23 (1994).

⁹ See generally Arnold, *supra* note 7; *infra* note 35 and accompanying text.

¹⁰ See UNITED STATES DIST. COURT FOR THE N. DIST. OF TEX., CIVIL JUSTICE REFORM ACT ADVISORY COMMITTEE REPORT 49-50 (1992), available in 1992 WL 518800; UNITED STATES DIST. COURT FOR THE S. DIST. OF OHIO, CIVIL JUSTICE REFORM ACT REPORT: FIRST REPORT OF THE ADVISORY GROUP app. (1993), available in 1993 WL 524456; Joseph T. McLaughlin & Karen M. Crupi, *Alternative Dispute Resolution*, ALI-ABA COURSE STUDY, ARB., MEDIATION, & OTHER ADR METHODS, Nov. 18, 1993, at 49, 53; William K. Slate II, *Proceedings of the Middle Atlantic State-Federal Judicial Relationships Conference*, 162 F.R.D. 173, 222 (1995). See generally *Judicial Backlog*, 13 ALTERNATIVES TO HIGH COSTS LITIG. 129, 129 (1995) (discussing the numbers of backlogged cases in the federal courts).

caseloads. Furthermore, patent infringement disputes often arise between parties already in a contractual relationship—parties who would arguably be better off if they are able to maintain a continuing relationship. A chief advantage of mediated agreements is that they often allow parties to continue ongoing relationships.

Another reason advanced in favor of mediation of patent infringement suits is quick resolution of disputes so as to remove clouds on the title of patents created by lawsuits. The cloud created on titles of patents by litigation is said to come into place as soon as knowledge of a suit involving a patent becomes public,¹¹ and the value of the patent diminishes due to a cloud on the title. Clouds on the title of patents arguably have a great influence on the willingness of patent holders to settle and on the amounts of settlements and provide significant reasons to favor ADR processes.¹²

A final reason advanced by advocates of ADR for using mediation to solve patent infringement disputes is the tremendous cost savings over traditional litigation of patent infringement disputes. As is discussed below in Part III, mediation has the potential to save parties to a dispute a great deal of the cost associated with traditional lawsuits.

This Article will review the arguments in favor of and against public encouragement of mediation and private settlement of patent infringement disputes. The balance between these arguments may be viewed as a balance between the possible private gain of the parties and individual courts and the possible loss to the public of what commentators term “public goods” that come out of public adjudication by public authorities. These private and public gains will be explored both in relation to patent infringement disputes and in relation to the closely related issue of antitrust liability from settlement of patent disputes.

II. PATENT LAW BASICS¹³

The right of inventors to protect their inventions was contemplated by the framers of the United States Constitution. Article I of the United States Constitution empowers Congress to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the

¹¹ See Lisa Bernstein, *Understanding the Limits of Court-Connected ADR: A Critique of Federal Court-Annexed Arbitration Programs*, 141 U. PA. L. REV. 2169, 2204 n.129 (1993).

¹² See *id.* at 2201.

¹³ For a good general overview of patent law for the nonspecialist, see HERBERT F. SCHWARTZ, *PATENT LAW AND PRACTICE* 49–73 (2d ed. 1995).

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exclusive Right to their respective Writings and Discoveries.”¹⁴ Congress has exercised this power by establishing the PTO and by passing statutes relating to patent protection that, among other things, grant exclusive rights for twenty years from the date of application, to “[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.”¹⁵

To obtain a patent, an inventor must show that the invention complies with the requirements set out in the patent statutes. The invention must be of patentable subject matter,¹⁶ it must be useful,¹⁷ it must be novel,¹⁸ and it must be nonobvious.¹⁹ Additionally, the applicant for the patent must be the original inventor²⁰ and must file for the patent in a timely manner so as to avoid various statutory time bars involving other patents and publications.²¹ The application (the text of which matures into the patent itself) must adequately disclose the invention to enable others to practice it following expiration of the patent term,²² including a description of the best mode of practicing the invention as understood by the inventor at the time of filing the application.²³

The application also must describe the invention in such a manner as to distinctly claim the invention.²⁴ Failure in any one of the requirements listed in the paragraph above should mean that the PTO will reject an application for a patent. The PTO, however, is not perfect in its examination of patent applications, and invalid patents issue as a result of this imperfection. Until a patent becomes the subject of litigation, an invalid but issued patent looks to all the world like a grant to the inventor of exclusive rights over the invention, and the patent enjoys a strong statutory presumption of validity.²⁵

¹⁴ U.S. CONST. art. I, § 8, cl. 8.

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

¹⁶ *See* 35 U.S.C. § 101.

¹⁷ *See id.*

¹⁸ *See* 35 U.S.C. § 102(a) (1994).

¹⁹ *See* 35 U.S.C. § 103 (Supp. II 1996).

²⁰ *See id.* § 102(f).

²¹ *See id.* § 102(b).

²² *See* 35 U.S.C. § 112 (1994).

²³ *See id.*

²⁴ *See id.*

²⁵ *See* 35 U.S.C. § 282 (1994 & Supp. II 1996).

The exclusive rights granted an inventor are found in 35 U.S.C. § 271(a): "whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent."²⁶ When someone is accused of infringing a patent, there are four basic issues that must be resolved in order for the dispute to be settled.²⁷ These issues are the following: whether or not the patent is valid, whether or not the patent is enforceable, whether or not the patent has been infringed, and to what relief, if any, either the patentee or the accused infringer is entitled.²⁸

In addition to suits over infringement in the federal courts, the issue of patent validity may also be contested by a third party in the PTO in the following two ways: (1) anyone may petition the PTO for re-examination of a patent, and (2) a person with a pending patent application claiming the same invention may institute an interference proceeding under 35 U.S.C. § 135 within a year of the issuance of the patent in question.²⁹ Re-examination proceedings are largely ex parte between the PTO and the inventor, while interferences are more akin to litigation where the parties trying to claim the same invention battle it out in a hearing before the PTO Board of Interferences.

The overwhelming majority of patent infringement suits in federal court do not reach trial,³⁰ and roughly eighty percent of interferences in the PTO settle before a final judgment is rendered.³¹ In both fora, the general means of settlement is by license agreement between the parties; in the federal court suit, the parties often ask the court to enter a consent decree,³² and

²⁶ 35 U.S.C. § 271(a) (1994).

²⁷ See Keith V. Rockey, *Overview of a Patent Suit: The Decision to File*, in WINNING STRATEGIES IN PATENT LITIGATION 1995, at 143, 152 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. G-423, 1995).

²⁸ See *id.*

²⁹ See 35 U.S.C. § 135 (1994).

³⁰ See HOWARD C. ANAWALT & ELIZABETH F. ENAYATI, IP STRATEGY: COMPLETE INTELLECTUAL PROPERTY PLANNING, ACCESS AND PROTECTION, 1998 EDITION § 5.09[3] at 406 (1998).

³¹ See Ian A. Calvert & Michael Sofocleous, *Interference Statistics for Fiscal Years 1989 to 1991*, 74 J. PAT. & TRADEMARK OFF. SOC'Y 822, 825 (1992).

³² See Mark Crane & Malcolm R. Pfunder, *Antitrust and Res Judicata Considerations in the Settlement of Patent Litigation*, 62 ANTITRUST L.J. 151, 151-152 (1993).

settlements of interferences at the PTO result in a settlement agreement being entered into the public examination record of the patent or patents.³³

III. MEDIATION AS AN ALTERNATIVE TO WHAT?

Commentators have advocated the use of ADR generally and mediation specifically to resolve patent infringement disputes for many of the same reasons that ADR advocates offer for cases generally.³⁴ Tom Arnold of Arnold, White & Durkee has been a long-time advocate of the use of ADR in resolving patent disputes, and he has published a series of articles ranging from outlines of his lecture notes, through articles, up to an entire text on the subject.³⁵ Based on his experience in the application of ADR to

³³ See 35 U.S.C. § 135(c). For a discussion of issues raised in settlement agreements in interference proceedings, see Gerald Sobel, *Exploitation of Patents and the Antitrust Laws*, in TECHNOLOGY LICENSING AND LITIGATION 115, 156 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 431, 1996).

³⁴ See STEPHEN B. GOLDBERG ET AL., DISPUTE RESOLUTION 143-148 (2d ed. 1992).

³⁵ See generally TOM ARNOLD ET AL., PATENT ALTERNATIVE DISPUTE RESOLUTION HANDBOOK (1991); Tom Arnold, *A Vocabulary of ADR Procedures*, in WINNING STRATEGIES IN PATENT LITIGATION 381 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 423, 1995); Tom Arnold, *A Vocabulary of Alternative Dispute Resolution Procedures*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE! 41 (ALI-ABA Course of Study Materials No. CA13, 1996); Tom Arnold, *Advocacy in Mediation*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 535; Tom Arnold, *Arbitration Clause Checklist*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE! 307 (ALI-ABA Course of Study Materials No. SB41, 1996); Tom Arnold, *Client Preparation for Mediation: Annotated Check List for Lawyer-Client Conference*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 527; Tom Arnold, *Delay and Cost Booby Traps in Arbitration Practice and How to Avoid Them*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 99; Tom Arnold, *MEDALOA, the Dispute Resolution Process of Choice*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 365; Tom Arnold, *MEDALOA, the Dispute Resolution Process of Choice*, in WINNING STRATEGIES IN PATENT LITIGATION, *supra*, at 449; Tom Arnold, *Mediation Outline: A Practical How-To Guide for Mediators and Attorneys*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 425; Tom Arnold, *Professional Responsibility in ADR*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE! 527 (ALI-ABA Course of Study Materials No. SB41, 1996); Tom Arnold, *Suggested Form of Contract to Arbitrate a Patent or Other Commercial Dispute, Annotated*, 2 TEX. INTEL. PROP. L.J. 205 (1994) [hereinafter Arnold, *Suggested Form of Contract to*

patent disputes, Arnold suggests that the advantages of ADR over litigation are the following: control of the process; money savings to the parties; time savings; the parties' ability to select the "judge"; preservation of relationships among the parties; privacy and confidentiality of the process and the outcomes; the ability to forge creative, win-win business solutions; the results of mediation are flexible and rational; that it is possible to avoid litigation in the other party's home forum; and that arbitration awards are easily enforced.³⁶ Other commentators have suggested that even when ADR methods are ineffective in producing a settlement, they narrow the issues for trial sufficiently to make their use a real benefit to the parties.³⁷ Arnold and other commentators³⁸ have also suggested that ADR methods result in fairer outcomes. Arnold, for example, has gone so far as to say "[o]nly mediation or some other negotiation type format has a chance of doing substantial justice in this and many other fact patterns.—Fact patterns where fairness obtainable by an ADR process is simply not obtainable at the court house."³⁹ Arnold, then, sees mediation as an alternative to what is obtainable at the courthouse (that is, to formal adjudication). But this juxtaposition of mediation and formal adjudication may be a false dichotomy in general and specifically in relation to patent infringement disputes.

Arbitrate]; Tom Arnold, *Twenty Common Errors in Mediation Advocacy*, in WINNING STRATEGIES IN PATENT LITIGATION, *supra*, at 433; Tom Arnold, *Twenty Common Errors in Mediation Advocacy—In No Particular Order*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 579; Tom Arnold, *Why ADR*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 13; Arnold, *supra* note 7; Tom Arnold, *Why ADR with Booby Traps in Arbitration Practice and How to Avoid Them*, in WINNING STRATEGIES IN PATENT LITIGATION, *supra*, at 357; Tom Arnold, *20 Common Errors in Mediation Advocacy*, 13 ALTERNATIVES TO HIGH COSTS LITIG. 69 (1995); Tom Arnold & Murray Nadler, *An Annotated Form of a Commercial Contract Clause for Low Budget MEDALOA Dispute Resolution*, in ALTERNATIVE DISPUTE RESOLUTION: HOW TO USE IT TO YOUR ADVANTAGE!, *supra*, at 381. In many of Arnold's articles, the text and arguments do not change very much from article to article. I include references to most of Arnold's exemplary and recent articles in this footnote for the interested reader; in subsequent footnotes, I will refer only to a single instance of a point that Arnold may make identically in many articles.

³⁶ See generally sources cited *supra* note 35.

³⁷ See Miriam R. Arfin, *The Benefits of Alternative Dispute Resolution in Intellectual Property Disputes*, 17 HASTINGS COMM. & ENT. L.J. 893, 898–899 (1995).

³⁸ See, e.g., Casey, *supra* note 7, at 4.

³⁹ Arnold, *supra* note 7, at 271.

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It has become conventional wisdom that most civil cases in the United States settle irrespective of the dispute resolution means employed by the parties. The proposition that most suits settle before a court rules on them has been advanced as a reason not to be concerned over public support for ADR programs that remove cases from the court dockets and thus from the possibility of a public adjudication.⁴⁰ Settlement rates for civil suits in general are estimated at between eighty-five and ninety percent.⁴¹ For patent infringement cases, as noted above, settlement rates are said to be roughly eighty percent.⁴² These settlement rates represent estimates only and are based on anecdotal evidence or on only a few studies, and questions have been raised as to exactly what the figures represent.⁴³ Galanter and other commentators have argued that settlement of civil suits does not take place in a vacuum; judges and judicial rulings provide a shadow under which settlement takes place, and their presence has a strong influence on case settlements.⁴⁴ If settlements are driven in part by the shadow of the courts, then to propose that ADR is preferable to “what is available at the courthouse” is to miss the important point that but for what is available at the courthouse, the form and number of extra-judicial settlements would change significantly.

One often-cited study that addresses the questions both of how often civil cases settle and what influences their settlement found that less than eight percent of civil cases went to trial and two-thirds of civil cases settled by voluntary agreement between the parties.⁴⁵ Trubek and Kritzer present their data in sufficient detail to permit a comparison of their data to available data on patent infringement cases.

⁴⁰ See Sid Stahl, *Legal Landscape in Texas Encourages ADR*, 12 ALTERNATIVES TO HIGH COSTS LITIG. 33, 33 (1994).

⁴¹ See Harry T. Edwards, *Alternative Dispute Resolution: Panacea or Anathema*, 99 HARV. L. REV. 668, 670 (1986); Marc Galanter & Mia Cahill, “Most Cases Settle”: *Judicial Promotion and Regulation of Settlements*, 46 STAN. L. REV. 1339, 1339-1340 (1994).

⁴² See Plapinger & Stienstra, *supra* note 6 and accompanying text.

⁴³ See Galanter & Cahill, *supra* note 41, at 1341.

⁴⁴ See *id.* at 1340; Robert H. Mnookin & Lewis Kornhauser, *Bargaining in the Shadow of the Law: The Case of Divorce*, 88 YALE L.J. 950, 952-956 (1979).

⁴⁵ See David M. Trubek & Herbert M. Kritzer, *The Costs of Ordinary Litigation*, 31 UCLA L. REV. 72, 89 (1983).

IV. MEDIATION AND SETTLEMENT OF PATENT INFRINGEMENT DISPUTES

Comparison of the available data on patent infringement cases to the data in the Trubek and Kritzer study leads to the inescapable conclusion that patent infringement cases are atypical when compared to what Trubek and Kritzer term the "ordinary lawsuit."⁴⁶ Cases in the Trubek and Kritzer study were characterized in part by the amount of money involved in the dispute. Trubek and Kritzer's data show that in the early 1980s, only twelve percent of civil cases in their study involved fifty thousand dollars or more.⁴⁷

The American Intellectual Property Law Association (AIPLA) conducts biennial surveys of patent attorneys who are members of the Association.⁴⁸ In its most recent survey (conducted in 1995), the AIPLA for the first time asked two questions involving estimates of the "value at risk" in their patent infringement suits. (Value at risk was defined as the difference between the best and worst possible outcomes of the cases.) The first question linked the value at risk of a typical patent infringement suit to an estimate of the total cost through the end of discovery of a patent infringement suit; the second question linked the value at risk of a typical patent infringement suit to an estimate of the total cost inclusive of all discovery, motions, pretrial, trial, post-trial, and appeal.⁴⁹

⁴⁶ *Id.* at 90.

⁴⁷ *See id.* at 89.

⁴⁸ *See* COMMITTEE ON ECONS. OF LEGAL PRACTICE, AMERICAN INTELLECTUAL PROPERTY LAW ASS'N, REPORT OF ECONOMIC SURVEY 1995, at 1 (1995). The survey is of all members in private and government practice; 1545 attorneys responded to the 1995 survey. *See id.* These attorneys ranged from sole practitioners to partners in the largest firms, as well as corporate in-house counsel and attorneys working at the PTO. *See id.* at 1-2.

⁴⁹ *See id.* app. A at 4. The exact two-part questions posed to AIPLA members were:

46. A. Estimate of total cost, through end of discovery, in a patent infringement suit:

\$ _____

B. Estimate of Average Value at Risk (difference between best possible and worst possible outcomes) in recent suits on which cost estimate is based:

< \$1million \$1-10 million \$10-100 million > \$100 million

47. A. Estimate of total cost inclusive of all discovery, all motions, pre-trial, trial, post-trial, and appeal, in a patent infringement suit:

\$ _____

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Figure 1 is a graph of the responses to these questions from the AIPLA 1995 survey.⁵⁰ This graph illustrates that in the vast majority of patent infringement suits the stakes far exceed fifty thousand dollars. Even allowing for increases over the ten-year period between the Trubek and Kritzer and the AIPLA data, and even allowing for the phrasing of the AIPLA question in terms of the difference between best and worst possible outcomes of the suits,⁵¹ one may conclude that the stakes in patent infringement suits are far greater than the stakes in the general civil suits analyzed and described by Trubek and Kritzer.⁵²

Patent infringement suits differ from the suits in the Trubek and Kritzer study in other important ways as well. For example, Trubek and Kritzer found that “relatively little discovery occurs in the ordinary lawsuit.”⁵³ The data in Figure 1 show, and at least one federal judge believes,⁵⁴ that

B. Estimate of Average Value at Risk (difference between best possible and worst possible outcomes) in recent suits on which cost estimate is based:

< \$1 million	\$1-10 million	\$10-100 million	> \$100 million
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Id.

⁵⁰ See *id.*; see also *infra* Appendix.

⁵¹ What is being asked for in these questions as the “average value at risk” is ambiguous. These questions could be interpreted in at least the following two ways: (1) they could be asking for an estimate of the possible damages that could be received or paid in comparison to no award of damages, in which case the value is not significantly different from Trubek and Kritzer’s measure of the stakes in civil suits; or (2) they could be asking for an estimate of damages in comparison to what a patent holder stands to lose if the patent is found to be invalid.

⁵² That the stakes in an infringement suit are so high is understandable. In 1993, the legal fees for drafting, filing, and arguing a normal high technology patent application through all stages short of appeal with the PTO were estimated to run between five and ten thousand dollars; when significant difficulty is encountered in the prosecution of a patent, the fees can go well beyond these numbers. A patent holder also must pay maintenance and application fees to the PTO that run into the thousands of dollars, so a technology worth patenting is likely to have a reasonably high value to the patent holder or anyone else who might try to exploit it. The numbers from the 1993 survey rather than from the 1995 survey were used for two reasons. First, the format of the questions used in the 1993 survey made interpretation of the numbers much simpler because of possibly ambiguous wording of the questions in the 1995 survey, and second, newer patents falling under the 1995 survey are less likely to have been subject to litigation. See COMMITTEE ON ECONS. OF LEGAL PRACTICE, AMERICAN INTELLECTUAL PROPERTY LAW ASS’N, REPORT OF ECONOMIC SURVEY 1993, at 34 (1993).

⁵³ Trubek & Kritzer, *supra* note 45, at 90.

⁵⁴ See UNITED STATES DIST. COURT FOR THE S. DIST. OF OHIO, *supra* note 10, at app.

discovery is a major cost in patent infringement suits; a relatively large amount of discovery, then, occurs in patent infringement suits, in contrast to the ordinary suit described by Trubek and Kritzer. Patent infringement suits also cost a great deal more to litigate than the ordinary civil suit. Trubek and Kritzer state that "legal fees in the world of ordinary litigation are modest."⁵⁵ Only thirteen out of one hundred federal court cases studied by Trubek and Kritzer involved legal fees in excess of ten thousand dollars.⁵⁶ In contrast to these results, according to one report, patent infringement litigation in the early 1980s typically cost between \$250,000 and \$500,000.⁵⁷ Litigation cost figures from the AIPLA economic surveys of the early 1990s are plotted in Figure 2.⁵⁸

So if patent infringement suits differ from ordinary suits, does this mean that they are any more or less suitable for mediation? Arnold and others argue that in general, patent infringement suits are ideal candidates for mediation precisely because they are so expensive and complex to litigate.⁵⁹ Mediation has proved valuable in settling complex patent cases. For example, data from the most recent AIPLA economic survey indicate some success in settling patent infringement suits by mediation. Figure 3 plots the numbers of cases for which mediation was reported either to have been effective or ineffective as a function of the estimated value at risk in the suits.⁶⁰

The following four points emerge from examination of Figure 3: (1) mediation is successful in helping to resolve a significant proportion of patent infringement suits in which it is used, but not anywhere near the ninety percent success rates touted by ADR advocates;⁶¹ (2) comparing Figure 3 to Figure 1, with respect to the distribution of the value at risk in the suits, the suits in which mediation was attempted do not differ

⁵⁵ Trubek & Kritzer, *supra* note 45, at 92.

⁵⁶ *See id.* at 92 tbl.4.

⁵⁷ *See* Brian Peckham, *Should the U.S. Patent Laws Be Abolished?*, 11 J. CONTEMP. L. 389, 399 (1985).

⁵⁸ *See infra* Appendix.

⁵⁹ *See* Arnold, *supra* note 7, at 270; Plant, *supra* note 5, at 79; Nancy Neal Yeend & Cathie E. Rincon, *ADR and Intellectual Property: A Prudent Option*, 36 IDEA 601, 601 (1996).

⁶⁰ *See infra* Appendix.

⁶¹ At least one commentator has stated that she is aware of no studies that break out success rates for intellectual property mediations, but her personal impression is that success rates are lower for intellectual property disputes than for disputes in general. *See* Anderson, *supra* note 8, at 23.

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significantly from general patent infringement suits; (3) also comparing Figure 3 to Figure 1, the number of infringement suits in which mediation was attempted is relatively small in comparison to the overall number of infringement suits; and (4) mediation would appear to be more effective in settling lower value at risk cases.⁶²

Furthermore, Arnold argues,⁶³ and the 1995 AIPLA data suggest,⁶⁴ that even where the mediation is ineffective, the cost of the mediation in comparison to the overall cost of the litigation is small. Figure 4 plots both the estimated cost of ineffective mediation and the estimated total cost of litigating patent infringement suits.⁶⁵ It is clear from Figure 4 that next to the total cost of litigating a patent infringement suit, the cost of attempted but unsuccessful mediation is barely discernable.

The cost of effective mediation also argues strongly for the use of mediation to settle patent infringement suits. As small as the cost of ineffective mediation is relative to total litigation costs, the cost of effective mediation in settling a suit is even smaller. Figure 5 plots the 1995 AIPLA economic survey estimated cost data for mediation of suits in which mediation was and was not effective.⁶⁶ Excluding the lowest cost mediations (whose costs are similar irrespective of the success of the mediation), respondents in the survey estimated the cost of a successful mediation to be roughly one-half the cost of an unsuccessful mediation.

Conclusions based on these AIPLA survey data need to be drawn with some degree of caution. These data are based on surveys that ask attorneys to report estimates based on their own experiences. A recent RAND study suggests that such estimates may not be entirely reliable.⁶⁷ The RAND study measured variables such as time from case filing to disposition (TTD) and litigation costs for two groups of cases in six different federal districts. The cases in one group were submitted to mediation or early neutral

⁶² The reason for easier settlement of less expensive suits is unclear. Assuming the effect is real, this Author might hypothesize that the more value at risk, the more issues may be involved between the parties. Where there are more issues between the parties, the likelihood of settlement decreases.

⁶³ See Arnold, *supra* note 7, at 263.

⁶⁴ See COMMITTEE ON ECONS. OF LEGAL PRACTICE, AMERICAN INTELLECTUAL PROPERTY LAW ASS'N, *supra* note 48, at 61 tbl.22, 64 tbl.22.

⁶⁵ See *infra* Appendix.

⁶⁶ See *infra* Appendix.

⁶⁷ See JAMES S. KAKALIK ET AL., AN EVALUATION OF MEDIATION AND EARLY NEUTRAL EVALUATION UNDER THE CIVIL JUSTICE REFORM ACT 1 (1996) (explaining the RAND study in Santa Monica, California).

evaluation (ENE), while the cases in the control group were not subject to any formal ADR process.⁶⁸ The RAND researchers also surveyed the attorneys who were involved in the cases that went to mediation or ENE and asked them to evaluate the effect of the mediation or ENE on, among other things, the TTD and litigation costs. The RAND researchers concluded that when they controlled for differences between the cases in the two groups, case submission to mediation or ENE in most of the study districts did not reduce the TTD and litigation costs and increased the TTD or litigation costs in several of the study districts.⁶⁹ The attorney survey data, however, indicated that some attorneys believed that the mediation or ENE reduced both the TTD and the litigation costs.⁷⁰ This RAND study is not without its critics,⁷¹ and it is open to some criticism on methodological grounds.⁷² Nonetheless, the differences in the RAND study between the data obtained from lawyer self-reporting and the more objective data do point out the need for caution when drawing conclusions from surveys like those of the AIPLA.

As with mediation of general sorts of civil disputes, mediation of patent infringement suits would appear to provide a successful, low-cost means for achieving settlement. Success and cost savings to the parties, however, do not provide a rationale for public support for mediation of cases for which

⁶⁸ See *id.* at 20-22.

⁶⁹ See *id.* at 34.

⁷⁰ See *id.* at 35.

⁷¹ See, e.g., John Gibeaut, *Was RAND Right?*, A.B.A. J., May 1997, at 98, 98.

⁷² The conclusions of the RAND study are based on a complex multivariate model that was necessitated by the nonrandom selection of cases in some of the study districts. See KAKALIK ET AL., *supra* note 67, at 59-61. Not all of the study districts used nonrandom case selection, and the authors admit in a footnote to an appendix that in at least two of the districts in which the multivariate model is unnecessary, there is a statistically significant decrease in TTD attributable to the mediation program. See *id.* at 284 n.4. Furthermore, because of the non-normal distribution of the data, the data for TTD were transformed using a highly unusual fourth-root transform. See *id.* at 278. Perhaps because of this transformation, and certainly because of the complexity of their model, the authors are forced to admit that the power of their tests to show a difference in TTD due to the ADR programs is not great enough to distinguish time differences of less than several months. See *id.* at 35. They also set their significance level to $p = 0.05$, which is a level that is more in keeping with what is used in the hard sciences rather than in the social sciences. See *id.* at 27 n.14. At the same time, no criticism of the RAND researchers' methodology can explain away their finding of a statistically significant *increase* both in the TTD and litigation costs attributable to the mediation program in the Southern District of Texas. See *id.* at 170, 174.

there might be an overriding public interest in public adjudication. Patent infringement cases raise issues of public concern,⁷³ and thus care needs to be taken in deciding that public support should be brought to bear on moving patent infringement suits out of the light of public adjudication and into the arena of private, mediated settlement.

V. MEDIATION OF PATENT DISPUTES IN THE SHADOW OF THE PUBLIC INTEREST

Issued patents arguably have a chilling effect on competition. For example, one study of patenting practices in the biotechnology area found an inverse correlation between the number of existing patents in a particular sub-area, and the number of competitors undertaking research and development and applying for patents in that sub-area.⁷⁴ If an issued patent is invalid but not obviously so, there is no reason to believe that it will not also lead to decreased competition. Because competition as well as increased research and development provide a large part of the rationale underlying the patent laws, public support of a process that may lead to reduced public awareness of the invalidity of issued patents, and thus to a decrease in research and development, raises significant concerns.

Many commentators have recognized possible danger to the public interest where certain cases are removed by ADR from the public realm.⁷⁵ This Part explores the public interest issues that arise when patent

⁷³ See Edward Brunet, *Questioning the Quality of Alternate Dispute Resolution*, 62 TUL. L. REV. 1, 44 n.227 (1987).

⁷⁴ See Josh Lerner, *Patenting in the Shadow of Competitors*, 38 J.L. & ECON. 463, 482 (1995). Although this study focused on the influence of litigation cost on the willingness of biotechnology firms to compete in crowded sub-areas, the data and analysis nonetheless reveal an awareness on the part of biotechnology companies of the research and development activities of their competitors and a hesitancy to compete in sub-areas that are already covered by issued patents.

⁷⁵ See, e.g., Brunet, *supra* note 73, at 40; Owen M. Fiss, *Against Settlement*, 93 YALE L.J. 1073, 1085-1087 (1984); Galanter & Cahill, *supra* note 41, at 1346; Mori Irvine, *The Lady or the Tiger: Dispute Resolution in the Federal Courts*, 27 U. TOL. L. REV. 795, 800-801 (1996); David Luban, *Settlements and the Erosion of the Public Realm*, 83 GEO. L.J. 2619, 2622 (1995); Judith L. Maute, *Public Values and Private Justice: A Case for Mediator Accountability*, 4 GEO. J. LEGAL ETHICS 503, 507-508 (1991); H. Lee Sarokin, *Justice Rushed Is Justice Ruined*, 38 RUTGERS L. REV. 431, 433 (1986); Jack B. Weinstein, *Some Benefits and Risks of Privatization of Justice Through ADR*, 11 OHIO ST. J. ON DISP. RESOL. 241, 246 (1996).

infringement suits are removed by ADR from the public into the private realm.

A. Patent Monopolies and the Public Interest

The patent law of the United States is designed to strike a balance between granting benefits to the public from disclosure of useful inventions and benefits to the inventor in providing a means for protecting the inventor's investment of personal resources in developing a new invention.⁷⁶ Some commentators view patent law as primarily designed to serve the public interest and secondarily designed to provide private benefits,⁷⁷ while others view the purpose of patent laws as primarily for the benefit of the inventor.⁷⁸ Because patent rights are property rights, the public has an interest in the ownership of those rights.⁷⁹ As a result of this public interest, patent protection has been said to raise "quasi-public issues,"⁸⁰ and some commentators worry that ADR techniques may therefore be inappropriate for resolution of patent disputes.⁸¹

The lower federal courts have held that patent infringement and validity raise matters of public interest.⁸² The United States Supreme Court, for its part, has observed that the purposes of the patent laws were well expressed in *Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co.*:⁸³

⁷⁶ For a thorough discussion of the development of and theory behind patent rights, see Michael Paul Chu, *An Antitrust Solution to the New Wave of Predatory Patent Infringement Litigation*, 33 WM. & MARY L. REV. 1341, 1346-1348 (1992).

⁷⁷ See, e.g., Gerald Kenyon, Case Note, *Patent Law: The Res Judicata Effect of Consent Decrees in Patent Litigation—Lear, Inc. v. Adkins Takes a Back Seat—Foster v. Hallco Mfg. Co.*, 947 F.2d 469 (Fed. Cir. 1991), 18 U. DAYTON L. REV. 139, 152 (1992).

⁷⁸ See, e.g., Joel R. Bennett, *Patent Misuse: Must an Alleged Infringer Prove an Antitrust Violation?*, 17 AIPLA Q.J. 1, 5 (1989).

⁷⁹ See Bryan Niblett, *Arbitrating the Creative*, DISP. RESOL. J., Jan. 1995, at 64, 67.

⁸⁰ Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 CORNELL L. REV. 589, 624 (1991).

⁸¹ See, e.g., Bart J. van den Broek et al., *The Use of ADR in Disputes Involving the Patent and Trademark Office*, NAT'L L.J., Jan. 27, 1997, at C18.

⁸² See, e.g., PPG Indus., Inc. v. Westwood Chem., Inc., 530 F.2d 700, 705 (6th Cir. 1976).

⁸³ 324 U.S. 806 (1945).

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A patent by its very nature is affected with a public interest [It] is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.⁸⁴

The Supreme Court has recognized that this paramount public interest goes beyond seeing that patent monopolies do not spring from fraud or other inequitable conduct. In particular, the Supreme Court has held that this paramount public interest is sufficient to overcome issues of efficient management of a court's docket. In *Cardinal Chemical Co. v. Morton International, Inc.*,⁸⁵ the Supreme Court struck down a long-standing practice⁸⁶ of the Court of Appeals for the Federal Circuit (Federal Circuit)⁸⁷ and other federal courts. Before *Cardinal Chemical*, federal district courts had routinely vacated their own judgments relating to patent invalidity if there were later findings of noninfringement, and the courts of appeals, including the Federal Circuit, had routinely refused to grant appeals to either party to an infringement suit for the purpose of determining patent validity if there had been an affirmance of a lower court finding of noninfringement.⁸⁸ The Court in *Cardinal Chemical* observed that:

[T]here might be a sufficient reason always to address the infringement issue before passing on the patent's validity. If, for example, the validity issues were generally more difficult and time consuming to resolve, the interest in the efficient management of the court's docket might support such a rule.

⁸⁴ *Id.* at 816, *quoted with approval in* Walker Process Equip., Inc. v. Food Mach. Chem. Corp., 382 U.S. 172, 177 (1965).

⁸⁵ 508 U.S. 83 (1993).

⁸⁶ *See id.* at 102.

⁸⁷ The Court of Appeals for the Federal Circuit was created in 1982 and has exclusive appellate jurisdiction over patent matters. Some commentators argue that the explosion in the cost and frequency of patent litigation is due to the establishment of the Federal Circuit and the purportedly pro-patent stance it has taken. *See* Lerner, *supra* note 74, at 469.

⁸⁸ This vacatur and refusal to hear appeals stemmed from the notion that once there was a finding of noninfringement, there was no longer a case and controversy out of which a ruling on patent validity might stem. *See Cardinal Chemical*, 508 U.S. at 89-95.

Although it is often more difficult to determine whether a patent is valid than whether it has been infringed, there are even more important countervailing concerns.⁸⁹

The countervailing concerns cited by the Court were the parties' interests (particularly that of the accused infringer), uncertainty as to the patent validity so as to be able to guide their future actions, and the public's strong interest in resolving questions about patent validity.⁹⁰

The public's interest in the issue of patent validity also is not overcome by the parties' rights to enter into private contractual relationships. The Supreme Court held in *Lear, Inc. v. Adkins*⁹¹ that a licensee to a patent could not be estopped from challenging the validity of the patent under license by means of a no-challenge clause in the license.⁹² One federal district court interpreted that *Lear* "clearly held that removing the restraint on commerce caused by exercise of an invalid patent is more important than enforcing a promise between contracting parties."⁹³ Settlement agreements, whether mediated or not, represent promises between contracting parties. *Lear*, then, may be interpreted to argue against public encouragement of private mediated settlements.

Thus there is a recognized public interest in having patent validity adjudicated. The public interest in exposure of invalid patents is sufficient to require courts to pass judgment on validity despite the arguably more efficient approach of ending a case following a judgment of noninfringement, and this public interest is also arguably sufficient to overcome the parties' private rights to enter into contracts. In the areas of arbitration of patent disputes and settlement of patent interferences, the courts and Congress have made direct statements to this same effect.⁹⁴

⁸⁹ *Id.* at 99.

⁹⁰ *See id.* at 100.

⁹¹ 395 U.S. 653 (1969).

⁹² *See id.* at 670-671.

⁹³ *Lemelson v. Synergistics Research Corp.*, 669 F. Supp. 642, 646 (S.D.N.Y. 1987) (citation omitted).

⁹⁴ *See, e.g.*, discussion *supra* note 93 and accompanying text; *infra* Part V.B.

B. Public Disclosure of Patent Arbitration Agreements

Courts historically held private agreements to resolve patent infringement disputes to be void as against public policy.⁹⁵ Only with the passage of 35 U.S.C. § 294 in 1982, did Congress legislatively overrule these holdings to some extent.⁹⁶ The exact extent to which 35 U.S.C. § 294 renders moot any objections to public support for mediation of patent disputes is a matter of some debate. What is certain is that 35 U.S.C. § 294 makes voluntary agreements to arbitrate patent disputes enforceable as long as certain requirements are met.⁹⁷ At least one commentator has proposed

⁹⁵ See *Beckman Instruments, Inc. v. Technical Dev. Corp.*, 433 F.2d 55, 62–63 (7th Cir. 1970); *Foster Wheeler Corp. v. Babcock & Wilcox Co.*, 440 F. Supp. 897, 901 (S.D.N.Y. 1977); *Babcock & Wilcox Co. v. Public Serv. Co.*, 193 U.S.P.Q. 161, 163 (S.D. Ind. 1976); *Diematic Mfg. Corp. v. Packaging Indus., Inc.*, 381 F. Supp. 1057, 1061 (S.D.N.Y. 1974); *Homewood Indus., Inc. v. Caldwell*, 360 F. Supp. 1201, 1204 (N.D. Ill. 1973).

⁹⁶ See 35 U.S.C. § 294 (1994).

⁹⁷ The text of 35 U.S.C. § 294 reads as follows:

(a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.

(b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, United States Code, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 of this title shall be considered by the arbitrator if raised by any party to the proceeding.

(c) An award by an arbitrator shall be final and binding between the parties to the arbitration but shall have no force or effect on any other person. The parties to an arbitration may agree that in the event a patent which is the subject matter of an award is subsequently determined to be invalid or unenforceable in a judgment rendered by a court to [sic] competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the Commissioner. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall

that 35 U.S.C. § 294 evinces a congressional policy in favor of any and all applications of ADR to patent disputes.⁹⁸ Such a proposal requires careful examination.

Arbitration awards are neither private nor are they to be made without the arbitrator ruling on patent validity. One of the requirements for enforceability of arbitration clauses in patent disputes is that if the parties raise defenses under 35 U.S.C. § 282, the arbitrator must consider these defenses.⁹⁹ 35 U.S.C. § 282 delineates four defenses, two of which involve patent invalidity, the third of which is a catch-all, and the fourth of which relates to noninfringement.¹⁰⁰ If an accused infringer raises a defense of

contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Commissioner. The Commissioner shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Commissioner, any party to the proceeding may provide such notice to the Commissioner.

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

Id.

⁹⁸ See Casey, *supra* note 7, at 2–3.

⁹⁹ See 35 U.S.C. § 294(b). This requirement that the arbitrator consider the applicable law is in some ways analogous to the situation in *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20 (1991), and the threat of judicial scrutiny of the award will presumably be sufficient to ensure that the arbitrator does so. In *Gilmer*, the Supreme Court cited *Shearson/American Express, Inc. v. McMahon*, for the proposition that for statutory claims cases, judicial scrutiny of arbitration awards is sufficient to assure arbitrator compliance with the applicable statute. See *Gilmer*, 500 U.S. at 32 n.4 (citing *McMahon*, 482 U.S. 220, 232 (1987)). In a case examining the scope of judicial review of awards under the Federal Arbitration Act (FAA), the Court of Appeals for the D.C. Circuit found that:

The grounds listed in the FAA, however, are not exclusive. Indeed, even in the context of arbitration in collective bargaining—where judicial review of arbitral awards is extremely limited—awards may be set aside if they are contrary to “some explicit public policy” that is “well defined and dominant” and ascertained “by reference to the laws and legal precedents.”

Cole v. Burns Int’l Sec. Servs., 105 F.3d 1465, 1486 (D.C. Cir. 1997) (quoting *United Paperworkers Int’l Union v. Misco, Inc.*, 484 U.S. 29, 43 (1987) (quoting *Muschany v. United States*, 324 U.S. 49, 66 (1945))). Thus, judicial scrutiny of arbitration awards in cases involving some well-defined public policy (such as patent infringement cases) would seem to be particularly subject to judicial scrutiny.

¹⁰⁰ See 35 U.S.C. § 282 (1994).

patent invalidity (and almost all accused infringers do raise this defense),¹⁰¹ an arbitrator must consider this defense and must address this defense in the written judgment and award. Furthermore, to be enforceable, an arbitration award must be filed with the PTO, and the PTO is instructed to enter the award into the public prosecution history of the patent in question.¹⁰² The combination of the required consideration of defenses including invalidity with the required public filing of the arbitration award means that the public interest in preventing private settlements from hiding invalid patents has been addressed in the statute.

The conclusion that Congress meant to address this public interest is also borne out by the legislative history of 35 U.S.C. § 294. The House Report on the bill states that arbitration agreements are to be filed with the PTO.¹⁰³ Only after stating this requirement does the report go on to state that arbitration would “advance the public interest, ‘enhance the patent system . . . promote innovation’ and ‘relieve some of the burden on the overworked Federal courts.’”¹⁰⁴ It does not seem, then, that in passing 35 U.S.C. § 294, Congress meant to sanction the private settlement of patent infringement and validity matters where the resulting settlements would never see the light of day.

C. Public Disclosure of Interference Settlements

Another area of patent law under which settlement of disputes over patent validity must undergo public scrutiny is with private settlement of patent interferences. Under 35 U.S.C. § 135(c), once an interference has been declared between parties by the PTO, any private settlement agreement between the parties must be filed with the PTO as with arbitration awards.¹⁰⁵ According to the Federal Circuit, 35 U.S.C. § 135(c) was enacted to prevent anticompetitive settlements between parties involved in an interference.¹⁰⁶ Also, the Sixth Circuit, before the creation of the

¹⁰¹ See Rockey, *supra* note 27, at 148; see also DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW § 2F[4][a], at 2-281 (1992) (discussing defenses in patent infringement suits).

¹⁰² See 35 U.S.C. § 294(d), (e). For the text of this statute, see *supra* note 97.

¹⁰³ See H.R. REP. NO. 97-542, at 12-13 (1982), reprinted in 1982 U.S.C.C.A.N. 765, 777.

¹⁰⁴ Casey, *supra* note 7, at 3 n.8 (quoting H.R. REP. NO. 97-542, at 13 (1982), reprinted in 1982 U.S.C.C.A.N. 765, 777).

¹⁰⁵ See 35 U.S.C. § 135(c) (1994).

¹⁰⁶ See *CTS Corp. v. Piher Int'l Corp.*, 727 F.2d 1550, 1555 (Fed. Cir. 1984).

Federal Circuit, observed that 35 U.S.C. § 135(c) was designed to prevent an applicant for a patent from obtaining an invalid patent monopoly through a private settlement.¹⁰⁷

The courts have also found a linkage between settlement of patent interferences and antitrust concerns. For example, in *United States v. Singer Manufacturing Co.*,¹⁰⁸ the United States Supreme Court held that an agreement to settle a dispute between conflicting patent rights may violate the Sherman Act¹⁰⁹ when an agreement has the effect of excluding competition.¹¹⁰ One Justice believed that the Court in *Singer* found that a cross-licensing agreement in settlement of an interference proceeding is presumptively bad if designed to avoid an open fight over the validity of patents which are possibly invalid.¹¹¹

D. Judicial Scrutiny in the Antitrust Context

This linkage between patent settlements and antitrust concerns has also been found outside of the context of patent interference proceedings. There is a long history of court scrutiny of settlements of patent infringement disputes when such settlements have raised antitrust concerns.¹¹² For example, in a case that was factually similar to *Singer*, but in the context of a federal court litigation rather than an interference, a district court invalidated a settlement agreement where the court found the purpose of the agreement was to exclude a third party from the market in which the

¹⁰⁷ See *Moog Inc. v. Pegasus Lab., Inc.*, 521 F.2d 501, 505 (6th Cir. 1975).

¹⁰⁸ 374 U.S. 174 (1963).

¹⁰⁹ 15 U.S.C. §§ 1-7 (1994).

¹¹⁰ See *Singer*, 374 U.S. at 195.

¹¹¹ See *id.* at 198-200 (White, J., concurring).

¹¹² For a detailed discussion of the intersection between patent infringement settlements and antitrust laws, see generally Mark A. Radcliffe, *Antitrust Pitfalls in Licensing*, in *INTELLECTUAL PROPERTY ANTITRUST 1995*, at 523 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 414, 1995); Gerald Sobel, *Exploitation of Patents and the Antitrust Laws*, in *TECHNOLOGY LICENSING AND LITIGATION 1996*, at 115 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 431, 1996); Gerald Sobel, *Exploitation of Patents and the Antitrust Laws*, in *TECHNOLOGY LICENSING AND LITIGATION 1995*, at 303 (PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series No. 404, 1995).

litigants competed.¹¹³ Furthermore, where a patentee knowingly tries to enforce an invalid patent, this too has been found to violate antitrust laws.¹¹⁴ In yet another type of case, a patent owner wanted to avoid litigation of a patent that counsel believed to be weak and so entered into a private settlement agreement that was later found in the context of a price-fixing scheme to be invalid as a violation of antitrust laws.¹¹⁵

The idea that it may be illegal for a patentee to settle an infringement suit where a patentee believes her patent to be weak is particularly disturbing in light of one advantage touted by Arnold for mediation of patent disputes: that ADR permits a patent holder to avoid litigation of a weak patent.¹¹⁶ Many patent infringement suits settle by means of a sealed consent decree,¹¹⁷ and such decrees mean the public and thus possible competitors of the patented material are never apprised of the possible invalidity of the patent. If mediation of patent disputes is to be fostered by public support in the courts, then a solution to the problem of sealed private settlements against the public interest may need to be found.

VI. CONCLUSION: A PROPOSAL FOR SCRUTINY OF PUBLIC-SPONSORED MEDIATION SETTLEMENTS OF PATENT INFRINGEMENT DISPUTES

The preceding discussion suggests that public encouragement of mediated settlements is a two-edged sword. On the one hand, there is a need for public encouragement of mediation of patent infringement disputes for the same reasons as those in favor of public encouragement of settlements generally; furthermore, the preceding discussion suggests that mediation is effective in resolving disputes over patent rights. On the other hand, there is also a need to avoid public encouragement of settlements that hide the invalidity of patents. Court-sponsored ADR programs that result in settlements that hide the invalidity of a patent are one example of the general problem of the loss of public goods that results from removal of cases from the traditional forum of public adjudication. This loss of public

¹¹³ See *AG Fur Industrielle Elektronik Agie v. Sodick*, 1991-1 Trade Cas. (CCH) ¶ 69,311, 69,312 (N.D. Ill. 1990).

¹¹⁴ See *Crane & Pfunder*, *supra* note 32, at 153-154.

¹¹⁵ See *Duplan Corp. v. Deering Milliken, Inc.*, 444 F. Supp. 648, 675-687 (D.S.C. 1977).

¹¹⁶ See *Arnold*, *Suggested Form of Contract to Arbitrate*, *supra* note 35, at 269.

¹¹⁷ See *Crane & Pfunder*, *supra* note 32, at 151.

goods is, in turn, one of a larger group of concerns that critics of publicly sponsored ADR programs have levied against such programs.

Judge Jack B. Weinstein has suggested that “[p]rograms that involve judicial oversight do not implicate the concerns otherwise associated with ADR.”¹¹⁸ As discussed above, there are already requirements in certain cases that settlement agreements be subject to judicial or PTO scrutiny. One solution to the problem of a patent holder maintaining an invalid patent by a sealed settlement agreement would be to require disclosure or judicial scrutiny of the terms of any settlement that arises after an infringement case has been filed. Such a “sunshine regime” is not without its problems,¹¹⁹ but may provide some measure of protection to the public in exchange for the very real benefits of patent ownership granted by the public to patent owners.

Settlement documents do not enjoy any particular privilege that shields them from disclosure. Numerous rationales have been advanced by advocates of disclosure of settlement agreements, and courts have ordered public disclosure in many cases.¹²⁰ Although the circuits are split on this issue, where the settlement documents have been the subject of a protective order, such an order may serve to keep settlement documents sealed.¹²¹ At the same time, where there is a demonstrated public interest in their disclosure (such as under a Freedom of Information Act (FOIA)¹²² request), courts have forced parties to disclose settlement documents even while acknowledging that this may have a chilling effect on the other public interest of fostering settlement of civil disputes.¹²³ Cases have explicitly held that under the FOIA, the public interest in disclosure may outweigh the privacy interests of litigants.¹²⁴

There are already in place both statutory and judicially recognized circumstances under which settlement agreements must be disclosed or scrutinized by a judge presiding over particular types of cases. Of these types of cases, those most closely analogous with respect to public interest

¹¹⁸ Weinstein, *supra* note 75, at 272.

¹¹⁹ See *infra* notes 136–142 and accompanying text.

¹²⁰ See Carrie Menkel-Meadow, *Public Access to Private Settlements: Conflicting Legal Policies*, 11 ALTERNATIVES TO HIGH COSTS LITIG. 85, 85–87 (1993).

¹²¹ See Wayne D. Brazil, *Protecting the Confidentiality of Settlement Negotiations*, 39 HASTINGS L.J. 955, 1006–1007 (1988).

¹²² 5 U.S.C. § 552 (1994 & Supp. II 1996).

¹²³ See Brazil, *supra* note 121, at 1002–1004.

¹²⁴ See *id.* at 1008–1010 (citing *Norwood v. Federal Aviation Admin.*, 580 F. Supp. 944, 998 (W.D. Tenn. 1984)).

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in patent infringement cases are shareholder derivative suits, class action cases, medical malpractice cases, and antitrust cases. For shareholder derivative suits, the court in which the suit is filed must approve any settlement.¹²⁵ For class action cases, under Federal Rule of Civil Procedure 23(e), suits may not be settled in private.¹²⁶ All members of the class have an interest in the terms of the settlement, so they are entitled to know them. All members of a class must be informed of the terms of the settlement. For medical malpractice cases, entities such as insurance carriers are required to disclose the terms of any settlements by filing a report with a national registry under the Health Care Quality Improvement Act (HCQIA).¹²⁷ If a physician or dentist chooses to settle a malpractice case privately without resort to insurance coverage, however, there is no reporting requirement.¹²⁸ The circumstances and considerations leading to public disclosure and judicial scrutiny in antitrust cases are discussed in Part V.D above.

In more general commercial cases, various courts have described the general influence that the public interest has on the decision to unseal settlement documents such as consent decrees. For example, the Second Circuit has stated that consent decrees and other settlement documents are ordinarily not subject to judicial review where the parties have come to terms that are mutually satisfactory, but “[t]he court has a larger role,

¹²⁵ See WILLIAM A. KLEIN & J. MARK RAMSEYER, *CASES AND MATERIALS ON BUSINESS ASSOCIATIONS: AGENCY, PARTNERSHIPS AND CORPORATIONS* 222 (2d ed. 1994).

¹²⁶ “Dismissal or Compromise. A class action shall not be dismissed or compromised without the approval of the court, and notice of the proposed dismissal or compromise shall be given to all members of the class in such manner as the court directs.” FED. R. CIV. P. 23(e).

¹²⁷ 42 U.S.C. §§ 11131–11152 (1994). For an analysis of the HCQIA, see generally Robert S. Adler, *Stalking the Rogue Physician: An Analysis of the Health Care Quality Improvement Act*, 28 AM. BUS. L.J. 683 (1991); Nolan N. Atkinson Jr., *How the National Practitioner Data Bank Affects Medical Malpractice Clients*, PRAC. LITIG., Jan. 1994, at 35; Deborah G. Casey, *Austin v. McNamara and the Health Care Quality Improvement Act: From Speculation to Implementation*, 14 AM. J. TRIAL ADVOC. 389 (1990); Robert E. Kuelthau, *Ambulatory Surgery Centers—Medical Clinics and the National Practitioner Data Bank*, 79 MARQ. L. REV. 819 (1996); Elisabeth Ryzen, *The National Practitioner Data Bank: Problems and Proposed Reforms*, 13 J. LEGAL MED. 409 (1992); Scott M. Smith, Annotation, *Construction and Application of Health Care Quality Improvement Act of 1986 (42 U.S.C.S. §§ 11101–11152)*, 121 A.L.R. FED. 255 (1994).

¹²⁸ See *American Dental Ass’n v. Shalala*, 3 F.3d 445, 446 (D.C. Cir. 1993).

however, where a consent judgment or a settlement judgment resolves class actions, shareholder derivative suits, bankruptcy claims, antitrust suits brought by the United States, and any suits 'affecting the public interest.'"¹²⁹ The D.C. Circuit has cautioned that "a court should enter a consent decree affecting the public interest only after considering the substantive validity of the decree."¹³⁰

The Third Circuit recognizes a common law presumption of access to private settlement agreements that flows from the common law right of access to other court proceedings.¹³¹ Where parties have obtained a consent decree from a court, this common law presumption of access is particularly strong. In *Bank of America National Trust & Savings Ass'n v. Hotel Rittenhouse Association*, the court found that the district court had abused its discretion in failing, at the request of a third party, to unseal a settlement agreement that was contained in a consent decree and had been entered into between two commercial entities.¹³² In forcing the unsealing of the settlement agreement, the court stated:

Having undertaken to utilize the judicial process to interpret the settlement and to enforce it, the parties are no longer entitled to invoke the confidentiality ordinarily accorded settlement agreements. Once a settlement is filed in the district court, it becomes a judicial record, and subject to the access accorded such records.¹³³

The court acknowledged the strong public interest in encouraging settlement and stated that it was likely that had the parties chosen to end their dispute by filing a voluntary stipulation under Federal Rule of Civil Procedure 41(a)(1) rather than by a consent decree under Federal Rule 41(a)(2), they would have been able to prevent public access to the settlement agreement.¹³⁴ Thus, in the Third Circuit at least, the usual

¹²⁹ *Janus Films, Inc. v. Miller*, 801 F.2d 578, 582 (2d Cir. 1986).

¹³⁰ *Adams v. Bell*, 711 F.2d 161, 170 n.40 (D.C. Cir. 1983) (en banc).

¹³¹ See *Bank of America Nat'l Trust & Sav. Ass'n v. Hotel Rittenhouse Assoc.*, 800 F.2d 339, 343 (3d Cir. 1986).

¹³² See *id.* at 346.

¹³³ *Id.* at 345.

¹³⁴ See *id.* at 344. Federal Rule 41(a) reads:

Voluntary Dismissal: Effect Thereof.

(1) By Plaintiff; by Stipulation. Subject to the provisions of Rule 23(e), of Rule 66, and of any statute of the United States, an action may be dismissed by the plaintiff without order of court (i) by filing a notice of dismissal at any time before

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termination of patent disputes via settlement agreements contained in consent decrees arguably makes the settlements subject to public disclosure. It is only a relatively small step, then, to require general disclosure of settlement agreements of patent infringement disputes.

Such disclosure, however, would not be without some possible cost.¹³⁵ In the context of general openness of court documents, including discovery now ordinarily subject to protective orders, some commentators fear that disclosure might lead to invasions of privacy.¹³⁶ Additional concerns have been put forward that disclosure rules will lead to less liberal discovery.¹³⁷ Commentators also worry that disclosure of settlements will reduce the frequency of settlements.¹³⁸ Other concerns with required disclosure of settlements are that parties may avoid the court system if they are forced to disclose the terms of their settlements,¹³⁹ and that the disclosures may do harm to innocent third parties or the litigants themselves.¹⁴⁰ Many of these concerns have been argued to be over-blown,¹⁴¹ and it is important to

service by the adverse party of an answer or of a motion for summary judgment, whichever first occurs, or (ii) by filing a stipulation of dismissal signed by all parties who have appeared in the action. Unless otherwise stated in the notice of dismissal or stipulation, the dismissal is without prejudice, except that a notice of dismissal operates as an adjudication upon the merits when filed by a plaintiff who has once dismissed in any court of the United States or of any state an action based on or including the same claim.

(2) By Order of Court. Except as provided in paragraph (1) of this subdivision of this rule, an action shall not be dismissed at the plaintiff's instance save upon order of the court and upon such terms and conditions as the court deems proper. If a counterclaim has been pleaded by a defendant prior to the service upon the defendant of the plaintiff's motion to dismiss, the action shall not be dismissed against the defendant's objection unless the counterclaim can remain pending for independent adjudication by the court. Unless otherwise specified in the order, a dismissal under this paragraph is without prejudice.

FED. R. CIV. P. 41(a). Note that Rule 41(a)(2) requires judicial review of voluntary dismissal.

¹³⁵ For a thorough discussion of the advantages and disadvantages of sunshine regimes in the context of products liability cases, see Luban, *supra* note 75, at 2648–2658.

¹³⁶ See Arthur R. Miller, *Confidentiality, Protective Orders, and Public Access to the Courts*, 105 HARV. L. REV. 427, 465 (1991).

¹³⁷ See *id.*

¹³⁸ See *id.* at 486; cf. Menkel-Meadow, *supra* note 120, at 87.

¹³⁹ See Menkel-Meadow, *supra* note 120, at 87.

¹⁴⁰ See *id.*; see also Luban, *supra* note 75, at 2657.

¹⁴¹ See Luban, *supra* note 75, at 2647–2658.

realize that an inventor need not seek a patent and a patent holder need not choose to litigate. Where the patent is granted and the case is filed, the patent holder is asking the state to enforce a set of rights that the state granted in exchange for disclosure of all the relevant details about the patentability of the invention. The outcome of a litigation is relevant to the patentability and should thus arguably be disclosed as part of the exchange for the patent rights.

Mediations, unlike arbitrations, do not have a neutral factfinder and decisionmaker whose obligation it is to see that the letter and policies of the law are upheld. Even with arbitrations, where there are significant public interests at stake, enforcement of the law as interpreted by court cases, if not done properly, will require judicial intervention.¹⁴² As Chief Judge Harry T. Edwards observed:

Arbitrators, however, must be mindful that the [Supreme] Court's endorsement [of arbitration of statutory claims] has been based on the assumption that "competent, conscientious, and impartial arbitrators" will be available to decide these cases. . . . Therefore, arbitrators must step up to the challenges presented by the resolution of statutory issues and must be vigilant to protect the important rights embodied in the laws entrusted to their care.

"Greater reliance on private process to protect public rights imposes a professional obligation on arbitrators to handle statutory issues only if they are prepared to fully protect the rights of statutory grievants." . . . To meet that obligation, arbitrators must educate themselves about the law. . . . They must follow precedent and must adopt an attitude of judicial restraint when entering undefined areas of the law. . . . Arbitrators must actively ensure that the record is adequately developed and that procedural fairness is provided. . . . And appointing agencies like AAA must be certain that only persons who are able to satisfy these criteria are added to arbitrator-panel lists. For if arbitrators and agencies do not meet these obligations, the courts will have no choice but to intercede.¹⁴³

¹⁴² See *supra* notes 91–94 and accompanying text.

¹⁴³ *Cole v. Burns Int'l Sec. Servs.*, 105 F.3d 1465, 1488 (D.C. Cir. 1997) (quoting *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 634 (1985); Calvin William Sharpe, *Adjusting the Balance Between Public Rights and Private Process: Gilmer v. Interstate/Johnson Lane Corp.*, in *PROCEEDINGS OF THE 45TH ANNUAL MEETING OF THE NATIONAL ACADEMY OF ARBITRATION* 161, 179 (1993), respectively).

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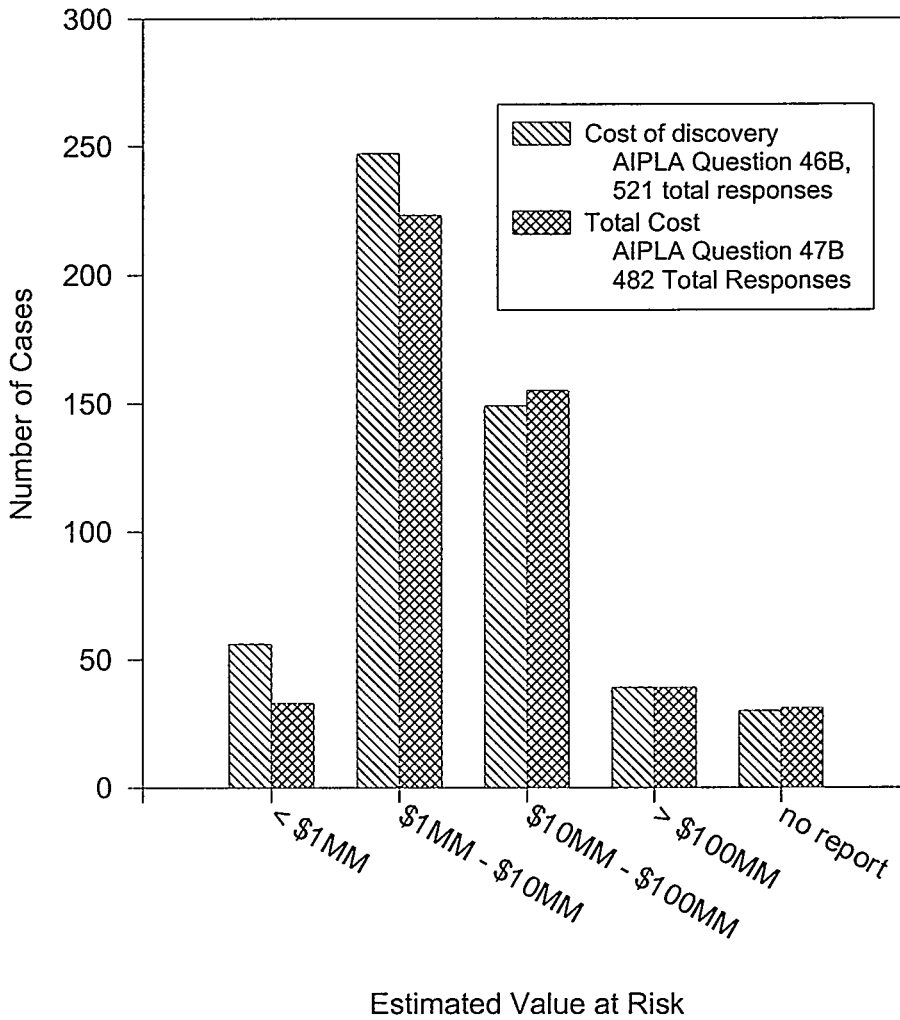
Mediation represents another private process on which society is relying for protection of public rights. Without a professional decisionmaker, then, courts may reasonably be expected to meet the obligation of proper handling of statutory issues arising in patent infringement cases undergoing mediation.

Early in this century, the United States Supreme Court recognized that in scrutinizing settlement agreements between parties to a patent infringement dispute, courts need to strike a balance between preventing anticompetitive agreements that violate antitrust laws and permitting disputants to settle their differences in an amicable and mutually beneficial way so as to foster economic growth.¹⁴⁴ If the Supreme Court believes it is both feasible and desirable to require judicial scrutiny of patent dispute settlements in the context of antitrust litigation, then perhaps the Court or Congress will someday call for similar scrutiny in the general context of court-sponsored mediation agreements.

¹⁴⁴ See *Standard Oil Co. (Indiana) v. United States*, 283 U.S. 163, 169–170 (1931). Such scrutiny is required under terms of the Tunney Act. See *Antitrust Procedures & Penalties Act (Tunney Act)*, Pub. L. No. 93-528, 88 Stat. 1706 (1974) (codified at 15 U.S.C. §§ 1–3, 16, 28; 47 U.S.C. § 401(d); 49 U.S.C. §§ 44–45) (no currently effective sections).

APPENDIX

Figure 1: Estimated Value at Risk in Patent Infringement Suits



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Figure 2: Patent Infringement Litigation Costs

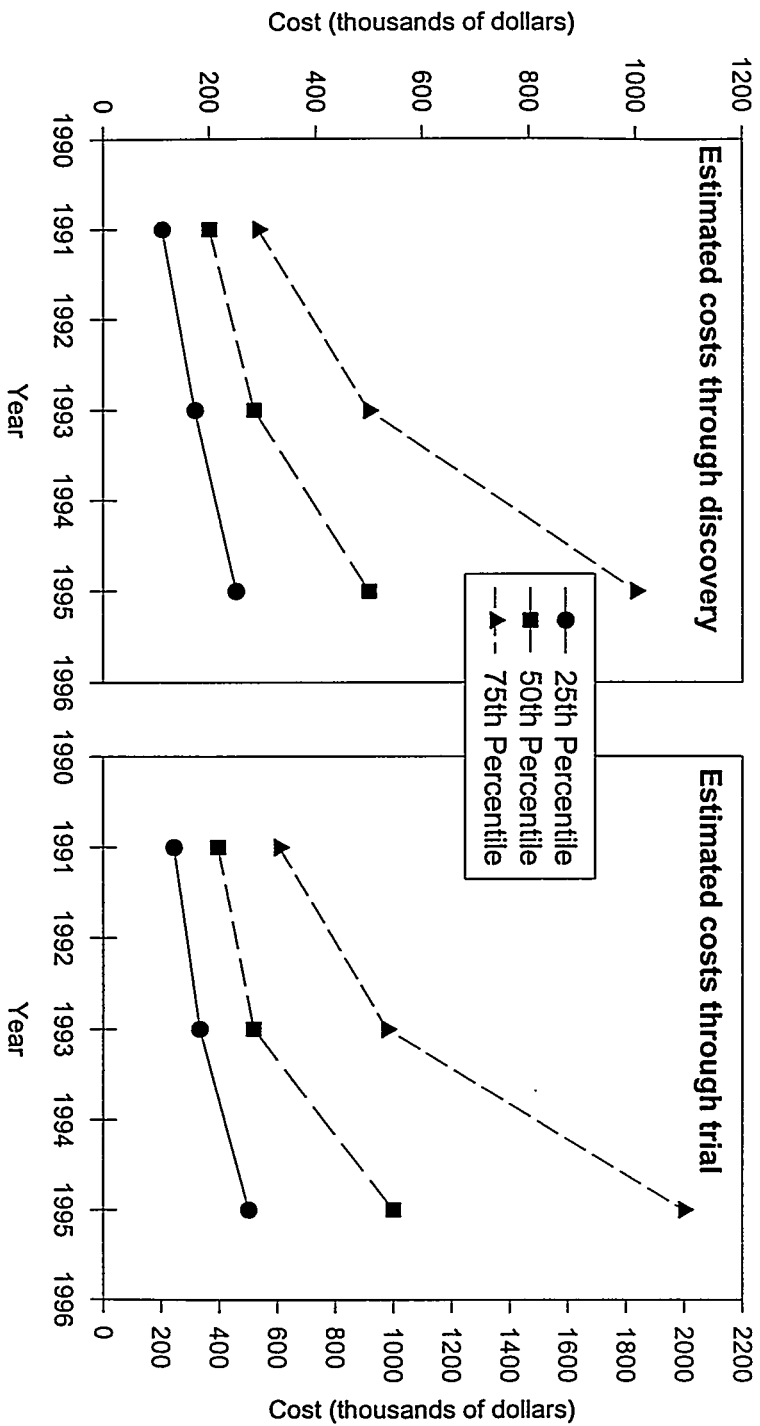


Figure 3: Estimated Value at Risk for Mediated Cases

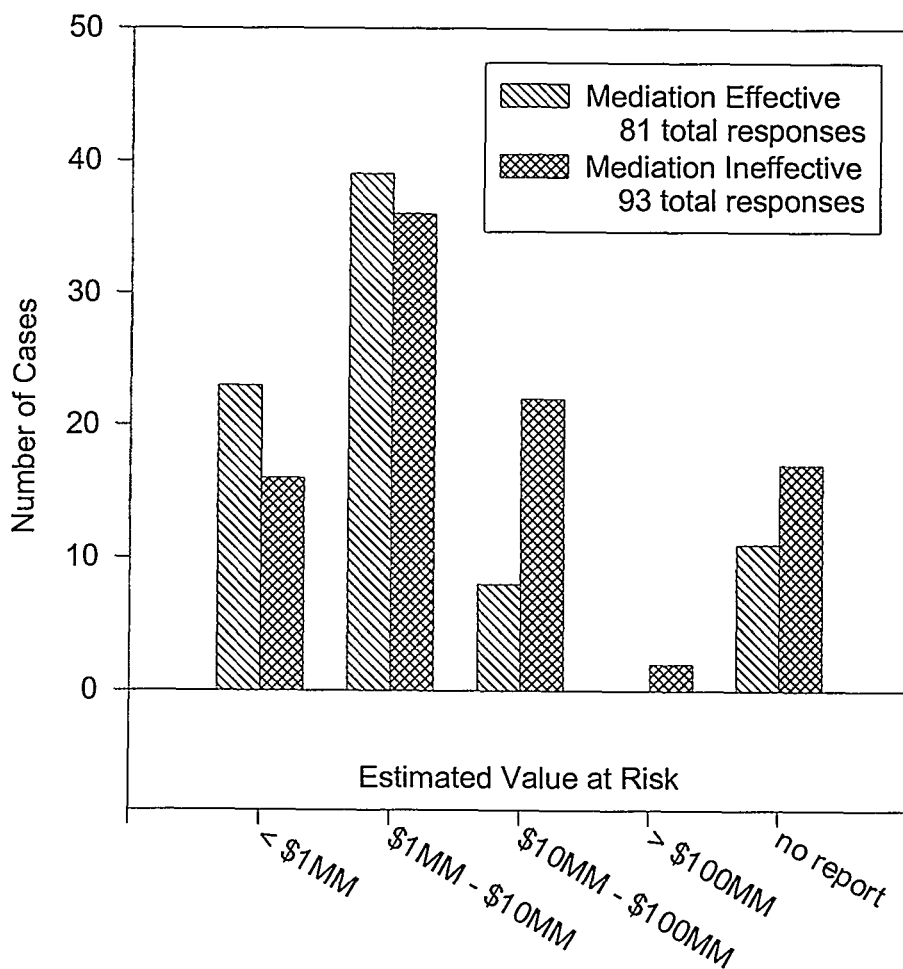


Figure 4: Estimated Total Costs of Litigation and of Ineffective Mediations

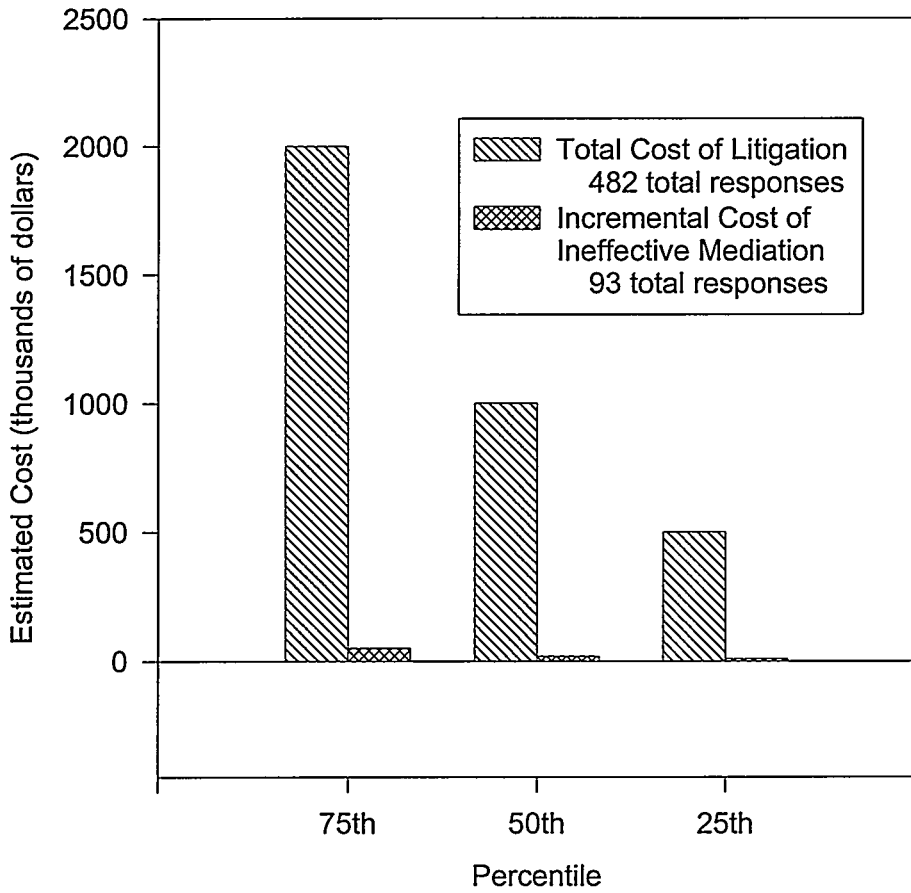


Figure 5: Estimated Cost of Mediation of Patent Infringement Suits

