



**RESPONSE TO THE REPORT  
OF THE  
FEDERAL TRADE COMMISSION ENTITLED:  
“TO PROMOTE INNOVATION: THE PROPER  
BALANCE OF COMPETITION AND  
PATENT LAW AND POLICY”**

**THE VIEWS EXPRESSED HEREIN ARE ON BEHALF OF THE AMERICAN BAR ASSOCIATION SECTION OF INTELLECTUAL PROPERTY LAW. THEY HAVE NOT BEEN APPROVED BY THE AMERICAN BAR ASSOCIATION’S HOUSE OF DELEGATES OR THE BOARD OF GOVERNORS AND SHOULD NOT BE CONSTRUED AS REPRESENTING THE POLICY OF THE AMERICAN BAR ASSOCIATION.**

## EXECUTIVE SUMMARY

In its 2003 report on the U.S. patent system (“To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy”), the Federal Trade Commission made a number of important recommendations for changes to the U.S. patent system. The FTC report, as was the case with the 2004 report from the National Research Council of the National Academies (NRC), represents the fruits from an intensive and wide-ranging study of the patent system and its impact on competition. Both the FTC report and the 2004 NRC report yielded three principal recommendations that have been widely supported: a call for adequate funding for the United States Patent and Trademark Office (USPTO), enhancements to the post-grant review of issued patents, and the publication of all patent applications eighteen months after their filing date.

The IPL Section concurs with the FTC and NRC on the importance of these recommendations and the need for Congressional action to carry them forth. With respect to the post-grant review of issued patents, the Section notes the particular benefits that could result if the patent laws could be simplified and made more objective, *e.g.*, though adoption of the first-inventor-to-file principle, so that all issues of patent validity could be addressed by the USPTO in a post-grant review procedure.

In addition, both the FTC report and the NRC report made recommendations relating to limiting and/or eliminating the so-called “subjective elements” in patent litigation. While the NRC report dealt comprehensively with the “inequitable conduct” defense, the “best mode” requirement and “willful infringement” allegations – recommending that all be limited and/or eliminated – the FTC’s report focused specifically on the issue of limiting willfulness allegations. The Section is in general support with both the NRC and the FTC in finding ways for making patent litigation more predictable and less costly by appropriate reforms in this area.

Finally, the FTC report contains a number of other recommendations where the Section is not prepared to offer its support. FTC proposals to inject competition and/or economic analyses into disputes over patent property rights are not needed to enable the patent laws to be administered in a fair and balanced manner. Moreover, the FTC proposal that the burden of proof on patent invalidity issues be through a mere preponderance of the evidence is similarly unnecessary.

### *Post-Grant Review Proceedings*

There is a strong consensus in favor of post-grant review proceedings. In addition to the IPL Section, the FTC, and the NRC, enhanced post-grant review has been supported by the U.S. Patent and Trademark Office (USPTO), the American Intellectual Property Law Association (AIPLA), the Biotechnology Industry Association (BIO), the Intellectual Property Owners Association (IPO). The current reexamination procedures have been demonstrated to be ineffective and have been little used. Relying on litigation to correct mistakes made by the USPTO is expensive and slow – and a challenger must wait to be sued by the patent owner or have a basis for declaratory judgment jurisdiction.

In contrast, a properly constituted post-grant review proceeding could provide a prompt, low cost mechanism for challenging the validity of questionable patents, while providing patentees with adequate safeguards against harassment.

#### *18-Month Publication*

The Section has long favored 18-month publication of all patent applications, and, supports the FTC recommendation to eliminate the current special exception for “domestic only” applications. The public does not receive early warning of those unpublished applications when making investment decisions on new areas of research, development and commercial activity. Such early warning will be even more important if the proposed post-grant review procedure is adopted. The limited time in which to file an opposition after a patent issues, not more than 12 months under the Section’s proposal, will make early warning of patents that may issue very important.

#### *Adequate USPTO Funding*

Adequate funding for the USPTO is essential in order to improve the quality of examination, and to implement the USPTO’s 21st Century Strategic Plan. Substantial additional funding also will be required to implement the proposed post-grant review procedure. In fact the proposed new post-grant review procedure cannot work without substantial additional funding. The Section has long supported adequate funding, and in particular has urged an end to the diversion of USPTO user fees to other governmental uses.

#### *Subjective Elements in Patent Litigation: Willful Infringement Allegations*

The Section also agrees with the FTC’s recommendation that the law of willful infringement should be modified. The Section is studying specific modification proposals, and expects to supplement this response when that study is completed.

#### *Other FTC Recommendations Not Supported by the Section*

The Section disagrees with the FTC’s recommendation that the USPTO and the Federal Circuit expand consideration of economic issues in their decision-making. That recommendation confuses the different ways in which the patent laws and the antitrust laws benefit competition and consumers. Under the antitrust laws, challenged practices are individually evaluated for their impact on competition and consumers. Under the patent laws, the system as a whole creates the incentive that benefits competition and consumers. For over two hundred years, the patent laws have not permitted the USPTO or the courts to grant or enforce only patents they found would “benefit” consumers. That system has worked well. The USPTO receives nearly 300,000 patent applications every year. It does not have the capability of determining which will ultimately cause “benefit” or “harm” to consumers. To request a court to determine in later litigation whether the patented invention “benefits” or “harms” consumers would add cost and complexity to a patent litigation system that is already too expensive and too complex.

The Section also disagrees with the FTC’s recommendation that possible harm and benefit to competition be considered before extending the scope of patentable subject matter. This recommendation also is based upon a false parallel between the antitrust laws and the patent laws. There is simply no way to apply the microeconomic analysis of the antitrust laws to

patentability considerations without severely disrupting the entire incentive structure of the patent laws. The patent system has worked very well by following the Congressional mandate that patentable subject matter includes “anything under the sun that is made by man.”

The Section also disagrees with the FTC’s recommendation to reduce the burden of proving a patent invalid, and other recommendations which the Section believes would unreasonably weaken the right to protect inventions and reduce the incentive for investment in new technology.

## DETAILED DISCUSSION

### RECOMMENDATION 1:

**“As the Patent and Trademark Office Recommends, Enact Legislation to Create a New Administrative Procedure to Allow Post-Grant Review of and Opposition to Patents.”**

*“Because existing means for challenging questionable patents are inadequate, we recommend an administrative procedure for post-grant review and opposition that allows for meaningful challenges to patent validity short of federal court litigation. To be meaningful, the post-grant review should be allowed to address important patentability issues. The review petitioner should be required to make a suitable threshold showing. An administrative patent judge should preside over the proceeding, which should allow cross-examination and carefully circumscribed discovery, and which should be subject to a time limit and the use of appropriate sanctions authority. Limitations should be established to protect against undue delay in requesting post-grant review and against harassment through multiple petitions for review. The authorizing legislation should include a delegation of authority permitting the Patent and Trademark Office’s conclusions of law to receive deference from the appellate court. Finally, as is the case with settlements of patent interferences, settlement agreements resolving post-grant proceedings should be filed with the Patent and Trademark Office and, upon request, made available to other government agencies.”*

#### **Section Response:**

The Section agrees, in principle, with the recommendation of the Commission for creation of a new administrative procedure to allow post-grant review of patents.

#### **Discussion:**

There are several mechanisms by which the Patent and Trademark Office can review issued patents:

- When an applicant files an application to reissue a patent and requests correction of at least one error in the patent,
- When an interference is declared between the patent and a pending application,

- When a patent owner or third-party requests reexamination of the patent, and
- When the Director initiates reexamination of a patent on his own initiative.

However, most of these procedures have significant substantive limitations. For example, most are limited to grounds based on prior art patents or printed publications and, outside of interference proceedings, the decision is not made by administrative patent judges. There is a general recognition that some type of more meaningful, cost effective, post-grant review process is important to sustaining the viability of the U.S. patent system.

The Section favors the Commission's recommendation of an administrative post-grant review and opposition procedure that would provide a more balanced proceeding than the present Patent and Trademark Office review procedures. The Section agrees that a properly implemented post-grant review process would provide significant opportunities for enhancing patent quality, thereby increasing business certainty, promoting competition, and fostering continued innovation. Therefore, the Section supports the creation of a new administrative review procedure that includes the provisions to:

[1] permit the filing of an opposition by any person, upon a suitable threshold showing, within a limited period of time not greater than 1 year after the date of the patent grant;

[2] permit as grounds for opposition a broader scope of invalidity issues under 35 U.S.C. §§ 102 (except 102(c), (f) and (g)), 103 and 112 (except for the best mode requirement), than is available in reexamination proceedings;

[3] permit a limited opportunity for amendment of the patent claims during the opposition;

[4] provide completely *inter partes* proceedings, including the right of any party thereto to appeal an adverse decision to the Court of Appeals for the Federal Circuit;

[5] provide that all evidence other than patents and printed publications be presented through affidavit or declaration, and that affiants and declarants be subject to cross-examination;

[6] limit discovery to cross-examination of affiants, unless otherwise required in the interest of justice;

[7] provide authority to the Board of Patent Appeals and Interferences to hear and decide all such post-grant review proceedings;

[8] put the burden of proof on the Opposer to show invalidity by a preponderance of the evidence; and

[9] require that the proceeding be completed within a specified period of time.

In order to be effective, such a post-grant review proceeding must be truly *inter partes*. Moreover, the opposition should be heard and decided by a panel of administrative patent judges (“APJ’s”), such as the Board of Patent Appeals and Interferences. Such APJ’s have training and experience in contested proceedings, whereas the Examiners currently handling re-examinations do not.

The proceeding should permit assertion of a broader scope of invalidity grounds than prior art patents and printed publications as currently available in reexamination proceedings. The Section proposes that all prior art available under 35 U.S.C. §§ 102 and 103 be eligible for assertion in an opposition, with the exception of § 102(c) (abandonment), § 102(f) (derivation), and § 102(g) (first to invent). Those excepted grounds likely would require more discovery and more difficult determinations of what was in the mind of the inventor, thereby unduly increasing cost and delay. The Patent and Trademark Office’s determination of first to invent and derivation would remain available in interference proceedings.

The Section also proposes that indefiniteness of the claims, and lack of a written description of the invention or an enabling disclosure under § 112 be permitted as grounds which can be asserted. However, the failure to disclose the best mode of practicing the invention known to the inventor should not be available as a ground of opposition because of the difficult fact and discovery issues raised by inquiry into the state of mind of the inventor.

To avoid harassment and unreasonable burden on the patentee, the opposer should be required to make a threshold showing of invalidity before the proceeding is instituted.

Discovery must be stringently limited so as to avoid the time delay and huge costs often associated with patent infringement litigation in the courts. Such costs would create an unreasonable burden for a patent owner who may not have even asserted that the opposer has infringed. Accordingly, the Section proposes that all evidence other than patents and printed publications be presented through affidavit or declaration, and that discovery be limited to cross-examination of affiants, unless otherwise required in the interest of justice.

The Section proposes that all oppositions be filed within a limited period, not greater than one year, after the patent issues. Further, the Section proposes that the entire proceeding be completed within a specified period of time, e.g., one year after it is instituted unless extended for an additional six months in unusual circumstances. Such time limitations will provide competitors and the public with an early opportunity to correct improperly granted patents, while providing the patentee with greater certainty within a reasonable time after the patent issues.

The Section believes that such a post-grant review proceeding would provide a prompt and cost-effective procedure for determining the patentability of the issued claims without creating an undue burden on patentees to defend their patents against frivolous assertions, repeated challenges and harassment. However, such a post-grant review proceeding will require additional funding for the PTO, and the Section’s proposal is conditioned upon a commitment for adequate funding.

## RECOMMENDATION 2:

**“Enact Legislation to Specify That Challenges to the Validity of a Patent Are to be Determined Based on a ‘Preponderance of the Evidence.’ ”**

*“An issued patent is presumed valid. Courts require a firm that challenges a patent to prove its validity by ‘clear and convincing evidence.’ This standard appears unjustified. A plethora of presumptions and procedures tip the scales in favor of the ultimate issuance of a patent, once an application is filed. In addition, as many have noted, the Patent and Trademark Office is underfunded, and Patent and Trademark Office patent examiners all too often do not have sufficient time to evaluate patent applications fully. These circumstances suggest that an overly strong presumption of a patent’s validity is inappropriate. Rather, courts should require only a ‘preponderance of the evidence’ to rebut the presumption of validity.*”

### **Section Response:**

The Section opposes the Commission’s proposal to reduce the burden of proof for challenging patent invalidity.

### **Discussion:**

The Section opposes the Commission’s proposal for legislation to reduce the burden of proof for challenging validity as flawed and unnecessary. It would undermine decades of well-reasoned precedent that have rejected attempts to invalidate patents based on allegations that are easily fabricated and almost impossible to disprove, typically uncorroborated oral testimony of prior uses or prior inventions.

The requirement that the factual predicate for a finding of invalidity be proved by evidence that is clear and convincing is entirely appropriate and imposes no unfair burden on the party challenging the patent. A prior printed publication or prior patent, on its face, constitutes clear and convincing evidence of its content. An alleged prior use or prior invention, on the other hand, does and should require similarly convincing evidence of its substance.

It appears that the Commission has misunderstood the application of the “clear and convincing evidence” standard. This misperception is fostered by a lack of precision in many decisions, but the remedy should be clarification by judicial interpretation, not legislation.

What the well-reasoned precedent holds is that the underlying *facts* must be proven by clear and convincing evidence, i.e., what is the content of the prior art and the level of skill in the art. The clear and convincing standard does not apply, and should not apply, to the *legal*

*conclusion* of invalidity, e.g., obviousness. It is only those predicate facts, not their persuasive force, which must be clearly and convincingly established.

Clarification of those basic principles, and the correct ambit of the “clear and convincing evidence” standard should, we believe, be addressed by the courts, not Congress. When correctly applied as described above, the standard is appropriate and will not make patent challenges unduly difficult or unfairly tilt the playing field.

The presumption of validity is a patentee’s procedural reward for going through the patent process and assuring that the invention will be disclosed to the public, even if the patent later turns out to be invalid. The rule is justified, in part, by the benefit the patentee gives to the public by filing a patent application that issues into a patent. A patent applicant must put the invention in the possession of the public by describing the invention, and by enabling a person of skill in the art to practice the invention. This is the heart of the bargain between the patentee and the public.

Most of the Supreme Court decisions requiring a heightened standard of proof dealt with oral evidence of prior use or inventorship. In earlier days patents were routinely challenged by uncorroborated oral evidence. The Supreme Court was reluctant to invalidate patents based on oral testimony alone, even though such testimony is accepted in other, even criminal, cases. In *Eibel Process Co. v. Minnesota & Ontario Paper Co.* 261 U.S. 45 (1923), the Court explained:

The temptation to remember in such cases and the ease with which honest witnesses can convince themselves after many years of having had a conception at the basis of a valuable patent, are well known in this branch of law, and have properly led to a rule that evidence to prove prior discovery must be clear and satisfactory. *Id.* at 60.

Earlier, in *Barbed Wire Patent Case*, 143 U.S. 275, 284 (1891) the Court had explained:

In view of the unsatisfactory character of testimony, arising from the forgetfulness of witnesses, their liability to mistakes, their proneness to recollect things as the party calling them would have them recollect them, aside from the temptation to actual perjury, courts have not only imposed upon defendants the burden of proving such devices, but have required that the proof shall be clear, satisfactory, and beyond a reasonable doubt.

This special concern has carried through to the modern rule that corroboration is required for evidence by an alleged prior inventor to meet the clear and convincing standard.

Critically, none of these cases was concerned with the persuasive force of the invalidating facts. The Court was always concerned with the existence and availability of those facts — the scope and content of the potentially invalidating prior art. For example, in *Barbed Wire Patent Case*, the Court was convinced that a wire fence had been used in public, but it was

“far from being satisfied that it was the [patented] . . . device, or so near an approximation to it as to justify us holding that it was an anticipation.” *Id.* at 289.

Documents such as patents and printed publications, once authenticated, normally constitute clear and convincing evidence of their substantive content. However, if a document is ambiguous, it too may not meet the clear and convincing standard. The Court often reviewed prior art patents and other documentary evidence without describing what burden or factual standard it was applying. *See, e.g., Eibel Process*, 261 U.S. at 58-60.

The Federal Circuit has acknowledged that the substantive effect to be accorded administrative correctness is a function of the factual foundation of the administrative decision. It has inherent evidentiary value that the trier of fact may credit, and the trier of fact determines that value. If evidence more relevant than that previously considered is introduced, that does not change the presumption of validity, the burden of proof on any particular fact, or the overall burden. As a practical matter, though, it makes the overall burden more likely to be carried. *See SSIH Equipment S.A. v. United International Trade Commission and Stewart-Warner Corporation*, 718 F.2d 365, 375 (Fed. Cir. 1983).

The Federal Circuit decisions have, unfortunately, not always maintained a clear distinction between the proof of a fact by clear and convincing evidence as distinguished from the persuasive force of those facts. In *Connell v. Sears Roebuck & Co.*, 722 F.2d 1542, 1549 (Fed. Cir. 1983), the court said, correctly, that “[t]he patent challenger may indeed prove *facts* capable of overcoming the presumption [of validity], but *the evidence relied on to prove those facts* must be clear and convincing.”

Sometimes, the Federal Circuit’s language describing the burden blurs the distinction between the existence of the facts and the persuasive force of the facts. For example, the court has stated “a challenger must establish facts, by clear and convincing evidence, *which persuasively lead to the conclusion of invalidity.*” *Avia Group Int’l, Inc. v. L.A. Gear, Inc.*, 853 F.2d 1557,1662 (Fed. Cir. 1988) (emphasis added). The careful distinctions required between the proof of fact and persuasive force of the facts can sometimes be confusing, particularly because legal conclusions, like obviousness, may be tried to a jury along with the underlying facts.

The general rule most consistent with Supreme Court precedent is the following: (1) the existence, authentication, availability and scope of evidence should be established by clear and convincing evidence, but (2) once such predicate facts are so established, the burden should be that the persuasive force of such facts demonstrates patent invalidity by a fair preponderance, not some elevated standard.

The Commission’s concerns would be appropriately and adequately addressed if the courts consistently apply the clear and convincing evidence standard only to the proof of predicate facts, and not to their persuasive force.

### **FTC RECOMMENDATION 3:**

**“Tighten Certain Legal Standards Used to Evaluate Whether a Patent is ‘Obvious.’”**

*“Patent law precludes patenting if the differences between the claimed invention and the prior art are such that ‘the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art.’ ‘Nonobviousness asks whether a development is a significant enough technical advance to merit the award of a patent.’ A proper application of this statutory requirement is crucial to prevent the issuance of questionable patents, including trivial patents and patents on inventions essentially already in the public domain. The courts have developed a variety of tests to evaluate the obviousness of a claimed invention. Two in particular – the ‘commercial success test’ and ‘the suggestion test’ – require more thoughtful application to weed out obvious patents.*

*“a. In applying the ‘commercial success’ test, 1) evaluate on a case-by-case basis whether commercial success is a valid indicator that the claimed invention is not obvious, and 2) place the burden on the patent holder to prove the claimed invention caused the commercial success.*

#### **Section Response:**

The Section opposes Commission’s Recommendation 3(a) regarding the use of “commercial success” evidence.

#### **Discussion:**

The Section has carefully considered the Commission’s recommendations regarding the use of “commercial success” evidence at trial, but does not favor a change in the law at this time. The Section believes that the Federal Circuit Bar Association’s and AIPLA’s model jury instructions concerning the use of “commercial success” evidence at trial, although not identical, generally reflect the appropriate legal standards developed in the case law and to be applied in practice. Relevant portions of those instructions are reproduced below:

#### **Federal Circuit Bar Association Model Patent Jury Instructions:**

1. Commercial success of products covered by the patent claims or made by a process covered by the patent claims.

\* \* \* \* \*

The presence of any of these objective indications may suggest that the invention was not obvious. These objective indications are only relevant to obviousness if there is a connection, or nexus, between them and the invention covered by the patent claims. For example, commercial success is relevant to obviousness only if the success of the product is related to a feature of the patent claims. If the commercial success is the result of something else, such as innovative marketing, and not to a patented feature, then you should not consider it to be an indication of non-obviousness.

#### AIPLA Jury Instructions:

##### Commercial Success

One of the factors you should consider is whether or not [the plaintiff] has shown any commercial success of products covered by the patent in suit due to the merits of the claimed invention. To prove this, [the plaintiff] would have to satisfy you that there is a causal connection between the evidence showing the commercial success and the claimed invention. For example, if you conclude that commercial success is due to advertising, promotion, salesmanship or the like, or to features of the product other than those claimed in the patent in suit, rather than to the claimed invention, then it is not established that commercial success has a relation to the invention itself. If, however, you were to find that the invention of the \_\_\_\_\_ patent achieved commercial success and that the merits of the invention caused the commercial success this would tend to indicate that the invention was not obvious.

Finally, the Section acknowledges that some courts may apply the law regarding the use of “commercial success” evidence more rigorously than others, but believes that, on balance, the courts generally apply the appropriate legal standards.

Specifically, with respect to the Commission’s first recommendation—that courts evaluate whether commercial success reflects nonobviousness on a case-by-case basis—the Section does not favor a change because it believes that the courts’ already evaluate the use of “commercial success” evidence on a case-by-case basis depending on the specific facts of each case.

With respect to the Commission’s second recommendation—that the patentee bear the burden to prove that the claimed invention caused the commercial success—the Section does not favor a change because it believes that the law already assigns the burden properly to the patentee to prove a causal nexus between the claimed invention and any alleged commercial success.

### FTC RECOMMENDATION 3:

**“Tighten Certain Legal Standards Used to Evaluate Whether a Patent is ‘Obvious.’”**

***“b. In applying the ‘suggestion’ test, assume an ability to combine or modify prior art references that is consistent with the creativity and problem-solving skills that in fact are characteristic of those having ordinary skill in the art.”***

#### **Section Response:**

The Section opposes FTC Recommendation 3(b) regarding application of the suggestion test for obviousness.

#### **Discussion:**

The Section does not believe that any modification of the obviousness standard is necessary. Instead, recent Federal Circuit precedent should be followed. In *Akamai Technologies, Inc. V. Cable & Wireless Internet Services, Inc.*, 344 F.3d 1186, 1196 (Fed. Cir. 2003) the Federal Circuit stated:

Although the suggestion to combine references may flow from the nature of the problem, *Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1573 (Fed. Cir. 1996), the suggestion more often comes from the teachings of the pertinent references, *In re Sernaker*, 702 F.2d 989, 994 (Fed. Cir. 1983), or from the ordinary knowledge of those skilled in the art that certain references are of special importance in a particular field, *Pro-Mold*, 75 F.3d at 1573 (citing *Ashland Oil, Inc. v. Delta Resins & Refractories, Inc.*, 776 F.2d 281, 297 n.24 (Fed. Cir. 1985)). Therefore, “[w]hen determining the patentability of a claimed invention which combines two known elements, ‘the question is whether there is something in the prior art as a whole to suggest the desirability, and thus the obviousness, of making the combination.’” *In re Beattie*, 974 F.2d 1309, 1311-12 (Fed. Cir. 1992) (quoting *Lindemann Maschinenfabrik GMBH v. Am. Hoist & Derrick Co.*, 730 F.2d 1452, 1462 (Fed. Cir. 1984)).

This statement by the court is an accurate statement of the showing that should be made by the Patent and Trademark Office in finding obviousness based upon a combination of references. The standard suggested in the Commission’s report, as set forth in the heading for Recommendation 3(b), is vague and does not provide an objective test that can be substantiated by evidence. It is believed that allowing a combination based upon “the creativity and problem-

solving skills that in fact are characteristic of those having ordinary skill in the art” would be subject to misuse. For example, how would a record be established to evidence “the creativity and problem-solving skills that in fact are characteristic of those having ordinary skill in the art”? The levels of “creativity and problem-solving skills” are open to a more subjective, rather than objective, test.

A more concrete, objective definition of the suggestion to combine prior art references is required so that the Examiner can make an appropriate record for the rejection, applicants can respond to it and the Board, as well as the Federal Circuit, can have a record to judge whether the rejection was supported by evidence and proper. The statement in *Akamai* is believed to be a more accurate statement of the law, and provides an appropriate standard for establishing a proper combination of references.

## **FTC RECOMMENDATION 4:**

### **“Provide Adequate Funding for the Patent and Trademark Office.”**

*“Participants in the Hearings unanimously expressed the view that the Patent and Trademark Office lacks the funding necessary to address issues of patent quality. Presidential patent review committees have long advocated more funding for the Patent and Trademark Office to allow it to improve patent quality. As recently as 2002, the Patent Public Advisory Committee stated that the Patent and Trademark Office “faces a crisis in funding that will seriously impact...the quality of ...issued patents.” The FTC strongly recommends that the Patent and Trademark Office receive funds sufficient to enable it to ensure quality patent review.”*

#### **Section Response:**

The Section favors FTC Recommendation 4 that the Patent and Trademark Office should be adequately funded.

#### **Discussion:**

The Section has consistently supported adequate funding for the Patent and Trademark Office, including establishing the agency as a government corporation, greater administrative authority, and exemption from across the board budget cuts and ceilings. Most importantly, the ABA and the Section have urged an end to Patent and Trademark Office user fee diversion.

There is a growing public perception that there are an increasing number of lower quality patents issued. Many of the reasons that underlying that perception are outlined in the Patent and Trademark Office’s 21<sup>st</sup> Century Strategic Plan. One major reason is the increase in number of patent filings. From 1997 to 2001 the number of filings increased from 237,045 to 344,717. There has also been an increase in the number of patents issued. From 1997 to 2001 the number of patents issued increased from 122,977 to 187,822. Despite the increase in the number of applications, there remains a limited amount of time that an Examiner has to review an application. Finally, this problem is amplified in art areas where references other than printed publications constitute the bulk of the relevant art (i.e. business method patents). Despite these major problems and the need for greater funding, user fees continue to be diverted and funding shortfalls have persisted.

The Section supports providing additional and sufficient funding for the Patent and Trademark Office in order to enhance the quality of patent examination and to adequately perform the tasks assigned to it. This includes elimination of fee diversion and providing sufficient funding to support the 21<sup>st</sup> Century Strategic Plan developed by the Patent and Trademark Office in 2002.

## FTC RECOMMENDATION 5:

### **“Modify Certain Patent and Trademark Office Rules and Implement Portions of the Patent and Trademark Office’s 21st Century Strategic Plan.”**

**“a. Amend Patent and Trademark Office regulations to require that, upon the request of the examiner, applicants submit statements of relevance regarding their prior art references.**

#### **Section Response:**

The Section opposes FTC Recommendation 5(a) concerning required statements of relevance for prior art submitted with information disclosure statements.

#### **Discussion:**

Amending the Patent and Trademark Office regulations to provide that the Patent and Trademark Office may require an applicant to submit statements of relevance regarding prior art references would be subject to abuse, does not provide a uniform standard and would open patentees to additional unwarranted allegations of inequitable conduct.

The Commission’s report notes that the Patent and Trademark Office’s 21<sup>st</sup> Century Strategic Plan proposed requiring applicants to provide such statements if more than 20 prior art references were cited. According to the Commission’s report, “[t]he FTC’s proposal is more modest than the Patent and Trademark Office’s original proposal.” This statement is believed to be in error. Under the Commission’s proposal, there is no standard for when the requirement could be made. Instead, it would be at the Examiner’s discretion. An Examiner could request statements of relevance for any prior art cited by any applicant no matter how many or how few references are cited. This proposal could be subject to abuse by Examiners.

Requiring applicants to lead the Examiner to relevant passages in a reference could result in unwarranted allegations of inequitable conduct, significantly increasing harassment as well as cost of patent litigation. Statements of relevance made by applicants could be asserted to be misleading based upon not only what was stated in the statement of relevance, but also based upon information in the reference that was not specifically cited in the statement of relevance. In today’s contentious litigation environment, there is too much potential for second guessing the applicant’s statement of relevance, compounding what the Federal Circuit has labeled “an absolute plague” on the patent system, where relatively routine acts of patent prosecution are portrayed as intended to deceive. *Burlington Ind., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988); *Northern Telecom, Inc. v. Datapoint Corp.*, 908 F.2d 931 (Fed. Cir. 1990).

**FTC RECOMMENDATION 5(B):**

**“Modify Certain Patent and Trademark Office Rules and Implement Portions of the Patent and Trademark Office’s 21st Century Strategic Plan.”**

*“b. Encourage the use of examiner inquiries under Rule 105 to obtain more complete information, and reformulate Rule 105 to permit reasonable follow-up.*

*“Patent and Trademark Office Rule 105 permits examiners to request ‘such information as may be reasonably necessary to properly examiner or treat the matter [under examination]. The Commission recommends that the Patent and Trademark Office make a concentrated effort to use examiner inquiries more often and more extensively.*

The Section has not taken a position on FTC Recommendation 5(b).

## **FTC RECOMMENDATION 5(C):**

**“Modify Certain Patent and Trademark Office Rules and Implement Portions of the Patent and Trademark Office’s 21st Century Strategic Plan.”**

*“c. Implement the Patent and Trademark Office’s recommendation in its 21st Century Strategic Plan that it expand its ‘second-pair-of-eyes’ review to selected areas.*

*“Second-pair-of-eyes review allows the Patent and Trademark Office quickly to flag issues that need further attention by the examiner or the examiner’s supervisor. The Patent and Trademark Office first used this method to improve the quality of business method patents, and it received good reviews from participants in the patent system. The Commission believes that expanding this program to fields with substantial economic importance, such as semiconductors, software, and biotechnology, as well as other new technologies as they emerge, could help to boost patent quality in areas where it will make the most difference.*

### **Section Response:**

The Section favors in principle the limited expansion of the “second pair of eyes” review as proposed by FTC Recommendation 5(c).

### **Discussion:**

Several years ago, the Patent and Trademark Office instituted a program of “second pair of eyes review” of patent applications largely in the business methods art. That was done at a time when the Patent and Trademark Office was receiving considerable criticism for issuing certain patents that were considered by many to be highly questionable. At the time, there was a perception that the business methods art was new and that training of examiners in that area was difficult under all of the circumstances. The program was considered to be successful generally in reducing the number of such questionable patents, though not eliminating them. However, the improvement in quality was not without cost in terms of utilization of Patent and Trademark Office resources and in terms of pendency of all applications in that art.

The Commission has proposed expanding the use of the program to selected other arts having “substantial economic importance.” Implicitly this suggests an aspect of industrial policy by requiring the Patent and Trademark Office to identify what fields have the requisite “substantial economic importance.” That presents policy questions that should be considered very carefully and which undoubtedly would be argued variously by different groups.

Rather than adopt an expansion of the program on such infirm ground, it is desirable that the program be expanded only as needed to address circumstances akin to those in the business

methods art at the inception of the program. In view of the existing efforts to raise quality in the Patent and Trademark Office and to reduce pendency, the overall principle of “do it right the first time” should be kept in mind. The Patent and Trademark Office should not design its programs to utilize extra resources to achieve the levels of patent examination quality that could and should otherwise be achieved more efficiently by proper training and examination process control.

Accordingly, while the Section has long supported various ideas and programs to improve quality in the Patent and Trademark Office, the Section supports the expansion of the program of second examiner review only in those arts and for such time as necessary to bring examination processes and training into compliance in those arts.

## **FTC RECOMMENDATION 5(D):**

**“Modify Certain Patent and Trademark Office Rules and Implement Portions of the Patent and Trademark Office’s 21st Century Strategic Plan.”**

*“d. Continue to implement the recognition that the Patent and Trademark Office ‘forges a balance between the public’s interest in intellectual property and each customer’s interest in his/her patent and trademark.’*

*“The Patent and Trademark Office functions as a steward of the public interest, not as a servant of patent applicants. The Patent and Trademark Office must protect the public against the issuance of invalid patents that add unnecessary costs and may confer market power, just as it should issue valid patents to encourage invention, disclosure, and commercial development.”*

### **Section Response:**

The Section favors in the principle recognition of a need for the Patent and Trademark Office to balance the interests of the public and those of patent applicants.

### **Discussion:**

Some years ago, the Patent and Trademark Office adopted a mission statement roughly paraphrased as “to help our customers obtain patents.”

Such Mission Statement emphasized the service role of the Patent and Trademark Office for patent applicants and was laudable to that extent. However, the term “customers” and the overall connotation may not be appropriate for a government agency with the responsibility to grant limited term exclusive rights only upon satisfaction of important and difficult legal requirements. While it may be that the Patent and Trademark Office no longer subscribes fully to that Mission Statement, it is still worthy of the Patent and Trademark Office to recognize expressly that it stands in a peculiar position relative to patent applicants *and* the public. The Constitutional purpose for the patent system is to promote the progress of science and the useful arts. Implicit in that Constitutional purpose is the need to serve the public interest in the operation of the patent system. As one of the principal governmental bodies for implementing the Constitutional purpose, the Patent and Trademark Office is charged with appreciating this purpose. The resolution calls upon the Patent and Trademark Office to adopt a Mission Statement to guide its administration of the Patent and Trademark Laws.

A Mission Statement is just that, a guide, and not intended to create a new statutory basis for rejection or for any other purpose. The Patent and Trademark Office administers the law and in administering it, the Patent and Trademark Office should be ever vigilant to ensure that it act

in the public interest. Such vigilance will ensure that delays are minimized, efficiencies are maximized and information is disseminated.

## **FTC RECOMMENDATION 6:**

**“Consider Possible Harm to Competition – Along with Other Possible Benefits and Costs – Before Extending the Scope of Patentable Subject Matter.”**

*“Section 101 of the Patent Act states, ‘Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent.’ Despite this broad mandate, courts have long held certain types of inventions unpatentable. Traditional common law exceptions include phenomena of nature, abstract intellectual concepts, mental steps, mathematical algorithms with no substantial practical application, printed matter, and, for many years, business methods...*

*“The constitutional intention that patents ‘promote the Progress of Science and useful Arts’ should be taken into account in interpreting the scope of patentable subject matter under Section 101. Decisionmakers should ask whether granting patents on certain subject matter in fact will promote such progress or instead will hinder competition that can effectively spur innovation. Such consideration is consistent with the historical interpretation of patentable subject matter, which implicitly recognizes that granting patent protection to certain things, such as phenomena of nature and abstract intellectual concepts, would not advance the progress of science and the useful arts. For future issues, it will be highly desirable to consider possible harms to competition that spurs innovation – as well as other possible benefits and costs – before extending the scope of patent subject matter.”*

### **Section Response:**

The Section opposes FTC Recommendation 6 that possible harm to competition and other costs and benefits be considered before extending the scope of patentable subject matter.

### **Discussion:**

The Section considers the Commission’s analysis to be fundamentally flawed because it is grounded in a false parallel between the anti-trust laws and the patent laws. Moreover, the Section contends that the Commission’s recommendations are flawed because they offer no concrete way to effectuate what might seem like a good idea at first -- applying micro-economic analysis to patent law. The Section speculates that the reason the Commission failed to proffer any concrete ideas is that there is simply no way to incorporate microeconomic analysis into patentability considerations without severely disrupting the entire incentive structure underpinning the patent laws.

The Commission correctly recognizes that the constitutional basis for the patent laws is the grant of power to Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries". U.S. Const. Art. I, § 8, Cl. 8. The Commission also properly recognizes that in the *Chakrabarty* case the Supreme Court held that the Constitution's grant to Congress under Section 8, Clause 8 was very broad and that Congress intended that the patent laws be interpreted very broadly. The Commission also correctly notes that, in spite of this broad statutory mandate various courts over the years have narrowed the scope of the statutory subject matter to exclude such things as "phenomena of nature, abstract intellectual concepts, mental steps, mathematical algorithms with no substantial practical application, printed matter, and, for many years, business methods." Finally, the Commission correctly recognizes that many of these judicially-imposed restrictions have been overturned of late, and discusses some of these decisions, focusing on the elimination of the restriction on business method patents.

While the Commission clearly recognizes the constitutional and statutory mandate for the patent system, the Commission appears to join in the criticism that the elimination of certain judicial-imposed restrictions on the scope of patentable subject matter was wrong as a matter of principle and unnecessary to spur invention in the relevant fields.

However, the recent decisions broadening patent scope were not rooted in a policy decision by the courts or the Patent and Trademark Office to skirt on the edges of Congress's constitutional mandate to promote the progress of the arts and sciences. Rather, the courts correctly determined that the judicially imposed limits on patentability were contrary to the law and to Congress's clear intent. *See, e.g. State Street Bank and Trust Co. v. Signature Financial Group, Inc.* 149 F.3d 1368 (Fed. Cir. 1998). The courts did not engage in a balancing of various policy factors because that was not what they were called to do. The laws concerning patentability, while reflecting certain policy concerns, do not call out any policy basis under which to determine patentability. Rather, an invention is patentable if it is novel, non-obviousness, has a minimal level of utility, and abides the by the statutory disclosure and formality requirements (Sections 101, 102, 103, and 112 of the patent code). Even the one question which might lend itself to policy analysis, secondary considerations of non-obviousness, is determined through a multifactor test focusing on objective facts concerning the alleged invention. Thus, the patent laws offer no statutory vehicle for the courts to consider whether an individual patent falls within the underlying purpose of Congress's constitutional mandate to promote the progress of the arts. The Section considers that to be appropriate.

This leads to the second criticism of the Commission's proposal. The Commission fails to provide any concrete suggestions or rules for how economic analysis can indeed be factored into determinations of patentability. If the Commission had attempted to do so, it would have found it very difficult. Patent law is a very rule intensive field. Most patent rules are *per se* and leave little room for discretion. Utility, novelty, non-obviousness and section 112 are either/or propositions. The invention either satisfies the conditions for patentability or it does not. Should the Commission be able to propose a rule concerning the application of economic analysis to patentability, the Section would give it due consideration. Such a proposed rule however, would have fit within the complex web of incentives that is patent law. This points to the Section's third criticism of the Commission's proposal.

As the Supreme Court has recognized on numerous occasions, the language of the patent laws already embodies policy determinations regarding the economic impact of patent scope. Congress has already spoken, and it has determined that the incentives of patent law work best when the scope of patentable subject matter is broad. Congress chose not to distinguish between specific categories of inventions beyond machines, manufactured articles, processes, and compositions of matter. More importantly, Congress chose not to direct the Patent and Trademark Office to engage in a microeconomic analysis of patentability on a case-by-case basis but, rather, to sanction broad categories of patentable subject matter. To inject the question of whether a particular invention or sub-category of inventions promotes the progress of the art into the question of the patentability of that invention or subcategory, invites inconsistency and arbitrary decision making, threatens to undermine the policy decisions that Congress has already made, and injects an undesirable degree of uncertainty.

Instead of adding additional criteria, the Section suggests that the Patent and Trademark Office and courts vigorously pursue improvement and enforcement of the existing statutory criteria of patentability in order to effect the full scope of Congress's policy decision that all man-made machines, manufactured articles, processes, and compositions of matter are appropriate subject matter. These are concrete, ascertainable objectives that will clearly improve the quality and predictability of patent decision making.

## **FTC RECOMMENDATION 7:**

### **“Enact Legislation to Require Publication of All Patent Applications 18 Months After Filing.”**

*“A relative new statute requires that most patent applications – all except those filed only in the United States – be published 18 months after filing. Patent applicants are protected from copying of their inventions by statutory royalty rights, if the patent ultimately issues. This new procedure appears to have increased business certainty and promoted rational planning, as well as reduced the problem of unanticipated “submarine patents” used to hold up competitors for unanticipated royalties. For these reasons, Hearings participants advocated expanding the 18-month publication requirement to include patents filed only domestically, because such patents may well have competitive significance. Protection from copying similar to that already available for other published applications should be extended to those filing domestic patent applications as well, and any necessary protections for independent inventors also should be considered in terms of their likely costs and benefits.”*

#### **Section Response:**

The Section favors FTC Recommendation 7 concerning publication of all patent applications 18 months after filing.

#### **Discussion:**

The Section has long favored 18-month publication of patent applications, and supports the elimination of the special exception for “domestic only” filers. The exception has created an entire category of prior art not available for review and evaluation. The public does not have benefit of considering these unpublished pending applications when making commercial decisions on new areas of economic endeavor or drafting patent applications that will be free of prior art rejections.

There is, in addition, an increased administrative burden on the Patent and Trademark Office in sorting the applications prior to publication. Also, there is a potential trap for applicants who elect non-publication and then decide to file abroad. Unless a notification is provided to the Director of the Patent and Trademark Office within 45 days of filing abroad, the US application will be considered abandoned. Also, the AIPA provides that an applicant may request publication of a redacted version of a U.S. filed application if the foreign filed application is “less extensive” than the U.S. filing. Since the entire content of the U.S. application will serve as prior art once an application issues as a U.S. patent, this provision should be eliminated as well.

## **FTC RECOMMENDATION 8:**

**“Enact Legislation to Create Intervening or Prior User Rights to Protect Parties from Infringement Allegations That Rely on Certain Patent Claims First Introduced in a Continuing or Other Similar Application.”**

*“After publication of its patent application, an applicant may continue to amend its claims. Through this claim amendment process, a patent that states broader claims than those published at 18 months can still emerge. If the applicant uses procedures such as continuing applications to extend the period of patent prosecution, the potential for anticompetitive hold up increases. Indeed, several panelists asserted that some applicants keep continuing applications pending for extended periods, monitor developments in the relevant market, and then modify their claims to ensnare competitors’ products after those competitors have sunk significant costs in their products. Patent reform efforts have long focused on how to remedy opportunistic broadening of claims to capture competitors’ products.*

*“Legitimate reasons exist to amend claims and use continuing applications. Any proposed remedy for the opportunistic broadening of claims should also protect such legitimate uses. Creating intervening or prior use rights would most directly achieve this balance; it would cure potential competitive problems without interfering with legitimate needs for continuations. Such rights should shelter inventors and users that infringe a patent only because of claim amendments following a continuation or other similar application, provided that the sheltered products or processes are developed or used (or the subject of substantial preparation for use) before the amended claims are published.”*

The Section opposes FTC Recommendation No. 8 to apply intervening or prior user rights to preclude enforcement of broadened claims first presented in a continuing application.

### **Discussion:**

The Commission recommends legislation to provide prior user rights or intervening rights to preclude enforcement of claims first presented in a continuing application that are broader than any claim in the parent, if the accused product or process was developed or used before the broader claims were published.

The Section has not previously taken a position on the specific issues raised by FTC Recommendation No. 8, that is, protecting parties from infringement allegations that rely on claims that are first introduced in a continuation application. The Section has favored, however,

expedited prosecution of long pending applications, including continuing applications, which have a lengthy pendency from the filing of their parent application.

The Section notes that the abuses suggested by the Commission are alleviated to a significant extent by changes in the patent term that is now measured from the priority filing date of the continuing application. The requirement in the current law that certain applications be published within 18 months of their priority filing date, which both the Commission and the Section propose be extended to all applications, also to a significant extent alleviates the suggested abuses.

Publication of applications at 18 months provides competitors with notice of the patent application as well as potential claims that the patent applicant may be entitled to protect. An applicant should be able to protect an invention with both broad and narrow claims that meet all the patentability standards whether those claims are pursued in a parent application or in a continuing or similar application. Legitimate reasons exist for first presenting narrower claims with a patent application and presenting broader claims in a continuation or similar application.

Moreover, the Court of Appeals for the Federal Circuit has held that *prosecution laches* may preclude enforcement of patents after unreasonable and unexplained delay in prosecution. *Symbol Technologies, Inc. v. Lemelson Medical*, 277 F.3d 1361 (Fed. Cir. 2002). In addition, under the “disclosure-dedication rule” if prosecution is ended and claims are not pursued in a continuing application, the application of the doctrine of equivalents to disclosed but unclaimed subject matter will be considered to have been dedicated to the public. See *Johnson & Johnston Associates, Inc. v. R.E. Service Co.*, 285 F.3d 1046 (Fed. Cir. 2002) (en banc); and *The Toro Company v. White Consolidated Industries, Inc., et al.*, Docket No. 03-1424 (Decided September 13, 2004).

Thus, the Section disagrees with the FTC Recommendation No. 8 that intervening or prior use rights should be created when broader claims are pursued in a continuing or similar application and does not support legislation to create intervening or prior user rights to protect parties from infringement allegations that rely on certain patent claims first introduced in a continuing or other similar application.

## **FTC RECOMMENDATION NO. 9:**

**“Enact Legislation to Require, as a Predicate for Liability for Willful Infringement, Either Actual, Written Notice of Infringement from the Patentee, or Deliberate Copying of the Patentee’s Invention, Knowing it to be Patented.”**

*“A court may award up to three times the amount of damages for a defendant’s willful infringement of a patent – that is, the defendant knew about and infringed the patent without a reasonable basis for doing so.*

*Some Hearings participants explained that they do not read their competitors’ patents out of concern for such potential treble damage liability. Failure to read competitors’ patents can jeopardize plans for a noninfringing business or research strategy, encourage wasteful duplication of effort, delay follow-on innovation that could derive from patent disclosures, and discourage the development of competition.*

*“It is troubling that some businesses refrain from reading their competitors’ patents because they fear the imposition of treble damages for willful infringement. Nonetheless, infringers must not be allowed to profit from knowingly and deliberately using another’s patented invention due to a low likelihood that the patent holder can afford to bring suit or obtain substantial damages. The FTC’s recommendation would permit firms to read patents for their disclosure value and to survey the patent landscape to assess potential infringement issues, yet retain a viable willfulness doctrine that protects both wronged patentees and competition.”*

### **Section Response:**

The Section favors substantial changes to the law of willful infringement. The Section proposes reforms to the scope and timing of the waiver of privilege when an attorney opinion is relied upon in defense of willfulness allegations. The Section is considering additional proposals that have emerged from the Business Software Alliance, the AIPLA and a Section Task Force.

### **Discussion:**

On September 13, 2004, the Court of Appeals for the Federal Circuit, *en banc*, held that the trier of fact cannot draw an adverse inference with respect to willful infringement when the attorney-client privilege and/or work product privilege is invoked by a defendant in an infringement suit. *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004). The Federal Circuit further held that the trier of fact cannot draw an adverse inference with respect to willful infringement when the defendant has not

obtained legal advice. Finally, the Federal Circuit held that the existence of a substantial defense to infringement is not sufficient alone to defeat liability for willful infringement even if no legal advice has been secured.

The Section has long favored elimination of the adverse inference, and urged that position in an amicus brief in *Knorr-Bremse*. Thus, the *Knorr-Bremse* decision is consistent with Section policy.

However, *Knorr-Bremse* treated only some of the problems existing in the law of willful infringement. The Commission focused on problems it sees with the acts which are a predicate to liability for willful infringement. The Section instead focuses on aspects of the waiver of privilege not treated in *Knorr-Bremse*.

The Federal Circuit in *Knorr-Bremse* recognized the importance of the attorney-client privilege, stating:

The Supreme Court describes the attorney-client privilege as “the oldest of the privileges for confidential communications known to common law,” and has stressed the public purpose

to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice. The privilege recognizes that sound legal advice or advocacy serves public ends and that such advice or advocacy depends upon the lawyer’s being fully informed by the client.

*Upjohn Co. v. United States*, 449 U.S. 383, 389, 101 S.Ct. 677, 66 L.Ed.2d 584 (1981). Professor Wigmore has elaborated:

The lawyer must have the whole of his client’s case, or he cannot pretend to give any useful advice . . . . That the whole will not be told to counsel unless the privilege is confidential, is perfectly clear. A man who seeks advice, seeks it because he believes that he may do so safely; he will rarely make disclosure which may be used against him; rather than create an adverse witness in his lawyer, he will refuse all private arbitration, and take the chance of a trial.

8 J. Wigmore, *Evidence in Trials at Common Law* § 2291 at 548 (McNaughton rev. 1961). See *Hunt v. Blackburn*, 128 U.S. 464, 470, 9 S.Ct. 125, 32 L.Ed. 488 (1888) (the attorney-client privilege is designed to encourage candid exchange of information).

383 F.3d at 1344.

Consistent with those statements by the Supreme Court, The Court of Appeals for the Federal Circuit, and Professor Wigmore, the Section believes that an accused infringer should not be required to waive the attorney-client privilege prematurely. Accordingly, it is the position of the Section that discovery on opinions of counsel should be stayed until after a finding of liability for infringement. Thus, the privilege would only need to be waived in those cases where liability actually was found. Because only about 5% of the patent infringement cases filed in district courts actually go to trial, and liability at the trial court level is found only in about 60% of those, delay of the requirement to waive privilege until after liability has been established would greatly reduce the number of unnecessary waivers of the privilege. See Kimberly A. Moore, *Judges, Juries, and Patent Cases: An Empirical Peek Inside the Black Box*, 98 Mich. L. Rev. 365, 383-385 (2000).

Under the Section's proposal, expedited discovery regarding the issue of willful infringement based on a privileged opinion of counsel would occur during a 30-60 day period immediately after liability is found. Trial of the willful infringement issue would follow promptly after that expedited discovery period.

The Section also favors limitations on a waiver of privilege for a willfulness defense to litigation counsel. At present, the scope of the waiver is uncertain. The privilege between a client accused of patent infringement and that client's litigation counsel may be waived by the mere reliance upon an opinion prepared by other counsel. The possibility of the waiver extending to communications between litigation counsel and the client severely restricts those communications in a manner inconsistent with the public interest.

Accordingly, the Section proposes that the attorney-client privilege protecting communications between a client accused of patent infringement and that client's litigation counsel not be waived with respect to litigation counsel where the client has asserted the defense of reliance on advice of counsel in response to an allegation of willful infringement and where (1) the litigation counsel was at no time involved in rendering the advice upon which the client has asserted reliance; and (2) the opinion relied upon was rendered prior to the service of any summons and complaint alleging infringement.

Additional proposals for reform of the law relating to willful infringement have recently emerged from the Business Software Alliance, the AIPLA, and a Task Force of the Section. The Section is studying those proposals and will supplement this response, if appropriate, after that study is complete.

## FTC RECOMMENDATION 10:

### “Expand Consideration of Economic Learning and Competition Policy Concerns in Patent Law Decisionmaking.”

*“The Supreme court has made clear in several decisions that there is room for policy-oriented interpretation of the patent laws. Indeed, to find the proper balance between patent and competition law, such policy-oriented interpretations are essential. Over the past twenty-five years, the incorporation of economic thinking into antitrust has provided significant insights that have substantially improved the development of antitrust law and competition policy. The Federal Circuit and the Patent and Trademark Office may also benefit from much greater consideration and incorporation of economic insights in their decisionmaking.”*

#### Section Response:

The Section opposes FTC Recommendation 10 that consideration of economic learning and competition policy concerns should be expanded in patent law decision making.

#### Discussion:

The Commission has conflated the common goals of the patent and anti-trust laws -- consumer welfare -- with the means those laws employ to accomplish the common goals. Consumer welfare is fostered in remarkably different ways under each legal regime. Under the anti-trust laws, challenged practices are evaluated individually for their impact on competition and consumers. Under the patent laws, the effect of individual patents are not evaluated in terms of their effect on consumers. Rather, it is the patent system *as a whole* that creates the sets of incentives for innovation that ultimately benefit consumers, and it is within that rubric that any "harm" or "benefit" created by an individual patent must be evaluated.

The essentials of the current patent system are some two hundred years old. Indeed, Congress has remained consistently committed to legal structure embodied by the patent laws for most of the history of the Republic. Congress designed the patent system with the recognition that if the Courts or the Patent and Trademark Office only granted and enforced patents they felt would "benefit" consumers in the long run, the effect of the patent laws would be vastly diminished. Under a "cherry-picking" system inventors setting out on their path toward invention would not be able to know in advance whether patent rights would ultimately cause more "benefit" than "harm" to consumers. This uncertainty would be paralyzing. Indeed, if every time a company considering whether to spend a significant amount of money on research and development it had to engage in a complex economic prediction about the potential "benefits" and "harms" of receiving patent rights on an as of yet unconceived or undeveloped invention in order to determine whether it is likely to receive a patent, many inventors would either choose to keep their inventions secret or not bother to develop new inventions. Both of

the purposes of the patent laws, fostering invention and fostering disclosure, and by extension, the progress of the arts, would thus be undermined.

The Commission's analysis is also premised on a strained parallel between patent law and anti-trust law. The antitrust laws contain relatively few *per se* rules, and indeed, *per se* rules are generally disfavored. Instead, the basic framework for almost one hundred years of administration of the antitrust laws has been the rule of reason, based upon an intensive factual and policy assessment of competitive harm. Under patent law, on the other hand, the criteria for patentability utility, novelty, and disclosure are all *per se* standards. While the flexibility of the rule of reason approach has enhanced the administration of the antitrust laws, flexibility for its own sake is not a legitimate goal. Applying the flexibility of the anti-trust laws in the patent context would simply introduce uncertainty and unpredictability into a system that is striving for greater certainty and predictability.

The Section respectfully disagrees with the Commission's position that for the Courts and the Patent and Trademark Office "to find the proper balance between patent and competition law, . . . policy-orientated interpretations are essential." As discussed above, there is little, if any, statutory room for the courts or the Patent and Trademark Office to consider policy when considering patentability. Additionally, by failing to specify concrete measures that the courts or the Patent and Trademark Office could take to focus on policy choices, the Commission's Report leaves unclear what public benefits can be increased. Any such proposal would have to somehow mesh with the complex web of the patent codes whose explicit purpose is to foster invention and disclosure of those inventions through the grant of exclusive rights, regardless of whether a *particular* grant of exclusive rights "benefits" consumers.