

Resolution of Patent Disputes

Supplementary Rules



AMERICAN ARBITRATION ASSOCIATION®

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Resolution of Patent Disputes Supplementary Rules



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 disputes are arbitrated each year under the auspices of the American Arbitration Association (AAA®). In the patent field, arbitration is also facilitated by important legislation expanding the range of disputes that may be arbitrated.

The American Arbitration Association is a not-for-profit, public service organization offering a broad range of dispute resolution services to business executives, attorneys, individuals, trade associations, unions, management, consumers, families, communities, and all levels of government. Services are available through AAA headquarters in New York and through offices located in major cities throughout the United States. Hearings may be held at locations convenient for the parties and are not limited to cities with AAA offices. In addition, the AAA serves as a center for education and training, issues specialized publications, and conducts research on all forms of out-of-court dispute settlement.

Arbitrability of patent disputes was aided when former President Ronald 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 PL 97-247 (35 USC, '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 of the US Code. Such arbitration shall be private and the resulting award shall be final and binding. Awards are enforceable when notice of an 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.

In 1984, the Congress further expanded the scope of informal resolution of intellectual property disputes when it enacted two statutes that became effective November 8 of that year. The Patent Law Amendments Act of 1984 (HR 6286; PL 98-6220) added a new subsection (d) to 35 USC 135, which provides for arbitration of patent interferences. The Semiconductor Chip Protection Act of 1984 (HR 6163; PL 98-620, 17 USC, '901 *et seq.*) sanctions litigation of disputes over royalties payable for innocent infringement of chip product rights unless they are resolved by voluntary negotiation, mediation, or binding arbitration.

Those who use and support arbitration as a way 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 supplementary rules were prepared by the AAA with assistance from a special advisory committee of patent attorneys.

Patent disputes are administered under the AAA's *Commercial Arbitration Rules and Mediation Procedures with the Supplementary Rules for the Resolution of Patent Disputes*.

Parties can provide for arbitration of future disputes by inserting the following clause into their contracts:

1. Standard 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, shall be settled by arbitration administered by the American Arbitration Association under its Supplementary Rules for the Resolution of Patent Disputes and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. (The award shall be rendered within months of the filing of the Demand.)

Arbitration of existing disputes may be accomplished by use of the following:

We, the undersigned parties, hereby agree to submit to arbitration administered by the American Arbitration Association under its Supplementary Rules for the Resolution of Patent Disputes the following controversy: (cite briefly). We further agree that the above controversy be submitted to (one)(three) arbitrator(s) (and that the award shall be rendered within months of the Demand). We further agree that we will faithfully observe this agreement and the rules, that we will abide by and perform any award rendered by the arbitrator(s), and that a judgment of the court having jurisdiction may be entered on the award.

Parties may also wish to consider adding time standards to their arbitration agreement such as a limitation on the number of hearing days or a specified time limit from the time of the appointment of an arbitrator to the time of the execution of an award. By adding provisions such as these to an arbitration agreement, they become mandatory procedural steps in the arbitration. Such limitations may be inserted into an arbitration clause or may be established after the commencement of arbitration through the preliminary hearing process (see Rule 3 below for examples of issues to be addressed during the preliminary hearing).

The services of the AAA are generally concluded with the transmittal of the award. Although there is voluntary compliance with the majority of awards, judgment on the award can be entered in a court having appropriate jurisdiction if necessary.

2. Mediation

The parties might wish to submit their dispute to mediation prior to arbitration. In mediation, a neutral mediator assists the parties in reaching a settlement, but does not have the authority to make a binding decision or award. Mediation is administered by the AAA in accordance with its Commercial Mediation Procedures. There is no additional administrative fee where parties to a pending arbitration attempt to mediate their dispute under the AAA's auspices.

If the parties want to adopt mediation as a part of their contractual dispute settlement procedure, they can insert the following mediation clause into their contract in conjunction with a standard arbitration provision:

If a dispute arises out of or relates to this contract, or the breach thereof, and if the dispute cannot be settled through negotiation, the parties

agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Commercial Mediation Procedures before resorting to arbitration, litigation, or some other dispute resolution procedure.

If the parties want to use a mediator to resolve an existing dispute, they should enter into the following submission:

The parties hereby submit the following dispute to mediation administered by the American Arbitration Association under its Commercial Mediation Procedures (the clause may also provide for the qualifications of the mediator(s), the method of payment, the locale of meetings, and any other item of concern to the parties).

Supplementary Rules for the Resolution of Patent Disputes

1. Applicability

Unless the parties agree otherwise, these *Supplementary Rules for the Resolution of Patent Disputes* (“Supplementary Rules”), together with the *Commercial Arbitration Rules and Mediation Procedures* (“Commercial Rules”) shall apply to any dispute arising out of an agreement that provides for arbitration pursuant to any of the rules of the American Arbitration Association (“AAA”) where a party submits a patent dispute to arbitration and shall supplement any other applicable AAA rules.

To the extent that there is any variance between the Supplementary Rules and the Commercial Rules, the Supplementary Rules shall apply. The Supplementary Rules and any amendment to them shall apply in the form in effect at the time of commencement of the arbitration. The parties, by agreement in writing, may vary the procedures set forth in these Supplementary Rules and/or the Commercial Rules.

2. National Panel of 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 as provided in these rules or as agreed to by the parties.

3. Preliminary Hearing and Scheduling Order

As promptly as practicable after the selection of the arbitrator(s), a preliminary hearing shall be held among the parties and/or their attorneys or other representatives and the arbitrator(s). Unless the parties agree otherwise, the preliminary hearing will be conducted by telephone conference call rather than in person. The arbitrator(s) will issue a scheduling order setting forth the matters addressed during this hearing. The arbitrator shall have the authority to resolve any differences between the parties over the issues addressed during this hearing. At the preliminary hearing the matters to be considered may include, without limitation:

- a. the execution of a confidentiality agreement if appropriate;
- b. the possibility of utilizing mediation or other ADR methods of dispute resolution;
- c. the content of initial disclosures, and timeframe for the completion of service of the disclosures. The initial disclosures may include the following:

1. for the party claiming patent infringement, the disclosure of asserted claims and preliminary infringement contentions, including but not limited to:
 - i. claims for each patent that are allegedly infringed;
 - ii. each specific product, process, item, etc. of the other party that allegedly infringes the party's patent (the Accused Instrumentality);
 - iii. whether each element of each asserted claim is claimed to be literally present or present under the doctrine of equivalents in the Accused Instrumentality;
 - iv. a copy of the file history for each patent in dispute;
 - v. a chart identifying specifically where each element of each asserted claim is found within each Accused Instrumentality, including for each element that such party contends is governed by 35 U.S.C. § 112(6), the identity of the structure(s), act(s), or material(s) in the Accused Instrumentality that performs the claimed function.
2. for the party claiming patent infringement, any document relating to these claims and contentions, including but not limited to:
 - i. all documents that show any and all discussions and disclosures of the claimed invention to any third parties or the sale or attempted sale of the claimed invention, prior the filing of the application(s) for the patent(s) at issue;
 - ii. all documents relating to the conception or reduction to practice of the claimed invention(s) that were created prior to the application(s) for the patent(s) at issue.
3. for the party opposing patent infringement, the preliminary invalidity contentions, including but not limited to:
 - i. the identity of each item of prior art that allegedly anticipates each asserted claim or renders it obvious;
 - ii. whether each item of prior art anticipates each asserted claim or renders it obvious;
 - iii. any other grounds of invalidity or unenforceability which the party intends to assert against any of the asserted claims;
 - iv. a chart identifying where specifically in each alleged item of prior art each element of each asserted claim is found, including for each element that such party contends is governed by 35 U.S.C. § 112(6), the identity of the structure(s), act(s), or material(s) in each item of prior art that performs the claimed function.
4. for the party opposing patent infringement, any document relating to these contentions, including but not limited to:
 - i. documentation that show the operation of the allegedly infringing item or process;

ii. any item of prior art which the party intends to assert which was not already in the file history of the patent in contention.

5. if applicable, final contentions from both parties.

- a. if direct testimony is to be submitted in writing, the date by which direct testimony is to be submitted;
- b. the date of the prehearing conference;
- c. the preparation of a joint prehearing statement;
- d. if applicable, a date and procedure for a reasonably prompt claim construction hearing;
- e. the exchange of proposed claim constructions;
- f. the extent to which discovery, if any, shall be permitted and the procedure and time frame for the discovery;
- g. the date of the hearing and the extent to which hearings will proceed on consecutive days;
- h. the necessity of injunctive relief;
- i. the identification and availability of witnesses, including experts, and such matters with respect to witnesses including their biographies and expected testimony as may be appropriate;
- j. the exchange of expert reports;
- k. whether, and the extent to which, any sworn statements and/or depositions may be introduced;
- l. the procedure for the issuance of subpoenas;
- m. the designation of substantive law(s) or rules of law; and
- n. whether the arbitrator will issue a reasoned award.

4. Enforceability

Any award issued pursuant to these rules shall be enforceable pursuant to 35 USC 294.

Appendices

These statutory provisions are being provided as of January 1, 2006. Please refer to the official text of the statutes for the most current version.

1. 35 USC, '294: Voluntary arbitration

- (a) A contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, and enforceable, except for any grounds that exist at law or in equity for revocation of a contract.
- (b) Arbitration of such disputes, awards by arbitrators and confirmation of awards shall be governed by title 9, to the extent such title is not inconsistent with this section. In any such arbitration proceeding, the defenses provided for under section 282 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 Director. There shall be a separate notice prepared for each patent involved in such proceeding. Such notice shall set forth the names and addresses of the parties, the name of the inventor, and the name of the patent owner, shall designate the number of the patent, and shall contain a copy of the award. If an award is modified by a court, the party requesting such modification shall give notice of such modification to the Director. The Director shall, upon receipt of either notice, enter the same in the record of the prosecution of such patent. If the required notice is not filed with the Director, any party to the proceeding may provide such notice to the Director.
- (e) The award shall be unenforceable until the notice required by subsection (d) is received by the Director.

2. 35 USC, '135: Interferences

- (d) Parties to a patent interference, within such time as may be specified by the Director 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 Director, 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 Director from determining patentability of the invention involved in the interference.

3. 17 USC, '907: Limitation on exclusive rights: innocent infringement

- (a) Notwithstanding any other provision of this chapter, an innocent purchaser of an infringing semiconductor chip product— ... (2) shall be liable only for a reasonable royalty on each unit of the infringing semiconductor chip product that the innocent purchaser imports or distributes after having notice of protection with respect to the mask work embodied in the semiconductor chip product.
- (b) The amount of the royalty referred to in subsection (a)(2) shall be determined by the court in a civil action for infringement unless the parties resolve the issue by voluntary negotiation, mediation, or binding arbitration.

