



**RESPONSE TO THE REPORT
OF THE
FEDERAL TRADE COMMISSION ENTITLED:**

**“TO PROMOTE INNOVATION: THE PROPER
BALANCE OF COMPETITION AND
PATENT LAW AND POLICY”**

APPENDIX

**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.**

The following resolutions passed by the Section support the Section Responses provided in the accompanying document, “Response to the Report of the Federal Trade Commission Entitled: ‘To Promote Innovation: The Proper Balance of Competition and Patent Law Policy’.”

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. On June 17, 2004, the Section adopted the following two resolutions:

Section Resolutions:

(Passed 2004;R103-18a)

RESOLVED, that the Section of Intellectual Property Law favors, in principle, the availability of appropriate simplified procedures to challenge the validity of claims in issued patents; and specifically the Section favors the adoption of an *inter partes*, post-grant review proceeding, commenced only upon a suitable threshold showing, such proceeding to provide the public with an appropriate means for challenging the validity of claims in issued patents at a reasonable cost and to provide patentees with adequate safeguards against harassment.

(Passed 2004;R103-18b)

RESOLVED, that the Section of Intellectual Property Law favors, in principle, the inclusion in any legislative proposal to create an *inter partes*, post-grant review proceeding, of provisions that will provide the public with an appropriate means for challenging the validity of claims in issued patents at a reasonable cost, while providing patentees with adequate safeguards against harassment including 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.

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.

Section Resolution:

(Passed 2004;R601-2)

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, enactment of legislation to amend the burden of proof for attacking the validity of an issued patent to a preponderance of the evidence standard.

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. On April 26, 2004, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R601-1)

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, change to the legal standards by which the courts currently evaluate commercial success evidence as an objective indicia of non-obviousness; and

Specifically, the Section considers that (1) the current case law does require that commercial success be evaluated on a case-by-case basis to determine whether commercial success is a valid indicator that the claimed invention is not obvious; (2) the current case law does place the burden on the patent holder to prove that the claimed invention caused the commercial success; and (3) thus, Recommendation No. 3(a) of the FTC Report, “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy” (October 2003) is moot.

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. On April 26, 2006, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R103-13)

RESOLVED, that the Section of Intellectual Property Law opposes in principle the standard that, for a determination of obviousness under 35 U.S.C. § 103, a combination of references is proper if consistent with the creativity and problem-solving skills characteristic of those having ordinary skill in the art; and

Specifically, the Section favors that Federal Circuit precedent be followed and that a showing must be made of why the references would have been combined by a person skilled in the art based upon the teachings of the pertinent references or the knowledge of one of ordinary skill in the art, as supported by evidence, without the use of improper hindsight.

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. On April 26, 2004, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R108-6)

RESOLVED, that the Section of Intellectual Property Law favors in principle adequate funding for the Patent and Trademark Office to permit high quality examination and reasonably prompt disposition of patent applications and to provide adequate services to the public, and submits that the Patent and Trademark Office should receive all of its user fees.

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. On April 26, 2004, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R103-14)

RESOLVED, that the Section of the Intellectual Property Law opposes in principle that Patent and Trademark Office regulations regarding Information Disclosure Statements be amended to provide that the Patent and Trademark Office may require applicants to submit statements of relevance regarding prior art references.

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). On April 26, 2004 the Section Council adopted the following:

Section Resolution:

(Passed 2004;R103-16)

RESOLVED, that the Section of Intellectual Property Law favors, in principle, the limited expansion of the use of second examiner review (aka “second pair of eyes”) of patent applications during prosecution in the Patent and Trademark Office, in certain art areas where there is a demonstrated need, as an interim step in the overall improvement of the quality of examination of patents in such areas, and

Specifically, the Section of Intellectual Property Law favors use of second examiner review only in those art areas which are now, and where training of examining personnel has been, insufficient, for so long as necessary to ensure adequate examination quality and no longer, as utilization of examining resources in such manner is inherently inefficient and not in keeping with the need to reduce pendency in an environment of limited resources.

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. On April 26, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R103-17)

RESOLVED that the Section of Intellectual Property law favors in the principle the adoption by the Patent and Trademark Office of a Mission Statement that recognizes the dual responsibilities of the Patent and Trademark Office to patent applicants and to the public in its proper administration of the applicable patent laws of the United States.

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. On April 26, 2004, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R108-7)

RESOLVED, that the Section of Intellectual Property Law opposes in principle the proposition that the courts and the Patent and Trademark Office should “consider possible harm to competition - along with other possible benefits and costs - before extending the scope of patentable subject matter”; and

Specifically, the Section proposes that the courts and the Patent and Trademark Office give full effect to Congress's intent that "anything under the sun that is made by man" is patentable, as well as Congress's intent that the court's and the Patent and Trademark Office scrupulously ensure that patent applicants fully comply with their bargain with the public - in exchange for complete and enabling disclosure of a useful, novel, and unobvious invention, patentees will receive meaningful, but limited monopolies.

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. On June 17, 2004, the Section passed the following:

Section Resolution:

(Passed 2004;R108-8)

RESOLVED, that the Section of Intellectual Property Law favor in principle the publication of all patent applications within 18-months of filing as appropriate balance between the interests of the applicant and the public; and

Specifically, the Section supports the elimination of special exceptions to and redactions from published U.S. patent applications as permitted under the American Inventors Protection Act and repeal of 35 U.S.C. § 122(b)(2)(B)(i)-(v).

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.”

Section Response:

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. On January 23, 2005, the Section Council approved the following:

Section Resolution:

(Passed 1105;R108-1)

RESOLVED, the Section opposes, in principle, the application of intervening or prior user rights based upon the addition of broadened claims in a continuing application; and,

Specifically, the Section disapproves FTC Recommendation 8 that recommends the enactment of legislation to create intervening or prior user rights to preclude enforcement of claims first presented in a continuing application that are broader than any claim in any

application from which the continuing application claims priority, if the accused product or process was developed or used before the broader claims were published.

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.

Section Resolutions:

270 (Passed 1990 SP57-R108-2A; Retained 2001; Approved by ABA 2001)

Section opposes in principle a blanket rule under which the failure of an accused infringer to introduce an opinion of counsel at trial will permit an inference to be drawn that either no opinion was obtained or, if an opinion was obtained, it was contrary to the accused infringer’s desire to initiate or continue its use of the patentee’s invention.

266 (Passed 1994 AR308-R401-6/458-1)

Section supports in principle the proposition that an accused patent infringer should not be required to disclose its attorneys' opinions to a jury or offer other evidence before a jury in defense to a charge of willfulness before it has been found liable for infringement nor shall such attorneys' opinions be admissible into evidence upon motion of the patentee before the conclusion of the liability trial.

270 (Passed 1996 AR421-R-601-4)

Section favors in principle that a finding of willful patent infringement shall not be based solely on the absence of an opinion of counsel and, specifically, favors amendment of the second paragraph of 35 U.S.C. § 284 to add another sentence, as follows:

“In deciding whether to award increased damages under this Section, or attorney fees under Section 285 of this Title, in cases where the willfulness of the infringement is in issue, no finding of willfulness shall be supported solely by an inference based upon the failure of the infringer to obtain or produce an opinion of counsel establishing that the infringer had a bona fide good faith belief that it was not liable for such infringement; however, this shall not prevent the fact finder from taking the absence of or failure to produce such an opinion into account as a factor in determining whether the infringement was willful based upon the totality of the circumstances.”

270 (Passed 1996 AR421-R-601-5)

Section favors in principle the bifurcation of discovery regarding the issue of willful patent infringement based on a privileged opinion of counsel and, specifically, favors the bifurcation of discovery directly related to such an opinion or related opinions until after a finding of liability, allowing a brief hiatus after such finding (e.g., 30-60 days) to conduct expedited discovery concerning any such opinion or related opinions.

266 (Passed 2001 AR421-R108-8)

Section favors, in principle, that the attorney-client privilege protecting communications between a client accused of patent infringement and that client's litigation counsel is not 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.

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 patent 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. On April 26, 2004, the Section Council adopted the following:

Section Resolution:

(Passed 2004;R409-2)

RESOLVED, that the Section of Intellectual Property Law opposes in principle the statement that the courts and the Patent and Trademark Office should “expand consideration of economic learning and competition policy concerns in patent law decision making”; and

Specifically, the Section proposes that the courts and the Patent and Trademark Office give full effect to Congress’s intent that “anything under the sun that is made by man” is patentable, and well as Congress’s intent that the court’s and the Patent and Trademark Office scrupulously ensure that patent applicants fully comply with their bargain with the public -- in exchange for complete and enabling disclosure of a useful, novel, and unobvious invention, patentees will receive meaningful, but limited, exclusive rights.