

PATENT QUALITY IMPROVEMENT

HEARING

BEFORE THE
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY
OF THE
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PATENT QUALITY IMPROVEMENT

THURSDAY, JULY 24, 2003

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

The Subcommittee met, pursuant to call, at inter a.m., in Room 2141, Rayburn House Office Building, Hon. Lamar Smith (Chair of the Subcommittee) presiding.

Mr. SMITH. The Subcommittee on Courts, the Internet, and Intellectual Property will come to order. Good morning to you all. It is probably earlier to us than it is to you all. We were voting until 2 o'clock last night. So I mention that, so you will understand why our attendance is not at its usual number, and maybe we will have some Members who will be joining us a little bit later on.

In any case, the Subcommittee today is holding a hearing on patent quality improvement, and I will recognize myself and Mr. Berman for opening statements. Then we will proceed and hear from our witnesses.

As part of last year's authorization of the Patent and Trademark Office, Congress instructed the PTO to develop a 5-year strategic business plan aimed at enhancing patent and trademark quality while reducing patent and trademark pendency.

In response to this mandate, the PTO developed a strategic plan that was later revised based on constructive comments offered by this Subcommittee and the user community. In its revised plan, the agency has addressed these issues and identified goals and initiatives, largely supported by the major trade associations that represent patent and trademark filers.

The Subcommittee reviewed the initial phase of the plan, a new fee schedule that would generate an additional \$201 million in revenue for the PTO in fiscal year 2004 at an April hearing. Legislation incorporating the new fee schedule was the subject of Subcommittee and full Subcommittee markups earlier this year. However, an infusion of additional revenue is not an exclusive cure for what ails the PTO.

Other administrative, operational and policy reforms, such as those set forth in the revised plan, must be implemented over the years if the agency is to become more productive and efficient. Beyond those changes that the Director may attempt to implement pursuant to his current statutory and administrative authority, there are other policy initiatives that he, the inventor community,

or other Members may wish to explore that will necessitate a legislative response from Congress.

The purpose of the hearing is to initiate dialogue on the merits of six issues of interest, both to me and the Ranking Member, Howard Berman. The suggested reforms touch upon the PTO reexamination system, patent litigation practice, and the responsibilities of an applicant in submitting information to assist in the search and examination activities.

I want to emphasize that in regard to PTO reform all roads must lead to enhanced and patent and trademark quality. Reducing pendency and backlogs are important goals in their own right, but must never supersede the importance of improving the integrity of the patents issued.

Patents of dubious quality only invite legal challenges that divert money and other resources from more productive purposes, purposes such as raising venture capital, commercializing inventions and creating jobs.

Today's hearing will not end our discussion of how the Subcommittee can help PTO become more efficient and productive. I hope to visit other areas of the law that may contribute to patent quality improvement later in this term of Congress.

The Ranking Member from California, Mr. Berman, is recognized for his opening statement.

Mr. BERMAN. Thank you very much, Mr. Chairman, and I appreciate your holding this oversight hearing to explore ways to improve patent quality. The issue of patent quality is not a new one here for our Subcommittee, and while it is a familiar issue, it does remain elusive. There are many factors which potentially affect the quality of a patent as an application makes its way through the examination process.

Having identified several points at which patent quality is most vulnerable today, we would hope to move forward and together develop appropriate solutions. As I understand it, today's oversight hearing will focus on six possible initiatives, four of which are relevant during the examination of the application and have a direct and potentially significant effect on patent quality, two of which are relevant at a time after a patent has issued and a controversy arises regarding infringement and validity of that patent.

These last two initiatives deal more directly with balancing the equities of the parties when a controversy arises. The quality of a patent is synonymous with the value of that patent, and patent quality is dependent on the extent to which an invention has been certified to be useful, novel and nonobvious when compared to the existing state of the art.

A poor quality patent, on the other hand, is typically invalid and may have far-reaching and negative ramifications for the individuals involved, as well as for the economy at large. Today's initiatives contemplate improving patent quality by increasing the responsibility of the applicant and engaging the participation of the public during the examination process in order to develop a more complete record of prior art.

The first initiative contemplates allowing third parties to present to the examiner materials for consideration during the examination process. On the one hand, allowing third party submission will gen-

erate more prior art to be presented to the examiner, and therefore will strengthen the presumption of validity. Some argue, however, that any limited benefit is far outweighed by the burdens incurred by the applicant and by the PTO.

Additional concerns such as whether one competitor might strategically submit materials to delay another's patent from issuing, and whether a third party should have the opportunity to attach his own commentary explaining the relevance of the submission, or should that be left to the examiner to deduce.

The next initiative concerns the requirements of a patent application with regard to prior art submission. Currently an applicant is under no obligation to conduct a search of the pertinent literature to determine whether his invention is already within the public domain. However, if he conducts such a search, he is required to submit the results of that search to the office.

It has been suggested that an applicant should be required to conduct a search before the application is presented in order to eliminate many of the obviously nonpatentable applications from being filed. But questions have been raised regarding how the scope of the search should be defined and whether this would generate a tremendous amount of litigation.

Other concerns center around the applicant's increased financial burden, and the increased vulnerability to validity attacks for narrow searches and unintentional omissions.

The third and fourth issues we are looking at today involve the *inter partes* reexamine, which is essentially a second analysis of the patentability of an invention in which a third party may participate.

One proposal is to remove the provision preventing a party from raising on appeal any issue that could have been raised earlier. That provision seems to have the effect of keeping people from using the reexamination process and removing that provision would conversely encourage people to use that process as an alternative to litigation.

There are other—there is another proposal to include section 112 issues among those which can be raised during this *inter partes* reexamination.

The final initiatives concern the equities of the parties when judicial relief is requested for the patent infringement. Currently a patent holder may request injunctive relief if he alleges that his patent rights are being violated. A potential infringer may institute a declaratory action that the patent is invalid when there is a reasonable apprehension of litigation.

Further, an infringer will be responsible for three times the amount of plaintiff's actual damages beginning at the time notice is given of the infringement. Equity dictates that the precise moment each of those events attains legal significance should be the same. In other words, the moment at which an alleged infringer has a reasonable apprehension of suit should be the same moment an allegation of infringement is made, which should coincide with a party's receipt of notice such to incur liability for treble damages.

Today we will explore the best and most appropriate ways to realign these interests. Taking action on those important initiatives is not the magic bullet that will cure the PTO of all that ails it.

There are many additional areas, unity of invention, internal harmonization, and the unique concerns of industries, such as the biotech and financial services industries to name a few.

And we shouldn't forget our commitment to follow through with the antidiversion measure, which we, through bipartisan support, voted out of full Committee favorably. I encourage all people interested in that to get active in anticipation of the bill reaching the House floor after the recess.

Time and again we see that innovation is key to the future health of our economy. Patent quality is key to continued innovation, and I think our Subcommittee remains dedicated to achieving this goal.

Mr. Chairman, thank you for your willingness to schedule this hearing, and I should point out that Mr. Boucher, who has been instrumental in investigating, developing these concepts from the beginning, also has a high interest in figuring out ways to improve patent quality.

Mr. SMITH. Thank you, Mr. Berman.

Our first witness is Charles Van Horn, a partner at Finnegan, Henderson, Farabow, Garrett & Dunner. Mr. Van Horn joined the firm after a 31-year career in the U.S. Patent and Trademark Office. Mr. Van Horn received his B.S. from Lehigh University, his JD from the Washington College of Law, and his MBA from Lehigh University.

Our next witness is Mark Kesslen, the Managing Director and Associate General Counsel at J.P. Morgan Chase and Company. He is a registered patent attorney who also serves as the cochair of the BITS Patent Issues Working Group, an organization that develops and evaluates patent policies for the financial services industry. Mr. Kesslen graduated from Tufts University with a Bachelor of Science Degree in electrical engineering. He received his law degree from the Case Western Reserve University School of Law.

Our next witness is David Simon, who is Chief Patent Counsel at Intel Corporation. Mr. Simon manages all patent generation and analysis for Intel. He directly supervises 80 employees and is responsible for filing numerous patent applications on behalf of the corporations.

Mr. Simon received undergraduate degrees in electrical engineering and political science from MIT, and his JD from the Georgetown University Law Center.

Our final witness is John Thomas, Professor of Law at the Georgetown Law Center, where he specializes in intellectual property licensing, international intellectual property law and patents. Professor Thomas has served as an instructor at the U.S. PTO Patent Academy since 1997 and is a visiting scholar with the Congressional Research Service since December 1999.

Professor Thomas holds a BS in computer engineering from Carnegie Mellon and a JD from the Michigan School of Law and an LLM from George Washington University. Welcome to you all. We have your complete statements, and without objection they will be made a part of the record. And just a reminder, we hope you will keep your statements to 5 minutes.

And we will proceed. Mr. Van Horn, we will begin with you. Thank you.

**STATEMENT OF CHARLES E. VAN HORN, PARTNER, FINNEGAN,
HENDERSON, FARABOW, GARRETT & DUNNER, ON BEHALF
OF THE AMERICAN INTELLECTUAL PROPERTY LAW ASSO-
CIATION (AIPLA)**

Mr. VAN HORN. Thank you, Mr. Chairman. I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association on patent quality improvement. AIPLA welcomes the Subcommittee's efforts to explore ways to improve patent quality.

Today's hearing focuses on six possible initiatives to enhance patent quality. Although we do not embrace all of the concepts presented in the draft bill, we do appreciate the Subcommittee's efforts to improve the patent system and the opportunity to engage in this dialogue.

First, we are sympathetic to the motivation underlying the proposal to permit any party to submit prior art during the examination process for consideration by a patent examiner. However, the limited benefits of permitting these pre-grant submissions of prior art, we believe, are far outweighed by the problems it could create for applicants and the burdens it would place on the PTO. In addition to the additional workload and complications that it would create for an already overloaded examining staff, it is not difficult to imagine strategies that would unfairly delay the grant of the patent, and possibly even unjustly extend the patent term because of delays in the PTO.

Second, we do not believe that a mandatory preliminary search requirement would guarantee information that is appreciably better or more complete than is presently available through examiner searches, coupled with the requirements of rule 56. In addition to failing to provide any guidance regarding the scope of such a search that will be made in each application, a very troubling aspect of this proposal is its significant potential to increase the costs of enforcing a patent.

Third, the draft legislation would amend the current law regarding *inter partes* reexamination procedures to remove an estoppel provision, and would expand the grounds upon which an assertion of invalidity could be made to include any requirement under section 112 of title 35.

We believe that the current estoppel provision provides an appropriate balance between the interests of the public and the interests of the patentees. The proposal to expand the grounds for reexamination to include any requirement under section 112 we believe goes too far. We do not support including the best mode requirement of section 112, because of the analytical difficulties this issue presents and the relative inexperience of the PTO examining staff in addressing this issue.

Finally, the remaining paragraphs of section 112 deal primarily with the form of the claim and claim construction principles that do not constitute, in our judgment, an appropriate basis for challenge in an *inter partes* reexamination proceeding.

Fourth, another provision of the draft legislation would add five specific factors that a court should consider in determining whether to grant a preliminary injunction against the person marketing a product alleged to infringe a patent. AIPLA believes that given the

well developed judicial doctrines regarding the equitable factors, a court should and does take into account in determining whether to grant a preliminary injunction, amending the current statute to include these five factors is unnecessary at best, and could be detrimental to the proper functioning of the patent system.

Finally, AIPLA is concerned that the declaratory relief proposal could have an unsettling effect in the law in relation to patents. We see no justification to modify the current law regarding when declaratory action judgment actions can be brought, especially where the proposed modifications may make it more difficult to bring such actions. On the other hand, we do believe some useful changes can be made in the present state of the law regarding willful infringement.

AIPLA is concerned about the disruptive effect that claims of willful infringement can have on the functioning of the patent system. They not only add unnecessarily to the costs of litigation, but provide a drag on innovation as companies are wary to improve upon or invent around patented inventions for fear of being subjected to claims of willful infringement and the possibility of treble damages.

AIPLA is working with our sister organizations to address changes we believe are needed in this area, and hopes to be able to share our ideas with the Subcommittee in the very near future. This Subcommittee has made a very excellent start to enhance patent quality by proposing legislation that would fully fund the PTO, and we will do everything in our power to support this initiative and others that are likely to enhance patent quality.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Van Horn follows:]

PREPARED STATEMENT OF CHARLES E. VAN HORN

Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on "Patent Quality Improvement." AIPLA welcomes the Subcommittee's efforts to explore ways to improve patent quality—goal number one.

AIPLA is a national bar association of more than 14,000 members engaged in private and corporate practice, in government service, and in the academic community. AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property.

BACKGROUND

At the Oversight Hearing which the Subcommittee held on April 11, 2002 on "The U.S. Patent and Trademark Office: Operations and Fiscal Year 2003 Budget," AIPLA testified that achieving a strong and effective Patent and Trademark Office would require focusing on three critical objectives: quality, timeliness and improved electronic filing and processing capabilities. These objectives were stated in H.R. 2047, the "Patent and Trademark Office Authorization Act of 2002." This legislation calls for the Director to develop a five-year strategic plan that would—

- “(1) enhance patent and trademark quality;
- (2) reduce patent and trademark pendency; and
- (3) develop and implement an effective electronic system for use by the Patent and Trademark Office and the public for all aspects of the patent and trademark processes. . . .”

It is not by accident that AIPLA and other user organizations list quality as the first objective. Quality of the patents granted by the USPTO must be at the fore-

front of efforts to strengthen and improve the operation of the USPTO. Granting patents that cannot withstand the rigors of a court challenge does not serve the interests of the USPTO user community. It is costly and wasteful of valuable resources that could be put to better use in other endeavors. Moreover, the existence of patents that confer unwarranted rights of exclusivity may deter lawful technical and marketing activity by others. On the other hand, the ability to protect investments in research through the grant of strong patent rights is equally critical. AIPLA believes that efforts to strengthen and improve USPTO operations should therefore be governed in every instance by a concern, first and foremost, for improving quality of the rights granted under patents and trademark registrations.

In the original 21st Century Strategic Plan released by the USPTO in June 2002, and in the revised 21st Century Strategic Plan released in February of this year, there were several proposals that were aimed directly or indirectly at improving patent quality. AIPLA joined with other user groups to support these proposals in a letter to OMB:

- 1) Expanding the “second set of eyes” review concept, successfully used with business method patent applications, to other technology areas;
- 2) Enhancing the reviewable record by increasing the amount of information included in patent application files regarding applicant/examiner interviews;
- 3) Creating a competitive compensation package for Supervisory Primary Examiners to attract and retain the best employees for these jobs;
- 4) Developing tests to determine the suitability of candidates for the position of examiner;
- 5) Establishing “training art units” for new examiners in high volume hiring areas;
- 6) Developing a testing process to certify examiners for promotions;
- 7) Making greater use of Search Reports prepared under the Patent Cooperation Treaty and by other qualified patent offices; and,
- 8) Expanding patent application work product reviews, including work product reviews of primary examiners.

AIPLA believes there is more that can be done to improve patent quality. First and foremost, enactment of H.R. 1561, with the amendment added during the Subcommittee's markup that would allow the USPTO to retain and use all of its fee revenue, would constitute a major step in that direction. The ability to retain and use all of its fee revenues would obviate the need for the USPTO to outsource patent searches to private search contractors to reduce patent pendency. Even if such outsourcing does reduce pendency, its long term impact on patent quality is unknown. If the USPTO is permitted to retain and use all of its fee revenues, it could, over time, hire and train the number of patent examiners needed to conduct the quality searches and examinations necessary to grant the quality patents sought by users.

This is not a criticism of the Office. It has been forced to seek ways to improve its operations precisely because it has not been allowed to retain and use all of its fee revenues. If H.R. 1561, as amended by the Subcommittee becomes law, the USPTO will have the resources it has said it needs to do the job properly.

PATENT QUALITY PROPOSALS

Today's hearing focuses on six possible initiatives to enhance patent quality. AIPLA addresses these six initiatives on the basis of a draft bill shared with us by the Subcommittee staff which outlines the six initiatives in five sections of the draft bill. Some of these initiatives are similar to proposals we have reviewed in the past, while others are new. Although we do not embrace all of the concepts presented in the draft bill, we do appreciate the Subcommittee's efforts to improve the patent system and the opportunity to engage in this dialogue.

Third-Party Submission of Art During Examination

Section 2 of the draft legislation would permit any party to submit prior art, including “evidence of knowledge or use, or public use or sale,” during the examination process for use by examiners in making patentability determinations under sections 102 and 103. The Office would have to consider such submissions if they are in writing, accompanied by a prescribed fee, set forth the “teaching and applicability” of such references and the basis on which they are offered, and include a sworn declaration as to relevance and accuracy.

We are sympathetic to the motivation underlining this proposal. Getting the most relevant information regarding the patentability of each invention before examiners

is essential for issuing valid patents. However, the limited benefits of allowing pre-grant submissions of prior art are far outweighed by the problems it could create for applicants and the burdens it would place on the USPTO. Few members of the public would monitor published applications for the purpose of ensuring that the best prior art was considered by the examiner. Even the opportunity to do so will diminish over time as the USPTO begins to reach its goal of 18-month average pendency. The proposal would, however, allow any member of the public, wishing to prevent a competitor from receiving a patent in a timely manner, to delay the issuance of a patent by submitting such prior art in a piece-meal fashion. As long as the conditions set forth are satisfied, the Office would be required to continue the examination and consider the submission. Small businesses and independent inventors could be particularly harmed by their inability to promptly receive a patent needed to raise venture capital or to enjoin a competitor's activity.

Conversely, one could even conceive of circumstances under which a patent applicant might submit relevant prior art directly or through an intermediary for the purpose of delaying the issuance of the applicant's patent, especially considering that publication at 18-months is optional and patent term is restored for pendency exceeding three years.

Moreover, such submissions would increase the workload on an already overloaded examining staff. Examiners would be required to consider new categories of prior art. The legislation expands the prior art to be evaluated by examiners to include evidence of "knowledge," "use," "public use," (is the former "use" non-public?) and "sale." The legislation does not provide standards for the evidence other than requiring that it be in written form; nor does it address how an applicant might overcome such submissions. In addition to the extra burden on examiners, there would also be a considerable training challenge imposed on the USPTO to prepare its 3500 patent examiners to be able to evaluate and handle such submissions.

It should be noted that Japan had a pre-grant opposition procedure for a number of years. The General Accounting Office reported to Congress in July of 1993 that 45 percent of the U.S. companies responding to their survey said that at least one of their Japanese patent applications had been opposed in Japan within the previous five years. Of those, 71 percent had 1 to 5 opponents, 15 percent had 6 to 10 opponents, 9 percent had 11 to 50 opponents, and 2 percent had more than 50 opponents. Delays in receiving patents, especially for important inventions, were rampant. There were examples, under this pre-grant procedure where applicants actually had their patents issued after their term of protection had expired. Following years of urging by the United States Government and industry groups, the Japanese finally agreed to end the practice in 1996. For the United States to now embrace such a procedure would set a most unfortunate precedent.

Mandatory Prior Art Search by Applicants

Section 3 of the draft legislation would require all applicants to conduct a preliminary search for prior art and include the documentation of such a search in their patent applications. The documentation must include an explanation of the method of conducting the search, the databases searched, the results of the search, a statement of the "teaching and applicability" of each reference, and any other documentation requested by the Office that is reasonably necessary to examine an application. The applicant would also be required to submit a sworn declaration attesting to the relevance and applicability of each reference and the accuracy of the documentation. Any person who intentionally fails to submit the required documentation will be considered to have fraudulently withheld information.

Again, the goal of this provision is laudatory: to develop a more complete record of prior art so that examiners can conduct more thorough examinations to strengthen the resulting patents. While an admirable goal, we do not believe that the provision would guarantee information that is appreciably better or more complete than is presently available through examiners' searches coupled with the requirements of § 1.56 of the Rules of Practice in Patent Cases (Rule 56). The proposed search would, however, impose a significant burden on applicants, add to the mountains of paper presently flooding the Office, and add to the workload of examiners who would have to review such submissions.

By requiring each applicant to conduct a preliminary search, all applicants, even those whose knowledge of the prior art in his or her field is as good as, or better than, any data base, would nonetheless be required to conduct such a search and include the required documentation in his or her application. Intentional failure to comply would result in the applicant being considered to have committed fraud on the Office. Moreover, the documentation would have to include a statement of the teachings of *each reference*, not just those relevant and material to the patentability of the invention. These requirements would substantially increase the costs to appli-

cants of preparing patent applications and to the Office for reviewing applications with questionable benefit for patent quality.

The provision offers no guidance regarding the scope of the search, merely requiring that “a preliminary search” be conducted. Examiners would be well advised to be chary about relying too heavily on searches whose quality is unknown. And while the applicant must attest to the accuracy of the documentation, that merely addresses the accuracy of the reported search results, not its comprehensiveness.

To the extent that examiners would be required to sort through and review the documentation submitted, the preliminary search would impose a burden of dubious benefit on the PTO, an office already plagued by enormous backlogs. The likely result would be increased pendency of applications with no appreciable improvement in the quality of patents granted.

These comments should not be understood as suggesting that the proposal should be further refined to impose even greater burdens on patent applicants. As previously noted, applicants are already required to submit relevant materials to the USPTO. Rule 56 currently imposes on an applicant a duty to disclose to the Office any information known to that applicant to be material to patentability. Information that is material to patentability includes any information that establishes, by itself or in combination with other information, a *prima facie* case that a claim is unpatentable. Importantly, information that is not material to patentability need not be submitted to the USPTO. In addition, where bad faith or intentional failure to disclose such material information to the USPTO becomes known to the USPTO before issue, no patent will be granted.

Another troubling aspect of this proposal is its potential to increase the costs of litigation. One can imagine endless discovery of the added documentation portions of patents by litigants in efforts to elevate marginal information into material information or to contest the sworn statement that such information is relevant. Of course, some discovery and “fishing expeditions” of this nature occur today, but the increased obligations that this proposal would place on applicants would surely increase such activity as well as the costs of patent litigation.

Inter Partes Reexamination

Section 4 of the draft legislation would make two changes to Chapter 31, Optional *Inter Partes* Reexamination Procedures. First, it amends Section 315(c) of title 35 to remove the estoppel effect of an order for reexamination in any later assertion of invalidity arising under 28 U.S.C. 1338 on any grounds a third-party requester “could have raised” in the *inter partes* reexamination proceeding.

The goal of the estoppel provision in section 315(c) is to prevent third-parties from having the proverbial “two bites of the apple;” being able to challenge validity during an *inter partes* reexamination and again during subsequent litigation on the same grounds. It seeks to strike an appropriate balance between the interests of the public and the interests of patentees. The public has an interest in being allowed to challenge overly-broad or invalid patents. Patentees have an interest in not being subjected to harassment from serial challenges to their patents on the basis of information which was available to a third-party challenger at the time that an *inter partes* reexamination request was filed. To protect the public’s interest, section 315(c) would not estop an assertion of invalidity based on newly-discovered information unavailable to a third-party requester at the time of the *inter partes* reexamination proceedings.

AIPLA believes that the balance struck in the existing section 315(c) is appropriate and opposes the proposed amendment. We see no justification for a third party, who is aware of information, or who reasonably could have become aware of such information, not to base a reexamination request on all such information. This balance was struck to ensure that patentees of limited means would not be subject to harassment from serial challenges of a third party requester based on information that the requester could have submitted initially, and we believe it is a correct balance.

The estoppel provision may not be the principal reason for the limited number of *inter partes* reexamination requests which have been filed to date. Only those patents issuing on applications filed after the effective date of the American Inventors Protection Act, November 29, 1999, are subject to it. Given the long and growing pendency of patent applications filed after that date, it is no surprise that to date few requests have been filed. In addition, until 35 U.S.C. 141 was amended just this past November 2nd, a third-party requester could not appeal an adverse determination of patentability by the Board of Patent Appeals and Interferences to the Court of Appeals for the Federal Circuit. The fact that only the patentee was permitted to appeal an adverse decision to the Court was a powerful deterrent to using the *inter partes* reexamination procedure. Further, unlike *ex parte* reexamination, the

real party in interest must be identified. This was again a safeguard inserted into the *inter partes* reexamination procedure to protect patentees from serial challenges from a single, unknown, third-party. The downside of this safeguard is that third parties are reluctant to file *inter partes* reexamination requests out of concern that, if they are not successful, they have identified themselves as possible infringers. Again, this was the result of a careful balancing of interests by Congress when it established *inter partes* reexamination. Finally, there is a reluctance to request an *inter partes* reexamination where the grounds for asserting invalidity are limited to patents and printed publications. If the reexamination request is unsuccessful, the utility of those references could be compromised in subsequent litigation where other grounds can be raised.

Given these disincentives for using *inter partes* reexamination proceedings, it is not surprising that few requests have been filed. The fact that 14 requests have been filed in the first 6 months of this year (as compared to two in 2001 and six in 2002) suggests that more time is needed before the impact of the estoppel and other provisions can be fully evaluated.

Section 4 of the draft legislation also expands the grounds upon which an assertion of invalidity can be made during an *inter partes* reexamination proceeding by amending section 311 of title 35 to include any requirement under section 112. As previously noted, requestors are currently limited to challenging the validity of claims on the basis of patents or printed publications.

AIPLA has previously testified in support of allowing third parties to challenge patents in post-grant opposition proceedings on the basis of section 112, paragraphs 1 (except "best mode") and 2. With the exception of best mode (for the reason that examiners have no way of investigating this anachronistic requirement), examiners currently scrutinize applications for the requirements of paragraphs 1 and 2 of section 112 during the initial examination as a matter of routine. Allowing challenges on the basis of paragraphs 1 (excluding best mode) and 2 of section 112 would be a constructive amendment to section 311.

AIPLA does not believe that patents should be challenged in the USPTO in *inter partes* reexaminations on the basis that a patentee did not disclose the best mode contemplated by the inventor for carrying out his or her invention. This is not the best mode ultimately developed by an inventor for practicing the invention. This is the best mode contemplated by an inventor for carrying out the invention at the time the application was filed. This issue includes consideration of the applicant's intent, which is the subject of a great deal of discovery by defendants in patent litigation, usually accomplishing little more than increasing the costs of litigation. To allow this ground to be raised in *inter partes* reexamination would immeasurably complicate the procedure and frustrate the goal of reexamination of providing a relatively quick and inexpensive alternative to litigation.

We do not believe the remaining paragraphs of section 112 dealing with claim form (independent, dependent, and multiple dependent) and means-plus-function claims are appropriate grounds to be raised in an *inter partes* reexamination proceeding. Paragraphs 3, 4, and 5, which address claim form and how dependent and multiple dependent claims may be written and construed, are more procedural than substantive and are not appropriate grounds for challenging validity.

Section 112, paragraph 6, allows an applicant to express an element in a claim for a combination as a means or step for performing a specified function without the recital of structure in the claim. To determine what the claim covers, one is directed to look to the disclosure in the specification to determine the corresponding structure, material, or acts which limit the claimed invention. Paragraph 6 thus presents an alternative form of claiming and instructions for ascertaining what such a claim includes and excludes. It is more directed to allowing applicants flexibility in claiming their inventions and to enabling the public to determine whether a given product or process infringes the claim than to providing a ground for challenging validity. Accordingly, we do not believe paragraph 6 is an appropriate basis for challenge in an *inter partes* reexamination proceeding.

Injunctions

Section 5 of the bill would amend section 283 of title 35 to add five specific factors that a court should consider in determining whether to grant a preliminary injunction against a person marketing a product alleged to infringe a patent. The court is to consider:

- 1) whether the party seeking the injunction is marketing a product covered by the patent,
- 2) whether the party is engaging in activities to begin marketing such a product,

- 3) whether there are alternatives to the product,
- 4) the adverse effects of removing the product from the market, and
- 5) the extent to which the party seeking the injunction will suffer harm that cannot be remedied by the payment of damages.

Section 283 of title 35 currently reads as follows:

“§ 283. Injunction

“The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”

To obtain a preliminary injunction, a party must establish (1) a reasonable likelihood of success on the merits; (2) irreparable harm; (3) the balance of hardships tipping in its favor; and (4) the impact of the injunction on the public interest. *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 2 USPQ2d 1926 (Fed. Cir. 1987); *Hybritech Inc. v. Abbott Lab.*, 849 F.2d 1446, 7 USPQ2d 1191 (Fed. Cir. 1988); *Reebok International, Ltd. v. J. Baker, Inc.*, 32 F. 3d 1552 (Fed. Cir. 1994). The trial court must engage in an evaluation and balancing of these factors and the circumstances surrounding each. *Illinois Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F. 2d 679 (Fed. Cir. 1990); *Polymer Technologies, Inc. v. Bridwell*, 103 F. 3d 970 (Fed. Cir. 1996).

A “clear showing” of patent validity and infringement will create a presumption of irreparable harm. Where validity and infringement have been clearly established, immediate irreparable harm is presumed. *Smith International, Inc. v. Hughes Tool Company*, 718 F. 2d 1573 (Fed. Cir. 1983). Some courts have even found that, where there is a strong showing of patent validity, an invasion of the inventor’s right to exclude under the patent should be sufficient irreparable harm for an injunction without a showing that the infringer is financially irresponsible. *Smith International, Inc. v. Hughes Tool Company*, 718 F. 2d 1573 (Fed. Cir. 1983); *Zenith Laboratories, Inc. v. Eli Lilly and Co.*, 460 F. Supp. 812 (D.N.J. 1978).

However, like any presumption, a presumption of irreparable harm may be overcome by facts in the record. *Rosemount, Inc. v. United States Int’l Trade Comm’n*, 910 F. 2d 819 (Fed. Cir. 1990); *Progressive Games v. Shuffle Master*, 69 F. Supp 2d 1276; 1999 U.S. District Lexis 20783. Even when irreparable injury is presumed and not rebutted, it is still necessary for a court to consider the balance of hardships on the parties. *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384 (Fed. Cir. 1987); *Datascope Corp. v. Kontron Inc.*, 786 F. 2d 398 (Fed. Cir. 1986).

As the question of whether to grant an injunction is founded on principles of equity, a court has the discretion to weigh the relevant hardships on the parties. The court’s consideration could include any number of factors, including the effect on the patentee’s market share, business reputation and goodwill, as well as the parties’ relevant size. *Bell & Howell Document Management Prods. Co. v. Altek Systems*, 132 F.3d 701 (Fed. Cir. 1997); *Illinois Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F. 2d 679 (Fed. Cir. 1990); *Progressive Games v. Shuffle Master*, 69 F. Supp 2d 1276; 1999 U.S. District Lexis 20783. In determining whether the likelihood of irreparable harm is sufficient to warrant a grant of a preliminary injunction, courts have considered whether a party makes, or plans to make, the patented product. *Roper Corp. v. Litton Systems, Inc.*, 757 F. 2d 1266 (Fed. Cir. 1985).

Given these well developed judicial doctrines regarding the equitable factors a court should take into account when determining whether to grant a preliminary injunction, AIPLA believes amending the current statute to include these five specific factors in section 283 is unnecessary at best, and could be detrimental to the proper functioning of the patent system. Trial courts already have the power to evaluate these and many other equitable considerations in determining whether a preliminary injunction should be granted. Courts do not routinely issue a preliminary injunction to stop an alleged patent infringement. An accused infringer may present evidence that the various factors do not call for the grant of a preliminary injunction.

The proposed amendment is heavily weighted to make the court’s determination of whether to grant a preliminary injunction turn on whether the patent is being “worked,” that is, whether the protected invention is being commercialized. As noted above, the question of whether a patentee makes or plans to make a patented invention is already a factor courts may consider in weighing whether to grant a preliminary injunction, but it is one of many factors and not the predominant factor. To focus on whether a patent is being worked would have a number of negative consequences for America’s innovative community.

The United States patent system is founded on Article 1, Section 8, Clause 8 of the Constitution that grants Congress the power “To promote the progress of . . .

useful acts, by securing for limited times to inventors the (*exclusive* right to their . . . discoveries” (emphasis added). This Constitutional power does not limit the exclusive right only to discoveries and inventions which are worked.

There is good reason for this. Many of the greatest inventions in our Nation’s history have been made—and continue to be made today—by the lone individual. Such independent inventors often do not have the financial resources to develop and bring to market their inventions. It took Chester Carlson, the inventor of electrostatic copying (which we now know as xerography) over twenty years from the date of his first patent application to produce a successful commercial product. Such struggling entrepreneurs must approach venture capitalists and established manufacturing firms for assistance. To adopt a provision which could limit the rewards for such pioneers to reasonable royalties until they are in a position to market their patented inventions would seriously erode the incentives of the patent system for them. Not only would their opportunities to seek licenses and manufacturing partners be jeopardized, but it could lead to a greater reliance on trade secrets, undercutting the Constitutional purpose of promoting the progress of the useful arts through the publication of patented inventions.

Placing too heavy an emphasis on determining whether to grant a preliminary injunction on whether a patent was being marketed would also set an unfortunate precedent globally. For years U.S. Government representatives worked tirelessly to urge other countries to eliminate provisions in their laws that authorized the grant of compulsory licenses on the ground that a patent was not being worked in their territory. To suggest that the failure to work a patent in a country is an acceptable reason for withholding the grant of a preliminary injunction undermines years of effort and could have serious adverse consequences for U.S. interests abroad.

Finally, such an explicit requirement that a patentee must be marketing or engaged in activities to market an invention as a condition for obtaining a preliminary injunction could raise questions of compliance with obligations under Articles 28 and 50 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Under Article 28 of TRIPs, member nations must have patent laws that grant exclusive rights to make, use and sell inventions protected by patents:

Article 28

- “1. A patent shall confer on its owner the following exclusive rights:
 - “(a) where the subject matter of a patent is a product, to prevent third parties not having the owner’s consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product;
 - “(b) where the subject matter of a patent is a process, to prevent third parties not having the owner’s consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.”

Article 28 does not condition the grant of such exclusive rights on whether the patentee is marketing his or her invention.

Similarly, Article 50 obligates member states to ensure that courts shall have the authority to order prompt and effective provisional measures [preliminary injunctions]:

Article 50

- “1. The judicial authorities shall have the authority to order prompt and effective provisional measures:
 - “(a) to prevent an infringement of any intellectual property right from occurring, and in particular to prevent the entry into the channels of commerce in their jurisdiction of goods, including imported goods immediately after customs clearance;
 - “(b) to preserve relevant evidence in regard to the alleged infringement.
- “2. The judicial authorities shall have the authority to adopt provisional measures *inaudita altera parte* where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed.”

Nowhere is this obligation conditioned on a patent holder marketing his or her invention.

For all of the foregoing reasons, AIPLA strongly opposes adding to section 283 of title 35 the factors contained in Section 5 of the draft legislation.

Declaratory relief

Section 6 of the draft legislation states that any communication by a patent holder that is sufficient to subject the recipient to liability for willful infringement shall be sufficient to confer standing on the recipient to maintain an action for declaratory relief. The section further provides that, for a notice of infringement to be sufficient to subject its recipient to liability for willful infringement, it must identify the specific patent, identify the allegedly infringed claims in the patent, and set forth the alleged infringing product, process, or service.

Section 2201 of title 28 guides the filing of declaratory judgment actions in federal courts:

“§ 2201. Creation of Remedy

“(a) In a case of actual controversy within its jurisdiction . . . any court of the United States, upon filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.”

AIPLA is concerned that Section 6 of the draft legislation could have an unsettling effect on the law of declaratory relief in relation to patents. Currently, an individual has standing to seek declaratory relief if there is an “actual controversy,” that is, if there is (1) an explicit or actual threat of a suit which creates a reasonable apprehension of suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity. *Fina Research, S.A. v. Baroid Ltd.*, 141 F.3d 1479 (Fed Cir. 1998); *Cargill, Inc. v. Sears Petroleum & Transport Corp.*, 2002 U.S. Dist. LEXIS 20714 (Fed Cir. 2002). Even if there is actual controversy, the court retains discretion to decline jurisdiction. *EMC Corp. v. Norand Corp.*, 98 F.3d 807, 39 USPQ2d 1451 (Fed. Cir. 1996). By providing that any communication sufficient to impose liability for willful infringement is sufficient to confer standing to bring a declaratory judgment action, the proposed language could be interpreted to eliminate any communication not satisfying such stringent requirements for a willful infringement notice from conferring standing to bring a declaratory judgment action. This could eviscerate the existing standards, thereby severely limiting the availability of declaratory relief.

Currently, a party may bring a declaratory judgment action to clarify his or her rights where that party has a reasonable apprehension of suit for patent infringement. The party can obtain a determination of whether a technology of interest or planned activity is covered by a patent or is in the public domain. Under the legislation, a party could have no standing to bring a declaratory judgment action unless the individual received a notice sufficient to create liability for willful infringement. A patentee could cast a cloud over an area of technology, and those subject to that cloud could do nothing to resolve the issue short of engaging in potentially infringing acts as long as the patentee did not send a qualifying communication.

We see no justification to modify the law regarding when declaratory judgment actions can be brought, especially where the modifications might make it more difficult to bring such actions. On the other hand, we do believe some useful changes can be made in the present state of the law regarding willful infringement.

A Proposal to Improve the Law Regarding Willful Infringement

AIPLA is concerned about the current state of the law regarding willful infringement, and especially the disruptive effect that claims of willful infringement have on the functioning of the patent system. It not only adds unnecessarily to the cost of litigation, but it produces a drag on innovation as companies are wary to improve upon or invent around patented inventions for fear of being subjected to claims of willful infringement and the possibility of treble damages. More importantly, the current state of the law regarding willful infringement may be affecting the Constitutional scheme of exclusivity in exchange for public disclosure.

During the 2002 Federal Trade Commission/Department of Justice Hearings on the patent system, the role of patents as an effective means for disseminating information efficiently was repeatedly called into question. It was clear from the statements of various witnesses, and from the give-and-take in the discussions at the hearings, that the frequency with which willful infringement has been alleged has led some companies to forbid their employees from reading patents.

Numerous problems have arisen with the enhanced damages provision of the patent statute, particularly as that provision has been interpreted by the Federal Circuit. Under Federal Circuit precedent, a party who has knowledge of a patent is under a duty of care to reasonably avoid infringement of the patent. The Federal

Circuit has said that this usually entails the obtaining of a competent legal opinion. *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F. 2d 1380 (Fed Cir. 1983). Subsequent cases have held that the non-disclosure of the opinion during the course of the trial can lead to a negative inference that the opinion obtained was adverse to the infringer. *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F. 2d 1565 (Fed. Cir. 1986). These cases have driven alleged infringers to obtain an opinion of counsel in virtually every instance of alleged infringement, and to produce such opinions during the course of litigation. M. Powers and S. Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 Syracuse L. Rev. 53, (2001) (hereinafter "M. Powers and S. Carlson").

The widely-shared perception that an alleged infringer must obtain a competent legal opinion in patent cases also leads to problems with attorney disqualification. Some states, such as the state of Virginia, do not even allow the attorney trying the patent infringement case to be in the same law firm as the attorney who drafted the opinion for purposes of willfulness. As a result, a company's chosen counsel cannot act as both its counselor and its trial attorney. Long-term relationships between attorneys and clients can be lost because the law firm is not able to assume this dual role, and the costs of defending oneself against a charge of willful infringement is escalated.

The requirement of the need for a legal opinion in every patent infringement case can also lead to problems in larger companies. Larger companies have numerous employees, many facilities, and many operational units. Knowledge of a patent by only a single individual in that company may be imputed to the company at large for purposes of willfulness. Yet, the actual decision maker, who should decide whether to obtain a legal opinion, may never be aware of the patent. A company can "know" of a patent for purposes of willfulness and yet not realize that it should obtain a legal opinion to absolve itself of willfulness allegations.

Any exposure to or knowledge of the infringed patent may be held to be sufficient to meet the notice requirement for willfulness. In *Great Northern Corp. v. Davis Core and PadCo*, 782 F. 2d 159, 167 (Fed. Cir. 1986), a patentee was found to have notice of a patent sufficient to trigger its affirmative duty to obtain an opinion of counsel when the infringer's president learned of the patent at a social gathering from a third party who, at the same time he mentioned the patent, also stated it was invalid. The Federal Circuit found that the infringer's "failure to fulfill that duty is clearly an adequate basis for the district court, in its discretion, to assess treble damages . . ." *Id* at p. 167.

The cost to alleged infringers is immense. Because of the low knowledge threshold that can give rise to a duty of due care to avoid willful infringement and because of the negative inference that attaches to the nondisclosure of an opinion of counsel, infringers must inevitably err on the side of caution and obtain opinions of counsel when there is even the smallest possibility that they may be sued for infringement of the patent. For companies that may receive hundreds of allegations of patent infringement annually, the total costs for such opinions can be especially costly given the rigid and comprehensive requirements for such opinions enunciated by the Federal Circuit.

Apart from the costs of all of these preventative steps forced on accused infringers, claims of willful infringement are made in almost every patent infringement lawsuit. A great deal of discovery is taken on the willfulness issue. Many motions are typically filed including a motion to compel the opinion, motions to compel withheld documents under the attorney-client privilege, motions to bifurcate the trial and reconsiderations of these motions, etc. All of these motions add additional unnecessary costs to patent infringement litigation.

AIPLA has undertaken the task of developing a proposal to reform the practices in this area that would both promote the Constitutional role of the patent system to efficiently disseminate knowledge, while retaining the ability to obtain enhanced damages from an abject copyist. We elicited input from our membership and from an FTC representative at a Forum at our Spring Meeting this year and learned much that informed the further debate. We are working with our sister organizations to launch a multi-year program to implement the changes needed and hope to be able to share our ideas with the Subcommittee in the very near future.

CONCLUSION

AIPLA appreciates the efforts of the Subcommittee to examine ways in which patent quality might be enhanced. We encourage you to continue your efforts. You have made an excellent start by proposing legislation that would fully fund the USPTO and we will do everything in our power to support this initiative. We look forward

to receiving the proposal of the USPTO to establish a post-grant opposition system and commit to work with you on this proposal.

Mr. SMITH. Thank you, Mr. Van Horn.
Mr. Kessler.

**STATEMENT OF MARK KESSLEN, MANAGING DIRECTOR AND
ASSOCIATE GENERAL COUNSEL, J.P. MORGAN CHASE &
COMPANY, ON BEHALF OF THE FINANCIAL SERVICES
ROUNDTABLE AND BITS**

Mr. KESSLEN. Thank you, Mr. Chairman. I was pleased to accept your invitation to testify today on behalf of the Financial Services Roundtable and BITS. We are grateful for the opportunity to comment on the steps that should be taken to modernize the patent laws.

Mr. Chairman, patent attorneys and financial institutions are a well kept secret. We work quietly behind the scenes to protect our companies' intellectual capital from assault. In recent years we have been busy fighting frivolous patent claims, often at a significant expense to our companies. And we are concerned that this is a problem that is not going away unless Congress does something about it.

Pending claims of infringement against financial service companies are serious problems, but they are only the tip of the iceberg. Patent applications involving financial services have been filed in large numbers since 1997. Because it takes at least 4 years to get these applications processed through the Patent Office, the number of these patents now issued are growing, which will lead to an increase in the number of claims.

We believe that there are steps that Congress can and should take to provide the safeguards without impairing the important protections afforded to intellectual property. We recommend four initial measures.

Under the first measure, we propose modifying the prior user rights defense. We believe that this defense is an important protection, especially due to the recent growth in patent litigation and our historical reliance on copyrights and trade secrets.

But in its current form this defense does not go far enough. It is too easy for a patent owner to circumvent it. The defense should be modified to apply equally to any product or process covered by a patent. We believe that the level of proof required to assert this defense should be reduced.

Under the second measure we propose modifying the standard for injunctive relief. In many countries injunctive relief is not available for paper patents that have not been worked. That is, if the owner of a patent does not use it within a specified period of time, the owner loses the ability to obtain injunctive relief. This is appropriate because the patent law is intended to encourage and reward innovators by ensuring they receive the fruits of their efforts.

We believe a better and more equitable approach is to allow courts to grant an injunction on a patent only if the patentee is likely to suffer immediate and irreparable harm that cannot be remedied by the payment of money damages alone.

If an inventor can demonstrate a likelihood of irreparable harm, injunctive relief ought to be available, but if that is not the case,

then for the good of society, they should not be allowed to stand in the way of the utilization of their invention. Of course, the inventor should be entitled to monetary awards and thus be rewarded for their efforts.

Under the third measure, we seek to clarify some of the current damages laws. More specifically, we believe that the patent law relating to damages is subject to abuse by patent holders who go fishing for infringers. By simply sending a letter at the cost of nothing more than a 37-cent stamp, a patent holder can set in motion a very costly process for the alleged infringer.

The recipient of that letter has to undertake an investigation, incurring substantial cost, personnel and legal time. Failure to conduct the necessary due diligence could later subject the alleged infringer to treble damages. The accusing patent holder incurs no risk or cost other than the cost of that stamp.

We believe that the patent law should be modified to provide that enhanced damages may not be awarded unless the alleged infringer has received an objectively reasonable apprehension of suit by the patentee, which includes an identification of the patent, the patent claims at issue, and the particular product at suit.

We have also proposed similar standards for limiting actual damages in our written testimony.

Under the fourth measure, we recommend developing an opposition proceeding. The Patent Office has proposed a post grant review of patent claims in their 21st century plan. We strongly support this concept.

However, to be fair, we believe these proceedings should include a readily available, reasonably prompt and cost effective way to determine patentability without imposing unreasonable burdens on the patentees. The procedure would enable companies to manage the risk claims against them based upon bad patents without incurring the high cost of litigation or facing the need to settle to avoid that cost.

In conclusion, the Roundtable and BITS are strong believers in the U.S. Patent process as fundamental to a healthy U.S. Economy and robust free enterprise system. Given the importance of the patent process, the Patent Office should be fully funded and given adequate resources to perform its duties. Current efforts to craft legislation are to be commended. However, with increases in both the requests received by the Patent Office and the claims of infringement, there is a need for Congressional debate and frank discussion regarding expanded defenses and other tools for litigation risk management with members of the financial services industry and the patent community at large.

Again, thank you for the opportunity to speak today.

[The prepared statement of Mr. Kessler follows:]

PREPARED STATEMENT OF MARK KESSLER

Chairman Smith, Ranking Member Berman and members of the Subcommittee, my name is Mark Kessler and I am the lead intellectual property and technology attorney at J.P. Morgan Chase in New York. I am pleased to testify today on behalf of The Financial Services Roundtable and BITS, which are affiliated financial services trade associations.

The Financial Services Roundtable (www.fsround.org) represents 100 of the largest diversified financial services companies providing banking, insurance, and investment products and services to American businesses and consumers. Member

companies participate through their chief executive officer and other senior executives nominated by the CEO. Roundtable member companies account directly million jobs.

BITS (www.bitsinfo.org) was created in 1996 to foster the growth and development of electronic financial services and e-commerce for the benefit of financial institutions and their customers. BITS provides intellectual capital and addresses emerging issues where financial services, technology and commerce intersect. BITS's Board of Directors is made up of the Chairmen and CEOs of twenty of the largest U.S. financial services companies, as well as representatives of the American Bankers Association and the Independent Community Bankers of America.

I was pleased to accept your invitation to testify as the current chairman of the Roundtable Patent and Intellectual Property Working Group and the BITS Patent Issues Working Group (the Working Group).

Mr. Chairman, patent attorneys in financial institutions are a well-kept secret. We work quietly behind the scenes to protect our companies' individual intellectual capital from assault. In recent years, we have been kept busy fighting frivolous patent claims—often at significant expense to our companies—and we are concerned that this is a problem that is not going to go away unless Congress does something about it.

For this reason, our Working Group is grateful for this hearing and the opportunity to comment on steps that should be taken to modernize the patent laws.

Banks, broker-dealers and insurance companies, like other businesses in the United States, are threatened by a large and growing number of frivolous claims of patent infringement. Pending claims of infringement are a serious problem, but they are only the tip of the iceberg. Patent applications that involve financial services in some way have been filed in large numbers since 1997. Because it takes at least four years to get applications for patents of this type processed through the USPTO, the number of these patents now being issued is growing. We believe that this will lead to an increasing number of frivolous claims filed against financial firms in coming years.

There are steps that Congress can and should take to provide financial firms and other businesses additional safeguards against these frivolous claims, without impairing the important protections afforded to intellectual property under the patent law. We recommend four initial measures, which are discussed below:

- Improve the prior user rights defense;
- Modify the standard for injunctive relief;
- Clarify the damages rules; and
- Create an opposition proceeding.

I would like to provide you some additional detail regarding each of these measures.

IMPROVE THE PRIOR USER RIGHTS DEFENSE

We believe that the prior user rights defense under 35 U.S.C. 273 is an important protection for financial institutions especially due to the recent growth in patent litigation. But in its current form, the prior user rights defense does not go far enough. It is too easy for a patent owner to circumvent the defense by claiming their invention is different from a pre-existing business method because it is, instead, a system or apparatus. The prior user rights defense should be modified to apply equally to any products or services covered by a patent. We also believe the level of proof required to successfully assert the prior user rights defense should be reduced from the "clear and convincing" standard to a "preponderance of the evidence" standard.

MODIFY THE STANDARD FOR INJUNCTIVE RELIEF

In many countries, including Canada and most European countries, injunctive relief is not available for paper patents that have not been worked. That is, if the owner of a patent does not use the patent within a specified period of time, the owner loses the ability to obtain injunctive relief. This is appropriate because the patent law is intended to encourage and reward inventors and innovators by ensuring they receive the fruits of their efforts. It is not intended to enable them to prevent the use of new ideas by *anyone* at all.

We believe a better and more equitable approach is to allow courts to grant an injunction on a patent only if the patentee is likely to suffer immediate and irreparable harm that cannot be remedied by the payment of money damages alone. If an inventor can demonstrate a likelihood of irreparable harm, injunctive relief ought to be available. But if that isn't the case, then for the good of society, they should

not be allowed to stand in the way of utilization of their invention. Of course, the inventor should be entitled to license fees and thus be rewarded for their efforts. The result will be the payment of reasonable royalties, rather than disproportionately costly settlements in the face of threatened injunctive relief.

CLARIFY THE DAMAGES RULES

We believe that the patent law is subject to abuse by patent holders who go fishing for infringers. This is sometimes referred to as the “37-cent notice” issue. By simply sending a letter, at the cost of nothing more than a 37-cent stamp, a patent holder can set in motion a very costly process for the alleged infringer. The recipient of the letter has to undertake an investigation, incurring the cost of personnel time and legal counsel, both of which can be substantial. Failure to conduct the necessary due diligence could later subject the alleged infringer to treble damages. The accusing patent holder incurs no risk or cost, other than the cost of a stamp.

We believe that the patent law should be modified to provide that enhanced patent infringement damages may not be awarded: (1) on the basis of the mere knowledge of a patent or its contents by the defendant prior to suit, or (2) for any infringement occurring prior to the defendant’s receipt of written notice from the plaintiff of a charge of infringement, which identifies the specific patent, claims, and alleged infringing products or services at issue and which is sufficient to give the defendant an objectively reasonable apprehension of suit on the patent. Notwithstanding those limits, we believe that a patent infringer should be subject to payment of enhanced damages if: (a) the infringer deliberately copied the patented subject matter; or (b) the patent was asserted against the infringer in a previous U.S. judicial proceeding, and the subsequent infringement is not more than colorably different from the conduct asserted to be infringing in the previous proceeding.

We also believe that the current marking statute inappropriately measures damages that can be awarded to holders of paper patents under which no articles are manufactured or patents possessing only method claims. The holders of these patents whether or not the infringer knew of the existence of the patent may sue an alleged infringer and collect the full base amount of monetary damages. By contrast, the holder of a product patent may be denied monetary damages for infringement occurring prior to the lawsuit, if the product had not been marked. It would be fair and appropriate to treat holders of patents covering intangibles in a similar manner by starting the clock for actual damages for paper and process patents based upon the same standard as enhanced damages set forth above.

CREATE AN OPPOSITION PROCEEDING

The USPTO has proposed a post-grant review of patent claims in their *21st Century Strategic Plan* that was released in 2002. We strongly support this concept. The procedure, as proposed, would allow the public to petition the USPTO to cancel one or more claims in a patent within one year of issuance, and would allow anyone who is threatened with a patent infringement action to petition the USPTO for review within four months. Under this proposed procedure, the patentability of issued claims would be reviewed by Administrative Patent Judges of the Board of Appeals of the USPTO. To be fair, we believe these proceedings should include a readily available, reasonably prompt and cost effective way to determine patentability without imposing unreasonable burdens on patentees. This procedure would enable companies to manage the risk of claims against them based on bad patents, without incurring the high cost of litigation or facing the need to settle to avoid that cost.

CONCLUSION

BITS and The Financial Services Roundtable are strong believers in the US patent process as fundamental to a healthy US economy and robust free enterprise system. With increases in both patent requests and claims of infringement, there is a need for Congressional debate and frank discussion with members of the financial services industry and the patent community at large. Given the importance of the patent process, the USPTO should be fully funded and given adequate resources to perform its duties. Current efforts to craft legislation are to be commended, especially where the focus is on improvements to the patent process. Concepts such as opposition proceedings and reexamination improvements are constructive. Because of increases in frivolous claims of patent infringement, consideration should also be given to appropriate defenses and other tools for litigation risk management. Among those we recommend for consideration and implementation are: modifying the prior user rights defense; modifying the standard for injunctive relief; and addressing the notice issue. Numerous other improvements of the patent process can be imagined

and the financial services industry will continue to make suggestions along with other businesses that are more traditional participants in the patent process.

Mr. SMITH. Thank you, Mr. Kessler.
Mr. Simon.

**STATEMENT OF DAVID M. SIMON, CHIEF PATENT COUNSEL,
INTEL CORPORATION**

Mr. SIMON. Thank you, Mr. Chairman. I would like to extend my thanks for being asked to testify here. We would particularly like to recognize the efforts of this Committee on behalf of improving patent quality and also initiate the Patent Office under Judge Rogan's leadership to improve patent quality through procedural implementations and providing better resources and support for patent examiners, who we feel are badly overworked.

There are a number of issues that arise that lead to patent quality, and patent quality is very important to the semiconductor and IT industry. We are both some of the largest customers of the Patent Office in terms of filings, and also it is important for us that not only we have strong patent protection, but we not be harassed by poorly examined and invalid patents.

There are a number of documented issues and various studies in my written testimony that I refer to, explaining some of the procedural issues and lack of resources and how that impacts the Patent Office.

But the issue that I would most like to focus on here today is on the injunction issue and the permanent injunction issue in terms of patent litigation. If you look at the comparative allowance rates between the United States Patent Office and European and Japanese patent offices, who are generally considered among the leading patent offices, studies show that on average the United States Patent Office approves over 90 percent of all applications eventually for allowance.

Compare that with the European and Japanese patent offices that do it at about 65 percent. If one assumes, not necessarily this is right, but if one assumes that this 25 percent differential means that 25 percent of the patents filed and issued by the United States Patent Office should not have been issued, that would end up leading us, based on last year's issuances from the U.S. Patent Office about 40,000 patents that should not have been granted. And even if this is high by an order of magnitude, that still leaves 4,000 patents that should not have been granted.

This is a severe problem, and it is being doubled by the recession, because what we have found is there is a growing market for the punching of patents from distressed or bankrupt companies.

We at Intel are aware of a number of bankruptcy sales where we have observed law firms actually marching in on their own to buy patents and offering millions of dollars to buy patents. Their sole purpose, obviously, is to sue on their own real behalf on those patents and make money.

Similarly, there are some financial investors who have also gotten into this business, and we are finding that is constantly deluging us with claims and lawsuits. We believe this is a very serious problem that needs to be addressed.

For example, a few years ago we found ourselves faced with a company who had bought a patent for \$50,000, sued us on that patent asking for \$8 billion, that is B with a billion, of damages plus the permanent injunction. The permanent injunction would have done them absolutely no good. They weren't in the semiconductor business. They had nobody in their company who was a semiconductor engineer or computer designer. They were in this purely for the money, and they were using the threat of that injunction as a way to harass us.

Their business model, suing people on patents that they bought from distressed companies, is enhanced from a number of aspects. First of all, there is a huge amount of uncertainty in patent litigation. Recent studies, as provided for in my written testimony, show that over 50 percent of all patent decisions in the courts that are appealed are reversed, at least in part. Claim interpretation remains a huge area of doubt, notwithstanding the Markman hearing process that has been implemented. And then, if you lose the case, you are faced with the issue of permanent injunction being against you. And even if you want to go up on appeal, if it is a big product, you can't. You can't afford to have your plants sit there idly, particularly in our industry where our plants frequently cost 2 to \$3 billion for each new plant, to sit there idly while you are waiting for the court of appeals and you are enjoined.

So it is simply a matter of this issue really needs to be fundamentally addressed. In addition, I would like to point out that rather than repeat what my colleague, Mr. Kessler, has said, we strongly agree with the comments that he made.

And one other issue on broadening reexamination, I disagree with Mr. Van Horn and the AIPLA. We think that reexamination should be strengthened, and we do agree that the *res judicata* effect that got imported into section 315(c) should be removed.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Simon follows:]

PREPARED STATEMENT OF DAVID M. SIMON

Mr. Chairman, Congressman Berman and the Members of the Subcommittee:

Thank you for the opportunity to appear before you today. My name is David Simon and I am Chief Patent Counsel for Intel Corporation. I am pleased to testify today on behalf of Intel.

Let me thank the Subcommittee for holding these hearings. Patents are important to high technology for protecting intellectual property—the key to the United States' growth over the last twenty years. For the IT and semiconductor industries, strong protection of patents is essential in fostering continued innovation and investment; U.S. companies are investing billions in research and development to develop cutting-edge products—these products help the U.S. remain the most competitive country in the world.

Intel commends Chairman Smith and Ranking Minority Member Berman along with the rest of the committee members for their support of a vital patent system. Intel also applauds the on-going initiatives from the United States Patent & Trademark Office under Judge Rogan's leadership to improve patent quality.

In addition to the on-going work to improve the Patent Office, Intel believes that important legislative work remains to be done with regards to patent quality. Improvidently granted patents result from well documented deficiencies in the U.S. Patent & Trademark Office including low pay for patent examiners, inadequate resources for the examiners and the test required by the Federal Circuit to determine if an application is patentable.¹ One commentator concluded that roughly half of all

¹See, e.g., Robert B. Merges, As Many as Six Impossible Patents Before Breakfast, 14 Berkeley Technology Law Journal 577 (1999).

issued, litigated patents are invalid.² While that estimate may appear high initially, statistical analysis shows that over 90% of all U.S. patent applications are ultimately approved and result in a patent. Contrast the U.S.'s shockingly high approval rate with the European and Japanese patent offices' approval rates of about 65%.³ Surely, applicants for American patents are not that much more discriminating than their counterparts for foreign patents in selecting ideas that merit a patent application. This differential in the approval rates between the U.S. and foreign Patent Offices leads one to the conclusion that perhaps 40,000 improvidently granted patents issue each year.

Our key concern is that these improvidently granted patents become powerful tools for abuse. This abuse seriously undermines the continued vitality of the high tech industry as legitimate companies are threatened with a permanent injunction on improvidently granted patents.

Lawyers and their financial backers have been buying these improvidently granted patents from distressed companies for the sole purpose of suing legitimate businesses. Patents can be sold like any other form of property and an active market has formed in recent years where patents can be bought or sold—frequently for less than the prosecution costs of the original patent. Intel often finds law firms and financial backers of litigation bidding against each other to buy these patents so that they can then form businesses solely for the purpose of suing legitimate companies. These lawsuits, in which the plaintiff invariably seeks a permanent injunction, stymie competition and clog the courts with useless cases brought solely to enrich these lawyers and their financial backers. These patent system bottom feeders have now become so common that Intel has coined a term to describe them: “patent trolls.”

Several problems contribute to making this “patent troll” business model a simple and effective source of illegitimate profit irrespective of the quality of the patent. For example, if the troll can claim that the patent covers \$5 billion in annual revenue, that troll will ask for a royalty fee of a few percentage points of revenue; e.g., \$150 million per year. While that may seem to be an absurd amount to pay to someone who bought a patent out of bankruptcy for less than one hundred thousand dollars, the troll will threaten the legitimate business with a permanent injunction at the end of the patent case, threatening the halt of the sale of a critical product or closing down a production facility. Even if the chance of the troll winning is low, the troll's costs are modest, normally a few million dollars at most. In contrast, the legitimate business the troll targeted faces potential financial ruin if it can no longer sell a key product. Intel recently faced such a troll who wanted \$8 billion and a permanent injunction after purchasing the patent for \$50,000.⁴

The uncertainties in patent litigation also facilitate the patent troll's inappropriate business model. These patent trolls have the presumption of validity on their side. It is difficult to convince a jury of patent invalidity in light of the heightened evidentiary standard for invalidity of clear and convincing evidence. Adding to the troll's weapons are the uncertainties regarding how the patent claims will be interpreted by the court. One recent study showed that over one half of all appealed patent decisions by the district courts are reversed at least in part.⁵ Other studies show that district court interpretations of the claims are found to be in error about one-half of the time.⁶

This unpredictable legal environment has encouraged legitimate companies threatened by patent trolls to pay large settlements as trial nears rather than risking that their entire businesses will be shut down by a permanent injunction. Legitimate businesses cannot wait for the appeal process to rectify the wrong decision because it may be two years before the appeals court reverses the district court's decision. Waiting two years without product being sold and factories lying idle pending the outcome of the appeal is simply not acceptable to any business.

A recent case involving the Blackberry PDA highlights our concerns. The lawyer for the patent troll NTP had the temerity to be quoted as saying:

² John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185 (1998).

³ Cecil D. Quillen, Jr. & Ogden H. Webster, *Continuing Patent Applications and the Performance of the U.S. Patent Office* 11 *Federal Bar Journal* (No. 1) 1, 3 (2000).

⁴ Top Ten Defense Cases of 2000: In the shadow of the Valley, *San Francisco Daily Journal* April 18, 2001 <http://www.weil.com/WGM/quotables.nsf/e49ad7e458c03978525691a0071b053/6098de882426067085256a33005879eb?OpenDocument>

⁵ Cecil D. Quillen, *The U.S. Patent System: Is it Broke? And Who Can Fix It?* <http://www.ftc.gov/os/comments/intelpropertycomments/quillenattachments/isitbrokewhocanfixit.pdf> at pg. 6.

⁶ Ray K. Harris & Sandra Etherton, *Software Protection: Patents* <http://www.lawhost.com/lawjournal/99winter/patents5.html>

NTP is in the business of licensing patents. We would pursue an injunction that would prevent the [defendant] from continuing to sell Blackberrys. That's RIM's [the defendant's] nightmare.⁷

Now, if NTP is in the business of licensing, it wants money. An injunction really does NTP no good because NTP is not going to make money by RIM not selling Blackberry PDA's and not running its network. Rather, NTP was using the threat of the injunction to maximize the settlement. Is this the result that caused the founding fathers to provide for patents in the Constitution? Intel believes this result would have baffled the founding fathers.

Unfortunately, there is little hope of change with the current situation without legislative intervention. Until now, courts have almost always sided with the patent trolls in granting permanent injunctions. The Federal Circuit has stated that the denials of permanent injunctions are "rare."⁸ Virtually all of the recent reported cases where a district court failed to issue an immediate permanent injunction at the conclusion of a patent case involved medical products. Even in these circumstances, the courts often imposed the injunction six to twelve months after the end of the trial.⁹ Intel believes it is a gross distortion of the patent system to permit trolls to use the threat of injunctions to try to maximize their monetary claim, particularly as many of these claims are based upon improvidently granted patents bought in bankruptcy.

Therefore, Intel strongly urges this Subcommittee to give legitimate companies the tools to fight back against patent trolls by modifying section 283 of Title 35 on Patents to require that courts will fully consider the equities when deciding whether to grant a permanent injunction at the conclusion of the patent case. The Semiconductor Industry Association's proposal, which Intel wholeheartedly supports, is to add the following language to section 283:

A court shall not grant an injunction under this section unless it finds that the patentee is likely to suffer irreparable harm that cannot be remedied by payment of money damages. In making or rejecting such a finding, the court shall not presume the existence of irreparable harm, but rather the court shall consider and weigh evidence, if any, tending to establish or negate any equitable factor relevant to a determination of the existence of irreparable harm.

In addition to making this amendment to reduce the odds that litigation concerning improvidently granted patents clog the courts, Intel understands that the Subcommittee is exploring third party and applicant submission of prior art, estoppel and inter partes reexamination, the application of section 112 during reexamination and declaratory relief and offers to license.

Intel believes that the proposal to permit third parties to submit prior art in opposition to published patent applications is laudable. Getting better prior art before the Patent Office would improve patent quality and it is in the effected parties' best interest to ensure that the Patent Office does a good job. Third party prior art submissions that were only submitted for the purpose of delay should prove apparent to examiners and a reasonable fee to submit the art would remove most frivolous submissions. We believe with minor rewriting of the rules regarding patent protests that this can be affected.

Intel understands that requiring a prior art search by patent applicants has also been proposed; however, Intel believes this is a superfluous and a needless expense that will prove counterproductive. I estimate that this would add at least \$500 to the applicants' costs for filing, and in Intel's case, this would add over \$1 million to our costs each year. Further, applicants would merely submit all of the results of their search to avoid any question of inequitable conduct. As a result, the Patent and Trademark Office would be burdened with irrelevant prior art and it would be harder for the examiners to separate the wheat from the chaff. In addition, the Patent Office could not rely on the applicant's search anyway and would redo it. Intel firmly believes that giving the examiners the resources to do their job and compensating them adequately as proposed in Judge Rogan's Strategic Plan is a far better way to improve the quality of the prior art cited against patent applications.

⁷ <http://www.forbes.com/2002/11/21/cz-vm-1121rim-print.html>

⁸ *Rite Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) (finding that patentees failure to market the patented invention is not sufficient to support the denial of a permanent injunction).

⁹ See, e.g., *Schneider (Europe) AG v. Scimed Life Sys.*, 852 F. Supp. 813 (D. Minn. 1994); *Pall v. Micron Separations, Inc.*, 792 F. Supp. 1298 (D. Mass. 1992); *Moxness Prods. v. Xomed, Inc.*, 7 U.S.P.Q.2d 1877 (M.D. Fla. 1986); *Shiley Inc. v. Bentley Labs, Inc.*, 601 F. Supp. 964 (C.D. Cal. 1985).

Intel also believes that strengthening inter partes reexamination is highly appropriate. First, Intel believes that expanding the authority of the Patent and Trademark Office to address the enabling disclosure, written description and other requirements in 35 U.S.C. § 112 would be appropriate. Such technical issues are often best resolved before patent examiners who have technical expertise rather than before district court judges and juries.

Nonetheless, inter partes patent reexamination before the Patent Office has a major drawback: the res judicata effect of the reexamination for “issues that could have been raised before the Patent Office” as provided currently in section 315(c) of Title 35 is too broad. This language, which largely tracks the language in the Restatement Second of Judgments, has enormous breadth. It leaves anyone submitting an inter partes request at the mercy of a subsequent decision that newly uncovered prior art could have been found earlier and therefore should have been submitted in the reexamination. Intel does not believe that the breadth of res judicata in case law should be imported into reexamination. The impact and burdens of litigation that led to the doctrine of res judicata are far greater than those arising from patent reexamination procedure. Therefore Intel requests that this language be deleted from section 315(c). Otherwise, few companies will be willing to use inter partes reexamination.

Intel also believes that addressing willful infringement would be helpful and reverse a fundamental flaw in current U.S. law. The original, constitutional premise and social contract behind patents is inventors will disclose their inventions to the public in return for the public getting the benefit of their patent’s teaching.¹⁰ In exchange, the inventor gets her patent.¹¹ The idea is that scientists would be able to study patents to create future inventions.

However, the case law on willful infringement prevents such studying. An award of enhanced damages following a finding of willful infringement can result from a single engineer in a company simply reviewing another company’s patents. This studying of patents that even the Supreme Court has lauded¹² should not trigger the enhanced damages that can be awarded for willful infringement. Indeed, many companies forbid their engineers from studying third party patents to avoid the charge of willful infringement. If a patentee wants to recover enhanced damages as permitted by a finding of willful infringement, the patentee should be required to provide the potential defendant with a detailed notice of the patent infringement. That notice should be at least sufficiently detailed to enable the defendant to bring a declaratory relief action. This is the position of the Intellectual Property Owners Association.

However, Intel believes that Congress should take a further step and also require the patent owner to set forth which claims it believes are infringed by which product and why. Many corporate patent counsel receive at least weekly letters from third parties regarding patents. That letter may be enough notice to trigger a willful infringement charge. Paying \$40,000 per patent for an opinion of counsel to be used to rebut the charge of willful infringement is not cost effective given the volume of such notices. Nor is filing declaratory infringement actions an appropriate remedy since these “notices letters” are far too commonplace. Imposing on the patentee the minor burden of adding a few paragraphs to a letter explaining why the patentee believes infringement exists puts the burden in the appropriate place if the patentee wants its damages multiplied by two or three due to a finding of willful infringement. These paragraphs should specify which claims are infringed by which products and why. This would avoid the added burden of enhanced damages being awarded for improvidently granted patents.

In conclusion, Intel believes that the initiatives that I have outlined along with implementing Judge Rogan’s Strategic Plan would greatly enhance patent quality. I would like to thank the Subcommittee for this opportunity to testify.

Mr. SMITH. Thank you, Mr. Simon.
Professor Thomas.

¹⁰ See, e.g., *Kewanee Oil. Co. v. Bicorn Corp.*, 416 U.S. 470, 481 (1974).

¹¹ See Kurt M. Saunders, Patent Non-use and the Role of the Public Interest as a Deterrent to Technology Suppression, 15 *Harvard Journal of Law & Technology* 1, 62 (1998).

¹² *Id.*

**STATEMENT OF JOHN R. THOMAS, PROFESSOR OF LAW,
GEORGETOWN UNIVERSITY**

Mr. THOMAS. Thank you, Mr. Chairman. I am pleased to have the opportunity to testify today. I appear here in my personal capacity as a concerned observer of the patent system.

The Subcommittee has wisely identified the most pressing issue in contemporary patent administration. Persistent accounts suggest that patent quality stands at levels that are not socially optimal.

The PTO has proposed a number of reforms to patent acquisition procedures to address the issue. But given the PTO's limited rule-making authority, legislative reforms may be the best option.

As we approach the issue of patent quality, it is important to remember that patents are more important by any conceivable measure today than they were a generation ago.

Also, the PTO finds itself in an extremely difficult working environment. In this milieu, the imposition of modest increases in the responsibilities of patent applicants strikes many observers as a sound policy choice. Many of the proposals the Subcommittee considers today would do just that, and I believe they are worthy of extended consideration.

One of the proposals would ask applicants to perform a prior art search, and also to explain in some level of detail the references that they submit. I think this is a good idea, because it is a desirable reform in an era of diminishing PTO resources, and it comports with existing patent policies.

When I teach patent law, one of the messages to the students is libraries, not laboratories. We want technologists to look to existing proprietary technologies and the prior art, rather than engage in duplicative R&D that is more expensive. Having applicants perform a mandatory prior art search comports with this goal, because they should know what is out there.

Patent applicants already have to include such a statement when they submit foreign language references for which no translation is available. So this measure is really more of an extension of existing duties than a full fledged radical reform. Individuals have to perform due diligence when they file lawsuits, when they file SEC statements, when they ask the Government for other privileges. Why should the duty for patent applicants be any different?

Statements of relevance might also discourage the current counterproductive strategy of some patent applicants, in which they submit hundreds of references to the examiner, and leave the Patent Office to figure them out. I also believe that the increased receptivity of third party submissions will allow the U.S. PTO to take advantage of the increased knowledge of the public.

Also, there is wide agreement that *inter partes* reexamination has not successfully shifted patent challenges from the courts to the U.S. PTO. As originally enacted, its appeal provisions were too limited, its substantive scope too narrow, and its estoppel provisions excessive. Previous legislation has solved the problem of the appeal provision. Many commentators believe it is time to enhance the substantive scope of reexam, and also to limit the estoppel effects.

This proposal would do those things. I would encourage the Subcommittee to expand the substantive basis for *ex parte* reexamina-

tion to mirror that of inter parte reexamination. I am aware of such concerns about strategic behavior that some commentators believe would apply if this provision was enacted, but I would observe that many foreign patent offices have had similar provisions in place for years and these concerns have not been realized.

Now, the current proposal also states that any communication by a patent owner sufficient to create liability for a willful infringement would also create declaratory judgment jurisdiction. The apparent policy goal of this proposal was quite sound. Patent proprietors should not be able to cause concern over enhanced damages, without allowing the patent to be immediately challenged in court. However, declaratory judgment jurisdiction rests upon a constitutional basis, the requirement of a case or controversy. That is something this Subcommittee can legislate around very easily.

So if you want to pursue the policy goal, I would encourage taking the opposite tack, stating that unless the patentee makes a charge of infringement sufficient to invoke declaratory judgment jurisdiction, that then there can be no liability for willful infringement. I somewhat believe this is a second best solution, with the optimal solution being getting rid of any enhanced damages in the patent law.

I encourage the Subcommittee to continue thinking creatively about solutions to the patent quality problem. I believe that the extent of current patent quality problems as well as the increasingly difficult circumstances that the U.S. PTO finds itself today merit the establishment of an Office of Patent Quality Review. This office could develop measures of patent quality, both in terms of the process, the examination process, and the product, issue patents. I believe that such an office should not exist within the U.S. PTO, or even within the Department of Commerce but rather the Federal Trade Commission, an agency with experience and expertise in competition law and consumer affairs.

Thank you.

[The prepared statement of Mr. Thomas follows:]

PREPARED STATEMENT OF JOHN R. THOMAS

I am honored to have this opportunity to appear before the Subcommittee. I testify today on my own behalf as a concerned observer of the patent system.

The Subcommittee has appropriately identified patent quality as a crucial issue of contemporary patent administration. Government, industry, academia and the patent bar alike have long insisted that the USPTO approve only those patent applications that describe and claim a patentable advance. Quality patents are, in short, valid patents. Such patents may be reliably enforced in court, consistently expected to surmount validity challenges, and dependably employed as a technology transfer tool. Quality patents fortify private rights by making their proprietary uses, and therefore their value, more predictable. They also clarify the extent to which others may approach the protected invention without infringing. These traits in turn strengthen the incentives of private actors to engage in value-maximizing activities such as innovation or commercial transactions.

In contrast, poor patent quality is said to hold deleterious consequences. Large numbers of improvidently granted patents may create *in terrorem* effects on entrepreneurship, ranging from holdup licensing to patent thickets. They also create duplicative, deal-killing transaction costs, as potential contracting parties must revisit the work of the USPTO in order to assess the validity of issued patents. Poor patent quality may also encourage activity that is not socially productive. Attracted by large damages awards and a porous USPTO, rent-seeking entrepreneurs may be attracted to form speculative patent acquisition and enforcement ventures. Industry participants may also be forced to expend considerable sums on patent acquisition

and enforcement. The net results appear to be reduced rates of innovation, decreased patent-based transactions, and higher prices for goods and services.

Unfortunately, despite extraordinary efforts by the USPTO to improve patent quality, the problem remains. Persistent accounts suggest that patent quality remains at less than optimal levels. Many of the causes of this state of affairs are beyond the control of the USPTO. Strict Federal Circuit standards for rejecting applications, soaring application rates, lean fiscal policies and an increasingly ambitious range of patentable subject matter are among the difficulties faced by the USPTO in achieving a rigorous level of review. Legislative reforms may to a long way towards increasing the stringency of USPTO review, to the ultimate benefit of industry and consumer alike.

In my view, the two most profitable mechanisms for improving patent quality involve: (1) a modest expansion of the responsibilities of patent applicants; and (2) increased engagement of members of the public. First, as the grant of a patent provides innovators with a powerful commercial tool, many of us believe that applicants should bear commensurate responsibilities. Second, the USPTO should be better able to employ “private patent examiners” to assist in examination tasks. Because the reforms considered today work towards these goals, I favor their serious consideration.

Promotion of Third Party Submissions and *Inter Partes* Reexamination. I believe that increased receptivity to third party submissions will allow the USPTO to take advantage of the knowledge of interested members of the public, and therefore support this proposal wholeheartedly. As well, there is widespread agreement that *inter partes* reexamination has not successfully shifted patent challenges from the courts to the USPTO. As originally enacted, its appeal provisions were too limited, its substantive scope too narrow, and its estoppel provisions excessive. Previous legislation has solved the problem of its appeal provisions; I agree that it is time both to include § 112 as a basis for provoking an *inter partes* reexamination, as well as to limit the potential estoppel effects of invoking this proceeding. I would also encourage the Subcommittee to consider expanding the substantive basis for *ex parte* reexamination to mirror that of *inter partes* reexamination.

Mandatory Prior Art Searches. A compelled applicant prior art search is not only a desirable reform in an era of diminishing USPTO resources, but one that comports with existing patent policies. The patent system aspires to send technologists to “libraries, not laboratories:” firms are encouraged to consult the prior art and patent literature before completing expensive R&D in order to see whether a desired technology already exists. A mandatory prior art search fully comports with this goal. Patent applicants already include such statements when submitting foreign language references for which a complete translation is unavailable,¹ so this proposal is not so much a sweeping reform but an expansion of existing duties. Statements of relevance must also discourage the current, counterproductive strategy of some patent applicants, in which they submit hundreds of references and leave the USPTO examiner to sort them out.

Preliminary Injunctions. I encourage clarification of this proposal. The four traditional preliminary injunction standards are:

- (1) whether the plaintiff will probably succeed on the merits;
- (2) whether irreparable harm to the plaintiff would result if the injunction is not granted;
- (3) the balance of harms between the plaintiff and defendant if the injunction is allowed; and
- (4) whether the injunction will have an impact on the public interest.

The current proposal would compel consideration of five additional factors, which currently are probably subsumed within the second, “irreparable harm” factor, and the fourth, “public interest” factors. It is not entirely clear whether this legislation would create a nine-factor test or simply flesh out the second and fourth factors. Although lists of factors in the law tend not to specify the exact relationship between the different factors—they are more a list of ingredients than a recipe—the fact that these factors are stated separately suggests that they are of equal dignity and worthy of equal consideration.

Declaratory Relief and Offers to License. The current proposal states that any communication by a patent owner sufficient to create liability for willful infringement would also create declaratory judgment jurisdiction. The apparent policy goal of this proposal is quite sound: patent proprietors should not be able to cause concern over enhanced damages without allowing the patent to be immediately chal-

¹ 37 C.F.R. § 1.98(a)(3)(iii).

lenged in court. However, declaratory judgment jurisdiction rests upon the constitutional requirement of an actual case or controversy, a standard that Congress cannot readily legislate around. I would encourage the Subcommittee to achieve the same policy goal by pursuing the opposite tack: unless the patentee makes a charge of infringement sufficient to invoke declaratory judgment jurisdiction, then there can be no liability for willful infringement.

Additional Reforms. I encourage the Subcommittee to continue thinking creatively about solutions to our patent quality problem. I believe that the extent of current patent quality problems, as well as the increasingly difficult circumstances the USPTO appears likely to find itself in the future, merit the establishment of an Office of Patent Quality Review. This office could develop measures of patent quality, both in terms of the examination process and issued patents. I believe that such an office should not exist within the USPTO or the Department of Commerce, but rather the Federal Trade Commission, an agency with experience and expertise in competition law and consumer affairs.

Thank you for the opportunity to testify today.

Mr. SMITH. Thank you, Professor Thomas. Thank you all for your comments today, as well as for your compliment of the Committee's work.

Let me address my first question to you all and ask you to really set priorities for us, because we are trying to decide which of these items to translate into legislation and we need some help with setting those kinds of priorities.

So what is the single most important action that the Subcommittee could take to improve patent quality, or maybe it is avoiding some action. But I am hoping it is affirmative and you all have recommendations as to which of these ideas that we have discussed today would be the most important to you.

And Mr. Van Horn, I would like to start with you.

Mr. VAN HORN. Thank you, Mr. Chairman. Well, I think the Subcommittee has taken the first and essential step toward solving this problem; that is, by enacting or hopefully enacting legislation that would prohibit fee diversion. This has many important ramifications for the PTO, primarily in their ability to hire, train, and effectively supervise patent examiners in their examination task.

To the extent they have to take shortcuts because of a lack of budget in these critical areas is ultimately going to lead to a decrease in the patent quality and the effectiveness of the job done by the patent examiner.

I think, secondly, that particular lack of resources also has an impact on the tools available for patent examination, and I refer primarily to the ability to automate the system and provide some relief to the significant administrative burdens that the office now has and applicants now have of chasing around missing papers and missing files. This is a significant detraction from the essential tasks of patent examination.

Mr. SMITH. Thank you. By the way, we all on the Committee feel strongly about the issue of fee diversion. We have yet to convince some of our friends on the Appropriations Committee that that is the right way to go, but we are working on it.

Mr. Kesslen.

Mr. KESSLEN. As I said before, I am here today on behalf of the Financial Services Roundtable, and I think if you polled the CEOs of the various financial service companies, they would like the fifth and sixth approach in your proposed bill, dealing with injunctive relief and frivolous claims.

The threat, the gun that is put to our head to settle or else, the threat that the wheels of commerce can come to a halt. There is a current litigation within our firm today that if we ultimately lose could really hurt the economy, and this is a company that doesn't make or sell anything competitive. It merely has a paper patent. So to be able to look at the irreparable harm, not only at the preliminary injunction state, but really at the permanent injunction state, which is really where we are focused at, and looking at some of the claims that came in—just yesterday and last Thursday, two more of those 37-cent type letters came into our organization, which starts the churning of our money for a claim that may or may not have any merit. So that is our focus.

Mr. SMITH. Mr. Kessler, you anticipated my second question, which I will get to in a minute. But thank you. Mr. Simon.

Mr. SIMON. Thank you, Mr. Chairman. Obviously for us the most important issue is reforming the law and injunction. And after that, I would say the willful infringement issue followed by strengthening reexamination. We believe those are the three areas that there should be focus.

We strongly by the way, disagree that requiring applicants to do a search will yield anything. People are just going to submit the results of their search. There will be stacks of paper this high coming into the Patent Office, because nobody under rule 56 is going to take the chance of having withheld the wrong document.

Mr. SMITH. Thank you. Professor Thomas.

Mr. THOMAS. I believe that ultimately the best hope is going to be to recruit members of the public to act as private patent examiners, assisting the office in the examination duties. Competitors often have the knowledge that they can bring to bear to either invalidate a patent or narrow its claims, and they often have the incentives. One concern this Committee may have is those incentives. The trouble with challenging a patent is that it has a lot of spill-over effects. If one of us in this room owns a patent and we are all acting in the same industry, which one of us is going to be incented to challenge that patent? If I challenge the patent to defeat your patent, everyone else gets the benefit.

So incenting, or providing some sort of a reward for patent challenges behind the benefit to the entire industry may be a productive approach.

Mr. SMITH. Thank you, Professor Thomas. We have asked you all to address six ideas. The fifth and sixth ideas both directly or indirectly involve the shakedown sites, Mr. Kessler, that you referred to, and what we have done is we have actually broken down how all stand individually on all six ideas. On the fifth idea, preliminary injunctions and patent challenges, Mr. Van Horn, you oppose that. Professor Thomas wanted clarification.

On the sixth, declaratory relief and offers to license, that was opposed by Mr. Van Horn and Professor Thomas as well, I think. What I really wanted to ask you all who oppose these two ideas is, if you oppose them, what other actions would you recommend to discourage the use or the threat of the shakedown suits?

And, Mr. Van—my time is up. If you can give me a brief answer. Mr. Van Horn.

Mr. VAN HORN. Well, at least in my experience, which is very small in terms of patent litigation, it is—one person's frivolous suit is another person's constitutional right to protection of his or her property.

We have not yet developed an alternative solution if this is a problem. But we do think that the proposals relative to a preliminary injunction could have a very damaging effect on small businesses, and independent inventors. It would set an unfortunate precedent for the global protection of intellectual property, and we believe at least raises an issue about compliance with our obligations under international agreements such as GATT-TRIPS.

Mr. SMITH. Thank you. Professor Thomas, what would you recommend to reduce shakedown suits or frivolous lawsuits?

Mr. THOMAS. The requirement for a preliminary injunction, prior to the creation of the Federal Circuit, was generally that the patent had to be previously enforced and held not invalid by a prior tribunal. So returning to that state of affairs is at least some possibility. Another is to require some sort of Patent Office review to make sure that the patent is valid before it is enforced.

I believe that those are possible mechanisms to achieve that goal.

Mr. SMITH. Thank you, Professor Thomas. The gentleman from California, Mr. Berman, is recognized for his questions.

Mr. BERMAN. Thank you, Mr. Chairman, and we thank all of the panelists for sharing their thoughts about this.

Professor Thomas I have had the benefit of meeting with, and my staff meeting with to hear a number of his very interesting views on how to make this system better.

In this particular round, rather—I would like to just ask a broader question. Many of the patent quality issues came up in the context of this recent trend toward patenting business methods. And while these, of different alternatives here, don't distinguish between business methods and other patents, I am curious about how all of you react to this trend. There was a New Yorker magazine piece recently that talks about the sort of the birth of modern newspapers, a publisher named Benjamin Day.

He decided instead of trying to get the subscribers and the purchasers of the newspapers to pay the costs, they would sell advertising and reduce the price of the paper from 5 cents to 1 cent in 1833. He didn't patent that idea. He also decided to change the method of distribution, and he sold them to newsboys in lots of hundreds to hawk on the street.

Pretty soon, this newspaper, the New York Sun, was just sweeping the field with the—none of these new methods of publishing and selling newspapers were patented. Other papers mimicked them. Pretty soon there was competition. This paper got the advantages of being the originator of the idea and did very well for a very long time, then other papers imitated and they had more competition, and that was sort of how American business worked in new methods. No one patented the moving assembly line or the mail order catalog or the decentralized corporation or the frequent flier mile.

But a recent court decision, and all of a sudden everything is changed. Now people are running around and getting patents on all kinds of business methods and ways of doing business. And the last

paragraph of the article: Americans have traditionally been cheery about intellectual property rights, and quotes Thomas Jefferson on the balance here. We have managed to strike a balance between the need to encourage innovation and the need to foster competition, as Benjamin Day, that publisher I mentioned, and Henry Ford, Sam Walton might attest, American corporations have thrived on innovative ideas and new business methods without owning them for two centuries.

Now this balance has been upset. The scope of patents have been extended. Copyrights have been extended. Trademarks have been subjected to bizarre interpretations. Celebrities are even claiming exclusive ownership of their first names, Spike Lee and Viacom's cable channel.

I am curious about the panelists' reactions to all of this, and are we going too far in allowing people to claim ownership of new ways of doing business, as opposed to the kinds of inventions that historically have been subject to patents?

I am curious if any of you have any reactions to that.

Mr. KESSLEN. Yes, I do, concerning the State Street case which came out of the financial services industry. Obviously we have been very focused on this issue.

I think as an organization we thought long and hard about business method patents, and our fundamental challenge with it, as much as we would like to get rid of them, because it would get rid of a class of patents that would impact us as an industry, I am not sure from a practical perspective it is really possible.

I think the problems that business method patents are facing are no different than the Patent Office faced when some of the genetic engineering happened, and then you went to software. I think they are getting up to speed in getting the kind of prior art they need. They are not there yet. They don't have to staff to deal with it, which I think is their biggest challenge. But I think when you will look at the types of claims that are hitting our organization, a smart patent attorney can couch any one of these methods of doing business as software. There is always a piece of hardware or a piece of software connected. So from a definitional perspective, I think it is going to be quite a challenge, and that is why I would prefer to focus more on the quality issues and some of the other things we have talked about today.

And I think on top of that, I believe that—I forget which situation of TRIPPS, but I think you would violate the TRIPPS with regard to treating different technologies or different patents differently. So I think that is another problem.

Mr. BERMAN. Any other thoughts here?

Mr. SIMON. Yes, Congressman Berman. If you look at how the courts struggled with the definition of what in computers and software should or should not be patentable and eventually basically said it should be treated like anything else, you run into a real definitional problem. It is real hard to define things in a manner that an attorney won't be able to get around and make it patentable anyway.

I think the real focus has to be on what can we do to improve the quality of those patents as opposed to trying to somehow legislatively by some definition change it. The courts struggled with this

issue for about 15 or 20 years, were never able to solve it. I have written numerous academic articles where people are trying to come up with proposals on solving it, and every single one of them I think we can get around.

Mr. BERMAN. So both of you essentially are saying don't try to make that distinction in the law, instead deal with some of these discrete issues involving quality and process and make the system better?

Mr. KESSLEN. That is correct.

Mr. SMITH. Thank you, Mr. Berman. The gentleman from Florida, Mr. Keller, is recognized for his questions.

Mr. KELLER. Thank you, Mr. Chairman. Let me begin with Mr. Simon and Mr. Kesslen. The gist of what I have learned from listening to you guys is you are concerned about frivolous patent infringement claims against your employer, and I have tried a lot of cases over the years before I came here, but not complex intellectual property law cases, so I am hoping you can walk me through this. Give me an example, Mr. Simon, if you were explaining this say to a sixth grade class. What would be a classic example of a frivolous claim that would force you to incur a lot of defenses in defending it?

Mr. SIMON. I will give you a real one—Techsearch case. In that case, somebody had gone into court, bought a patent in bankruptcy for \$50,000, turned around and sued us. It had a few words that were somewhat similar to the words that we used to describe our processors. They therefore claimed, as you will find in any industry, people tend to use the same words. But they then claimed therefore that all of our processors infringed.

I had looked at this. We had an opportunity to actually take a license to this patent earlier on. We took it, looked at it, said, well, if you hold the patent upside down, read it backwards maybe you can make an argument, that is about it. But we will win on summary judgment.

Mr. KELLER. Right.

Mr. SIMON. It turned out I was right. We did win on summary judgment. It cost me \$3 million to win on summary judgment. I could have gotten the license for several hundred thousand.

Mr. KELLER. Three million. That is not even the trial or anything, just summary judgment, just the discovery?

Mr. SIMON. Yes. To give you an idea, our typical patent case, we are spending between 10- and \$15 million in the years before trial. Trial, it goes up from there.

Mr. KELLER. The guys who try these cases for you and do the discovery, are those people that specialize in patent law who pass that special bar, or these are just regular litigators you are paying?

Mr. SIMON. These are regular litigators who have a proven track record in high technology cases. It is very unique.

Mr. KELLER. Kind of a subspecialty. What would a typical partner in a law firm specializing in this go for? Is that a \$400 kind of a lawyer?

Mr. SIMON. I wish. \$400 is getting to be associate rates. In large firms we are talking 6-, 7-, \$800, sometimes even a thousand dollars an hour.

Mr. KELLER. In what city?

Mr. SIMON. Santa Clara, California.

Mr. KELLER. Those are California rates.

Mr. SIMON. No. We use lawyers all around the country. Texas, New York, Chicago, West Coast, wherever we can find somebody who is going to be good at litigating a technology case.

Mr. KELLER. Let's say you have a case like the one you just mentioned, and you pay all of this money, you thought it was frivolous, and sure enough the judge ultimately ruled there are no factual issues here, it is crystal clear here you guys are going to win. Do you ever have any success with rule 11, or do you find that the judges are reluctant to grant those type of sanctions?

Mr. SIMON. You have to have a particularly egregious case under rule 11 where it was—where it would be apparent to the judge just looking at the patent. Since very few of our judges have technical qualifications, that is very rare.

Mr. KELLER. I found that too. I haven't done those kind of cases, but I have seen cases in the employment area where someone, you know, sued for racial discrimination and yet we hired someone of the same race, or they sued for age discrimination, and we hired someone who was older, and even then you don't get rule 11 sanctions.

So, Mr. Kessler, what is your analysis of these same issues? Is rule 11 tough? Do you see a lot of frivolous suits?

Mr. KESSLEN. Well, the answer is yes and yes. I think—rule 11, no. I think one of the issues with patent litigation is it is notice pleading. It is basically we have a patent, you have a product, therefore you infringe, the case starts. And so you really don't have that many opportunities.

With frivolous claims, yes, we see them, and I think the fundamental reason is pre-State Street financial firms historically relied on trade secrets and copyrights to protect their innovations. So what happened was, when people starting filing patents during the Internet boom, let's say on-line banking, okay, they don't know what banks had been doing for decades. So they filed a patent application in the Patent Office. The Patent Office wasn't aware what the industry had been doing for a number of years. The patent comes out of the Patent Office issued, on line banking product. I am using hypotheticals here, comes back and sues us. What we now have to do is establish that we need to go back 10 years in time to demonstrate to the court that what this patent covers we have been doing for generations. And so it is—that is why these types of cases are so expensive.

Mr. KELLER. Let me stop you there. If we were focused on this sole issue of preventing frivolous suits in this arena, do you have any further suggestions of some additional step we should take beyond this draft legislation?

Mr. Simon.

Mr. SIMON. Yes. I think one thing would be to consider taking the rules from the Northern District of California on patent litigation which require that the claims be interpreted first, and maybe even considering have a special judicial panel to do that, given the high reversal rate of the district courts. Most patent infringement cases really hinge on getting the claim interpretation right, and that should be done early rather than late, as many judges tend

to do, in my review. And it should be done by people who really understand how to do it. Lots of judges get it wrong, unfortunately.

Mr. KELLER. Mr. Chairman, can I just have a second and have Mr. Kessler answer that same question?

Mr. SMITH. Without objection, the gentleman is recognized for an additional minute.

Mr. KELLER. Mr. Kessler, would you answer that? Do you have any suggestions of something we could do further to prevent frivolous claims?

Mr. KESSLER. In my written testimony, in addition to dealing with the permanent junction issue, the treble damages issue, I think the declaratory issue, I think what we need is the attorneys very often who are representing these plaintiffs are contingency fee attorneys, and they are very aggressive and they play games. So the more that we can do to make them realize that we can bring an action against them because the mere letter doesn't do it, that we could bring a DJ action that the industry could go after them is helpful. I think limiting treble damages, cutting off actual damages under—for certain paper patents would be helpful. To make sure that the inventor can be rewarded, but the pot of gold isn't quite as big as they think it is going in, will be helpful.

Mr. KELLER. Thank you.

Mr. Chairman, I yield back.

Mr. SMITH. Thank you, Mr. Keller.

And the gentleman from California, Mr. Berman.

Mr. BERMAN. Yes. Mr. Van Horn, by and large, the association you speak for here, like the *inter partes* reexamination process, do you think it's useful?

Mr. VAN HORN. Well, as you know, this is a fairly recent player in this particular field. It was introduced only for patents that were issued on applications filed after November 1999. So we are in the very early stages of the implementation of this practice. It clearly gives a third party some advantages that they do not have in *ex parte* reexamination. And I don't think we have given the system a fair opportunity, particularly since the law was amended in November 2002, to provide an opportunity for third parties, for example, to appeal a favorable decision to the Federal circuit. So I don't think the law has had an adequate opportunity to actually be implemented at this point in time.

Mr. BERMAN. So are you saying you are not ready yet to make any suggested alternatives to the one that is proposed here for encouraging the use of this procedure?

Mr. VAN HORN. I think we do support the addition of the section 112, first paragraph, except for best mode and second paragraph issues to reexamination.

Mr. BERMAN. Expanding the scope of what can be looked at in the reexamination?

Mr. VAN HORN. Correct. We do not support the removal of this estoppel provision, primarily because there is a balance that must be weighed between the rights of the patent owner and the rights of third parties and the public. And the concern in putting in that particular provision was that particularly well-to-do third parties would use this as a basis to harass patent owners by invoking reex-

amination and sometimes tying up this procedure in the Patent and Trademark Office for many, many years.

I was personally involved on behalf of a patent owner who had filed suit in a district court, I believe in Texas, in 1995 on 4 patents. In 2003 the reexamination certificates in 13 separate reexaminations on these 4 patents were finally concluded. And so it certainly can be used to delay a final decision by the PTO in these matters.

Mr. BERMAN. The flip side of that, however, of course is, with the estoppel provisions, you are going to have lots of challengers not using reexamination and going to the far more costly litigation route. And does that bother you?

Mr. VAN HORN. I think if they have that option, certainly small businesses, simply complex litigation or even a simple litigation is simply out of the question financially. So they need some type of system where they have the opportunity to present this issue to someone to make a decision on this reexamination. So it is a balancing between the rights of these two interests, no question.

Mr. BERMAN. On the prior art search, concerns have been raised about the extent to which, if you put that obligation on the applicant, will that become the basis of litigation later on? They didn't do it adequately. So I guess, the notion of throw in everything to try and minimize that. Do you think there are some ways we could define the parameters and scope of the search so that an applicant could feel confident that he could engage at a reasonable expense in a search that would be thorough enough to not make him vulnerable to litigation for his efforts?

Mr. VAN HORN. Personally, I think it would be very difficult to define that particular scope. And I believe, personally, that it would create many more problems than the possible benefits from such a requirement.

Mr. BERMAN. Do you have any thoughts on this, Professor Thomas?

Mr. THOMAS. Well, with respect to my colleague at the bar, I believe some of these concerns are overstated.

Mr. BERMAN. Because—and I guess you cited the foreign model.

Mr. THOMAS. Yes, that is correct. Well, that had to do with oppositions. But in general, I think it is fair to require patent applicants to perform due diligence. You recall that when an applicant files an application with the PTO, she is presumptively entitled to receive the grant. The PTO has to affirmatively reject the application for her not to. Once the patent is granted, that patent is presumed valid not by preponderance of the evidence, which is the PTO standard, but by the higher civil standard of clear and convincing. The system somewhat favors the patent applicant and eventually the patentee.

I think again it is fair, given the powerful commercial tool that a patentee is awarded, that she should have to do due diligence to be entitled to that grant. It may prevent some applications from being filed because art will be discovered that would cause the claim to be narrowed or discourage that filing at all. And I believe it would help the examiner.

Mr. BERMAN. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Berman.

If there are no further questions, let me thank the witnesses for their contributions today. It has all been very helpful. And we probably will take some of these ideas to legislation, and look forward to your support and input in the future as well. Thank you all. And the Subcommittee stands adjourned.

[Whereupon, at 11:02 a.m., the Subcommittee was adjourned.]

