

**REVIEW OF RECENT JUDICIAL DECISIONS
ON PATENT LAW**

HEARING
BEFORE THE
SUBCOMMITTEE ON
INTELLECTUAL PROPERTY,
COMPETITION, AND THE INTERNET
OF THE
COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES
ONE HUNDRED TWELFTH CONGRESS
FIRST SESSION

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MARCH 10, 2011
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Serial No. 112-20

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Printed for the use of the Committee on the Judiciary



Available via the World Wide Web: <http://judiciary.house.gov>

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U.S. GOVERNMENT PRINTING OFFICE

65-078 PDF

WASHINGTON : 2011

For sale by the Superintendent of Documents, U.S. Government Printing Office
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REVIEW OF RECENT JUDICIAL DECISIONS ON PATENT LAW

THURSDAY, MARCH 10, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTELLECTUAL PROPERTY,
COMPETITION, AND THE INTERNET,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:06 p.m., in room 2141, Rayburn Office Building, the Honorable Bob Goodlatte (Chairman of the Subcommittee) presiding.

Present: Representatives Goodlatte, Coble, Sensenbrenner, Issa, Poe, Reed, Griffin, Adams, Quayle, Watt, Conyers, Chu, and Nadler.

Staff present: (Majority) Blaine Merritt, Subcommittee Chief Counsel; Olivia Lee, Clerk; and Stephanie Moore, Minority Counsel.

Mr. GOODLATTE. Good afternoon. The Subcommittee will come to order.

I have a statement. At the outset I want to express my surprise, as well as delight, that the other body has acted so expeditiously on their Patent Reform Bill. I look forward to continuing to work with Chairman Smith, Ranking Member Watt and other Members of the Judiciary Committee to fashion the House bill. This is the closest we have come in the past 6 years to enacting comprehensive patent reform and I am optimistic that we can get a bipartisan, bicameral bill on the President's desk in the near future.

Whatever the fate of patent reform in the coming weeks, we can all agree that Congress has found it difficult to enact a truly comprehensive reform bill. Why? The answer is twofold. First, different versions of the legislation have addressed many core provisions of the Patent Act. And second, a number of different stakeholders use the patent system in different ways. Businesses that devote significant resources on research and development have a greater financial need for patent protection than those spending less on R&D. In addition, some companies may generate one or two clearly understood patents that define an entire product while others, in the software or tech realms, may develop products that contain hundreds or even thousands of patents. In addition, many industries practice their patent portfolio defensively while other industries and patent-holding companies tend to go on the offensive to pursue their patent rights.

What this means is that our unitary patent system does not treat or affect all patent players in the same way. Some companies don't need the Patent Act to innovate or operate; others couldn't exist without it and the rest fall somewhere in between the two extremes.

All of these factors have certainly made Congress' task more difficult. Some patent observers believe that Congress cannot accommodate the concerns of all industry stakeholders with competing or incompatible financial interests every time a need to reform our patent law arises. They claim it would be far too time consuming and would generate substantial administrative cost for the courts and uncertainty for the stakeholders. There is also a strong likelihood that any industry specific legislative reform would ultimately fail because its lack of sufficient generality would not contemplate later changes in technology.

Finally, it is possible that such Balkanization of the Patent Act violates our international obligations under various treaties or protocols such as TRIPS, the intellectual property component of the General Agreement on Tariffs and Trade.

According to these patent critics, the courts are better positioned to generate appropriate reform over time, at least if Congress cannot do so legislatively. My belief is that Congress can learn from what the courts are doing and if the courts sufficiently have addressed an area of patent reform, then that may obviate the need for the Congress to act. In fact, one reason we are making greater progress on patent reform is because some of the more controversial issues that engendered the most disagreements are no longer addressed in the Senate bill. That is because the Supreme Court and the Federal Circuit have handed down decisions addressing many of the contentious issues we have grappled with over the years.

This hearing will examine what the courts have done over the past 6 years to address the concerns Congress have expressed regarding—in the form of patent reform legislation and what remains for Congress to tackle.

For example, when we first began to discuss patent reform I argued strongly that patent reform legislation needed to include reform of the way injunctions were being ordered by the courts in patent cases. The courts had developed a pattern of granting injunctions in almost all cases despite the plain reading of the statute. While finding common ground on a legislative solution proved extremely difficult, the Supreme Court addressed this issue conclusively with the *eBay v. mercExchange* decision in 2006.

I look forward to hearing from our witnesses about other progress the courts have made in correcting some of the abuses that have been occurring with our patent laws. This hearing could not come at a more meaningful time in the process as the House readies its version of patent reform legislation for introduction.

It is now my pleasure to recognize the Ranking Member of the Subcommittee, the gentleman from North Carolina, Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman and thank you for convening today's hearing. It is an important hearing and I think it will be valuable to us as we move forward in this area of crafting new patent legislation.

As a former litigator of 22 years, I know both of the benefits of meaningful, warranted litigation and the burdens of frivolous, costly litigation, to the parties and to society at large. As a legislator for the past 19 years I also appreciate the need for Congress to monitor developments in the judicial system and where appropriate respond legislatively.

Today's hearing fittingly provides us with the opportunity to examine recent developments in patent law, to assess whether the courts are trending in the direction we think best or whether we should just stay out of some areas and let what the courts have said continue to be the prevailing law there and avoid additional controversies.

So for us to do that and do it appropriately and in a balanced way, I think we need to have a better understanding of what the courts have done, have not done, what people perceive are the gray areas, the nuances that we need to be evaluating. And I am looking forward to hearing the testimony with that in mind.

With that, Mr. Chairman, I yield back.

Mr. GOODLATTE. I thank the gentleman. And it is now my pleasure to recognize the Ranking Member of the full Committee and a very consistent participant—participant in this Subcommittee, the gentleman from Michigan, Mr. Conyers?

Mr. CONYERS. Thank you, Mr. Chairman and Ranking Member. My congratulations on bringing us together at this point in time on a very important subject.

Most of my opening statement deals with the fact that patent reform has frequently ended up bipartisan in this Congress and in the 110th and 109th too, as a matter of fact. And that the courts have helped us, as you have said, Chairman Goodlatte, in ferreting out a lot of issues that seems to me that we can take mostly off the table. There are a number of subject matter where the courts have been helpful: venue, injunctions, willfulness, damages, obviousness have all helped us a lot.

We now have a Senate product and we will be meeting here, informally, with Chairman Smith, with our colleagues, Issa, Coble, Watt, Zoe Lofgren and of course Howard Berman. And so I think we are well on the way.

I have got a list of decisions that have been very helpful in sorting out some issues that the court can handle, perhaps, arguably even better than the legislature and some issues that are—that are leaving us with issues that are unique to ourselves.

And so we are pleased to have these witnesses before us and I look forward and yield back the balance of my time.

Mr. GOODLATTE. I thank the gentleman. Without objection, other Members' opening statements will be made a part of the record and we will now welcome our witnesses.

We have a very distinguished panel today. Each of the witness's written statements will be entered into the record in its entirety. And I ask each witness to summarize their testimony in 5 minutes or less. To help you stay within that time limit there is a timing light on your table. When the light switches from green to yellow you have 1 minute to conclude your testimony. When the light turns red it signals that the witness' 5 minutes have expired.

Before I introduce our witnesses I would like them to stand and as is the custom of this Committee, be sworn in.

[Witnesses sworn.]

Mr. GOODLATTE. Thank you and be seated.

Our first witness is Dan Burk, Chancellor's Professor of Law at the University of California, Irvine, School of Law. Professor Burk is an internationally prominent authority on legal and social issues related to high technology whose research encompasses the areas of patent, copyright, electronic commerce and biotechnology law.

Some of his most recent work has considered the statutory policy levers used by courts to apply patent incentives to industries with diverse innovation profiles, as well as the affect of intellectual property rights on the structure of firms and of industries. He is the co-author, along with Mark Lemley, of "The Patent Crisis and How the Courts Can Solve It."

Professor Burk received his BS in microbiology from Brigham Young University; his MS in molecular biology and biochemistry from Northwestern; his JD from Arizona State and his JSD from Stanford. He has covered the West Coast pretty well and even got as far as Illinois.

Our next witness is Andrew J. Pincus, a partner at Mayer Brown here in Washington, D.C. Mr. Pincus will testify on behalf of the Business Software Alliance. He focuses on appellate practice on briefing and arguing cases before the U.S. Supreme Court and the Federal and State appellate courts. He is argued 22 cases before the Supreme Court and has filed Supreme Court briefs in more than 100 other cases. Mr. Pincus has also served as a Federal law clerk; general counsel of Anderson Worldwide and as the general counsel of the Department of Commerce.

He was educated at Yale and the Columbia School of Law.

Our final witness is Dennis Crouch, Associate Professor of Law at the University of Missouri. Prior to joining the Missouri faculty Professor Crouch taught at Boston University and practiced law in Chicago. He has also worked as a research fellow at NASA; a software developer at the Mayo Clinic and a Peace Corp volunteer in Ghana.

He is perhaps best known as the editor of the popular patent blog, "Patently-O". Is that "O" or zero?

Mr. PINCUS. "O."

Mr. GOODLATTE. The—Professor Crouch earned his BSE in mechanical engineering from Princeton and his JD from the University of Chicago Law School.

Welcome to you all and we will begin with Professor Burk.

**TESTIMONY OF DAN L. BURK, CHANCELLOR'S PROFESSOR
OF LAW, UNIVERSITY OF CALIFORNIA, IRVINE**

Mr. BURK. Thank you very much, Mr. Chairman.

I am honored to be here with you, with the Committee today. I speak only for myself, as a scholar, but I am happy to present some of my research findings to the Committee.

And I congratulate you, Mr. Chairman and that of our colleagues, on your leadership in addressing this question of patent reform and especially this question as to what has been decided by

the courts, what could be decided by the courts and what might be the role of Congress at this point.

Mr. Chairman, I would say that the news is good news. As you indicated in your opening statement, as we also hear from Mr. Watt and Mr. Conyers in their opening statements, many of the contentious and difficult issues that have been identified in the area of patent reform over the past several years and which were suggested as possible topics of legislative reform have been addressed by the courts. And what that tells us, Mr. Chairman, is that the system is working the way that it is supposed to, that the courts are applying the statute, that we have a robust and dynamic statute that can address the needs of innovators.

Innovation is a messy and protracted and dynamic and often unexpected business. The needs of innovators vary widely, as you indicated in your opening statement, Mr. Chairman. The needs of the software industry are very different than the needs of the pharmaceutical industry. Both of their needs are very different than semiconductors and other industries. There are industries that we had not yet imagined or that are just emerging and all of them have very diverse innovation profiles.

All of them need the assistance of the patent statute to help them innovate. How can that possibly happen? It is neither practical, nor desirable, nor necessary for this Committee or for the Members of Congress to sit and continually tweak and adjust the patent statute to meet all those different needs that you pointed out in your opening statement, Mr. Chairman. Rather, what can happen, what is happening is that Congress charts the course. Congress sets the goals, sets the rules of the game, if you will, and then supplies the tools, through the statute to the courts, and sometimes to the patent office, in order to continually update and adjust the law to meet the ongoing changing needs of American industry so that the innovation that we all depend on can happen.

And we have seen that happen over the past several years. You gave a wonderful example in your opening statement, Mr. Chairman, of the way that injunctive relief has been addressed by the Supreme Court. And since that has happened we have seen empirically a drop off in the number of injunctions, incorrectly or improvidently granted, that might impede innovation.

The same type of process is ongoing in other areas, such as inequitable conduct, venue for patent lawsuits or the size of damage awards. In each of those cases we see the courts addressing those issues, grappling with those issues and solving those issues. And the written statements contain information and data about those particular cases.

Are there places where Congress needs to intervene? Each of the opening statements asked that question. I would say that the answer is yes. For example, if you want to make a fundamental change to the rules of the game, if you want to adjust the fundamentals of the patent system, such as, for example, the current proposals to switch from a first-to-invent system that we have now, to a first-to-file system, that has to happen in Congress. The costs of making that switch are very significant; it would be disruptive to nearly 200 years of established law; and the determination must be made before that happens that the costs are worth the benefits

that might happen from the change. The courts can't do that, the courts should not do that, that is a determination that really has to be made here.

Similarly, the question of post-grant opposition. It is a decision that the Patent Office can't make, the courts can't make, that is something for you here in this legislative body to address.

So in summary, Mr. Chairman, as I say, the news is good. Many of the most difficult issues that were before Congress 7 years ago have been resolved or are being resolved by the courts. That tells us that we have a robust statute, that the courts, and sometimes the Patent Office, can use to resolve most of these problems. And there remains a very small subset of problems, such as first-to-file or post-grant opposition, for this body to address.

I again congratulate you on looking into this issue and I look forward to answering any questions, either oral or written, that you or the distinguished Members of the Committee might have for me. Thank you.

[The prepared statement of Mr. Burk follows:]

Statement of Dan L. Burk

**Chancellor's Professor of Law
University of California, Irvine**

before the

**United States House of Representatives
Judiciary Subcommittee on Intellectual Property,
Competition, and the Internet**

hearing on

"Review of Recent Judicial Decisions on Patent Law"

March 10, 2011

Introduction

Mr. Chairman, Ranking Member Watt, distinguished members of the Committee, my name is Dan Burk, and I am a Professor of Law at the University of California at Irvine. It is an honor to appear before you today to discuss the Committee's efforts in the area of patent reform. As an academic scholar, I have no personal or business stake in a particular outcome from the patent reform process. My scholarly conclusions are my own. I speak here only for myself, but am pleased to have the opportunity to share my research findings with the Committee.

This hearing comes at an auspicious time in the conversation surrounding patent reform. I congratulate you Mr. Chairman, for the leadership that you and your colleagues on the Committee have shown in engaging this important topic. I particularly congratulate you for the foresight you have shown in holding this hearing to consider which issues of patent reform might already have been addressed, and which are currently being addressed, by means of judicial decisions. Many of the current issues that have been identified as requiring a change in the patent statute have in fact been addressed by means of that very statute as it currently stands. In most instances, this kind of judicial response is the fastest and most efficient way to address emerging issues faced by innovators.

Why do I say that a judicial response is often the fastest and most efficient way to address emerging issues? The economic and business reality of innovation is that it is fluid, dynamic and often unpredictable. The patent needs of innovators are constantly changing. It is neither practical nor desirable for the members of this Committee to return to the patent statute year in and year out, trying to adjust it to meet the latest needs and challenges in the business of innovation.

Instead, the optimal approach is for Congress to provide statutory tools that allow courts to adapt patent law to the changing needs of innovators in an ongoing, responsive manner. In order to foster innovation, our patent statute must be dynamic, flexible, and capable of dealing with rapidly developing business needs that were never foreseen. Recent judicial decisions in the areas of inequitable conduct, damages, injunctive relief, and venue show that Congress has in fact provided the necessary statutory tools, and those tools are being used to address the issues that have prompted calls for patent reform.

The Changing Needs of Innovators

The changing and diverse needs of innovators has been nowhere more manifest than in the current discussions regarding patent reform. The present round of patent reform legislation has been under discussion for more than seven years. Why has the process for patent reform been so difficult, protracted, and contentious? From the beginnings of this discussion it was clear that different industries had different expectations, different needs, and different views as to how the patent system might be improved. Reforms that were proposed by one industry were opposed by another. Some industries argued that the patent system was irretrievably broken, while others argued that it was functioning well and needed only minor adjustments. Ironically, as time has passed and the reform proposals have been modified, these stakeholders have to a large extent switched places, with some who called for major reform now arguing for only minimal changes, and those who rejected the initial proposals now embracing the current bills.

What is clear from this history is that these different stakeholders have very different business models, very different innovation profiles, and consequently very different views of the patent system. The cost and time for innovation in the pharmaceutical industry is radically different than that in the software industry. The cost and time for innovation in the semiconductor industry is radically different from that in either the pharmaceutical or software industries. The role that patents play in each of these industries is therefore different. Like the ancient story of the blind men touching and describing an elephant, each of these industries has experienced the patent system differently and so has a different perception of what it might take to improve or reform the system.

In our recent book, *The Patent Crisis and How the Courts Can Solve It*, my co-author Professor Lemley and I discuss in detail the economic and empirical literature documenting the differences among patent holders in different industries. Indeed, the intellectual property needs of even a single given industry will surely change over time. In our book, Professor Lemley and I detail how the economic, innovation, and intellectual property profile of the early software industry differed radically from that of the mature software industry of today. In the 1990s, Bill Gates famously declared that Microsoft would never hold software patents. Clearly that position has changed, as both his company and the industry in which it is situated have changed.

How can a single patent statute possibly accommodate such diverse needs, not only in diverse existing industries, but in industries that do not yet exist, whose technologies are now under development or whose development lies in the future? The answer is that the statute must be flexible enough to apply to many different industries in many different situations. The statute must include dynamic standards that allow an adjudicator – primarily the court system – to vary the availability, breadth, and strength of patents according to changing needs.

Let me give one example from the statute. The standard for granting a patent requires that the patented technology be a significant advance over the prior art – that the invention be non-obvious. The statute mandates that non-obviousness should be measured according to the knowledge possessed by a person of ordinary skill in the art. That is to say, patentability in each technological field is measured according to the state of the art in that particular field. The courts and the Patent Office are instructed by the statute to make patents more available or less available in different technological areas according to the inventive practices in those areas. Rather than attempting to determine what is appropriate for patenting in each technology, Congress has instructed the courts and the Patent Office to make that determination for different technologies at different times.

The Role of the Courts

The great genius of the American constitutional system is that it provides for three branches of government, each structured and adapted to a different role in the regulation and oversight of society. Congress creates the broad framework which courts, and in some cases the Patent Office, can apply to the changing needs of new, evolving, and established industries. Congress sets the goals for the patent system, Congress charts the course for the patent system, but it is the other branches of government, most especially the courts, that adapt the statute on a continuing basis to the changing environment of innovation.

We have recently seen dramatic examples of just this process at work. As you are aware, Mr. Chairman, much of the push toward patent reform legislation has been driven by the activity of “non-practicing entities” or NPEs, whom some have dubbed “patent trolls.” These are firms that invest in a portfolio of patents, or sometimes even a single patent, from which they hope to derive an income stream through licensing, but the firms are not themselves engaged in new research or development of technological products.

There is nothing illegal, nor even necessarily undesirable in such a business practice – patents are a form of property, and in many cases we would applaud an entrepreneur who puts property, such as real estate, mineral rights, water rights, or patents, to productive social use. However, there was a legitimate concern that at least some NPEs were obtaining permanent injunctions on the basis of their patents in order to “hold up” or impede the work of innovators who were actively engaged in new research and development. As a consequence, many stakeholders felt that Congress should intervene and adjust the patent statute, adjust the standard for permanent injunctions, in order to deal with this business challenge.

What happened instead? Even as discussions were ongoing about a legislative intervention, the Supreme Court reviewed the permanent injunction situation in its decision in *eBay v. MercExchange*. The Supreme Court in that case noted that the statute as enacted by Congress requires courts to grant permanent injunctions only on considerations of equity. Such equitable considerations, the Court reminded lower courts, include a determination as to whether monetary damages are an adequate remedy, a consideration of the public interest in the injunction, and an assessment of the hardships that might be imposed by such an injunction.

The results of that decision have been substantial. As patent scholars have empirically documented, the lower courts have implemented that ruling and the number of injunctions issued to NPEs has fallen dramatically. Why has this occurred? Because the needs of NPEs – to obtain a revenue stream from the patents that they hold – can be adequately met by providing monetary damages as a remedy. There is no need for the extra “strong medicine” of a permanent injunction in order for NPEs to be adequately compensated for any infringement of their patents.

At the same time, innovators who are engaged in active production, research, and development have continued to receive permanent injunctions where appropriate, because their goal is not simply to obtain a monetary reward, but to create new markets and new products. Although changes in the patent statute had been proposed to address this set of concerns, no changes were needed. All that was required was for the courts to take the direction given by Congress in the statute, and apply it to the current situation.

A similar process is ongoing with regard to other concerns that have been expressed in the calls for patent reform. Concerns have been expressed about the doctrine of inequitable conduct, concerns have been expressed about excessive

damages, concerns have been expressed about the proper venue for filing a patent suit – but these patent doctrines have all been the subject of recent decisions by the United States Court of Appeals for the Federal Circuit and by other courts. It is clear that the courts are addressing these issues, using the tools and the guidance that Congress has provided in the patent statute in order to adapt the law to the current needs and concerns of innovators. The process of adaptation takes some time, but the necessary tools to make the needed changes are already provided in the statute as it exists today.

The Role of the Legislature

Is this a recipe for so-called “judicial activism,” that is, for the judiciary to take into their own hands the role properly reserved for the legislature? By no means. Rather, this understanding of the statute recognizes that the courts have been given the task of implementing the patent policies set by Congress, and that judges can and should apply their expertise and practical experience toward achieving the goals outlined in the patent statute. The courts are well aware of their responsibility follow the course charted by the legislature. In my experience, the members of the federal judiciary take that duty very seriously, and are committed – indeed, perhaps sometimes may be over-committed – to following the course set by Congress. If anything, it appears that the courts may sometimes be overly cautious in exercising the latitude that they have been granted under the current statute.

Are there issues of patent reform that should not be left to the common law interpretive process, but that may require intervention by Congress? Certainly, if it becomes desirable to make fundamental changes to the structure of the patent system, those are decisions that must be made in Congress and implemented through appropriate legislation; such changes cannot and should not be made by the judiciary.

An example of such a change currently under consideration might be the proposal to shift the United States patent application system from a “first to invent” system to a “first to file” system. Such a change would be enormously disruptive to nearly 200 years of settled patent law in this country. The costs of such a change would be very substantial. Such a change should only be made after a determination that the very considerable costs are worth the potential benefits. That determination must be made by Congress. Neither the courts nor the Patent

Office are authorized under the current statute to make such a change to American patent law, and neither should they be.

Similarly, the implementation of new forms of post-grant administrative review, as has been proposed in the current discussions of patent reform, is a structural change that cannot be made by the courts, but must rather be made by Congress. But in this example it is important to exercise some caution. Although the creation of post-grant opposition proceedings must be a legislative act, many of the reasons for considering such a change -- such as the fear of too many bad patents, or the fear of excessive damage awards -- need not be the subject of legislative intervention. It is important to recognize that the courts, together with the Patent Office, applying the provisions of the current patent statute, can already address many of the underlying causes that have led to the call for post-grant oppositions.

Conclusion

In conclusion, Mr. Chairman, patent reform is an ongoing, dynamic process. To match the pace of innovation, patent reform must literally occur week in and week out, year after year. That can only be accomplished by the application of a flexible statute to new economic and technological situations as they arise, primarily in the context of the court system. You and the distinguished members of this body, together with your predecessors, have already done much of the work of patent reform by providing the courts with a flexible, robust statute that can accommodate the ongoing changes in a volatile global economy. Recent judicial decisions addressing the issues driving patent reform demonstrate that this process is working as it should. I congratulate you for conducting this hearing today to consider this important issue, and I look forward to answering any questions you may have.

Mr. GOODLATTE. Thank you, Professor Burk.
Mr. Pincus, welcome.

**TESTIMONY OF ANDREW J. PINCUS, PARTNER,
MAYER BROWN LLP**

Mr. PINCUS. Thank you, Mr. Chairman, Ranking Member Watt—

Mr. GOODLATTE. You may want to turn that on and pull it close.

Mr. PINCUS. Got you. Thank you, Mr. Chairman, Ranking Member Watt and Members of the Subcommittee. It is an honor to appear before you today, as you noted, on behalf of the Business Software Alliance.

As the Members of the Subcommittee know BSA has been a strong supporter of patent reform throughout the nearly 6 years that this Committee has been focused on modernizing the patent law. BSA companies are innovators, they are substantial patent holders and at the same time they are frequently named as defendants in patent infringement actions. And so they have a great interest in properly calibrating the standards for obtaining patents, for challenging dubiously granted patents in administrative proceedings and also for enforcing patents in the courts.

This Committee's intense focus on the problems in the patent system since 2005 has had a real impact, significant impact on the court's interpretation of the patent law. From 2000 to 2005 the Supreme Court decided only three patent cases. From 2006 through the end of the current term The Court will have ruled on eight patent issues. And the Federal Circuit has also been quite active in clarifying previously uncertain or unjustified legal principles.

And the Supreme Court's opinions and the Federal Circuit's opinions have addressed, and largely cured, the imbalances in the law that created risks for inventors and diminished their incentives to innovate that this Committee focused on in its deliberations over this period. Just to name a few:

The standard governing the issuance of injunctions in infringement cases, as you noted, Mr. Chairman, was a critical and very, very controversial issue in 2005 when the first bill was introduced. The Supreme Court resolved that issue unanimously in its eBay decision.

The low standard for proof of willfulness, which results in the imposition of multiple damages and the associated unjustified intrusion on the attorney/client privilege, which was also the subject of a lot of the Committee's deliberations, were overturned by the Federal Circuit in the Knorr-Bremse and the Seagate decisions.

The broad interpretation of Section 271F of the patent law, which led to significant extraterritorial application of our patent laws, was overturned by the Supreme Court in the *Microsoft v. AT&T* decisions.

And the vague standards for calculating reasonable royalty, which is one of the principal drivers of abusive infringement litigation have been clarified. In a series of several rulings, the Federal Circuit has made clear that first of all, there will be appellate review of damages awards; there is not going to be a hands-off attitude by the Federal Circuit. That the entire market value rule, something this Committee focused on a lot is something that is inapplicable in most cases. And the compensatory damages, in the reasonable royalty context especially, should be based on the spe-

cific features of the defendant's product that are attributable to the infringed patent and that that is the rule, not the exception.

And finally, as you noted, forum shopping has been addressed by a series of Federal Circuit rulings in which the Court, exercising its mandamus authority, has required plaintiffs to show a real connection between the forum and the litigation in order to maintain an action.

So these key litigation issues have been resolved for the courts, at least for now. Obviously we will have to wait and see what will happen in the years ahead, no one can predict.

But Congress still has an essentially role to play. The courts can interpret the statutory provisions governing infringement actions, as Professor Burk noted, but there is some issues the courts can't address, because they require new legislation. And BSA member companies urge the Committee to focus its patent reform efforts on these areas, in particular, funding of the PTO, which the PTO obviously needs the freedom to set its own fees, to reduce pendency and have the funds it needs to become the efficient operation that it can become and of course fee diversion should be ended.

An effective administration system to weed out bad patent. The experts at the PTO are in the best position to decide if a patent has been poorly issued, and they need an effective procedure in place to allow them to do that so people can challenge patents that were issued unjustifiably, bring those issues to the PTO and that requires changes to the current inter partes system. Allowing third parties to submit prior art for consideration of the examination process, something—this has been in all the bills considered by this Committee; putting an end to the false marking litigation, cottage industry that has grown up, really a new issue that has just arise in the last couple of years, that really needs to be addressed is this plague of false marking cases. And finally, adopting the first inventor to file system with the accompanying prior user rights that go along with it.

Thank you very much, Mr. Chairman. I look forward to addressing the Subcommittee's questions.

[The prepared statement of Mr. Pincus follows:]

**Statement On Behalf of the Business Software Alliance
by Andrew J. Pincus
Partner, Mayer Brown LLP**

“Review of Patent Law Decisions”

**Hearing Before The
Subcommittee on Intellectual Property, Competition and the Internet
Committee on the Judiciary
U.S. House of Representatives**

March 10, 2011

Mr. Chairman, Ranking Member Watt, and members of the Subcommittee.

My name is Andrew J. Pincus, and I am a partner in the law firm Mayer Brown LLP. I am honored to appear before the Subcommittee today on behalf of the Business Software Alliance (“BSA”), which is an association of the world’s leading software and hardware technology companies. A significant part of my law practice focuses on Supreme Court and appellate litigation, and I represented BSA in many of the cases that I will discuss today. From 1997 to 2000, I served as the General Counsel of the United States Department of Commerce, where I was responsible for a number of intellectual property issues.

BSA has been a strong supporter of patent reform throughout the nearly six years that this Committee has been focused on modernizing our patent laws. BSA companies are innovators, and substantial patent holders, and at the same time are frequently named as defendants in patent infringement actions. They therefore have a particularly acute interest in properly calibrated standards for obtaining patents, for challenging dubiously-issued patents in administrative proceedings, and for enforcing patents in the courts.

The last five years have seen a dramatic change in the Supreme Court’s attention to patent law issues. From 2000-2005, the Court decided only 3 patent cases; from 2006 through the end of the current term, the Court will have ruled on 8 patent issues. Many of the areas of the law that provided the impetus for legislative reform have now been addressed by the Court. The Court of Appeals for the Federal Circuit also has been active in clarifying previously uncertain or unjustified legal principles.

What are the reasons for this change?

This Committee’s intensive focus on the problems in our patent litigation system is, I believe, one of the principal reasons for the courts’ increased activity in this area. On June 8, 2005, Mr. Chairman you, along with Chairman Smith, Mr. Berman, Mr. Conyers, Ms. Lofgren, Mr. Coble and others introduced H.R. 2795, “The Patent Reform Act of 2005.” Chairman Smith explained that the purpose of the bill was to “eliminate legal gamesmanship from the current

system that rewards lawsuit abuses over creativity. It will enhance the quality of patents and increase public confidence in their legal integrity.”¹

The 2005 patent reform bill addressed three basic areas: (1) provisions targeting judicially-adopted rules for patent litigation that unbalanced the litigation system and permitted the assertion of abusive claims; (2) provisions to improve the quality of the patent examination process and to better enable the experts at the Patent and Trademark Office to correct errors made in the examination process; and (3) adoption of the first-to-file standard for patent grants.

When this bill was introduced in 2005, the most controversial patent litigation issue was the standard for issuing injunctions in patent infringement actions. The Federal Circuit had held that injunctions should be issued in every case in which the plaintiff prevails “absent exceptional circumstances.” The technology industry argued that the jurisprudence in the area of patents was out of step with every other area of the law, where courts are required to weigh equities before granting an injunction—and asked Congress to intervene to restore the appropriate standard for injunctive relief. The very next year, while Congress was considering the issue, the Supreme Court took up this issue in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), and held unanimously that the general standard for granting injunctions applies in patent infringement actions as well.

The 2005 bill, as well as the 2007 and 2009 patent reform bills considered by this Committee addressed a number of other problems in the litigation system:

- The standard for determining whether a patent application should be denied on obviousness grounds;
- The test for awarding multiple damages based on a finding of “willful” patent infringement;
- The standard for determining the amount of a “reasonable royalty” in cases in which the alleged infringement relates to a minor component or feature of a complex product;
- Extraterritorial application of the U.S. patent laws under Section 271(f);
- The standard of proof applicable to judicial challenges to patent validity; and
- Rules governing the permissible venue for patent infringement actions.

The Supreme Court’s decision in *eBay* was a harbinger of things to come with respect to these issues. Over the past several years, the Supreme Court and the Court of Appeals for the Federal Circuit have in a series of cases addressed these issues, ameliorating the perverse situation in which the standards for asserting claims under the patent law were in fact imposing very substantial obstacles to the discovery of new products and services in the most dynamic sectors of our economy.

¹ Patent Act of 2005: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. on the Judiciary, 109th Cong., 1st Sess. 1 (2005).

As a result of this judicial activity, the legal standards governing patent litigation are in a much better state than they were when this Committee first led the charge on patent reform. While of course not all of our concerns have been addressed fully, at this time, the courts are moving in the right direction. I say “at this time” because continued vigilance is essential. The past imbalances in the law were in many cases created by the courts, and there is no way to predict the path of future jurisprudence. There is, however, good reason to be optimistic.

Even though the litigation issues are being addressed by the courts, there is still essential work for Congress on patent reform. The courts cannot implement the necessary improvements to the PTO’s processes or the first-to-file system and recent jurisprudence of false patent marking has created new risk for inventors. Those reforms require action by Congress.

BSA member companies believe the time has arrived to move beyond old controversies and enact a balanced, consensus patent reform bill. As this Committee proceeds with patent reform legislation, we urge the Committee to focus on the following key elements:

- **Funding the Patent and Trademark Office.** The PTO needs the freedom to set its own fees in order to achieve the import goals of continuing to reduce pendency, enhance patent quality and improve the overall efficiency of its operations.
- **“Weeding out” bad patents.** A post-grant review system for patents should be established to provide an early opportunity to challenge newly-issued patents to improve overall patent quality and, the inter partes reexamination process should be made more effective by removing existing disincentives and avoiding new barriers to instituting a reexamination.
- **Allowing third parties to submit prior art.** Third parties should be allowed to submit prior art for the PTO to consider in connection with pending published patent applications.
- **Putting an end to the “False Marking” litigation cottage industry.** A very recent trend has seen aggressive litigation alleging, “false marking” of products containing patented inventions. The damages regime for false marking cases should be changed to prevent outsized awards where no one has suffered any actual harm.
- **Adopting a “First Inventor to File” system.** The United States should join the rest of the world by moving to a “first inventor to file” system for granting patents.

My testimony first discusses the recent judicial decisions addressing key issues in many of the areas by the various reforms this Committee has considered, including the 2007 patent reform legislation reported by this Committee and passed by the House. I conclude by pointing out that there are some aspects of the current patent system—changes in the standards and procedures by the Patent and Trademark Office and false patent marking—that only Congress can address.

I. The Courts Respond to the Problem of Abusive Litigation

This Committee has long recognized that “abusive practices particular to patent litigation” were a key factor that “hindered the ability of patents to spur innovation today and have put at risk future innovation.” H. Rep. No. 110-314, at 21 (2007). The courts, particularly the Supreme Court, have in the last four years mitigated many of the abuses of the patent litigation system, restoring the necessary balance to patent litigation rules. There is more to be done on some issues, but the courts appear focused on the problems and well on the road to solving them.

A. The Supreme Court

1. Test for Issuance of Injunctions

When a court adjudicated a party as infringing a patent, the Federal Circuit for many years applied a rule automatically granting a permanent injunction, “absent exceptional circumstances.” That meant that a plaintiff would be able to disrupt the defendant’s business, even when the patent at issue was a minor component of the product and where the harm suffered by the plaintiff could be remedied completely through an award of monetary damages. Because such an injunction could be fatal to a business, the threat of such relief coerced defendants into unfair and unjustified settlements.

The Supreme Court in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), rejected this automatic injunction rule, finding instead that the traditional four-factor test for the exercise of equitable relief applied in virtually every other context is also appropriate for the Patent Act. *Id.* at 391-92. As Justice Kennedy explained in his concurring opinion for himself and three other Justices, “an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” *Id.* at 396-97. Applying traditional equitable principles properly balances the rights of stakeholders and reduces the possibility of abuse.

2. Standard for Obviousness

The crux of any patent is the “inventive step,” that is, a patent must describe a novel innovation not obvious to a “person having ordinary skill in the art.” One of the reasons that the PTO may grant a patent erroneously is if the examiner fails to recognize that the application describes a purported invention that would have been obvious to someone versed in the relevant art. Whether a patent was properly granted may be tested in the course of litigation, but for many years, the Federal Circuit shielded these patents from adequate scrutiny, holding that a patent may be shown to be obvious by the combination of two or more pieces of prior art only if some “teaching, suggestion, or motivation” to combine that art can be shown in the documented prior art. Common sense was, according to the Federal Circuit, simply insufficient.

The Supreme Court in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), rejected this test for obviousness, finding that it inappropriately protected patents of poor quality.

Instead, the Court concluded that when considering obviousness, “the analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ.” *Id.* at 418. The Court explained that “the results of ordinary innovation are not the subject of exclusive rights under the patent laws. Were it otherwise patents might stifle, rather than promote, the progress of useful arts.” *Id.* at 427. *KSR* thus ensures that, when the PTO grants a patent notwithstanding that the claimed invention was obvious, a party in litigation may effectively challenge the patent.

3. Standard for Patentability

In *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), a party sought to patent a claimed invention relating to a classic business method by which buyers and sellers of commodities in the energy market may hedge against price changes. The Federal Circuit rejected the patent, finding that “process patents” are permissible only when they relate to a machine or when they transform some material into a different state or thing. *Id.* at 3224. This was known as the “machine-or-transformation” test. *Id.* That was a troubling test for many of our members.

In resolving *Bilski*, the Supreme Court reversed the Federal Circuit’s rule, holding that the machine-or-transformation test was not the sole means for an innovation to be eligible for a patent as a process (130 S. Ct. at 3226-27), and four members of the Court strongly suggested that “inventions in the Information Age” require process patents that reach beyond machine-or-transformation alone (*id.* at 3227). The Court likewise rejected the view that all business processes were unpatentable. *Id.* at 3228-29.

The Court did, however, reject the claimed patent in *Bilski*. 130 S. Ct. at 3230-31. And rightfully so. As the Court concluded, the particular business process at issue there was an abstract idea, not the sort of discrete, innovative process that may qualify for patent protection. Not only was this the correct result, but it reaffirmed the vitality of the important principle that abstract ideas are not patentable.

4. Exhaustion of Method Patents

The Court has also addressed exhaustion of method patents and reached the common-sense conclusion that when a company sells or licenses its intellectual property, it has exhausted its patent for all downstream users. In *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), LGE licensed certain method patents to Intel, which used them in making microprocessors. Intel then sold its chipsets to Quanta, who used the chips to build computers. Although the LGE license with Intel permitted the sale of the processors, LGE attempted to limit the ability of third parties to practice the patent in an unapproved manner. LGE thus sued Quanta for patent infringement, alleging that—despite Quanta’s purchase of the chips from LGE’s licensee who had already paid for a license—Quanta was infringing on LGE’s patent. The Federal Circuit agreed with LGE. *Id.* at 624-25.

The Supreme Court, however, reversed. The Court found that when a party’s method patent is embodied in a product, sale of the product exhausts the underlying method patent. *Quanta*, 553 U.S. at 628-29. The Court arrived at the sensible conclusion that “[t]he authorized

sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article." *Id.* at 638. Holding otherwise would have opened the gates for abusive patent litigation, permitting all downstream users to have to obtain licenses from the patent holder.

5. Extraterritorial Liability

Traditionally, United States patent law does not apply to products made and sold in other countries; the law of the place in which a product is made or sold controls. Section 271(f) of the Patent Act is a limited exception that creates liability where one supplies from the United States patented "components" that will be used in a "combination" abroad. In *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), the Supreme Court appropriately limited the scope of this Section to ensure that it attaches only to components actually made in this country.

In that case, AT&T held a patent relating to a method for encoding and compressing recorded speech. A version of Microsoft's Windows operating system had the potential infringe the patent when installed on a computer. The question arose whether copies of Windows installed on computers abroad would infringe within the meaning of Section 271(f). AT&T argued it did because Windows operating software generally is a "component" that was used abroad. The Court disagreed: although software may be a component, the Court concluded that it was only a "component" within the meaning of Section 271(f) when it was copied into a computer-ready format. *AT&T*, 550 U.S. at 449-52. Therefore, because Microsoft made the individual copies abroad, the "component" in question did not come "from the United States."

This sensible interpretation of Section 271(f) ensures that U.S. patent law is properly limited to the territorial jurisdiction of the United States. Overly expansive extraterritorial application of the patent laws risks needless conflict between U.S. and foreign law.

6. Availability of Declaratory Judgments

Finally, in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), the Supreme Court opened the doors to declaratory judgments in the context of patents. This is a particularly important development to ensure that licensees may obtain a judicial determination on the validity of a patent without being required first to infringe the patent. A ruling to the contrary would have continued denying effective access to the courts for companies that were accused of making infringing products but either had (or had been offered) a license.

In *MedImmune*, the holder of a patent license filed a declaratory judgment action seeking to invalidate the patent it had licensed. The district court and the Federal Circuit found that the licensee lacked standing under Article III of the Constitution because the existence of the license precluded any possibility of liability for infringement. *MedImmune*, 549 U.S. at 122. Following standards that it had applied in other areas of the law, the Court, however, rejected the view that a company must potentially gamble its very existence to review the validity of a patent: "The rule that a plaintiff must destroy a large building, bet the farm, or (as here) risk treble damages and the loss of 80 percent of its business before seeking a declaration of its actively contested legal rights finds no support in Article III." *Id.* at 134. The declaratory judgment tool is of

crucial importance to manufacturers and service providers; the Court's decision eliminates practical barriers to the use of this remedy.

* * * *

Two additional cases raising issues related to legal rules that enable excessive litigation are currently pending before the Supreme Court.

7. Inducement Liability

The Patent Act imposes liability on a person who induces another to infringe. The Federal Circuit has applied a lax knowledge and intent requirement in inducement claims, recently finding that deliberate indifference was sufficient to establish inducement liability on the theory that it established that the defendant knew or should have known of the patent. The Court granted certiorari in *Global-Tech Appliances, Inc. v. SEB S.A.*, No. 10-6, to consider the appropriate standard to apply in this context.

Many leading innovators filed *amicus curiae* submissions in that case, urging the Court to adopt specific knowledge and intent requirements. When a company develops a new product, even the most diligent patent search may fail to uncover a potentially relevant patent. Thus, patent infringement, to the extent it occurs, often is the product of a good faith mistake particularly with respect to the technology sector in which there are hundreds of thousands of patents that may potentially be relevant to a product or service. Direct patent infringement is a strict-liability offense. But inducement liability—which is essentially an aiding and abetting theory—requires more than just an underlying infringement. A party should be liable for inducing another to infringe only when it is aware of the asserted patent and where it intends for another to take actions that will constitute infringement. A rule to the contrary would be a substantial disincentive for innovators. (A copy of the BSA's *amicus* brief in this case is attached to my testimony.)

8. Standard of Proof for Establishing Patent Invalidity

As I noted with respect to *KSR*, a crucial guarantee of patent quality in the United States is the ability for litigants to demonstrate that a patent issued by the PTO is invalid because it does not, in fact, satisfy all the criteria of patentability. The Federal Circuit has long held that a party asserting patent invalidity must establish proof by clear and convincing evidence. The Supreme Court granted certiorari in *Microsoft Corp. v. i4i Limited Partnership & Infrastructure for Information, Inc.*, No. 10-290, to consider this issue.

The Federal Circuit's rule is particularly troubling in circumstances in which the patent is challenged on obviousness grounds and the PTO never considered the most relevant prior art. During the prosecution of a patent, the PTO reviews the prior art submitted by the inventor and also conducts its own search of prior art databases. The time the PTO spends conducting its search, however, is quite limited. Studies show that the PTO rarely relies on non-patent prior art and of course, neither PTO databases or even the Library of Congress has collections of actual products that were in the market—often the best prior art. Not surprisingly, there are often circumstances where the PTO did not consider important prior art.

It makes no sense to substantially tilt the scales toward patent holders in such cases based on nothing more than the mere happenstance of PTO error. But that is precisely what happened in *i4i Limited Partnership*. The plaintiff asserted that Microsoft infringed its patent, but prior art not considered by the PTO—that the patentee then destroyed—casts significant doubt on the validity of the plaintiff’s patent. In these circumstances, the patent holder and a party challenging the patent’s validity should be placed on a level playing field. The preponderance of the evidence standard is therefore the appropriate standard of proof. (A copy of the BSA’s amicus brief in this case is attached to my testimony.)

B. The Federal Circuit

Although the results have been less uniform for the innovators, certain strands of case-law demonstrate that the Federal Circuit is becoming sensitive to patent abuse.

I. Standard for Willful Infringement

Section 284 provides that the court in a patent infringement action “may increase the damages up to three times the amount found or assessed.” The statute does not specify the grounds that could justify multiple damages and, although courts had said that proof of “willful infringement” was required, the Federal Circuit applied what was effectively a negligence standard: “Where . . . a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.” *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) (citations omitted).

This standard allowed the inclusion of a willfulness claim in virtually every infringement action. H. Rep. No. 110-314, *supra*, at 28. In response, defendants “commonly assert[ed] an advice of counsel defense. Under this defense, an accused willful infringer aims to establish that due to reasonable reliance on advice from counsel, its continued accused activities were done in good faith. Typically, counsel’s opinion concludes that the patent is invalid, unenforceable, and/or not infringed. Although an infringer’s reliance on favorable advice of counsel, or conversely his failure to proffer any favorable advice, is not dispositive of the willfulness inquiry, it is crucial to the analysis.” *In re Seagate Technology, LLC*, 497 F.3d 1360, 1369 (Fed. Cir. 2007) (en banc).

But this legal rule subjected defendants to a Hobson’s choice: an opinion of counsel was key to avoiding multiple damages, but producing an opinion of counsel was held to waive attorney-client privilege—and that waiver was held by some courts to extend broadly to all documents and conversations provided to the client that embodied an opinion of counsel or a prediction regarding the outcome of the litigation, even those from *trial* counsel. Producing the opinion letter therefore could force the defendant to reveal its entire trial strategy.

In a series of decisions in recent years, the Federal Circuit has significantly altered these rules. First, in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), the court addressed its precedents permitting a party’s failure to acquire an opinion of counsel or a party’s assertion of an attorney-client or work-product

privilege with respect to that opinion to be considered as evidence of willfulness by the trier of fact. With respect to attorney privileges, the court concluded that the proper working of the attorney-client relationship barred using assertion of the privilege as an adverse inference. 383 F.3d at 1344-45. It also concluded that a party did not have an obligation to obtain an opinion of counsel letter for every known patent, explaining the enormous “burdens and costs” such a requirement would impose. *Id.* at 1345.

Next, in *In re Seagate Technology, LLC, supra*, the Federal Circuit observed that its prior precedents had lowered the standard for proving willful infringement to a test that was “akin to negligence.” 497 F.3d at 1371. Applying the Supreme Court’s recent decision in *Safeco Insurance Co. of America v. Burr*, 551 U.S. 47 (2007), which construed a statutory willfulness requirement in the context of the Fair Credit Reporting Act, the *Seagate* court held that “to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Id.*

Together, these two cases substantially clarify the standard for awards of multiple damages and attorneys’ fees, thereby reducing significantly the ability of plaintiffs to coerce unjustified settlements by threatening defendants with draconian liability.

2. Standard for Calculating Reasonable Royalty

Under the Patent Act, damages for patent infringement shall not be “less than a reasonable royalty for the use made of the invention by the infringer.” 35 U.S.C. § 284. This Committee has explained that “courts often have difficulty in assuring that damages are: 1) ‘to compensate for the infringement’ (i.e., compensatory, not punitive); 2) ‘reasonable;’ and 3) related to ‘the use made of the invention by the infringer.’” H. Rep. No. 110-314, *supra*, at 25. The Committee “was presented with numerous studies showing that”—because of the vague and uncertain principles applied by the courts—“current litigation practices often produce a royalty award substantially in excess of a reasonable royalty. This cycle is harmful to our overall economy and especially damaging to technology innovation.” *Id.* at 26.

In *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), the Federal Circuit took the first step in reforming the standards for calculating a reasonable royalty. The plaintiff in that case asserted that its patent was infringed by a “date picker” tool that “enable[d] the user to select a series of numbers, corresponding to the day, month, and year, using graphical controls” to enter the date for a calendar entry in Microsoft Outlook and other programs. *Id.* at 1317. Even though the case involved, in the words of the Federal Circuit, “but a tiny feature of one part of a much larger software program” (*id.* at 1332), the plaintiff claimed as a reasonable royalty 8% of the total sales value of the allegedly infringing software (which it estimated at \$8 billion) for a total award of \$561.9 million. The jury instead awarded nearly \$357.9 million.

The Federal Circuit stated: “Outlook is an enormously complex software program comprising hundreds, if not thousands or even more, features. We find it inconceivable to conclude, based on the present record, that the use of one small feature, the date-picker, constitutes a substantial portion of the value of Outlook.” *Id.* at 1332.

The plaintiff argued that the royalty should have been calculated as continuous, whereas Microsoft contended it would have been a one-time lump-sum payment. The jury sided with Microsoft, but awarded \$357.9 million regardless. The Federal Circuit found that the evidence for such a substantial award was lacking. Indeed, the evidence offered at trial suggested that average lump-sum payments were one-third to one-fourth the amount of the award. *Lucent Techs.*, 580 F.3d at 1332. Looking at the relevant factors, the court was “left with the unmistakable conclusion that the jury’s damages award is not supported by substantial evidence, but is based mainly on speculation or guesswork.” *Id.* at 1335. The court likewise concluded that other aspects of the damage calculation were erroneous, and it remanded the case. *Id.* at 1338-39. This decision represented a substantial change from the extremely deferential standard that the Federal Circuit previously had applied in reviewing reasonable royalty awards.

The positive developments with respect to constrained royalties was next evidence in a district court case, *Cornell University v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279 (N.D.N.Y. 2009), in which Judge Rader—now the Chief Judge of the Federal Circuit—handled the case, sitting by designation as a trial judge. Cornell alleged that HP infringed a patent relating to the functioning of a computer processor. On damages, the court excluded evidence that sought to introduce the total market value of the “entire server and workstation market.” *Id.* at 284. It concluded that the patented technology did not drive customer demand or form a substantial value of the entire product. *Id.*

Notwithstanding this order, at trial, Cornell still attempted to prove damages based on a total economic value of \$23 billion, the total value of server and workstations sold. On this basis, the jury awarded \$184 million in damages. The court, however, found that this royalty base was inappropriate. The court found that introduction of entire market value was impermissible because Cornell had not provided “market evidence that the claimed invention formed the basis for demand for the CPU bricks, or even the existence of a market for CPU bricks.” *Cornell Univ.*, 609 F. Supp. 2d at 287. Instead, the court concluded that the appropriate royalty base for the processors was approximately \$6.7 billion, thus entitling Cornell to damages of about \$53.5 million. *Id.* at 291-92.

This positive trend recently culminated in the Federal Circuit’s decision of *Uniloc USA, Inc. v. Microsoft Corp.*, 2011 WL 9738 (Fed. Cir. 2011), a case which eliminated the “rule of thumb” and also sharply restricted the use of “entire market value” evidence.

For several years, courts have permitted use of the “rule of thumb” whereby a court would take 25% of the profits of a product as the starting point for the calculation of a reasonable royalty regardless of the importance of the invention to the overall product or the reasons why consumers were attracted to the product. *Uniloc*, 2011 WL 9738, at *18. The Federal Circuit, however, wholly repudiated this doctrine, finding that (1) the rule “fails to account for the unique relationship between the patent and the accused product,” (2) it “fails to account for the unique relationship between the parties,” and (3) “the rule is essentially arbitrary and does not fit within the model of the hypothetical negotiation within which it is based.” *Id.* at *17. Rather than a one-size-fits all approach, the court now requires parties to analyze the context-specific factors of the case alone in determining a reasonable royalty.

Additionally, the Federal Circuit limited the use of evidence regarding the entire market value of a product. Plaintiffs invariably attempt to introduce evidence of a product's total market value in order to argue that the damages they seek are "reasonable." The problem with this strategy, however, is that the patent at issue often has nothing whatsoever to do with the product's market value, and thus can only serve to lead the jury astray in assessing damages.

The Federal Circuit reiterated that the "entire market value rule allows a patentee to assess damages based on the entire market value of the accused product only where the patented feature creates the 'basis for customer demand' or 'substantially create[s] the value of the component parts.'" *Uniloc*, 2011 WL 9738, at *22 (quoting *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir. 2009) & *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549-50 (Fed. Cir. 1995)). The Court explained that:

This rule is derived from Supreme Court precedent requiring that "the patentee ... must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative," or show that "the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature." *Garretson v. Clark*, 111 U.S. 120, 121 (1884).

Id.

Here, the court agreed with Microsoft that the patented device created neither customer demand for the software nor the substantial value of the products. *Uniloc*, 2011 WL 9738, at *22. And the court refused to fashion any sort of exception to permit consideration of the entire market value for a "minor patent improvement[]" when the patent holder "assert[s] a low enough royalty rate." *Id.* at *24. The court found that inappropriately-admitted evidence of the entire market value of a product can unduly taint a jury's perspective as to the reasonable royalty of any single component. *Id.* at *24-25.

In sum, the Federal Circuit has taken several significant steps with respect to the calculation of a reasonable royalty.

First, the court has announced that it will scrutinize awards to ensure that jury verdicts are adequately supported by sufficient evidence.

Second, the court has rejected one-size-fits-all rules, like the rule of thumb. Instead, parties must present context-specific evidence about the damages actually apparent in any particular case.

Third, the court has limited the use of entire market value, evidence that likely leads a jury to award massive damage verdicts entirely disproportional to the injury that reasonably can be attributed to infringing conduct. Rather than being admissible in every case, this evidence can be presented to a jury only when the patent at issue actually contributes, in a realistic manner, to the market value of the product at issue.

3. Venue

Patent infringement claims may be filed in any judicial district in which the defendant is subject to personal jurisdiction. 28 U.S.C. §§ 1391(c) & 1400. As most states extend personal jurisdiction to the outer constitutional limits, a patent plaintiff typically may bring a suit anywhere in the country where a defendant sells a product or an infringing patent is practiced. For many companies, that means venue is available anywhere in the country.

Abuse of venue rules has been another feature of problematic patent litigation, with cases filed principally in a few “magnet” jurisdictions in which plaintiffs seem to believe they will obtain more favorable treatment. This Committee in 2007 recognized “the widespread use of forum shopping” and the need to address the problem. H. Rep. No. 110-314, *supra*, at 40.

The Federal Circuit has in recent years issued several decisions that limit this practice.

In *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008), the Federal Circuit took an important step toward ensuring fair venue. After a plaintiff filed suit in the Eastern District of Texas, the defendant moved to transfer the case to the Southern District of Ohio, where the physical and documentary evidence was located, as well as many of the key witnesses. *Id.* at 1318. The defendants contended that the Eastern District of Texas had no meaningful connection to the suit. After the district court refused the motion to transfer, defendants sought—and obtained—a writ of mandamus.

Applying the venue-transfer factors from the United States Court of Appeals for the Fifth Circuit (when the Federal Circuit considers non-patent law issues, it applies the law of the circuit in which the district court sits), the Federal Circuit concluded that the district court committed several errors including giving “too much weight to [the plaintiff’s] choice of venue,” failing to “assess[] the cost of attendance for witnesses,” not considering “the relative ease of access to sources of proof,” and disregarding “the public interest in having localized interests decided at home.” *TS Tech USA Corp.*, 551 F.3d at 1319-21. The court thus ordered transfer of the case to Ohio.

Subsequently in *In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009), Nintendo sought to transfer a case from the Eastern District of Texas to the Western District of Washington. Just like *TS Tech USA Corp.*, Nintendo had no meaningful contacts with the eastern District of Texas, whereas all U.S.-based evidence was in Washington. In granting mandamus to order a transfer, the Federal Circuit found that Nintendo’s “extensive” contacts in Washington “indisputably make it a proper venue.” *Id.* at 1198. The court underscored that “[t]he convenience and cost of attendance for witnesses is an important factor in the transfer calculus.” *Id.* And, once again, the court noted that the plaintiff’s choice of venue does not weigh against transfer. *Id.* at 1200. The Federal Circuit has also ordered transfer in other actions on similar grounds. See, e.g., *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011); *In re Acer America Corp.*, 626 F.3d 1252 (Fed. Cir. 2010); *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009).

The same approach was followed in *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009), where the Federal Circuit again granted mandamus. Notably, in that case, plaintiffs attempted to manufacture a connection to the Eastern District of Texas by converting 75,000

pages of electronic documents to electronic format, transmitting them to the offices of litigation counsel in Texas, and then claiming convenience of evidence. *Id.* at 1336-37. The court refused to consider such “a fiction which appears to be have been created to manipulate the propriety of venue.” *Id.* at 1337.

Similarly in *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010), the plaintiff asserted that the Eastern District of Texas was an appropriate venue because it had moved its principal place of business to Texas and moved files there. The court found, however, that “the realities of this case makes it clear that the Eastern District of Texas is convenient only for Medldea’s litigation counsel.” *Id.* at 1381. Medldea was registered in Michigan and its corporate officers were there, one of whom was the inventor of the disputed patent. The court concluded that “[t]his is a classic case where the plaintiff is attempting to game the system by artificially seeking to establish venue by sharing office space with another of the trial counsel’s clients.” *Id.*

4. False Marking

A new form of abusive patent litigation has recently emerged. The False Marking Act (35 U.S.C. § 292) is a *qui tam* provision that imposes a \$500 fine for each instance that an individual falsely marks an item as patented in order to deceive the public. In *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1301 (Fed. Cir. 2009), the Federal Circuit interpreted the Act as imposing a separate \$500 fine for *each* item marked. Following this decision, an enormous number of False Marking complaints have been filed. In 2010 alone, over 600 such cases were filed.

Plaintiffs in these cases follow a typical pattern: they search supermarket and warehouse shelves looking for products that are stamped with an expired patent. They then file suit against the manufacturer of the product, alleging that the mark intended to deceive the public. The huge number of these suits will yield significant financial burden on the economy.

A case is currently pending in the Federal Circuit, *FLEMC, LLC v. Wham-O, Inc.*, No. 2011-1067, in which a False Marking defendant is contending that the statute is unconstitutional because it violates the Take Care Clause of the Constitution. One district court has already adopted this argument. *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, 2011 WL 649998 (N.D. Ohio. Feb. 23, 2011).

The Supreme Court has held that *qui tam* actions, such as the False Claims Act, are permissible delegations of sovereign authority to private parties because they contain safeguards to preserve the role of the government. If the government does not approve of an action brought in its name, it can intervene. Wham-O, and the *amici* supporting it, have raised substantial arguments that the statute currently is unconstitutional because it fails to provide the government sufficient control over the actions.

This is an area where Congressional action remains essential. The patent reform bill considered by this Committee in the previous Congress contained a change in the law that would make an enormous difference. The bill would require that only persons who could demonstrate

that they sustained actual harm from the false mark would have the standing to sue. We believe this would be an important change in the law and should be enacted.

II. Issues that the Courts Cannot Address

Although the courts have to a very significant degree addressed the imbalances in the patent litigation system, they lack the power to alter the statutory standards and procedures applied by the PTO. Four significant changes, in addition to false patent marking point raised above, are essential.

First, enabling third parties to submit prior art during the examination process. The Committee explained in 2007 that “[m]uch of the reason for the issuance of patents on already known inventions is that evidence of the knowledge or use is not readily available to the patent examiners. This has proven to be especially true in newer areas of technology that previously did not exist, or were considered not to be eligible for patent protection.” H. Rep. No. 110-314, *supra*, at 37. Allowing third parties to submit prior art—with appropriate limitations, as in the bill reported by the Committee in 2007—addresses this issue, allowing examiners to “obtain the benefit of patents and publications they may not otherwise see, without significant additional burden.” *Id.*

Second, adoption of the first-to-file system will conform our patent law to that of our major trading partners.

Third, under current law, “a party seeking to challenge the validity and enforceability of the patent has two avenues under current law: a reexamination proceeding at the USPTO or litigation in district court.” H. Rep. No. 110-314, *supra*, at 30. This Committee explained in 2007 that “[t]he former is used sparingly and is considered not very effective; the latter is unwieldy and expensive. The average time between patent application and final outcome in patent litigation is a staggering 12 years, or 60% of a patent’s life.” *Id.*

The bill passed by the House created “a new post-grant review proceeding that will allow for limited USPTO review of a patent on the basis of patentability.” H. Rep. No. 110-314, *supra*, at 30. This Committee concluded that “the ability to have a quality check on issued patents is important to the integrity of the patent system. Patents of questionable validity may stifle innovation, especially in fast-moving technology industries.” *Id.* This essential reform—enabling the experts at the PTO to correct errors in the examination system—can be put in place only by Congress.

At the same time, there have been proposals by some to limit the inter partes reexamination system to a short period after service of the summons and complaint and otherwise try to reduce the chance that a party can file an inter partes reexamination. Since many patent cases involving our members are surprises—where the defendants had never heard about the patent before the suit was filed—we urge the Committee to avoid limitations that would eliminate the utility of this important tool in enabling the PTO to correct its mistakes.

Fourth, it is essential that Congress act to ensure consistent, adequate funding for the PTO and to preclude any diversion of patent fees for purposes other than funding the patent system.

Thank you for the opportunity to appear before the Subcommittee. I look forward to answering your questions.

Mr. GOODLATTE. Thank you, Mr. Pincus.
And Mr. Crouch, welcome.

**TESTIMONY OF DENNIS CROUCH, ASSOCIATE PROFESSOR
OF LAW, UNIVERSITY OF MISSOURI SCHOOL OF LAW**

Mr. CROUCH. Mr. Chairman, thank you very much. Mr. Vice-Chairman, Members of the Committee, I would like to thank you for inviting me here today.

Last week in Missouri we held a major conference that focused on the role of the Court of Appeals for the Federal Circuit, in patent policy. And United States Patent and Trademark Office Director David Kappos was there, along with academics from around the world, as well as a couple of hundred patent law practitioners. There was broad consensus, amongst everyone there, without anyone voicing disagreement, that the Federal Circuit and the Supreme Court have been actively involved in patent policy over the past 6 years, and that we have had a tremendous and rapid development in patent law, in patent law doctrines over the past decade, even without congressional action.

And it—with—in my law school I teach—in addition to teaching patent law I also teach real property. Real property is very much about the common law doctrine that had a radical change back in the day of William the Conqueror, 900 years ago, and has slowly plodded along since then, developing different doctrines in property.

Patent law has been very much a counter-example of that. We have seen doctrines change rapidly these past 6 years. And I think the Federal Circuit and the structure of the Federal Circuit that Congress created almost 30 years ago is a big reason, although aided by the Supreme Court, why we have seen that rapid change.

Over the past decade the Federal Circuit has heard well over 4,000 patent cases, which is a surprising number. Two weeks ago I sat in on a 10th Circuit Court of Appeals copyright case. Although the judges there, I believe, asked appropriate questions and will decide the copyright case very well, it turned out that none of them might have ever heard a copyright case before, even though they had all been judges for upwards of a decade.

At the Federal Circuit all of the judges hear 20 to 30 patent cases every year. Every single major patent law doctrine arises multiple times each year before the Federal Circuit. What that means is that even as the Court makes incremental changes, case by case, over a short amount of time they can still make major developments just applying the common law doctrine and that is because they hear so many cases and the second reason because they are this nationwide court that has automatic, nationwide application of their decisions.

Now I absolutely agree with Mr. Pincus and Mr. Burk that the decisions that have occurred in the past 6 years have related directly to the proposals that we have seen in this body and in the Senate over that time. And almost across the board and maybe actually across the board, all of the decisions on these particular issues have gone the way that the legislation was headed. That is, we have had legislation to control damage awards, and that is what the courts have directed—have worked to do. We have had legislation toward limiting injunctive relief, especially at times when we have an entity that is just a holding company and someone else manufacturing, and we want to allow that manufacturing

to go on and have some kind of damage award. And that is what this body was thinking of and that is what the courts did.

We had a similar approach with enhanced damages for willful infringement, that we limited—the courts limited the scope of that as well as venue and inequitable conduct, that has been discussed.

I certainly believe that although this has been going on the past 6 years, it appears, and every indication that I have, makes it look like it will continue into the future.

Now, in addition to legal changes, there is a lot of other changes that have happened this past 6 years. One of them is that the Patent Office backlog has continued to grow, something like up 30 percent from where it was 6 years ago, so that now we have about 1.2 million patent applications pending at the Patent Office, which is a serious problem. In addition, the Patent Office has its own internal board of review. Six years ago they had about 700 cases pending, now they have 20,000 cases pending and a 3-year backlog just to hear those cases within the Patent Office.

My—I guess my final point is maybe on a re-examination system. That 6 years ago people did not use re-examination as a form of post-grant opposition. These days most defendants who think they have a reasonable invalidity defense file for re-examination at the Patent Office and many of them have been successful at invalidating the patent that way as opposed to through—as opposed to through the courts.

And I look forward to taking your questions as well. Thank you.
[The prepared statement of Mr. Crouch follows:]

Committee on the Judiciary
United States House of Representatives
Subcommittee on Intellectual Property, Competition and the Internet

Hearing

“Review of Recent Judicial Decisions on Patent Law”

Prepared Statement of
Dennis Crouch*

March 10, 2011
Washington, DC

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* Associate Professor of Law, University of Missouri School of Law; J.D., University of Chicago School of Law; B.S.E., Princeton University (Department of Mechanical and Aerospace Engineering).

My academic research interests focus on patent law, intellectual property law and internet law. In addition to traditional academic publications, I also author the *Patently-O Patent Law Blog* that has a daily circulation of over 30,000 and is regularly read by most US patent law practitioners. Prior to joining the University of Missouri faculty, I was a visiting professor at Boston University School of Law and worked as a patent attorney at a major intellectual property law firm in Chicago where I represented inventors pursuing patent protection as well as clients litigating claims of patent infringement. Before entering law school, I served as a United States Peace Corps Volunteer in rural Ghana, West Africa; worked as a manufacturing engineer in upstate New York; and conducted research on microgravity combustion with NASA. I am not a registered lobbyist, I do not represent any clients, and I do not own stock in any particular company with a vested interest in patent rights (beyond broad-based mutual funds).

This testimony is not intended to serve as a comprehensive analysis, but rather as an introduction to many of the important changes that have occurred in patent law over the past several years.

I. Introduction:

We are likely nearing a turning point in a decade-long process of patent reform. Although there is still clearly a strong demand for legislative measures, much has changed since the landmark FTC and NAS point-by-point criticisms of the patent law system were released in 2003 and 2004 respectively.¹ Likewise, much has changed in the six years since the Patent Reform Act of 2005 was introduced in the House of Representatives.² Perhaps in response to these external pressures, the Federal Courts have taken a more active role in shaping patent policy from the bench and have particularly addressed many of the concerns raised by the various patent reform initiatives.

II. The Rapid Developments in Patent Case Law over the Past Several Years:

In most areas of law, court-developed doctrines mature quite slowly. Over the past decade, however, patent law has been a dramatic counter-example. The courts have substantially altered many longstanding patent doctrines in the course of a few short years.³ Several factors combine to explain this phenomenon. First, unlike most other federal legal questions appealed to regional Circuit Courts of Appeal, virtually all patent law related appeals from across the country are heard by the Court of Appeals for the Federal Circuit (the "Federal Circuit"). The national reach of the Federal Circuit means that a ruling by the court has an automatic nationwide impact in much the same way that decisions by the United States Supreme Court have a nationwide impact. However, unlike the Supreme Court, the Federal Circuit hears hundreds of patent cases each year. Over the past ten years, the funneling of patent appeals to the Federal Circuit has resulted in the court hearing over four thousand patent infringement appeals in addition to its review of patent decisions from the United States Patent and Trademark Office (the "Patent Office") and the International Trade Commission.⁴ The large number of cases provides the court with the opportunity to rapidly shift the law, even when each case presents only an incremental change. In addition to the means to effect change, it is apparent that both the Federal Circuit and the Supreme Court have taken an interest in shaping

¹ Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, A Report by the Federal Trade Commission*, October 2003; Nat'l Res. Council of the Nat'l Acad., *A Patent System for the 21st Century* (Stephen A. Merrill et al. eds., National Academies Press).

² Patent Act of 2005, H.R.2795.

³ See William C. Rooklidge & Alyson G. Barker, *Reform of a Fast-Moving Target: The Development of Patent Law Since fee 2004 National Academies Report*, 91 J. Pat. & Trademark Off. Soc'y 153 (2009).

⁴ Federal Circuit Statistics, *Filings of Patent Infringement Appeals from the U.S. District Courts* at <http://www.cafc.uscourts.gov>.

patent law policy.⁵ Finally, unlike many Federal statutes, the Patent Act as codified in Title 35 of the United States Code is a relatively sparse statute that leaves tremendous leeway for interpretation.

Over the past six years, the Supreme Court granted *certiorari* and issued a number of important patent decisions that:

- Make it easier to invalidate (or reject) a patent on obviousness grounds, *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (eliminating technical hurdles for proving an invention obvious and instead applying a “common sense” analysis for assessing patentability);
- Make it more difficult for a patent holding company to obtain injunctive relief to stop ongoing infringement, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (holding that even an adjudged infringer should not be automatically enjoined from continuing to infringe; rather an injunction should only issue after consideration of the traditional four-factor test for equitable injunctive relief);
- Make it easier for a manufacturer to obtain a declaratory judgment of non-infringement, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (holding that declaratory judgment (“DJ”) jurisdiction may exist even if the patent holder could not have sued the DJ plaintiff for infringement; apprehension that patentee will sue for infringement is not a necessary element for Article III jurisdiction);
- Solidify our understanding of the scope of patentable subject matter available for business method patents, *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (invalidating Bilski’s claimed invention – a method of hedging against the occurrence of bad weather – as an unpatentable abstract idea);
- Limit the doctrine of export infringement under 35 U.S.C. § 271(f), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007) (holding that Microsoft could not be held liable for exporting software code because the exported source code does not qualify as a “component” under the statute); and

⁵ Polk Wagner & Lee Petherbridge, *Is the Federal Circuit Succeeding? An Empirical Assessment of Judicial Performance*, 152 U. Pa. L. Rev. 1105 (2004) (“since its inception, the [Federal Circuit]—with some assistance from the Supreme Court—has moved aggressively in support of its widely perceived mandate”); Paul R. Michel, *Assuring Consistency and Uniformity of Precedent and Legal Doctrine in the Areas of Subject Matter Jurisdiction Entrusted Exclusively to the U.S. Courts of Appeals for the Federal Circuit: A View from the Top*, 58 AM. U. L. REV. 699, 702 (2009); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law’s Uniformity Principle*, 101 Nw. U. L. Rev. 1619 (2007); Dan L. Burk & Mark A. Lemley, *The Patent Crisis and How the Courts Can Solve It* (2009)

- Provide roadmaps for stronger patent licensing agreements, see *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (patent “exhausted” under first sale doctrine because patentee did not restrict licensee’s sales to third party purchasers) and *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006) (holding that in antitrust tying cases, courts should not presume that a patent confers market power).

During this time, the Federal Circuit has also actively addressed patent reform issues with decisions that:

- Attempt to implement venue reform in a way that limits unreasonable forum shopping, *In re TS Tech United States Corp.*, 551 F.3d 1315 (Fed. Cir. 2009) (on writ of mandamus, ordering case transferred out of venue that had no meaningful ties to the patent infringement case);⁶
- Rationalize patent damage awards, *Uniloc USA, Inc. v. Microsoft Corp.*, ___ F.3d ___, 2011 U.S. App. LEXIS 11 (Fed. Cir. 2011) (holding that the 25% Rule for calculating patent damages is “fundamentally flawed” and that total product revenue cannot be considered in the reasonable royalty analysis unless the Entire Market Value Rule applies.) and *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009) (requiring a proof that purported “comparable” licenses used for calculating a royalty rate are, in fact, comparable); *Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308 (Fed. Cir. 2010).
- Limit enhanced damages, *In re Seagate*, 497 F. 3d 1360 (Fed. Cir. 2007) (limiting the potential for treble damages to cases where the adjudged infringer’s actions were at least “objectively reckless”) (see Chart 1);
- Expand the false marking doctrine, *Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009);
- Limit inequitable conduct pleadings, *Exergen Corporation v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009) (requiring that inequitable conduct pleadings include “specific who, what, when, where, and how of [any] material misrepresentation or omission”); and

⁶ The *TS Tech* decision appears to have had a major impact on patent venue jurisprudence. In the two years since the case was decided, its analysis has been followed by almost four dozen different courts. See, for example, *Promote Innovation LLC v. Leviton Mfg. Co.*, 2011 U.S. Dist. LEXIS 16294 (E.D. Tex. Feb. 17, 2011) (granting accused infringer’s motion to transfer venue from the Eastern District of Texas to the Eastern District of New York).

- Reject Patent Office substantive rulemaking authority, *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009).⁷

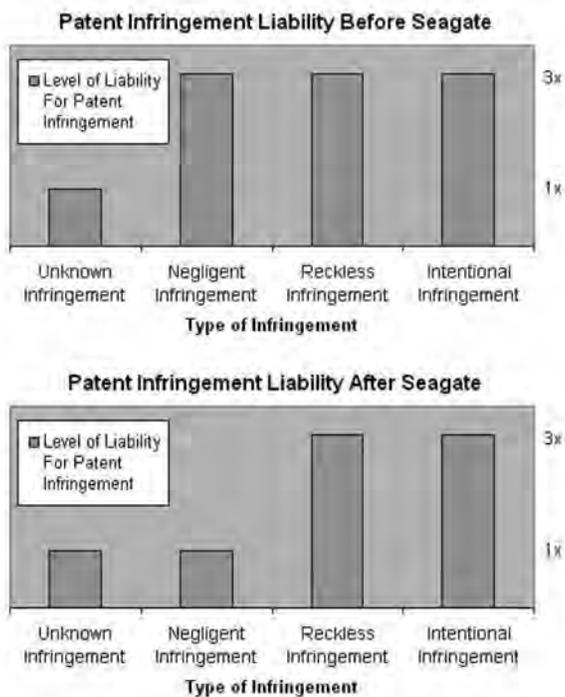


Chart 1

⁷ The *Tafas* decision was vacated pending rehearing en banc and eventually dropped after the USPTO retracted its planned implementation of rules that would limit both the number of claims that an applicant could file per patent application and the number of continuation applications an applicant could file based on a single invention disclosure. See also, Arti K. Rai, *Growing Pains in the Administrative State: The Patent Office's Troubled Quest for Managerial Control*, 157 U. PA. L. REV. 2051 (2009).

As we sit here today, the courts also have a number of important cases pending resolution. Among others, these include:

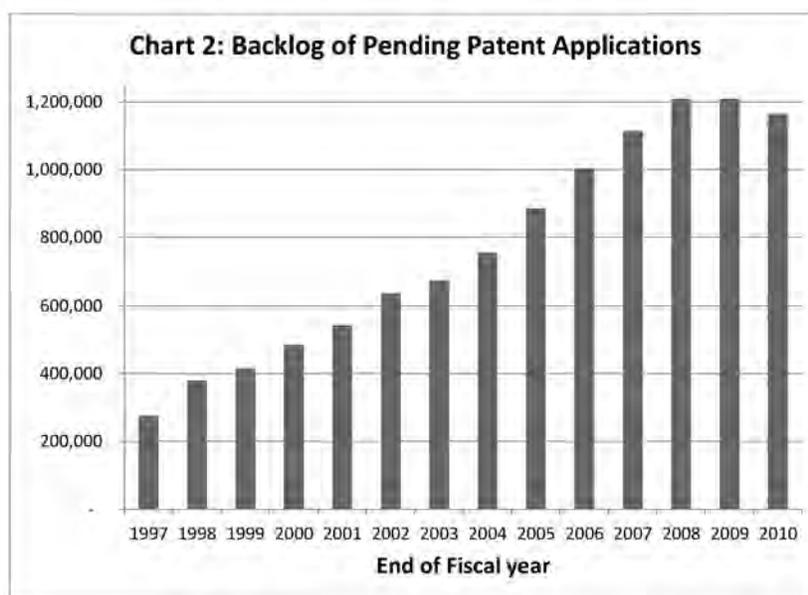
- A challenge to the presumption of validity associated with issued patents, *Microsoft Corp. v. I4I Ltd. P'ship*, 131 S. Ct. 647 (2010) (certiorari granted on the issue of whether the presumption of validity associated with an issued patent must always be overcome with clear and convincing evidence);
- A challenge to the patentability of genetic material, *See Ass'n for Molecular Pathology v. United States PTO*, 2010 U.S. Dist. LEXIS 35418 (S.D.N.Y. 2010) (holding BRCA gene patents invalid for being directed to a law of nature);
- A Constitutional challenge to the False Marking provisions of the Patent Act, *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, 2011 U.S. Dist. LEXIS 18237 (N.D. Ohio 2011) (holding the False Marking statute unconstitutional) and *United States ex rel. FLFMC, LLC v. Wham-O, Inc.*, Fed. Cir. App. No. 2011-1067 (pending appeal challenging Constitutionality of the statute);⁸
- A question regarding the *mens rea* requirement for inducing infringement under 35 U.S.C. § 271(b), *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 458 (2010) (grant of certiorari);
- A major challenge to the implementation of the judge made law of inequitable conduct, *TheraSense, Inc. v. Becton, Dickinson & Co.*, 374 Fed. Appx. 35 (Fed. Cir. April 26, 2010) (en banc order requesting briefing); and
- A challenge to patent ownership rights under the Bayh-Dole Act, *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys.*, 131 S. Ct. 502 (2010) (grant of certiorari).

For better or worse, the courts have substantially shifted the playing field over the past six years. And, the cases currently pending and in the pipeline appear poised to continue this process. Of course, the courts have limited power and cannot make statutory amendments or offer funding to the Patent Office. It is safe to say, however, that the courts have addressed (or are addressing) virtually all of the legitimately raised patent reform issues that fall squarely within their purview. Within this dynamic, an important ongoing role of Congress is at least to ensure that the courts are making the right policy choices.

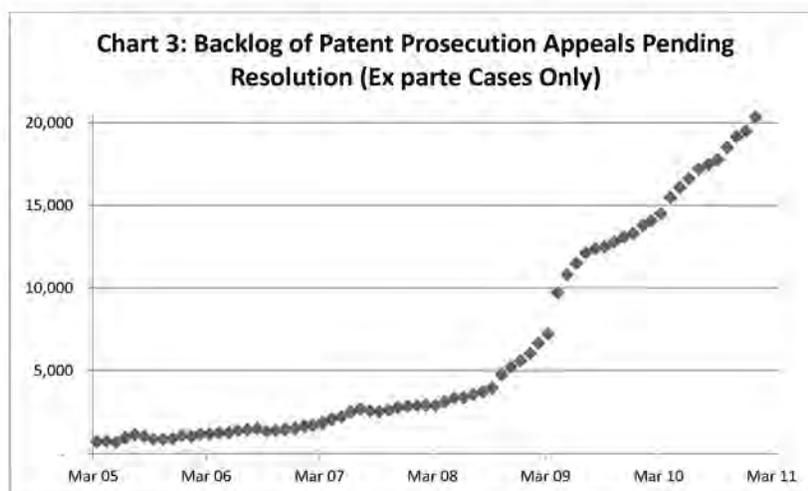
⁸ Over 1,000 false marking claims were filed in 2009 and 2010. *False Patent Marking* at <http://www.falsemarking.net/cases.php>.

III. Administrative and Practice Changes that have Arisen Over the Past Several Years:

Patent Office Backlog: A key issue of patent law policy that has not been adequately addressed in the past six years is the growing backlog of patent applications pending at the Patent Office. Although the current Patent Office management team is quite focused on reducing the backlog, their efforts have not been overwhelmingly successful to-date. As seen in Chart 2 (below), the overall backlog of patent applications pending at the USPTO has increased more than 30% since 2005. The forced delay is troubling for patent applicants because the exclusive patent right is only enforceable once the patent issues, and typically only against post-issuance infringement. The multi-year prosecution delay is also troubling for potential competitors and customers because the patent right may eventually spring-forth to re-capture exclusive rights that had been in public use for years.



Even more dramatic, is the twenty seven fold (~2700%) increase in the backlog of cases awaiting decision at the Board of Patent Appeals and Interferences (BPAI), (Chart 3). The long and growing backlog of appeals more than doubles the expected duration of the patent prosecution process for the almost 50% of patent applicants that achieve at least a partial victory on appeal.



These backlogs likely cannot be directly corrected by the courts. Instead, every effort must be made to ensure that the Patent Office is enabled and encouraged to right its own ship. In the short term, the Patent Office will need to hire more examiners; re-work its failing information technology system; and apply effective negotiation theories to the examination process. In the longer term, world patent offices must work-share when examining duplicate patent applications that have been filed in multiple countries.⁹ In addition, there are some relatively easy steps that can be taken to help ensure that patent applications are filed in a way that make them easier to examine. This may include (1) requiring applicants to better delineate their invention and its purposes and (2) more rigorously enforcing the requirement that claims be clearly drafted in a way that relates to the invention as disclosed.

⁹ See Rai, *Growing Pains* at note 6.

Obviousness and the Backlog: The bulk of time spent in the patent examination process and in appeals to the BPAI revolves around the issue of obviousness.¹⁰ In other words, the backlogs can be largely attributed to time spent arguing the difficult issue of obviousness. Unfortunately, nothing in the proposed legislation does anything directly to alleviate this burden. Although the process of examining patents for obviousness may seem to be one best left to the administrative agency, the Patent Office is bound to follow the examination processes laid out by the courts in *KSR v. Teleflex*¹¹ and *Graham v. John Deere Co.*¹² Because so much time and energy is spent on this issue during the examination process, it may be one where increased substantive rulemaking authority would allow the Patent Office to create a more manageable approach to the statutory question.

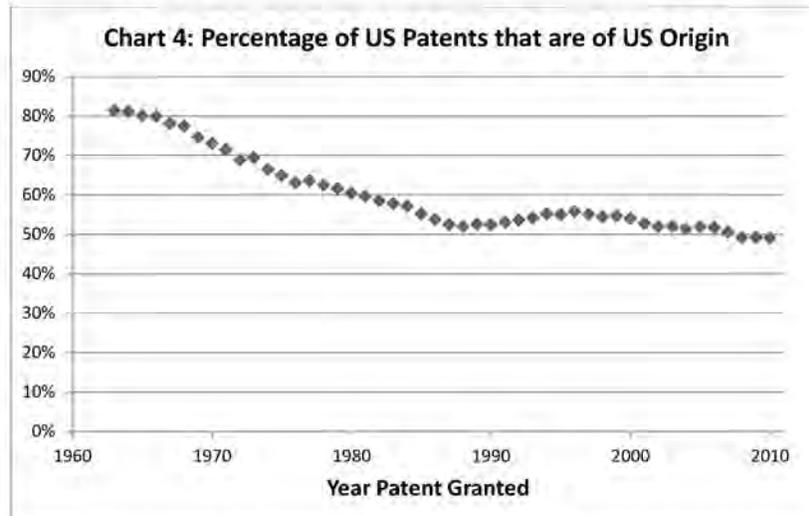
Foreign Inventor Influence on the US Patent System: Through a number of reciprocal international agreements such as Paris Convention, the US has promised citizens of other countries access to the US patent system.¹³ Under these agreements, an innovative Japanese company seeking exclusive rights in the US market could obtain US patent protection and enforce those rights in US courts against US competitors. Despite this offer of rights, the bulk of issued US patent have always been based on US originated inventions. This practical statistic meant that, historically, US patent reform primarily impacted US companies and US inventors. Over the past six years, the statistic changed, and for the first time in history, the majority of US patents are now being issued on foreign-originated inventions. (Chart 4).

¹⁰ Dennis Crouch, Understanding the Role of the Board of Patent Appeals: Ex Parte Rejection Rates on Appeal, University of Missouri School of Law Legal Studies Research Paper No. 2009-16 (2009) at <http://ssrn.com/abstract=1423922>. (90% of BPAI appeals involve a question of obviousness).

¹¹ 550 U.S. 398 (2007).

¹² 383 U.S. 1 (1966) (setting out the process of the obviousness inquiry as used in both courts and the Patent Office).

¹³ Paris Convention for the Protection of Industrial Property, art. 2.



For some, this decline in US-centric dominance of the US patent system will serve as a sign that US innovation could use additional encouragement. In addition, however, the decline may signal a need to change our outlook on the role of patent rights in US policy. Certainly, the offer of patent rights encourages innovation and disclosure of new inventions. However, this incentive is felt around the world – encouraging companies in Australia or Germany to innovate in their home countries in order to capture an exclusive slice of the US market.¹⁴ In this framework, patent reform is much more than a domestic policy issue. Rather, it becomes an issue of rooted in international trade and international relations. This is not a new concept, but one that should be kept in mind as the legislation moves forward.

Rise in Patent Reexamination Filings: The US has two primary post-grant opposition processes already in place: (1) *inter partes* reexamination and (2) third-party requested (or prompted) *ex parte* reexamination. Prior to 2005, it appeared that many potential defendants and accused infringers were reluctant to use the post-grant opposition processes. That reluctance has largely evaporated – in part because of the USPTO's successful implementation of a Central Reexamination Unit (CRU) composed of elite and highly trained patent examiners in sufficient

¹⁴ See *Commonwealth Sci. & Indus. Research Organisation v. Buffalo Tech.*, 542 F.3d 1363 (Fed. Cir. 2008) (Australian government entity suing on its US software related patent in the Eastern District of Texas).

quantity to have a high response rate.¹⁵ In addition, patent law professionals have seen that reexamination can be an effective and relatively inexpensive alternative to litigation. At this point, high-dollar patent infringement lawsuits are usually associated with a parallel reexamination of the patents in-suit – so long as the defendant has a credible obviousness argument based on published materials. Table 1, shows the rise in popularity of reexaminations over the past few years.

Table 1¹⁶	FY2000-2004	FY2006-2010	Percent Change in Number of Reexamination Requests
<i>Inter Partes</i> Reexamination Requests	53	903	1704%
<i>Ex Parte</i> Reexamination Requests	1,719	3,272	190%

A notable limitation of the current reexamination system is that reexaminations are only allowed to consider certain invalidity arguments (obviousness and anticipation) and apply a limited set of prior art (patents and printed publications). Many countries offer broader latitude in their opposition proceedings, although some of those countries completely divide duties between the administrative agency (handling invalidity issues) and the court (handling infringement).¹⁷ The dramatic shift in usage of available post grant options gives me pause to consider whether the proposed reforms in 2005 offered a permanent solution to what was merely a temporary problem.

IV. Identifying Elements of the Reform Measures that have not been Implemented:

A more straightforward approach to issues now before the Committee is to identify elements of prior patent reform measures that have *not* been addressed by the courts. These include:

- (1) Easing the USPTO's ability to set fees for its services and to retain all fees collected;
- (2) Moving from a "first-to-invent" system to a "first-to-file" system;
- (3) Expanding prior-user rights;
- (4) Requiring that all patent applications be published by the USPTO;
- (5) Allowing pre-issuance protests (or prior art submissions) by third parties;

¹⁵ Gregory Novak, *Concurrent Reexaminations as a Strategic Patent Litigation Defense Tool*, 1020 PLI/Pat 797 (2010) ("since the inception of the Central Reexamination Unit (CRU), reexamination proceedings are producing favorable results [for the third-party] in a more timely manner").

¹⁶ Derived from USPTO *Inter Partes* and *Ex Parte* Reexamination Data (December 31, 2010) at http://www.uspto.gov/patents/stats/Reexamination_Information.jsp.

¹⁷ To my knowledge, no one has studied the potential impact of increasing the scope of US reexamination practice or adding a broader layer of post grant opposition.

- (6) Expanding the scope of post-grant reexamination or adding an additional post-grant opposition proceedings;
- (7) Eliminating the "best mode" requirement; and
- (8) Easing the rules for assignee submission of patent filings without the inventor's express permission.

Each of these reform measures have their own potential benefits and detriments that vary according to the implementation approach chosen.

Thank you for this opportunity to present my remarks.

Dennis Crouch
March 10, 2011

Mr. GOODLATTE. Thank you, Professor.

I'll begin the questioning with one to each of you. That is to make the point, aren't the courts fallible, as the Congress may be fallible as well, and how can we be sure that they will make the right decisions? And as a corollary to that, let me ask you, are any of the decisions they have made in the last few years wrong-headed

and therefore should be addressed by the Congress because the courts didn't get it right?

We will start with you, Mr. Burk.

Mr. BURK. Thank you, Mr. Chairman. Of course the courts are fallible. And what we see in the court system and in the common law system is, as I describe it to my students frequently, it is very much like an impressionist's picture. When you start with one dab of paint or two dabs of paint, you can't tell what the picture is going to look like, but as these dabs of paint build up over time, in the manner that Professor Crouch has described to you, you begin to see the picture.

Mr. GOODLATTE. Since my time is limited, let me get you to focus in on any decisions that they have made that you think we should attempt to improve up.

Mr. BURK. I don't think there is one that I can think of at the moment, Mr. Chairman. As I said, I would urge you to focus on structural changes like first-to-file, post-grant opposition and so on.

Mr. GOODLATTE. Got you.

Mr. Pincus?

Mr. PINCUS. In terms of decisions to focus on, I think the critical one is the false marking area. The Federal Circuit really took a bad turn in the Forest Group/Bon Tool case by saying that private plaintiffs who can invoke that false marking statute don't have to show any harm to themselves. And so anybody can bring these claims and it has really evolved into an avalanche of litigation, even though there may be no harm to anybody. And that is a real problem in terms of the litigation costs that are being visited on legitimate companies, for no good reason.

Mr. GOODLATTE. Thank you.

Professor Crouch?

Mr. CROUCH. Yeah, I had—I had actually written down the same case that Mr. Pincus had written down, the Bon Tool case, which there may—the—you know, it is possible that there is no need to—for this chamber to act in that there is a District Court that has invalidated that statute on constitutionality grounds, but that remains to be seen whether the Federal Circuit will address it in that manner.

Although, the false marking cases, from my perspective, they appear to be a flash in the pan in that most companies were ignoring that doctrine that had been around since the 1840's, but now that it has become such a hot ticket item, folks have—folks who are in business in manufacturing now understand what they need to do to avoid the problems. And so there has been a thousand cases filed in the past 2 years and I expect that in 5 years from now, if there are no changes, there may be something like 10 to 20 cases a year.

Mr. GOODLATTE. Are litigants making greater use of the existing inter partes re-examination system? And if so, should we change the proceeding in our patent reform bill?

Professor Burk?

Mr. BURK. Yes, Mr. Chairman, there is no doubt that re-examination has become very popular. And as Professor Crouch indicated in his testimony, if re-examination is going to be used as a form of post-grant opposition, then it behooves this body to look at

turning it into a real proceeding post-grant opposition, not the very limited one that we have today.

Mr. GOODLATTE. Mr. Pincus?

Mr. PINCUS. The numbers are up, Mr. Chairman. I think our view is it is not clear, especially for technology companies, that it is the useful process that it could be and that there are improvements. Frankly, the ones that were in the bill that this Committee reported on and the House passed in 2007, would really turn it into a system that would be very, very effective.

Mr. GOODLATTE. Professor Crouch?

Mr. CROUCH. Yeah. In my testimony I put a few numbers in that from the Year 2000 to 2004 there were 53 requests for inter partes re-exam, and—but in the past 5 years that has jumped up to 903.

Now, ex parte re-exam is much more popular and it has about doubled in its popularity over that time period. From my discussions with people involved with this, it appears that the Patent Office has put their highest caliber examiners in what they call the Central Re-examination Unit. And I have not spoken to any individual on either side who has questioned the quality of the work being done by this re-examination unit.

And we have also seen that a number of cases—or we have seen statistically that parties requesting this do get favorable outcomes. That is, they are able to invalidate patents through this mechanism. But I would say the biggest failure, especially of inter partes re-examination, is the timeline, in that these tend to be extremely slow, as are many things at the Patent Office. And if there can be something to be done to shorten up that timeline, then what we have for inter partes re-exam may be sufficient.

Mr. GOODLATTE. Finally, let me ask, I think Mr. Pincus you addressed this in your statement, but let me ask each of the other two, if you want to add something you're welcome to, what areas of patent law would you put into a patent reform bill and what areas should be skipped by the Congress.

Professor Burk?

Mr. BURK. So, as I mentioned, Mr. Chairman, structural changes are the ones that this body needs to address. If it is desirable to go to first-to-file, this body must address that. If it is desirable to have a better post-grant opposition, this body must address that. Certainly this body needs to address the question of funding for the Patent Office.

I disagree a little bit with my colleagues to my left, my guess is that the courts will work out the problem on false marking, probably by the time that this body could address that problem.

So those are the ones that I would focus on.

Mr. GOODLATTE. Professor Crouch?

Mr. CROUCH. I absolutely agree with Professor Burk on that point and I guess without taking a specific position on first-to-file, if something is going to happen with that it has to happen here.

And there is another issue in the background, in terms of the Patent Office's ability to really work as an administrative agency in interpreting the law. And thus for—thus far the Federal Circuit has been reluctant to give the Patent Office that power and so it is possible that that may be an additional kind of non-structural element that you could take.

Mr. GOODLATTE. Thank you.

Gentleman from North Carolina, Mr. Watt is recognized.

Mr. WATT. Thank you, Mr. Chairman.

Professor Crouch, you indicated that doctrines have changed rapidly over the last several years and that is always—raises a potential red flag with legislators because it is sometimes hard for us to know whether the courts are interpreting the law or whether they are making the law.

And I wasn't clear whether you were saying that they were interpreting the law and because of the number of cases they have clarified it and therefore doctrines have been changing, or that—

Mr. CROUCH. Right.

Mr. WATT [continuing]. The courts are making the law. Which—where do you come down on that?

Mr. CROUCH. If the courts are not making the law, they are coming extremely close to that in how they are operating. Just because we—just by looking at how the doctrines have shifted, you know, it is clear to me they are setting policy, from a practical standpoint.

Mr. WATT. Give me an example.

Mr. CROUCH. Now—

Mr. WATT. Give me an example.

Mr. CROUCH. Well, so you know, there is the recent Supreme Court of *KSR v. Teleflex*, that is about the question of obviousness. And obviousness is really the core question of most patent law issues. Is this invention you have created a substantial step beyond what came before? That—

Mr. WATT. Okay. Is that something we could legislate, a definition of obviousness?

Mr. CROUCH. Absolutely. You know, so if you look at what the European Patent Commission has done, they have, through essential legislature, spelled out exactly what they mean by obviousness, spelled out the steps that you would take to approach that question and try to figure it out. Now, there is always going to be a bit of subjective analysis, but certainly if this body wanted to you could, I would not recommend that. But—

Mr. WATT. Okay. So you are comfortable with the courts making—

Mr. CROUCH. Right. Right.

Mr. WATT [continuing]. The law in some areas? Okay.

Mr. CROUCH. Right. For—to a limited extent I think that is right. And the truth is—

Mr. WATT. And in an area of innovation, I mean you—I presume you are a little bit more comfortable with the courts making the law as opposed to us having to come back every time a new innovation—

Mr. CROUCH. Right.

Mr. WATT [continuing]. Gets made and having to change the law to fit the new innovation? I take it you are—all three of you are probably comfortable with that to some extent, or am I misreading?

Mr. PINCUS. I think that—I think so, Congressman. I guess I disagree with my colleague a little bit about what the courts have been doing. I think what has happened is patent law was a little bit like the part of a pier that is under water. And there had been a lot of growths, a lot of mussels and mollusks and things had sort

of grown up over the years that people maybe hadn't thought a lot about. And there has been a lot of chipping away to get back to the basic principles.

I mean I think willfulness is a perfect example. There was a principle, you get multiple damages for willful conduct, but somehow a series of decision had turned willfulness into negligence. And so the Federal Circuit said, you know what, we are going to go back to what this really means. And I think at several of the—in a number of these areas—eBay is another example, we are going to apply—the Supreme Court said, we are going to apply the equitable principles that have applied for 200 years, not a different rule for patents, et cetera.

Mr. WATT. I am going to run out of time if I pursue this academic discussion. Let me ask a couple of more practical questions, because we are having—I mean I enjoy the academic discussion but in 5 minutes it is hard to really pursue it.

The Court of Appeals of the Federal Circuit has issued several recent opinions allowing defendants to obtain a transfer of venue when another district is potentially more convenient and appropriate. Let me ask you a couple questions about that.

If a plaintiff is allowed to name several defendants in the same lawsuit, what analysis does the court use to decide where to transfer the case? Would a plaintiff be able to defeat a transfer of venue simply by naming several defendants from various different places? And have there been any decisions that would limit patent plaintiffs from suing multiple defendants where there is no rational relationship among the defendants or the products accused of infringing?

So I am just trying to figure out, are there still any areas in this venue area that we need to be ratcheting up or concerned about or has that law been made enough that we ought to just stay out of it?

Mr. PINCUS. I am happy to take——

Mr. WATT. Go ahead.

Mr. PINCUS [continuing]. It first. I think, Congressman, there is a lot of progress. Is it perfect? No.

I mean first of all the Federal Circuit has to use its mandamus authority, which by definition means it can only deal sort of the outer edges of what is egregious. But it has begun to lay down a set of principles that at least deal with a one defendant case, deal with attempts to manufacture venue by moving things to districts before the lawsuit is filed.

I am not aware of cases dealing with the multiple defendant situation. I will be happy to get back to you on that. But I think the Federal Circuit, you can see in the decisions that it sees the problem and is trying to address it, as the cases come to it.

Mr. WATT. But generally, I mean we set the venue standards here, legislatively. We don't leave it to the courts to say what the venue of particular cases should be. Is that an appropriate area for a court to be making case law as—making law by case or is that something that we ought be doing here?

Mr. PINCUS. Well there is the out—the statute sets the outside limit. The problem is, if your products are distributed nationwide, the way the statute works, the case can be brought anywhere. And

so the statute itself doesn't set the limits and so the courts are using the transfer power, which is, you know, convenience of witnesses, convenience of justice, in order to alleviate the worst kind of abuses that arise.

Mr. WATT. Well get back to me on the multiple—if any of you know multiple—

Mr. CROUCH. Mr. Watt, there is one—

Mr. WATT [continuing]. Are there cases? I am sorry, my time is expired. So—but you can answer the—answer that question—

Mr. CROUCH. Oh.

Mr. GOODLATTE. That is fine.

Mr. WATT [continuing]. That I already asked it.

Mr. CROUCH. There is one case called *In re: Nintendo* in which there was a set of something like one party in California, another in New York and they brought the case in Texas and they said, well this is the middle of the country and it—you know, it is half way between each and the court said absolutely not. You absolutely cannot do that, there is no kind of central to our—all the parties' rule that allows you to bring it in Texas even though nobody is here.

Mr. REED [presiding]. Okay, thank you very much.

At this point in time we will recognize my colleague from Florida, Ms. Adams.

Ms. ADAMS. Thank you.

It sounds to me like the legislative patent debate from '05 to '11 at least has sparked the interest of the courts in getting involved, from your testimony.

Is there something to be said for Congress maybe taking the first crack at amending the statute rather than deferring to the courts hoping they will adjudicate appropriately? Is—do you believe that might be the better way to go? Any of you.

Mr. BURK. Well, Ms. Adams, that is a great question and I think it relates to the question that Mr. Watt asked a moment ago.

Ms. ADAMS. Yes.

Mr. BURK. We have a very robust patent statute and Congress has done a marvelous job, you and your predecessors have done a marvelous job of setting, as Mr. Pincus says, "the outside boundaries." And now the courts are working out the details.

There are very few places where Congress needs to tinker with the statute because the goals or the outside boundaries are unclear. So to answer both your question and the question of Mr. Watt, as long as the courts are headed in the direction that Congress has indicated, and are achieving the goals that Congress has set—yes, they are making law and that is what they are supposed to do, that is what you have empowered them to do, and the statute is very robust and lets them do that.

Ms. ADAMS. Anyone else?

Mr. PINCUS. As I said earlier, I think a lot of these problems were frankly of the courts making because they didn't follow Congress' directions in the first place. And so I think a lot of what has happened, in a number of these areas, and again, I go back to injunctions as sort of the classic, where the language in the patent law is the same as the language in other areas in which Congress has authorized courts to grant injunctions, but somehow in the pat-

ent statute it got interrupted differently than everywhere else. And the Supreme Court said, no, same words, Congress used the same words, it should mean the same thing.

So I think a lot of this has been moving back to what Congress did in the first place. Even the *KSR* decision that someone referred to earlier, on obviousness, the Federal Circuit had just said, we are going to adopt an arbitrary rule on how you prove obviousness, it is not in the statute, it wasn't anywhere, we are just going to adopt this rule. And the Supreme Court said, the rule is not in the statute, so you can't make it up.

So I actually think what has happened in the last 5 years has been to move closer to what Congress intended and carve away a lot of this stuff that had grown up.

Mr. CROUCH. Now, there is a big difference with patent law and copyright law in that if you pick up the copyright statute and drop it on the table it makes a loud thud, but the patent statute is, you know, one-tenth or maybe one—you know, maybe one-twentieth of the size of the copyright statute. And so in the patent world Congress has spoken with much less detail, which is one reason why the Court, I think, feels this leeway. And so although it is robust, right, there is still a lot of room for the courts to interpret and it is not as true in other areas of law and maybe with more recent statutes that have been developed. But I certainly don't see that as a problem.

Ms. ADAMS. And is there any patent decisions the courts have gotten wrong, in your idea or beliefs, that may be still subject to appellate review?

Mr. Crouch?

Mr. CROUCH. I don't think I understand the question.

Ms. ADAMS. In other words, there is—you know, the decisions on the patent—the patent decisions from the courts that maybe you feel the courts were a little bit wrong and therefore are subject to appellate review and may be impacted by something we do here today or during this Congress.

Mr. CROUCH. You know, it is hard to say whether congressional action 6 years ago, right, that—right there were—there was no positive vote taken, but just from the way things worked out, it looks like courts responded to the activity in Congress. And we just don't know if that is true or not, because they were just taking the cases that came to them and deciding them. And after the series of cases it turned out we were Congress was headed.

And so I—you know, I don't know, but I do know that, right, we know that this court is sitting here in D.C. and we know that courts are political actors just like everyone else, and they are listening, we just don't know in the future will they respond in the same way or if you need to push them do you have to take legislative action that actually has a kick to it.

Mr. PINCUS. I think this false marking area is an area of concern. I—some of my colleagues may disagree, but although the Federal Circuit has a case in which it could declare the statute unconstitutional, the government—the Administration is defending the statute, that might not happen. And if something isn't done, it is a big problem. And so that is an area where I think there is a big role for Congress.

Mr. BURK. I do disagree a bit. I think that that the site an example for you of lower court decisions that are probably mistaken, that are probably counterproductive, but that is a work in progress.

And as I said, earlier, I fully agree with Professor Crotch, that if we come back in 5 years I think we will find that most of that problem has been solved.

Ms. ADAMS. Okay.

Mr. REED. Thank you, Ms. Adams.

The Chair, at this point in time would recognize the former Chairman, Mr. Conyers, from Michigan.

Mr. CONYERS. Thank you, sir.

Let us look at the first-to-file and the prior user rights provision. How do you feel about that when we don't have prior user rights—if we have first-to-file without prior user rights? Anybody want to volunteer?

Mr. PINCUS. I'm happy to. I think it is a significant problem. Obviously first-to-file is a shift from first-to-invent. And the problem is you have first-to-file without prior user rights, that creates an opportunity—companies have one of two choices. Either they have to patent almost anything that is patentable, as soon as it happens to avoid the possibility that something that is incorporated into their product, even though they wouldn't patent it today, because it is not that significant, but in a first-to-file system, if they don't patent it and someone else does and there are no prior user rights, they have a big problem.

So you force them into the situation of patenting everything, which is going to lead to more of a burden on the PTO, which is going to lead to more of a backlog, et cetera. The way to solve that is, as other countries have done, is to provide prior user rights that will protect companies that are users, from the possibility of an infringement action by some subsequent person who happens to be the first-to-file. But unfortunately, you know, that is not something that, for example, is in the Senate-passed bill, but we think it is very important.

Mr. CONYERS. Do you have some reservations, Professor?

Mr. BURK. Mr. Conyers, what I would say is, is just what I said to my students, which is that a bill that implements first-to-file in the United States, should really be entitled, "The Patent Lawyers Full Employment Act of 2011." The reality is that that is an enormous change. It will create an enormous amount of work for my students and for my former students. And although it is perhaps a statement against interest, I think businesses probably want to create products and produce products more than they want to pay patent lawyers.

So you have to think very carefully that the benefits of that change, and in particular the way that Mr. Pincus indicated, if you're going to have prior user rights—

Mr. CONYERS. So you are not for first-to-file to begin with?

Mr. BURK. I am saying this can be very disruptive—

Mr. CONYERS. Yes.

Mr. BURK [continuing]. And very expensive. And it may be that it is worth it, but I am not convinced.

Mr. CONYERS. Right. I can appreciate that.

Mr. CROUCH. Excuse me.

Mr. CONYERS. What is your feeling?

Mr. CROUCH. Thank you, Mr. Conyers. You know, the—I guess there is the first point that currently we don't have prior—we do not have prior user rights right now. And so there are cases that come up where someone was using a product before someone else independently invented it and then the patent law can stop them from using it.

And you know, getting to Mr. Burk's point, I—you know, in reading the Senate bill, which may or may not be, you know, this House might present something different, but by just reading through it, time after time I ran across these words that are new, completely new to the patent system that we have had for 200 years and left undefined in the act.

And I certainly don't want that to happen, because all that will lead to is litigation. And these cases are big cases and any single word like that that is left undefined is just going to lead to appeal after appeal, which I think is problematic.

Mr. CONYERS. What about inter partes re-examination? That could become a pretty big consideration. We have had it in our bill H.R. 1908, a couple of congresses ago, do we get general agreement on that? Are you okay on that as well?

Mr. CROUCH. I am okay on—and certainly, right, certainly we have had problems of current re-examination has limited scope.

There are lots of reasons why people would want to invalidate a patent and they are not able to because of the current re-examination system. And so if we expanded that out I think it could actually improve our ability to get rid of patents that should have never issued.

Mr. CONYERS. Okay. Finally, inequitable conduct, patent amnesty, we may—we are going to be meeting with the Chairman of the Committee with Berman and Coble and Goodlatte and Zoe Lofgren, to try to work that out. How would you recommend us take care of this in a closed-room, secretly with nobody knowing that we had talked to you?

Mr. PINCUS. I think, Congressman Conyers, that inequitable conduct falls in the same category as a lot of the other litigation issues that we have been discussing, venue and injunctions and the rest. As my colleagues both note in their testimony, there—the Federal Circuit has decided one inequitable conduct case that tightens up on the standards for inequitable conduct. It has another case before it on—now, that seems to be another one of these areas where the courts are working it out and Congress doesn't have to intervene.

Mr. CONYERS. Thank you very much, Mr. Chairman.

Mr. REED. Thank you, Mr. Conyers.

I'll recognize myself at this point in time.

I'm concerned about any reform that we enact and encouraging or allowing for frivolous type of lawsuits, or be it also in a litigation setting but also the administrative review, the post-grant review, et cetera.

Could you offer any comments on ways that we can make sure that we don't open up the door to frivolous type of action going down the road.

We'll start with Mr. Burk, if you don't mind.

Mr. BURK. Again, I think that the courts are well positioned to deal with that. So if you set the broad parameters, if you say, you know, we are going to have post-grant opposition review and we are going to allow the Patent Office or we are going to create a remedy in the courts to deal with frivolous problems, that can be worked out. So I guess I would advise you not to try to tinker too much.

Mr. REED. Okay.

Mr. Pincus?

Mr. PINCUS. I think in terms of the courts a lot of what they have done is helping to solve what has been a real problem with abusive litigation in this area. And as I say, the false marking piece is sort of the last piece left.

In the administrative process I think empowering the PTO to take action against abuses of its processes is the way to go there. I don't think you need artificial limits on how it works, you could certainly prevent people from bringing some repetitive administrative claims but also just giving the PTO the power to issue regulations to prevent abuse of its processes I think would do the trick.

Mr. REED. What type of tools would you envision them having, other than repetitive filings?

Mr. PINCUS. The—the same kinds of tools that the courts have now. If parties bring repeat, unjustified claims they can be sanctioned, sort of a Rule 11 equivalent—for the PTO process. They can be, as I say, barred from being repetitive claims.

Mr. REED. Okay.

Mr. Crouch?

Mr. CROUCH. Yeah, I would—I think—I agree with Mr. Pincus, but I want to make a slight distinction in that I think there is little chance for abusive opposition filings. And the reason is because it—unlike, you know, unlike—sometimes we talk about abusive litigation where someone files a claim seeking some settlement amount of money, right, with these oppositions, right, you would only file these to invalidate someone else's patent. And there is no kind of money that tends to change hands with those and so far, with our re-examination system we really have not seen any accusations of this happening and no examples of that happening.

But what we have seen is within the process. So once a re-examination is ongoing, then folks are abusing the process. And one problem is, I think at this point, the Patent Office just isn't as good as an Article III judge at kind of managing what is essentially litigation within this administrative body.

Mr. REED. Yeah, because I—I guess I am concerned about also is not only just the commencement of frivolous actions, be it in the administrative venue in order to force negotiations, you know, of using it as a tool rather than for the endgame or the ultimate result, but using it from a practical—I used to be a former litigator before I came here and a lot of times there was strategy involved by utilizing litigation as a tool.

So that is what I'm getting to. There may not be a financial problem, but a leveraging piece that could be utilized. Is that what you are touching upon?

Mr. CROUCH. Yeah, that is exactly right, but also, you know, I—last week I was talking with the Patent Office director, Dave

Kappos, and he was speaking to me about, you know, at times with these—especially with inter partes re-examination, they receive petition after petition after petition and at this point they don't feel like they have the power to enact rules that stop that.

And so one way, potentially, and maybe this is the way that they would like, is for you to give them power to do that as opposed to explicitly spelling out, you know, what abusive process means and what the sanction would be and so forth. But then you just have to trust the Patent Office can do a good job of setting forth those rules.

Mr. REED. Okay. Thank you.

I'll yield back the balance of my time. And the Chair will recognize, I believe, the colleague from California, Miss Chu?

Ms. CHU. Thank you, Mr. Chair.

I wanted to go back to the first-to-file and the prior user rights issue. Of course as you know this, the Senate Bill 23 does put in the first-to-file system so that we can harmonize with the rest of the world. On the other hand, there is the prior user rights issue, and I know that Mr. Burk had—has problems with that.

But I'm wondering, Mr. Pincus, is there some way for us to address the concerns that universities have with prior user rights and the expansion of that, if we are to try to move to a first-to-file system?

Mr. PINCUS. I think Congresswoman, there are—there is a way to do that. I think part of the problem is, you know, there hasn't been the willingness of everyone to really get around the table and talk about what the problems—what the specific issues are, what the specific concerns are. But, I think you know, what is critical is the tech companies that are worried about this problem are worried that basically their ongoing business and processes are going to be—something they are using is going to be disrupted and that is their concern, that is what they wanted protected.

As you know right now, the prior user rights privilege only applies to methods, it doesn't apply to the other types of patents. So there are problems in scope, there are problems in use that we think have to be addressed. And I think there probably is a way to do that that wouldn't make educational institutions concerned that their investments in patents could somehow be overcome by the fact that there were these prior users out there, who, after all, have developed this thing separately. It is not like they looked at the patent and then magically started using that product or service or process, they have done it independently.

Ms. CHU. Should there be a carve out for universities?

Mr. PINCUS. That certainly is one thing that could be talked about. It was talked about in other parts of the bill and earlier incarnations, with things like the venue provision, when it was in the bill. And there may be some way to do that. But I think that the critical interests, the balance are finding a way to make sure the universities are protected, but also making sure that businesses are protected. And also, you know, frankly, any kind of carve out that is developed is susceptible to other people trying to use it and so it would have to be—

Ms. CHU. That is true.

Mr. PINCUS. Drafted pretty tightly to avoid that problem.

Ms. CHU. Let me ask also about patent trolls in the eBay decision. Have firms whose business models primarily focused on purchasing and asserting patents, the so-called patent trolls, been able to obtain injunctions after the eBay decision?

Mr. Pincus and then Mr. Burk?

Mr. PINCUS. I think Mr. Burk actually has some study about that and—

Mr. BURK. The—a number of scholars looked at this and in fact I think that some of this is in Professor Crouch's written treatment. And I would also commend to you the FTC report that was issued last week that has some of this data.

The number of such injunctions has dropped dramatically since the—that decision, which is why it is one of the real success stories in addressing a current patent reform problem by applying, as Mr. Pincus said, the statute as Congress wrote it, so that legitimate injunctions can still be issued for first time innovators. Patent—non-practicing entities or patent trolls can still get their monetary damages, so they can still get their income from the patents, but the statute indicates there is no reason they ought to get an injunction and I think that has been a real success story of the courts addressing that problem.

Ms. CHU. Is this a success story that is left well enough alone or should Congress consider addressing it?

Mr. BURK. As far as we can tell, Congress did address it in the original statute. As Mr. Pincus said, the Supreme Court reminded the lower courts of that and it seems to be working itself out.

Ms. CHU. Okay. And then finally, how—what is your assessment of how the damages provision in the current patent statute has been handled by the courts? Do you believe that the current case law properly assesses damages for patent infringement or does the current system allow patent owners to be overly compensated?

Mr. PINCUS. I think, Congressman, that was—this was one—after injunctions it probably is the biggest problem as when this Committee started looking at this issue in 2005. And I think although it is not quite as great a success story as maybe the eBay decision, as I think the Federal Circuit in several recent decisions has moved down the road of explaining that the way reasonable royalty damages especially, which are the royalties that are sought by non-practicing entities, because they don't have any lost profits to recover, have to be—that the lower courts sort of reflective use of the entire market value rule, which as you know, meant that the royalty could be based on the whole product even if the patent involved just a tiny little aspect of what the product delivered, that that rule really is the exception and not the rule and the Federal Circuit has been very firm on laying that down. It has been very firm in saying that a rule of thumb, that royalties should be 25 percent just because that seemed like a good place to start, was specifically rejected.

And that in the most recent—in the Unilock decision saying that the basic rule should be that the royalties have to be commensurate with what the infringement adds to the product and that is the critical focus. And if that principle gets applied in subsequent decisions that is going to really do for the damages issue what eBay did for the injunction issue.

Ms. CHU. Thank you.

I yield back.

Mr. REED. Okay. Thank you very much.

The Chair, at this point, would recognize Mr. Griffin.

Mr. GRIFFIN. Thank you, Mr. Chairman.

Mr. Burk, I want to follow up on your comments on first-to-file.

Mr. BURK. Yes.

Mr. GRIFFIN. I have spoken to a lot of people about this and I am told that a lot of our actors act as if first-to-file is already in place, particularly people who are operating internationally. And so I am interested in hearing your comments on the impact of moving to a first-to-invent system, if people are in fact already acting as if we have a first-to-file system.

Can you comment on that?

Mr. BURK. I think you are certainly correct that internationally people have to take into account the fact that most countries are first-to-file. And there is no question that in some ways it would be cheaper and easier for everyone to be first-to-file, for those companies that are doing that.

But within the United States, as Professor Crouch mentioned earlier, this is going to have a very disruptive effect on domestic patenting and on companies that are primarily focused on domestic patenting. We are going to have to figure out what all these terms mean, unless they are very carefully defined and so that is the disruption that I mentioned.

Mr. GRIFFIN. And what about the major tech companies that are doing business internationally, are they already acting as if we have a first-to-file?

Mr. BURK. Well, they certainly are internationally and thinking about when and where to file. All right. But again, domestically when they file in the United States there are all kinds of provisions and Section 102 and 103 that they will have to figure out what that means in the U.S.

Mr. GRIFFIN. Some of the testimony that we have heard has basically said that with a first-to-invent system, your disadvantaging smaller businesses because they don't have the resources or the funds to be in prolonged litigation. And if we go to a first-to-file then that will somehow help in that area.

Can you comment on that and that is for all three of you.

Mr. BURK. I think it is very difficult to assess that. There are arguments both ways. I have both heard that first-to-file disadvantages small businesses because they don't have the resources to file as quickly. And then I have heard that first-to-invent disadvantages small businesses, as you indicated, because they don't have the resources to be tied up in interferences and other kinds of litigation.

So I think everyone is guessing at that. What I do know is—

Mr. GRIFFIN. Could I stop you there for a second?

Mr. BURK. Sure.

Mr. GRIFFIN. And I don't know if you are familiar with this, but the witnesses who testified previously in some other hearings, one in particular cited some studies, a Hasting Law Review study, and where they had gathered data on litigation. And you know, you have probably seen those, if you haven't I would certain commend

that to you because that sort of convinced me, to some extent, that they were guessing, that they had some data to back up their argument on that. But I welcome your comment on that.

Mr. BURK. No, you are absolutely correct, Mr. Griffin. I mean people have tried to gather some data. There is also data that goes the other direction and I think the data we have is inconclusive. So I am not sure whether it will advantage or disadvantage small businesses. What I do know is we will spend the next decade figuring out what that means for domestic patent law, which as I said, is going to be great job security for my students, but it may or may not be good for businesses.

Mr. GRIFFIN. Sure. Do you all want to comment on that particular?

Mr. CROUCH. I have a quick comment. And there is no way that I will be able to convince people to change the name of this away from first-to-invent verse first-to-file, but the change that occurs is not really about the patent race between two entities. Right? The biggest change for most patent applicants is that under the current system there is a potential to focus on your invention date, which is some time in history versus focusing on your filing date.

And if we look at what the Senate has passed, basically we have take amount—some amount of prior art that didn't used to be prior art under the old system, because you could claim back to your invention date, and now if we go to first-to-file there is going to be a lot more prior art that is everything that came out from the day you invented to the day you filed. And all of that can be used against you, not just in litigation or these protracted battles, but just when you are trying to get your patent through the Patent Office. And the Patent Office can find those and make it easier to invalidate the patent.

Mr. GRIFFIN. I want to get one more question in, you can answer it and my time is about up.

Look at the universe of decisions, and that is really what this hearing is supposed to be about, can you identify particular decisions that have either positively or negative impacted certain sizes of business, small business versus big business and what that impact has been? Because as we have gone through this debate we have heard a lot about the impact of changes in the law on either small business or big business, businesses with resources, those that don't have them.

So if there is anything in particular that—any cases you would want to point out, I would love to hear it.

Thank you, Mr. Chairman.

Mr. PINCUS. I think the decisions we have been talking about, eBay, the damages decisions, the willfulness decisions, the venue decisions all go to the burden on defendants. And I think those defendants can be large or small. There is certainly, I know, in the Committee's past hearings on this issue over the last 6 years, there have been a number of small businesses that have said that they were victims of lawsuits, either by MPEs or by others and just had to settle because they couldn't afford to defend them under the rules that existed. And now that playing field has been leveled in a way that hopefully they can afford to defend them.

Mr. REED. Thank you, Mr. Griffin.

At this point in time I will recognize the gentleman from New York, Mr. Nadler?

Mr. NADLER. Thank you. Thank you, Mr. Chairman. Gentlemen, I have been listening to your testimony and let us get down to one brass tack in particular. Given what you have all said about the progress that we have made in solving some of these problems through the courts, in particular perhaps the measure of damages question that was of great concern and which may have been taken care of through the courts, take a look specifically at the Senate bill that just passed the Senate. In your opinion, should we pass it? Should we ignore it? Should we modify it?

For all three of you. One at a time.

Mr. BURK. I guess my first answer would be I was fairly encouraged that the bill that passed the Senate, whatever you may think about the individual provisions, seems to focus on the kinds of things that I said earlier Congress ought to focus on. So most of the issues that we have said the courts have dealt with seem to have disappeared out of that bill. There is this kind of funny thing about tax patents, I am not sure what that is doing in there.

Mr. NADLER. Tax patents?

Mr. BURK. Yes, there is provisions—

Mr. NADLER. Oh. Tax strategies?

Mr. BURK. Exactly, yeah. I am not sure that is something that this body needs to take up.

But for the most part, the questions are the structural questions that Congress needs to think about, first-to-file, post-grant opposition and those kinds of things. So I find that encouraging.

Mr. NADLER. Would you—and you would encourage us to pass that bill?

Mr. BURK. I would encourage you to focus on those same questions.

Mr. NADLER. Okay.

Mr. PINCUS. I think I would encourage you to look at the bill but probably make some changes. I think in particular the re-examination, post-grant review provision that was in H.R. 1908 that the Committee reported out in 2007 and the House passed is a much superior administrative process for the PTO.

Mr. NADLER. Why? Why is that provision superior to the provision in the Leahy bill?

Mr. PINCUS. Because the Senate-passed bill actually makes the administrative process less open, less useful than current law, in terms of the standard for starting the process is higher, there are rules about when the administrative process can be initiated that make it very difficult because they are very tight after the—after someone has been sued they have a relatively short period of time to initiate a post-grant review. Remember, they have to file all their evidence at the beginning, so they have a very—it is 6 months. It seems long, but you have to file your entire case upfront, so it is really not that long at all, if you are starting from a standstill.

It continues to have the broad estoppel which could have raised—which as the Committee remembers from its deliberations, makes going into the administrative process a very treacherous thing for a company that may not know about a potential grounds

for challenging a patent, but gives it up by not raising it even though it didn't know about it. And then in a subsequent proceeding there is lots of litigation about whether they could have known—

Mr. NADLER. Would you remove that estoppel from that provision?

Mr. PINCUS. Excuse me?

Mr. NADLER. Would you remove that estoppel from that provision?

Mr. PINCUS. Yes, the House-passed bill has said there was only estoppel for things that were actually raised, and we think that makes the provision sensible and eliminates this sort of treachery.

And also the inequitable conduct provision that is in the Senate bill, we don't believe is necessary given what the courts are doing on inequitable conduct.

And finally, as I said before, on prior user rights, we think that is sort of a critical aspect of first-to-file is broadening prior user rights as every country that has first-to-file has done.

Mr. NADLER. And this does not do that?

Mr. PINCUS. No.

Mr. NADLER. Professor Crouch?

Mr. CROUCH. Yes, sir. I have not made it all the way through the Senate bill and so I don't know all the details.

Mr. NADLER. Most of us don't make it all through—all the way through any Senate product, so that is okay.

Mr. CROUCH. But I do know that the Senate had an opportunity to pass a bill and they rushed to complete that and certainly even if you want to enact this, the purpose behind the Senate bill, there is a lot of work that needs to go into it and the onus is now on you guys to fix a lot—what I might call “technical problems” with the bill. And I think we have mentioned some, in terms of definitions and language that is there.

There is also some—you know, there is an entirely new jurisdiction portion that essentially overrules a Supreme Court case called *Holmes v. Vornado* that is maybe a 2002, 2003 Supreme Court case and takes certain cases that might have patents as a counterclaim or a patent type defense and brings those into Federal courts. And in my view that is a wholly new provision and I never—I have never actually heard of Congress holding a hearing on that topic. And so there are some new things in there that I think got added at the last minute that need some special look.

Mr. NADLER. Thank you.

Let me ask just one other question, to any of you. You have identified a number of areas in which there are outstanding issues that—to be resolved in patent law. Are there any particularly significant cases now pending that you can advise us of, on the appeals level, that may resolve these issues in a way that you think is acceptable or will clarify the law? Any particularly notable cases we could keep an eye out?

Mr. PINCUS. I think there are a number of cases, the Supreme Court has two, there are a number of cases pending in the Federal Circuit. I don't know that any of them address the issues that we think should be in the bill, with the exception of, to go back to the false marking issue, there is a case pending in the Federal Circuit.

I think our concern is it doesn't seem likely that it is going to resolve that issue but that is certainly something that is out there.

Mr. NADLER. I see my time has expired. Thank you.

Mr. GOODLATTE [presiding]. Thank you.

At this point in time I will recognize the Ranking Member Mr. Watt?

Mr. WATT. Thank you, Mr. Chairman. Just to—I have three more questions and I will direct one to each panelist.

Mr. Burk I didn't—I ran out of time before you got a chance to respond to my question about multiple defendants and some—the possibility that somebody might game the system by just adding additional defendants, the venue system. Did you have a response that you wanted to make to that?

Mr. BURK. I think the short response, Mr. Watt, is that we don't know, that has not been decided yet. But the courts are working on it, and that is the kind of thing that I think the courts can and will solve. It is not clear to me that you need to focus your attention on—

Mr. WATT. So we don't need to deal with it? Okay.

Second, Mr. Pincus, I saw something in one of the drafts about the possibility of you take a—you get a second review before the Patent and Trademark Office and that becomes the absolute final opportunity. I mean there is no right of appeal to the court. As a lawyer I always react to that in a negative way. And I wonder if I am over reacting to that in a negative way.

Are there any other precedents for something of that kind or is there a reason why that should be done in this particular area of the law?

Mr. PINCUS. I know that it—

Mr. WATT. You are familiar with what I am talking about?

Mr. PINCUS. Are you talking about—there is a provision that says if the director declines to initiate an inter partes or a post-grant proceeding, that that decision not to allow it to be initiated is non-reviewable.

Mr. WATT. No. I thought there was a possibility at least that we might come up with something that said if you go through the post-grant review process, if you ever go through it, that is the end of it. Is that—am I miss—I am not talking about something that is—

Mr. PINCUS. I—

Mr. WATT [continuing]. In the law, I am talking about something that somebody proposed.

Mr. PINCUS. Yeah. I am not aware of it. And I agree with you, it seems to me important that if that process is opened and the PTO makes a decision on the merits about the validity issue that is before it, that it is hard to imagine why there wouldn't be judicial review of that decision.

Mr. WATT. All right. Mr. Crouch, all three of the witnesses seem very comfortable with the court either making or clarifying or interpreting law. We won't get into that distinction, whether they are making or clarifying or interpreting.

Is there something in the current law that will enable the court to make a good judgment interpreting law, as opposed to making law, on two outstanding issues: business methods and tax strategy

patents? Is that something we can leave to the courts to resolve or is that something we have got to deal with by statute?

Mr. CROUCH. Well, last year the Supreme Court decided a business method case called *In re: Bilski* or *Bilski v. Kappos* and that case was not a tax case but what it involved was Bilski had invented a method of hedging, basically buying commodities to hedge against the risk of bad weather, which for a commodities trader sounds obvious, but I think there were some potentially non-obvious, some inventive features. And the Patent Office refused to give him a patent on grounds that that is not the type of thing that they allow patents on.

The Supreme Court took the case and agreed, although their reasoning maybe was slightly different, the Supreme Court said, we have had a rule for over a 100 years that we don't give patents on abstract ideas and the general idea of hedging is an abstract idea, and therefore no patent on that. And I would—

Mr. WATT. Wait, now, remember I am on the Financial Services—

Mr. CROUCH. Okay. Yes.

Mr. WATT.—Committee so it is not abstract to those guys.

Mr. CROUCH. Right. Right, I agree. You know, and you know, I went to Princeton University and at this point in the engineering school where I went, right, they had—they now have a financial engineering department where you know, that—they are doing engineering and using the same differential equations that I used for mechanical and aerospace engineering, they are using for financial issues and so they certainly believe that is engineering.

And if those are the type of—right, that this is something that is amenable to some legislation, but I—but there is a big concern in that our—the statute that we have now on patentable subject matter has been essentially identical since it was passed, I think in 1794. And it has changed by two to three words and that is—and there are about 50 to 60 Supreme Court cases in that interim interpreting that particular statute. And—

Mr. WATT. Do I read between the lines, if we change more than two or three words we are going to be asking for more litigation and reinterpretation—

Mr. CROUCH. Absolutely. Absolutely.

Mr. WATT [continuing]. Than we are going to solve the problem? That is what you think on both business methods and tax?

Mr. CROUCH. You know but the Supreme Court did not absolutely ban those. And so if that is what you want to do, then you may have to take action.

Mr. WATT. All right. I thank the Chairman for yielding me a second round of questions. And I thank the witnesses for what I think has been a very informative and instructive set of responses.

Mr. GOODLATTE. Well, thank you. The gentleman yields.

At this point in time I would like to thank the witnesses for their testimony today.

Without objection all Members will have 5 legislative days to submit to the Chair additional written questions for the witnesses, which we will forward and ask the witnesses to respond as promptly as they can, so that their answers may be part of the—made part of the record.

Without objection all Members will have 5 legislative days to submit any additional materials for inclusion in the record.

With that, again, I thank the witnesses and this hearing is adjourned.

[Whereupon, at 2:29 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD



**Testimony of
The Coalition for Patent Fairness**

**Before the
House Judiciary Committee
Subcommittee on Intellectual Property, Competition, and the Internet**

**Hearing on
"Review of Recent Judicial Decisions on Patent Law"
March 10, 2011**

**2141 Rayburn House Office Building
Washington, DC 20510**

The goal of the Coalition for Patent Fairness is to develop a balanced, effective, and strong patent system for the 21st century. The provisions outlined in currently proposed patent reform bills, including S.23, do not meet this goal.

Junk patents have plagued innovation, particularly in the high-tech sector, and spawned sham litigation. Over the past few decades, the number of patents has grown exponentially, creating a patent thicket that obstructs U.S. companies' ability to develop and provide new technologies to consumers. The number of annual patent grants has risen from fewer than 80,000 in the early 1980s to more than 240,000 in 2010. See U.S. Patent & Trademark Office, *U.S. Patent Statistics Chart: Calendar Years 1963 - 2010* (2010). Far too many of these patents never should have been granted, as the courts have found. By one estimate, 46% of patents asserted in litigation are found invalid. See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205-06 (1998).

This proliferation of invalid patents has resulted in costly litigation for America's innovators. A special breed of non-practicing owners has emerged to exploit the patent thicket and other weaknesses in the patent system. Patent "trolls" acquire patents on others' inventions and seek to hold up other innovators, either through demands for excessive damages or unwarranted injunctions. These trolls seldom succeed in the patent-infringement suits they bring, winning only 9.2% of the time. See John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants* 5 (Stanford Law School, John M. Olin Program in Law & Economics, Working Paper No. 398, Sept. 16, 2010). Nevertheless, the hold up costs are so great, and the cost of litigation so high, that patent trolls can use the threat of suit to extract high royalties, even on questionable patents. See Federal Trade Commission ("FTC"), *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Exec. Summ. at 7 (Oct. 2003). These lawsuits unnecessarily increase the cost of innovation and products for Americans. FTC, *The Evolving IP Marketplace: Aligning Patent Notice & Remedies with Competition* 50-54, 69-72 (Mar. 2011).

In response to these suits, the Supreme Court has issued rulings that promote innovation and help consumers purchase innovative products at lower prices. For example, the Court's decisions have reformed patent law in the following areas:

- **Remedies:** In *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006), the Court held that the well-established test for an injunction – requiring a court to balance the equities – should be applied in patent cases just as in other areas of law. The *eBay* case has prevented non-practicing entities from holding up innovators from practicing a technology through the threat of injunction. As a result, few non-practicing entities have obtained an injunction in district courts since *eBay*.
- **Validity:** In *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), the Court made it easier to demonstrate that a patent is invalid as obvious, ruling that an obvious combination of pre-existing inventions does not merit patent protection. *See id.* at 428. Courts have followed this ruling to strike down junk patents that were simple extensions of others' inventions. *See, e.g., Perfect Web Techs., Inc. v. InfoUSA, Inc.*, 587 F.3d 1324, 1329-30 (Fed. Cir. 2009) (holding that a method patent for managing bulk e-mail was obvious when the prior art disclosed the first three steps of the method and the last step simply repeated the first three steps, such that it would be “common sense” for one skilled in the art to simply try the first three steps again). As a result, it is easier for innovators to defend against worthless patents.
- **Extraterritorial Extensions of US Patent Law:** *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007): Patents generally only cover infringements that occur in the country that issued the patents. Under the Federal Circuit's interpretation of subsection 271(f) regarding extending patent law to infringing sales outside of the United States, the law disadvantaged US based software and technology companies who developed their software or technology in the US and then provided gold masters outside the United States; foreign competitors who had developed their technology outside of the United States had no such liability under subsection 271(f). The Supreme Court reversed and provided a more limiting interpretation regarding foreign liability pursuant to the literal language of the statute.
- **Burden of Proof:** We expect that the Supreme Court will continue to refine patent law to ensure that the patent system protects innovators. In the current term, for example, the Court plans to consider a party's burden of proof to show that a patent is invalid. *See Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 647 (2010) (granting petition for certiorari). Specifically, the Court will determine if junk patents can only be invalidated by presenting clear and convincing evidence of that invalidity or whether less is required, particularly, if the prior art before the court was never reviewed by the Patent Office.
- **Declaratory Relief:** Prior to the advent of the Federal Circuit, manufacturers who had been threatened with a patent could file declaratory relief actions to determine its rights. Under a more restrictive test applied by the Federal Circuit, if the patentee merely indicated that it desired to pursue licensing discussions with the accused manufacturer, declaratory relief could not be pursued. However, starting with the Supreme Court's decision in *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), these undesirable restrictions on declaratory

relief in patent cases were lifted.

Recent Federal Circuit decisions also have helped to ensure that consumers have access to innovative technologies at a reasonable price. For example, the Federal Circuit's decisions have reformed patent law in the following areas:

- **Damages:** In *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), *cert. denied*, 130 S. Ct. 3324 (2010), the Federal Circuit set aside a jury's \$357 million damages award against Microsoft for infringing a patent covering a "tiny feature of one part of a much larger software program." *Id.* at 1332. This case represents the Federal Circuit's first step back from its prior case law holding that jury damages would ordinarily not be disturbed unless they were "monstrous." *Id.* at 1310 (internal quotation marks omitted). Similarly, in *Uniloc USA, Inc. v. Microsoft Corp.*, -- F.3d --, Nos. 2010-35, 2010-1055, 2011 WL 9738 (Fed. Cir. Jan. 4, 2011), the Federal Circuit rejected an often-used, but unrealistic, tool for calculating a reasonable royalty rate. The court held that the so-called 25 percent "rule of thumb" for the royalty rate was inadmissible under the Federal Rules of Evidence because it was "a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation." *Id.* at *19. The court also reinforced the principle that royalties should not be based on the value of a commercial product – which may be covered by hundreds of patents – when the patented component "does not create the basis for customer demand." *Id.* at *24.
- **Venue:** In a series of recent cases, the Federal Circuit has ordered district courts to transfer patent cases to ensure that they are heard by courts and juries in a judicial district that has a legitimate relationship to the claim, and not by courts chosen simply because they are perceived to benefit the plaintiff. *See, e.g., In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011); *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010); *In re Nintendo Co.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Hoffmann-La Roche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009); *In re Genentech, Inc.*, 566 F.3d 1338 (Fed. Cir. 2009); *In re IS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008). As a result, fewer companies will be forced to litigate in a distant district solely due to a patent troll's strategic choice of where to file suit.
- **Willful Infringement:** In *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc), the court made it harder for a patentee to establish willful infringement. Overruling previous case law, the court held that mere negligence was insufficient to find willfulness. *Id.* at 1371 ("[T] the duty of care announced in [an earlier decision] sets a lower threshold for willful infringement that is more akin to negligence.") Moreover, the court held that "to establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent [and] the patentee must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer." *Id.* This ruling makes it more difficult for patent trolls to obtain treble damages by asserting willful infringement.
- **Validity:** In *Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.*, 598 F.3d 1336 (Fed. Cir. 2010)

(en banc), the court ensured that patentees disclosed an accurate description of the invention to the public. To satisfy the written-description requirement in 35 U.S.C. § 112, the court held that “the test for sufficiency is whether the disclosure of the application relied upon reasonably conveys to those skilled in the art that the inventor had possession of the claimed subject matter as of the filing date.” *Id.* at 1351; *see also Centocor Ortho Biotech, Inc. v. Abbott Labs.*, -- F.3d --, No. 2010-1144, 2011 WL 635291, at *7 (Fed. Cir. Feb. 23, 2011) (holding that a patent claiming fully human antibodies to human necrosis factor α (or TNF- α) was invalid for lack of a written description when the patent failed to describe, e.g., “a single antibody that satisfies the claim limitations”). This requirement ensures that the descriptions of the invention in patents will be fuller and clearer.

As courts continue their progress in improving the patent system, Congress should take care to pass only laws that will do the same. Ill-considered legislative solutions will damage the patent system and hinder innovation. Congress has recently considered bills that would add to the thicket of low-quality patents. While taking many steps in the right direction, S.23, for example, contains an inter partes reexamination section that would remove the existing guarantee that the party seeking inter partes reexamination has a meaningful opportunity to participate in those proceedings. The bill would also increase the U.S. Patent and Trademark Office’s (“PTO”) standard for ordering inter partes reexamination, even though under the current standard the PTO has rejected at least one claim in 90% of the completed inter partes reexams. (U.S. Patent and Trademark Office, [Inter Partes Reexamination Filing Data](#) – December 31, 2010, at 1) Additionally, the bill would also impose unrealistic time limits on when a defendant in a patent suit can seek the procedure. An inter partes reexamination, if effective, can be an important tool to avoid costly litigation and ensure the overall quality of patents by encouraging resolution of complex validity questions by the experts at the PTO, instead of lay jurors. But S.23 would limit that procedure and obstruct the PTO from weeding out bad patents.

S.23 also provides an incentive for a patent owner who deliberately concealed or misrepresented material facts to the PTO during prosecution. Today, patent applicants, like many applicants before the government, “have a duty to prosecute patent applications in the Patent Office with candor, good faith, and honesty.” *Honeywell Int’l Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 999 (Fed. Cir. 2007). If they are shown by clear and convincing evidence to have intentionally misrepresented or concealed material facts, their patents can be held unenforceable. The proposed supplemental examination, however, would effectively nullify a patent applicant’s duty of candor. The ability to supplement one’s disclosure would provide a patent applicant with an incentive to conceal material information and wait to disclose it to the PTO only once the applicant realizes that he has been caught. Congress should not enact legislation that deprives the public of a quality disclosure and provides patent applicants with an incentive to deceive.

Rather than considering such provisions, Congress should urge the courts to continue the progress they have made and ensure that its legislation does not stifle that progress. Courts are in the best position to carefully consider whether consumers will receive the benefit of those inventions through more innovative products at lower prices. When interpreted correctly, the current patent laws will promote innovation and competition, placing new technology into the hands of Americans at lower prices. Recent decisions, such as *Uniloc*, have done so, viewing

patent law from the consumer's perspective.

Congress can enact legislation, however, that solves problems the courts cannot address. One of the best ways Congress can ensure quality patents is to limit its legislation to sensible measures that would modernize and better fund the PTO. Congress should grant the PTO the authority to adjust its fees to ensure that it has additional funding for processing, materials, and other services. Moreover, the law should provide monetary incentives for applicants to file documents electronically and ensure that the PTO makes publicly available documents searchable on its Public Patent Application Information Retrieval System.

In sum, we urge Congress to permit the courts latitude as they continue to reform patent law and promote innovation. In recent years, the courts have improved the law on patent validity, damages, and injunctive relief, to name a few. We have confidence that the courts will continue to do so.

The Coalition for Patent Fairness is a diverse group of companies and industry associations dedicated to enhancing U.S. innovation, job creation, and competitiveness in the global market by modernizing and strengthening our nation's patent system. Coalition for Patent Fairness members include Adobe, Apple, Cisco, Dell, Google, Intel, Intuit, Micron, Oracle, RIM, SAP, Symantec, and Verizon Communications.



Statement of John Boswell,
Senior Vice President and General Counsel, SAS Institute

“Review of Patent Law Decisions”

Hearing Before the
Subcommittee on Intellectual Property, Competition and the Internet
Committee on the Judiciary
U.S. House of Representatives
March 10, 2011

Chairman Goodlatte, Ranking Member Watt, and Members of the Subcommittee, I appreciate the opportunity to submit this statement for the record. I am the Senior Vice President and General Counsel of SAS, which is a large, privately held software company headquartered in Cary, North Carolina. Like other technology companies, SAS is spending more of its time and resources defending itself against destructive patent lawsuits—that is, lawsuits brought by certain non-practicing entities (NPEs) solely to enforce questionable patents they have purchased from other, defunct enterprises. These NPEs do not invent, they do not innovate, they do not grow the economy and they have no other commercial purpose except to use these patent rights to extract funds from legitimate innovators and inventors.

These patent lawsuits are most often brought in jurisdictions where there is virtually no opportunity to get a change of venue or early disposition of the case on summary judgment. The NPEs bring these cases in these selected jurisdictions because it gives them a tactical advantage. The high cost of patent litigation to the defendants¹ often makes the best course of action to settle the case, even if the defendant would win at trial. NPEs know this, which leads to more of the same behavior. It is a positive loop where the more defendants settle, the more non-meritorious suits are filed and on and on. I suspect you would receive similar testimony from most high tech companies in the US.

¹ According to the American Intellectual Property Law Association’s 2009 *Report of the Economic Survey*, if the amount in controversy is more than one million dollars (\$1,000,000), the average cost to defend that patent lawsuit is two million five hundred thousand dollars (\$2,500,000). It costs over five million dollars (\$5,000,000) to

Unlike the other witnesses on the panel, SAS' interest in the subject of judicial review of the patent cases is more than academic. We are spending enormous sums of money in what is very clearly an unproductive activity—that is, litigating these wasteful suits. The funds that we are spending could be more productively used to invest in people and research and development. If Congress believes this unfair and wasteful litigation abuse needs to be fixed, I offer one suggestion that will enable the courts to better deal with this problem. Congress should limit a patent plaintiff's ability to join multiple unrelated defendants in a patent lawsuit unless the accused products are so closely related that proof of infringement as to one product will prove infringement of the other or unless the case involves a standard that is accused of violating the patent. This change will limit a NPE's ability to haul dozens of unrelated defendants into an inappropriate jurisdiction. Courts will be able to adequately address the question of venue while still allowing legitimate patent rights to be enforced in the appropriate court.

Why should Congress act?

As the witnesses note in written statements, the courts have made progress addressing some of the abuses plaguing patent litigation. Given the treatment of these issues by the witnesses, I will not belabor those points further. But, as Mr. Pincus notes in his statement, "[w]hile of course not all of our concerns have been addressed fully, at this time, the courts are moving in the right direction. I say at this time because continued vigilance is essential. The past imbalances in the law were in many cases created by the courts, and there is no way to predict the path of future jurisprudence."

One of the concerns that has only partially been addressed relates to venue. Today's witnesses correctly note that the Court of Appeals for the Federal Circuit has begun to issue decisions relating to when the transfer of venue is appropriate. Clearly, some of the imbalances that exist are the result of poor decisions by lower courts. We further concur that it is up to litigants to remain vigilant so that the courts continue to move in the right direction, issuing decisions that are the right decisions. Where we depart company, however, is with the premise that the courts, by themselves, will continue to get all of these decisions correct and will do so in a time frame that will have any impact on the coming onslaught of litigation. As important as these recent decisions may be, they represent only the starting point. More to the point, by the time the courts fully flesh out these issues (assuming that the courts can actually do this), tremendous time, effort and resources will have been wasted defending suits that have no merit except as

an economic enrichment model for select opportunists. Wouldn't it be better for the system and the country for Congress to step in now, at least on those issues that have not been addressed and are not likely to be addressed by the courts in the near term?

Several specific points are worth noting about the venue decisions. First, the cases on venue that have been cited as correcting the problem all involve the petitioner seeking a "writ of mandamus". In these instances, the original motion to transfer venue was denied, leaving the petitioner with two options. The first option is to continue to litigation in the original venue (which almost certainly presents undue burden for the defendant.) The second option is use additional resources pursuing what many consider to be an "extraordinary" remedy. To quote one of the other witnesses, by having to resort to a writ of mandamus, "by definition means that the court can only deal with the outer edges of what is egregious."

Second, and of greater concern, is that the relief provided in these venue decisions is limited to cases in which there is essentially a single defendant. In these cases, the Court of Appeals has said that a "motion to transfer venue should be granted upon a showing that the transferee venue is 'clearly more convenient than the venue chosen by the plaintiff.'" In re Nintendo, 589 F.3d 1194 (Fed. Cir. 2009,) citing In re Genentech, 566 F.3d 1338, 1342 (Fed. Cir. 2009). Given that the trend in NPE litigation is to involve multiple unrelated defendants with unrelated products from all over the country, which venue could possibly meet the "clearly more convenient" test? The result is that defendants like SAS will be forced to defend in district courts that have no rational relationship to them, but in which jurisdiction has been wholly manufactured by the NPE. As noted above, because these are complex cases with evidence and witnesses resident in many localities, proving that the lower court abused its discretion becomes virtually impossible. Thus, even the extraordinary relief would not be available to help defendants in these cases where it is clear from the outset that the plaintiff has manufactured jurisdiction.

SAS is currently involved in litigation in the Eastern District of Texas with 22 defendants with unrelated products. Patent litigation requires an individualized showing that each defendant's product infringes the patent. Each defendant has unique facts, unique defenses and entirely different products. The NPE sued us all in the same litigation. It is not possible for a jury to make individualized judgments about infringement regarding 22 different products from 22 different defendants. If sued separately, venue would not

be appropriate in the Eastern District of Texas for any of the defendants. Since the defendants have been sued together, there is no other jurisdiction in which venue is appropriate.

When asked about the multi-defendant problem, only one of the witnesses today could recite any precedent that might arguably touch on the issue. The case cited was the In re Nintendo case. The Court of Appeals overturned the lower court's decision not to grant a transfer of venue. However, the facts in In re Nintendo do not address the central issue that I raise: what is the court to do in multi-defendant litigation?² In fact, the Nintendo fact pattern and consequent lower court decision raise real concerns about when a transfer of venue should be granted in the multi-defendant scenario. Our chief concern is that the burden of proving that a proposed venue is "clearly more convenient" becomes impossibly high when litigation involves multiple defendants with places of business, witnesses and evidence spread around the country. As important, the ability of any single defendant in this circumstance to obtain a writ of mandamus becomes equally illusory because it becomes less clear that that an abuse of discretion by the lower court has occurred.

I am not aware of patent litigation that is now working its way through the legal system that would address the issue of proper venue when multiple, unrelated defendants have been joined. While a court may eventually be presented with this factual pattern, in the meantime, real companies are being held hostage, diverting resources from higher,

² In re Nintendo involved a plaintiff alleging patent infringement by a Japanese company and its North American subsidiary. The parent company is a Japanese company; the subsidiary was a corporation organized under the laws of the state of Washington with its principal place of business in Redmond, WA. The plaintiff, Motiva LLC, was an Ohio corporation, with its principal place of business in Dublin, Ohio. One of its inventors had connections with Ohio, the other inventor had connections with New York. Motiva filed suit in the Eastern District of Texas. Nintendo filed a motion to transfer venue to the Western District of Washington, claiming that Washington would be a more convenient venue given that most of the witnesses and documents were located in Washington. No witnesses were in Texas, none of the parties were located in Texas, and no evidence was located in Texas. Notwithstanding the lack of connection to Texas, the district court denied Nintendo's motion to transfer venue. The District Court's decision turned on the fact that while transporting the defendant's evidence to Washington would only be slightly more convenient for the defendants than transporting evidence to Texas, it would be much more burdensome for the plaintiffs. Additionally, while the court conceded some witnesses were located in Washington, it could not conclude that the "vast majority of witnesses or documents" resided in Washington such that a transfer of venue should be ordered. Thus, the defendants failed to show that the Western District was "clearly more convenient" than the plaintiff's choice of Texas. Interestingly, as part of its analysis, the district court stated that the plaintiffs did not contest that Texas had no "relevant localized interest" in the case. Notwithstanding the high local interest of Washington, the court stated that "the simple fact that one of the Defendants operates primarily in the transferee venue cannot, standing alone, show clear convenience." The Court of Appeals granted defendant's petition for a writ of mandamus, ruling that the district "clearly abused its

more productive investments. This new and evolving fact pattern does require clear legislative guidance from Congress and it requires it now.

The Appellate courts have provided clear guidance as to where venue is appropriate. While judicial economy usually suggests bringing related cases together, patent cases are different. A patent is a negative right. It confers the right to prevent others from practicing the invention. It is not incumbent on a patent holder to ever enforce its patent. It can enforce the patent against some defendants and not others without the risk of being held to have waived any rights to later enforce the patent.

Patent cases require an individualized showing of infringement by each defendant's product. The discovery in patent litigation with NPEs is virtually entirely the defendant's burden since the NPE makes nothing, has few, if any employees, and few if any corporate records. The judicial economy that would normally suggest litigating multiple parties together is not as applicable in a patent case. Naming dozens of defendants simply provides the NPE the tactical advantage of limiting its cost to extract money from multiple companies while at the same time defeating any chance of getting a change of venue granted. If Congress would make this one change regarding patent cases, I believe it would greatly reduce the waste and abuse that is NPE patent litigation.

I thank the subcommittee for the opportunity to submit this statement. I would be happy to provide more information or answer any questions the Chairman, Ranking Member or Members of the Committee might have.





**INSTITUTE FOR INTELLECTUAL PROPERTY
& SOCIAL JUSTICE, INC.**

*ADVANCING IDEAS
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DIRECT DIAL: 202-806-8012
EMAIL: LMTIMA@IIPSJ.ORG
FAX: 202-806-8428

**Testimony of Prof. Lateef Mtima on behalf of the Institute for
Intellectual Property and Social Justice**

Submitted to the House Judiciary Committee

**Subcommittee on Intellectual Property, Competition and the
Internet**

Hearing on “Review of Recent Judicial Decisions on Patent Law”

March 10, 2011

The Institute for Intellectual Property and Social Justice (IIPSJ), through the Director, Associate Director, and Chair of Institute Development and Advancement of its program at the Howard University School of Law hereby submits the following testimony regarding recent decisions in patent law and the continued need for legislative patent reform. IIPSJ was established as a means by which to address the social justice implications of intellectual property law and practice, both domestically and globally. The Institute’s work ranges broadly and includes scholarly examination of intellectual property law from the social justice perspective; advocacy for social-justice aware interpretation, application, and revision of intellectual property law; efforts to increase the diversity of those who practice intellectual property law; and programs designed to empower historically and currently disadvantaged and under-included groups to create and exploit intellectual property effectively.

The heightened significance of intellectual property to national economic and social welfare interests has increased the need for a patent system and an overarching intellectual property regime which reflects the full range of interests of the diverse communities within our society. However, notwithstanding the various progressive judicial decisions handed down in recent years, deficiencies relating to the social justice efficacy of the patent system continue to persist. Chief among these deficiencies is the growing problem of inequitable access to the patent system for small businesses and independent and marginalized inventors. Contribution and

participation from all corners of society are essential to ensure the broadest range of inventive endeavor and to optimize our collective ability to compete in the global marketplace. Facilitating intellectual property protection and exploitation in historically underserved communities expands their stake in the intellectual property regime by broadening opportunities for individual and collective advancement, and moreover, furthers the fundamental aims of intellectual property progress as well as our nation's democratic ideals.

Other deficiencies in the patent system, such as the need for the allocation of greater resources to the United States Patent and Trademark Office, are clearly beyond the ability of the courts to address. In addition, while the problem of inadequate administrative resources impacts all aspects of the patent application process, its effects are often most perniciously visited upon inventors with limited financial and social capital. Only Congress can effectuate the kind of comprehensive and social justice-oriented reform needed to enhance the competitive quality of our patent system. Accordingly, IPSJ supports legislative patent law reform as necessary to further the social justice objectives which undergird the patent system and its function within the modern American intellectual property law infrastructure.

Recent Judicial Decisions and Their Impact on Patent Social Justice

While various patent scholars and practitioners have called for patent reform for some time, some recent commentators have urged that a trend of progressive judicial decisions has eliminated the need for Congressional intervention. Certainly several recent court decisions have improved the overall efficacy of the patent system and even abetted some of its social justice aspirations. For example, the Supreme Court's decision in *eBay Inc. vs. MercExchange, L.L.C.*,¹ holding that the unauthorized use of a patented invention does not automatically entitle the patent holder to an injunctive remedy, reflects the contemporary reality that patent enforcement policies must preserve incentive mechanisms without stunting widespread and socially important use and exploitation of inventions, and consequently a judicial weighing of pertinent policy considerations can mandate continued use and a corollary imposition of damages and royalties.

On the other hand, the Supreme Court's decision in *Bilski vs. Kappos*² suggests that the relevant "weighing of interests" in determining the extent of protection to be afforded to certain classes of inventions is best left to the legislature. Although it was the Supreme Court that first acknowledged that business methods can embody patentable inventions, Congress implicitly codified the principal, and pragmatically refined it to provide for an affirmative exemption for prior user rights. In the ensuing years, however, the courts have struggled to divine bright line parameters from Congress' intent. Thus, the Supreme Court's validation of the Federal Circuit's "machine or transformation" test as one, albeit not the only legitimate assessment for patentability, but without identifying metrics that would be appropriate to determining the patentability of non-traditional inventions, is arguably a further acknowledgement that the kind of constituent interest-weighting necessary to appropriately allocate such rights and interests is more properly the province of Congress.

¹ 547 U.S. 388 (2006).

² 130 S. Ct. 3218 (2010).

The Need for Legislative Action and Socially Responsible Patent Reform

Although the debates surrounding patent reform rarely explore the obligations of patent social justice, the most prominent proposals and points of discourse typically involve significant social justice implications. For example, one of the foremost patent reform controversies is the debate over proposals to shift from a first-to-invent to a first-to-file patent system. Each approach, however, impacts important social considerations. For example, under our present first-to-invent system, inventors need not engage in a competitive race to the patent office in order to preserve their rights. So long as an application is filed within the statutory period, an inventor is protected against the usurpation of her rights by a later inventor.

Concededly, a first-to-file system can also provide certain social benefits, such as greater legal certainty of patent rights. A first-to-file system would also encourage patent applicants to file as quickly as possible, and perhaps lead to earlier public disclosure of new inventions. Nonetheless, Congress should be mindful of the potential harm to small and independent inventors under a first-to-file system. The patent application process can be prohibitively expensive for inventors of limited means, who often need additional time to gather the funds needed to undertake the application process. In a first-to-file system, second-comers with greater financial resources could sometimes overtake prior inventors in the race to the patent office. Consequently, unless carefully implemented, a first-to-file system could exacerbate disadvantages already faced by small and independent inventors, especially those in marginalized and impoverished communities.

IIP SJ believes that the most prudent course would be for Congress to conduct an appropriate study as to the likely impact of a first-to-file system upon the interests of independent and marginalized inventors before deciding the issue. Moreover, should this body determine that the overall benefits of a first-to-file system would outweigh its detriments, any adoption of such a system must include appropriate mechanisms to safeguard the interests of small and independent inventors. For example, provisions that would allow consideration of evidence of financial hardship which prevented or impeded patent application efforts, or that demonstrates knowledge of prior invention by an applicant in process, as well as the introduction of other pertinent, third-party pre-issuance and post-grant submissions, would help to ensure that patents are awarded to those who are the first to invent, or correct inequities when they occur. In addition, the recognition of prior user rights when warranted by equitable considerations would foster faith in and respect for the patent system as a whole.

Of course, the problem of limited resources can not only delay meritorious applications, it can also preclude the filing of such applications altogether. When inventors are unable to afford the price of entry to the patent application process, they have no recourse but to attempt to protect their inventions as trade secrets, or worse, abandon their work altogether, thereby depriving society of the fruits of their ingenuity until some later inventor uncovers the same discovery. IIP SJ believes that if the American patent system is to remain competitive with that of other technologically advanced nations, the adoption of a comprehensive *in forma pauperis* mechanism is essential. Moreover, as Congress evaluates the full impact of implementing such a mechanism, intermediate measures, such as income-based reduced fee scales for individual inventors and small businesses would constitute progressive steps toward reducing delayed or

abandoned applications. Such measures would not only eliminate the financial barriers which restrict small business and independent inventor access to the patent system, but they would also likely increase the number of ultimately successful applications from historically underserved and disadvantaged groups, thereby diversifying the community of patent stakeholders and expanding the range of contributions to the national store of patented inventions.

Finally, while virtually all patent reform commentators extol the role of the small business and independent inventor in the history of American technological leadership, we have yet to collect empirical data on the needs of such inventors under a modern patent system. It is critical that Congress commission a comprehensive study of this issue, and further establish a permanent administrative function within the USPTO to provide information, support and other services relating to patent filings by small business concerns. The dedicated allocation of resources to small business, independent, and historically marginalized inventor needs, particularly the need for *proactive* information and overall “IP Empowerment Education”, is critical toward enabling the USPTO to address the special challenges and disadvantages faced by such applicants.

Conclusion

In many marginalized communities, innovation is often the very definition of survival. Such individuals appreciate the role of intellectual property protections in leveling the playing field and providing opportunities for socio-economic advancement. In the spirit of the Constitutional mandate to promote the progress of the arts and sciences, full inclusion must become a core objective in cause of patent reform. As former Chief Judge Paul Michel has so poignantly observed “[t]he American patent system was designed for everyone, not just the rich and powerful.... Everyone was encouraged to invent, for one could actually make a living by doing so. Yes, it allowed for private gain, but as the means for public good. In President Lincoln’s famous phrase, it ‘added the fuel of interest to the fire of genius.’” A patent system which encourages and enables innovation by citizens from all walks of life and communities enhances respect for and compliance with the intellectual property regime. Socially responsive patent reform expands the commonwealth of patent stakeholders, enhances opportunities for innovation entrepreneurship, and promotes a more equitable distribution of the fruits of intellectual endeavor to the collective benefit of our society as a whole.

We thank you for the opportunity to submit this testimony.

Respectfully submitted,

Institute for Intellectual Property and Social Justice
Prof. Lateef Mtima, Director
Prof. Steven D. Jamar, Associate Director
Bryant Young, Esq., Chair of Institute Development
and Advancement

