

AIPLA

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

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Statement of

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Before the

**Subcommittee on Courts, the Internet and
Intellectual Property
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On

H.R. 2795

“Patent Act of 2005”

June 9, 2005

Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on H.R. 2795 entitled the “Patent Act of 2005.” AIPLA congratulates you for your efforts to identify important issues affecting the U.S. patent system and to search for appropriate reforms to increase its effectiveness.

AIPLA is a national bar association of more than 16,000 members engaged in private and corporate practice, in government services, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Since our members represent both patent owners as well as those against whom patents are asserted, we have a keen interest in reforms that further an efficient, effective, and balanced patent system.

I appear today in my capacity as a Past President of AIPLA and as the Chair of two Special Committees appointed by then President Rick Nydegger to review and prepare responses to two recent studies on the patent system about which I will say more in a moment. But like one third of AIPLA’s active members, I come from the corporate world. I am currently President and Chief IP Counsel of 3M Innovative Properties Company, a subsidiary of 3M. 3M sells over 50,000 products, including consumer products such as “Post-It” Notes and “Scotch” Tape, pharmaceuticals such as Aldara for the treatment of basal skin carcinoma; medical products such as tapes, drapes, and software; brightness enhancement film used in laptops and cell phones; industrial products such as abrasives, adhesives and tape; and electronic products such as flex circuits and electrical connectors. 3M received 585 U.S. patents in 2004, ranking 34th of worldwide and 15th of U.S. companies.

The Need for Reform

The U.S. patent system has, in certain respects, functioned remarkably well. Its successes today are in significant part attributable to a number of reforms that have been made by Congress during the past 25 years. The creation of the Federal Circuit, the passage of the Patent Law Amendments Act of 1984, the adoption of reexamination, and the enactment of the American Inventors Protection Act have made the patent system more open and much stronger as an incentive to invest in innovation. However, there are aspects of the U.S. patent system that are not working well today. Over the past decade, some of these elements of the patent system have, in fact, come to work less well.

This conclusion is shared by others. Two recent studies of the U.S. patent system have produced lengthy reports that have largely come to the same conclusion. The Federal Trade Commission (FTC) report, published in October 2003, found that while most of the patent system works well, some modifications are needed to maintain a proper balance between competition and patent law and policy. The FTC made ten recommendations that focused on tuning the balance between patent owners' rights to effective exclusivity in valid patents and the public's right to be free from the competition-limiting effects of invalid patents.

The report of the National Academies of Sciences' Committee on Intellectual Property Rights in the Knowledge-Based Economy was published just one year ago, in April 2004. Like the FTC effort, it was the culmination of a multi-year study of the patent system. The NAS report found that the U.S. patent system played an important role in stimulating technological innovation by providing legal protection to inventions and by disseminating useful technical information. Moreover, with the growing importance of technology to the nation's well-being, it found that patents are playing an

even more prominent role in the economy. It concluded with seven principal recommendations to ensure the vitality and improve the functioning of the U.S. patent system, several of which overlap those made by the FTC.

AIPLA has also studied the effectiveness of the patent system. Former AIPLA President Rick Nydegger recognized the need to review the functioning of the patent system almost two years ago and established a Special AIPLA Committee on Patent Legislative Strategies in an effort to provide more concrete and coordinated ideas for needed reforms to the patent law. The Special Committee was co-chaired by two other former AIPLA Presidents, Don Martens and Bob Armitage, and its membership was drawn from a diverse cross-section of AIPLA members. It included former senior officials of the United States Patent and Trademark Office, a retired federal district court judge, some of the nation's leading patent litigators including Past Presidents of our Association, and in-house IP counsel drawn from several industry sectors. I served on this Special Committee.

In efforts paralleling that of our Special Committee on Legislative Strategies, I had the privilege, as I mentioned earlier, of chairing two AIPLA Special Committees that undertook an exhaustive analysis of the recommendations in both the FTC and NAS reports and offered replies. These parallel and sometimes intersecting efforts stimulated us to take a closer look at a number of issues and push to further develop and refine concrete proposals for reforms.

The Association's position on needed patent law reforms coming out of this two-year effort consisted of four elements. First, adopt a first-inventor-to-file principle using so-called "best practices" developed in the context of international patent harmonization. Second, remove the "subjective elements" from patent litigation that are responsible for

much of the excessive cost of enforcing and challenging patents. Third, complete the reforms started under the American Inventors Protection Act, a step which is greatly facilitated given the compelling merits for doing so as part of a first-inventor-to-file system. Fourth, create a true post-grant opposition system available during the first nine months after patent grant in which mistakes made in issuing the patent could be corrected in a manner that is both timely and that fairly balances the interests of the patentee and the opposer.

After developing these reform proposals that were ultimately approved following several meetings of AIPLA's Board of Directors, we concluded that it would be highly desirable to take them to a broader public. After discussions with the officials responsible for developing similar recommendations in the FTC and NAS reports, we agreed with FTC and NAS to jointly sponsor three "Town Hall" meetings across the country. These were open forums to explain to all stakeholders the proposed reforms to the patent system and to allow them to offer their reactions and suggestions. We are holding the fourth and final meeting today where you, Mr. Chairman, are scheduled to deliver a luncheon address. This final meeting will allow us to distill the work of the three previous meetings.

What is striking about the parallel efforts by these three quite different organizations with quite distinct missions are the many similarities in the diagnosis of what needs improving in the patent system and, especially between AIPLA and NAS, the convergence in the recommendations for doing so.

For any organization putting together an effort at patent law reform, a critically important task is to make a clear separation between what is right with our patent laws – and does not requiring tinkering – and what is wrong with our patent laws – and,

therefore, should be the subject of focused attention. Where, for example, could reforms have the biggest benefits for all users of the patent system? What is actually ready for reform today - because a sufficient consensus already exists or could be developed - and sufficient study and scholarship has taken place? And where might more study and reflection be needed before forging ahead with changes to the patent system? Our assessment is that our work with the NAS and the FTC in large part validates our four-point reform package as a possible way forward to near-term patent reforms.

We have been especially mindful that patent law reform is never easy because of the diversity of the constituencies with a stake in the patent system. However, AIPLA believes that successful patent law reform has been and always will be an effort at inclusion. This comes naturally to us because our membership reflects the diversity of stakeholders in the patent system – clients of our members both obtain patents and challenge patents. Similarly, our members represent clients for whom money is not a critical limitation on the ability to use the patent system and clients for whom the cost of the patent system is the chief limitation on the ability to enjoy its advantages.

Our notion of inclusion means, therefore, that reforms work to make a better patent system not only for inventors with adequate resources – more often than not inventors connected with so-called “large entities” such as corporations – but also for the least financially able inventors – which includes many “independent inventors,” not-for-profit institutions, and small businesses.

Another equally important aspect of inclusion relates to the manner in which the patent system works to protect the interests of those who seek patents, those who challenge patents, and the public. The patent system works best when standards for patentability are rigorously applied and mistakes – that will inevitably be made when

patents are issued that should not have – can be readily corrected. While much emphasis is understandably placed on making the patent system work better for inventors, a fair and balanced patent system needs to work equally well when a member of the public seeks to have a mistake made in issuing a patent quickly and inexpensively corrected.

Against this background, AIPLA believes that the time is right for Congress to adopt a coordinated and interrelated set of reforms to the patent system as recommended by the NAS and which we support:

- Adopt a first-inventor-to file system with an objective definition of “prior art” – the information used to determine if an invention is new and non-obvious.
- Limit or eliminate the subjective elements in patent litigation, i.e., limit “inequitable conduct” and “willful infringement,” and eliminate “best mode.”
- Complete the desirable legislative enhancements originally proposed in what became the American Inventors Protection Act of 1999.
- Adopt a fair, balanced post-grant opposition system that takes advantage of limiting or eliminating the subjective elements in patentability criteria and other best practice changes that accompany adoption of the first-inventor-to-file principle.

Funding: An Essential Prerequisite for Patent Law Reform

Before discussing our legislative proposals for patent law reform, we cannot overlook the most fundamental problem in need of a solution – adequate and stable funding and operational flexibility for the PTO. Any careful study of the U.S. patent system today would reach this conclusion – indeed, both the NAS and FTC recommended providing adequate funding for the PTO. The Office must be afforded the resources and capabilities to deal with a workload that has grown dramatically – both in

size and complexity. As patent rights have become more important, it has become much more important that the quality of PTO's work improve. Important patents take too long to issue. Technologies new to patenting require building new capabilities for examining them, sometimes almost from scratch.

The need for a more efficient and effective PTO will require adequate funding, but it will also require long-range planning, oversight, and accountability. The PTO can not be expected to successfully engage in such long-range planning without an adequate level of funding that it can depend on year after year, with no diversion of its fee revenues. AIPLA supported the PTO's development of the Strategic Plan requested by Congress. For the Office to be able to build new capabilities, improve its quality, become more efficient, and serve all its constituencies, it must anticipate, plan for, and invest in new capabilities. This requires on-going efforts at long-term planning that must include long-range financial and operational planning.

Of course, PTO planning and Congressional oversight will mean nothing without adequate funding. Many of the reforms that AIPLA and others are proposing, such as post-grant opposition, will require the PTO to play a greater role in the overall patent system. AIPLA is dedicated to working with the Congress, both this Committee and the Appropriations Committee, to secure a financing structure that will allow the patent law reforms which we propose to be achieved. However, we cannot emphasize enough the importance of this goal: the most significant patent law reforms absolutely depend on the PTO having the financing and operational flexibility to carry them out effectively and efficiently.

H.R. 2795

H.R. 2795 contains a number of proposals for modifying the patent system. As explained above, AIPLA developed its recommendations for patent system reform building on the extensive research and hearings held by the FTC and the NAS. Other associations interested in the patent system such as the Intellectual Property Owners Association, the Intellectual Property Law Section of the American Bar Association, and the Biotechnology Industry Organization were developing recommendations along lines similar to AIPLA.

In January, we became aware of a proposal from the Business Software Alliance to revise the patent laws. In some respects, our concerns overlapped. For example, we agreed in concept on the need to adopt an effective post-grant opposition system and the need to constrain burdens placed upon industry by the current jurisprudence involving the doctrine of willful patent infringement. In other respects, our proposals diverged.

AIPLA has worked hard to seek common ground. AIPLA invited the four organizations mentioned above to meet to determine whether it might be possible to narrow the differences between our positions. We have held a number of meetings with these organizations (March 16, March 31, and May 9). Recognizing that there were certain issues where the organizations were far apart, several working groups were established to seek common ground on these issues as well as on issues where the divide was not as large. These working groups addressed willful infringement, damages, injunctive relief, post-grant oppositions, and pre-grant submission of prior art. From May 31st through June 2nd, in response to your urging Mr. Chairman, and with the able assistance of your staff, we held additional meetings with an expanded group of organizations (the Information Technology Industries Council, the Pharmaceutical

Research and Manufacturing Association, the National Association of Manufacturers, and the Financial Services Roundtable among others).

Sec. 3. Right of the First Inventor to File

AIPLA supports the principle in Section 3 of H.R. 2795 that the first inventor to file an application for patent containing an adequate disclosure (35 U.S.C. §112) of an invention should have the right to patent the invention. This change in U.S. patent law would bring a much needed simplification of the process and reduce the legal costs imposed on U.S. inventors. It would also improve the fairness of our patent system, and would significantly enhance the opportunity to make real progress toward a more global, harmonized patent system.

The current system requires complex proofs of invention and is fundamentally unfair to independent inventors and small entities due to its costs and complexities. It frequently does *not* award patents to the first to invent. It uniformly awards patents to the first-inventor-to-file for a patent except in a very small number of cases where sufficient, corroborated invention date proofs can be marshaled to demonstrate that a second-to-file inventor can overcome the *presumption* currently afforded under our patent law in favor of the first inventor who filed.

Moreover, the expense and complexity of the first-to-invent system mean that an inventor can be first to make the invention and first to file a patent application, but still forfeit the right to a patent because the inventor cannot sustain the cost of the “proof of invention” system. According to AIPLA’s 2003 Economic Survey, the median cost to an inventor in a simple, two-party interference is \$113,000 to complete the preliminary phase (discovery) and over \$300,000 to the final resolution. Costs of this magnitude place independent inventors, small entities and universities at a clear disadvantage.

This disadvantage has been heightened in recent years by the new right of foreign-based inventors to introduce invention date proofs. While a decade ago a U.S.-based inventor might have had some advantage because of the bar against relying on a foreign date of invention, this provision of U.S. patent law was outlawed by TRIPs. Thus, independent inventors, small entities and universities are now also subject to this kind of cost disparity from attacks brought by foreign applicants and parties.

Former PTO Commissioner Gerald J. Mossinghoff presented empirical data at our Town Hall meetings based on his earlier research. See Gerald J. Mossinghoff, *The First-to-Invent System Has Provided No Advantage to Small Entities*, 88 J. Pat & Trademark Off. Soc’y 425 (2002). His data demonstrated conclusively that independent inventors, whose right to patent their inventions depended on their ability to prove that they were “first to invent,” managed to lose more often than not. In an April 15, 2005 Working Paper published by the Washington Legal Foundation, Mossinghoff’s most recent data suggests that the rate of loss by independent inventors has only accelerated over the past several years (Gerald J. Mossinghoff, *Small Entities and the “First to Invent” System: An Empirical Analysis*, <http://www.wlf.org/upload/MossinghoffWP.pdf>).

An analysis by Professor Mark A. Lemley and Colleen V. Chien reaches an even more stunning conclusion. The Lemley and Chien findings suggest that the current first-to-invent contests “are more often used by large entities to challenge the priority of small entities, not the reverse. This evidence further supports Mossinghoff’s conclusion that the first to invent system is not working to the benefit of small entities.” See *Are the U.S. Patent Priority Rules Really Necessary?*, 54 Hastings Law Journal 1 (2003).

Given the cost, complexity and demonstrable unfairness imposed by the present first-to-invent system, it is clear that a change to a first-inventor-to-file system in our patent law is justifiable simply on grounds that it is the “best practice.”

With the adoption of a first-inventor-to-file rule, 35 U.S.C. §102 can be greatly simplified. Prior art would no longer be measured against a date of invention: if information anticipating or making reasonably obvious the invention was reasonably and effectively accessible before the earliest effective filing date of a patent application, no patent issues. Similarly, the question of whether an inventor “abandoned” an invention would no longer be relevant. And, of course, proofs of conception, diligence, and reduction to practice, all of which require difficult and costly evidence of “what the inventor knew/did and when the inventor knew/did it,” become irrelevant.

A first-inventor-to-file system will also clearly benefit large and small businesses. It will eliminate the present delays and uncertainty associated with resolution of interferences which complicate business planning. In addition, it will remove the potential cloud over important inventions that will always be present in a first-to-invent system.

Sec. 4. Right to a patent - Filing by Assignee

As discussed above, AIPLA believes that it is paramount that the patent statute clearly provide that the right to a patent is, in the first instance, the right of the inventor as provided in section 4 of the Committee Print. This fundamental right is captured in the description of the priority system we propose: first-inventor-to-file. This right of the inventor is well understood in the laws of other countries – only the inventor has the right to a patent. The inventor can transfer this right through assignment if desired, but no one can take the invention and obtain a valid patent merely by filing the first application.

To compliment this fundamental right, section 4 authorizes any person to whom the inventor has assigned the invention to file an application for patent. AIPLA supports this provision. It will greatly facilitate the filing of patent applications by companies where their employed inventors have assigned the title to the invention or where they are under an obligation to assign the invention.

Sec. 4. Right to a patent - Eliminate “Best Mode”

As noted above, NAS singled out three so-called “subjective elements” in patent litigation that should be limited or eliminated. The “best mode” requirement is the first of those subjective elements addressed in the Committee Print. Section 112 of the Patent Act requires that an application “set forth the best mode contemplated by the inventor of carrying out his invention.” To enforce this requirement, courts inquire whether the inventor, at the time of filing, knew of a mode of practicing the invention that the inventor believed was better than that disclosed in the application. This test is obviously subjective, focusing on the inventor’s state of mind at the time an application was filed.

Because the defense depends on historical facts and because the inventor’s state of mind usually can be established only by circumstantial evidence, litigation over this issue—especially pretrial discovery—can be extensive and time-consuming. Further, the best mode requirement provides only a marginal incentive for a patentee to disclose more information than is required by the written description and enablement provisions of 35 U.S.C. §112. Given the cost and inefficiency of this defense and its limited incentive to provide additional disclosure to the public, the NAS report recommended its elimination and section 4 adopts that recommendation.

AIPLA endorses this change. Section 4 of H.R. 2795 does not change the requirements that every patent application must provide the public a full description of

the invention (i.e., the so-called “written description” requirement) and fully enable the practice of the invention the inventor seeks to patent (i.e., the so-called “enablement” requirement). However, it removes the problematic and subjective best mode requirement, first introduced into the patent law in the 1952 Patent Act, that the inventor additionally include in the patent application the mode the inventor subjectively contemplated to be the best as of the day that the application was filed.

Sec. 5. Duty of candor

The National Academies singled out the “inequitable conduct” defense as another of three so-called “subjective elements” in patent litigation that should be limited or eliminated. Inventors and patent owners desperately need to have Congress address the issue of the “inequitable conduct” unenforceability defense. Section 5 does this.

The defense of inequitable conduct applies when the patent applicant has made a material misstatement or omission with intent to deceive the PTO. Examples of conduct punishable as inequitable conduct might include the intentional failure to disclose a known prior art reference that is material to patentability (unless cumulative of other art already considered), or making false or misleading statements to the PTO such as when submitting false or misleading evidence of test data to support patentability. Despite the salutary intent of the doctrine, it has become an overused weapon in patent litigation. As noted in *Burlington Industries v. Dayco Corp.* 849 F.2d 1418 (Fed. Cir. 1988), “[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague.”

AIPLA agrees with the approach in section 5 to limit the “inequitable conduct” defense by accused infringers in patent litigation to clear cases of common law fraud. Under section 5, the defense of inequitable conduct could only be pled where the court

has first invalidated a claim and the accused infringer has a reasonable basis for alleging that, absent the fraudulent misconduct attributable to the patent owner (“but for” the conduct of the patent owner), a reasonable patent examiner would not have allowed the invalidated claim to issue as part of the patent. Where such conduct is proven, a fraud has occurred and the patent would be unenforceable. Thus, while a patent owner who had engaged in a fraud to secure an invalid claim would not be able to enforce the patent – the patent owner’s “unclean hands” would preclude such enforcement – section 5 would return the “inequitable conduct” defense to its equitable roots. Importantly, it would drastically reduce the current practice of asserting this defense in virtually all cases, by limiting it only to cases where claims have first been found to be invalid due to such misconduct.

However, of equal importance, section 5 would not excuse other possible misconduct by a patent owner that does not rise to the level of fraud – that is, misconduct that would not have resulted in an examiner allowing a claim even if the omission or misstatement had not occurred. Such misconduct would be referred back to the PTO by the court. Thus section 5 would keep intact the duty of candor and good faith on individuals associated with the filing of a patent application. Further, it would give the PTO the authority to administer that duty where questionable misconduct is uncovered during patent enforcement proceedings. Like other agencies, Congress should look to the PTO to enforce its own rules and charge it with the responsibility for doing so. No agency of government undertaking work of crucial importance to the nation should have rules mandating high standards of conduct for those appearing before it and not have responsibility, resources, and capabilities for administering and enforcing those rules. This would allow the Office – as part of its control over the duty of candor and good faith

– to determine whether or not the allegations merited investigation and sanction in appropriate cases referred to it during litigation.

Giving the PTO authority over the duty of candor and good faith means that the Office could address other related dilemmas faced by those representing clients who – justifiably and consistently – have opposed efforts by the Office to mandate more meaningful disclosures of information. Such more meaningful disclosures could clearly drive the efficiency and accuracy of the patent examination process – for example, by specifying the contents of statements to be submitted regarding the potential relevance of prior art. Today, if such statements are offered, they are fodder for the “inequitable conduct” defenses raised in patent litigation. Placing the PTO in control of the duty of candor and good faith would allow the creation of “safe harbors” for applicants satisfying enhanced disclosure requirements which could not later be used as grounds for an allegation of inequitable conduct.

Giving the PTO such authority could also address an AIPLA concern for the post-grant opposition procedure, namely, that the duty of candor and good faith should meaningfully apply to opposers. An opposer that raises an issue of unpatentability should be no more free to mislead or misrepresent the facts in that proceeding than an inventor or patent owner in a PTO proceeding. This is a hole in the duty today with respect to reexamination that could be filled by giving the PTO such authority.

We therefore support authorizing the PTO to investigate misconduct by opposers and third parties who request reexamination and to impose civil monetary sanctions on patentees and disbarment of their attorneys. In addition, where false statements have been made, the mechanism for sanctioning misconduct should include a mechanism for referrals to the Criminal Division of the Department of Justice.

We believe that such proceedings by the PTO – where the Office elects to proceed after reviewing a referral from a court – would be relatively rare events, but nonetheless a much more effective deterrent to misconduct than the current unenforceability defense. The current reliance on the courts for “enforcement” of the duty is problematic because it can lead to the punishment of benign deeds and the failure to punish bad deeds. The ultimate ineffectiveness of the inequitable conduct defense today is probably best illustrated by the fact that it is raised and litigated in almost every important patent case, but is rarely successful.

Sec. 6. Right of the Inventor to Obtain Damages – Determination of Damages

Section 6 of H.R. 2795 also proposes to add a paragraph to 35 U.S.C. 284 to limit the award of damages in the situation where the infringed patented invention is only one element of the defendant’s method or apparatus. The provision seeks to limit the damages to the portion of the total value of the method or apparatus represented by the value of the patented invention.

This provision addresses what is known as the “entire market value” rule, which permits recovery on the market value of an entire machine when the patented feature is the basis for customer demand for the machine. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549, (Fed. Cir.) (in banc), cert. denied, 116 S. Ct. 184 (1995). There are cases where damages have been based on the value of an apparatus of which the patented invention was only one element. This occurred in a case where the patented invention was found to contribute substantially to the increased demand for the entire product and the infringer acknowledged that improved performance influenced its decision to incorporate the invention into its product. *Bose Corporation v. JBL, Inc.*, 274 F.3d 1354 (Fed. Cir. 2001).

A different result was reached, and appropriately so, in *Riles v. Shell Exploration & Production*, 298 F.3d 1302 (Fed. Cir. 2002), where the patent claim was directed to a “method of offshore platform installation.” There the Court set aside a jury verdict because the plaintiff’s damage model did not “follow proper reasonable royalty criteria” in claiming damages equal to the cost of constructing the platform, 298 F.3d at 1311. Thus, even though the claims were to the construction of the entire platform, the inventive character of the claimed platform was tied to a novel an element of the platform and damages were thus rightfully apportioned based on the value of the inventive element added to the platform rather than on the entire platform.

Under current law, courts can flexibly assess each case on its merits and reach a fair determination on a royalty rate that will be adequate to compensate for the infringement. In determining a reasonable royalty, the courts look to the 15 *Georgia Pacific* factors and seem to manage quite nicely. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-1120 (S.D.N.Y. 1970). Therefore, we do not believe that a case has been made for codifying the many considerations in the case law on the proper calculation of damages.

Having noted our reservation, however, we believe that the new formulation of a rule on the calculation of damages is very much improved over the version that appeared in the Committee Print, and it is one which we believe is more balanced and thus will be more acceptable to a wider constituency. It captures the essence of the guidance contained in the *Georgia-Pacific* case for apportioning damages in the case of infringement damages based on claimed combinations where patentability of the combination is essentially tied to the inventive character of a component of the combination rather than the combination itself.

Sec. 6. Right of the inventor to obtain damages – willful infringement

The third of the three so-called “subjective elements” in patent litigation that NAS recommended for limitation or elimination is the doctrine of willful infringement. In its Report, NAS recommended that the doctrine of willful infringement be eliminated from patent litigation. It observed that the question of willful infringement involves an issue of intent that produces a significant discovery burden, introduces an element of substantial uncertainty, and complicates much patent infringement litigation. AIPLA does not recommend its elimination, but agrees with the limitation on willful infringement that is set forth in section 6 of the H.R. 2795.

In practice, exposure to a claim of willfulness is not limited to cases of knowing, intentional infringement. Knowledge of a patent, coupled with a decision to engage in or continue conduct later found to be infringing, may be enough to result in treble damages. During the hearings conducted by the FTC, testimony revealed that some companies forbid their engineers from reading patents for fear that such acts might be used by a patentee to allege that, because the company had “knowledge” of the patent, the company willfully infringed the patent. As reported by the FTC, “the failure to read a competitor’s patents can jeopardize plans for a noninfringing business or research strategy, encourage wasteful duplication of effort, [and] delay follow-on innovation...” (*To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Report by the Federal Trade Commission, Chapter 6, page 29 (October 2003)). This fear forcefully demonstrates the chilling effect that the law on willfulness has on what would otherwise be an appropriate use of patents, and how consequently the current law on willfulness effectively undermines the Constitutional purpose of the patent system, i.e., to promote the progress of the useful arts.

Moreover, willfulness is asserted in most cases. Professor Kimberly A. Moore, George Mason University School of Law, conducted an empirical study of willfulness, looking at patent infringement cases that terminated during litigation from 1999–2000. Professor Moore found that willful infringement was alleged in over 92% of the cases, observing that her “results suggest that willfulness claims are plaguing patent law. It seems unlikely that in 92% of the cases, the patentee had sufficient factual basis at the time the complaint was filed to allege that the defendant’s infringement was willful.” See [*Empirical Statistics on Willful Patent Infringement*](#), 15 Fed. Cir. B.J. 227 (2004).

Additional problems arise from the Federal Circuit’s opinion in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F2d 1380 (Fed. Cir. 1983). The decision speaks of an accused infringer having an affirmative duty to exercise due care to determine whether he or she is infringing once given notice of another’s patent, including the duty to seek and obtain competent legal advice from counsel. This permits patent owners to “game” the system and create an unequal bargaining position by simply “notifying” those in affected industries of the patent, and then demanding large settlements or else face the risk of “willfulness” allegations at trial. This in turn leads to hundreds of thousands of dollars spent by company after company on opinions of counsel as insurance against a finding of willful infringement. This perceived obligation also leads to problems with attorney disqualification since the attorney giving the opinion will be called as a witness during the litigation. As a result, a company’s chosen counsel cannot act as both its counselor and its trial attorney. Some states, such as the state of Virginia, do not even allow the attorney trying the patent infringement case to be in the same law firm as the attorney who drafted the infringement opinion. Complicated issues involving waiver of attorney-client privilege further exacerbate the matter.

These difficulties were not obviated by the en banc reconsideration of *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.* 383 F3d 1337 (Fed. Cir. 2004). While the Court did rule that it is inappropriate for the trier of fact to draw an adverse inference with respect to willful infringement when a defendant has not obtained legal advice or invokes the attorney-client privilege, the decision leaves untouched the duty of due care and the circumstances which give rise to such duty.

While section 6 retains the concept of willful infringement, it carefully limits the circumstances where a determination of willful infringement can be made to those in which an infringer is truly a bad actor. Of course, every successful patentee will still receive damages adequate to compensate for the infringement, together with interest and costs as fixed by the court. In general, however, absent deliberate copying of a patented invention with knowledge that it was patented, we believe there should be no finding of willful infringement unless the patent owner has provided to the infringer a written notification that details which claims of the patent are infringed and the particular acts that are alleged to infringe, rather than merely sending notice of the patent.

Moreover, we agree with the further limitation in section 6 that there should be no finding of willful infringement if an infringer can establish that, once it had received notice, (1) it obtained competent advice of counsel that there was no infringement on the grounds of invalidity, unenforceability or non-infringement, and (2) it reasonably relied upon such advice. In the case of the intentional copying of an invention knowing it to be patented, the informed good faith belief of the alleged infringer must exist prior to the time the alleged infringing activity begins. This preserves an importance balance, requiring ethical and prudent behavior by those in an affected industry.

Finally, we also agree that the absence of an opinion of counsel should not create an inference that the infringement was willful and that mere knowledge of a patent should not be the basis for enhanced damages. Again, these are important limits on willfulness that prevent excessive use of the doctrine.

Accordingly, we support the provisions in section 6 limiting the circumstances in which a finding of willful infringement can be found.

Sec. 7. Injunctions

Section 7 of H.R. 2795 would make two amendments to section 283. One of these proposed amendments to section 283 would significantly undercut the exclusive rights conferred under a valid patent to obtain final injunctive relief following a final, non-appealable holding that the patent is valid and infringed. It would provide that final injunctive relief might not be granted since "In determining equity the court shall consider the fairness of the remedy in light of all the facts and the relevant interest of the parties associated with the invention." This would reduce, to some unknown degree, the possibility of patentees obtaining permanent injunctions to prevent the continued infringement of their patents following a final, unappealable judgment that their patents are valid and have been infringed.

AIPLA strongly opposes this provision. It would devalue the property right of patentees by undercutting their traditional right to injunctive relief against adjudged infringers. The impact would appear to be especially harsh on independent inventors who already face great difficulty in commercializing their patented inventions. It would likewise be equally harsh on universities which are precluded in many, if not most, cases from directly commercializing their inventions and which must therefore rely on licensing or selling their inventions. It would also set an extremely unfortunate precedent

internationally for the United States by suggesting to other nations that there need be no patent exclusivity for all inventions - that other nations can also pick and choose the patented inventions for which they wish to grant exclusivity. AIPLA strongly urges that this amendment not be made.

The other proposed amendment would provide guidance to trial courts regarding the circumstances in which a preliminary injunction should be stayed, pending an appeal, following a ruling that a patent was valid and infringed. It would instruct courts to stay an injunction pending an appeal upon 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. AIPLA had suggested this proposal to the Chairman and to the interested groups involved in the discussions regarding the content of a patent reform bill as the maximum limitation that should be imposed to meet the concerns of those who advocate limiting the grant of injunctions in patent infringement suits. We believe this proposal is balanced and appropriate and fully addresses the concerns of the proponents for change. Not only would it give an infringer the opportunity in appropriate cases to obtain a stay of any injunctive relief while it tests the correctness of the trial court's ruling, but it also allows the infringer additional time to negotiate a license or develop a non-infringing alternative. Unfortunately, it was not accepted by others in the discussions we have been having, so perhaps it should be deleted from the bill.

Sec. 8 Continuation Applications

In testimony before this Subcommittee last month, Under Secretary Dudas noted the increased workload for the PTO due to the large number of continuing applications filed in the Office. In addition, there is a concern that a few applicants have abused the

use of continuing applications by using them to “track” the commercial development of a technology and then springing a patent on a mature industry. On the other hand, the predominant uses of continuing applications are totally appropriate. They are necessary where an application faces a restriction requirement or where an inventor makes an improvement in his or her invention or where an applicant and an examiner simply have not had an adequate exchange regarding the issues surrounding an application.

To address these concerns in a balanced and fair way, AIPLA believes it appropriate to give the Director the authority to promulgate a regulation specifying the circumstances under which a continuation application may be filed. The PTO clearly is in the best situation to understand the difficulties that applicants face as well as the problems that the Office faces, including the impact on fee revenues that any limitations on continuations might impose. Regulations can also be adjusted to fine tune any needed limitations. Most importantly, the PTO could ensure that no such regulation would deny applicants an adequate opportunity to obtain protection for their inventions.

Sec. 9. Post-grant Procedures

Taking advantage of the proposal to adopt a first-inventor-to-file system and to simplify the definition of prior art, section 9 proposes a post-grant opposition procedure. AIPLA believes that such a system can provide the public with an effective mechanism to promptly correct mistakes made by the PTO in issuing patents. We strongly believe, however, that there should be only one window for requesting an opposition and that the window should be nine months after a patent has issued to encourage the public to act promptly. These procedures should allow the public to correct improvidently granted patents – patents with claims that are too broad or patents that the PTO should not have granted at all. After the initial period of nine months has passed and no opposition has

been filed, patentees should enjoy a “quiet title” without the fear of later administrative challenges, except for the inter partes reexamination procedure which this bill would make more attractive.

Consistent with this approach, AIPLA agrees that, for an opposition brought within this nine month window from grant, an opposer should have the burden of proving the invalidity of a claim by a preponderance of the evidence. This is the same standard used during examination, and encourages use of the pre-grant procedure since the burden of proof is lower than that applied during litigation. Thus, consistent with this approach, we would retain the standard of “clear and convincing evidence” that applies in a patent infringement lawsuit or a declaratory judgment action seeking to invalidate a patent claim. In this way, the procedure strikes a balance – encourage the public to promptly eliminate questionable patents without unduly undercutting the patentee’s right to benefit from the invention.

This brings us to the second window proposed in the opposition procedure by section 9 of H.R. 2795 that would permit an individual to file an opposition not “later than 6 months after receiving notice from the patent holder alleging infringement.” AIPLA opposes having a second window for bringing an opposition for the life of a patent. The proposed second window, where the burden of proof is a “preponderance of the evidence” instead of “clear and convincing evidence,” will increase the risks faced by patent holders and dampen their enthusiasm for investing in the development and commercialization of their patented technologies. It will also increase litigation in the courts since patent holders, to ensure that their patents will not be tested by the lower presumption of validity, will file suit instead of approaching suspected infringers about possible license arrangements or avoiding any infringement. Finally, creating this kind of

second window in effect creates a “patent revocation” system that will greatly tax the existing human and financial resources of the Office to find and train the needed personnel to administer such proceedings and will work undue hardships and prevent patent owners who can least afford it (non-profit entities and individual inventors) from enjoying “quiet title” to their inventions. For all these reasons, AIPLA opposes the addition of the second window in HR 2795.

SEC. 10. Pre-grant Submissions of Prior Art By Third Parties

AIPLA supports the proposed amendment to section 122 to allow a member of the public to submit information to the PTO for consideration following the publication of patent applications. We believe that this proposal will complement the post-grant opposition proposal and assist applicants to obtain stronger, more reliable patent protection by ensuring that the best prior art is before the PTO. The section is balanced and ensures that applicants will not be harassed by multiple submissions. Thus, it is especially significant that the amendment leaves untouched the proscription in current subsection 122(c), and thereby prevents such submissions from becoming a type of pre-grant opposition. This will ensure that such submissions cannot be used to harass applicants. In addition, the provision is crafted in a manner that gives the public maximum opportunity to submit such information while at the same time protecting against the disruption of the PTO’s examination process.

Completing the Reforms Begun In the American Inventors Protection Act

There are other important parts of the patent law that are addressed in H.R. 2795 which we support. Moving to a first-inventor-to-file system suggests that changes should be made to the prior user defense to patent infringement. We also endorse the proposal that the PTO publish all pending applications for patent at 18-months after their initial

filing. This will make the patent system more transparent and allow the public to make earlier determinations of whether an invention is novel and non-obvious on the basis of all prior art. It also allows the public to prepare any evidence that may be available for submission in the 9 month opposition period after the patent issues.

Conclusion

The U.S. patent system continues to be an essential driver of our nation's economic and technological success, but there is a growing consensus that it is in need of adjustment. The NAS and FTC have reached this conclusion and AIPLA agrees. While we strongly oppose any weakening of the traditional injunctive remedy of the patent law and the addition of a second window in opposition proceedings, we believe that there are many desirable reforms in H.R. 2795 that do have the widespread support of all stakeholders. We now have an opportunity – indeed, an obligation – to not only address the challenges of today, but also to prepare the U.S. patent system for the future.

We commend you, Mr. Chairman, and the Ranking Member for your continuing leadership in striving to improve our intellectual property system. The AIPLA looks forward to working with you, the other Members of the Subcommittee, and your able staffs to support you in any way we can.