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The Role of Arbitration in the Resolution of Patent Disputes

Mark A. Farley

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INTRODUCTION

The high cost of patent litigation, which is sometimes necessary to enforce a patentee's rights, is frequently cited as a deterrent to the use of the patent system. This is especially true for small businesses and independent inventors. Patent practitioners have long been concerned about the ever-growing cost, complexity and commercial disruption which a protracted patent litigation entails.

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Chief Justice Burger, in the keynote speech given before the National Conference on the Causes of Popular Dissatisfaction with the Administration of Justice,[1] stated:

> As the work of the courts increases, delays and costs will rise and the well-developed forms of arbitration should have wider use. Lawyers, judges, and social scientists of other countries cannot understand our failure to make greater use of the arbitration process to settle disputes. I submit a reappraisal of the arbitration process in order to determine whether, like the Administrative Procedure Act, arbitration can divert litigation to other channels.[2]

More recently, his annual report to the American Bar Association on the State of the Judiciary,[3] Chief Justice Burger reiterated his call for practitioners to consider arbitration as a viable alternative to traditional court proceedings: "[W]e need to consider moving some cases from the adversary system to administrative processes . . . especially arbitration. . . . I focus today on arbitration, not as the answer or cure-all, but as one example of 'a better way to do it.' "[4]

II. THE NATURE OF ARBITRATION

In recent years, arbitration has been developed into an efficient procedure for the prompt and effective resolution of intellectual property disputes.[5] In particular, the arbitration of patent disputes has been facilitated by the recently enacted 35 U.S.C. § 294.[6] Prior to the enactment of this statute, the arbitration of disputes concern-

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1. The conference, held April 7-9, 1976 in Saint Paul, Minnesota, was jointly sponsored by The American Bar Association, The Conference of Chief Justices and The Judicial Conference of the United States.

2. Goldsmith, *Addendum: Patent, Trademark and Copyright Arbitration Guide*, 18 IDEA 29, 30 (1977) (quoting Chief Justice Burger).

3. In a speech delivered to the American Bar Association membership on January 24, 1982.

4. Burger, *Isn't There A Better Way?*, 68 A.B.A.J. 274, 276 (1982).

5. *See, e.g.*, Hoellering, *Arbitration*, N.Y.L.J., Dec. 16, 1982, at 1, col. 1. ("The suitability of arbitration as a prompt and effective means of resolving intellectual property disputes has been well recognized in recent years."); Comment, *Arbitration and Intellectual Property: A Survey of Arbitration in Patent,Trademark and Copyright Cases*, 48 ALB. L. REV. 797 (1984) ("The use of arbitration is increasing in intellectual property cases in a variety of controversies. Since 1983 . . . arbitration has become an acceptable means of forestalling time-consuming, expensive litigation in the patent field. In addition to patent cases, trademark and copyright cases are also amenable to arbitration procedures."); Gray, *Arbitration Under Section 294 and Patent Licensing*, 7 LICENSING L. & BUS. REP., 202 (1985) ("Ever since President Reagan signed H.R. 6260, thereby endorsing the arbitration of patent validity and infringement under the provisions of 35 U.S.C. § 294, the commentators have been singing its praises loud and long.").

6. Act of Aug. 27, 1982, Pub. L. No. 97-247, 1982 U.S. CODE CONG. & AD. NEWS (96 Stat.) 317.

ing patent validity and infringement was considered to be void as against public policy.[7] This statute, effective February 27, 1983, now authorizes the arbitration of disputes concerning the validity and infringement of patent rights. Under section 294(b), the United States Arbitration Act[8] governs such arbitrations and the treatment of the awards rendered thereunder.

In addition, the signing by President Reagan of the Patent Law Amendments Act of 1984, on November 8, 1984,[9] now authorizes parties involved in patent interferences[10] to arbitrate these disputes as well. This section parallels many of the provisions of 35 U.S.C. § 294, discussed below, permitting the arbitration of any aspect of an interference except the issue of patentability.[11] Title 9 controls these proceedings as well, to the extent that its provisions are not inconsistent with Title 35.

The American Arbitration Association has defined arbitration as "[t]he reference of a dispute by voluntary agreement of the parties to an impartial person for determination on the basis of evidence and argument presented by such parties, who agree in advance to accept the decision of the arbitrator as final and binding."[12]

A brief examination of the positive and negative aspects of arbitration highlights the factors to be considered in determining whether to apply this means of dispute resolution to the determination of the most common disputes encountered under the patent laws. These are: the validity and/or infringement of United States patents; patent interferences; and controversies concerning the en-

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7. *See infra* notes 22-88 and accompanying text.

8. 61 Stat. 669 (1947), 9 U.S.C. §§ 1-14 (1970).

9. Pub. L. 98-622, § 105, (codified at 35 U.S.C. § 135(d) (Supp. III 1985)).

10. An interference is declared by the United States Patent and Trademark Office when it is determined that two pending applications, or a patent and a pending application, cover the same discovery or invention, which requires a determination of the priority of invention between the two applicants, or the applicant and the patentee.

11. Parties to a patent interference, within such time as may be specified by the Commissioner by regulation, may determine such contest or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of Title 9 to the extent such title is not inconsistent with this section. The parties shall give notice of any arbitration award to the Commissioner, and such award shall, as between the parties to the arbitration, be dispositive of the issues to which it relates. The arbitration award shall be unenforceable until such notice is given. Nothing in this subsection shall preclude the Commissioner from determining patentability of the invention involved in the interference.

35 U.S.C. § 135(d).

12. Goldsmith, *Patent, Trademark and Copyright Arbitration Guide*, 53 J. PAT. OFF. SOC'Y 224, 226 (1971).

forcement of patent license agreements or other contracts entered into by parties in consideration of the granting of patent rights.

While there are certain unique advantages which result from a resort to arbitration, this procedure does suffer from certain significant disadvantages as well. On the positive side, arbitration hearings, unlike judicial proceedings, are usually closed to the public and the parties have no obligation to make any records available to non-participants.[13] If confidential commercial information or trade secrets are involved in the dispute, this secrecy aspect may become particularly important. In addition, arbitration usually entails less delay than litigation because it may proceed when the parties are ready and does not have to await its turn on crowded court dockets.[14] Arbitration proceedings are usually less expensive than litigations, clearly a major advantage in terms of financial outlay for an individual or a small company. Arbitration tends to minimize hostility between the parties, leading to less disruption of their present and possible future business dealings. Also, since the parties may agree on the ground rules concerning the proceedings, arbitration may have simpler procedural and evidentiary rules than those used in litigation.[15] Arbitration is more flexible than litigation, in that the parties can stipulate to the time and place of the hearings and rules concerning discovery.[16] Finally, the arbitrator may be specifically selected for his availability and his expertise in the technology which is the subject of the dispute.

However, even with the best of intentions, arbitration may not necessarily be capable of resolving the dispute. Some arbitration proceedings may drag on due to the difficulty of arranging convenient meeting times with busy arbitrators. Further, losing parties may still resort to litigation in an attempt to set aside the arbitrator's decision, although section 10 of the Arbitration Act[17] imposes very narrow standards for vacating such an award.[18] An inability to join important parties who have not agreed in advance to arbitrate may diminish the effectiveness of an arbitration proceeding involving the parties who have agreed. This situation may lead a party to become

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13. *See, e.g.*, Payne and Brunsvold, *Five Important Clauses: A Practical Guide*, 6 LICENSING L. & BUS. REP. 82, 84 (1983).

14. Robb, *The Arbitration of Patent Controversies*, 25 J. PAT. OFF. SOC'Y 412-421 (1943).

15. *See, e.g.*, Janicke and Borovoy, *Resolving Patent Disputes by Arbitration: An Alternative to Litigation*, 62 J. PAT. OFF. SOC'Y 337 (1980).

16. M. HOELLERING, NEW OPPORTUNITIES FOR PATENT ARBITRATION, ARBITRATION AND THE LAW, 378 (1982).

17. 9 U.S.C. § 10 (1970).

18. *See infra* text accompanying notes 89-107.

simultaneously involved in litigation and arbitration over related issues.[19]

There are additionally those who erroneously believe that arbitrators are more likely than judges to compromise or "split the difference" between the claims of the parties rather than decide exclusively in favor of one or the other. This view may discourage those who feel that their legal position is strong but whose equitable position is weak, or those who desire strict enforcement of contractual rights and duties. Parties who have a strong position often prefer the publicity and *res judicata* effect of a court's judgment over an arbitrator's award, which are "final and binding between the parties to the arbitration but shall have no force or effect on any other person."[20]

Finally, the fact that many conservative practitioners are simply unfamiliar with the mechanics of arbitration causes them to gravitate towards a judicial resolution of their dispute, to avoid trying out a new method.[21]

While arbitration does not provide a panacea for the resolution of all disputes concerning patent issues, there are, however, many positive considerations for its use in such a setting. Why then did it take until 1983 for the members of Congress and the bar to tailor a positive statutory enactment of this view? This question may best be explored by reviewing the public policy toward the arbitration of such issues prior to the codification of 35 U.S.C. § 294.

III. THE PUBLIC POLICY AND JUDICIAL VIEW CONCERNING THE ARBITRATION OF VALIDITY AND INFRINGEMENT ISSUES PRIOR TO THE ENACTMENT OF 35 U.S.C. § 294

Prior to the passage of the United States Arbitration Act in 1925,[22] the United States strictly adhered to the English common law view that agreements to arbitrate *future* controversies were un-

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19. Aeschlimann, *The Arbitrability of Patent Controversies*, 44 J. PAT. OFF. SOC'Y 655 (1962); Hornick, *Arbitration Under Section 294 and Patent Licensing*, 7 LICENSING L. & BUS. REP., 202, 205 (1985).

20. 35 U.S.C. § 294(c) (1982).

21. *See, e.g.*, Payne and Brunsvold, *Five Important Clauses: A Practical Guide*, 6 LICENSING L. & BUS. REP. 83, 84 (1983), for a concise discussion of many of the factors which should be weighed in determining whether to arbitrate.

22. 61 Stat. 669 (1947), 9 U.S.C. §§ 1-14 (1970).

enforceable.[23] Furthermore, an agreement to arbitrate an existing dispute was unilaterally revocable at any time prior to the award.[24] The only statutory remedy for a refusal to arbitrate under the common law was an action in damages.[25] Such hostility to arbitration probably originated "[i]n the contests of the courts of ancient times for extension of jurisdiction — all of them being opposed to anything that would altogether deprive every one of them of jurisdiction."[26] Although certain American courts criticized this hostile attitude toward arbitration as illogical, they declined to reverse it.[27]

Apparently recognizing that arbitration would be a useful adjunct to and not a usurpation of the work of the judicial system, Congress in 1925 passed the United States Arbitration Act.[28] Section 2 of this Act declared arbitration agreements "in any maritime transaction or a contract evidencing a transaction concerning commerce . . . [to] be valid, irrevocable and enforceable."[29] While certain classes of disputes were deemed non-arbitrable,[30] patent matters were not so excepted. However, the courts, based upon various considerations, soon decided that the Act of 1925 was *not* applicable to the issues of patent validity and infringement.[31]

Arbitration provisions concerning patent licensing agreements, however, have been held valid and enforceable.[32] Since the enforcement and interpretation of many aspects of patent license agree-

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23. *See, e.g.*, Pegram, *An Analysis and Explanation of the Statutes Now Affecting Patent Arbitration*, 11 AM. PAT. L.A.Q., 274, 274-75 (Fall 1983); Bedikian, *Philosophical and Procedural Excursions Into the Arbitration World of Patent and Copyright Disputes*, 4 DET. C.L. REV. 1053, 1057 (1983); Aeschlimann, *The Arbitrability of Patent Controversies*, 44 J. PAT. OFF. SOC'Y 655, 656 (1962); Dobkin, *Arbitrability of Patent Disputes Under the U.S. Arbitration Act*, 23 ARB. J. 1, 6-7 (1968).

24. Aeschlimann, *The Arbitrability of Patent Controversies*, 44 J. PAT. OFF. SOC'Y 655, 656 (1962).

25. *Id.*

26. United States Asphalt Refining Co. v. Trinidad Lake Petroleum Co., 222 F. 1006, 1007 (S.D.N.Y. 1915)(citing Scott v. Avery) 5 House of L. 811 (1856).

27. *Id.* at 1012.

28. United States Arbitration Act, ch. 213, 43 Stat. 883 (1925) (codified as amended at 9 U.S.C. §§ 1-14 (1982)).

29. 9 U.S.C. § 2 (1982).

30. 9 U.S.C. § 1 (1982).

31. A similar conclusion was reached and is still followed with regard to the arbitration of antitrust issues. *See, e.g.*, American Safety Equip. Corp. v. J.P. Maguire & Co., 391 F.2d 821 (2d Cir. 1968).

32. *See, e.g.*, Schweyer Electric and Mfg. Co. v. Regan Safety Devices Co., 4 F.2d 970, 974 (2d Cir. 1925), *cert. denied*, 268 U.S. 690 (1925); and Cavicchi v. Mohawk Mfg. Co., 34 F. Supp. 852, 854 (S.D.N.Y. 1940), *appeal dismissed*, 308 U.S. 522, *reh'g denied*, 308 U.S. 639 (1940); cited in Payne and Brunsuold, *Five Important Clauses: A Practical Guide*, 6 LICENSING L. & BUS. REP. 82, 83 (1983).

ments are more a question of contract law than patent law, arbitration appears naturally suited to resolving disputes arising under such contracts. Courts will generally uphold agreements to arbitrate controversies that arise concerning a patent licensing agreement,[33] subject to the usual provisions concerning overreaching, fraud in the inducement, etc.[34]

For example, in *Levin v. Ripple Twist Mills, Inc.*[35] the court determined that "issues of computations of royalties and of termination of the agreement are referrable to arbitration. . . ."[36] Further, in *Hanes Corp. v. Millard*[37] the court held that a dispute concerning the timeliness of royalty payments was clearly within the broad arbitration clause of the parties' contract.[38] However, in *Levin*, the court noted that such an arbitration would not contravene the patent laws or any other law or policy because no question of patent infringement need be addressed by the arbitrator[39] while the *Hanes* court remanded the question of patent validity for judicial determination.[40]

Prior to a discussion of the relevant judicial decisions and public policy considerations which provided the foundation for the initial judicial and legislative opposition to the arbitration of validity and

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33. Janicke and Borovoy, *Resolving Patent Disputes by Arbitration: An Alternative to Litigation*, 62 J. PAT. OFF. SOC'Y 337, 357 (1980)("Arbitrability of other patent license disputes, such as best efforts provisions, most favored licensee provisions, etc. has never been questioned and is clearly provided for by the Federal Arbitration Act, as well as state statutes."); Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J., 3, 5 (1983)("Pure accounting issues in patent license agreements are often settled by arbitration."); Comment, *Arbitration and Intellectual Property; A Survey of Arbitration in Patent, Trademark and Copyright Cases*, 48 ALB. L. REV. 797, 806 (Spring 1984)("Contract issues and disputes over royalty payments are especially suited to arbitration because the terms are well defined and the arbitrator knows the bounds of the disagreement.").

34. Pegram, *An Analysis and Explanation of the Statutes Now Affecting Patent Arbitration*, 11 AM. PAT. L.A.Q. 275, 277 (1983)("agreements to arbitrate shall be enforced subject only to the rules of contract law."); Note, *Reducing Patent Litigation Costs*, 30 DE PAUL L. REV. 857, 864 (1981)("In addition, many aspects of patent licensing are governed by the general law of contracts [citations omitted]. Therefore, an agreement by the parties to submit to arbitration disputes arising from the licensing agreement can be analyzed in terms of contract law, which permits the contracting parties freedom in defining the specific terms and conditions of the Contract. As a result of this application of contract law to patent licensing agreements, courts generally uphold agreements to arbitrate controversies that arise in a patent licensing agreement.").

35. 416 F. Supp. 876 (E.D. Pa. 1976), *appeal dismissed*, 549 F.2d 795 (3d Cir. 1977).

36. *Id.* at 880.

37. 531 F.2d 585 (D.C. Cir. 1976).

38. For further citations concerning the unquestioned validity of arbitration agreements in patent licensing agreements *see* Payne and Brunsvold, *Five Important Clauses: A Practical Guide*, 6 LICENSING L. & BUS. REP. 82, 83 (1983).

39. 416 F. Supp. 876, 881 (E.D. Pa. 1976), *appeal dismissed*, 549 F.2d 795 (3d Cir. 1977).

40. 531 F.2d 585, 600 (D.C. Cir. 1976).

infringement issues, a brief discussion and definition of the concepts of patent validity and infringement is in order. Patent validity is uniformly held[41] to be a question of law for the court.[42] A question of validity or enforceability arises when a party contends that a patent is not valid for some reason, or that it was procured by a fraud on the Patent Office,[43] and therefore is no longer of any force or effect. The question of infringement, i.e., the manufacture, use or sale of a patented article or process in the absence of a license from the patentee, is uniformly held to be a question of fact.[44] The central issue in such a case concerns whether or not the product produced or the method practiced by one party is covered by the claims of a (valid) patent, issued or assigned to the other party.

A. *The Judicial View*

Judicial reluctance to sanction the arbitration of patent infringement and validity issues was expressed in diverse ways prior to the enactment of 35 U.S.C. § 294. In *Zip Mfg. Co. v. Pep Mfg. Co.*,[45] the rule against arbitration of patent validity and infringement was first announced in 1930. The court interpreted the Arbitration Act of 1925 very narrowly, and held that validity and infringement issues were not related to a controversy involving commerce or to a maritime transaction.[46]

Zip Manufacturing had sued Pep for the infringement of a United States patent which claimed a process for the manufacture of a grinding compound. The existing written agreement between the two companies provided for the arbitration of any disputes in contemplation of just such an eventuality. Pep therefore moved for a stay[47] under section 3 of the Act of 1925,[48] which authorizes the federal courts to postpone the trial of an action involving issues referrable to arbitration, pursuant to a written agreement, until the arbitration has been completed. The court denied Pep's motion, holding, as noted above, that issues concerning questions of patent validity and

41. Graham v. John Deere Co., 383 U.S. 1 (1966), Spound v. Mohasco Indus., 186 U.S.P.O. 183 (D. Mass. 1975).

42. Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J. 3 (1983).

43. Such as by a failure to disclose all material prior art to the Examiner reviewing the application.

44. Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J. 3, 4 (1983).

45. 44 F.2d 184 (D. Del. 1930).

46. *Id.* at 186.

47. *Id.* at 184.

48. 9 U.S.C. § 3 (1982).

infringement were not related to a controversy involving commerce and further determined that the term "commerce" in the Arbitration Act encompassed only the "daily relations between merchants."[49] The court opined that issues concerning patent validity and infringement were "inherently unsuited to the procedure of arbitration statutes."[50]

In the years since the *Zip* case, the Supreme Court has expanded the definition of interstate commerce.[51] Although this has served to erode the rationale behind the *Zip* opinion, the Court's conclusion has survived, until recently, as an established rule, as the decisions discussed below will demonstrate.

As late as 1962, in *Leesona Corp. v. Cotwool Mfg. Corp.*,[52] the court, quoting the *Zip* case stated that "[t]he determination of the status of a patent, its validity or invalidity, its infringement or noninfringement, is a matter that is inherently unsuited to the procedure of arbitration statutes."[53]

Leesona was an action for infringement of three United States patents belonging to the plaintiff which related to yarn texturizing machinery and methods for using such machinery.[54] The defendant moved to enjoin the plaintiff from taking further steps in prosecuting a related claim against another party in a concurrent arbitration proceeding.[55] The court, relying upon the rule of *Zip v. Pep*, stayed the arbitration because the issue to be determined was identical to the infringement issue in the court action, and because the defendant might sustain irreparable injury if the arbitration was permitted to proceed.[56] The court of appeals affirmed the district court's ruling,[57] reasoning that the lower court's ruling on the infringement issue would be highly persuasive to, if not dispositive of, the decision by the arbitrator.[58]

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49. 44 F.2d 184, 186 (D. Del. 1930).

50. *Id.*

51. *See, e.g.*, Wickard v. Filburn, 317 U.S. 111, 124 (1942) (commerce includes not only interstate activities, but also these intrastate activities which substantially affect interstate commerce); and Consolidated Edison Co. v. National Labor Relations Board, 305 U.S. 197, 222 (1938) (the power to regulate commerce includes labor regulation in order to avoid a disruption of commerce).

52. 204 F. Supp. 141 (W.D.S.C. 1962), *aff'd*, 315 F.2d 538 (4th Cir. 1963).

53. *Id.* at 143.

54. *Id.* at 142.

55. *Id.*

56. *Id.* at 142-43.

57. 315 F.2d 538 (4th Cir. 1963).

58. Id. at 541.

A different rationale was relied upon even more recently by the District of Columbia Circuit Court of Appeals in *Hanes Corp. v. Millard*[59] in which the assignee of a United States patent for a technique for weaving hosiery sought a declaratory judgment as to the scope, for purposes of determining infringement, and validity of the patent, for the purpose of construing a patent license agreement.[60]

In the text of his decision, Circuit Judge McGowan, in contrast with the commentators' usual statements about the relative expertise of arbitrators[61] stated:

> Such issues involve complex and difficult questions in applying an extremely technical body of law. They are questions that may be unfamiliar to arbitrators, particularly for members of the panel who are not lawyers or are citizens of a foreign country. . . . The expertise of arbitrators has always lain in resolving, perhaps by way of compromise, contractual disputes rather than in interpreting the import of complicated federal legislation.[62]

This view, that the highly technical nature of patent disputes may be too technical for an arbitrator, is not widely held.[63] On the contrary, the specialized expertise of an arbitrator, picked *because* of his knowledge concerning a specific field, is normally much greater than that of a judge with little, if any, specific training in the area of controversy.

B. *Public Policy Considerations*

In 1969, the Supreme Court's decision in *Lear, Inc. v. Adkins*[64] advanced a unique public policy argument in a further effort to preclude recognition of agreements to arbitrate matters affecting the va-

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59. 531 F.2d 585 (D.C. Cir. 1976).

60. *Id.* at 588-99.

61. Arbitrators are selected for their technical expertise in a particular area in contrast to members of the judiciary who are often unfamiliar with the technical processes and compositions in dispute.

62. 531 F.2d 585, 593 (D.C. Cir. 1976).

63. *See, e.g.*, Note, *Arbitration of United States Patent Validity and Infringement Under 35 U.S.C. § 294*, 17 GEO. WASH. J. INT'L L. & ECON., 637, 638-89 (Fall. 1983) ("Individual parties [to arbitrations under 35 U.S.C. § 294] benefit from the comparative advantages of arbitration over litigation . . . and greater expertise of the fact finder.")(citing H.R. REP. No. 542, 97th Cong., 2nd Sess. 2, *reprinted in* 1982 U.S. CODE CONG. & AD. NEWS 765, 765-66)). Hoellering; *See New Opportunities for Patent Arbitration*, N.Y.L.J., Dec. 16, 1982, at 1, col. 1. ("The advantages of arbitration are many . . . and, arbitrators are frequently better versed than judges and juries in the area of trade customs and the technologies involved in these disputes."); *but see* Alexander v. Gardner-Denver Co., 415 U.S. 36, 52-54, 56-57, (1974); Meltzer, *Ruminations About Ideology, Law and Labor Arbitration*, 34 U. CHI. L. REV. 545, 557-60 (1967).

64. 395 U.S. 653 (1969).

lidity and infringement of United States patents. *Lear* focused attention on the importance of promoting open challenges,[65] i.e., in court rather than in private arbitration proceedings, to invalid patents which restrain free competition by finding an "important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain."[66] The *Lear* Court added that "[i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly."[67]

This issue arose in a setting where an inventor had licensed the rights to his improved gyroscope prior to receiving a patent for his improvement. At some time during the prosecution of his patent application, the licensee repudiated its obligation to pay royalties, as it felt the Patent and Trademark Office would not grant a patent on the improvement. The Court, by its holding, abolished the doctrine of licensee estoppel which theretofore had prevented a licensee under the patent from contesting the validity of the patent. The theory underlying this long-established doctrine was that a licensee should not be permitted to enjoy the benefit of a license while, at the same time, attacking the validity of the underlying patent. The interest in publicly challenging possible invalid patents was therefore determined to be of overriding concern to the *Lear* Court.[68]

Thereafter, several major federal cases in this area have cited *Lear* for the proposition that public policy disapproves of the private settlement of disputes concerning the validity and infringement of patents through the use of arbitration, and requires these determinations to be made in open court.[69]

In *Beckman Instruments, Inc. v. Technical Development Corp.*,[70] where the arbitration clause in an agreement did not expressly provide for the arbitration of patent validity questions, the court, citing *Lear*, affirmed "the district court's view that such questions are inap-

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65. Gray, *Arbitration Under Section 294 and Patent Licensing*, 7 LICENSING L. & BUS. REP. 202 (1985) (federal courts cited *Lear* for the proposition that the public interest in the outcome of patent validity and infringement disputes required those controversies to be settled in the public forum of the courtroom rather than in the privacy of an arbitration proceeding).

66. *Lear*, 395 U.S. at 670.

67. *Id.* at 663-64 (quoting Pope Manufacturing Co. v. Gormully, 144 U.S. 224, 234 (1892)).

68. The *Lear* Court found that there was an "[i]mportant public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain." Lear v. Adkins, 395 U.S. 653, 670 (1969).

69. Note, *Arbitration of United States Patent Validity and Infringement Under 35 U.S.C. § 294*, 17 GEO. WASH. J. INT'L L. & ECON., 637, 642 (1983).

70. 433 F.2d 55 (7th Cir. 1970), *cert. denied*, 401 U.S. 976 (1971).

propriate for arbitration proceedings and should be decided by a court of law, given the great public interest in challenging invalid patents."[71] The court adopted the district court's holding that,

> [t]he complex principles of patent law which a court must consider and apply when deciding issues of validity and infringement, affect important questions of public policy and public rights. In considering the validity of patent claims, a court makes decisions crucial not only to the parties involved, but of vital importance to the public generally.[72]

In *Diematic Mfg. Corp. v. Packaging Industries, Inc.*,[73] a patent licensee brought an action seeking a declaratory judgment of patent invalidity or noninfringement, relying upon the rationale of the *Lear* decision. The licensee moved for an order to stay contractually mandated arbitration proceedings between the parties, while the licensor cross-moved under section 3 of the Arbitration Act[74] for a stay of the action to allow the arbitration to proceed. The court stated that, "questions of patent law are not mere private matters."[75] In holding that the patent owner's claims should be determined by the court and not by arbitration, the court further stated, "[w]e think, as have other courts which have considered this issue, that the grave public interest in issues of patent validity and infringement renders them inappropriate for determination in arbitration proceedings."[76]

In *N.V. Maatschappij Voor Industriele Waarden v. A.O. Smith Corp.*,[77] the Southern District Court of New York had directed the parties to proceed with the arbitration of disputes arising out of a patent license which included a provision for the transfer of related technical information between the parties. The judge stayed further court proceedings pending completion of the arbitration.[78] The Second Circuit Court of Appeals, in deciding the appeal from this order, held that, while the patentee's claims that the licensee had failed to perform its responsibilities under the license and know-how agreements and had improperly attempted to disclose confidential infor-

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71. 433 F.2d at 63.

72. *Id.*

73. 381 F. Supp. 1057 (S.D.N.Y.), *appeal dismissed*, 516 F.2d 975 (2d Cir.), *cert. denied*, 423 U.S. 913 (1975).

74. 9 U.S.C. § 3 (1982).

75. Diematic Mfg. v. Packaging Indus., 381 F. Supp. 1057, 1061 (S.D.N.Y. 1974) (citing American Safety Equip. Corp. v. J.P. Maguire and Co., 391 F.2d 821, 826 (2d Cir. 1968)).

76. *Diematic*, 381 F. Supp. at 1061.

77. 532 F.2d 874 (2d Cir. 1976).

78. *Id.*

mation to third parties were arbitrable,[79] the licensee's defenses concerning the validity of the licensed patents must be determined by a court and were not arbitrable.[80]

Finally, in *Foster Wheeler Corp. v. Babcock and Wilcox Co.*,[81] the parties settled a patent interference by means of an agreement which included an arbitration clause. At some time thereafter, Foster Wheeler apparently breached the agreement by refusing to pay royalties for a boiler manufactured by Babcock and Wilcox, taking the position that the interference counts agreed to by the parties did not cover the invention.[82] Babcock and Wilcox sued Foster Wheeler in Indiana for infringement, claiming that the agreement was breached, completely ignoring the arbitration clause in the agreement.[83] Foster Wheeler then brought an action in the Southern District of New York for a declaratory judgment of noninfringement and invalidity of the patents. Babcock and Wilcox had a change of heart in the face of this action and served a demand for arbitration which Foster Wheeler opposed, citing the two lawsuits already in progress.[84]

Babock and Wilcox moved in the Southern District of New York for an order compelling arbitration of what was termed "other issues." The Indiana court had by this time issued an injunction permanently enjoining Babock and Wilcox from proceeding with the arbitration.[85] Babock and Wilcox apparently believed that their unopposed dismissal of the Indiana action would sanction such a move. The New York court construed "other issues" to refer to the validity and infringement of the patent in suit.[86] The court held that:

> The Indiana court's injunction against arbitration was based upon "the established rule that public interest in questions of patent validity and infringement renders them inappropriate for determination in arbitration proceedings." . . . There appears to be *universal agreement* that, at least insofar as the issue of patent validity is concerned, arbitration is inappropriate.[87]

In the face of such a unified body of precedent holding against the arbitration of validity and infringement issues, one may well ask how

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79. *Id.* at 875.
80. *Id.* at 876.
81. 440 F. Supp. 897 (S.D.N.Y. 1977).
82. *Id.* at 900.
83. *Id.* at 899-900.
84. *Id.* at 900.
85. *Id.* at 900-01.
86. *Id.*
87. *Id.* at 901 (quoting Diematic Mfg. v. Packaging Indus., 381 F. Supp. 1057, 1061 (S.D.N.Y. 1974).

the view of the judiciary, considering the public policies discussed above, was turned one hundred and eighty degrees in the opposite direction, making them vehement supporters of the arbitration process for such a purpose. The reasons behind this turnaround are discussed in the following section.

IV. POLICY REASONS FAVORING THE REVERSAL OF THE JUDICIARY'S PRIOR NEGATIVE VIEW TOWARD PATENT ARBITRATION

Peter Rosenberg, in his treatise entitled *Patent Law Fundamentals*, characterizes the grant of a United States patent as "an invitation to a law suit."[88] Such litigation is inherently complex, time consuming and very expensive.[89] However, until the passage in 1982 of 35 U.S.C. § 294, the resolution of disputes in this area constituted a major exception to the general rule that compromises of disputed claims through the use of techniques other than litigation are favored by the courts.[90]

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88. P. ROSENBERG, PATENT LAW FUNDAMENTALS, § 17-2 (1980).

89. *See, e.g.*, Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J., (1983):

> Patent litigation is one of the most time-consuming and complex of all forms of commercial litigation. Patent suits comprise a very small percentage of the total number of cases filed in the district courts each year. While the number of patent cases is relatively small, they consume a disproportionately large amount of time to try. Many judges are dealing with unfamiliar areas of the law and with technical concepts and subject matter with which they have even less familiarity.

Id. at 5.

90. *See also*, Borovoy and Janicke, *The Minitrial Approach to Resolving Patent Disputes*, 11 AM. PAT. L.A.Q. 258 (1983):

> Patent litigation is inherently complex. Scientific and mechanical principles are involved, which sometimes by their very nature are hard to understand, and other times seem to be made uncertain by the advocacy of opposed attorneys whose clients have large stakes in the outcome. Quite apart from these problems, there are some underlying factors which make patent litigation even more time-consuming and expensive.
>
> The crux issue in most patent cases, and the one on which most of the time and money are spent, is validity of the patent. Within the topic of validity, the most important question is usually "obviousness." Digging into the obviousness issue requires extensive investigation into the time period when the invention was made, the investigation including the purpose of the invention, and what other companies in the field were doing at the time. There is no necessary limit on how many companies or how many researchers were working on the problem, and no limit on where they were located, where they are now, or where their records are. Hence, patent litigation presents a complex task for litigants. The relevant information is largely in the hands of non-parties scattered across the globe. In this sense it is inherently more complex than, for example, contract litigation, products liability cases, or negligence suits, where knowledge of the pertinent facts for discovery and trial is substantially confined to the parties, a small number of non-party witnesses, and perhaps a few retained experts. Not so in patent cases.

The cost of an extended patent litigation is not measured strictly in terms of dollars. It also includes the economic disruption suffered by both parties.[91] Their top executives and legal staff are forced to divert their efforts and resources, sometimes for years, until the lawsuit is concluded. One must also consider the effect of an acrimonious court battle on the tenuous "good will" existing between competitors who share the same marketplace and who will still be doing business with one another long after the outcome of the suit is determined.[92]

The expense inherent in this form of dispute resolution, when measured in dollars, loss of management's time and loss of good will, coupled with the long delays faced by those who take their dispute to the courtroom, may render such litigation virtually prohibitive for some parties in further view of overcrowded courtroom dockets and the general lethargy of the judicial process. This state of affairs has engendered widespread concern by members of the corporate and patent bars[93] who have sought a means to provide for voluntary arbitration of patent validity and infringement issues consonant with the judicial views and public policy issues previously discussed.[94]

Provisions authorizing the use of arbitration, included in two proposed omnibus patent law bills, were debated but not passed by the 93rd and 94th Congresses. It was clear, however, that sentiment was building in support of arbitration as a means for settling patent infringement and validity disputes.[95] This view was clearly outlined in

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> These complex factors have been combined with modern data-retrieval resources, to make patent cases even more time-consuming and expensive. It is no surprise, therefore, that many clients and responsible advocates have in recent years been thinking about and experimenting with alternative approaches to resolving disputes. Negotiated settlements are of course one alternative. When that fails, the avenues currently being considered most frequently comprise some sort of pre-agreed, tightly structured procedure involving the participation of a neutral, respected third party.

Timberg, *Antitrust Aspects of Patent Litigation, Arbitration and Settlement*, 59 J. PAT. OFF. SOC'Y 244 (1977).

91. M. HOELLERING, NEW OPPORTUNITIES FOR PATENT ARBITRATION, ARBITRATION AND THE LICENSING PROCESS, § 5-28.4 (1984).

92. Payne & Brunsvold, *Five Important Clauses: A Practical Guide*, 6 LICENSING L. & BUS. REP. 82, 84 (1983).

93. Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J. 5 (1983).

94. See an excellent discussion of the efforts by those in industry as well as the legislative branch leading to the passage of H.R. 6260 (Public Law 97-247), containing 35 U.S.C. § 294, in Manbeck, *Voluntary Arbitration of Patent Disputes — The Background to 35 U.S.C. § 294*, 11 AM. PAT. L.A.Q. 268-70 (1983).

95. *See, e.g.*, Manbeck, *Voluntary Arbitration of Patent Disputes — The Background to 35 U.S.C. § 294*, 11 AM. PAT. L.A.Q. 268 (1983) and Note, *Arbitration of United States Patent Validity and Infringement Under 35 U.S.C. § 294*, 17 GEO. WASH. J. INT'L L. & ECON. 637, 643 (1983).

a speech given by C. Marshall Dann, then Commissioner of Patents, to the New Jersey Patent Law Association in 1976 concerning the proposed arbitration section[96] when he stated:

> This seems to me a very important and highly beneficial provision. I think it unfortunate that some courts have concluded that validity and scope should not be subject to arbitration on the basis that these matters are of such great public interest. *An agreement to arbitrate is not an agreement not to contest. Arbitration simply changes the forum and the procedure.* It can save a great deal of valuable judicial time.[97]

By 1982, largely through the efforts of the Subcommittee on Technology Policy of the Committee for Economic Development,[98] the resisting forces[99] ceased their opposition and supported the proposed legislation. The catalyst which stimulated such a reaction was a position paper submitted by the committee concerning methods for encouraging technological advancement.[100] This paper, alluding to the high cost, in both time and money, of patent litigation, concluded that such a state of affairs repressed innovative research and that arbitration could serve as a method of lessening the risk of protracted litigation over patents possessing a great deal of commercial potential.[101]

Responding to this increasing clamor for substantive patent reform, Representative Robert Kastenmeier introduced a bill[102] which contained what is presently codified as 35 U.S.C. § 294. The House Judiciary Committee Report by Representative Kastenmeier[103] illus-

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96. 35 U.S.C. § 294 (1982).

97. Goldsmith, *Addendum: Patent, Trademark and Copyright Arbitration Guide*, 18 IDEA 29 (1977) (emphasis added). The scope of a patent involves a determination as to whether the patent claims are deemed to read on an allegedly infringing device or method.

98. The Committees for Economic Development is an independent research and educational organization of two hundred business executives and educators. Its aim is to propose policies that will help to bring about steady economic growth at high employment with reasonably steady prices. The Chairman of the Subcommittee on Technology Policy was Mr. Harry Manbeck of the General Electric Company.

99. The resisting forces included both the U.S. Commerce Department and the Department of Justice.

100. Position Paper by the Committee for Economic Development, Subcommittee on Technology Policy (Report of Group Four — Patents) March, 1979.

101. M. HOELLERING, NEW OPPORTUNITIES FOR PATENT ARBITRATION, ARBITRATION AND THE LAW, 377 (1982).

102. H.R. 6260, 97th Cong., 2d Sess., 128 CONG. REC. 3203-05 (1982).

103. H.R. REP. No. 97-542, 97th Cong., 2d Sess. (1982):

> The enforcement of voluntary arbitration provisions would serve the public in two ways. First, the availability of arbitration with its numerous advantages will enhance the patent system and thus will encourage innovation. This view is supported by the Committee for Economic Development in their January, 1980 statement entitled "Stimulating Technological Progress." Secondly, arbitration could relieve some of the burdens on the

trates how completely the prior view of arbitration for the settlement of validity and infringement controversies has changed. It appears that this arbitration provision was included in a bill authorizing an increase in Patent and Trademark Office fees[104] in order to ensure its passage. The legislation was quickly passed by both houses of Congress and was signed by President Reagan on August 27, 1982.[105]

V. AN ANALYSIS OF 35 U.S.C. § 294 AND THE INTERRELATION OF THE PROVISIONS OF THE ARBITRATION ACT (TITLE 9, UNITED STATES CODE)

35 U.S.C. § 294, entitled "Voluntary Arbitration,"[106] is divided into five subsections, (a) through (e), each of which will be discussed in turn.

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overworked federal courts. Chief Justice Burger in his speech to the American Bar Association on Jan. 24, 1982, generally endorsed the use of arbitration to reduce the judicial backlog. Also, I think it is important to note that the American Bar Association's Section on Patent, Trademark and Copyright Law has endorsed court enforcement of arbitration agreements calling for arbitration of validity and infringement. The bill increased patent and trademark prosecution fees and introduced patent and maintenance fees in order to make the Patent and Trademark Office financially self-sustaining. H.R. Rep. No. 97-542, 97th Cong., 2d Sess. (1982).

104. The bill increased patent and trademark prosecution fees and introduced patent maintenance fees in order to make the Patent and Trademark Office financially self-sustaining.

105. Act of Aug. 27, 1982, Pub. L. No. 97-247 (1982) U.S. CODE CONG. & AD. NEWS (96 Stat.) 317, 323.

106. (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 of competent jurisdiction from which no appeal can or has been taken, such award may be modified by any court of competent jurisdiction upon application by any party to the arbitration. Any such modification shall govern the rights and obligations between such parties from the date of such modification.

(d) When an award is made by an arbitrator, the patentee, his assignee or licensee shall give notice thereof in writing to the 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

Subsection (a)[107] permits both a contractual provision (such as may be found in a patent licensing agreement) requiring future disputes relating to patent validity *or* infringement to be settled by arbitration.[108] It also allows, in the absence of such a contractual provision, an agreement to arbitrate these issues which may be entered into after the dispute arises.[109] Such an agreement, once executed, "shall be valid, irrevocable and enforceable." The irrevocability which the statute refers to concerns unilateral irrevocability, except on grounds that would have permitted revocation at common law, such as fraud or duress. The parties may, however, revoke or amend this provision at any time by mutual consent.[110]

Section 294(a) closely parallels section 2 of the United States Arbitration Act.[111] Whereas section 294(a) concerns only a limited class of disputes however,[112] section 2 of the Arbitration Act refers to a settlement by arbitration of a larger class of controversies, arising out of a maritime transaction or a contract evidencing a transaction involving commerce, or out of the transaction itself. The interaction of the two statutory sections, sanctioned by subsection (b), ensures that agreements to arbitrate will be enforced under the aegis of the laws regulating contracts.[113]

Finally, there is a major inconsistency between the provisions of 35 U.S.C. § 294(a) and those of 9 U.S.C. § 2 which will require resolution. Section 2 of the arbitration statute requires written agreements for the arbitration of existing and future disputes,[114] although

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patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the 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 enforceable until the notice required by subsection (d) is received by the Commissioner.

35 U.S.C. § 294 (1982).

107. 35 U.S.C. § 294(a) (1982).

108. Bedikian, *Philosophical and Procedural Excursions Into The Arbitration World of Patent and Copyright Disputes*, 4 DET. C.L. REV. 1053, 1057 (1983).

109. *Id.*

110. Davis, *Resolving Patent Disputes by Arbitration and Minitrial*, 65 J. PAT. OFF. SOC'Y 275, 277-78 (1983).

111. 9 U.S.C. § 2 (1982).

112. Disputes concerning patent validity or infringement under a contract involving a patent or any right under a patent.

113. Pegram, *An Analysis and Explanation of the Statutes Now Affecting Patent Arbitration*, 11 AM. PAT. L.A.Q. 274, 277 (1983).

114. *See, e.g.*, Fisser v. International Bank, 282 F.2d 231, 233 (2d Cir. 1960) (written agreements are required for an arbitration agreement to be enforceable).

the parties need not sign the agreement to be bound by it;[115] whereas section 294(a) requires a written agreement only for the arbitration of an existing dispute while allowing oral agreements to arbitrate a future dispute concerning patent validity or infringement.[116] This conflict in statutory requirements must be settled either by further legislative amendment of the statutory provisions or through future judicial construction. Therefore, the practitioner who wishes to retain the advantages of arbitration for his client throughout the term of a business arrangement with another party, will, at least until this point is clarified, insert arbitration clauses into the agreement assuring the arbitrability of present *and* subsequent disputes.[117]

Subsection (b) of 35 U.S.C. § 294 details the interrelation between section 294 and Title 9 of the United States Code. Briefly, Chapter One of Title 9 governs arbitration occurring within the United States:[118] Section 2[119] delineates the types of contracts which

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115. *See, e.g.*, Starkman v. Seroussi, 377 F. Supp. 518, 522 (S.D.N.Y. 1974).

116. Pegram, *An Analysis and Explanation of the Statutes Now Affecting Patent Arbitration*, 11 AM. PAT. L.A.Q. 274, 277 (1983).

117. The American Arbitration Association recommends the following arbitration clauses for insertion in all contracts concerning patents:

STANDARD PATENT ARBITRATION CLAUSE

Any controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relating to patent validity or infringement arising under this contract, shall be settled by arbitration in accordance with the Patent Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

FOR THE SUBMISSION OF EXISTING PATENT DISPUTES

We, the undersigned parties, hereby submit to arbitration under the Patent Arbitration Rules of the American Arbitration Association the following controversy: (cite briefly the matter in dispute, including specific reference to any existing patent validity or infringement dispute arbitrable under 35 U.S.C. § 294(a). We further agree that the above controversy be submitted to (one) (three) Arbitrator(s) selected from the National Panel of Patent Arbitrators of the American Arbitration Association. We further agree that we will faithfully observe this agreement and the Rules and that we will abide by and perform any award and that a judgment of a Court having jurisdiction may be entered upon the award.

In addition, a detailed Appendix containing a number of sample arbitration clauses may be found in Gray, *Arbitration Under Section 294 and Patent Licensing (Part 2)*, 7 LICENSING L. & BUS. REP. 207, 214-15 (1985).

118. *See* Davis, *Resolving Disputes by Arbitration and Minitrial*, 65 J. PAT. OFF. SOC'Y 275, 278-79 (1983). Chapter 2 of Title 9 concerns the recognition and enforcement of foreign arbitration awards, a discussion of which is outside of the scope of this article.

119. VALIDITY, IRREVOCABILITY, AND ENFORCEMENT OF AGREEMENTS TO ARBITRATE

A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of

may be arbitrated, namely, contracts which involve maritime transactions or transactions in commerce.[120] Section 1[121] defines these two types of contracts and lists such classes as employment contracts for seamen, railroad employees or any other workers engaged in foreign or interstate commerce which are excepted from the operation of this title.[122]

Sections 4[123] and 3,[124] respectively, provide for the enforcement of written arbitration agreements by means of an application which is

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such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

9 U.S.C. § 2 (1982).

120. *See, e.g.*, McDonough Constr. Co. v. Hanner, 232 F. Supp. 887 (M.D.N.C. 1964)(Title 9 is limited to maritime transactions and transactions involving interstate or foreign commerce).

121. "MARITIME TRANSACTIONS" AND "COMMERCE" DEFINED; EXCEPTIONS TO OPERATION OF TITLE

"Maritime transactions", as herein defined, means charter parties, bills of lading of water carriers, agreements relating to wharf-age, supplies furnished vessels or repairs to vessels, collisions, or any other matters in foreign commerce which, if the subject of controversy, would be embraced within admiralty jurisdiction; "commerce", as herein defined, means commerce among the several States or with foreign nations, or in any Territory of the United States or in the District of Columbia, or between any such Territory and another, or between any such Territory and any State or foreign nation, or between the District of Columbia and any State or Territory or foreign nation, but nothing herein contained shall apply to contracts of employment of seamen, railroad employees, or any other class of workers engaged in foreign or interstate commerce.

9 U.S.C. § 1 (1982).

122. *See, e.g.*, Tenney Eng'g, Inc. v. United Elec. Radio and Mach. Workers of Am., 207 F.2d 450 (3d Cir. 1953) (The intent of Congress in enacting this section was to exclude from this title workers actually engaged in the movement of interstate or foreign commerce or in work so closely related thereto as to be practically a part of it.); Amalgamated Ass'n of St. Elec. Ry. and Motor Coach Employees of Am. v. Pennsylvania Greyhound Lines, 192 F.2d 310 (3d Cir. 1951)("Contracts of Employment" referred to in statute concerns collective bargaining agreements as well as the mere hiring and firing of employees.).

123. FAILURE TO ARBITRATE UNDER AGREEMENT; PETITION TO UNITED STATES COURT HAVING JURISDICTION FOR ORDER TO COMPEL ARBITRATION; NOTICE AND SERVICE THEREOF; HEARING AND DETERMINATION

A party aggrieved by the alleged failure, neglect, or refusal of another to arbitrate under a written agreement for arbitration may petition any United States district court which, save for such agreement, would have jurisdiction under Title 28, in a civil action or in admiralty of the subject matter of a suit arising out of the controversy between the parties, for an order directing that such arbitration proceed in the manner provided for in such agreement. Five days' notice in writing of such application shall be served upon the party in default. Service thereof shall be made in the manner provided by the Federal Rules of Civil Procedure. The court shall hear the parties, and upon being satisfied that the making of the agreement for arbitration or the failure to comply therewith is not in issue, the court shall make an order directing the parties to proceed to arbitration in accordance with the terms of the agreement. The hearing and proceedings, under such agreement, shall be within the district in which the petition for an order directing such arbitration is filed. If the making of the arbitration agreement or the failure, neg-

made to a federal court in order to compel arbitration[125] and conversely, for a stay of such proceedings when the issue is referable to arbitration under a written agreement.[126] If a dispute concerns both arbitrable and nonarbitrable claims, the court will generally grant a stay in cases where the arbitrable claims are easily severable. However, this will only occur in cases where genuine issues of fact exist with respect to the nonarbitrable claims or where judicial economy requires that the entire case be stayed pending the resolution of the claims which are amenable to arbitration.[127] When the claims are not severable, the court will deny such a stay in order to preserve its jurisdiction.[128]

Section 5[129] provides for the appointment by the court of an arbitrator(s) in cases where there is no agreement to provide for such

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lect, or refusal to perform the same be in issue, the court shall proceed summarily to the trial thereof. If no jury trial be demanded by the party alleged to be in default, or if the matter in dispute is within admiralty jurisdiction, the court shall hear and determine such issue. Where such an issue is raised, the party alleged to be in default may, except in cases of admiralty, on or before the return day of the notice of application, demand a jury trial of such issue, and upon such demand the court shall make an order referring the issue or issues to a jury in the manner provided by the Federal Rules of Civil Procedure, or may specially call a jury for that purpose. If the jury find that no agreement in writing for arbitration was made or that there is no default in proceeding thereunder, the proceeding shall be dismissed. If the jury find that an agreement for arbitration was made in writing and that there is a default in proceeding thereunder, the court shall make an order summarily directing the parties to proceed with the arbitration in accordance with the terms thereof.

9 U.S.C. § 4 (1982).

124. STAY OF PROCEEDINGS WHERE ISSUE THEREIN REFERABLE TO ARBITRATION

If any suit or proceeding be brought in any of the courts of the United States upon any issue referable to arbitration under an agreement in writing for such arbitration, the court in which such suit is pending, upon being satisfied that the issue involved in such suit or proceeding is referable to arbitration under such an agreement, shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement, providing the applicant for the stay is not in default in proceeding with such arbitration.

9 U.S.C. § 3 (1982).

125. *See* Galt v. Libbey-Owens-Ford Glass Co., 376 F.2d 711 (7th Cir. 1967)(The policy behind Title 9 is to promote arbitration in accord with the intentions of the parties and to ease court congestion. Whenever possible, the courts will use this title to enforce agreements to arbitrate, resolving all doubts in favor of arbitration).

126. *See, e.g.*, Miletic v. Holm and Wonsild, 294 F. Supp. 772 (S.D.N.Y. 1968)(Making a party undergo the arbitration of one claim, while shouldering the expense of the trial of another claim, should be avoided if possible).

127. Note, *Arbitration of United States Patent Validity and Infringement Under 35 U.S.C. § 294*, 17 GEO. WASH. J. INT'L L. & ECON. 637, 648-49, (1983).

128. *See, e.g.*, Miley v. Oppenheimer & Co., 637 F.2d 318, 334-37 (5th Cir. 1981).

129. APPOINTMENT OF ARBITRATORS OR UMPIRE

appointment or where one of the parties refuses to abide by the agreement.[130]

Section 7[131] gives a private arbitrator the power to summon witnesses to appear at a hearing before him, and to require them to produce relevant documents where necessary. Violation of such a summons is enforceable by the contempt power of the federal district court for the district in which the arbitration is taking place.[132]

Sections 9-13[133] provide for the confirmation and enforcement of arbitration awards and also set out the conditions, such as fraud,

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If in the agreement provision be made for a method of naming or appointing an arbitrator or arbitrators or an umpire, such method shall be followed; but if no method be provided therein, or if a method be provided and any party thereof shall fail to avail himself of such method, or if for any other reason there shall be a lapse in the naming of an arbitrator or arbitrators or umpire, or in filling a vacancy, then upon the application of either party to the controversy the court shall designate and appoint an arbitrator or arbitrators or umpire, as the case may require, who shall act under the said agreement with the same force and effect as if he or they had been specifically names therein; and unless otherwise provided in the agreement the arbitration shall be by a single arbitrator.

9 U.S.C. § 5 (1982).

130. *See, e.g.*, Bethlehem Mines Corp. v. United Mine Workers of America, 494 F.2d 726 (3rd Cir. 1974)(When parties fail to agree on the choice of an arbitrator, it is within the province of a federal district court to make the choice for them).

131. WITNESSES BEFORE ARBITRATORS; FEES; COMPELLING ATTENDANCE

The arbitrators selected either as prescribed in this title or otherwise, or a majority of them, may summon in writing any person to attend before them or any of them as a witness and in a proper case to bring with him or them any book, record, document, or paper which may be deemed material as evidence in the case. The fees for such attendance shall be the same as the fees of witnesses before masters of the United States courts. Said summons shall issue in the name of the arbitrator or arbitrators, or a majority of them, and shall be signed by the arbitrators, or a majority of them, and shall be directed to the said person and shall be served in the same manner as subpoenas to appear and testify before the court; if any person or persons so summoned to testify shall refuse or neglect to obey said summons, upon petition the United States district court for the district in which such arbitrators, or a majority of them, are sitting may compel the attendance of such person or persons before said arbitrator or arbitrators, or punish said person or persons for contempt in the same manner provided by law for securing the attendance of witnesses or their punishment for neglect or refusal to attend in the courts of the United States.

9 U.S.C. § 7 (1982).

132. *See, e.g.*, Western Employers Insurance Co. v. Merit Insurance Co., 492 F. Supp. 53 (D. Ill. 1979)(Federal Courts retain the authority to enforce related arbitration discovery devices such as subpoenas duces tecum).

133. AWARD OF ARBITRATORS; CONFIRMATION; JURISDICTION; PROCEDURE

If the parties in their agreement have agreed that a judgment of the court shall be entered upon the award made pursuant to the arbitration, and shall specify the court, then at any time within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon

corruption, misconduct or partiality of an arbitrator, under which an

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the court must grant such an order unless the award is vacated, modified, or corrected as prescribed in sections 10 and 11 of this title. If no court is specified in the agreement of the parties, then such application may be made to the United States court in and for the district within which such award was made. Notice of the application shall be served upon the adverse party, and thereupon the court shall have jurisdiction of such party as though he had appeared generally in the proceeding. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident, then the notice of the application shall be served by the marshal of any district within which the adverse party may be found in like manner as other process of the court.

9 U.S.C. § 9 (1982).

SAME; VACATION; GROUNDS; REHEARING

In either of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration—

(a) Where the award was procured by corruption, fraud, or undue means.

(b) Where there was evident partiality or corruption in the arbitrators, or either of them.

(c) Where the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced.

(d) Where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final and definite award upon the subject matter submitted was not made.

(e) Where an award is vacated and the time within which the agreement required the award to be made has not expired the court may, in its discretion, direct a rehearing by the arbitrators.

9 U.S.C. § 10 (1982).

SAME; MODIFICATION OR CORRECTION; GROUNDS; ORDER

In either of the following cases the United States court in and for the district wherein the award was made may make an order modifying or correcting the award upon the application of any party to the arbitration—

(a) Where there was an evident material miscalculation of figures or an evident material mistake in the description of any person, thing, or property referred to in the award.

(b) Where the arbitrators have awarded upon a matter not submitted to them, unless it is a matter not affecting the merits of the decision upon the matter submitted.

(c) Where the award is imperfect in matter of form not affecting the merits of the controversy.

The order may modify and correct the award, so as to effect the intent thereof and promote justice between the parties.

9 U.S.C. § 11 (1982).

NOTICE OF MOTIONS TO VACATE OR MODIFY; SERVICE; STAY OF PROCEEDINGS

Notice of a motion to vacate, modify, or correct an award must be served upon the adverse party or his attorney within three months after the award is filed or delivered. If the adverse party is a resident of the district within which the award was made, such service shall be made upon the adverse party or his attorney as prescribed by law for service of notice of motion in an action in the same court. If the adverse party shall be a nonresident then the notice of the application shall be served by the marshal of any

arbitration award will be vacated. Misapplication of the law to the facts or application of incorrect law does *not* qualify as grounds for overturning the award of an arbitrator.[134]

Returning to the discussion of 35 U.S.C. § 294, subsection (b), the second sentence obligates the arbitrator to consider any of the defenses which are set forth in 35 U.S.C. § 282. Those defenses, however, must be formally pleaded. They include:

1. Noninfringement, absence of liability for infringement, or unenforceability.

2. Invalidity of the patent or any claim in suit on any ground specified in Part II of this title as a condition for patentability.

3. Invalidity of the patent or any claim in suit for failure to comply with any requirement of section 112 or 251 of this title.

4. Any other fact or act made a defense by this title.[135]

This is a decided improvement over prior attempts to codify this concept because in previous legislative proposals, the wording of the text concerning the responsibility of the arbitrator in connection with these defenses was unclear.[136]

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district within which the adverse party may be found in like manner as other process of the court. For the purposes of the motion any judge who might make an order to stay the proceedings in an action brought in the same court may make an order, to be served with the notice of motion, staying the proceedings of the adverse party to enforce the award.

9 U.S.C. § 12 (1982).

PAPERS FILED WITH ORDER ON MOTIONS; JUDGMENT; DOCKETING; FORCE AND EFFECT; ENFORCEMENT

The party moving for an order confirming, modifying, or correcting an award shall, at the time such order is filed with the clerk for the entry of judgment thereon, also file the following papers with the clerk:

(a) The agreement; the selection or appointment, if any, of an additional arbitrator or umpire; and each written extension of the time, if any, within which to make the award.

(b) The award.

(c) Each notice, affidavit, or other paper used upon an application to confirm, modify, or correct the award, and a copy of each order of the court upon such an application.

The judgment shall be docketed as if it was rendered in an action.

The judgment so entered shall have the same force and effect, in all respects, as, and be subject to all the provisions of law relating to, a judgment in an action; and it may be enforced as if it had been rendered in an action in the court in which it is entered.

9 U.S.C. § 13 (1982).

134. *See, e.g.*, Marcy Lee Mfg. Co. v. Cortley Fabrics Co., 354 F.2d 42 (2d Cir. 1965) (As long as the arbitrator does not reach an irrational result, the award will not be set aside for errors of law.); National R.R. Passenger Corp. v. Chesapeake & Ohio Ry. Co., 551 F.2d 136 (7th Cir. 1977) (misinterpretation of the applicable law was not sufficient grounds for vacation of an arbitration award).

135. 35 U.S.C. § 282 (1982).

136. Carmichael, *The Arbitration of Patent Disputes*, 38 ARB. J., 3, 6-7, (1983).

Subsection (c) of 35 U.S.C. § 294 was adopted to negate some of the prior public interest concerns discussed previously as being addressed by such cases as *Lear v. Adkins*.[137] Only the parties to the actual contract may be governed by an arbitrator's determination concerning validity and/or infringement. In other words, the principal of comity is not applicable concerning arbitrable adjudications of validity and infringement controversies. Therefore, third parties may, if they so choose, contest the validity of a patent in court or in a separate arbitration proceeding and the determination by the arbitrator in the original proceeding would have no *stare decisis* effect on the related action.

There arises, however, an apparent contradiction between the statutory language of Title 9 and section 294. Section 9 of the Arbitration Act provides for judicial confirmation of the arbitrator's award if the parties have provided for it in their agreement.[138] Thus it would seem, for example, that if an arbitrator's determination of patent invalidity for the patent in question is *confirmed* by a court, the doctrine of *Blonder Tongue, Inc. v. University of Illinois Foundation*[139] would require that such a confirmation receive the full *res judicata* and collateral estoppel effect of a *judgment* by that court. However, subsection (b) notes that Title 9 will *not* be operative to the extent it is inconsistent with section 294.[140] The issue then becomes whether or not the *res judicata* effect of the confirmation on *all* parties is consistent with the rule as stated in section 294(b) that the award "shall have no force or effect on any other person."

Since an arbitrator's award need not contain a written rationale or be accompanied by findings of fact or conclusions of law, a court called on to confirm the award has no real opportunity to review the basis of the award.[141] The order (confirming the award) must be

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137. 395 U.S. 653 (1969).

138. 9 U.S.C. § 9 (1982).

139. 402 U.S. 313 (1971). This case overruled the Court's prior decision in Triplett v. Lowell, 297 U.S. 638 (1936), which stated that "while the earlier decision may by comity be given great weight in a later litigation and thus persuade the court to render a like decree it is not *res adjudicate* and may not be pleaded as a defense." *Id.*, at 642.

140. 35 U.S.C. § 294 (b) (1982).

141. The lack of a written decision by the arbitrator is considered one of the "advantages" of arbitration since it permits an arbitrator to render his award more quickly while minimizing the opportunity for a losing party to prolong the proceeding by contesting many of the issues which would be discussed in a written opinion. Therefore, the parties must only rely on the requirements of 9 U.S.C. §§ 10, 11 for vacating or modifying, respectively, the award of the arbitrator. An oft-cited article concerning the resolution of a patent infringement dispute between the Shell Oil Company and the Intel Corporation states, "The arbitrator need only check a box "Intel" or "Shell" and by the single stroke of a pen, cause or prevent the payment

granted unless the award is vacated, modified or corrected.[142] Keeping the legislative intent to limit the scope of this type of arbitration award in mind, commentators have postulated that, when this issue is judicially determined, the patentee should be able to re-litigate the validity of his patent and a prior confirmed award will not be granted *res judicata* and collateral estoppel effect toward third parties not participating in the original arbitration,[143] thus requiring a *de novo* determination of the validity of the patent.

The final two sentences of section 294(c) allow for the modification of an arbitrator's award by a court in cases where a subsequent judicial determination holds the patent to be invalid or unenforceable.[144] It is not clear whether judicial modification is required or whether a subsequent arbitration may be utilized to modify the award. Further, the effect of an intervening confirmation of the initial arbitrator's decision is also not addressed. There is also no similar relief granted to a patentee whose patent was held invalid in arbitration but is later determined to be valid in court. The manner in which such controversial questions will be resolved may best be determined by the courts.

Subsections (d) and (e) of section 294 are interrelated and should be read together. They state:

> (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 for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice 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.[145]
>
> (e) The award shall be unenforceable until the notice required by subsection (d) is received by the Commissioner.[146]

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of about $500,000!", Janicke and Borovoy, *Resolving Patent Disputes by Arbitration: An Alternative to Litigation*, 62 J. PAT. OFF. SOC'Y 337, 340 (1980).

142. 9 U.S.C. § 9 (1982).

143. Pegram, An Analysis and Explanation of the Statutes Now Affecting Patent Arbitration, 11 AM. PAT. L.A.Q. 274, 281-82 (1983).

144. 35 U.S.C. § 294(c) (1982).

145. 35 U.S.C. § 294(d) (1982).

146. 35 U.S.C. § 294(e) (1982).

The statutory notice requirements of section 294(d) and (e) do not become operative, however, where the subject matter of the dispute is not a question of patent validity or infringement.[147]

The Patent and Trademark Office, exercising its administrative capacity to promulgate new rules affecting its congressionally mandated sphere of regulation, had added Rule 1.335 to the Code of Federal Regulations[148] which directly parallels the requirements of 35 U.S.C. §§ 294(d) and (e). This ensures that the award in an arbitration proceeding which determines a controversy concerning the infringement or validity of a United States patent will, unlike most arbitration proceedings where strict confidentiality is the rule, become part of the public record.[149] The notice must set forth the patent number, the parties to the arbitration, the inventor, the patent owner and must contain a copy of the award. In fact, under the terms of the rule,[150] the award of the arbitrator remains unenforceable until the notice is received by the Commissioner.

Although subsection (d) of section 294 expressly requires notice to the Commissioner of any court ordered "modification" of an arbitra-

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147. *See, e.g.*, 35 U.S.C. § 294(a) (1982).

148. FILING OF NOTICE OF ARBITRATION AWARDS

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

(b) If an award by an arbitrator pursuant to 35 U.S.C. 294 is modified by a court, the party requesting the modification must file in the Patent and Trademark Office, a notice of the modification for placement in the file of each patent to which the modification applies. The notice must set forth the patent number, the names of the inventor and patent owner, and the names and addresses of the parties to the arbitration. The notice must also include a copy of the court's order modifying the award.

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

37 C.F.R. § 1.335 (1985).

149. The provisions of this rule eliminate some of the privacy normally accompanying arbitration proceedings. It serves as a concession to the public interest in patents and creates a centralized public record of arbitration awards to facilitate monitoring the effect of this form of dispute resolution. The rule now permits members of the public to inquire about any changes in patent owner's rights resulting from arbitration decisions, i.e., an arbitrator's award, although not binding on those not a party to the arbitration, may be of assistance to those who subsequently litigate the validity or infringement of the same patent. *See* Note, *Arbitration of United States Patent Validity and Infringement Under 35 U.S.C. § 294*, 17 GEO. WASH. J. INT'L L. & ECON. 637, 647-48 (1983).

150. 37 C.F.R. § 1.335(c) (1985).

tion award, it neither discusses nor expressly permits the filing of a notice confirming, vacating or correcting such an award. When referring to the modification of an award it is believed by some authors[151] that the drafters of this section had in mind the modification possible under 35 U.S.C. § 294(c) when a patent is determined to be invalid or unenforceable subsequent to the rendering of an arbitration award upholding its validity. The situation is not quite so clear, however, with reference to notices concerning modifications, corrections or vacation of these arbitration awards under Title 9. The word "modification" may be viewed as including all of the above, but if the intent of the drafters of 35 U.S.C. § 294 was to include all three, the question at issue is why was only one of the Title 9 terms incorporated into section 294(d)?[152]

A possible explanation offered by one of the authors of a handbook on patent arbitration[153] is that the various actions which a district court may take with respect to an arbitration award were not included in section 294(d)[154] because it was believed that they would be the subject of a notice by the clerk of the particular district court having jurisdiction over the dispute under the already existing section 290 of the patent laws.[155]

A number of important questions have been raised, however, by John B. Pegram, one of the authors of this arbitration handbook, concerning the relevance of 35 U.S.C. § 290 to notices of actions taken with respect to arbitration awards. These issues include: (1) who is included under the term "clerks of the courts of the United States" in section 290 and (2) whether a Title 9 proceeding to con-

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151. Pegram, *An Analysis and Explanation of the Statutes Now Affecting Patent Arbitration*, 11 AM. PAT. L.A.Q. 274, 284 (1983).

152. This discussion comprises a draft chapter authored by John B. Pegram of a handbook entitled, Guide to Patent Arbitration and Other Alternative Means For Resolution of Intellectual Property Disputes, to be published by the New York Patent, Trademark and Copyright Law Association, Inc.

153. N.Y. Patent, Trademark and Copyright Law Association Guide to Patent Arbitration and Other Alternate Means For Resolution of Intellectual Property Disputes. *See* Ch. III authored by John B. Pegram entitled "Statutes Affecting Patent Arbitration".

154. 35 U.S.C. § 294(d) (1982).

155. The clerks of the courts of the United States, within one month after the filing of an action under this title shall give notice thereof in writing to the Commissioner, setting forth so far as known the names and addresses of the parties, name of the inventor, and the designating number of the patent upon which the action has been brought. If any other patent is subsequently included in the action he shall give like notice thereof. Within one month after the decision is rendered or a judgment issued, the clerk of the court shall give notice thereof to the Commissioner. The Commissioner shall, on the receipt of such notices, enter the same in the file of such patent.
35 U.S.C. § 290 (1982).

firm, modify, correct or vacate an arbitrator's award is "an action under" Title 35?

Mr. Pegram's view is that the "clerks" discussed in 35 U.S.C. § 290 refers to the clerks of the federal courts only since the reference is in the Patent Act,[156] over which only the federal courts had jurisdiction at the time of enactment.[157] It therefore appears that there is no obligation on state court clerks to file notices of confirmation, vacation, modification or correction of arbitration awards under section 290.[158]

With regard to the second question posed above, Mr. Pegram further states that a Title 9 proceeding was not considered as "an action arising under" the Patent Laws at the time of their enactment and it is thus unlikely that the federal district court clerks could have been expected to give notice of arbitration proceedings to the Patent and Trademark Office. In addition, the phrase "under this title" in section 290 of the Patent Act[159] implies a title which creates a cause of action, which in no way characterizes an arbitration proceeding.

VI. PROPOSED RULES FOR REGULATING THE ARBITRATION OF INTERFERENCES

As previously noted in Section II of this article, the Patent Law Amendments Act of 1984 added subsection (d) to 35 U.S.C. § 135 to permit parties involved in a patent interference to resolve their dispute by way of an arbitration proceeding. Subsequent to the enactment of this section, the Patent and Trademark Office issued an advance notice of proposed rulemaking,[160] seeking comments concerning a suggested rule for putting section 135 into practice.

Interference proceedings are conducted by the Patent and Trademark Office in order to determine the questions of patentability and priority of invention between two or more parties claiming the same invention. The practice of the Patent and Trademark Office is to declare an interference between two or more pending applications naming different inventors when, in the opinion of the Examiner, the applications contain claims for the same patentable invention. Additionally, "[a]n interference may be declared between one or

156. 35 U.S.C. §§ 1-376 (1982).
157. 28 U.S.C. § 1338(a) (1982).
158. 35 U.S.C. § 290 (1982).
159. 35 U.S.C. §§ 1-376 (1982).
160. 50 Fed. Reg. 2294-96 (1985) (to be codified at 37 C.F.R. § 1.690).

more pending applications and one or more unexpired patents naming different inventors when, in the opinion of an examiner, any application and any unexpired patent contains claims to the same patentable invention."[161]

Under proposed 37 C.F.R. § 1.690,[162] the arbitrator may determine issues of patentability as between the parties, but such a determination would not be binding upon the Patent and Trademark Office. If, however, the arbitrator's award were to hold that a party's claims corresponding to the interference count, i.e., the claims which are the subject of the interference, are unpatentable over prior art or under 35 U.S.C. § 112, that determination would be binding upon the party as regarding that party's opponent. Further, such a determination would ultimately result in a judgment adverse to that party. This would not, however, "discharge the duty that each party has under 37 C.F.R. § 1.56"[163] "to bring to the attention of the ex-

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161. 51 Fed. Reg. 32756 (1986).

162. Proposed rule 1.690 reads as follows:

§ 1.690 Arbitration of interferences.

(a) Parties to a patent interference may determine the interference or any aspect thereof by arbitration. Such arbitration shall be governed by the provisions of Title 9, United States Code. The parties must notify the Board in writing of their intention to arbitrate. An agreement to arbitrate must be in writing, specify the issues to be arbitrated, the name of the arbitrator or a date not more than 30 days after the execution of the agreement for the selection of the arbitrator, and provide that the arbitrator's award shall be binding on the parties and that judgment thereon can be entered by the Board. A copy of the agreement must be filed within twenty (20) days after its execution. The parties shall be solely responsible for the selection of the arbitrator and the rules for conducting proceedings before the arbitrator. Issues not disposed of by arbitration will be resolved in accordance with the procedures established in 37 CFR, Subpart E of Part 1, as determined by the examiner-in-chief.

(b) An interference or any aspect thereof shall be arbitrated within such time as may be authorized on a case-by-case basis by an examiner-in-chief.

(c) An arbitration award will be given no consideration unless it is binding on the parties, is in writing and states in a clear and definite manner (1) the issue or issues arbitrated and (2) the disposition of each issue. The award may also include a statement of the grounds and reasoning in support thereof. Unless otherwise ordered by an examiner-in-chief, the parties shall give notice to the Board of an arbitration award by filing within twenty (20) days from the date of the award a copy of the award signed by the arbitrator or arbitrators. When an award is timely filed, the award shall, as to the parties to the arbitration, be dispositive of the issue or issues to which it relates.

(d) An arbitration award shall not preclude the Office from determining patentability of any invention involved in the interference.

50 Fed. Reg. 2295-96 (1985) (to be codified at 37 C.F.R. § 1.690).

163. Duty of disclosure; fraud; striking or rejection of applications.

(a) A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with

aminer in charge of its respective application any prior art and/or

anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application.

(b) Disclosures pursuant to this section must be accompanied by a copy of each foreign patent document, non-patent publication, or other non-patent item of information in written form which is being disclosed or by a statement that the copy is not in the possession of the person making the disclosure and may be made to be Office through an attorney or agent having responsibility for the preparation or prosecution of the application or through an inventor who is acting in his or her own behalf. Disclosure to such an attorney, agent or inventor shall satisfy the duty, with respect to the information disclosed, of any other individual. Such an attorney, agent or inventor has no duty to transmit information which is not material to the examination of the application.

(c)Any application may be stricken from the files if:

(1) An oath or declaration pursuant to § 1.63 is signed in blank;

(2) An oath or declaration pursuant to § 1.63 is signed without review thereof by the person making the oath or declaration;

(3) an oath or declaration pursuant to § 1.63 is signed without review of the specification, including the claims, as required by § 1.63(b); or

(4) The application papers filed in the Office are altered after the signing of an oath or declaration pursuant to § 1.63 referring to those application papers.

(d)No patent will be granted on an application in connection with which fraud on the Office was practiced or attempted or the duty of disclosure was violated through bad faith or gross negligence. The claims in an application shall be rejected if upon examination pursuant to 35 U.S.C. §§ 131 and 132, it is established by clear and convincing evidence (1) that any fraud was practiced or attempted on the Office in connection with the application, or in connection with any previous application upon which the application relies, or (2) that there was any violation of the duty of disclosure through bad faith or gross negligence in connection with the application, or in connection with any previous application upon which the application relies.

(e)The examination of an application for compliance with paragraph (d) of this section will normally be delayed until such time as (1) all other matters are resolved, or (2) appellant's reply brief pursuant to § 1.193(b) has been received and the application is otherwise prepared for consideration by the Board of Appeals, at which time the appeal will be suspended for examination pursuant to paragraph (d) of this section. The prosecution of the application will be reopened to the extent necessary to conduct the examination pursuant to paragraph (d) of this section including any appeal pursuant to § 1.191. If an appeal has already been filed based on a rejection on other grounds, any further rejection under this section shall be treated in accordance with § 1.193(c).

(f)Any member of the public may seek to have an application stricken from the files pursuant to paragraph (c) of this section by filing a timely petition to strike the application from the files. Any such timely petition and any accompanying papers will be entered in the application file if the petition and accompanying papers (1) specifically identify the application to which the petition is directed, and (2) are either served upon the applicant in accordance with § 1.248, or filed with the Office in duplicate in the event service is not possible. Any such petition filed by an attorney or agent must be in compliance with § 10.18.

(g)A petition to strike an application from the files submitted in accordance with the second sentence of paragraph (f) of this section will be considered by the Office. An acknowledgement of the entry of such a petition in a reissue application file will be sent

reason relied upon by the arbitrator in the determination of unpatentability."[164]

It has long been the practice of the Patent and Trademark Office to favor the settlement of interferences. All proper efforts in that direction are looked upon as being conducive to the termination of the proceeding.[165] In effect, therefore, a decision by the parties to arbitrate may be construed as a motion for an extension of time in which to effect a settlement of the interference.

In this regard, the Commissioner of Patents' notice entitled "Extension of Time and Filing of Papers in Interferences" states that

> stipulations or motions for extensions of time under 37 C.F.R. § 1.245 will not henceforth be approved or granted, respectively, unless accompanied by a detailed showing of facts sufficient to establish that the action for which the extension is sought could not have been or cannot be taken or completed during the time previously set therefore, and that the entire extension appears necessary for the taking or completion of that action. Since the Office favors the amicable settlement of interferences, the foregoing requirement will be liberally applied in

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to the member of the public filing the petition. A member of the public filing such a petition in an application for an original patent will not receive any communications from the Office relating to the petition, other than the return of a self-addressed postcard which the member of the public may include with the petition in order to receive an acknowledgement by the office that the petition has been received. The Office will communicate with the applicant regarding any such petition entered in the application file and may require the applicant to respond to the Office on matters raised by the petition. The active participation of the member of the public filing a petition pursuant to paragraph (f) of this section ends with the filing of the petition and no further submission on behalf of the petitioner will be acknowledged or considered unless such submission raises new issues which could not have been earlier presented, and thereby constitutes a new petition.

(h)Any member of the public may seek to have the claims in an application rejected pursuant to paragraph (d) of this section by filing a timely protest in accordance with § 1.291. Any such protest filed by an attorney or agent must be in compliance with § 10.18.

(i)The Office may require applicant to supply information pursuant to paragraph (a) of this section in order for the Office to decide any issues relating to paragraphs (c) and (d) of this section which are raised by a petition or a protest, or are otherwise discovered by the Office.

(j)If any disclosure pursuant to this section does not include a copy of each foreign patent document, non-patent publication, or other non-patent item of information in written form which is being disclosed or a statement that a copy thereof is not in the possession of the person making the disclosure, applicant will be so notified and given a period of time within which to file the copy or a statement that a copy is not in the possession of the person making the disclosure. The time period set may be extended under § 1.136.

37 C.F.R. § 1.56.

164. 51 Fed. Reg. 32,756 (1986).

165. *See, e.g.*, 4 Rivise and Casesar, Interference Law and Practice, § 861, at 2956 (1980).

the case of a first request for extension of time for the purpose of negotiating settlement.[166]

It would appear, therefore, that the examiner could favorably consider a first motion for an extension of time to settle the interference, but that a further motion for such an extension would not be granted unless accompanied by a schedule of specific dates showing that the parties will make a good faith effort to promptly terminate the proceeding.

The granting of such a motion for an extension of time, however, does not mean that the parties may ignore the requirements of 37 C.F.R. § 1.633 requiring the filing of preliminary motions in the interference proceeding. If such preliminary motions have not been filed, the interference examiner could not normally extend the time for their filing merely for the purposes of settlement. In such circumstances the examiner "would require that the preliminary motions be filed or that their filing be altogether waived."[167]

Under the proposed rule, interference parties who desire to settle their differences via arbitration would be required to notify the interference examiner in writing of their intention to do so and to file a copy of the arbitration agreement within twenty days of its execution. In accordance with the patent statutes,[168] an agreement to arbitrate is considered to be one made in connection with and in contemplation of the termination of the interference and therefore would have to be in writing and filed in the PTO.

Such notification must be made in a separate paper since merely incorporating this notice in the settlement agreement under 35 U.S.C. § 135(c) would not be sufficient to comply with proposed section 1.690(a). Further, the parties must also adhere to a time schedule approved by the interference examiner to facilitate the expeditious resolution of the interference. This prevents the unnecessary postponement of the beginning of the term of any patent resulting from an application involved in an interference.[169]

"The arbitration agreement should include the following provisions: (1) the name of the arbitrator or a date certain which is not more than thirty days after the execution of the agreement for his or her selection (2) the issues to be decided by the arbitration, and (3) that the arbitrator's award is binding on the parties and that the

166. 953 Off. Gaz. Pat. Office 2 (Dec. 7, 1976).

167. 51 Fed. Reg. 32,756 (1986).

168. 35 U.S.C. § 135(c) (1982).

169. 51 Fed. Reg. 32,756, 32,757 (1986), *see also, e.g.*, Pritchard v. Loughlin, 361 F.2d 483, 149 U.S.P.O. 841 (CCPA 1966).

Patent Office Board of Patent Appeals and Interferences can enter a judgment based thereon."[170]

The final step in the process concerns the filing of the interference arbitration award in the Patent Office. Although it was noted above in Section V of this article during the discussion of 35 U.S.C. §§ 294(d) and (e) that the statutory notice requirement of 294 (d) and (e) does not become operative where the dispute does not concern either patent validity or infringement, proposed section 1.690(c) would require the filing of a copy of such an interference arbitration award either within twenty days from the date of the award or by a date set by the interference examiner. Parties to the arbitration would then only be able to attack the award in the manner provided by section 10 and 11 of the Arbitration Act.[171]

CONCLUSIONS

The question of whether to arbitrate or litigate is not always capable of a simple answer. Various factors, discussed in Section II of this article, may shift the balance in one direction or the other, depending upon the particular fact situation encountered within a particular controversy. The advantage of arbitration is not that it is, "the answer or cure-all" but rather that it provides an *alternate* forum for those who seek to avoid the high financial burden and commercial disruption often encountered by parties who seek a judicial determination of their disputes.

To enhance the applicability of arbitration to disputes concerning patent validity and infringement, and patent issues in general, the American Arbitration Association has compiled a series of "Patent Arbitration Rules" which became effective on June 1, 1983 and are included in the Appendix A to this article. An agreement which provides for arbitration by the American Arbitration Association automatically makes these rules, including any subsequent amendments, a part of the agreement. Further, a draft set of Patent and Licensing Arbitration Rules, promulgated by the National Academy of Conciliators, based in Washington, D.C., has been included in Appendix B for purposes of contrast with the American Arbitration Association Rules.

Despite the many documented advantages of arbitration, one area which needs some revision is the lack of a requirement for a written rationale by the arbitrator concerning the aspects which he consid-

170. 37 C.F.R. § 1.690(a) (proposed).
171. 51 Fed. Reg. 32,756, 32,757 (1986).

ered particularly important in making his award. While there are several considerations justifying the lack of a written opinion, e.g., the added expense for the arbitrator's time, the possible disclosure of secret technical know-how and the chance that the losing party will pick the opinion apart, searching for small flaws which they can point to as a reason for overturning the award in court; there are several factors, often overlooked, which may counterbalance these concerns.

Any restricted technical information need not be included in such an opinion, but simply may be alluded to as the reason for certain of the arbitrator's determinations. Furthermore, a written opinion would serve to assist a court when requested to judicially confirm an arbitration award under Title 9, by permitting a judge to operate with some knowledge of the underlying facts involved. This procedure need not lead to a *de novo* determination of the issues underlying the arbitrator's award by the court if the proper safeguards are taken.

Arbitration is not a new method for resolving disputes; rather, it is a well-known procedure for which a new use has recently been discovered. It has a great potential for expediting the resolution of controversies between parties concerning the validity and infringement of patents as well as questions concerning inventive priority encountered in patent interferences. The addition of sections 294 and 135(d) to the patent laws should serve both the patent bar and the general public by reducing the financial expenditure and loss of time which must be endured in order to preserve one's rights under the complex patent statutes.

Appendix A

PATENT ARBITRATION RULES OF THE AMERICAN ARBITRATION ASSOCIATION

Introduction

The suitability of arbitration as a prompt and effective means of resolving intellectual property disputes has been well recognized in recent years. This is evidenced by the fact that a growing number of intellectual property dispute cases are arbitrated each year under the auspices of the American Arbitration Association. In the patent field, arbitration now is facilitated by important new legislation expanding the range of disputes that may be arbitrated.

The arbitrability of patent disputes was aided when President Reagan, on August 27, 1982, signed Public Law 97-247, which specifically provides for the voluntary arbitration of a broad range of patent disputes, including questions of validity and infringement. The arbitration section of P.L. 97-247 (35 U.S.C. § 294) became effective on February 27, 1983.

Under this statute, parties to a contract may voluntarily agree to arbitrate their patent disputes, both pending and future, and such agreements and awards may be enforced under Title 9, U.S. Code. Such arbitration shall be private and the resulting award shall be final and binding. Awards are enforceable when notice of award is filed with the Commissioner of Patents and Trademarks. The award is binding only on the parties to the arbitration, and the parties may agree that the award will be modified if the patent that is the subject of the arbitration is subsequently determined to be invalid or unenforceable.

Those who use and support arbitration as a means of resolving intellectual property and licensing disputes have acknowledged the following advantages of arbitration over litigation in this technical field: relative speed and economy; privacy; convenience; informality; reduced likelihood of damage to ongoing business relationships; more suitability to international problems; and, especially important, the ability of the parties to select arbitrators who are experts and familiar with the subject matter of the dispute. These Rules were prepared by the staff of the American Arbitration Association with the assistance of a special advisory committee of patent attorneys. The committee, chaired by Harry F. Manbeck, Jr., included Rudolph J.

Anderson, Jr., Robert B. Benson, Jerome E. Luecke, John E. Maurer, David W. Plant, Roger S. Smith, Arthur R. Whale and Richard C. Witte.

For the Arbitration of Future Patent Disputes:

The American Arbitration Association recommends the following arbitration clause for insertion in all patent contracts:

STANDARD PATENT ARBITRATION CLAUSE

Any controversy or claim arising out of or relating to this contract, or the breach thereof, including any dispute relating to patent validity or infringement arising under this contract, shall be settled by arbitration in accordance with the Patent Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.

For the Submission of Existing Patent Disputes:

We, the undersigned parties, hereby submit to arbitration under the Patent Arbitration Rules of the American Arbitration Association the following controversy: (cite briefly the matter in dispute, including specific reference to any existing patent validity or infringement dispute arbitrable under 35 U.S.C. § 294(a)). We further agree that the above controversy be submitted to (one) (three) Arbitrator(s) selected from the National Panel of Patent Arbitrators of the American Arbitration Association. We further agree that we will faithfully observe this agreement and the Rules and that we will abide by and perform any award and that a judgment of a Court having jurisdiction may be entered upon the award.

Patent Arbitration Rules

1. Agreement of Parties

The parties shall be deemed to have made these Rules a part of their arbitration agreement whenever they have provided for arbitration by the American Arbitration Association under its Patent Arbitration Rules. These Rules and any amendment thereof shall apply in the form obtaining at the time the arbitration is initiated.

2. Name of Tribunal
Any Tribunal constituted by the parties for the settlement of their dispute under these Rules shall be called the Patent Arbitration Tribunal.

3. Administrator
When parties agree to arbitrate under these Rules, or when they provide for arbitration by the American Arbitration Association under its Patent Arbitration Rules and an arbitration is initiated thereunder, they thereby constitute AAA the administrator of the arbitration. The authority and obligations of the administrator are prescribed in the agreement of the parties and in these Rules.

4. Delegation of Duties
The duties of the AAA under these Rules may be carried out through Tribunal Administrators or such other officers or committees as the AAA may direct.

5. National Panel of Patent Arbitrators
The AAA shall establish and maintain a National Panel of Patent Arbitrators which will include individuals having experience in patent law and/or special technical expertise and shall appoint Arbitrators therefrom as hereinafter provided.

6. Office of Tribunal
The general office of a Tribunal is the headquarters of the AAA, which may, however, assign the administration of an arbitration to any of its Regional Offices.

7. Initiation under an Arbitration Provision in a Contract
Arbitration under an arbitration provision in a contract may be initiated in the following manner: (a) The initiating party shall give notice to the other party of its intention to arbitrate (Demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved, if any, the remedy sought, and

(b) The initiating party shall file at any Regional Office of the AAA three copies of said notice, together with three copies of the arbitration provisions of the contract, together with the appropriate administrative fee as provided in the Administrative Fee Schedule. The AAA shall give notice of such filing to the other party. The party upon whom the Demand for Arbitration is made may file an answering statement in duplicate with the AAA within twenty days after

notice from the AAA, in which event said party shall simultaneously send a copy of the answer to the other party. If a counterclaim is asserted it shall contain a statement setting forth the nature of the counterclaim, the amount involved, if any, and the remedy sought. If a monetary claim is made in the answer, the appropriate fee provided in the Administrative Fee Schedule shall be forwarded to the AAA with the answer. If no answer is filed within the stated time, it will be assumed that the claim is denied. Failure to file an answer shall not operate to delay the arbitration.

8. Change of Claim
After filing of the claim, if either party desires to make any new or different claim, such claim shall be made in writing and filed with the AAA, and a copy thereof shall be mailed to the other party, who shall have a period of twenty days from the date of such mailing within which to file an answer with the AAA. After the Arbitrator is appointed, however, no new or different claim may be submitted except with the Arbitrator's consent.

9. Initiation under a Submission
Parties to any existing dispute may commence an arbitration under these Rules by filing at any Regional Office two copies of a written agreement to arbitrate under these Rules (Submission), signed by the parties. It shall contain a statement of the matter in dispute, the amount of money involved, if any, and the remedy sought, together with the appropriate administrative fee as provided in the Administrative Fee Schedule.

10. Administrative Conference
At the request of the parties or at the discretion of the AAA a meeting with the administrator and the parties or their counsel will be scheduled to facilitate the administrative arrangements for the arbitration.

11. Fixing of Locale
The parties may mutually agree on the locale where the arbitration is to be held. If the locale is not designated within twenty days from the date of filing the Demand or Submission, the AAA shall have power to determine the locale. Its decision shall be final and binding. If any party requests that the hearing be held in a specific locale and the other party files no objection thereto within twenty days after notice of the request, the locale shall be the one requested.

12. Qualifications of Arbitrator

Any Arbitrator appointed pursuant to Section 13 or Section 15 shall be neutral subject to disqualification for the reasons specified in Section 19. If the agreement of the parties names an Arbitrator or specifies any other method of appointing an Arbitrator, or if the parties specifically agree in writing, such Arbitrator shall not be subject to disqualification for said reasons.

13. Appointment from Panel

If the parties have not appointed an Arbitrator and have not provided any other method of appointment, each Arbitrator shall be appointed in the following manner: immediately after the filing of the Demand or Submission, the AAA shall submit simultaneously to each party to the dispute an identical list of names of persons chosen from the National Panel of Patent Arbitrators. Each party to the dispute shall have seven days from the mailing date in which to cross off any names objected to, number the remaining names to indicate the order of preference, and return the list to the AAA. If a party does not return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference, the AAA shall invite the acceptance of an Arbitrator to serve. If the parties fail to agree upon any of the persons named, or if acceptable Arbitrators are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, the AAA shall have the power to make the appointment from among other members of the National Panel of Patent Arbitrators without the submission of any additional list.

Any Arbitrator appointed pursuant to this section or any Chairman appointed pursuant to Section 15 shall be skilled in patent law.

14. Direct Appointment by Parties

If the agreement of the parties names an Arbitrator or specifies a method of appointing an Arbitrator, that designation or method shall be followed. The notice of appointment, with name and address of the appointing party, shall be filed with the AAA by the appointing party. Upon the request of any such appointing party, the AAA shall submit a list of members of the National Panel of Patent Arbitrators from which the party may, if it so desires, make the appointment.

If the agreement specifies a period of time within which an Arbitrator shall be appointed and any party fails to make such appointment within that period, the AAA shall make the appointment. If no period of time is specified in the agreement, the AAA shall notify the parties to make the appointment and if within seven days thereafter such Arbitrator has not been so appointed, the AAA shall make the appointment.

15. Appointment of Neutral Arbitrator by Party-Appointed Arbitrators

If the parties have appointed their Arbitrators or if either or both of them have been appointed as provided in Section 14 and have authorized such Arbitrators to appoint a neutral Arbitrator within a specified time and no appointment is made within such time or any agreed extension thereof, the AAA shall appoint a neutral Arbitrator, who shall act as Chairman.

If no period of time is specified for appointment of the neutral Arbitrator and the parties do not make the appointment within seven days from the date of the appointment of the last party-appointed Arbitrator, the AAA shall appoint such neutral Arbitrator, who shall act as Chairman.

If the parties have agreed that their Arbitrators shall appoint the neutral Arbitrator from the National Panel of Patent Arbitrators, the AAA shall furnish to the party-appointed Arbitrators, in the manner prescribed in Section 13, a list selected from the National Panel of Patent Arbitrators, and the appointment of the neutral Arbitrator shall be made as prescribed in such Section.

16. Nationality of Arbitrator in International Arbitration

If one of the parties is a national or resident of a country other than the United States, the sole Arbitrator or the neutral Arbitrator shall, upon the request of both parties, be appointed from among the nationals of a country other than that of any of the parties.

17. Number of Arbitrators

If the arbitration agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by one Arbitrator, unless the AAA, in its discretion, directs that a greater number of Arbitrators be appointed.

18. Notice to Arbitrator of Appointment
Notice of the appointment of the neutral Arbitrator, whether appointed by the parties or by the AAA, together with a copy of these Rules and the signed acceptance of the Arbitrator, shall be filed with the administrator prior to the opening of the first hearing.

19. Disclosure and Challenge Procedure
A person appointed as neutral Arbitrator shall disclose to the AAA any circumstances likely to affect impartiality, including any bias or any financial or personal interest in the result of the arbitration or any past or present relationship with the parties or their counsel. Upon receipt of such information from such Arbitrator or other source, the AAA shall communicate such information to the parties, and if it deems it appropriate to do so, to the Arbitrator and others. Thereafter, the AAA shall determine whether the Arbitrator should be disqualified and shall inform the parties of its decision, which shall be conclusive.

20. Vacancies
If any Arbitrator should resign, die, withdraw, refuse, be disqualified or be unable to perform the duties of the office, the AAA may, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in accordance with the applicable provisions of these Rules and the matter shall be reheard unless the parties shall agree otherwise.

21. Time and Place
The Arbitrator shall fix the time and place for each hearing. The AAA shall mail to each party notice thereof at least five days in advance, unless the parties by mutual agreement waive such notice or modify the terms thereof.

22. Representation by Counsel
Any party may be represented by counsel. A party intending to be so represented shall notify the other party and the AAA of the name and address of counsel at least three days prior to the date set for the hearing at which counsel is first to appear. When an arbitration is initiated by counsel, or where an attorney replies for the other party, such notice is deemed to have been given.

23. Stenographic Record
The AAA shall make the necessary arrangements for the taking of a stenographic record whenever such record is requested by a party.

The requesting party or parties shall pay the cost of such record as provided in Section 50.

24. Interpreter
The AAA shall make the necessary arrangements for the services of an interpreter upon the request of one or more of the parties, who shall assume the cost of such service.

25. Attendance at Hearings
The Arbitrator shall maintain the privacy of the hearings unless the law provides to the contrary. The parties and their representatives shall have the right to attend hearings. The Arbitrator shall otherwise have the power to require the exclusion of any witness, other than a party or other essential person, during the testimony of any other witness. It shall be discretionary with the Arbitrator to determine the propriety of the attendance of any person other than a party.

26. Adjournments
The Arbitrator may take adjournments upon the request of a party or upon the Arbitrator's own initiative and shall take such adjournment when all of the parties agree thereto.

27. Oaths
Before proceeding with the first hearing or with the examination of the file, each Arbitrator may take an oath of office, and if required by law, shall do so. The Arbitrator has discretion to require witnesses to testify under oath administered by any duly qualified person or, if required by law or demanded by either party, shall do so.

28. Majority Decision
Whenever there is more than one Arbitrator, all decisions of the Arbitrators must be by at least a majority. The award must also be made by at least a majority unless the concurrence of all is expressly required by the arbitration agreement or by law.

29. Order of Proceedings
Unless the parties agree otherwise, a preliminary hearing with the parties will be scheduled by the Arbitrator to specify the issues to be resolved and to stipulate uncontested facts.

Consistent with the expedited nature of arbitration, the Arbitrator shall, at the preliminary hearing, establish (i) the extent of and a

schedule for the production of relevant documents and other information, the identification of any witnesses to be called and a schedule for any hearings to elicit facts solely within the knowledge of one party, and (ii) a schedule for further hearings to resolve the dispute.

Each hearing shall be opened by the recording of the place, time and date of the hearing and the presence of the Arbitrator, the parties, their counsel, and all other persons. The Arbitrator may, at the beginning of a hearing, ask for opening statements.

The Arbitrator shall have discretion to establish the procedure at any hearing but shall offer full and equal opportunity to all parties for the presentation of any material or relevant proofs. All witnesses shall submit to questions or other examination. Unless the Arbitrator orders otherwise at any hearing in which claims, defenses or proofs are presented, the complaining party shall proceed first. Exhibits received in evidence and the identity of all witnesses shall be made a part of the record.

30. Arbitration in the Absence of a Party
Unless the law otherwise provides to the contrary, the arbitration may proceed in the absence of any party who, after due notice, fails to be present or fails to obtain an adjournment. An award shall not be made solely on the default of a party. The Arbitrator shall require the party who is present to submit such evidence as the Arbitrator may require for the making of an award.

31. Evidence
The parties may offer such evidence as is pertinent and material to the controversy and shall produce such additional evidence as the Arbitrator may deem necessary to an understanding and determination of the controversy. The Arbitrator, when authorized by law to subpoena witnesses or documents, may do so upon the Arbitrator's own initiative or upon the request of any party, with notice to all parties. The Arbitrator may subpoena witnesses by describing with reasonable particularity the matter on which testimony is required and directing the subpoena to an organization which will be responsible for designating an appropriate witness. The Arbitrator shall be the judge of the relevancy and materiality of the evidence offered, and conformity to legal rules of evidence shall not be necessary. All evidence shall be taken in the presence of all the Arbitrators and of all the parties, except where any of the parties is absent, in default or has waived the right to be present.

32. Evidence by Affidavit and Filing of Documents

The Arbitrator shall receive and consider the evidence of witnesses by affidavit, but shall give it only such weight as the Arbitrator deems it entitled to after consideration of any objections made to its admission. All documents not filed with the Arbitrator at the hearing, but arranged for at the hearing or subsequently by agreement of the parties, shall be filed with the AAA for transmission to the Arbitrator. All parties shall be afforded opportunity to examine such documents.

33. Inspection or Investigation

Whenever the Arbitrator deems it necessary to make an inspection or investigation in connection with the arbitration, the Arbitrator shall direct the AAA to advise the parties of such intention. The Arbitrator shall set the time and AAA shall notify the parties thereof. Any party who so desires may be present at such inspection or investigation. In the event that one or both parties are not present at the inspection or investigation, the Arbitrator shall make a verbal or written report to the parties and afford them an opportunity to comment.

34. Conservation and Protection of Property

The Arbitrator may issue such orders or interim awards as may be deemed necessary to safeguard the property that is the subject matter of the arbitration, to preserve evidence and/or to protect any trade secrets or other proprietary information that might be disclosed during the arbitration.

35. Closing of Hearings

The Arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, the Arbitrator shall declare the hearings closed and a minute thereof shall be recorded. If briefs are to be filed, the hearings shall be declared closed as of the final date set by the Arbitrator for the receipt of briefs. If documents are to be filed as provided for in Section 32 and the date set for their receipt is later than that set for the receipt of briefs, the later date shall be the date of closing the hearings. The time limit with which the Arbitrator is required to make the award shall commence to run, in the absence of other agreements by the parties, upon the closing of the hearings.

36. Reopening of Hearings
The hearings may be reopened on the Arbitrator's own motion, or upon application of a party at any time before the award is made. If the reopening of the hearings would prevent the making of the award within the specific time agreed upon by the parties in the contract out of which the controversy has arisen, the matter may not be reopened unless the parties agree upon the extension of such time limit. When no specific date is fixed in the contract, the Arbitrator may reopen the hearings, and the Arbitrator shall have sixty days from the closing of the reopened hearings within which to make an award.

37. Waiver of Oral Hearings
The parties may provide, by written agreement, for the waiver of oral hearings. If the parties agree to waive oral hearings but are unable to agree as to the procedure, the Arbitrator shall specify a fair and equitable procedure.

38. Waiver of Rules
Any party who proceeds with the arbitration after knowledge that any provision or requirement of these Rules has not been complied with, and who fails to state objection thereto in writing, shall be deemed to have waived the right to object.

39. Extensions of Time
The parties may modify any period of time by mutual agreement. The AAA for good cause may extend any period of time established by these Rules, except the time for making the award. The AAA shall notify the parties of any such extension of time and its reason therefor.

40. Communication with Arbitrator and Serving of Notice
(a) Unless the parties and the Arbitrator otherwise agree, there shall be no communication between the parties and a neutral Arbitrator other than at oral hearings. Any other oral or written communications from the parties to the Arbitrator shall be directed to the AAA for transmittal to the Arbitrator.

(b) Each party to an agreement that provides for arbitration under these Rules shall be deemed to have consented that any papers, notices or process necessary or proper for the initiation or continuation of an arbitration under these Rules and for any court action in con-

nection therewith or for the entry of judgment on any award made thereunder may be served upon such party by mail addressed to such party or its attorney at its last known address, or by personal service within or without the state wherein the arbitration is to be held (whether such party be within or without the United States of America), provided that reasonable opportunity to be heard with regard thereto has been granted such party.

41. Time of Award

The award shall be made promptly by the Arbitrator and, unless otherwise agreed by the parties or specified by law, no later than sixty days from the date of closing the hearings, or if oral hearings have been waived, from the date of transmitting the final statements and proofs to the Arbitrator.

42. Form of Award

The award shall be in writing and shall be signed either by the sole Arbitrator or by at least a majority if there is more than one. It shall be executed in the manner required by law.

43. Scope of Award

The Arbitrator may grant any remedy or relief which the Arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract or injunctive relief to terminate infringement. The Arbitrator, in the award, shall assess arbitration fees and expenses in favor of any party or parties and, in the event any administrative fees or expenses are due the AAA, in favor of the AAA.

44. Award upon Settlement

If the parties settle their dispute during the course of the arbitration, the Arbitrator, upon their request, may set forth the terms of the agreed settlement in an award.

45. Delivery of Award to Parties

Parties shall accept as legal delivery of the award the placing of the award or a true copy thereof in the mail by the AAA, addressed to such party at its last known address or to its attorney, or personal service of the award, or the filing of the award in any manner that may be prescribed by law.

46. Release of Documents for Judicial Proceedings

The AAA shall, upon written request of a party, furnish to such party, at its expense, certified facsimiles of any papers in the AAA's possession that may be required in judicial proceedings relating to the arbitration or as required for filing with the Commissioner of Patents and Trademarks.

47. Applications to Court

(a) No judicial proceedings by a party relating to the subject matter of the arbitration shall be deemed a waiver of the party's right to arbitrate.

(b) Neither the AAA nor any Arbitrator in a proceeding under these Rules is a necessary party in judicial proceedings relating to the arbitration.

(c) Parties to these Rules shall be deemed to have consented that judgment upon the arbitration award may be entered in any Federal or State Court having jurisdiction thereof.

48. Administrative Fees

As a not-for-profit organization, the AAA shall prescribe an Administrative Fee Schedule and a Refund Schedule to compensate it for the cost of providing administrative services. The schedule in effect at the time of filing or the time of refund shall be applicable.

The administrative fees shall be advanced by the initiating party or parties, subject to final apportionment by the Arbitrator in the award.

When a matter is withdrawn or settled, the refund shall be made in accordance with the Refund Schedule.

The AAA, in the event of extreme hardship on the part of any party, may defer or reduce the administrative fee.

49. Fee When Oral Hearings Are Waived

When all oral hearings are waived under Section 37, the Administrative Fee Schedule shall apply.

50. Expenses

The expenses of witnesses for either side shall be paid by the party calling such witnesses.

The cost of the stenographic record, if any is made, and all transcripts thereof, shall be prorated equally among all parties ordering copies unless they shall otherwise agree and shall be paid for by the responsible parties directly to the reporting agency. All other expenses of the arbitration, including required traveling and other expenses of the Arbitrator and of AAA representatives, and the expenses of any witness or the cost of any proofs produced at the direct request of the Arbitrator, and the neutral Arbitrator's fee shall be borne equally by the parties, unless they agree otherwise, or unless the Arbitrator, in the award, assesses such expenses or any part thereof against any specified party or parties.

51. Arbitrator's Fee

The per diem fee for each neutral Arbitrator shall be agreed to by the parties and the Arbitrator prior to the commencement of any of the activities by the Arbitrator. The arrangements for compensation shall be made through the AAA and not directly between the parties and the Arbitrator. If, in the opinion of the AAA, the parties do not reach agreement on the per diem fee of a neutral Arbitrator within a reasonable time, the AAA will have the sole power to determine the per diem fee and will communicate it in writing to the parties and the neutral Arbitrator.

52. Deposits

The AAA may require the parties to deposit in advance such sums of money as it deems necessary to defray the expense of the arbitration, including the Arbitrator's fee, and shall render an accounting to the parties and return any unexpended balance.

53. Interpretation and Application of Rules

The Arbitrator shall interpret and apply these Rules insofar as they relate to the Arbitrator's powers and duties. When there is more than one Arbitrator and a difference arises among them concerning the meaning or application of any such Rules, it shall be decided by a majority vote. If that is unobtainable, either an Arbitrator or a party may refer the question to the AAA for final decision. All other Rules shall be interpreted and applied by the AAA.

ADMINISTRATIVE FEE SCHEDULE

The administrative fee of the AAA is based upon the amount of each claim and counterclaim as disclosed when the claim and counterclaim are filed, and is due and payable at the time of filing.

Amount of Claim	Fee
$1 to $20,000	3% (minimum $200)
$20,000 to $40,000	$600, plus 2% of excess over $20,000
$40,000 to $80,000	$1000, plus 1% of excess over $40,000
$80,000 to $160,000	$1400, plus 1/2% of excess over $80,000
$160,000 to $5,000,000	$1800, plus 1/4% of excess over $160,000

Where the claim or counterclaim exceeds $5 million, an appropriate fee will be determined by the AAA.
When no amount can be stated at the time of filing, the administrative fee is $500, subject to adjustment in accordance with the above schedule as soon as an amount can be disclosed. In those claims and counterclaims which are not for a monetary amount, an appropriate administrative fee will be determined by the AAA.

If there are more than two parties represented in the arbitration, an additional 10% of the initiating fee will be due for each additional represented party.

OTHER SERVICE CHARGES

$50 payable by a party causing an adjournment of any scheduled hearing;

$100 payable by a party causing a second or additional adjournment of any scheduled hearing;

$50 payable by each party for each hearing after the first hearing which is either clerked by the AAA or held in a hearing room provided by the AAA.

REFUND SCHEDULE

If the AAA is notified that a case has been settled or withdrawn before a list of Arbitrators has been sent out, all the fee in excess of $200 will be refunded.

If the AAA is notified that a case has been settled or withdrawn thereafter, but before the due date for the return of the first list, two-thirds of the fee in excess of $200 will be refunded.

If the AAA is notified that a case is settled or withdrawn thereafter, but at least 48 hours before the date and time set for the first hearing, one-third of the fee in excess of $200 will be refunded.

Appendix B

NATIONAL ACADEMY OF CONCILIATORS PATENT AND LICENSING ARBITRATION RULES

1. Agreement of Parties

The parties shall be deemed to have made these Rules a part of their arbitration agreement whenever they have provided for arbitration by the National Academy of Conciliators under its Patent and Licensing Arbitration Rules. These Rules and any amendments thereto shall apply in the form in effect at the time the arbitration is initiated.

2. Name of Tribunal

Any Tribunal constituted by the parties for the settlement of their dispute under these Rules shall be called the Patent and Licensing Arbitration Tribunal.

3. Administrator

When parties agree to arbitrate under these Rules, or when they provide for arbitration by the National Academy of Conciliators ("NAC") under its Patent and Licensing Arbitration Rules and an arbitration is initiated thereunder, they thereby constitute NAC the administrator of the arbitration. The authority and obligations of the administrator are set forth in the agreement of the parties and in these Rules and include such additional authority as is reasonable and necessary to effectuate the agreement of the parties and the Rules.

4. Delegation of Duties

The duties of NAC under these Rules may be carried out through Tribunal Administrators or such other officers or committees as NAC may direct.

5. National Panel of Patent and Licensing Arbitrators

The NAC shall establish and maintain a National Panel of Patent and Licensing Arbitrators which will include individuals having experience in patent law and/or special technical expertise and shall appoint Arbitrators therefrom as provided in these rules or the agreement of the parties.

6. Office of Tribunal

The general office of a Tribunal is the headquarters of NAC, which may, however, assign the administration of an arbitration to any other NAC Office.

7. Initiation Under an Arbitration Provision in a Contract

Arbitration under an arbitration provision in a contract may be initiated in the following manner:

(a) The initiating party shall give notice to the other party of its intention to arbitrate (Demand), which notice shall contain a statement setting forth the nature of the dispute, the amount involved, if any, the remedy sought; and

(b) The initiating party shall file with NAC three (3) copies of said notice, together with three (3) copies of the arbitration provisions of the contract, together with the appropriate administrative fee as provided in the Administrative Fee Schedule. NAC shall give notice of such filing to the other party. The party upon whom the Demand for Arbitration is made may file an answering statement in duplicate with NAC within twenty (20) days after notice from NAC, in which event said party shall simultaneously send a copy of the answer to the other party. If a counterclaim is asserted it shall contain a statement setting forth the nature of the counterclaim, the amount involved, if any, and the remedy sought. If a monetary claim is made in the answer, the appropriate fee provided in the Administrative Fee Schedule shall be forwarded to NAC with the answer. If no answer is filed within the stated time, it will be assumed that the claim is denied. Failure to file an answer shall not operate to delay the arbitration.

(c) If the dispute or any Answer, Defense or Counterclaim involves any issue of Patent validity or of infringement, the party asserting the claim shall separately state the issue in the demand or answer and shall set forth specifically each patent in issue.

8. Change of Claim

After filing of the claim, if either party desires to make any new or different claim, such claim shall be made in writing and filed with NAC, and a copy thereof shall be mailed to the other party, who shall have a period of twenty (20) days from the date of such mailing within which to file an answer with NAC. After the Arbitrator is appointed, however, no new or different claim may be submitted except with the Arbitrator's consent.

9. Initiation under a Submission

Parties to any existing dispute may commence an arbitration under these Rules by filing with NAC two (2) copies of a written agreement to arbitrate under these Rules (Submission), signed by the parties. It shall contain a statement of the matter in dispute, the amount of money involved, if any, and the remedy sought, together with the appropriate administrative fee as provided in the Administrative Fee Schedule. The Submission shall also comply with Rule 7(C), if applicable.

10. Administrative Conference

At the request of the parties or at the discretion of NAC, a meeting with the administrator and the parties or their counsel will be scheduled to facilitate the administrative arrangements for the arbitration.

11. Fixing of Locale

The parties may mutually agree on the locale where the arbitration is to be held. If the locale is not designated within twenty (20) days from the date of filing the Demand or Submission, NAC shall have power to determine the locale. Its decision shall be final and binding. If any party requests that the hearing be held in a specific locale and the other party files no objection thereto within twenty (20) days after notice of request, the locale shall be the one requested.

12. Qualifications of Arbitrator

Any Arbitrator appointed pursuant to Section 13 or Section 15 shall be neutral subject to disqualification for the reasons specified in Section 19. If the agreement of the parties names an Arbitrator or specifies any other method of appointing an Arbitrator, or if the parties specifically agree in writing, such Arbitrator shall not be subject to disqualification for said reasons.

13. Appointment from Panel

If the parties have not appointed an Arbitrator and have not provided any other method of appointment, each Arbitrator shall be appointed in the following manner: immediately after the filing of the Demand or Submission, NAC shall submit simultaneously to each party to the dispute an identical list of names of persons chosen from the National Panel of Patent and Licensing Arbitrators. Each party to the dispute shall have seven (7) days from the mailing date in

which to cross off any names objected to, number the remaining names to indicate the order of preference, and return the list to NAC. If a party does not return the list within the time specified, all persons named therein shall be deemed acceptable. From among the persons who have been approved on both lists, and in accordance with the designated order of mutual preference, NAC shall invite the acceptance of an Arbitrator to serve. If the parties fail to agree upon any of the persons named, or if acceptable Arbitrators are unable to act, or if for any other reason the appointment cannot be made from the submitted lists, NAC shall have the power to make the appointment from among other members of the National Panel of Patent and Licensing Arbitrators without the submission of any additional list.

Any Arbitrator appointed pursuant to this section or any Chairman appointed pursuant to Section 15 shall be experienced in patent law or licensing law, as required by the dispute.

14. Direct Appointment by Parties

If the agreement of the parties names an Arbitrator or specifies a method of appointing an Arbitrator, that designation or method shall be followed. The notice of appointment, with name and address of the appointing party, shall be filed with NAC by the appointing party. Upon the request of any such appointing party, NAC shall submit a list of members from which the party may, if it so desires, make the appointment.

If the agreement specifies a period of time within which an Arbitrator shall be appointed and any party fails to make such appointment within that period, NAC shall make the appointment. If no period of time is specified in the agreement, NAC shall notify the parties to make the appointment and if within seven (7) days thereafter such Arbitrator has not been so appointed, NAC shall make the appointment.

15. Appointment of Neutral Arbitrator by Party-Appointed Arbitrators

If the parties have appointed their Arbitrators or if either or both of them have been appointed as provided in Section 14 and have authorized such Arbitrators to appoint a neutral Arbitrator within a specified time and no appointment is made within such time or any agreed extension thereof, NAC shall appoint a neutral Arbitrator, who shall act as Chairman.

If no period of time is specified for appointment of the neutral Arbitrator and the parties do not make the appointment within seven (7) days from the date of the appointment of the last party-appointed Arbitrator, NAC shall appoint such neutral Arbitrator, who shall act as Chairman.

If the parties have agreed that their Arbitrators shall appoint the neutral Arbitrator from the National Panel of Patent and Licensing Arbitrators, NAC shall furnish to the party-appointed Arbitrators, in the manner prescribed in Section 13, a list selected from the National Panel of Patent and Licensing Arbitrators, and the appointment of the neutral Arbitrator shall be made as prescribed in such Section.

16. Nationality of Arbitrator in International Arbitration

If one of the parties is a national or resident of a country other than the United States, the sole Arbitrator or the neutral Arbitrator shall, upon the request of both parties, be appointed from among the nationals of a country other than that of any of the parties.

17. Number of Arbitrators

If the arbitration agreement does not specify the number of Arbitrators, the dispute shall be heard and determined by one Arbitrator, unless NAC in its discretion, directs that a greater number of Arbitrators be appointed.

18. Notice to Arbitrator of Appointment

Notice of the appointment of the neutral Arbitrator, whether appointed by the parties or by NAC, together with a copy of the Rules and the signed acceptance of the Arbitrator, shall be filed with the administrator prior to the opening of the first hearing.

19. Disclosure and Challenge Procedure

A person appointed as neutral Arbitrator shall disclose to NAC any circumstances likely to affect impartiality, including any bias or any financial or personal interest in the result of the arbitration or any past or present relationship with the parties or their counsel. Upon receipt of such information from such Arbitrator or other source, NAC shall communicate such information to the parties, and if it deems it appropriate to do so, to the Arbitrator and others. Thereafter, NAC shall determine whether the Arbitrator should be disqualified and shall inform the parties of its decision, which shall be conclusive.

20. Vacancies

If any Arbitrator should resign, die, withdraw, refuse, be disqualified or be unable to perform the duties of the office, NAC may, on proof satisfactory to it, declare the office vacant. Vacancies shall be filled in accordance with the applicable provisions of these Rules and the matter shall be reheard unless the parties shall agree otherwise.

21. Time and Place

The arbitrator shall fix the time and place for each hearing. NAC shall mail to each party notice thereof at least five (5) days in advance, unless the parties by mutual agreement waive such notice or modify the terms thereof.

22. Representation by Counsel

Any party may be represented by counsel. A party intending to be so represented shall notify the other party and NAC of the name and address of counsel at least three (3) days prior to the date set for the hearing at which counsel is first to appear. When an arbitration is initiated by counsel, or where an attorney replies for the other party, such notice is deemed to have been given.

23. Stenographic Record

NAC shall make the necessary arrangements for the taking of a stenographic record whenever such record is requested by a party. The requesting party or parties shall pay the cost of such record as provided in Section 50.

24. Interpreter

NAC shall make the necessary arrangements for the services of an interpreter upon the request of one or more of the parties, who shall assume the cost of such service.

25. Attendance at Hearings

The Arbitrator shall maintain the absolute privacy of the hearings unless the law provides to the contrary or the parties agree otherwise. The parties and their representatives shall have the right to attend hearings. The Arbitrator shall otherwise have the power to require the exclusion of any witness, other than a party or other essential person, during the testimony of any other witness.

26. Adjournments

The Arbitrator may take adjournments upon the request of a party or upon the Arbitrator's own initiative and shall take such adjournment when all of the parties agree thereto.

27. Oaths

Before proceeding with the first hearing or with the examination of the file, each Arbitrator may take an oath of office, and if required by law, shall do so. The Arbitrator has discretion to require witnesses to testify under oath administered by any duly qualified person or, if required by law or demanded by either party, shall do so.

28. Majority Decision

Whenever there is more than one Arbitrator, all decisions of the Arbitrators must be by at least a majority. The award must also be made by at least a majority unless the concurrence of all is expressly required by the arbitration agreement or by law.

29. Order of Proceedings

Unless the parties agree otherwise, a preliminary hearing with the parties will be scheduled by the Arbitrator to specify the issues to be resolved and to stipulate uncontested facts.

Consistent with the expedited nature of arbitration, the Arbitrator shall, at the preliminary hearing, establish (i) the extent of and a schedule for the production of relevant documents and other information, the identification of any witnesses to be called and a schedule for any hearings to elicit facts solely with the knowledge of one party, and (ii) a schedule for further hearings to resolve the dispute.

Where a claim or defense involves validity or infringement, the party asserting invalidity or noninfringement shall provide the Arbitrator and the other party with the Country, number, date, and name of the patentee of any patent, the title, date and page numbers of any publication to be relied upon as anticipation of the patent involved or as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent involved. A party failing to provide such information will be precluded from adducing proof of such matters except upon such terms as may be required by the Arbitrator.

Each hearing shall be opened by the recording of the place, time and date of the hearing and the presence of the Arbitrator, the par-

ties, their counsel, and all other persons. The Arbitrator may, at the beginning of a hearing, ask for opening statements.

The Arbitrator shall have discretion to establish the procedure at any hearing but shall offer full and equal opportunity to all parties for the presentation of any material or relevant proofs. All witnesses shall submit to questions or other examination. Unless the Arbitrator orders otherwise, at any hearing in which claims, defenses or proofs are presented, the complaining party shall proceed first. Exhibits received in evidence and the identity of all witnesses shall be made a part of the record.

30. Arbitration in the Absence of a Party

Unless the law provides to the contrary, the arbitration may proceed in the absence of any party who, after due notice, fails to be present or fails to obtain an adjournment. An award shall not be made solely on the default of party. The Arbitrator shall require the party who is present to submit such evidence as the Arbitrator may require for the making of an award.

31. Evidence

The parties may offer such evidence as is pertinent and material to the controversy and shall produce such additional evidence as the Arbitrator may deem necessary to an understanding and determination of the controversy. The Arbitrator, when authorized by law to subpoena witnesses or documents, may do so upon the Arbitrator's own initiative or upon the request of any party, with notice to all parties. The Arbitrator may subpoena witnesses by describing with reasonable particularity the matter on which testimony is required and directing the subpoena to an organization which will be responsible for designating an appropriate witness. The Arbitrator shall be the judge of the relevancy and materiality of the evidence offered, and conformity to legal rules of evidence shall not be necessary. All evidence shall be taken in the presence of all the Arbitrators and of all the parties, except where any of the parties is absent in default or has waived the right to be present.

32. Evidence by Affidavit and Filing of Documents

The Arbitrator shall receive and consider the evidence of witnesses by affidavit, but shall give it only such weight as the Arbitrator deems it entitled to after consideration of any objections made to its admission. All documents not filed with the Arbitrator at the hearing, but arranged for at the hearing or subsequently by agreement of

the parties, shall be filed with NAC for transmission to the Arbitrator. All parties shall be afforded opportunity to examine such documents.

33. Inspection or Investigation

Whenever the Arbitrator deems it necessary to make an inspection or investigation in connection with the arbitration, the Arbitrator shall direct NAC to advise the parties of such intention. The Arbitrator shall set the time and NAC shall notify the parties thereof. Any party who so desires may be present at such inspection or investigation. In the event that one or both parties are not present at the inspection or investigation, the Arbitrator shall make a verbal or written report to the parties and afford them an opportunity to comment.

34. Conservation and Protection of Property

(a) The Arbitrator may issue such orders or interim awards as may be deemed necessary to safeguard the property that is the subject matter of the Arbitration, to preserve evidence and/or to protect any trade secrets or other proprietary information that might be disclosed during the arbitration.

(b) An application pursuant to this rule may be made at any time after the appointment of an Arbitrator and the Arbitrator shall convene the parties as soon as practicable to hear and consider such application.

35. Closing of Hearings

The Arbitrator shall specifically inquire of all parties whether they have any further proofs to offer or witnesses to be heard. Upon receiving negative replies, the Arbitrator shall declare the hearings closed and a minute thereof shall be recorded. If briefs are to be filed, the hearings shall be declared closed as of the final date set by the Arbitrator for the receipt of briefs. If documents are to be filed as provided for in Section 32 and the date set for their receipt is later than that set for the receipt of briefs, the later date shall be the date of closing the hearings. The time limit within which the Arbitrator is required to make the award shall commence to run, in the absence of other agreements by the parties, upon the closing of the hearings.

36. Reopening of Hearings

The hearings may be reopened on the Arbitrator's own motion, or upon application of a party at any time before the award is made. If the reopening of the hearings would prevent the making of the award within the specific time agreed upon by the parties in the contract out of which the controversy has arisen, the matter may not be reopened unless the parties agree upon the extension of such time limit. When no specific date is fixed in the contract, the Arbitrator may reopen the hearings, and the Arbitrator shall have sixty (60) days from the closing of the reopened hearings within which to make an award.

37. Waiver of Oral Hearings

The parties may provide, by written agreement, for the waiver of oral hearings. If the parties agree to waive oral hearings but are unable to agree as to the procedure, the Arbitrator shall specify a fair and equitable procedure.

38. Waiver of Rules

Any party who proceeds with the arbitration after knowledge that any provision or requirement of these Rules has not been complied with, and who fails to state objection thereto in writing, shall be deemed to have waived the right to object.

39. Extensions of Time

The parties may modify any period of time by mutual agreement. NAC for good cause may extend any period of time established by these Rules, except the time for making the award. NAC shall notify the parties of any such extension of time and its reason therefore.

40. Communication with Arbitrator and Serving of Notice

(a) Unless the parties and the Arbitrator otherwise agree, there shall be no communication between the parties and a neutral Arbitrator other than at oral hearings. Any other oral or written communications from the parties to the Arbitrator shall be directed to NAC for transmittal to the Arbitrator.

(b) Each party to an agreement that provides for arbitration under these Rules shall be deemed to have consented that any papers, notices or process necessary or proper for the initiation or continuation of an arbitration under these Rules and for any court action in connection therewith or for the entry of judgment on any

award made thereunder may be served upon such party by mail addressed to such part or its attorney at its last known address, or by personal service within or without the state wherein the arbitration is to be held (whether such party be within or without the United States of America).

41. Time of Award

The award shall be made promptly by the Arbitrator and, unless otherwise agreed by the parties or specified by law, no later than sixty (60) days from the date of closing the hearings, or if oral hearings have been waived, from the date of transmitting the final statements and proofs to the Arbitrator.

42. Form of Award

The award shall be in writing and shall be signed either by the sole Arbitrator or by at least a majority if there is more than one. It shall be executed in the manner required by law.

43. Scope of Award

The Arbitrator may grant any remedy or relief which the Arbitrator deems just and equitable and within the scope of the agreement of the parties, including, but not limited to, specific performance of a contract or injunctive relief to terminate infringement. The Arbitrator, in the award, shall assess arbitration fees and expenses in favor of any party or parties and, in the event any administrative fees or expenses are due NAC, in favor of NAC.

44. Award upon Settlement

If the parties settle their dispute during the course of the arbitration, the Arbitrator, upon their request, may set forth the terms of the agreed settlement in an award.

45. Delivery of Award to Parties

Parties shall accept as legal delivery of the award the placing of the award or a true copy thereof in the mail by NAC, addressed to such party at its last known address or to its attorney, or personal service of the award, of the filing of the award in any manner that may be prescribed by law.

46. Release of Documents for Judicial Proceedings

NAC shall, upon written request of a party, furnish to such party, at its expense, certified facsimiles of any papers in the possession of

NAC that may be required in judicial proceedings relating to the arbitration or as required for filing with the Commissioner of Patents and Trademarks.

47. Applications to Court

(a) No judicial proceedings by a party relating to the subject matter of the arbitration shall be deemed a waiver of the party's right to arbitrate.

(b) Neither NAC nor any Arbitrator in a proceeding under these Rules is a necessary party in judicial proceedings relating to the arbitration.

(c) Parties to these Rules shall be deemed to have consented that judgment upon the arbitration award may be entered in any Federal or State Court having jurisdiction thereof.

48. Administrative Fees

As a not-for-profit organization, NAC shall prescribe an Administrative Fee Schedule to compensate it for the cost of providing administrative services. The schedule in effect at the time of filing or the time of refund shall be applicable.

The administrative fees shall be advanced by the initiating party or parties, subject to final apportionment by the Arbitrator in the award. When a matter is withdrawn or settled, the refund shall be made in accordance with the Refund Schedule.

NAC, in the event of extreme hardship on the part of any party, may defer or reduce the administrative fee.

49. Fee When Oral Hearings Are Waived

When all oral hearings are waived under Section 37, the Administrative Fee Schedule shall apply.

50. Expenses

The expenses of witnesses for either side shall be paid by the party calling such witnesses.

The cost of the stenographic record, if any is made, and all transcripts thereof, shall be prorated equally among all parties ordering copies unless they shall otherwise agree and shall be paid for by the responsible parties directly to the reporting agency. All other expenses of the arbitration, including required traveling and other expenses of the Arbitrator and NAC representatives, and the expenses of any witness or the cost of any proofs produced at the direct request of the Arbitrator, and the neutral Arbitrator's fee shall be

borne equally by the parties, unless they agree otherwise, or unless the Arbitrator, in the award, assesses such expenses or any part thereof against any specified party or parties.

51. Arbitrator's Fee

The per diem fee for each neutral Arbitrator shall be agreed to by the parties and the Arbitrator prior to the commencement of any of the activities by the Arbitrator. The arrangements for compensation shall be made through NAC and not directly between the parties and the Arbitrator. If, in the opinion of NAC, the parties do not reach agreement on the per diem fee of a neutral Arbitrator within a reasonable time, NAC will have the sole power to determine the per diem fee and will communicate it in writing to the parties and the neutral Arbitrator.

52. Deposits

NAC may require the parties to deposit in advance such sums of money as it deems necessary to defray the expense of the arbitration, including the Arbitrator's fee, and shall render an accounting to the parties and return any unexpended balance.

53. Interpretation and Application of Rules

The Arbitrator shall interpret and apply these Rules insofar as they relate to the Arbitrator's powers and duties. When there is more than one arbitrator and a difference arises among them concerning the meaning or application of any such Rules, it shall be decided by a majority vote. If that is unobtainable, either an Arbitrator or a party may refer the question to NAC for final decision. All other Rules shall be interpreted and applied by NAC.