

# **A Section White Paper: Agenda for 21<sup>st</sup> Century Patent Reform**

- Adopt The First-Inventor-To-File Principle
- Define Prior Art Through “Best Practices”
- Repeal The “Best Mode” Requirement
- Encourage Meaningful Disclosure To The PTO  
By Reforming The Inequitable Conduct Defense
- Publish Applications At 18-Months
- Improve Inter Partes Reexamination
- Create A Patent Opposition Proceeding
- Use Improved Reexamination As A “Second  
Window”
- Expand Pre-Grant Prior Art Submissions
- Simplify The Willful Infringement Issue
- Reduce The Claim Construction Reversal Rate
- Expand Rights For Prior Users
- Permit Filing By The Assignee Of The Inventor

**Revised September 2010**

The views expressed herein are on behalf of the American Bar Association Section of Intellectual Property Law. Except as expressly noted, they have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and should not be construed as representing the policy of the American Bar Association.

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## A Renewed Call To Action On Patent Law Reforms

In 2003, the Federal Trade Commission issued a report, “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy.” That report made a number of recommendations for changes to the U.S. patent laws. In its 2004 report on the U.S. patent system, “A Patent System for the 21<sup>st</sup> Century,” the National Research Council of the National Academies also called for major changes to U.S. patent law. The responses of the American Bar Association (“ABA” or “Association”) Section of Intellectual Property Law (“Section” or “IPL Section”) to these reports supported the major recommendations of the National Academies, and many of the recommendations of the Federal Trade Commission, for legislative changes to the patent law. This “white paper” is a follow-up to the Section’s response, providing the Section’s views on patent law reform issues in a more comprehensive and complete manner. It is being updated from time to time to address newly emerging issues in patent law reform and to reflect refinements in the Section’s views on ongoing issues.

In April 2005, Chairman Smith of the Subcommittee on Courts, the Internet, and Intellectual Property of the House Judiciary Committee distributed for comment a “committee print” containing a set of proposals for patent law reform. The Section testified on aspects of these proposals at a subcommittee hearing held on April 20, 2005. In addition, the Section had discussions with representatives of the American Intellectual Property Law Association, the Intellectual Property Owners Association, the Business Software Alliance, and the Biotechnology Industry Association, and others, each of which shared ideas and proposals that they had respectively developed for patent law reform. These discussions were to a large extent reflected in bills introduced in 2005 and 2006, and in a bicameral bill entitled “Patent Reform Act of 2007” (H.R. 1908/S. 1145) introduced in the 110<sup>th</sup> Congress in April 2007. The House Judiciary Committee reported H.R. 1908 with several amendments in July 2007, and the bill was passed by the House in September 2007 after further amendment. An amended S. 1145 was favorably reported by the Judiciary Committee in January 2008, but was not taken up in the Senate. Further consideration of patent law reform resumed in the 111<sup>th</sup> Congress, with progress made in the 109<sup>th</sup> and 110<sup>th</sup> Congress as starting points.

As a result of these efforts and the Section's own work on these issues, the Section supports the following recommendations for a patent reform legislative agenda for the 111th Congress. The views expressed herein are on behalf of the Section of Intellectual Property Law of the American Bar Association. Except as expressly noted, they have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and should not be construed as representing the policy of the Association. The Section believes that these recommendations can form the basis for a broad consensus on moving forward with major reforms to the U.S. patent laws:

1. Adopt the first-inventor-to-file principle as part of U.S. patent law. Do so by maintaining the traditional inventor-focused features of U.S. patent law. These include the inventor’s one-year “grace period” and protections against so-called “self-collision.” A consensus now exists among U.S.-based NGOs on this once controversial issue. Moreover, it appears a compelling starting point from which to construct a coordinated set of patent reform proposals. It will result in increased productivity in the examination of applications for patent, which is urgently needed as pendency of applications for patent continues to rise, given the constrained resources of the United States Patent and Trademark Office (“PTO”). It will facilitate opening a limited term post-grant window during which patent oppositions may be filed and help assure that a post-grant opposition can address all issues of patent validity. It also will reduce the costs of *and increase the number of patents awarded to* independent inventors. The most recent data available suggests they are experiencing an accelerating loss in patents as a result of treaty-mandated changes to U.S. patent law made in 1994. Thus, this change will serve the patent system and its various constituencies well. It also will further efforts aimed at greater international patent harmonization.
2. Enact the consensus “best practices” for implementing a first-inventor-to-file system. These “best practices” – developed in the patent harmonization context – include eliminating certain “loss of right” conditions for patentability that will be rendered unnecessary. In this regard we refer to the 2001 statements of U.S.-based NGOs (National Association of Manufacturers, Biotechnology Industry Association, Intellectual Property Owners Association, and the American Intellectual Property Law Association) developed in the context of “best practices” for international patent harmonization. The ABA

IPL Section endorses these same “best practices” in the context of a first-to-file system. Their enactment into domestic law should clarify through unmistakable statutory language and clear legislative history that all publicly accessible knowledge of an invention, whether express or inherent, would remain prior art and would continue to include use, sale, offers for sale or other disclosures resulting in public accessibility.

3. Repeal the “best mode” requirement, relying instead on the requirements for a complete written description and sufficient enabling details to permit the full scope of the claimed invention to be readily carried out. This represents a part of the aforementioned “best practices” on which a domestic consensus was developed in 2001 among a number of U.S.-based NGOs and which the ABA IPL Section has adopted as policy in the context of a first-inventor-to file system.
4. Encourage meaningful disclosure to the PTO by limiting spurious claims of inequitable conduct. The PTO’s task of thoroughly examining applications has become increasingly difficult. Under current law, the standard for what might constitute inequitable conduct is vague and indefinite in its application. Applicants disclose too much prior art for the PTO to meaningfully consider, and do not explain its significance, all out of fear that to do otherwise risks a claim of inequitable conduct. The Section supports limiting the application of the defense to cases where a fraud resulted in the PTO issuing one or more invalidated claims. That clearer standard will enable applicants to focus their disclosure of prior art and make that disclosure more helpful to the PTO. Similarly, the “deceptive intention” and “deceptive intent” provisions that now exist in the patent statute should be retained – to continue incentives for meaningful disclosure to the PTO, consistent with the duty of candor which patent applicants and their registered patent attorneys and agents owe to the PTO.
5. Publish all applications for patent at 18-months following the earliest filing or priority date for which an applicant seeks the benefit. The adoption of a first-inventor-to-file rule removes the last objection to the mandatory publication of pending applications because a third party with access to the published application will no longer be able to “swear behind” the date of the application in order to seek a patent for the same or similar (obvious) subject matter. Indeed, as of the publication date, publication cuts off the ability for any third party to seek a patent for the same or any obvious subject matter relative to any subject matter disclosed in the published application. Equally importantly, routinely publishing all pending applications at the 18-month date provides complete assurance and certainty to all inventors as to all potential prior art that might exist based upon any earlier filed applications for patent. Thus, because all earlier-filed applications will already have published by the time an inventor’s application reaches the 18-month publication date, the universal publication rule means that at the publication date no possibility will exist that any later-emerging prior art will prevent the patenting of a claimed invention.
6. Open a limited window for post-grant opposition of an issued patent. The Section supports balanced legislation to provide for post-grant review. Among the principle virtues of such legislation—particularly if coupled with first-inventor-to-file and best practices reforms – is that all invalid patents can be corrected in the proceeding. Key features of the Section’s position are a single limited window for seeking an opposition and the “preponderance of the evidence” standard to be used in the opposition. These two features of the system are needed to best serve the public interest that information about a possible issuance of an invalid patent be brought forth early and be corrected by canceling the patent in whole or in part at the earliest possible time. Moreover, it is fully consistent with the position that the burden of persuasion in the courts on the issue of patent validity should *not* be changed from the “clear and convincing” evidence standard – both because this higher standard that will apply in later litigation will serve as an incentive to use the post-grant opposition mechanism and because this higher judicial standard will further assure that inventors can enjoy “quiet title” to their inventions once the patent opposition period has concluded. Finally, a critical element of the proposal for opening a window for post-grant opposition is addressing the inequitable conduct issues that are created, both for the patent owner and for the opposer. In this regard, the Section supports proposals for addressing these issues by providing that *all* parties to an opposition are bound by the duty and all parties are subject to sanctions effective to deter misconduct.
7. Authorize pre-grant submissions of prior art by third parties. Under the proposed system of post-grant opposition, inventors have a particular incentive to obtain completely valid patents based upon the fullest possible consideration of prior art and other published information that could bear on the validity of a claim. Where pre-issuance examination is complete, the issued patent can avoid institution of a post-grant

opposition. Where prior art has already been reviewed by the patent examiner – especially where the relevance has been fully investigated by the patent examiner – an opposer is unlikely to trigger the required threshold for instituting an opposition. By permitting third parties to make pre-grant submissions of prior art (together with a concise description of the relevance of the prior art), inventors will be best able to avoid first confronting such prior art during an opposition when the time permitted for responding to the issues raised and the ability to amend claims will be more limited. In many situations, the post-grant opposition will be avoided altogether. The Section does not support removal of the prohibition on pre-grant oppositions or any proposal that would allow third-party submissions to interfere with ongoing patent examination.

8. Improve *inter partes* reexamination by removing the retroactivity restrictions and the estoppel provision as it applies to issues that “could have been raised.” Improved reexamination, will in effect, provide a “second window” for challenging invalid patents after the post-grant opposition window closes. The experience with *inter partes* reexamination has not confirmed the need to limit this proceeding only to patents first sought after 1999, but has confirmed that the estoppel provision has greatly diminished the effectiveness of the proceeding. Thus, the experience over the past 5 years strongly supports these remedial actions to make *inter partes* reexamination an effective mechanism for challenging invalid patents.
9. Limit the ability to obtain enhanced damages for willful infringement of a patent to cases that meet an appropriate standard for improper conduct. The Section has worked with several organizations to best define the precise reforms that would preserve the right for multiplied damages in appropriate cases, but remove the specter of such damages being routinely used by patent owners to chill the willingness of accused infringers to challenge patents of questionable validity or where the allegations of infringement are questionable. The Section supports determination of willful infringement only after a patent has been found to have been infringed, enforceable and not invalid. In order to prove willful infringement, a patentee should be required to point to evidence of reprehensible conduct, such as intentional copying of an invention known to be patented or failure to exercise due care after receiving a notice threatening suit for infringement that set out with particularity the manner in which each infringed claim related to the infringer’s activities.
10. Enact a balanced rule on apportionment of reasonable royalty damages to assure that the royalty does not exceed the value properly attributable to the use made of the invention.
11. Reduce the reversal rate of claim construction decisions by requiring appellate court deference to fact findings made by the trial court as predicates to its claim construction. The current case law in the Federal Circuit allows *de novo* review of claim construction decisions with no deference at all to the trial court decision. This has resulted in a very high reversal rate, which has frustrated trial courts and often has required a second trial after appeal. Raising the standard of review would decrease the reversal rate and further the goal of speedy and final resolution of patent cases.
12. Expand the rights of prior inventors as part of the move to a first-inventor-to-file system. Failing to make tandem changes to the “first inventor” defense can only encourage “off-shoring” of manufacturing. In this regard, the Section supports a limited expansion of so-called “first inventor rights” provisions put into the U.S. patent law in 1999, as part of the American Inventors Protection Act (35 U.S.C. § 273). These prior inventor rights protect an inventor against charges of patent infringement where the inventor has made commercial use of the invention before the patent was sought, but make this protection unavailable if the inventor cannot meet a one-year requirement for a prior reduction to practice, has only completed substantial preparations for commercial use and not a commercial use itself, or has infringed a patent claim not directed to a method. By removing restrictions on establishing the defense, the Section-endorsed changes to the patent statute will encourage locating and maintaining manufacturing facilities in the United States. Moreover, expanding the “prior inventor rights” provisions of the patent statute becomes particularly desirable in a first-inventor-to-file world where the prior inventor no longer can assert any “prior invention” defense to the validity of a patent.
13. Permit the filing of applications for patent by the assignee of the inventor. This simple change to the patent law that can facilitate the filing of applications for patent, appeared in the committee print and was coupled

with a proposal to remove any required formalities in the oath of the applicant. This non-controversial change should prove a modest benefit for applicants, especially inventors using the Patent Cooperation Treaty.

Many of these reforms – first-inventor-to-file, “best practices” prior art reforms, and facilitating the increased applicant responsibility initiative – will make the work of the United States Patent and Trademark Office simpler, more efficient, and more accurate and complete. Less will be left to the courts to resolve.

Other reforms are aimed at driving down the costs of enforcing patents. These reforms remove almost all subjective factors from patent litigation – factors that complicate life and drive up costs for both the patent owners and accused infringers. As recommended by the National Research Council, the “best mode,” “inequitable conduct,” and “willful infringement” issues would disappear from most patent litigation.

While patents are inventors’ property rights that should and must command respect, still other reforms are aimed at preventing that respect from rising to the level of intimidation – forcing accused infringers to pay tribute to questionable patents rather than have a rational business case for taking a questionable patent back to the United States Patent and Trademark Office or into the courts to challenge its validity or infringement. The creation of a post-grant opposition proceeding and scaling back on willfulness allegations are targeted to work effectively to this end.

With so many areas where the patent system must perform better to meet the rising expectations for all the constituencies that it serves, a convincing case now exists for moving ahead in a coordinated fashion with all the reforms that are outlined above.

# 1. Adopt First-Inventor-To-File Reforms

## *Section Position:*

The Section and the American Bar Association favor enactment of legislation providing that the right to a patent shall belong to the first inventor to file.

## *Resolution TF-1:*

(Passed by House of Delegates 2005)

RESOLVED, that the Association supports enactment of legislation providing that the right to a patent shall belong to the inventor who first files an application for patent containing an adequate disclosure under 35 U.S.C. § 112 of the invention or, in the event of an assignment of rights, shall belong to the assignee thereof.

## *Resolution TF-A1*

RESOLVED, that the Section of Intellectual Property Law supports the principle that any legislation repealing 35 U.S.C. § 102(f) (barring a patent to a person who “did not himself invent the subject matter sought to be patented”) contain an explicit provision that the right to seek and obtain a patent is the right of the inventor or, in the case of a joint invention, the right of the joint inventors; and,

NOW THEREFORE, the Section supports adding to S.3818, 109<sup>th</sup> Cong., 2d Sess. (2006) (Hatch-Leahy), or similar legislation, a provision, in substance, that the inventor, or the joint inventors, as the case may be, of any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, have the right to apply for and to obtain a patent therefore, subject to the conditions and requirements of title 35.

## *Resolution TF-A2*

RESOLVED that the Section of Intellectual Property Law opposes, in principle, in any contested proceeding before the United States Patent and Trademark Office in which derivation of a claimed invention could be raised, barring an applicant for patent from raising the issue of derivation in such a proceeding against a rival applicant or patent owner on the grounds that the effective filing date of the rival applicant or patent owner is more than a specified time earlier than the filing date of the applicant raising the issue of derivations; and

NOW THEREFORE, the Section opposes the requirement in Section 3(i) of S.3818, 109<sup>th</sup> Cong., 2d Sess. (2006) (Hatch-Leahy), or similar legislation, that would impose such a bar if the effective filing date of the rival applicant of patent owner was more than 18 months earlier than the filing date of the applicant raising the issue of derivation.

## *Resolution TF-A3*

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, limiting the definition of joint inventorship to joint invention by collaboration of persons working towards the same end; and,  
NOW THEREFORE, the Section opposes the definition appearing in Section 3(a) of S.3818, 109<sup>th</sup> Cong., 2d Sess. (2006) (Hatch-Leahy), or similar legislation, that might limit or qualify the existing provisions of 35 U.S.C. § 116, first paragraph, that now state that inventors may apply for a patent jointly even though (1) they did not physically work together or at the same time, (2) each did not make the same type or amount of contribution, or (3) each did not make a contribution to the subject matter of every claim of the patent.

## *Discussion:*

The ABA position favoring a first-inventor-to-file system, adopted in February 2005, forms the core around which other proposed reforms to the patent system have been coordinated and assembled. This is the keystone reform for effectively pursuing implementation of post-grant opposition practice. It has been demonstrated through exhaustive empirical evidence to be a self-interested change for U.S.-based inventors, including independent inventors.

The fundamental features of U.S. patent law that have focused on the inventor will remain. It is proposed that section 101 of the patent law be specifically amended to indicate that the right to apply for and obtain patent is the right of the inventor. Similarly, the inventor would enjoy a 1-year “grace period” during which the inventor’s own disclosure could not defeat the right to patent the invention. Should there be a joint inventor, there should not be needed any collaboration of persons working toward the same end.

The inventor should have the ability of contesting the derivation of a previously filed invention even if the inventor files after publication of the rival application.

Given support to date from *every* constituency for this change to the patent laws, the ripeness of this change for congressional action is now far different from the pre-1994 era. At that time, when U.S.-based inventors were still able to gain advantage from the bar in the statute to presenting foreign-origin work as a basis for being declared the first to invent, opponents could cite this offsetting advantage to the inherent disadvantages of costs, delays, uncertainties, complexities, unfairness and unpredictability.

Lastly, the time has come to bolster the negotiating position of the United States by demonstrating that we are prepared to act in our self-interest to make this fundamental change to our patent laws. For two decades, the United States – in contrast to the Europeans – has been proposing a patent harmonization treaty that would create a patent system that today exists nowhere in the world. With the first-inventor-to-file changes enacted into our law, we will finally be able to demonstrate that we do have in operation the very patent system we are asking others to emulate in the name of greater international harmonization.

## 2. Define Prior Art Through “Best Practices”

### *Section Position:*

The Section favors as part of first-inventor-to-file reforms, defining prior art rules and formulating related provisions on the right to patent an invention according to “best practices.”

### *Resolution TF-2:*

RESOLVED, that the Section supports, in principle, in enacting first-inventor-to-file reforms, an objectively based definition of prior art and conditions for patentability, including provisions that continue to afford inventors a 1-year grace period in which to file an application for patent and that prevent certain prior-filed patent applications by the same or related persons from being used as patent-defeating prior art; and

SPECIFICALLY, the Section favors legislation in this context that would—

- (a) eliminate from U.S. patent law provisions relating to—
  - (1) abandonment as set forth in 35 U.S.C. § 102(c) as a basis for a loss of right to patent;
  - (2) premature foreign patenting as set forth in 35 U.S.C. § 102(d) as an element of prior art or a basis for a loss of right to patent;
  - (3) an inventor’s forfeiture of his or her right to patent an invention once placed “in public use or on sale” as set forth in 35 U.S.C. § 102(b) by providing that no such loss of right to patent an invention can arise unless the invention had become reasonably and effectively accessible to persons of ordinary skill in the art more than one year before the inventor sought a patent for the invention;
  - (4) prior art as set forth in 35 U.S.C. § 102(f), under which non-public knowledge of the inventor, not otherwise qualifying as prior art, can render an invention made by such inventor obvious, by:
    - (A) repealing section 102(f) and
    - (B) codifying elsewhere in Title 35, United States Code, that the right to seek and obtain a patent is solely the right of the individual or individuals who made the invention for which a patent is sought (or, where applicable, the assignee of such inventor);
  - (5) the provisions currently in 35 U.S.C. § 102(g) providing that “secret prior art” (and/or loss of right to patent) can exist as from the date an invention of another inventor was made;
  - (6) the provisions currently in 35 U.S.C. §§ 102(a), (e), and (g) that permit the inventor to rely upon proofs of dates of invention in order to eliminate as prior art to an invention subject matter that would otherwise represent prior art relative to the effective filing date for the invention;
  - (7) the geographic restrictions on prior art currently in 35 U.S.C. §§ 102(a) and (b) that require proofs of knowledge or use in the United States;
  - (8) the English language requirement currently in 35 U.S.C. § 102(e), relating to published international applications for patent that can qualify as prior art as of their respective filing dates; and
- (b) provide a definition of prior art, to be used for both novelty and non-obviousness determinations, stating that a patent for a claimed invention may not be obtained if—
  - (1) the claimed invention was patented, described in a printed publication, or otherwise publicly known—
    - (A) more than one year before the effective filing date of the claimed invention or
    - (B) before the effective filing date of the claimed invention other than through disclosures made by the inventor or a joint inventor or by others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor, or
  - (2) the claimed invention was described in an issued patent or in an application for patent published as provided in 35 U.S.C. § 122 or 35 U.S.C. § 374, in which the application or the patent names another inventor and was effectively filed before the effective filing date of the claimed invention; and
  - (c) with respect to determining novelty and non-obviousness with respect to the prior art that state that—
    - (1) subject matter that would otherwise qualify as prior art only because of the filing of a published patent application or patent shall not be prior art to a claimed invention if the subject matter and the claimed invention were, not later than the effective filing date of the claimed invention, owned by the same person or subject to an obligation of assignment to the same person;

(2) subject matter that would otherwise qualify as prior art only because of the filing of a published patent application or patent shall not be prior art for purposes of determining non-obviousness of a claimed invention if—

(A) such claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

(B) such subject matter was developed and such claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(C) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement; and

(3) subject matter would be regarded as publicly known for the purposes qualifying as prior art only when it becomes reasonably and effectively accessible, either through its use or through its disclosure by other means where;

(A) reasonable accessibility requires that the subject matter can be accessed by persons of ordinary skill in the art to which the subject matter pertains without resort to undue efforts and

(B) effective accessibility requires that its content can be comprehended by persons of ordinary skill in the art to which the subject matter pertains without resort to undue efforts; and

(d) until a twelve-month grace period becomes effective under the patent laws of the member states of the European Patent Convention and in the patent law of Japan, provide that the grace period under which disclosures made directly or indirectly by the inventor would only apply to disclosures made up to twelve months preceding the effective filing date in the United States.

***Resolution TF-2B:***

RESOLVED, that the Section of Intellectual Property Law re-affirms its opposition, in principle, in the context of a first-inventor-to-file system, to permitting the inventor to rely upon proof of date of invention in order to eliminate as prior art subject matter that would otherwise represent prior art relative to the effective filing date for the invention; and

SPECIFICALLY, the Section opposes legislation, in the context of a first-inventor-to-file system, providing that a patent for a claimed invention is not precluded by the claimed invention having been patented, described in a printed publication, or otherwise publicly known no more than one year before the effective filing date, but after the invention thereof by the applicant.

***Resolution TF-2C-1:***

RESOLVED, that the Section of Intellectual Property Law supports, in principle, in the context of a first inventor to file system, that a one year grace period for filing an application after an inventor's direct or indirect public disclosure of the invention contain an exclusion as prior art for any intervening public disclosures made by and/or intervening applications for patent filed by others, including disclosures or filings based upon derivation from the inventor, and

SPECIFICALLY, the Section supports amending § 102(b), as proposed in HR 2795 (June 6, 2005) to provide for the following exemptions from prior art:

(1) **Prior Inventor Public Disclosure Exception.**—Subject matter that would otherwise qualify as prior art based upon its public disclosure not more than one year prior to the effective filing date for a claimed invention shall not be prior art to the claimed invention under such circumstances if such subject matter had previously been made publicly known by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

(2) **Prior Filing Exceptions.**—Subject matter that would otherwise qualify as prior art as of the filing date of a patent or published application for patent only by virtue of its disclosure in such patent or published application shall not be prior art to a claimed invention if the subject matter had previously been made publicly known by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.

***Resolution TF-2C-2:***

RESOLVED, that the Section of Intellectual Property Law supports, in principle, in the context of a first inventor to file system, the doctrine of *In re Facius*, 408 F.2d 1396 (C.C.P.A. 1969), and

SPECIFICALLY, the Section supports amending § 102(b), as proposed in HR 2795 (June 6, 2005) to provide that subject matter that would otherwise qualify as prior art as of the filing date of a patent or published application for patent only by virtue of its disclosure in such patent or published application shall not be prior art to a claimed invention if the subject matter was obtained directly or indirectly from the inventor or a joint inventor.

***Resolution TF-A4***

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, treating the filing of a Paris Convention priority application any differently than the filing of a U.S. provisional application for patent in determining the effective filing date of a patent or a published application for patent as prior art under section 102 and 103 of title 35, United States Code; and,

NOW THEREFORE, the Section opposes the introduction of any discriminatory treatment in legislation creating a first-inventor-to-file system.

***Discussion:***

The Section, the American Intellectual Property Law Association, the Intellectual Property Owners Association, the National Association of Manufacturers, and the Biotechnology Industry Association all have taken common positions on the issue of implementation of a first-inventor-to-file system. This was done in response to the request by the PTO to address the issue of “best practices” in the harmonization context. The ABA IPL Section supports this common set of positions, both in a harmonization context, and as best practices for the U.S.

This is the correct set of policy choices for implementing first-inventor-to-file for several reasons. First, in changing our patent laws there would need to be some significant justification for not selecting the reforms that would best address the rationale for reform. Second, holding back on “best practices” and substituting less desirable reforms cannot be a credible “negotiating chip” in patent harmonization negotiations; withholding action in our domestic self-interest is nothing that would be cognizable as a concession by any foreign government. Third, moving directly to “best practices” avoids a triple set of applicable patentability rules – before reforms, after reforms but before completing “best practices,” and after completing “best practices.”

Key considerations, however, are the retention of all key features of U.S. patent law that focus on fairness to the inventor: prior art defined in terms of public accessibility (not the European “divulcation” principle), a 1-year “grace period” (not the European “absolute novelty”), no “self-collision” among copending unpublished applications of the same inventor or a common owner (not the European rule to the contrary on both counts), no ability to patent trivial variations of a first-filing inventor’s patent disclosure (not the European “novelty-only” restriction on such patenting), and no discrimination between Paris Convention priority or U.S. provisional filing with respect to determining the effective filing date of a patent or published application for use as prior art.

Moreover, in the first-inventor-to-file system, the applicant should not be permitted to eliminate what would otherwise be prior art by “swearing back” based upon the applicant’s date of invention. Instead, the “grace period” should be enhanced by assuring that prior art public disclosures or patent applications by another effective during the first publishing inventor’s “grace period” could not defeat the opportunity of the first publishing inventor to obtain a valid patent.

### 3. Repeal The “Best Mode” Requirement

#### *Section Position:*

The Section favors, as part of adoption of first-inventor-to-file reforms, repeal of the requirement that the “best mode” of practicing the claimed invention be disclosed in a patent application.

#### *Resolution TF-3:*

RESOLVED, that the Section supports, in principle, in the context of enacting first-inventor-to-file reforms, elimination of the requirement to disclose the “best mode” of the claimed invention; and

SPECIFICALLY, the Section favors, in that context, legislation to eliminate the requirement to disclose the “best mode” as set forth in 35 U.S.C. § 112, first paragraph.

#### *Discussion:*

One of the three principal recommendations of the National Research Council of the National Academies (“NRC”) dealing with patent litigation reform – and a recommendation also supported by the NRC as a step towards greater harmonization – is the elimination of the “best mode” requirement. With the first-inventor-to-file reform and the other “best practices,” this change will remarkably simplify the patent law and its application, by the courts in patent infringement litigation and other judicial matters involving the validity of the patent, by patent examiners applying all the conditions and requirements for patentability, and by members of the public seeking to evaluate whether or not a patent has been or might be validly issued.

Like the other “subjective elements” that are part of the current law of patentability, no person picking up an application for patent can make any informed judgment as to the validity of the patent without access to the mind of the inventor. In litigation, any document concerning technical features related to carrying out the invention become potentially relevant – and subject to discovery – because they are evidence of what the inventor might have known and, therefore, what contemplations they might have led him to concerning the “best mode.”

With the repeal of the “best mode” requirement, the patent law would still contain two separate requirements for patentability that, when rigorously applied, are able to protect the public from patents being issued without a disclosure sufficient to fully carry out the invention claimed to its full scope. These are the written description requirement – mandating that the inventor set out exactly what it is that was invented, not merely what the invention is attended to accomplish – and the enablement requirement – mandating that sufficient details of how the invention is to be practiced be set out in enough detail to that the full scope of the invention can be practice using routine efforts.

Finally, we are persuaded that the “best mode” required should be repealed as a prelude to further efforts to globally harmonize patent laws. In recent years, the only countries expressing an interest in adopting a “best mode” requirement have been developing countries seeking to impose the requirement so broadly that it might require disclosure of highly detailed information, raising concerns that remarkable levels of disclosure might be needed before a valid patent could be obtained.

## **4. Encourage Meaningful Disclosure To The PTO By Reforming Inequitable Conduct Defense**

### ***Section Position:***

The Section favors clarification of the law relating to misconduct in the prosecution of a patent to provide that a patent shall be held unenforceable only when fraud resulted in issuance of an invalid patent claim. The Section also favors retaining the "deceptive intention" and "deceptive intent" provisions that now exist in the patent code.

### **ABA Resolution 107-A**

RESOLVED, That the American Bar Association opposes the elimination of the defense of unenforceability of a patent based upon inequitable conduct arising from proceedings in the United States Patent and Trademark Office, without diminishing the authority of the United States Patent and Trademark Office to control the conduct of its own proceedings.

### **ABA Resolution 107-B**

RESOLVED, That the American Bar Association urges that the defense of unenforceability of a patent based upon inequitable conduct arising from proceedings in the United States Patent and Trademark Office ("PTO") be predicated on principles of common law fraud, and that any judgment of such unenforceability be entered only upon proof by clear and convincing evidence that:

(1) a person having a duty of candor and good faith to the PTO in connection with the patent or an application therefor knowingly and willfully misrepresented a material fact or material information to the PTO or failed to provide a known material fact or known material information from the PTO;

(2) in the absence of such misrepresentation or omission, the PTO, acting reasonably, would not have granted or maintained in force at least one invalid patent claim; and

(3) the misrepresentation or omission occurred with a specific intent to deceive the PTO, and that such intent cannot be established only by the materiality of the misrepresentation or omission.

### **ABA Resolution 107-C**

RESOLVED, That the American Bar Association urges that, in considering whether to hold a United States patent unenforceable based upon an applicant's alleged inequitable conduct arising from proceedings in the United States Patent and Trademark Office, information not be found to be material if it would not have been material under statutory and regulatory standards applicable during the prosecution of the application(s) for the patent or its reexamination.

### ***Resolution TF-4J***

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, that a defense of unenforceability of a patent on grounds of inequitable conduct in the United States Patent and Trademark Office can be based on any such conduct that did not substantially affect the validity, scope, or duration of one or more claims of the patent.

### ***Resolution TF-4K***

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, legislation eliminating the defense of unenforceability of a patent based on inequitable conduct in the United States Patent and Trademark Office ("PTO") in favor of proceedings in the PTO; and

NOW THEREFORE, the Section rescinds its approval of Resolution TF-08-02 that was adopted by Council in March, 2008.

### ***Resolution TF-1***

RESOLVED, that the Section of Intellectual Property Law favors in principle that any person having a duty of candor and good faith to the United States Patent and Trademark Office ("USPTO) in connection with proceedings before the USPTO be encouraged to conduct such proceedings without deceptive intention or deceptive intent; and

NOW THEREFORE, the Section opposed the elimination of the limitations in 35 U.S.C. §§ 116, 184, 185, 251, 253, and 288 regarding "deceptive intention" or "deceptive intent"; and

NOW THEREFORE, the Section rescinds Resolution TF-6 adopted by Council in May 2005.

### ***Discussion:***

A balanced and fair mechanism for detecting and sanctioning inequitable conduct in the United States Patent and Trademark Office ("PTO") is of paramount importance to the public, the PTO and the users of the patent system. Patents serve as incentives for innovation and investment in research and development; therefore, it is important that the rules and procedures for deterring inequitable conduct do not unduly burden the system and its users in a way that would diminish those incentives. On the other hand, because patents can and do have significant effects on competition and, therefore, on the public, it is important that their examination, issuance and maintenance be free of deceit and fraud. Striking the appropriate balance is the goal of various proposals to reform the current law.

Under current law, the standard for what might constitute inequitable conduct is vague and indefinite in its application. The Federal Circuit has held that at least five different standards apply to the determination of what is material and thus must be disclosed to the PTO. *Digital Control, Inc. v. The Charles Machine Works*, 437 F.3d 1309 (Fed. Cir. 2006). The original goal of the duty to disclose was to assist the PTO in performing its increasingly difficult task. Unfortunately, the opposite has happened because of the uncertain standard for materiality. Applicants disclose too much prior art for the PTO to meaningfully consider, and do not explain its significance, all out of fear that to do otherwise risks a subsequent claim of inequitable conduct.

The Section supports limiting application of the inequitable conduct defense to cases in which a fraud resulted in the PTO's issuing one or more invalid claims. That clearer standard will enable applicants to focus their disclosure of prior art on that which is most relevant, and to explain that prior art to the PTO in order to make the disclosure more helpful. The National Research Council of the National Academies has recommended that the "inequitable conduct" defense be modified to eliminate this "subjective element" from most patent litigation.

The Section has long taken the position that "inequitable conduct" allegations should be limited to the situations in which the public has actually been harmed as a result of the patentee's misconduct (*e.g.*, by issuance of an invalid patent claim). In August 2009, at the recommendation of the Section, the ABA House of Delegates adopted policy (ABA Resolutions 107A-C) urging implementation of this principle by applying common law fraud principles to the determination of whether misconduct is sufficient to result in a holding that a patent is unenforceable. While lesser forms of misconduct might result in disciplinary or other actions in the PTO, those lesser forms of misconduct should not result in the unenforceability of a wholly valid patent. These concepts are reflected in ABA Resolution 107-B.

As introduced in the 110<sup>th</sup> Congress, H.R. 1908 (which passed in the House on September 7, 2007) and S. 1145 (Ordered Reported by Senate Judiciary Committee July 19, 2007) would, in the Section's view, introduce inadequate changes to the law of inequitable conduct. Specifically, the House Bill would have codified the *new* PTO Rule 56 standard of materiality, 37 C.F.R. § 1.56 (1992-), and the Senate Bill would have codified the "reasonable examiner" standard of materiality in the old PTO Rule 56, 37 C.F.R. § 1.56 (1977-91).

In the 111<sup>th</sup> Congress, successor bills to H.R. 1908 and S. 1145 were introduced on March 3, 2009. Neither H.R. 1260 nor S. 515 contained provisions designed to reform the law of inequitable conduct.

### **I. The Section Supports Reform of the Law of Inequitable Conduct**

The defense of inequitable conduct is raised in far too many cases. The Federal Circuit has referred to it as a "plague" on the system. *Burlington Industries, Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988) ("[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague. Reputable

lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately, perhaps.”)

Allegations of inequitable conduct often are based on speculation or harmless mistake and, in most cases, are unsuccessful. Nevertheless, the defense adds substantially to the complexity and cost of litigation. It leads to relentless discovery in hopes of finding supportive evidence. Because the target of the discovery is usually the inventors, their patent attorneys or agents, and others who were substantively involved in preparing or prosecuting the patent application, the defense frequently involves disputes about the scope and applicability of the attorney-client privilege and allegations of a crime-fraud exception to that privilege.

Accused infringers' aggressive discovery demands lead in turn to resistance to those demands by patentees, with the attendant discovery disputes and motion practice. All of this results in increasing the complexity, duration and cost of patent infringement litigation that is already notorious for its complexity and high cost.

Weak or poorly supported allegations of inequitable conduct also unnecessarily add to the contentiousness of litigation. Reputations of attorneys and applicants are sullied and, as a consequence, they develop defensive and uncooperative positions. See *Burlington Indus. v. Dayco*, 849 F.2d at 1422 (“[Lawyers asserting inequitable conduct] get anywhere with the accusation in but a small percentage of the cases, but such charges are not inconsequential on that account. They destroy the respect for one another's integrity, for being fellow members of an honorable profession, that used to make the bar a valuable help to the courts in making a sound disposition of their cases, and to sustain the good name of the bar itself.”)

The current law of inequitable conduct also interferes with the effective and efficient examination of patent applications by the PTO. Apprehension about being accused of inequitable conduct motivates patent attorneys and their clients to disclose every piece of prior art that may be remotely relevant to the subject matter being claimed. Thus, patent examiners must devote a large percentage of the time allowed for examination of an application to dealing with mountains of references, many of which may have little to do with the patentability of the claimed subject matter. Moreover, applicants and their counsel are reluctant to assist examiners by pointing out the relevant teachings of the prior art and explaining how their claims distinguish over that prior art. This reluctance stems from the fact that any such assistance may later be criticized as incomplete or misleading (and intentionally deceitful) when an action is brought to enforce the patent. The fear of being later accused of inequitable conduct is a strong disincentive to applicants' and their attorneys' providing the assistance that the PTO needs to improve the examination process.

A balanced and fair approach to the detection and sanctioning of inequitable conduct also is important for the certainty required in business transactions involving patents. Investments and business transactions involving patents are based on the perceived value of the assets. The value of a patent is related not only to the innovation that it protects, but also to the prospects that its validity and enforceability can be successfully defended in litigation. An adequate deterrent to inequitable conduct that functions without the unnecessary litigation burdens that currently exist will contribute to the certainty and value that facilitate such transactions.

Resolution 107-B supports reform of the inequitable conduct defense in accordance with common law fraud principles. Such fraud requires a knowing and willful misrepresentation or omission of material information and further requires that the recipient of the information relied on the misrepresentation or omission to its detriment. 107-B embodies these concepts in paragraphs (1) and (2). Paragraph (2) expresses the detrimental reliance requirement in objective terms, requiring that the PTO's reliance be judged by a reasonableness standard.

Paragraph (3) of 107-B would require that a finding of an intent to deceive be based on evidence beyond the mere materiality of the information that has been misrepresented or concealed. This concept was recently emphasized by the Court of Appeals for the Federal Circuit in *Star Scientific, Inc. v. R.J. Reynolds Tobacco Company*, 537 F.3d 1357, 1366-67 (Fed. Cir. 2008) (“With regard to the deceptive intent prong, we have emphasized that ‘materiality does not presume intent, which is a separate and essential component of inequitable conduct.’” [citation omitted]). This requirement warrants emphasis, because there has been some ambiguity in court decisions concerning the extent to which intent may be inferred from other evidence. See, *Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306 (Fed. Cir. 2008) (Lourie, J., dissenting).

The law has long recognized that intent can rarely be proven by direct evidence and that circumstantial evidence is admissible to provide this element of inequitable conduct. Paragraph (3) of 107-B would not disturb that precedent. It addresses a narrower issue, namely, whether inequitable conduct can be found based on the fact that misrepresented or omitted information is material in the absence of any other evidence of deceptive intent. 107-B is consistent with Federal Circuit precedent, as recently articulated in the *Star Scientific* case.

Resolution 107-C separately addresses the standard of materiality. It would require that the courts apply a standard of materiality that is no broader or more inclusive than the standard that existed during examination of the patent in suit. Under current case law, the Federal Circuit has approved the “reasonable examiner” standard. *See, Star Scientific*, 537 F.3d at 1367 (“With respect to the materiality prong, we have held that ‘information is material when a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent,’” citing *Symantec Corp. v. Computer Associates International, Inc.*, 522 F.3d 1279, 1297 (Fed. Cir. 2008), and *Digital Control, Inc. v. Charles Machine Works*, 437 F.3d 1309, 1314 (Fed. Cir. 2006)). That was the standard of materiality in *old* PTO Rule 56, 37 C.F.R. § 1.56(1977-91). In contrast, the PTO *currently* applies the standard of materiality set forth in *new* PTO Rule 56, 37 C.F.R. § 1.56 (1992–). The current PTO rule defines information material to patentability as information that is not cumulative with other information already of record and that establishes, by itself or in combination with other information, a *prima facie* case of unpatentability or refutes, or is inconsistent with, a position the applicant takes in opposing an argument of unpatentability or asserting an argument of patentability. The “reasonable examiner” test under old PTO Rule 56 is generally broader than the new PTO Rule 56 test for materiality. Thus, a patentee could have fully complied with the standards of conduct set by the PTO in its current Rule 56 (which explicitly states that “[t]here is no duty to submit information which is not material to the patentability of any existing claim”) yet, in a later court proceeding, be found to have committed inequitable conduct. Resolution 107-C addresses this untenable situation and would immunize a patentee who had complied with the applicable statutory and regulatory standards regarding materiality during prosecution from a later charge of inequitable conduct. (It should be noted that 107-C would not preclude the courts from applying a more restrictive standard, *e.g.*, the standard called for in 107-B, that the alleged deceptive misrepresentation or concealment must have resulted in the granting or maintaining of at least one invalid patent claim.)

Resolution TF-4J addresses the materiality standard and would preclude a finding of inequitable conduct in situations in which the patentee’s conduct did not substantially affect the validity, scope or duration of one or more claims of the patent. Stated differently, this resolution would require that the alleged misconduct had a significant adverse effect on the public before it could form the basis for a defense of unenforceability.

Resolution TF-1 opposes the elimination of the limitations in 35 U.S.C. §§ 116, 184, 185, 251, 253, 256, and 288 regarding “deceptive intention” or “deceptive intent”. The ABA positions adopted in 2009 oppose elimination of the inequitable conduct defense, and call for an inequitable conduct defense based on principles of common law fraud. In 2005, in the context of reviewing proposals for eliminating the common law defense in favor of statutory codification, the Section supported eliminating the “deceptive intention” or “deceptive intent” limitations in these seven statutes. The Section has determined that elimination of these limitations would not be consistent with the 2009 ABA policies.

The report accompanying those recommendations explained that “the elimination of meaningful ways of detecting and sanctioning deceit and fraud in the PTO would jeopardize the integrity of the system and would further erode public confidence in it.” Eliminating the requirements that applicants and patentees act without deceptive intent in dealings with the USPTO would be contrary to this overall purpose behind the ABA positions.

## **II. The Inequitable Conduct Defense Should Not be Eliminated in Favor of Proceedings in the PTO**

In March 2008, Senator Hatch proposed an amendment to Senate Bill S. 1145 that would eliminate the defense of inequitable conduct. Senator Hatch proposed that the inequitable conduct defense be replaced by a reissue proceeding to be conducted in the PTO. The Hatch amendment would have required (and permitted) the patentee to submit the patent to reissue when the court is apprised of facts leading it to believe that misconduct was likely to have occurred during the original prosecution. In the reissue procedure, the PTO would reexamine the claims for patentability in view of the new or corrected information that had not been considered during the original examination. This procedure would not allow the PTO to impose sanctions or to hold the patent unenforceable, but would be limited solely to a re-determination of patentability.

The Hatch amendment would not interfere with the PTO’s conducting an investigation of misconduct or asking the Department of Justice to take action against those who engaged in such misconduct, but misconduct would not be considered in the reissue proceeding, nor would it lead to sanctions. Moreover, nothing in the Hatch amendment would have required the PTO to investigate the alleged inequitable conduct.

In August 2008, Senator Kyl introduced a patent law reform bill (S. 3600) that contained an inequitable conduct provision patterned after Senator Hatch's amendment. In addition to eliminating the inequitable conduct defense in favor of a reissue procedure, the Kyl bill would give the PTO greater investigative powers to conduct *ex parte* investigations of possible misconduct and would give the PTO the authority to impose sanctions in the form of civil monetary penalties as well as authority to order that one or more of the claims of the patent are unenforceable in the case of exceptional misconduct. As in the Hatch amendment, the alleged misconduct would not be considered during the reissue proceedings, nor would the PTO be required to investigate it.

In March 2008, the Section's Council approved a resolution supporting the Hatch amendment. In January 2009, after extensive further review of the issues concerning inequitable conduct the Section's policies thereon, Council withdrew its support for a system of treatment of inequitable conduct that would eliminate the inequitable conduct defense in favor of a proceeding to be conducted solely in the PTO. Accordingly, Resolution TF-4K rescinds Resolution TF-08-02 adopted by Council in March 2008. The reasons for this action are set forth in greater detail below.

#### **A. The Integrity of the Patent System Should Be Maintained**

As reflected by the 2003 report of the Federal Trade Commission and much of the discussion surrounding patent law reform, public confidence in the patent system has eroded in recent years. In this environment, it is more important than ever that the integrity of the system be preserved. An important aspect of accomplishing that goal is to improve the efficiency and effectiveness of the examination process by implementing reforms to the law of inequitable conduct so that applicants will be willing to provide the assistance that examiners need. However, the elimination of meaningful ways of detecting and sanctioning deceit and fraud in the PTO would jeopardize the integrity of the system and would further erode public confidence in it. The Section believes that such deceit and fraud occur very rarely. Nonetheless, when a patent may be the only thing protecting large market positions and can be worth millions and sometimes billions of dollars, it is unrealistic to think that deceptive conduct will never occur in the absence of a reliable method of detecting it and the prospect of certain and severe sanctions.

The judicial process provides the tools necessary for the discovery and development of facts necessary to determine whether or not inequitable conduct has occurred. It also, importantly, provides appropriate sanctions that serve to deter misconduct by applicants generally. The courts are better able to administer *inter partes* investigations, particularly those requiring live testimony, assessment of the demeanor of witnesses and a determination of whether or not there is a culpable intent. In addition, courts have the power to sanction attorneys and parties who make meritless or frivolous charges of inequitable conduct.

In the past, the PTO has been found to lack the resources to conduct effective investigations of misconduct. Indeed, prior attempts by the PTO to investigate allegations of inequitable conduct have failed. See, *Patent and Trademark Office Implementation of 37 CFR 1.56*, 1095 Off. Gaz. Pat. Office 16 (October 11, 1988), in which Commissioner of Patents and Trademarks Donald J. Quigg announced that the PTO would no longer evaluate matters relating to the question of deceptive intent. Commissioner Quigg emphasized that the PTO is not the best forum to determine the issue of deceptive intent and pointed out that such a determination is best made through cross examination of witnesses. A later Commissioner commented that,

the PTO found itself having considerable difficulty evaluating alleged violations of the duty of disclosure requirement. The PTO was not equipped to handle live testimony, and without live testimony the PTO felt that it was not the best forum to determine whether there was an intent to mislead, as required for a finding of inequitable conduct.

Harry F. Manbeck, Jr., *The Evolution and Issue of New Rule 56*, 20 AIPLA Q.J. 136 (1992).

The PTO is not in a better position to conduct thorough investigations of alleged inequitable conduct today than it was in 1988. Indeed, the highly publicized large backlogs, long pendency times, high examiner attrition rates and other difficulties that the PTO is experiencing in carrying out its primary mission suggest that the Office would have great difficulty in discharging the additional responsibilities of investigating allegations of misconduct.

#### **B. Referral to a PTO *Ex Parte* Reissue Would be Underutilized**

A private litigant charged with patent infringement has the greatest incentive to discover inequitable conduct. However, it appears unlikely that these litigants would utilize the procedures described in the 2008 Hatch amendment and in S. 3600. Those procedures would effectively eliminate inequitable conduct from the law. They

would require the patent challenger to file a motion with the court describing the information that was allegedly misrepresented or concealed during the original prosecution. If the court concludes that it is more likely than not that inequitable conduct has occurred, it would order the patent owner to apply for reissue in the PTO. In the reissue proceeding, the PTO would consider only the patentability of the claims. No further sanctions for inequitable conduct would be imposed as part of that proceeding. While the PTO is not prohibited from separately investigating whether inequitable conduct occurred, these proposals do not require it.

An accused infringer who has asserted invalidity as a defense in a judicial proceeding will not be anxious to have the success of that defense determined in an *ex parte* proceeding in the PTO. Moreover, most defendants will see little value in forcing the patent into reissue, because the prospects of the PTO's conducting a thorough evaluation of the inequitable conduct claims and issuing a sanction that will benefit the defendant are remote. Thus, accused infringers are more likely to choose to litigate their invalidity defenses in court rather than filing a motion that would result in those defenses' being decided in an *ex parte* PTO proceeding.

### **C. Supreme Court Precedent Does Not Mandate the Overruling of Fifty Years of Inequitable Conduct Case Law**

In his statement on the introduction of S. 3600, Senator Kyl endorsed the notion that inequitable conduct that occurs during patent prosecution should be addressed in proceedings before the PTO and not in private litigation in the courts. Others have gone further and argued that Supreme Court precedent *mandates* that the PTO, not the courts, have the responsibility for policing the conduct of those who appear in proceedings before it.

The argument involves two aspects. First, it has been argued that, because the inequitable conduct defense is based on the equitable doctrine of unclean hands, Supreme Court precedent requires that there be misconduct in the court as well as in the PTO. Second, it has been argued that Supreme Court precedent precludes private causes of action for policing conduct before a federal agency such as the PTO.

The first of these arguments is not supported by Supreme Court or Federal Circuit case law. The Supreme Court case upon which modern inequitable conduct law is primarily based is *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945). That case involved a patent that had been the subject of an interference proceeding in the Patent Office. During the course of the interference, the patent owner (Automotive) learned that Larson, the inventor named on the adverse party's (Precision's) patent application, committed perjury, falsifying dates of invention. Automotive and Precision settled the case, and the Precision patent application was assigned to Automotive. Automotive was able to obtain patents on both the Precision application and its own. Following the settlement, Precision continued to sell competing products. Automotive sued Precision for patent infringement and breach of contract. Precision raised the unclean hands defense. The Supreme Court held that Automotive's patent was unenforceable. It stated:

These facts all add up to the inescapable conclusion that Automotive has not displayed that standard of conduct requisite to the maintenance of this suit in equity. That the actions of Larson and Precision may have been more reprehensible is immaterial. The public policy against the assertion and enforcement of patent claims infected with fraud and perjury is too great to be overridden by such a consideration. Automotive knew of and suspected the perjury and failed to act so as to uproot it and destroy its affects. Instead, Automotive acted affirmatively to magnify and increase those effects. Such inequitable conduct impregnated Automotive's entire cause of action and justified dismissal by resort to the unclean hands doctrine. [Citation omitted.]

324 U.S. at 819 (emphasis added). The Supreme Court emphasized the public policy implications of a patent and held that the doctrine of unclean hands precludes the enforcement of a patent procured through fraud or inequitable conduct:

A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the "Progress of Science and useful Arts." At the same time, a patent is an exception to the general rule against monopolies and to the right of access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.

324 U.S. at 816.

There is no indication in the Court's decision that Automotive engaged in any misconduct in the courts other than its attempt to enforce a patent that had been procured through inequitable conduct. The Court's statement that "[s]uch inequitable conduct impregnated Automotive's entire cause of action and justified dismissal by resort to the unclean hands doctrine" does not indicate that Automotive engaged in any misconduct in the courts apart from its enforcement efforts. The perjury to which the Court referred was not perjury in the courts, but was perjury of the inventor during the interference proceeding in the PTO. The entire basis for the holding of unenforceability was that the patent had been procured through fraud or inequitable conduct in the PTO.

The argument that the unclean hands defense must involve separate misconduct in the court has been considered and rejected by the Federal Circuit. In *Consolidated Aluminum Corp. v. Foseco International, Ltd.*, 910 F.2d 804, 812 (Fed. Cir. 1990), the patent owner argued that *Precision Instrument* and *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933), required "fraud before the Court." The patent owner's argument relied on its interpretation of the Federal Circuit's earlier opinion in *SSIH Equipment S.A. v. United States International Trade Commission*, 718 F.2d 365 (Fed. Cir. 1983). The Court rejected this argument, stating that its decision in *SSIH* was taken out of context.

Consolidated's reading of *SSIH* as requiring fraud before the Court would be at odds with *Precision Instrument* which held that withholding information from the PTO so soiled the patentee's hands as to render all patents-in-suit unenforceable. 324 U.S. at 818-19, 65 USPQ at 139-40. Moreover, we reject Consolidated's invitation to limit a flexible doctrine of equity to conduct occurring before a court. See *Keystone Driller*, 290 U.S. at 245-46, 19 USPQ at 230 (unclean hands is "not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion."). Indeed, what we have termed "inequitable conduct" is no more than the unclean hands doctrine applied to particular conduct before the PTO. See *J. P. Stevens Co.*, 747 F.2d at 1561, 223 USPQ at 1093. To hold that unclean hands applies only to conduct before a court would be contrary to our precedent applying the doctrine to conduct before the PTO.

718 F.2d at 378.

Thus, it is the patent owner's attempt to enforce a patent procured by inequitable conduct that constitutes unclean hands. Under that equitable doctrine, the Court will not assist in such enforcement, irrespective of whether or not there is also misconduct in the court proceedings themselves.

It has also been suggested that the unclean hands defense is personal and, rather than rendering the patent itself unenforceable, only precludes enforcement by the party who engaged in the inequitable conduct. Leaving aside principles of agency and privity, the Federal Circuit has addressed the question of whether inequitable conduct renders the patent unenforceable. In *J.P. Stevens and Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1560-61 (Fed. Cir. 1984), the Court considered the effect of inequitable conduct as a defense. The Court stated:

[W]e conclude that it results in unenforceability. The Patent Act of 1952 states in 35 USC § 282 the defenses to a patent infringement suit:

- (1) non-infringement, absence of liability for infringement, or unenforceability,
- (2) invalidity of the patent or any claim in suit "on the ground specified in part II of this title as a condition of patentability" [*i.e.*, "novelty and loss of right" under Section 102 and "non-obvious subject matter" under Section 103]
- (3) invalidity under Sections 112 or 251 of this title
- (4) any fact or other act made in defense by this title

Paragraph (1) includes "equitable defenses such as laches, estoppel and unclean hands." P.J. Federico, "Commentary of the new act," 35 USCA at 55. Because at the time the Patent Act was enacted Supreme Court cases had treated inequitable conduct as an "unclean hands" type defense, see, e.g., *Precision Instrument, cf., Driscoll v. Cebalo*, 731 F.2d at 884, 221 USPQ at 750-51, the defense fits best in the "unenforceability" phrase of paragraph (1). That approach accords, also, with the specification of particular bases for invalidity in paragraphs (2) and (3) in Section 282.

Thus, the Federal Circuit has held that the 1952 Patent Act codified the unenforceability defense based, *inter alia*, on unclean hands.

The second aspect of the argument that Supreme Court precedent requires that responsibility for policing inequitable conduct resides in the PTO rather than the courts, also is inconsistent with precedent. The principal case upon which this argument is based is *Buckman Co. v. Plaintiff's Legal Committee*, 531 U.S. 341 (2001). *Buckman* dealt with a lawsuit by patients who claimed to have been injured by the use of orthopedic bone screws that had been approved by the Food and Drug Administration ("FDA"). The plaintiffs argued that the manufacturer of the bone screws made fraudulent representations to the FDA in the course of obtaining marketing approval. They argued that such representations were at least a "but for" cause of their injuries. The Supreme Court held that such claims are preempted by the Federal Food, Drug and Cosmetic Act ("FDCA") and that no private cause of action exists for the enforcement of the statute. The Court stated:

[G]iven this analytical framework, we hold that the plaintiffs' state-law fraud-on-the-FDA claims conflict with, and are therefore impliedly pre-empted by federal law. [Footnote omitted.] The conflict stems from the fact that the federal statutory scheme amply empowers the FDA to punish and deter fraud against the Agency, and that this authority is used by the Agency to achieve a somewhat delicate balance of statutory objectives. The balance sought by the Agency can be skewed by allowing fraud-on-the-FDA claims under state tort law.

521 U.S. at 338. A key element in the Supreme Court's decision in *Buckman* was that the FDCA expressly precludes private actions to enforce or restrain violations of its provisions. The Court concluded that,

[t]he FDCA leaves no doubt that it is the Federal Government rather than private litigants who are authorized to file suit for noncompliance with the medical device provisions: "all such proceedings for the enforcement, or to restrain violations, of this chapter shall be by and in the name of the United States. 21 U.S.C. § 337(a)."

531 U.S. at 348.

Thus, the *Buckman* case is inapposite to the argument that the inequitable conduct must be limited to PTO enforcement. Unlike the FDCA which expressly precludes private actions for its enforcement, in the 1952 Patent Act Congress provided the "unenforceability" defense in 35 U.S.C. § 282. When the 1952 Patent Act was enacted, this defense was recognized as encompassing a defense of unclean hands. *See J.P. Stevens, supra*. Moreover, Congress is presumed to have been aware of the courts' interpretation of Section 282 and its unenforceability defense based on inequitable conduct on the several occasions that it has amended that section. Congress has not abrogated or altered the inequitable conduct defense on any of these occasions. This Congressional inaction is strong evidence that the courts' interpretation of Section 282 to include the defense of unenforceability based on inequitable conduct is the correct statutory interpretation.

In summary, Supreme Court precedent does not mandate that decades of inequitable conduct law be overruled. The question is therefore one of policy: should the enforceability of a patent that is alleged to have been obtained by fraud continue to be evaluated in judicial proceedings in which enforcement of the patent is sought, or should Congress vest the PTO with sole authority to police and sanction inequitable conduct?. The Section of Intellectual Property believes that the former is the better approach. The PTO has a different mission and responsibility than other agencies. It is not a regulatory agency like the Food and Drug Administration. Instead, the PTO grants a property right based on an *ex parte* examination, and the patent statute provides a cause of action in federal courts to enforce that property right. If the property right – the patent – is tainted by fraud or inequitable conduct, the federal courts should not lend assistance in enforcing that right to the detriment not only of the accused infringer but the public as well.

## **5. Codify The Authority Of The PTO To Enforce The Duty Of Candor**

### ***Section Position:***

The Section favors patent codifying the authority of the Patent and Trademark Office (“Office) to enforce the duty of candor in practice before it, but opposes affording the Office the authority to impose civil monetary penalties against patent owners as a sanction for breach of the duty.

### ***Resolution TF-5C:***

RESOLVED, that the Section of Intellectual Property Law supports, in principle, enforcement by the Patent and Trademark Office (“the Office”) of the duty of candor and good faith in practice before the Office through disciplinary proceedings, but opposes legislation that would afford the Office the statutory authority to impose civil monetary penalties against patent owners as a sanction for breach of the duty of candor and good faith; and

SPECIFICALLY, the Section opposes legislation that would require the Office to investigate possible violations of the duty of candor and good faith referred to the Office by the courts, hold contested evidentiary proceedings involving the patent owner and any person who was the owner of the patent or application at the time the alleged breach of the duty occurred, determine whether an intentional breach of the duty of candor and good faith occurred, and authorize the Office, if it found misconduct, to impose civil monetary penalties against the parties.

### ***Discussion:***

The public interest is best served if the Office is aware of and considers all information material to patentability. The Office has limited resources for locating certain material prior art such as prior public uses and even printed publications. Often this and other material information is known to the applicant. For that reason the courts have long placed upon the applicant and each individual substantively involved in the preparation or prosecution of a patent application, a duty of candor and good faith in dealing with the Office. That duty includes a duty to disclose to the Office all information known to that individual to be material to patentability. The duty to disclose is set forth in detail in the Rules of Practice in Patent Cases. 37 C.F.R. § 1.56 (1992–).

The Section believes that the duty of candor and good faith, including the duty to disclose as set forth in 37 C.F.R. § 1.56 (1992–) is very important to obtaining quality examination of patent applications. While the Section favors limiting the unenforceability defense in court actions to “but for” fraud, limiting this defense is not inconsistent with maintaining a comprehensive duty of candor and good faith in practice before the Office. Accordingly, the Section supports affording the Office the statutory authority to promulgate a duty of candor and good faith, such as that now in 37 C.F.R. § 1.56 (1992–). Such statutory authority will make clear that the defense of unenforceability for inequitable conduct in the Office does not preempt that Office’s authority in this regard.

While the Section supports the current duty of candor and good faith in practicing before the Office, the Section believes that the Office is not well equipped to take on the responsibility of the imposition of large civil monetary penalties in a contested proceeding against the patent owner, as has been proposed by others. The Office has made clear that it neither wants, nor believes it would be appropriate for it to have such responsibilities.

The Section supports enforcement of the duty of candor and good faith through the mechanisms already in the law, *e.g.*, criminal sanctions for making willful false statements and the like to the Office (18 U.S.C. § 1001), suspension or exclusion from practice of registered patent attorneys and/or agents under 35 U.S.C. § 32, and malpractice remedies against attorneys and agents.

## **6. Publish All Pending Applications At 18-Months**

### ***Section Position:***

The Section favors publication of all patent applications 18 months after filing.

### ***Resolution TF-7:***

RESOLVED, that the Section favors, in principle, the publication of all patent applications within 18-months of filing as an 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).

### ***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 PTO 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 PTO within 45 days of filing abroad, the U.S. 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.

## 7. Improve Inter Partes Reexamination

### ***Section Position:***

The Section favors amending *inter partes* reexamination proceedings by limiting the applicable estoppel and expanding the availability to all patents.

### ***Resolution TF-10:***

RESOLVED, that the Section supports, in principle, amendments to the *inter partes* reexamination procedure to expand use of that procedure, and

SPECIFICALLY, the Section supports legislation that would implement the following changes to the existing *inter partes* reexamination:

1. Limit the estoppel attaching to a third party requester in an *inter partes* re-examination to any ground that the third-party requester raised during the *inter partes* re-examination proceedings.
2. Expand the availability of *inter partes* reexamination proceedings to any patent that issues from an original application filed on any date

### ***Resolution TF-H2***

RESOLVED, that the Section of Intellectual Property Law supports, in principle, limiting the estoppel effects in *inter partes* reexamination proceedings; and

NOW THEREFORE, the Section supports the enactment of Section 9(f) of S.3818, 109<sup>th</sup> Congress, 2d Sess. (2006) (Hatch-Leahy), or similar legislation, to delete the estoppel language in the present statutory note appended to 35 U.S.C. § 315 by § 1000(a)(9) of Pub. L. 106-113 that provides that any party who requests an *inter partes* reexamination under Section 311 is estopped from challenging at a later time, in any civil action, any fact determined during the process of such reexamination, except with respect to a fact determination later proved to be erroneous based on information unavailable at the time of the *inter partes* reexamination decision.

### ***Discussion:***

In 2004, the PTO released its Report to Congress on *Inter Partes* Reexamination. The report notes that none of the current post-grant review procedures alone, or collectively, has proven sufficient to optimize the PTO's post grant review capability.

In the period from 1999 to 2001 only five *inter partes* request for reexamination were filed. After amendment to the statute in 2002, which provided the third party requester with an express right to appeal to the court and to participate in patent owner appeals, the number of *inter partes* reexaminations increased to twenty-one *inter partes* reexaminations filed in 2003 and twenty-seven *inter partes* reexaminations filed in 2004. To put these numbers into context, 392 *ex parte* reexaminations were filed in 2003 and 441 *ex parte* reexaminations were filed in 2004. The PTO issued over 900,000 utility patents since the legislation enacting the *inter partes* reexamination procedure, so only a minuscule fraction of patents have been subject to *inter partes* reexamination.

The PTO made several legislative recommendations to correct the perceived deficiencies in the *inter partes* reexamination system, including clarification of the *inter partes* reexamination estoppel provisions.

Under current law, a third party reexamination requester is estopped from asserting the invalidity of a patent claim determined to be patentable during an *inter partes* reexamination proceeding as to all issues which the requester raised or "could have raised" during the *inter partes* reexamination proceeding, except for "newly discovered prior art unavailable to the third-party requester." The scope of this estoppel has not been litigated and is ambiguous. The ambiguity of the breadth of the estoppel resulting from the "could have raised" standard creates a deterrent for third parties from filing a request for *inter partes* reexamination and significantly contributes to the underutilization of the reexamination procedure as a low-cost alternative to patent litigation.

The Section favors an amendment to strike “or could have raised” from the *inter partes* reexamination statute. The amendment would remove the most significant deterrent identified by the PTO from the utilization of *inter partes* reexamination as an expedited, low-cost alternative to patent litigation.

In addition, the statutory note that was added to § 315 of the statute on November 29, 1999 should be deleted. The statutory note provides an estoppel for findings of fact during *inter partes* reexamination, except with respect to facts later determined to be erroneous based on information unavailable during the *inter partes* reexamination proceeding. The consequence of the note is that a requester is estopped from challenging a factual determination of the Office that may be relevant to a new ground of invalidity not subject to the estoppel. For example, an underlying factual determination as to the scope of the art would be binding on the requester, even if the requester later challenges validity on prior art not involved in the reexamination proceeding.

S.3818 would have deleted that statutory note, but the 2007 bicameral bill does not. The note should be deleted, consistent with the amendment to strike “or could have raised” from the estoppel.”

The PTO noted that making all enforceable patents eligible for *inter partes* reexamination would greatly increase the patent pool from which to generate *inter partes* reexamination requests. The Section supports the expansion of the availability of *inter partes* reexamination proceedings to any patent that issues from an original application filed on any date. The Section can identify no policy based rationale to limit the pool of available patents to those which were filed on or after enactment of the *inter partes* reexamination on November 29, 1999.

## 8. Create A Post-Grant Opposition Proceeding

### *Section Position:*

The Section favors legislation to adopt post-grant opposition procedures for challenging the validity of issued patent claims at a reasonable cost and with adequate safeguards against harassment of patent owner. The regulations governing such a proceeding should be designed to provide an expeditious resolution of all patent validity issues, within a statutorily mandated time period. They should also assure that no undue burden is placed on the patentee and should provide for efficient administration by the PTO.

### *Resolution TF-8a:*

RESOLVED, that the Section favors, in principle, the availability of a window after a patent has issued to challenge the validity of claims in the patent; and

SPECIFICALLY, the Section favors, in the context of adoption of a first-inventor-to-file system, the adoption of an *inter partes*, post-grant review proceeding 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. provide that the determination by the PTO that the threshold requirement has not been satisfied is not appealable and shall not be admissible in any litigation over the validity of the patent;
3. permit as grounds for opposition a broader scope of invalidity issues than is available in reexamination proceedings, including invalidity for double patenting and any of the requirements for patentability set forth in Sections §§ 101, 102 (except 102(c), and (g)), 103, 112 (except for the best mode requirement), and 251, fourth paragraph;
4. 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;
5. provide that, except in exceptional circumstances, the evidence on which the opposer relies shall be submitted with its request for opposition, and the evidence on which the patent owner relies shall be submitted with its response to the opposition;
6. require that the opposition proceeding be instituted by the PTO within a specified period of time, preferably three months, after the period for filing oppositions closes, unless the PTO has determined that the required threshold showing has not been made;
7. provide that the identity of the real party in interest filing an opposition request shall be disclosed to the PTO, but shall not be disclosed to the patentee unless the opposer relies on declaration or affidavit evidence or the opposer becomes a party to an appeal taken to the Court of Appeals for the Federal Circuit;
8. provide that the file of any opposition proceeding shall be made available to the public;
9. permit a limited opportunity for amendment of the patent claims during the opposition, subject to appropriate intervening rights, and not permitting broadening amendments;
10. 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;
11. limit discovery to cross-examination of affiants, unless otherwise required in the interest of justice;
12. provide that a panel of three Administrative Patent Law Judges shall hear and decide all such post-grant review proceedings;
13. place the burden of proof on the opposer to show invalidity by a preponderance of the evidence;
14. require that the proceeding be completed within a specified period of time, preferably twelve months, which may be extended to eighteen months in exceptional cases;
15. provide that the opposer shall be estopped to raise in any subsequent litigation or other proceeding, only those issues of fact or law actually decided, and necessary to the determination, unless

there is substantial additional evidence that could not reasonably have been discovered or presented by the opposer;

16. provide appropriate limits on reexamination proceedings concurrent with the opposition proceeding, and on reexamination requests filed by the opposer subsequent to the opposition;

17. provide that if the patent owner files litigation alleging infringement of a patent within a limited period after the patent is granted, any opposition filed against that patent shall be stayed until the suit is concluded, if the patent owner so requests; and

18. such other provisions as will provide the public with an appropriate means for challenging the validity of claims in issued patents at a reasonable cost and provide patentees with adequate safeguards against harassment.

***Resolution TF-8b:***

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, a requirement that the Under Secretary of Commerce for Intellectual Property and Director of the PTO must consider the effect on the economy when prescribing regulations relating to the conduct of post-grant review proceedings; and

NOW THEREFORE, the Section opposes the provision in 35 U.S.C. § 315(c), as proposed in Section 6 of S.3818, 109<sup>th</sup> Congress, 2d Sess. (2006) (Hatch-Leahy), or similar legislation, that would require the Director to “take into consideration the effect on the economy” in prescribing such regulations.

***Discussion:***

There are several mechanisms by which the PTO 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 an administrative post-grant review and opposition procedure that would provide a more balanced proceeding than those now available in the PTO. 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.

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 reexaminations 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 invalidity for double patenting and any of the patentability requirements of 35 U.S.C. §§ 101, 102, 103, 112, and 251, fourth paragraph be eligible for assertion in an opposition, with the exception of § 102(c) (abandonment), § 102(g) (first to invent) and the best mode requirement of § 112. 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 Section’s proposal includes indefiniteness of the claims, and lack of a written description of the invention or an enabling disclosure under § 112 as grounds which can be asserted. If the first-to-invent system, and the best practices recommended above for implementing that system are adopted, then the grounds available for contesting validity in a post-grant opposition proceeding would be co-extensive with those available in litigation.

In order to simplify the issues, expedite the proceeding, and avoid “fishing expeditions” the opposer should be required to submit all of the evidence on which it relies with its request for opposition, and the patent owner should be required to submit all of its evidence with its Answer to the opposition. Rebuttal evidence can be allowed where appropriate.

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.

The identity of the real party in interest requesting the opposition must be disclosed to the PTO, but would not be disclosed to the patent owner unless the opposer relies on affidavit or declaration evidence or becomes a party to an appeal to the Court of Appeals for the Federal Circuit. Confidentiality will protect an opposer from becoming a target for infringement litigation. Disclosure in the event of reliance on affidavit or declaration evidence, however, will preserve the patent owner’s right to know the relationship of any affiant or declarant to the real party in interest. Disclosure in the event of appeal is required by the Rules of the Federal Circuit in order to enable judges of the Circuit to determine whether they must reclude themselves.

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.

Prompt disposition of opposition proceedings is essential. Therefore, the Section proposes that all oppositions be filed within a limited period, not greater than one year, after the patent issues, and if the threshold showing is made, the PTO must institute the proceeding within three months after the period for filing opposition requests closes. 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.

Others have proposed that the window for filing a request for opposition re-open if the patent owner has asserted the patent against the requestor, or if the patent is likely to cause the requestor significant harm. Such a “second window” would potentially subject a patent owner to harassment and uncertainty for the entire life of the patent. Moreover, the second window would be primarily a substitute for litigation, potentially years after the patent issued, rather than a prompt control on the quality of issued patents. Accordingly it should require substantially more discovery and procedural safeguards, than the first window. Therefore, the Section opposes such a second window.

Finally, if the patent owner files suit for infringement of a patent within a specified period of time after grant, preferably either before the period for opposition closes, any opposition of that patent will be stayed pending completion of the lawsuit, if the patent owner so requests.

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.

S.3818 introduced in the 109<sup>th</sup> Cong. 2<sup>nd</sup> Sess. (Hatch-Leahy) provided that

In prescribing regulations under (the post grant review) section, the Director shall take into consideration the effect on the economy, the integrity of the patent system, and the efficient administration of the Office.

Previously, the Section opposed FTC Recommendation 10 that consideration of economic learning and competition policy concerns should be expanded in patent law decision-making. It would be an undue burden on the Patent Office to require the Director to take into account economic considerations in prescribing its regulations.

Second, it is unclear whether and how the Patent Office could take economic effects into consideration. The Patent Office does not generally provide an economic analysis in proposing regulations. Third, it is unclear how a unified economic effect could be determined between the various industries. As shown by the split between the industries regarding a “second window,” there is no single economic interest of the various industries.

## 9. Use Improved Reexamination As The “Second Window”

### ***Section Position:***

The Section favors relying upon enhanced inter partes reexamination as the second window. The Section opposes inclusion of a second window in Post-Grant Opposition, having more costly procedures such as applicable to the first window.

### ***Resolution TF-8B:***

RESOLVED, that except through an enhanced reexamination proceeding, the Section opposes, in principle, the adoption of a so-called “second window” in which an administrative validity challenge by a party adverse to a patent could be sought after an initial post grant opposition window of no longer than 12 months after the patent has issued, and

NOW THEREFORE, the Section specifically opposes the creation of any such “second window” except through enhancement of the currently available administrative procedures for making challenges to a patent’s validity by appropriate legislative changes to reduce the estoppel provisions applicable to inter partes reexaminations and to expand the availability of inter partes reexamination to any patent regardless of its filing date and by administrative improvements to inter partes reexamination through the use of senior examiners other than those who examined the application before its issuance.

### ***Discussion:***

The Section has considered the provisions of section 6 of the proposed bicameral “Patent Reform Act of 2007” (H.R. 1908/S.1145) for an initial 12 month first window for a post-grant petition to cancel as unpatentable a claim of a patent, followed by an unbounded “second window” allowing an unlimited number of administrative challenges during the life of the patent. The Section believes that there is a better alternative. Instead the Section recommends that there be no second window in the post-grant opposition procedure, but rather that the 12 month first window called for in the Bill be coupled with an improved reexamination. Such enhanced reexamination would be available throughout the life of the patent, and would provide the benefits of a second window without the undesirable features of the second window called for in the Bill.

Each of these proposals was considered with a view to accommodating four competing interests: (1) the public interest in removing invalid patents from the public domain; (2) the public interest in encouraging innovation; (3) the interest of competitors in avoiding litigation; and (4) the interest of innovators in avoiding excessive costs in defending their patents.

#### **A. The Unbounded Second Window of the Patent Reform Act of 2007**

The 2007 bicameral bill would allow litigation-type challenges in the PTO throughout the life of the patent. This second window would permit reliance on prior public uses and other unprinted prior art, and thus, necessarily would permit discovery. The Section anticipates that the cost to a patentee to defend against a challenge under the post-grant opposition procedures will substantially exceed the cost of an *inter partes* reexamination.

The threshold for bringing an administrative challenge (i.e., potential economic harm), as set forth in section 6 of the bill, is substantially lower than that required to bring an action in court (i.e., a controversy between parties having adverse legal interests, which is substantial, immediate and real). Thus, the number of challenges in the PTO against a patent could be greatly increased over the number that would otherwise occur in court. Yet in the PTO proceedings, the patent owner has no opportunity to seek damages as it could in litigation. The increased costs caused by such challenges could be crippling to individual inventors, universities, and small businesses.

The public interest favors early cancellation of invalid patents, through use of the first window. However, the broad and robust second window called for in the 2007 bicameral bill gives too little incentive for potential challengers to utilize the first window.

The approach set forth in the bill is focused on a substitute for litigation, giving every potential litigant the option of going to the PTO. The second window called for in the bill focuses too little on the public interest in encouraging innovation, and the interest of innovators in avoiding harassment and excessive costs in defending their patents. The gain from the more robust proceeding of this second window would be, in the Section's view, substantially outweighed by the additional cost of the discovery and other more complex procedures involved in a post-grant opposition proceeding.

**B. The Preferred Approach: Single Opposition Window Coupled With Improved Reexamination**

There is no perfect solution to accommodating all of the four competing interests set out above. However, the Section believes that using enhanced reexamination as the "second window," instead of the second window called for in the bill, best balances those competing interests. Improvements in the current reexamination procedures would enhance reexamination procedures such that they would be used more often by those wishing to challenge patents administratively.

The most significant of these improvements are the provisions in the 2007 bicameral bill that call for the removal of the severe estoppel provisions that deny an *inter partes* third-party reexamination petitioner the ability to subsequently challenge a patent in litigation on any ground that the petitioner "could have raised" in the reexamination proceedings. The bill also improves and expands *inter partes* reexamination by repealing the limitation to patents issued on applications filed on or after November 29, 1999, thereby making it available to challenge all patents. These improvements are supported by the Section. See Section 10 of this White Paper "Expand Use of Inter Partes Reexamination,"

Moreover, reexamination has already been improved in other ways. Until quite recently, *inter partes* reexamination was conducted by the same examiner that originally examined the patent application. Thus, potential requesters were concerned that a successful reexamination required the requestor to convince the examiner that he or she made a mistake, and that it would thus be difficult to succeed in a reexamination. The PTO has recently implemented a procedure whereby three senior examiners, not including the examiner who initially reviewed the application, review final action in *inter partes* reexamination requests. Early indications suggest that such procedure is creating a system fairer to the requestor. The Section endorses that procedure and considers it, or some similar procedure, important to the Section's support of enhanced reexamination to effectively provide the "second window."

Finally, it is important to remember that the necessity of a second window is being discussed in the context of an anticipated availability of a robust first window to challenge patents on *all* grounds of invalidity. The continued availability of reexamination proceedings would serve as an effective complement to such a first window. Reexamination proceedings would always be available for the purpose of challenging a patent based on prior art patents and printed publications that may not have been discovered during the first window. Yet there would be ample incentive for using the first window, thereby benefiting the public by cancellation of invalid patents soon after issuance.

In sum, the Section believes that changes to the reexamination statutory provisions and changes in the administration of the current reexamination proceedings should make reexamination a more viable option than it is today. If such changes were made, there would be no need for more expensive post-grant review proceedings in addition to the currently contemplated first window challenge.

## 10. Expand Pre-Grant Third Party Submissions

### *Section Position:*

The Section favors expanding the right of the public to submit prior art in pending patent applications.

### *Resolution TF-9:*

RESOLVED, that the Section favors in principle expanding the right of the public to submit prior art in pending patent applications; and

SPECIFICALLY, the Section favors legislation to codify the right of the public to submit to the U.S. Patent and Trademark Office prior art relevant to a pending application for patent, provided that such submission is made within a reasonable time after publication of the application, or entry of an international application into the national stage, and before the application has been allowed, and provided that the submission is accompanied by an explanation of the asserted relevance of the submitted art.

### *Discussion:*

The single biggest means to improve patent quality is to get relevant prior art before PTO examiners and make it easy for them to appropriately apply that prior art. Competitors and others having ordinary skill in a particular art are more than willing to submit such relevant prior art, but current law only allows them to do so within two months of publication, and such a two-month time frame may be unreasonably short. Moreover, current law does not allow a submitter to make any kind of statement of the relevance of the prior art. As a result, would-be submitters refrain from putting prior art before examiners because they are concerned that the examiner will not appreciate the significance the prior art. Moreover, the statement of relevance will assist the examiner in consideration of the prior art. Therefore, the Section favors requiring the submitter to accompany the submission with an explanation of the asserted relevance, if the submitter so desires.

The Section favors legislation over merely recommending a rule change because legislation will more strongly encourage a change in policy to allow third-party submission of prior art.

## 11. Clarify The Willful Infringement Issue

### ***Section Position:***

The Section favors legislation that will provide accused infringers with better guidance as to what conduct will result in punitive damages

### ***Resolution TF-11A:***

(Passed by the ABA House of Delegates 2007)

RESOLVED, That the American Bar Association supports the principle that a party's assertion of the advice-of-counsel defense to a charge of willful patent infringement does not waive the attorney-client privilege with respect to communications with that party's trial counsel, so long as such trial counsel is not the same counsel who provided the opinion upon which the accused infringer relies;

FURTHER RESOLVED, That the American Bar Association supports the principle that a party's assertion of the advice-of-counsel defense to a charge of willful patent infringement does not waive the work product privilege of that party's trial counsel, so long as such trial counsel is not the same counsel who provided the opinion upon which the accused infringer relies;

FURTHER RESOLVED, That the American Bar Association supports the principle that a legally consistent standard for a patent infringer to be liable for enhanced, or punitive, damages under 35 U.S.C. § 284 is "reprehensible conduct" in accord with general Supreme Court standards for punitive damages; and

FURTHER RESOLVED, That the American Bar Association supports replacement of the affirmative duty of due care standard set forth in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), with the foregoing reprehensible conduct standard.

### ***Resolution TF-11:***

RESOLVED, that the Section supports, in principle, the desirability of reducing litigation cost and increasing predictability of patent infringement litigation outcomes in cases involving willful infringement allegations; and

SPECIFICALLY, the Section supports legislation that would implement the following changes to the existing law of willful patent infringement --

- (1) A court that has determined that the infringer has willfully infringed a patent or patents in suit may increase the damages up to three times the amount found or assessed, provided, however, that increased damages under this section shall not apply to provisional rights under section 154(d) of this title.
- (2) A court may find that an infringer has willfully infringed a patent only if the patent owner presents clear and convincing evidence that:
  - (A) after receiving written notice from the patentee (i) alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and (ii) identifying with particularity each claim of the patent, each product or process that the patent owner alleges infringes the patent, and the relationship of such product or process to such claim, the infringer, after a reasonable opportunity to investigate, thereafter performed one or more of the alleged acts of infringement; or
  - (B) the infringer intentionally copied the patented invention with knowledge that it was patented; or
  - (C) after having been found by a court to have infringed the patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to have infringed the patent, and which resulted in a separate finding of infringement of the same patent.
- (3) A court shall not find that an infringer has willfully infringed a patent under paragraph (2) for any period of time during which the infringer had a good faith belief that the patent was invalid, unenforceable or would not be infringed by the conduct later shown to constitute infringement of the patent. Reasonable reliance on advice of counsel shall establish an informed good faith belief within the

meaning of this section. The absence of the advice of counsel, or the decision of the infringer to not present evidence of such advice of counsel, however, shall have no relevance to determining the existence of willful infringement.

(4) A court may not determine that an infringer has willfully infringed a patent prior to the date that a final determination has been made that the patent in suit is not invalid, or unenforceable and has been infringed by the infringer.

(5) An appeal to the Court of Appeals for the Federal Circuit may be taken from a judgment of a district court in patent cases which is final except for an accounting or a determination of willful infringement.

### ***Discussion:***

The NRC Report found certain attributes of the willful infringement doctrine to be problematic, including that: (1) the “requirement” that once a defendant knows of a possible claim of infringement it must obtain an expensive, exculpatory written opinion from a patent attorney; (2) fear of exposure to claims of willful infringement has led to a practice of deliberately avoiding learning about issued patents, which undermines the patent system’s disclosure goals; and (3) there is no empirical evidence that the availability of enhanced damages provides any deterrent effect to infringement beyond the usual costs and risks of defending an infringement claim.

Based on these findings, the NRC proposed elimination or modification of the provision for enhanced damages based on a subjective finding of willful infringement. The proposals for modification were: (1) abolishing the requirement that accused infringers obtain and then disclose a written opinion of counsel; (2) limiting inquiry into willful infringement to cases where the defendant's infringement has already been established; and (3) requiring, as a prerequisite for willful infringement, either actual written notice of infringement from the patentee or deliberate copying of the invention, knowing it to be patented.

Many of the NRC’s criticisms of the willfulness doctrine and recommendations for modifications to the doctrine also were contained in the Federal Trade Commission’s 2003 Report and Recommendations.

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. *Id.* 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. *Id.*

In a separate opinion authored by Judge Dyk in *Knorr-Bremse*, Judge Dyk raised serious concerns over the continued vitality of the “duty of care.” Specifically, Judge Dyk commented that the duty of care requirement finds no support in the patent damages statute, the legislative history, or Supreme Court decisions. Moreover, Judge Dyk pointed out that the duty of care requirement is at odds with recent Supreme Court precedent requiring reprehensibility as a trigger to an award of punitive damages. The en banc majority in *Knorr-Bremse* did not, however, adopt Judge Dyk’s views.

While *Knorr-Bremse* was helpful in curing the problem caused by the prior “adverse inference” rule, it still leaves many unresolved problems with the scope of waiver of the attorney-client privilege when an accused infringer relies upon an opinion of counsel in defense of a willful infringement allegation. The Federal Circuit has granted an *en banc* hearing in *In re Seagate Technology, LLC.*, Misc. Docket No. 830 (Fed. Cir. 2007) to address those problems.

The Court has requested briefing and argument on two questions regarding the scope of the waiver and a third question regarding whether the Court should reconsider its decision in *Underwater Devices, Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380 (Fed. Cir. 1983), which placed an affirmative duty of care on an infringer upon hearing of the patent. Resolution TF-11A provides the American Bar Association’s answers to those three questions. For a further discussion of the ABA position, see its amicus brief filed in *Seagate*, available at [http://www.abanet.org/amicus/briefs/seagate\\_technology.pdf](http://www.abanet.org/amicus/briefs/seagate_technology.pdf).

The bicameral bill entitled “Patent Law Reform Act of 2007 (H.R. 1908/S. 1145) introduced in both houses of the 110<sup>th</sup> Congress, 1<sup>st</sup> Session includes amendments with respect to the right of the inventor to obtain increased damages for willful infringement. While that bicameral bill would provide most of the reform supported in the above Resolution TF-11, it does not expressly include substitution of the “reprehensible conduct” standard for the affirmative duty of care developed by the Federal Circuit. Instead, the Bill provides that a court *may* find that an infringer has willfully infringed, only if, after express notice by the patent owner sufficient to create reasonable apprehension of suit and particular identification of each claim alleged to be infringed, the infringer intentionally copied the patented invention with knowledge that it is patented or, after a judicial ruling of infringement continued to engage in conduct that is not colorably different from that found to infringe. The Section takes no position on whether the conduct identified in the bicameral Bill would, in every instance, meet the “reprehensible conduct” standard urged in Resolution TF-11A. However, the Section does not believe that the language in the Bill would preclude the courts from requiring reprehensible conduct as a prerequisite for a finding of willful infringement. At this time, the Section has not urged express legislative adoption of that standard, but instead has urged the Court of Appeals for the Federal Circuit to substitute the “reprehensibility” standard for the judicially created “affirmative duty of due care” standard.

The Section favors a solution as set forth in the above resolutions, through legislative and court action, that contains features drawn from the proposed bills, the NRC Report, the Federal Circuit opinion in *Knorr-Bremse*, and Judge Dyk’s recommendation in his separate opinion in *Knorr-Bremse* that the duty of due care be abolished and replaced with a reprehensibility standard.

In summary, the Section proposal provides for the following:

1. It tracks the NRC Report and the bicameral bill in limiting inquiry into willfulness infringement to cases where infringement, validity and enforceability have already been established.
2. It similarly tracks the NRC Report and the bicameral bill in requiring, as a prerequisite for willful infringement, either actual written notice of infringement from the patentee or deliberate copying of the invention, knowing it to be patented. Like the bicameral bill, it adds another option in the case of an adjudicated infringer who engages in additional conduct found to infringe which is not colorably different from the adjudicated conduct.
3. Like the bicameral bill, it expands *Knorr-Bremse* to hold irrelevant the absence of advice of counsel or the decision not to present such evidence.
4. Like the bicameral bill, it provides that willful infringement is to be tried to the court, not a jury. Elimination of a jury trial on the issue of willfulness would not violate the 7<sup>th</sup> Amendment right to jury trial. See John B. Pegram, *The Willful Patent Infringement Dilemma and the 7<sup>th</sup> Amendment*, 86 J. Pat. & Trademark Off. Soc’y 271 (2004); Janice M. Mueller, *Commentary: Willful Patent Infringement and the Federal Circuit’s Pending En Banc Decision in Knorr-Bremse v. Dana Corp.*, 3 J. Marshall Rev. Intell. Prop. L. 218 (2004).
5. It adds a provision that assertion of the attorney client privilege does not waive the privilege with respect to trial counsel so long as trial counsel did not provide the opinion on which the accused infringer relies.
6. Finally, it follows Supreme Court precedent for punitive damage awards by replacing the affirmative duty of care standard with the reprehensible conduct standard.

The Section currently advocates the first four points through legislation, and the latter two through court decision in the pending *Seagate* case. The overall impact of the Section’s position should be to limit the cases in which willful infringement is alleged. The Section attempts to strike an appropriate balance in reducing litigation costs, uncertainty and complications in cases involving willful infringement allegations, while retaining enhanced damages as a deterrent against parties engaging in reprehensible conduct.

## 12. Require Appellate Deference For Claim Construction Fact Findings

### *Section Position:*

The Section favors legislation to require that the Federal Circuit give deference to the fact findings of the trial court that underlie rulings on claim construction.

### *Resolution G-1*

(Passed by House of Delegates 2004)

RESOLVED, That the American Bar Association recommends that courts apply the following principles in interpreting claim terms in a patent -- ...

-- While the ultimate issue of claim construction should be reviewed de novo, an appellate court should review only by the clearly erroneous standard any underlying findings of fact made by a trial court in connection with construing a claim term."

### *Resolution G-2:*

RESOLVED, that the Section of Intellectual Property Law favors, in principle, amending the patent statute to provide that the construction of a claim is to be determined by the court based upon underlying factual issues also determined by the court; and

NOW THEREFORE, the Section supports enactment of legislation that would implement this principle through amendments further providing that:

1. in determining the meaning of any patent claim, the trial court shall state separately its findings of fact and conclusions of law thereon and
2. the findings of fact shall not be set aside unless clearly erroneous.

### *Discussion:*

The relatively high reversal rate of claim construction decisions by the Federal Circuit is a significant problem. It leads not only to uncertainty for litigants, but also causes inefficiencies and wastes judicial, litigant, and client resources. It often causes patent cases to cost substantially more to litigate, because a trial or portions of the litigation must be relitigated after a claim construction reversal, or because parties at the very least must put in proof and make arguments in the alternative because they are uncertain of the final claim construction until the Federal Circuit has spoken. *See, e.g., Elf Atochem North Am., Inc. v. Libbey-Owens-Ford Co.*, 894 F. Supp. 844, 857, 37 USPQ2d 1065, 1075 (D. Del. 1995)("[I]n spite of a trial judge's ruling on the meaning of disputed words in a claim, should a three-judge panel of the Federal Circuit disagree, the entire case could be remanded for retrial on [a] different [claim interpretation].")

In addition, the high reversal rate of claim construction decisions leads to a cart before the horse approach to trial level litigation - litigants often tailor their presentation of facts and argument toward the Federal Circuit, rather than the initial trier of fact, the district court. Several district court judges, such as Judge Kent Jordan of the District of Delaware, speaking at the 2006 Federal Circuit Judicial Conference, have expressed frustration at this approach.

The recently introduced patent reform bills (H.R. 1908/S. 1145, the Patent Reform Act of 2007) include provisions that would allow parties the right to interlocutory appeal of claim construction decisions to the Federal Circuit, and would stay proceedings in the district court during pendency of the appeal.

That proposed legislation is an attempt to deal with the high reversal rate of claim construction decisions in the Court of Appeals for the Federal Circuit. The Section opposes requiring the Federal Circuit to accept

interlocutory appeals of claim construction rulings as a solution to the reversal rate problem. The right to interlocutory appeal would increase the workload of the Federal Circuit, could result in more delays, and may not resolve many patent cases because the appeals would often reach the Federal Circuit with less than a fully developed record. See Section 14 below for a fuller explanation of our opposition to this proposed solution.

To further the goal of speedy and final resolution of patent cases, the Section and the American Bar Association favor a change in existing law to require that the Federal Circuit give greater deference to trial court claim construction rulings.

The current law in the Federal Circuit allows complete *de novo* review of claim construction decisions at the Federal Circuit. The *de novo* standard of review means that the Federal Circuit accords no deference at all to the trial court's decision on claim construction. Raising the standard of review presumably would decrease the reversal rate at the Federal Circuit.

Recently, in *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, No. 05-1157 (Fed. Cir. Nov. 11, 2006), the Federal Circuit declined to review *en banc* a panel's claim construction decision that would have allowed the court to reconsider the *de novo* review standard set out in *Cybor Corp. v. FAS Techs.*, 138 F.3d 1448 (Fed. Cir. 1998) (*en banc*). Although the concurring and dissenting opinions in the Federal Circuit's recent order in *Amgen* suggest that as many as seven of the 12 Federal Circuit judges are prepared to reconsider the *de novo* standard, the court nevertheless declined to reconsider it.

Because the Federal Circuit has not yet changed its view that the law provides for *de novo* review of claim construction decisions, the Section favors legislation that would require the Federal Circuit to give greater deference to trial court claim construction decisions. The Section's proposal would require, first, that trial judges make findings of fact in the course of rendering claim construction decisions, and label their decisions on findings of fact, such as what a patent specification or prosecution history states about the meaning of a particular claim term, or how a person of ordinary skill in the art would have understood that claim term, as findings of fact. On appeal, those findings would be reviewed for clear error, while issues of law (such as whether a restriction in the patent specification has been improperly read into the claims) would still be reviewed *de novo*.

The following are among the issues that are frequently decided in the course of claim construction decisions and can be characterized as findings of fact:

- who qualifies as a person of ordinary skill in the art
- what was the state of the art at the time of the invention (the scope and content of the prior art)
- the differences between the prior art and the claims at issue
- how a person of ordinary skill in the art would understand a claim term
- how the claim term is used in the written description portion of the specification of the patent
- how the claim term is used in the prosecution history of the patent (how one of ordinary skill in the art would understand statements made by the applicant during prosecution)
- how the claim term is used in the prior art
- what relevant texts, including dictionaries and treatises, say about the meaning of the claim term, what experts in the art say about the meaning of the claim term

For a discussion of the factual components of claim construction, see the concurring opinion of Federal Circuit Judge Mayer in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).

Federal Rule of Civil Procedure 52 already provides that in all actions tried without a jury, the court *shall find the facts specially and state separately its conclusions of law thereon* (emphasis added). The Rule also provides expressly that “[f]indings of fact, whether based on oral or documentary evidence, shall not be set aside unless clearly erroneous...” Even findings of fact based entirely on documentary evidence are entitled to deference. *See Anderson v. Bessemer City*, 470 U.S. 564, 574 (1986). The fact that the Supreme Court has already held that findings of fact inherent in determining obviousness should be reviewed for clear error suggests that it would be appropriate to give similar deference to findings of fact in claim construction. *See Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 811 (1986); *see also Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966).

# 13. Do Not Require The Federal Circuit To Accept Interlocutory Appeals From Claim Construction Rulings

## *Section Position:*

The Section opposes legislation that would require the Court of Appeals for the Federal Circuit to accept interlocutory appeals from claim construction rulings.

## *Resolution TF-19:*

RESOLVED, that the Section of Intellectual Property Law favors, in principle, the just, speedy and inexpensive determination of federal litigation, including patent infringement litigation; and

SPECIFICALLY, the Section opposes, in principle, granting patent litigants an interlocutory appeal as a matter of right from a district court's claim construction ruling.

## *Discussion:*

### **A. Background**

For nearly ten years, the courts and patent litigants have operated under the regime that the construction of the claims of patent presents a task exclusively for the courts to perform. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372, 38 USPQ2d 1461, 1463 (1996). The law firmly recognizes that claim construction presents an issue of law for the courts even if en route to a claim construction, a court must decide underlying factual questions.

Despite the legal nature of a claim construction, the Federal Circuit, as a matter of both policy and in accordance with the "final judgment rule," has refused to consider appeals under 28 U.S.C. § 1292(b) of interlocutory claim constructions resulting from a pretrial claim construction hearing (a *Markman* hearing). The Federal Circuit has recognized that patent litigants often desire an appeal of an interlocutory claim construction order, but found that permitting such an appeal would violate the prohibition against piecemeal litigation that the final judgment rule strives to achieve. The Federal Circuit has commented that:

Determinations of claim construction made as an interlocutory matter by a district court are frequently determinative of either infringement or invalidity, but seldom both. The consequence of this is that after a claim construction ruling, the parties and the district court often find one of the infringement and validity sides of the case resolved and the other either moot or unresolved. Because claim construction is subject to de novo review as a matter of law, immediate appeal of an interlocutory claim construction ruling without a resolution of all of the factual issues of infringement or validity dependent thereon is often desired by one or both of the parties for strategic or other reasons. But, other than the accommodation for deferred accounting in 28 U.S.C. § 1292(c)(2), the rules of finality that define the jurisdiction of this court do not contain special provisions for patent cases or admit to exceptions for strategic reasons or otherwise, short of meeting the conditions specified in Rule 54(b) or 28 U.S.C. § 1292(b), (c)(1). Thus, piecemeal litigation is as strictly precluded by the rule of finality for patent cases as it is for any other case. Until the rules are changed, the parties and the district courts are obliged to conclude patent cases in strict compliance with the finality rule to avoid unnecessary litigation over jurisdictional issues in perfecting an appeal.

*Nystrom v. Trex Co., Inc.*, 339 F.3d 1347, 1350, 67 USPQ2d 1858, 1860 (Fed. Cir. 2003).

Perhaps based on the statement in *Nystrom* that the finality rule must be strictly enforced until the law is changed, others have proposed that Congress enact legislation that would provide patent litigants with an appeal as a matter of right from a district court's interlocutory claim construction order.

For the reasons stated in Part B, changing the rules to permit patent litigants to appeal as a matter of right interlocutory claim construction rulings would not be wise judicial policy, particularly in the absence of significant reforms in the way patent cases are litigated. Moreover, such a rule would move patent litigation further out of the “mainstream” of our judicial system. Indeed, outside the context of patent law, the Supreme Court has instructed that the finality rule should not be disregarded merely because in some instance a perceived injustice could be avoided or a speedier resolution obtained by allowing an interlocutory appeal. According to the Court, the “general rule” requires that “a party is entitled to a single appeal, to be deferred until final judgment has been entered, in which claims of district court error at any stage of the litigation may be ventilated” and that “the issue of appealability under § 1291 is to be determined for the entire category to which a claim belongs, without regard to the chance that the litigation at hand might be speeded, or a particular injustice averted, by a prompt appellate court decision.” *Digital Equip. Corp. v. Desktop Direct, Inc.*, 511 U.S. 863, 868 (1994) (internal quotations and citations omitted). The proposed rule permitting interlocutory appeals as a matter of right, accordingly, runs counter to the Supreme Court’s pronouncements in *Digital*.

## **B. Reasons Against Permitting Interlocutory Appeals as a Matter of Right**

### **1. Interlocutory Appeals Of *Markman* Rulings Would Flood The Federal Circuit, Likely Causing Significant Delays In The Resolution Of Appeals**

The issue of claim construction plays a significant role in just about every infringement and validity dispute. Permitting parties to appeal all interlocutory claim construction rulings to the Federal Circuit will likely result in a dramatic increase in the number of appeals filed in the Federal Circuit. Such increases in the Federal Circuit’s case load will necessarily lead to an increase in the time to dispose of an appeal, unless the number of judges on the Court were increased substantially.

### **2. District Courts Would Likely Stay Proceedings Pending Resolution Of Interlocutory *Markman* Appeals, Further Delaying Resolution Of Patent Disputes**

Further, district courts are very likely to stay patent cases during the pendency of a claim construction appeal since the claim construction plays a central issue in the infringement and validity analysis and it probably would make little sense to proceed with significant discovery, other than perhaps on damages, and other pre-trial matters if the underlying claim construction could be altered by the appeal. Hence, in the long run, permitting interlocutory appeals of claim construction as a matter of right most likely will increase significantly the time to resolve a patent dispute by adding the length of time for a claim-construction appeal in practically every case.

### **3. Appeal As A Matter Of Right Would Conflict With The Current Treatment Of Claim Construction By The Federal Circuit**

Claim construction often evolves as the construer’s level of understanding and mastery of the technology grows. The Federal Circuit has explained that district courts may engage in a “rolling” claim construction process—revising prior claim constructions as additional facts come to light and the court’s understanding of the technology increases. *Jack Guttman, Inc. v. Kopykake Enterprises, Inc.*, 302 F.3d 1352, 1361, 64 USPQ2d 1302, 1308 (Fed. Cir. 2002).

If interlocutory appeals of *Markman* rulings were permitted, the claim construction process would become one where the district court takes a first “crack” at the construction and then the dissatisfied party runs to the Federal Circuit in hopes of getting a more favorable construction that would apply as law of the case on remand.

But the Federal Circuit has instructed that this is not the role of the district and appellate court in the claim construction process. Indeed, due to the more limited time the Federal Circuit has to spend on each appeal compared to the time the district court invests in controlling the case, the Federal Circuit needs to rely on the district court’s ability to thoroughly consider and first analyze *all* the relevant evidence even though the Federal Circuit conducts a *de novo* review of the claim construction. Recently, the Federal Circuit explained the necessity for the district court’s claim construction analysis based on a fully developed evidentiary record before the Federal Circuit conducts its *de novo* review by stating:

ARM, the appellee here, appears to recognize the shortcomings of the district court's analysis, but goes too far in arguing that "[b]ecause this Court reviews both claim construction and summary judgment rulings de novo, it does not matter for this appeal how the district court might have articulated the issues of claim construction and noninfringement." Although this court indeed reviews a district court's claim construction without deference, ARM cannot baldly assert that the district court's articulation of its claim construction reasoning "does not matter." In reviewing a district court's claim construction, this court takes into account the views of the trial judge, as well as the record of the trial, which helped that judge to understand the terms of the claim. Though we review those views and that record "de novo," "common sense dictates that the trial judge's view will carry weight."

This court's review of a district court's claim construction, albeit without deference, nonetheless is *not an independent analysis in the first instance*. Moreover, in order to perform such a review, *this court must be furnished "sufficient findings and reasoning to permit meaningful appellate scrutiny."* This requirement for sufficient reasoning applies with equal force to issues of law, such as claim construction, and issues of fact, such as infringement.

*Nazomi Communications, Inc. v. ARM Holdings, PLC.*, 403 F.3d 1364, 1371, 74 USPQ2d 1458, 1462-63 (Fed. Cir. 2005) (emphasis added).

Allowing interlocutory appeals as a matter of right may force the Federal Circuit to consider claim construction issues on records that are not as fully developed as they would be after a summary judgment ruling or trial on the merits. A district court has the discretion to modify a claim construction ruling made after a Markman hearing if in receiving a more "fully developed" record other information comes to light that warrants the modification. Having an appeal of an interlocutory claim construction order before all the facts have been developed for the evidentiary record where the Federal Circuit does not have the luxury to continually oversee the case and modify its claim construction if circumstances warrant could lead to judicial waste.

#### **4. Other Mechanisms Exist To Permit Appeals When Necessary**

Patentees sufficiently dissatisfied with a district court's claim construction order are not without recourse. They have the option to stipulate to a judgment of noninfringement or invalidity on the basis of the district court's claim construction and if that stipulation does not resolve all the pending claims, seek a Rule 54(b) certification, and then appeal the claim construction via the stipulated judgment.

In theory, the same mechanism should be available to an accused infringer dissatisfied with a claim construction. But normally, even in view of an unfavorable claim construction, an accused infringer seeks to show noninfringement or invalidity under that construction. Further, an accused infringer is less likely than a patentee to stipulate to a judgment of infringement since significant adverse monetary consequences can result from such a stipulation. Giving accused infringers who are unwilling to stipulate to a judgment of infringement or validity, an unchallengeable right to obtain an interlocutory appeal most likely will lead to the appeal process being used as a delaying tactic by accused infringers.

## **14. Do Not Change The Patent Infringement Venue Requirements**

### ***Section Position:***

The Section opposes changing the statutory venue requirement for patent infringement to further restrict the patent owner's choice of venue.

### ***Resolution TF-20A***

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, modification of the current venue statutes for patent infringement actions, because no need now exists to change such provisions; and

SPECIFICALLY, the Section opposes proposed amendments to the federal venue laws being considered by Congress in the first Session of the 109th Congress.

### ***Resolution TF-20B***

RESOLVED that the Section of Intellectual Property Law opposes, in principle, basing venue in patent infringement actions on the activities, conduct and circumstances of plaintiffs;

NOW THEREFORE, the Section opposes determining venue based on a patentee's manufacturing, research, development or other activities.

### ***Discussion:***

#### **A. Historical Background Of Proposed Venue Reform**

As part of the proposed overhaul of the current patent laws, it has been suggested that the venue statutes of 28 U.S.C. §§ 1391(c) and 1400(b) be amended to restrict the forums in which a patentee could commence a patent infringement action. No specific ruling from the Federal Circuit or any district court was identified as providing the impetus for the proposed reform. Rather, it appears that the driving force behind the suggested reforms is to limit the ability of patentees to bring infringement actions in the United States District Court for the Eastern District of Texas, Marshall Division.

In the venue provisions of H.R. 1908 that passed in the House of Representatives, the patent venue statute would be amended in several ways to allow an action to be brought:

- Where the defendant has its principal place of business, has committed a substantial portion of the acts of infringement or has an established physical facility.
- When the defendant is a foreign corporation with a U.S. subsidiary, where the subsidiary is incorporated or has its principal place of business, or if it has no U.S. subsidiary, in any judicial district.
- Where the plaintiff resides when the plaintiff is an institution of higher education or a nonprofit licensing organization for an institution of higher education.
- Where the plaintiff or a subsidiary has a place of business engaged in substantial R&D, manufacturing or management of R&D or manufacturing.
- Where the plaintiff resides if the plaintiff is a named inventor or co-inventor and has not transferred or licensed the patent or agreed to do so.

- Where any defendant has substantial evidence and witnesses if there is no other district in which the action can be brought pursuant to the foregoing provisions.

The venue provisions of S.1145 as reported by the Senate Judiciary Committee has similar provisions, and would amend the patent venue statute to allow an action to be brought:

Where the defendant has its principal place of business, is incorporated or formed, where the defendant has committed substantial acts of infringement and controls a physical facility that constitutes a substantial portion of its operations.

When the defendant is a foreign corporation with a U.S. subsidiary, where the subsidiary is incorporated or has its principal place of business, or if it has no U.S. subsidiary, in any judicial district.

Where the plaintiff resides when the plaintiff is an institution of higher education or a nonprofit licensing organization for an institution of higher education.

Both the House and Senate versions have provisions that preclude a party from “manufacturing” venue by assignment, incorporation or otherwise to invoke the venue of a specific district court. S.3600 introduced by Senator Kyl in August 2008 contains venue provisions similar to those in H.1908 and S.1145.

#### **B. Reasons For Opposing The Proposals To Amend 28 U.S.C. § 1391(C) Or § 1400(B)**

These proposals are intended to overturn precedent that made patent venue co-extensive with personal jurisdiction. The proposals apparently emanate from a concern by the proponents that something must be done to limit the ability of patent owners to bring suit in the Eastern District of Texas (Marshall Division).

The Section believes that the proposals are unnecessary, undesirable and unduly complex, and accordingly, should not be included in any revision of the patent laws. They are unnecessary because the alleged problem to which they are directed will likely be self-correcting and of limited duration. Indeed, the Eastern District of Texas reportedly has begun to transfer cases to other districts, and the concentration of patent cases in that district is not likely to continue. The lack of necessity of major revisions to the venue statutes is further indicated by the recent decision of the Court of Appeals for the Federal Circuit in *In re TS Tech United States Corp.*, 551 F.3d 1315 (Fed. Cir. 2008). In that case, the Federal Circuit granted a petition for a writ of mandamus and directed the U.S. District Court for the Eastern District of Texas to transfer the case. Relying on the Fifth Circuit’s decision in *In re Volkswagen of Am., Inc.*, 545 F.3d 304 (5th Cir. 2008) (en banc), the court held that in denying a motion to transfer, the district court (1) “gave too much weight to [plaintiff’s] choice of venue under Fifth Circuit law, (2) “ignored Fifth Circuit precedent in assessing the cost of attendance for witnesses,” (3) “erred by reading out of the § 1404(a) analysis the factor regarding the relative ease of access to sources of proof,” and (4) “disregarded Fifth Circuit precedent in analyzing the public interest in having localized interests decided at home.” The *TS Tech* case provides precedential authority for defendants who seek transfer of cases that they believe to have been brought improperly in the Eastern District of Texas. For these reasons, the Section opposes amendment of the venue statutes in a manner that will unduly complicate venue determinations and lead to extensive and expensive discovery and litigation of the issue. In addition to adding to the complexity, duration and costs of litigation, proposed amendments to the venue statutes also are likely to produce unintended and undesirable consequences.

To the extent that amendments are made to the patent venue statutes, it is the Section’s position that venue should properly lie only in those jurisdictions with which the defendant has sufficient contacts. The purpose of the venue statutes is to protect the defendant against being forced to litigate in a remote jurisdiction that has little connection with the dispute. See, *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574, 1576 (Fed. Cir. 1990) (“Venue, which connotes locality, serves the purpose of protecting a defendant from the inconvenience of having to defend an action in a trial court that is either remote from the defendant’s residence or from the place where the acts underlying the controversy occurred.”) For these reasons, the Section opposes allowing plaintiffs to sue in jurisdictions where they are engaged in research, development or manufacturing activities without regard to whether the defendant’s contacts or activities also warrant litigation in such jurisdictions.

## 15. Expand Prior User Rights Of The “Prior Inventor”

### *Section Position:*

The Section favors amending the existing statutory prior user rights to include all categories of patented subject matter.

### *Resolution TF-13A:*

RESOLVED, that the Section favors in principle should the United States adopt a first-to-file system, the recognition of prior user rights for all technologies; and

SPECIFICALLY, the Section favors prior user rights, provided that as a minimum:

1. such rights shall be in the nature of a personal defense against a claim based on any patent alleged to cover an activity of the prior user;
2. the prior user activity began prior to the earliest filing date to which the patent is entitled and, at the time of said earliest filing date such activity had not been abandoned;
3. the prior user activity was not based on information obtained or derived from the patentee or those in privity with the patentee;
4. the prior user activity took place within the United States;
5. prior to said earliest filing date the prior user had demonstrated operability of the invention covered by the patent and had taken significant steps toward its commercialization; and
6. such rights shall be available only to the party performing the activity on which the defense is based and to those in privity with such party; and shall be nonassignable and nontransferable except with a transfer of that part of the business of the party to which the activity pertains

### *Resolution TF-13B:*

RESOLVED, that the Section supports, in principle, in the context of U.S. adoption of a first-inventor-to-file system, legislation expanding the subject matter eligible for “prior user rights” under section 273 of Title 35 to include all categories of patented subject matter, and

SPECIFICALLY, the Section supports enabling legislation that would permit commercial use (including substantial preparations for commercial use) of a patented invention to be recognized as a personal defense to patent infringement, if undertaken in good faith by a person who has reduced the invention to practice prior to the effective filing date of a patent.

### *Discussion:*

Section 273 was enacted in 1999 to provide so-called “prior user” rights that exempt certain activities from infringement of a patent when based upon commercial use of certain inventions before the patent owner's applicable effective filing date (i.e., filing date for the patent, including any applicable priority date). Thus, as it currently stands, prior user rights are restricted to methods of doing or conducting business. The Section believes that this is an undue limitation. This defense should be expanded to all patentable subject matter, because it provides a personal defense to a legitimate prior user who does not win the race to file a patent application. The application of the defense to all classes of patentable subject matter is advantageous for all sizes of businesses that may not make the investment or have the resources to file patent applications and maintain patents on methods used in their businesses. The legislative history discussed the balance struck in providing for a prior user right.

The title clarifies the interface between two key branches of intellectual property law – patents and trade secrets. Patent law serves the public interest by encouraging innovation investment in new technology, and may be thought of as providing a right to exclude other parties from an invention in return for the inventor making a public disclosure of the invention. Trade secret law, however, also serves the public interest by protecting investments in new technology. Trade secrets have taken on a new importance with an increase in the ability to patent all business methods and

processes. It would be administratively and economically impossible to expect any inventor to apply for a patent on all methods and processes now deemed patentable. In order to protect inventors and to encourage proper disclosure, this title focuses on methods for doing and conducting business, including methods used in connection with internal commercial operations as well as those used in connection with the sale or transfer of useful end results – whether in the form of physical products, or in the form of services, or in the form of some other useful results; for example, results produced through the manipulation of data or other inputs to produce a useful result. (Hon. Howard Coble, 106th Congress 145 Cong. Rec. E 1788).

The apparent limiting of prior user rights to methods of doing or conducting business may have been aimed at addressing a 1998 court decision, *State Street Bank and Trust Co. v. Signature Financial Group*, that held methods of doing business could represent patent-eligible subject matter. However, even if that were the reason, the response of Congress did not go nearly far enough. So-called "business methods" often can be patented as machines, manufactures, and compositions of matter as readily as they can be patented as traditional methods. More importantly, in any area of technology an inventor may have deemed his invention unpatentable or marginally patentable and elected not to seek a patent entirely in good faith. Rewarding another inventor who sought and obtained a patent in such a circumstance is no less appropriate than providing a personal right to the good faith inventor deciding to benefit the public by commercializing the invention without patenting it.

The current law has a further restriction on the defense so that to prevail a prior user would have to reduce the method to practice one year prior to the filing date of the asserted patent. Any commercial good faith use prior to filing an application should qualify for the defense. The limitation of the defense to a use only if it occurs one year prior to filing the patent application is too restrictive and unduly limits the defense. The good faith prior use in a commercial setting should be available prior to the critical date that is the filing of an application.

Similarly, current law fails to recognize that substantial preparation for the commercial use of an invention, once completed, should serve to qualify the person undertaking the substantial investment as a prior user of the invention. Given the prerequisite requiring the reduction to practice of the invention by the prior user and the required substantiality of any investment in a commercial use before triggering eligibility, the "substantial preparations" clause best vindicates the underlying policy of balance between an inventor working to prior commercialize and an inventor seeking to patent. Thus, once the prior user reduces the invention to practice, substantial preparations for commercial use, rather than commercial use itself, are made sufficient for the operation of the defense.

## 16. Enact Balanced Rule On Apportionment Of Damages

### *Section Position:*

The Section supports the enactment of legislation permitting apportionment of reasonable royalty damages in a manner that protects infringers against unjustified damages awards yet ensures that the value of the patented invention appropriated into the infringing product or process is fairly recognized in any damages award. The Section opposes legislation providing that a determination of a reasonable royalty in the case of a combination patent shall be based only upon such portion of the total value of the combination apparatus as is attributable to the patentee's specific contribution over the prior art.

### *Resolution TF-14E:*

RESOLVED, that the Section of Intellectual Property Law favors, in principle, that, in appropriate circumstances, when determining damages based on a reasonable royalty for patent infringement, an apportionment be made of the value of the use of the invention by the infringer when such apportionment is necessary to assure that the royalty does not exceed the value properly attributable to the use made of the invention;

NOW THEREFORE, the Section favors an apportionment that excludes from the reasonable royalty determination the value attributable to the infringer's incorporation into the infringing product or process of features or improvements, whether or not themselves patented, that contribute value to the infringing product or processes that is separate from the value properly attributable to the use made of the invention; with the following conditions:

- (a) the court should identify all factors relevant to the determination of a reasonable royalty for patent infringement and the court or the jury, as the case may be, should consider such factors in making the determination;
- (b) the burden of proof should be on the infringer to establish the need for such an apportionment and any exclusion to be made from the royalty determination as a result of the apportionment; and
- (c) where the use made of the invention is the basis for market demand for an infringing product or process, the royalty may be based upon the entire market value of the products or processes provided to satisfy that demand.

### *Discussion*

Proposals have been made to amend 35 U.S.C. §284 Damages to provide that reasonable royalty damages should be applied only to the economic value attributable to the novel and unobvious features of the claimed invention, and shall exclude the economic value of claimed features that are in the prior art. Most recently, the bicameral bill (H.R. 1908/S. 1145) introduced in the 110th Congress (the "bill") would significantly amend §284. In one aspect, the bill would add the following paragraph (2) to the statute:

(2) RELATIONSHIP OF DAMAGES TO CONTRIBUTIONS OVER PRIOR ART.—The court shall conduct an analysis to ensure that a reasonable royalty under paragraph (1) is applied only to that economic value properly attributable to the patent's specific contribution over the prior art. In a reasonable royalty analysis, the court shall identify all factors relevant to the determination of a reasonable royalty under this subsection, and the court or the jury, as the case may be, shall consider only those factors in making the determination. The court shall exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process.

This proposed statutory language contains three separate provisions. First, the language provides an affirmative duty of the court to "appl[y] [a reasonable royalty] only to that economic value properly attributable to the patent's specific contribution over the prior art." Second, the language would require the court to "identify all factors relevant to the determination of a reasonable royalty under this subsection," and ensure that "the court or the jury, as the case may be, [ ] consider only those factors in making the determination." Third, the language requires

that the court “exclude from the analysis [sic, royalty base?] the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process.” As explained in greater detail below, the first of these provisions, as currently expressed in the bill, is objectionable for reasons that the Section has explained in connection with prior legislative proposals. The intent behind the second provision is not clear. With minor wording changes, the Section supports the third provision.

The first provision (“appl[y] [a reasonable royalty] only to that economic value properly attributable to the patent’s specific contribution over the prior art.”) is objectionable for at least two reasons. First, it is inappropriate for courts to parse claims to identify novel and non-obvious features of an invention. Second, the language of the proposals would deny adequate damages to owners of patents on important inventions where the novelty and unobviousness reside in the combination of old elements. For example, all of the components of Bell’s telephone were old. It was their combination that was novel. Bell would have had difficulty recovering meaningful damages under the legislative language that has been proposed.

In *Georgia-Pacific Corporation v. U. S. Plywood-Champion Papers Inc.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), the court listed 15 factors that were “more pertinent to determination of the amount of reasonable royalty damages.”<sup>1</sup> The Federal Circuit has accepted the Georgia-Pacific factors as a way to determine reasonable royalty damages, and the Georgia-Pacific factors are commonly used by trial courts in determining damages.

The Georgia-Pacific factor relevant here is that, in considering the reasonable royalty damages for an infringing product that includes unpatented elements in addition to the patented elements, the court should consider:

13. “The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.” *Id.*

*Georgia-Pacific* factor 13 relates to the circumstances under which the value contributed by unclaimed components and features of a product may be excluded from reasonable royalty damage recovery. The proposed

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<sup>1</sup> The fifteen factors identified in *Georgia Pacific* as relevant to a reasonable royalty damages analysis are: 1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty; 2. The rates paid by the licensee for the use of other patents comparable to the patent in suit; 3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product May be sold; 4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly; 5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter; 6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales; 7. The duration of the patent and the term of the license; 8. The established profitability of the product made under the patent; its commercial success; and its current popularity; 9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results; 10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention; 11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use; 12. The portion of the profit or of the selling price that May be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions; 13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer; 14. The opinion testimony of qualified experts; 15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee -- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention -- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license. 318 F. Supp. at 1120.

language of the bill, on the other hand, would require the court to disregard some of the claimed elements in determining reasonable royalty damages. It would authorize the court to search for the elements of the claim that were not in the prior art as distinguished from those elements of the claim that were. The Section does not believe that such a parsing of the claimed combination is appropriate or workable.

Proponents of the damages provision in the bill apparently are concerned that, *e.g.*, claims directed to a computer programmed to perform a novel method may result in excessive royalties because the base is the entire computer when the invention really was the method. The Section is sensitive to those concerns, but does not believe that the proposed legislation properly addresses them. The royalty damages are statutorily limited to those that are “reasonable.” *Georgia-Pacific* sets forth a number of factors such as the custom in the industry and the amount that a hypothetical licensor and licensee would have agreed upon, that guide a court in determining the royalty rate that should apply to determine a “reasonable royalty.” The Section is not aware of any evidence that the courts are not applying a royalty rate to the claimed combination that results in reasonable royalty damages in situations such as the example given above.

It is difficult to predict where the courts might go when they start looking to distinguish the prior art elements of a claim from the new elements. The proposal in the bill might well justify a court’s applying royalties to only one claimed element of a multi-element claimed combination in a situation where the court finds from the prosecution history that a claimed element was added to the claim to distinguish over the prior art. Yet it may well be that it was the combination of claimed elements that was the invention. In fact, the element added to the combination claim to obtain allowance, may itself exist in the prior art. How can a court or a jury be expected to apply the statutory language in that situation?

The focus should be on the infringing product or process, and the value that the infringer derived from the appropriation of the patented invention, rather than on an attempt to identify the innovative features of the claim. A significant part (or all) of the value of a patented combination may be attributable to the combination itself, even if the individual components are old. In contrast, the value of those aspects of the infringing product or process that are not attributable to the patented combination should be excluded from the royalty determination, irrespective of whether they are in the prior art or are novel (or even patented) features added by the infringer.

Focusing on the infringing product will avoid the difficulties inherent in identifying the innovative features of the claim and will minimize the chances that the true value of a combination invention will be excluded from the royalty determination. An analysis that focuses on the infringing product will be less subjective and more accurate. For example, if the claimed invention is a combination of elements A, B and C, the court will have evidence of the value of that combination to the infringer. If a combination product consisting of elements A and B was in the prior art, then, with the aid of empirical evidence and/or expert testimony, the court can determine whether there would have been a market for the A-B combination and, if so, what value the infringer would have realized had it sold that combination, rather than choosing to infringe the patent. The difference reflects the value of the patented invention to the infringer and is an appropriate value for determining the amount of reasonable royalty damages. Similarly, if the claimed invention is a combination of elements A, B and C and the infringing product contains elements D and E in addition to elements A, B and C, the court can compare the value of the infringing product to the value of a combination that does not utilize the patented combination to arrive at the value contributed by the patented invention. Again, that difference is an appropriate value for determining the amount of reasonable royalty damages. These analyses will be highly fact specific and will depend on market realities relevant to the infringing product. Such analyses are not unlike those involved in determining lost-profit damages, in which courts compare the profits actually made by the patent owner in the presence of infringing competition to the profits that would have been made but for the infringing activities.

The third provision set forth above (“exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process”) embodies the concepts discussed in the preceding paragraph. In that regard, the first and third provisions are potentially inconsistent. The analysis reflected by the third provision focuses on the infringing product and excludes the economic value of features of that product that are in the prior art or that were contributed by the infringer. The Section believes that the language should be clarified by changing “exclude from the analysis” to “exclude from the reasonable royalty determination,” because all of the features should be included in the analysis. An appropriate statutory approach would be to make the first provision, which

defines what is included in the reasonable royalty determination, consistent with the third provision, which defines what should be excluded from such determination. Suggested statutory language is provided below.

Any legislation in this area should specify who has the burden of proof on allocation of damages. Under existing case law, the burden is on the patent owner to prove its damages, but the infringer must come forward and establish the need for apportionment, and the amount to be excluded as a result. The Section considers that to be the appropriate allocation of the burden and is concerned about the proposed statutory language which provides for allocation of damages without specifying who has the burden of proof.

The Section also believes that courts should not ignore other relevant *Georgia Pacific* factors in determining a reasonable royalty. The legislative language quoted above is unclear as to whether the “factors” referred to in the second provision of Paragraph (2) (“identify all factors relevant to the determination of a reasonable royalty under this subsection,” and ensure that “the court or the jury, as the case may be, [] consider only those factors in making the determination”) was intended to direct the courts to the other *Georgia Pacific* factors or to something else. This ambiguity is exacerbated by the bill’s proposed addition of new Paragraph (4) to Section 284. That paragraph reads:

(4) OTHER FACTORS. – In determining damages, the court may also consider, or direct the jury to consider, the terms of any nonexclusive marketplace licensing of the invention, where appropriate, as well as any other relevant factors under applicable law.

The Section understands that Paragraph (4) is intended to direct the courts to consider other relevant *Georgia Pacific* factors, which makes the reference to “all factors” in Paragraph (2) unclear. The Section proposes eliminating Paragraph (4) in favor of clarifying Paragraph (2). As written, Paragraph (4) refers to “determining damages,” and is not limited to determining reasonable royalty damages. The *Georgia Pacific* factors are limited to determining royalty damages, and it would be improper to apply the apportionment concepts to lost-profit damages. As discussed above, a proper lost-profits damages analysis compares the patent owner’s profits in the actual world in which the infringer competes with the patent owner to its profits in a “but for” world in which there is no infringement. Therefore, the analysis already accounts for all factors that reflect the true value of the patented invention.

In view of the foregoing comments, the Section proposes that Paragraph (2) be rewritten as follows:

“REASONABLE ROYALTY DAMAGES; RELATIONSHIP OF THE VALUE CONTRIBUTED BY THE PATENTED INVENTION -- “The court shall identify all factors relevant to the determination of a reasonable royalty under this section and the court or the jury, as the case may be, shall consider such factors in making the determination.

“In determining a reasonable royalty, an apportionment of the value of the use of the invention by the infringer shall be made when necessary to assure that the royalty does not exceed the value properly attributable to the use made of the invention. Such apportionment shall exclude from the reasonable royalty determination the value attributable to the infringer’s incorporation into the infringing product or process of features or improvements, whether or not themselves patented, that contribute value to the infringing product or process that is separate from the value properly attributable to the use made of the invention. The burden of proof shall be on the infringer to establish the need for such an apportionment and any exclusion to be made from the royalty as a result of such apportionment.

“Where the claimant shows that the use made of the invention is the basis for market demand for an infringing product or process, the royalty may be based upon the entire market value of the products or processes provided to satisfy that demand.”

Under existing Section 284, a reasonable royalty represents the minimum level of damages for the use made of an invention by an infringer. The amendment augments the existing statutory provisions relating to reasonable royalty determinations, in part by following the apportionment analysis such as was set out and applied in *Georgia-Pacific*, and may be required to avoid excessive compensation to the patent owner.

The first paragraph establishes a new and explicit requirement for the court in reasonable royalty determinations to both identify the factors relevant to the determination and assure these factors are properly taken into account by the fact-finder. This amendment requires that the court, taking into account the *Georgia-Pacific* factors asserted to be relevant by the parties, identify all the factors that should be considered in determining a reasonable royalty. The testimony of damages experts and others would then be limited to those identified factors and only these factors could be considered in determining a reasonable royalty. If the issue of a reasonable royalty is to be determined by a jury, the court must instruct the jury to consider only the relevant factors identified by the court in order to calculate the royalty.

The second of the three additional paragraphs identifies how a reasonable royalty is affected by the principle of “apportionment of value.” Thus, in the situation where a patented invention is incorporated into a product or process, the “apportionment” principle sets out the manner in which such a reasonable royalty must be determined through apportioning value between the invention that has been patented and the actual product or process that infringes the patent.

The amendment relating to apportionment applies where the infringer can make a showing that, absent an apportionment, the patent owner would receive an excessive reasonable royalty. Such is the case whenever the infringer can demonstrate that it has added features that contribute value to an infringing product or process but that cannot properly be attributed to the patented invention. In such a case, the reasonable royalty determination must proceed by excluding such value provided by these infringer-added features. Features providing value that may be excluded from a reasonable royalty calculation include both patented and non-patented features and can take the form of improvements or other inventions that the infringer has incorporated into an infringing product or process.

The final added paragraph identifies how a reasonable royalty is affected by the so-called “entire market value” rule. That paragraph would replace Paragraph (3) that the bill would add to Section 284. This rule applies in the situation where the patented invention is the true driver for the customer’s demand for the product or process that infringes the patent. This amendment clarifies that the “entire market value” rule applies only after the patent owner has made a threshold showing that the use made of the invention is the basis for the demand for any infringing products or processes provided to supply that demand.

## **17. Permit Filing By The Assignee Of The Inventor**

### ***Section Position:***

The Section favors permitting the owner of an invention, whether or not the owner is the inventor, to file a patent application covering that invention, provided that the inventors are named in the application.

### ***Resolution TF-15:***

RESOLVED, that the Section supports, in principle, revision of the patent laws to permit the owner of an invention, whether or not the owner is the inventor, to file a patent application covering that invention; and

SPECIFICALLY, the Section favors revision of the patent laws to provide that any person to whom an inventor has assigned or agreed, in writing, to assign an invention, may make application for patent on behalf of and as agent for the inventor, and provide further that the Commissioner may grant a patent to such person upon such notice to the inventor as the Commissioner deems sufficient.

### ***Discussion:***

The Section has long favored amendment of 35 U.S.C. Section 118 to permit a party to whom the inventor has assigned or is under an obligation to assign the invention (or a person who otherwise shows sufficient proprietary interest in the matter) to file the patent application on behalf of the inventor, as long as such notice is provided to the inventor as the Director considers sufficient. The Director could require an applicant to make an oath setting forth particulars relating to the inventor and the invention.

Such an amendment would simplify the formalities associated with filing a patent application, and do no harm. Furthermore, the proposed amendment would bring the United States into conformity with the rest of the world in terms of allowing assignee filings.

Under the Section proposal, all inventors would still have to be named in the patent application. The same rules would apply to correcting inventorship designations. The proposed amendment would only affect patent applications at the stage of filing by reducing the number of signatures required. In cases involving multiple inventors, it can be onerous to get all of them to sign both a declaration and power of attorney form, particularly when the inventors are located in foreign countries. As a practical matter, in most cases, patent practitioners will still need the active cooperation of the inventors in drafting the specification and claims, which means the inventors will still be actively involved in and apprised of the patent process.

## 18. Maintain The Current Level Of Rulemaking Authority By The Director

### *Section Position:*

The Section opposes legislation to give the PTO legislative rulemaking authority.

### *Resolution TF-HI*

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, giving the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office legislative rulemaking authority with respect to patent issues, and

NOW, THEREFORE, the Section opposes any provision of S.3818, 109<sup>th</sup> Congress, 2d Sess. (2006) (Hatch-Leahy), or similar legislation, conferring any such authority.

### *Resolution AR84-R101-6 (1995) (Retained 2006)*

Section opposes, in principle, giving the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office legislative rulemaking authority in the area of patent law.

### *Discussion:*

Section 2 of the patent statute provides the authority of the Office to establish regulations, not inconsistent with law, which “govern the conduct of proceedings in the Office.” 35 U.S.C. § 2(b)(2)(a). The Federal Circuit has interpreted this section as a *limited* grant of authority. As noted in *Merck & Co. v. Kessler*, 80 F.3d 1543 (Fed. Cir. 1996):

“Under *Chevron, U.S.A., Inc. v. NRDC, Inc.*, 467 U.S. 837 (U.S. 1984), where Congress has authorized an agency to promulgate substantive rules under a statute it is charged with administering, we must uphold the agency's interpretation of an ambiguity or omission in that statute if the interpretation is a reasonable one. As the Seventh Circuit recently had occasion to note, however, “only statutory interpretations by agencies with rulemaking powers deserve substantial deference....”

As we have previously held, the broadest of the PTO's rulemaking powers--35 U.S.C. § 6(a) [now Section 2] --authorizes the Commissioner to promulgate regulations directed only to “the conduct of proceedings in the [PTO]”; it does not grant the Commissioner the authority to issue substantive rules. Because Congress has not vested the Commissioner with any general substantive rulemaking power, the “Final Determination” at issue in this case cannot possibly have the “force and effect of law.” Thus, the rule of controlling deference set forth in *Chevron* does not apply.” *Merck & Co. v. Kessler*, at 1549-50 (citations omitted).

The 2007 Bicameral Bill (H.R. 1908/S. 1145) included in Section 11, amendments to Section 3(a) of the statute that would likely implicate a higher level of deference to agency decisions under *Chevron*. These amendments would grant the Director the authority to promulgate such rules, regulations, and orders as (1) the Director determines appropriate “to carry out the provisions of this title or any other law applicable to the United States Patent and Trademark Office” or (2) that the Director determines necessary to “govern the operation and organization of the Office.” The expansion of the authority beyond governing the proceedings in the Office will effectively overrule the level of deference provided to the Office in *Merck*.

The difference in Congress granting the authority to establish regulations to conduct proceedings in the Office and substantive rulemaking as provided in the Bicameral Bill is significant. With substantive rulemaking authority, the rules and determinations by the Office would then have the “force and effect of law” and would be

entitled to the controlling deference set forth in *Chevron*. The review by the court applicable to an agency decision under *Chevron* is whether the agency view is a reasonable one. Thus, a broader grant of authority would trigger a much higher level of deference to the PTO on questions of law and mixed questions of law and fact. For example, rather than promulgating guidelines regarding the Office's interpretation of utility under § 101, obviousness standards under § 103 or the written description under § 112, the Office could draft substantive rules applying the Office's interpretation and setting forth a rule-based interpretation of the statute. Such rules and the resulting determination would have the force and effect of law, which would be entitled to the *Chevron* deference. The determination of the Office would be sustained unless the Court found the rule or determination to not be a "reasonable one." Any number of other issues, some of which are currently in debate by patent professionals and scholars, could be taken up by the Office and resolved through interpretative rules – each having the full force of law and accorded *Chevron* deference.

Public policy determinations are properly made by Congress with judicial interpretation. The patent laws reflect a delicate balance of competing policies. Over the last 200 years, the patent laws have been amended as a result of considerable public debate and discussion by elected officials in Congress, who are best positioned to make the policy trade-offs to achieve the constitutional mandate to promote the sciences. Providing substantive rule-making authority to appointed PTO officials removes this debate from elected officials in Congress to appointed officials accountable to the public through the notice and comment requirements of rulemaking and court oversight that the agency action is "reasonable." The Bicameral Bill simply grants too much authority to the PTO to promulgate rules that are best debated in Congress.

Furthermore, sections of the law that are ambiguous have been clarified through *ex parte* and *inter parte* decisions of the courts, namely the Federal Circuit and its predecessor. The Federal Circuit has developed expertise on the patent laws and is well-equipped to review PTO action. The procedural safeguards in litigation ensure that both sides of an issue are fully briefed and substantial evidence is heard prior to a court rendering a decision impacting the interpretation or application of the patent laws. Perhaps more significantly, the development of case law is incremental so that the law tends to change slowly, which provides an important level of certainty and predictability users of the patent system. While the court does not apply *Chevron* deference to its review of PTO action, the court does take note of the PTO's determinations. The court noted in *Merck*, "Such deference as we owe to the PTO's interpretive "Final Determination" regarding the interrelationship by the URAA and the Hatch-Waxman Act thus arises, not from the rule of *Chevron*, but solely from, *inter alia*, the thoroughness of its consideration and the validity of its reasoning, *i.e.*, its basic power to persuade if lacking power to control." *Merck* at 1550 (citations omitted).

## 19. Do Not Diminish The Right To Permanent Injunction

### *Section Position:*

The Section opposes diminishing the patent owner's right to a permanent injunction.

### *Resolution TF-16A:*

RESOLVED, that the Section opposes, in principle, awarding monetary damages in lieu of an injunction upon a finding of infringement of a valid patent; and

SPECIFICALLY, the Section opposes amending 35 U.S.C. § 283 to change the presumption and burden of proof for grant of a permanent injunction, whereby a permanent injunction would be granted only if a court finds that “the patentee is likely to suffer irreparable harm that cannot be remedied by the payment of money damages” and further where “the extent to which the patentee makes use of the invention” is a factor to be considered against grant of an injunction.

### *Resolution TF-16B:*

RESOLVED, that the Section favors, in principle, granting of permanent injunctions in patent infringement actions under the principles of equity as expressed in 35 U.S.C. Section 283, and

SPECIFICALLY, the Section opposes legislation providing that, in determining equity for purposes of granting a permanent injunction for patent infringement, the court shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention, and further opposes such provisions in H.R. 2795 or other similar legislation.

### *Resolution TF-16C:*

RESOLVED, that the Section opposes, in principle, proposed statutory provisions to mandate a stay of a permanent injunction pending appeal in a patent infringement action merely on an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent; and

SPECIFICALLY, the Section opposes enactment of such provisions in H.R. 2795, “The Patent Act of 2005” or similar legislation.

### *Discussion:*

#### **A. The Right To A Permanent Injunction Is Fundamental To The Patent Grant.**

It is fundamental to the patent grant that the owner of the patent the right to exclude others from practicing the claimed invention. This principle can be traced back to the Constitution, which provides that Congress shall have the power “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 (emphasis provided). A patent does not grant the owner the right to practice an invention, but instead provides the right to exclude others from practicing an invention.

The courts have likened the patent right to exclude to that of other property rights. In *Consolidated Fruit Jar Co. v. Wright*, 4 Otto 92, 96, 94 U.S. 92, 96 (1876), the Supreme Court expressed that fundamental principle as follows: “[a] patent for an invention is as much property as a patent for land. The right rests on the same foundation and is surrounded and protected by the same sanctions.”

Similarly, in *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 n.5 (6th Cir. 1978), Judge Markey, later to become the first Chief Judge of the Federal Circuit Court of Appeals, wrote:

Patents must by law be given "the attributes of personal property." 35 U.S.C. § 261. The right to exclude others is the essence of the human right called "property." The right to exclude others from free use of an invention protected by a valid patent does not differ from the right to exclude others from free use of one's automobile, crops, or other items of personal property. Every human right, including that in an invention, is subject to challenge under appropriate circumstances. That one human property right may be challenged by trespass, another by theft, and another by infringement, does not affect the fundamental indicia of all "property," i.e., the right to exclude others.

As the Federal Circuit observed in one of its first decisions discussing the importance of the injunctive right afforded by patents:

Without this injunctive power of the courts, the right to exclude granted by the patent would be diminished, and the express purpose of the Constitution and Congress, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the 'leverage,' afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

*Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1577-78 (Fed. Cir. 1983).

#### **B. Compulsory Licensing Is Contrary To The Injunctive Right.**

It has been proposed that § 283 of 35 U.S.C. be amended to include a new section (b) to set forth "Grounds for Granting Injunction," stating:

A court shall not grant an injunction under this section unless it finds that the patentee is likely to suffer irreparable harm that cannot be remedied by the payment of money damages. In making such a finding, the court shall not presume the existence of irreparable harm, but shall consider and weigh evidence that establishes or negates any equitable factor relevant to a determination of the existence of irreparable harm, including the extent to which the patentee makes use of the invention.

Presently, an injunction will generally be granted upon a finding of infringement of a valid patent. Only upon a showing of exceptional circumstances will a court not issue an injunction. Under the proposed legislation, this balance, whereby an injunction is presumed unless exceptional circumstances warrant otherwise, would shift such that an injunction would be granted only in exceptional cases, where "the patentee is likely to suffer irreparable harm that cannot be remedied by the payment of money damages." Irreparable harm would no longer be presumed to exist.

Should a patent owner who has proven infringement of a valid and enforceable patent be required to further show "irreparable harm" for an injunction to be granted, patents would suddenly become a lesser form of property than either real property or other types of intellectual property. The Constitutional guarantee of obtaining an "exclusive right" for one's discoveries would no longer exist.

Under new section (b), the lack of use of the invention by the patentee could be used to negate the existence of irreparable harm. It has long been the law that a patentee's right to exclude is not conditioned on his use of the invention. Since the patent right is the right to exclude, not the right to use, whether a patentee makes use of the invention should not affect the ability to obtain injunctive relief. The penalty for infringement should depend not on the action of the patentee seeking to enforce its legal right, but instead should look at the legal rights and the action by the adjudged infringer.

Proposed new § 283(b) would effectively eliminate injunctive relief for research institutions, universities, start-ups, small companies and individual inventors that do not practice the invention commercially. Because many research institutions, universities and individual inventors rely on licensing their inventions to others rather than commercializing them directly, such patent owners may not be able to provide proof of “irreparable harm.” Similarly, it would call into serious question, the availability of injunctive relief for start-ups or other small companies that have not yet begun practicing the invention commercially. After litigation where the validity of a patent is upheld and infringement is found, patentees with limited resources may not be able to stop the infringement from occurring. It will be presumed that money damages will be sufficient and the existence of irreparable harm will not be presumed.

These changes would, in effect, make many United States patents subject to a compulsory license. That is fundamentally at odds with the Constitutional principle of exclusion built into the United States patent system. Compulsory licensing has been described as an “anathema,” in part because monetary payment is fundamentally incapable of remedying the patentee's loss of exclusivity. *King Instruments Corp. v. Perego*, 65 F.3d 941, 958 (Fed. Cir. 1995); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (“The encouragement of investment-based risk is the fundamental purpose of the patent system, and is based directly on the right to exclude.”).

Making the right to exclude the exception rather than the norm is contrary to the idea that the patent system is designed to provide a balance between timely providing the public with knowledge and providing inventors with an incentive to invent and then disclose their intellectual property. The exclusive rights granted by the patent ensure that the patentee will be suitably compensated for his work and encourage additional inventive efforts. *See generally*, Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. Chi. L. Rev. 1017, 1024-31 (1989); J. Bentham, *Theory of Legislation* chs. 7-10 (6th ed. 1890), *discussed in* Frank I. Michelman, *Property, Utility, and Fairness: Comments on the Ethical Foundations of “Just Compensation” Law*, 80 Harv. L. Rev. 1165, 1211-12 (1967).

For more than 30 years the United States government and U.S. NGOs have fought aggressively to oppose international treaty proposals that would permit compulsory licensing. Such compulsory licensing would force U.S. companies to license their patented technology at royalty rates deemed “fair” by a foreign government agency, and deprive the U.S. owner of the exclusive right to its patented technology. Adoption of the proposed legislation would seriously undermine that international effort by the U.S.

For all of these reasons, the Section opposes the proposed legislation to change the presumption and burden of proof for grant of a permanent injunction.

**C. Current Law Authorizes Courts To Deny Permanent Injunctive Relief In Appropriate Cases While, At The Same Time, Recognizing Such Relief As A Fundamental Principle Of Patents.**

It has been proposed that section 283 of Title 35 be amended to provide that, in determining equity for purposes of granting a permanent injunction for patent infringement, the courts shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention. However, when considering whether to grant permanent injunctive relief, the current version of section 283 of Title 35 instructs courts to consider principles of equity. *See* 35 U.S.C. § 283 (courts “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”). While the courts typically find that a permanent injunction should be granted after a finding of infringement, they have taken equities into consideration in denying such injunctions. Indeed, the Federal Circuit has explicitly instructed that permanent injunctions must not be automatic after a finding of infringement, but should be issued only if the traditional test for obtaining injunctive relief, which includes a balancing of the equities, is met.

Counsel are equally mistaken in their apparent belief that once infringement is established and adjudicated, an injunction must follow.

[I]f Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language rarely if ever to be expected from a body itself made up very largely of American lawyers, having, probably, as much respect for traditional equity principles

as do the courts. If an injunction was not mandatory in *Hecht Co. v. Bowles*, the more permissive statutory language here makes it a fortiori that an injunction is not mandatory now.

*Roche Products v. Bolar Pharmaceuticals Co.*, 733 F.2d 858, 866, 221 USPQ 937, 943 (Fed. Cir. 1984).

Case examples bear this out. *E.g.*, *Foster v. American Machine & Foundry Co.*, 492 F.2d 1317, 1324, 182 USPQ 1 (2d Cir. 1974) (affirming denial of a permanent injunction and order of a compulsory license where patentee did not commercially practice the patented invention); *City of Milwaukee v. Activated Sludge*, 69 F.2d 577, 593 (7th Cir. 1934) (refusing to enter permanent injunction enjoining future infringement where injunction would leave the entire “community without any means for disposal of raw sewage other than running it into Lack Michigan, thereby polluting its waters and endangering the health and lives of that and other adjoining communities”); *see also Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1380, 73 USPQ2d 1678, 1688 (Fed. Cir. 2005) (affirming district court’s denial of permanent injunction after finding that infringer’s importation and sale of refurbished disposable cameras constituted infringement where the district court denied the permanent injunction on the basis that the proposed injunction lacked the requisite specificity and detail required by Rule 65(d) to know what future conduct would or would not be prohibited); *Hybritech Inc. v. Abbott Laboratories*, 849 F.2d 1446, 1458, 7 USPQ2d 1191, 1201 (Fed. Cir. 1988) (affirming district court’s decision not to preliminarily enjoin the accused infringer’s making and selling of cancer and hepatitis test kits, while affirming the enjoining of activity as to other kits, because the public-interest factor favored having these kits publicly available, the logic of which would be equally applicable to a permanent injunction). While the Court has also said that it will only deny permanent injunctions in exceptional cases, the foregoing cases make it clear that in an appropriate case when the principles of equity so dictate the Court will deny such an injunction. The Court’s bias toward granting permanent injunctive relief, however, clearly emanates from its view that the right to an injunction is a critically important feature of the patent grant and one that the Constitution itself recognizes (Congress shall have the power “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, Sect. VIII, Clause 8 (emphasis added)).

It is unclear what, if any, impact the proposed legislative language would have on the current case law. On its face it sounds innocuous enough. However, there is great concern that it is a wolf dressed in sheep’s clothing and represents nothing more nor less than a back door attempt to achieve the goals of the proposal that is opposed in TF 16-A.

Moreover, if this amendment to U.S. law were enacted, it would suggest to other countries that it would be acceptable for them to adopt similar language in their laws, notwithstanding their obligations under TRIPs and various bilateral and regional trade agreements. U.S. owners of patents in these countries then could be able to obtain an injunction only when the courts in such a country, decided that an injunction, in their opinion, would be “fair” to the infringer. That could easily destroy the injunctive right for many U.S. patent owners in those countries, and defeat years of U.S. opposition to compulsory licenses. For those industries which obtain a significant share of their profits from foreign sales, the consequences are obvious.

Thus, for the same reasons that the Section opposes 16-A, it opposes this proposal.

**D. Current Law Adequately Provides For Stays Of Permanent Injunctions Pending Appeal In Appropriate Cases.**

Finally, it has been proposed to amend the patent statute to mandate a stay of a permanent injunction pending appeal in a patent infringement action merely on an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent.

The Federal Circuit follows the basic standards for determining whether to stay a permanent injunction pending appeal set down by Supreme Court. Quoting *Hilton v. Braunskill*, 481 U.S. 770, 776 (1987), the Federal Circuit has instructed that it “must apply the four factors that always guide our discretion to issue a stay pending an appeal: (1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially

injure the other parties interested in the proceeding; and (4) where the public interest lies.” *Standard Havens Prods. v. Gencor Indus.*, 897 F.2d 511, 512, 13 USPQ2d 2029, 2029-30 (Fed. Cir. 1990) (granting motion to stay permanent injunction and judgment pending appeal).

A stay pending appeal may also be proper if absent a “strong showing” of likelihood of success, the movant makes a showing of a “substantial case on the merits,” and that the remaining factors favor the movant. *Hilton*, 481 U.S. at 778, 107 S. Ct. at 2120 (“Where the State establishes that it has a strong likelihood of success on appeal, or where, failing that, it can nonetheless *demonstrate a substantial case on the merits*, continued custody is permissible if the second [it will suffer irreparable harm] and fourth [the public interest favor a stay] factors in the traditional stay analysis militate against release.” – emphasis added). The Federal Circuit has applied this alternate standard. *E.g.*, *Standard Havens*, 897 F.2d at 513-14, 13 USPQ2d at 2030-31 (granting motion to stay permanent injunction and judgment pending appeal because infringer raised “a substantial legal question regarding validity” by showing that the PTO had granted a request for a reexamination of the asserted patent).

Stays pending appeal are not a rarity. Where the circumstances warrant, the Federal Circuit and the district courts will stay permanent injunctions pending appeals. *E.g. E.I. du Pont de Nemours & Co. v. Phillips Petroleum Co.*, 835 F.2d 277, 278, 5 USPQ2d 1109, 1110 (Fed. Cir. 1987) (reversing denial of stay of permanent injunction); *Standard Havens Prods. v. Gencor Indus.*, 897 F.2d 511, 515-16, 13 USPQ2d 2029, 2031-32 (Fed. Cir. 1990) (granting motion to stay permanent injunction and judgment pending appeal where PTO, *sua sponte*, instituted a reexamination proceeding after the jury verdict but before judgment was entered); *see also Vehicular Technologies Corp. v. Titan Wheel Int’l, Inc.*, 141 F.3d 1084, 1085, 46 USPQ2d 1257 (Fed. Cir. 1998) (noting it had previously stayed preliminary injunction pending appeal); *Intel Corp. v. ULSI Sys. Technology, Inc.*, 995 F.2d 1566, 1568 n.5, 27 USPQ2d 1136, 1137 n.5 (Fed. Cir. 1993) (noting it previously granted a stay pending appeal of a preliminary injunction because it “concluded that ULSI had shown that a substantial legal question existed on the issue of infringement”); *see also* Robert A. Matthews, Jr., 5 ANNOTATED PATENT DIGEST § 32:176 Cases Granting Stay of Permanent Injunction Enjoining Alleged Infringing Conduct (collecting appellate and district court cases).

Given this fact, the current system of granting stays pending appeal is alive and well and works when it needs to. The proposed amendment to § 283 would modify the four-part formulation and reduce it to only two parts by eliminating the most critical factor—likelihood of success (or at least whether the appeal raises a substantial question)—as well as the public interest factor. The proposed amendment would thus mandate a stay of an injunction pending appeal even where there is no prospect of success on appeal or no substantial question has been raised. Such a proposal is not in the public interest and grossly unfair to patentees. Indeed, it runs contrary to the Supreme Court’s instruction that “the traditional stay factors contemplate *individualized* judgments in each case; the formula *cannot* be reduced to a set of rigid rules.” *Hilton*, 481 U.S. at 777. The Section, therefore, opposes this proposed resolution.

## 20. Leave The Judicial Standards Of Proof Unchanged

### *Section Position:*

The section opposes enactment of legislation to amend the standard of proof for attacking the validity of an issued patent to a preponderance of the evidence standard.

### *Resolution:*

RESOLVED, that the Section 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.

### *Discussion:*

The Federal Trade Commission has proposed that the courts should require only a preponderance of the evidence to rebut the presumption of validity. *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Recommendation 2. Federal Trade Commission, 2003. Others have proposed legislation to reduce the standard of proof to a preponderance of the evidence if the prior art asserted was not considered by the PTO. The Section opposes both of those proposals.

Reduction of the standard of proof for challenging validity entirely, or if the prior art was not considered by the PTO, would undermine decades of well-reasoned precedent that has 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, whether or not the asserted prior art has been considered by the PTO. 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, whether or not it has been considered by the PTO.

The proposals to reduce the standard of proof apparently reflect a misunderstanding of 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, and not a reduction in the standard of proof.

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 and the heightened standard for proving invalidity are a patentee’s procedural rewards 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 presumption and heightened standard of proof are justified 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.

The concerns of those proposing a reduced standard for proving invalidity 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.

## 21. Do Not Repeal Or Limit § 271(f)

### ***Section Position:***

The Section opposes repeal of Section 271(f) of title 35, United States Code, and opposes amendment of 271(f) to limit its application to tangible items that are combined physically with other components to create the combination that is alleged to infringe.

### ***Resolution TF-18:***

RESOLVED, that the Section opposes, in principle, amendment of Section 271(f) of title 35, United States Code, to limit its application to tangible items that are combined physically with other components to create the combination that is alleged to infringe.

### ***Resolution TF-18A:***

RESOLVED, that the Section supports, in principle, that a person who supplies all or substantially all of the components of a patented invention, or supplies a nonstaple component of a patented invention, is liable as an infringer if the components were supplied with the intent that they be assembled outside of the United States in a manner that would infringe a U.S. patent if done in the United States.; and

SPECIFICALLY, the Section opposes repeal of 35 U.S.C. § 271(f).

### ***Discussion:***

Section 271(f) of the Patent Act makes a person who supplies all or substantially all of the components of a patented invention, or supplies a nonstaple component of a patented invention, liable as an infringer if the components were supplied with the intent that they be assembled outside of the United States in a manner that would infringe a U.S. patent if done in the United States. Liability for infringing the claim to the patented combination applies regardless if the supplied components are themselves individually covered by other patent claims.

Before the enactment of § 271(f), the Supreme Court ruled in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 92 S. Ct. 1700, 32 L. Ed. 2d 273 (1972), that a person who exported, in unassembled form, all of the components of a patented invention with the intent that the components would be assembled outside of the United States in a manner that would infringe if done in the United States could not be held liable for patent infringement.

Many, including the Supreme Court, viewed the holding of *Deepsouth* as exposing a “loop-hole” in U.S. patent law that provided an easy way for a competing U.S. manufacturer to obtain the economic benefits of a competitor’s patented technology for use in selling to foreign markets without being held accountable for infringement. In 1984, Congress added § 271(f) to the Patent Act to expressly close this “loop-hole” left open by *Deepsouth*.

### **A. Opposition To Repeal Of Section 271(f)**

In testimony given to Congress during the April 2005, hearings on reforming the U.S. patent laws, several witnesses representing interests from the software industry suggested that Congress consider repealing 35 U.S.C. § 271(f). These witnesses justified the suggestion on the basis that the Federal Circuit’s recent ruling in *Eolas Technologies Inc. v. Microsoft Corp.*, 399 F.3d 1325, 1338-41, 73 USPQ2d 1782, 1793-95 (Fed. Cir. 2005), creates an incentive for software developers to move development activity outside of the United States. In *Eolas* the Federal Circuit held that supplying to foreign replicators a “golden” or master disk containing software that was copied from the disk onto the products made by the foreign manufacturers fell within the scope of § 271(f). *Id.* 399 F.3d at 1339, 73 USPQ2d at 1793-94 (“Exact duplicates of the software code on the golden master disk are incorporated as an operating element of the ultimate device. . . . Therefore, the language of section 271(f) in the context of Title 35 shows that this part of the claimed computer product is a ‘component of a patented invention.’”).

Repealing § 271(f) will likely harm start-up companies and smaller inventors while wealthier patentees will be able to protect themselves to some measure through foreign patents. Without § 271(f), competing manufacturers can take advantage of the loop-hole of *Deepsouth* and manufacture all of the unpatented components of a patented invention in the United States without facing liability if they do not assemble the components into the patented combination in the United States. These manufacturers can then ship all the components outside the United States, with instructions on how to assemble the components into the patented invention, and the assembled product can be sold abroad without any liability for infringement of the U.S. Patent.

Thus, U.S. manufacturers with established foreign-assembly operations and foreign-distribution channels may employ U.S. manufacturing technology to manufacture in the U.S. staple and nonstaple unpatented components of patented combinations and export those components for final assembly and sale abroad without fear of liability for infringement of a U.S. patent.

If the patentee has the resources to obtain global protection for its patented technology, and does so, that patentee at least has a chance that its foreign patents can provide protection for the assembly or sale of the patented product assembled outside the United States with components supplied from the United States. Many start-up companies and small inventors may lack the resources to pursue global protection, or to enforce patent rights globally. Thus, repealing § 271(f) could have a disparate adverse impact on start-up companies and small inventors in the loss of protection for patented technology.

Congress noted in passing § 271(f) that it was seeking to avoid encouraging assembly outside the United States of products manufactured in the United States. Accounting for the cheaper labor costs in many foreign countries, repealing § 271(f) may encourage manufacturers to move assembly operations outside of the United States for goods intended to be sold in foreign countries.

Patent laws should not be shaped based on the views or concerns of one industry. The patent laws should apply equally to all industries and technologies. Notably, no members of any industry other than the software industry has expressed serious concern over the continued existence of § 271(f).

## **B. Opposition To Limitation Of Section 271(f) To Tangible Products**

It has been proposed to add the following subsection at the end of Section 271(f) of title 35, United States Code:

(3) An item supplied in or from the United States is not a ‘component’ under this section unless the item is a tangible item that is itself combined physically with other components to create the combination that is alleged to infringe.

The Section opposes this amendment because it would create different rules for different categories of inventions. There is no justification for giving computer programs and other “intangibles” preferential treatment over tangible goods. The result would be a disparity in the law that would allow computer companies to create infringing software in the U.S., send it overseas on a cd or via the Internet, install it on a computer there, sell it there, and escape liability for patent infringement. Neither the more traditional industries, nor the more “high-tech” industries that produce tangible, as opposed to intangible, items could not do that under the current law or under the proposed amendment. The manufacturer of a new type of “high-tech” hardware, for example, could not make all of the components of an infringing device in the U.S., ship those components overseas, have the device assembled there, sell it there, and escape liability for patent infringement. In that case, because the components are tangible, the hardware manufacturer would be liable here in the U.S. for its foreign sales.

The argument in favor of the current proposed amendment is that IT jobs are being sent off-shore, at least in part because of 271(f). However, the only political justification for carving out the IT industry from the scope of 271(f) is the assumption that the proposed amendment to 271(f) would bring IT jobs back into the U.S. *and* that IT jobs are more valuable than jobs manufacturing tangible components.

Furthermore, the proposed amendment will not help all IT companies. To the contrary, it will hurt those which have invested in software patents, and it will help those who do not. In some cases, the software patent

holders are large corporations, but in other cases, they are the smaller players—such as Eolas Technologies, Inc. and Imagexpo, LLC, both of which have won cases against Microsoft involving the application of 271(f) to software. Thus, the proposed amendment would not favor the IT industry generally. More precisely, it would favor those in the IT industry who do not have a patent for the technology at issue, and it would disfavor those who do.

Lastly, amendment of 271(f) to exclude tangible items such as software would be inconsistent with the way software has been treated in other areas of the law. Specifically, it would be inconsistent with the American Jobs Creation Act of 2004, in which software is classified as a “manufactured good.” That legislation allows companies to claim a tax credit for work that is performed overseas. The bill was originally intended to protect more traditional manufacturing companies, but as a result of Microsoft’s lobbying efforts, the definition of “manufactured goods” was expanded to include computer software. If computer software is deemed a “manufactured good” and afforded the protections of a “manufactured good” in one area of the law, then it should not be considered an “intangible item” and avoid the restrictions imposed on manufactured goods (*i.e.*, tangible items) in another area of the law.

## **22. End The Potential For Continuing Application Abuse**

### ***Section Position:***

The Section favors eliminating the potential for abuse of the unlimited right to file continuing applications for patent, but opposes eliminating the ability to file a broadening continuation application after publication or issuance of narrower claims in an application from which priority is claimed.

### ***Resolution TF-12A:***

RESOLVED, that the Section favors, in principle, curtailing the unlimited ability of an inventor to file continuing applications for patent under section 120, provided every inventor is accorded a full and fair opportunity to protect any invention disclosed in an application for patent; and

SPECIFICALLY, the Section supports legislation that would authorize the United States Patent and Trademark Office to promulgate regulations to limit the right to file continuing applications for patent consistent with this principle.

### ***Resolution TF-12B:***

RESOLVED, that the Section opposes, in principle, eliminating the ability to file a broadening continuation application after publication or issuance of narrower claims in an application from which priority is claimed; and

SPECIFICALLY, the Section opposes amending 35 U.S.C. to include “§ 123. Limitation on enlargement of claim,” as proposed in Section 8 of the Committee Print or any similar legislation, that would render a claim unpatentable if it is broader in scope than the broadest claim that was previously published under § 122(b), issued under § 131 in an application or patent that shares a claim of priority under § 119 or § 120, or is made in an application within 12 months after the earliest filing date for which priority is sought for the pending application.

### ***Discussion:***

The Section supports limiting the currently unlimited ability to file continuing applications for patent. The Section favors such limitations so long as inventors will continue to have access to continuing applications for patent when needed to refine and perfect their patent filings.

In order to best understand the necessary limits that ought to be put into effect, the PTO should undertake to differentiate the legitimate practices that need not be modified and/or should not be modified from practices that are unnecessary to afford the inventor a full and fair opportunity to present claims.

Appropriate legislation would operate to protect the public from well-documented abuses of continuing applications. Over 100,000 such applications are currently filed each year. The Section favors limiting such applications to situations where they serve the legitimate interests of inventors and do not unreasonably disserve the interests of the public.

Others have proposed adding a new section to 35 U.S.C. to provide that a claim in a patent or application will not be patentable if it is broader in scope than the broadest claim that was first published under § 122(b), issued under § 131 in an application or patent that shares a claim of priority under § 119 or § 120, or is made in an application within 12 months after the earliest filing date for which priority is sought for the pending application. Many valid reasons exist for filing a broader continuation application, and the proposed amendment would substantially interfere with that valid practice.

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 or allowing to issue narrower claims with a patent application and presenting broader claims in a continuation or similar application. For example, quickly obtaining a

patent may be advantageous for a company to obtain financing or for completing a licensing agreement. There may be real value to obtaining a first patent quickly rather than trying to obtain broader claims by pursuing an appeal of an Examiner's rejection.

A company should not be precluded from first taking a patent to narrower claims that the Examiner finds allowable and then later pursuing broader claims that are supported by the specification. An applicant should not be locked into pursuing the broadest claims possible through the PTO and through appeals and not be able to accept a compromise position for fear that it will preclude the applicant from ever pursuing broader claims in that application or later applications claiming priority from the earlier application. Narrower claims may also be pursued in an application when research is still ongoing to support broader claims. While broader claims may not be justified when the application is initially filed, such claims could be supported later during prosecution or during prosecution of a continuation application when additional research could be submitted by means of a declaration. Not allowing such valid continuations with broader claims would be detrimental to many companies and individual inventors.

Perceived abuses of continuation applications, *e.g.*, keeping continuing applications pending for extended periods and monitoring developments in the relevant market followed by modifying claims accordingly, are alleviated to a significant extent by changes in the patent term under GATT, whereby patent term 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 also to a significant extent alleviates the suggested abuses. Those abuses would be further alleviated if the law were amended to require that all applications be published within 18 months of their priority date. 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.

Other protections exist against abuses of filing continuation applications. 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 opposes the proposed amendment whereby claims broader than those published or issued in an application from which priority is claimed would automatically not be patentable. While abuses of continuation applications may still exist, the proposed amendment is not an appropriate solution.

## 23. Do Not Alter The Existing Attorney Fees Provisions

### *Section Position:*

The Section opposes legislation that would shift the burden regarding the award of attorney fees from the party seeking fees to the party that did not prevail in litigation.

### *Resolution TF-C2:*

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, changing the law regarding awarding attorney fees in patent cases, to create a presumption in favor of an award of fees to the prevailing party; and

NOW THEREFORE, the Section opposes amending 35 U.S.C. § 285 along the lines proposed in S.3818, 109<sup>th</sup> Congress, 2d Sess. (2006) (Hatch-Leahy), or similar legislation, to mandate such an award together with other expenses incurred by that party in connection with that proceeding, unless the court finds that the position of the non-prevailing party or parties was substantially justified or that special circumstances make an award unjust.

### *Discussion:*

S.3818 would amend 35 U.S.C. § 285, which permits the court to award the prevailing party reasonable attorney fees “in exceptional cases” to read:

- (a) The court shall award, to a prevailing party, fees and other expenses incurred by that party in connection with that proceeding, unless the court finds that the position of the nonprevailing party or parties was substantially justified or that special circumstances make an award unjust.

The Section opposes the proposed statute for two reasons. First, the award of fees and costs is not limited to “reasonable” fees and costs, as in the current statute. Second, the proposed statute would shift the burden regarding attorney fees and costs, potentially resulting in more awards of attorney fees and costs and causing an *in terrorem* effect on potential patent litigants who fear that, if they lose, they may have attorney fees and costs imposed on them even though they did not willfully infringe, engage in inequitable conduct before the PTO, or engage in litigation misconduct.

## 24. Establish A Revolving Fund To End Diversion Of USPTO Funds

### *Section Position*

The views expressed herein are presented on behalf of the Section of Intellectual Property Law. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and accordingly, should not be construed as representing the position of the Association.

The Section re-affirms its position in opposition to diversion of PTO fee revenue to fund unrelated programs, and supports establishment of a revolving fund into which all fees collected by the PTO would be deposited, and which would be available to the PTO without appropriations legislation.

**Resolution 214** (Approved by ABA House of Delegates; 2001AR25; ABA 00A301)

ABA favors in principle that Congress provide that all revenue generated by fees paid by patent and trademark applicants and owners to the United States Patent and Trademark Office remain with the United States Patent and Trademark Office without limitation, and Specifically, the Association opposes the withholding or diversion of any such revenue to fund any unrelated programs.

### **Resolution TF-07-07**

RESOLVED, that the Section of Intellectual Property Law re-confirms its opposition, in principle, to the diversion of PTO revenue; and

NOW THEREFORE, the Section favors, in principle, legislation, such as the provisions of S. 1145, 110<sup>th</sup> Congress, as reported on July 19, 2007 by the Senate Committee on the Judiciary, or similar legislation, which establishes a PTO revolving fund, into which all fees collected by the Office shall be deposited, and the amounts in which shall be available for use by the Director of the PTO without further appropriation or fiscal year limitation.

### *Discussion*

S.1145 would establish a revolving fund into which the USPTO would place all patent and trademark fees and from which the USPTO would be able to withdraw funds for its operations without any additional yearly appropriations legislation.

This would make a major structural reform to the USPTO's financial operations that would decrease the opportunity for patent and trademark fees to be diverted away from funding the operations of the USPTO. Under existing law, all fees paid to the USPTO are deposited into a special account in the United States Treasury (see 35 U.S.C. § 42(b)), but the USPTO may withdraw funds from that account only as "provided in advance in appropriations Acts." 35 U.S.C. § 42(c). As a result, the USPTO must go through the normal federal appropriations process and the appropriations legislation may provide to the agency less money than has been collected by the agency through patent and trademark fees. Under this process, short-term financial pressures have frequently resulted in appropriations legislation that does not provide the USPTO with authority to spend all of the fees it has collected. Rather, some fees are diverted to fund other governmental operations.

S. 1145 would address this problem by establishing a "revolving fund" for the USPTO. Under standard principles of Federal Appropriations law, the establishment of a "revolving fund" includes an implicit permanent appropriation for the agency to use the moneys in the fund for the purposes specified in the statute creating the fund. See 1 General Accounting Office, Principles of Federal Appropriations Law Chap. 2, at 2-17 to 2-18 (3rd ed. 2004) (available at <http://www.gao.gov/special.pubs/redbook1.html>) (noting that "[s]tatutes establishing revolving funds and various special deposit funds and making amounts in those funds available for obligation and expenditure are

permanent appropriations”). That means the USPTO would not have to go through the congressional appropriations process each year. See *id.*, at 2-17 (noting that because revolving funds constitute permanent appropriations, the money within the fund “is available for obligation or expenditure without further action by Congress”).

The intent to remove the USPTO from the appropriating process is also made clear by S.1145 which eliminates the language in 35 U.S.C. § 42(c) that requires an appropriation legislation to withdraw monies from the Treasury account into which fees are deposited. Precisely because it is the yearly appropriations process that provides the opportunity for fee diversion, the establishment of a revolving fund would be a significant structural protection against such diversions occurring in the future.

## **25. Do Not Authorize The USPTO To Set Its Own Fees**

### ***Section Position:***

The views expressed herein are presented on behalf of the Section of Intellectual Property Law. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and accordingly, should not be construed as representing the position of the Association.

The Section opposes granting to the PTO the authority to set its own fees.

### ***Resolution TF-07-08***

RESOLVED, that the Section of Intellectual Property Law opposes, in principle, granting fee setting authority to the Director of the PTO; and

NOW THEREFORE, the Section opposes legislation, such as Section 9 of S.1145, 110<sup>th</sup> Congress, as reported on July 19, 2007 by the Senate Committee on the Judiciary, or similar legislation, which gives the Director the authority to set or adjust by rule any fee established or charged by the PTO.

### ***Discussion***

S. 1145 would grant the USPTO new rulemaking authority over patent and trademark fees. The Section is opposed to giving the Director the authority to set or adjust by rule any fee established or charged by the USPTO.

Such legislation would enable the PTO to set fees that are punitive and fail to reflect actual costs. For example, the PTO in the past has proposed that the cost for presenting the sixth independent claim be four times the cost for presenting the fourth independent claim. Such a fee has no relationship to the cost of examining an extra claim. The Office justified that proposal on the ground that it wanted to “modify behavior” by discouraging applicants from filing more than 3 independent claims. However, in many situations more than 3 independent claims are reasonable and appropriate, and they should not be discouraged by punitive fees. This is merely an example of what the PTO has attempted in the past. The authority provided by S.1145 would lend itself to such abuses in the future.

Section 9 of S.1145 includes language that seeks to limit the ability of the PTO to misuse its fee setting authority, specifically stating “provided that such fee amounts are set to reasonably compensate the Office for the services performed.” However, such language is insufficient to protect against the PTO setting fees to “modify behavior” in a punitive manner, which may nonetheless pass muster under the “reasonably compensate” language in the bill.

Congressional oversight is an appropriate and necessary mechanism in carrying out separation of powers between the legislative and executive branches of government, and in maintaining checks and balances over the executive branch. Indeed, the above-cited example of PTO proposed punitive fees has not come to fruition because it required, and did not receive, congressional approval.

Some argue that placing fee-setting authority in the hands of the PTO rather than in Congress will reduce the likelihood that user fee revenue will be diverted for use other than by the PTO. However, experience indicates that, rather than going hand in hand with diversion, congressional fee setting authority has been an effective tool to confront and combat diversion. The committees that set PTO fees (House and Senate Judiciary) have consistently opposed diversion, on a bipartisan and bicameral basis. Two specific examples illustrate the beneficial connection between congressional fee setting authority and efforts to end diversion.

In 1998 the statutory provision that imposed a surcharge on all PTO patent fees as a budget deficit reduction device was allowed to expire. The Clinton Administration proposed that statutory fees be increased sufficiently to make up the loss in revenue from the expiration of the surcharge. However, at this same time the Administration’s pending appropriations proposal called for diversion of about \$100 million of PTO user fee revenue to fund other programs. The PTO user community successfully urged the fee-setting committees to limit the fee increases to amounts that

would make up the loss of revenue from expiration of the surcharge, minus the \$100 million slated for diversion. Congressional fee-setting authority was thus used as a device for a successful attack on diversion.

Similarly, in 2003, when across the board fee increases were deemed essential to provide adequate funding for the PTO, the House Judiciary Committee linked fee increases to provisions to end diversion in an authorization bill to increase fees. Recognizing the need for the increased fees to support PTO appropriations, House appropriators agreed to accept the anti-diversion provisions. The Senate did not agree to the anti-diversion language, and it was not enacted. However, the linking of fee increases to stopping diversion was instrumental in convincing congressional appropriators to suspend if not to end diversion in the annual appropriations bills. There has been no diversion in the four most recent appropriations for the PTO.

For these reasons, the Section opposes the grant of fee setting authority to the PTO.

## **26. Do Not Give Foreign Interests Veto Power Over U.S. Implementation Of First-Inventor-To-File**

### ***Section Position***

The views expressed herein are presented on behalf of the Section of Intellectual Property Law. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and accordingly, should not be construed as representing the position of the Association. The Section supports prompt and orderly implementation of a first-inventor-to-file system, without making it contingent on foreign acceptance of a harmonized grace period.

### ***Resolution TF-07-01***

RESOLVED, the Section of Intellectual Property Law opposes in principle making the transition in the U.S. patent law to a first-inventor-to-file system contingent on treaty negotiations between the United States and other parties or on actions to be taken by foreign governments or international agencies; and

NOW THEREFORE, the Section opposes the relevant transition provisions of H.R. 1908, 110<sup>th</sup> Congress, as reported on July 18, 2007 by the House Committee on the Judiciary, or similar legislation, providing that a first-inventor-to-file system should only take effect in the United States 90 days after the date on which the President transmits to the Congress a finding that major patenting authorities have adopted a grace period having substantially the same effect as contained in H.R. 1908.

### ***Discussion***

As reported by the House Judiciary Committee on July 18, 2007, H.R. 1908 would tie the effective date of the first-inventor-to-file provisions to the enactment of a grace period by, *inter alia*, Europe and Japan.

These provisions would give foreign interests in Europe and Japan veto power over the ability of U.S.-based inventors to gain the advantages of a first-inventor-to-file system. If any provision related to first-inventor-to-file in the implementing legislation were unacceptable to European and Japanese interests, they could prevent a first-inventor-to-file-system taking effect in the United States. We believe that a first-inventor-to-file system is a "best practice" for the United States, and should not be conditioned upon international harmonization of patent laws. We also believe, however, that if intended as an inducement to harmonization, this House provision would not achieve the intended result, and we strongly oppose its enactment. We believe that a better approach is that contained in H.R. 2795, predecessor legislation in the 109<sup>th</sup> Congress. By denying European and Japanese inventors a grace period based upon home-country filing, H.R. 2795 afforded leverage to the United States to secure internationalization of the 1-year grace period.

## **27. Provide A Realistic And Workable Transition To A First-Inventor-To-File System**

### ***Section Position***

The views expressed herein are presented on behalf of the Section of Intellectual Property Law. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and accordingly, should not be construed as representing the position of the Association. The Section supports a realistic and workable transition to a system of awarding a patent to the first-inventor-to-file.

### ***Resolution TF-07-02***

RESOLVED, the Section of Intellectual Property Law supports in principle a transition in the U.S. patent law to a first-inventor-to-file system under which only those patents having at least one claimed invention with an effective filing date one year or more after the date of enactment of implementing legislation would be subject to the first-inventor-to-file provisions of such legislation; and

NOW THEREFORE, the Section opposes the transition provisions of S. 1145, 110<sup>th</sup> Congress, as reported on July 19, 2007 by the Senate Committee on the Judiciary, or similar legislation, providing a transition to a first-inventor-to-file system for all patents issued one year after the date of enactment of such legislation.

### ***Discussion***

The transition provisions of the first-inventor-to-file provisions contained in S. 1145 as reported by the Committees on the Judiciary contain problematic transition provisions. The bill as amended provides that all patents issuing more than one year after enactment are subject to the first-inventor-to-file rule.

Under this approach, some unpatentable inventions would become patentable – and *vice versa* – arbitrarily based upon patent issue dates. Such a result must not have been intended.

By way of contrast, the carefully crafted transition provisions in H.R. 2795, 109<sup>th</sup> Congress, had salutary effects. Under a 1-year transition provision, only those patents with one or more claims with an effective filing date 1 year or more after enactment would have been subject to a first-inventor-to-file rule.

## 28. Improve Patent Quality By Permitting Third Party Submission Of Claim Construction Admissions

### *Section Position*

The views expressed herein are presented on behalf of the Section of Intellectual Property Law. They have not been approved by the House of Delegates or the Board of Governors of the American Bar Association and accordingly, should not be construed as representing the position of the Association. The Section supports legislation to enable any person to submit to the USPTO written statements of the patent owner relevant to claim construction, for use in reexamination proceedings.

### *Resolution TF-07-03*

RESOLVED, that the Section of Intellectual Property Law favors in principle the disclosure of material information to the USPTO to improve the quality of issued patents; and

NOW THEREFORE, the Section favors appropriate legislation that establishes that, in an *ex parte* or *inter partes* reexamination pursuant to sections 304, 313 or 314 of Title 35, any person at any time may cite to the PTO in writing prior art (patents or printed publications) or written statements of the patent owner filed in a proceeding before a Federal court or the PTO in which the patent owner takes a position on the scope of one or more patent claims, but that such written statements shall not be considered for any purpose other than to determine the broadest reasonable construction of the claims, consistent with the written description, that are the subject of a request for reexamination.

### *Discussion*

H.R. 1908 would amend Section 301 of Title 35 of the U.S.Code to allow the public to cite, in a reexamination proceeding, written statements of the patent owner in which the patent owner has taken a position on the scope of one or more patent claims.

Citation of public statements made by the patent owner concerning the scope of patent claims will help the examination process by bringing to the Examiner's attention additional information relevant to the scope of claims under reexamination. Such information will help to improve the quality of issued patents by assisting the Examiner in determining the broadest reasonable construction of the claims, consistent with the written description, which is a precondition to determining if the pending claims are valid over prior art.

The Section does suggest one clarifying change to Section 301(c) (2), which currently states:

Written statements submitted under subsection (a)(2) shall not be considered for any purpose other than to determine the proper meaning of the claims that are the subject of the request in a proceeding ordered pursuant to section 304 or 313.

The Section proposes changing this language to:

Written statements submitted under subsection (a)(2) shall not be considered for any purpose other than to determine the [proper meaning] broadest reasonable construction of the claims, consistent with the written description, that are the subject of the request in a proceeding ordered pursuant to section 304 or 313.

This change clarifies that the written statements are being considered in determining the meaning of a claim under examination in the PTO, which uses a different claim construction standard (broadest reasonable construction consistent with the written description) than a district court construing an issued patent claim (meaning of claim language to a person of ordinary skill in the art upon review of the written description).

H.R. 1908 would permit the identity of the person citing the prior art or written statement to be withheld upon request. Such a provision is consistent with reexamination requests, which may also be made anonymously. Moreover, because the written statements of the patent owner are public record, there is no need to cross-examine the person citing such statements to the PTO. In addition, the public benefit in disclosing such information to the PTO outweighs any benefit in knowing the identity of the party submitting the prior art or written statement.

## Conclusions

As Congress looks at patent reform issues, it is fortunate to have two detailed studies on the operation of the patent system from which to pull insights and ideas, one from the Federal Trade Commission and the second from the National Research Council of the National Academies. Indeed, these two studies, especially the seminal work of the National Academies, form the core of the reforms that we and others now support.

The Section has been further blessed by having worked with other NGOs that share a common interest in gaining an understanding of the current problems with the U.S. patent system and solutions that might represent a consensus for reforms. The involvement of the Section in dialogues with other organizations has hopefully made their deliberations more fruitful and we regard ourselves as major beneficiaries of a variety of their perspectives and ideas.

The Section has participated in the process of crafting proposed reforms with one primary concern: that fairness and balance in our IP laws be preserved in any set of reforms. Fairness and balance issues must be satisfactorily addressed from the perspective of everyone affected by the patent laws, constituency by constituency. Our view is that this objective has been realized in the proposals advanced in this White Paper.

We address each of the audiences that the patent system impacts with one question: *Do you believe that the reforms that have been proposed will, on balance, improve the overall operation of the patent laws and will much better serve your needs?*

Our assessment is that all those who depend upon a strong patent system that operates with fairness and balance should be able to answer this question affirmatively. We have reached the same assessment for those confronting patents that they believe ought to be challenged.

In each of the areas for reform that we have laid out above, we have attempted to be true to our responsibility as an association of professionals expert in the patent law and its workings. We look forward to having this White Paper used by those who wish to better understand the principles that guide our thoughts – all the while keeping this paper as a work in progress as any resulting dialogue assists us to better understand where we need more reflection and more refinement in this work.

That said, we look to moving this much-needed reform process forward to a rapid and successful conclusion.