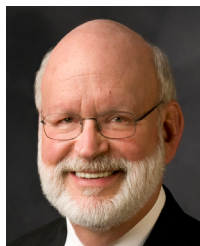


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An arbitration award may not be the end of the road in patent disputes

Several cases serve as examples to the contrary

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When a patent dispute goes to arbitration, there is the possibility that an outside party could try to influence the outcome by going to court. This may come as a surprise, given that Section 294 of the Patent Act specifies that any arbitrator's award in a patent validity or infringement dispute is "final and binding between the parties ... but shall have no force or effect on any other person." Courts have not ruled, however, on whether an arbitrator's ruling in such cases precludes future claims of invalidity or infringement by third parties against the patent holder.

Because Section 294 does not bind the patentee, it is still possible for nonparties to an arbitration to raise collateral estoppel in subsequent litigation over the same patent, but the outcome of such an argument is far from certain. If third parties cannot assert collateral estoppel of findings of invalidity, however, inconsistent rules about the use of a patented invention could apply to parties to an arbitration instead. By including language in an agreement's arbitration provision extending to third parties the preclusive effect of an arbitrator's ruling in patent disputes, parties may be able to alleviate this uncertainty.

Outside the patent context, courts considering claims of collateral estoppel of arbitration awards often evaluate them on a case-by-case basis. For instance, many federal courts determine the preclusive effect of arbitration awards differently, and with more discretion, than court judgments. In *FleetBoston Fin. Corp. v. Alt*, the 1st Circuit affirmed a

district court's confirmation of an arbitration award, as well as its order granting summary judgment against the assertion of certain compensation claims on the theory that they had been disposed of in the arbitration proceeding.

Specifically, if a court finds public policy reasons weigh against application of issue preclusion to issues decided in arbitration, it can decline to afford the arbitration award preclusive effect. In *Airline Pilots Ass'n v. Trans States Airlines*, the 8th Circuit said, in part, "we do not give a prior [arbitration award], specifically one which has not been subject to judicial review, any preclusive effect on a matter of public policy." In addition, a court can decline to give preclusive effect to an arbitration award if it finds that the adjudicatory procedures followed by the arbitration panel were inadequate, according to the American Law Institute's *Restatement of the Law Second, Judgments*.

Allowing courts to determine the preclusive effect of arbitration judgments on third-party claims creates particular uncertainty in patent disputes because of the myriad, often conflicting policy concerns relating to patents. Consequently, courts are more likely to rule inconsistently on whether an arbitrator's award has such an effect. It also is unclear whether public policy supports applying collateral estoppel to arbitration awards.

In *Buckner v. Kennard*, the Utah Supreme Court compared public policy

favoring a case-by-case analysis of collateral estoppel issues with a "bright-line" rule adopted by California. The court noted that while both approaches seek to promote the use of arbitration as an alternative to the courts, they "diverge on the critical question of whether the objectives of arbitration are best served by granting or refusing to grant collateral estoppel effect to arbitration proceedings." In addition the court said it agreed with California in declining to adopt the case-by-case approach and instead adopting a bright-line rule based on the language of the arbitration provision agreed to by the parties. The Utah court held that a private arbitration award cannot have "non-mutual collateral estoppel effect unless the parties expressly provided for such preclusive effect beforehand."

This reasoning is consistent with the language of the Patent Act. Including explicit language in a provision to arbitrate a patent dispute would alleviate any confusion and inconsistency that results from an invalidity finding that may apply only to the arbitrating parties without extending to the public at large. Because this would be a contractual provision agreed upon by the parties, it could be effective in all jurisdictions, not just those that have adopted the bright-line rule.

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