

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

In the most comprehensive analysis to date of the recent efforts to revise this nation's patent laws, noted patent litigator William C. Rooklidge has examined the major issues that have been debated during the two Congresses since the National Academies Report "A PATENT SYSTEM FOR THE 21ST CENTURY." While acknowledging that some have questioned the ability of courts to address the most contentious issues, Mr. Rooklidge concludes that the pace of change in the patent law since the 2004 publication of the National Academies Report suggests otherwise:

"In fact, the patent law changes that have occurred since 2004 suggest that the courts—not the legislature—should be entrusted with many of the patent reform topics that have been considered. Side benefits of this division of labor likely include that a legislative package stripped of the contentious issues more suitable to resolution by the courts that might well find agreement, or at least enough agreement to be enacted."

The National Academies Report contained seven specific recommendations:

- Preserve a flexible, unitary, open-ended patent system;
- Reinvigorate the non-obviousness standard, particularly with respect to business method and gene sequence-related inventions;
- Initiate a post-grant open review procedure;
- Strengthen USPTO capabilities in areas of personnel, electronic processing, analytical capability and financial resources;
- Shield some research uses of patented inventions from infringement liability;
- Limit the subjective elements of patent litigation, including willfulness, best mode and inequitable conduct; and
- Harmonize the U.S., European and Japanese patent examination systems.

The 2004 Report spawned a series of legislative proposals: H.R. 2795 and S. 3818 in the 109th Congress, and S. 1145, H.R. 1908, and S. 3600 in the 110th Congress. Unfortunately, these legislative proposals became magnets for provisions addressing perceived problems from various constituencies, eventually causing the collapse of the proposals in 2008. Mr. Rooklidge reviews all of these proposals in reaching the conclusion that most of them have been, or could be, better treated in the courts.

Injunctive relief – a very contentious issue not addressed in the 2004 NAS Report was to limit injunctive relief. It was addressed by the Supreme Court in *eBay* and removed from the legislative debate. The Court confirmed that the traditional four-factor test was the appropriate test to use when considering the grant of an injunction under the Patent Act thus obviating any need for a legislative fix.

Obviousness – the NAS recommended “reinvigorating” the requirement in the patent law that the differences between an invention for which a patent is sought and the “prior art” must not be obvious to a person of ordinary skill in the technology of the invention. At that time, the Federal Circuit was widely perceived to have settled on an obviousness test requiring a “teaching, suggestion, or motivation” (the “TSM test”) in the art to combine the teachings of multiple pieces of prior art. The Supreme Court’s decision in *KSR International Co. v. Teleflex, Inc.* alleviated most of the concerns identified by the NAS, stating that its guidance in *Graham v. John Deere Co.* was still the touchstone. In the process, it relegated the Federal Circuit’s “TSM test” to simply one of several factors to be considered in a more common-sense approach to obviousness.

Willfulness – NAS recommended eliminating the possibility of enhanced damages for willfully infringing a patent because it had become one of the main factors contributing to the increase in cost and decrease in predictability of patent infringement litigation. In 2007, the Federal Circuit in its *In re Seagate* decision overruled its precedent in *Underwater Devices Inc. v. Morrison-Knudsen Co.* which imposed an affirmative duty of due care on accused infringers. In *Seagate* the Court ruled instead that a patentee must establish by clear and convincing evidence that the accused infringer was *objectively reckless*. It is too early to tell whether *Seagate* completely resolved the predictability and cost issues that gave rise to the NAS recommendations. Congress should wait to see the extent to which the problem survives and whether any legislative correction is needed.

Extraterritorial Application of U.S Patent Law – the 2004 NAS report did not recommend any changes to section 271(f) of the patent statute (enacted to prevent patent infringers from avoiding liability by manufacturing parts in the United States then shipping them abroad for assembly in a patented device). Responding to allegations that section 271(f) unfairly disadvantaged software companies because of the ease of copying and selling abroad software patented in the United States, the 2006 patent reform bills proposed § 271(f) be repealed. This proposal was dropped in 2007 after the Supreme Court reined-in such offshore liability in *ATT v. Microsoft*, ruling that, at least insofar as the export of computer software is concerned, “Foreign law alone, not United States law, currently governs the manufacture and sale of components of patented invention in foreign countries.”

Damages – is a topic nowhere mentioned in the 2004 NAS report, but it has been the most toxic issue in the patent reform debate. Conceived to remedy the unsupported allegation that courts were struggling to fairly assess damages where a single component of a larger product was found to infringe, the legislative proposals have suggested redefining a “gist” of the invention for damages purposes that is variously described as “the inventive contribution,” “the patent’s specific contribution over the prior art,” or the “essential features” of the invention. Mr. Rooklidge presents a convincing case that the legislative proposals would effectively eliminate all but nominal value for reasonable royalty damages, to the detriment of the patent system.

Other commentators join in this assessment, stating that the legislative proposals are “unlikely to improve damages awards and . . . likely to prevent sensible awards” and would reduce R&D expenditures between \$33.9 billion and \$66 billion per year and put at risk between 51,000 and 298,000 U.S. manufacturing jobs.

The poster-child case relied upon by proponents as justifying patent damages reform, *Lucent Technologies Inc. v. Gateway, Inc.*, was been vacated by the trial court, so proponents have shifted their attention to an appeal from a related *Lucent v. Gateway* case. That appeal is based on crystal-clear precedent, again suggesting that the courts have a role to play in resolving the perceived damages problem. The trial court’s action and the Federal Circuit’s consideration of the perceived problems with patent damages clearly signal that the issue involves a preordained solution in search of a problem.

The suggestion that damages reform may be needed is also voiced in an unpublished report on “Changes in the Information Technology Research and Development Ecosystem” requested by the Computer Science and Telecommunications Board of the NAS. This suggestion apparently stemmed from discussions in three “workshops” held in late 2006-early 2007, none of which focused on intellectual property issues, and all of which were held before the *Lucent Technologies v. Gateway, Seagate*, and other recent cases relevant to the patent damages issues were decided. The legislative process should go forward without the intensely criticized damages provisions.

Venue – although forum shopping for a favorable venue was not addressed by the NAS, venue reform was added to the Patent Reform Act of 2007 because of the popularity of the Eastern District of Texas as a venue for patent litigation in recent years (although the number of patent cases is leveling off due to an increasingly crowded docket). The initial legislative proposal would have required courts to investigate a patentee’s intent in selecting venue and would have imposed other burdens on both litigants and the courts. However, two recent cases in which the ED TX was directed to transfer cases appear to provide a more straight forward remedy against forum shopping than the costly legislative proposals. One is the Fifth Circuit’s decision *In re Volkswagen of America, Inc.* involving a personal injury liability case brought in the ED TX when there was no relevant factual connection to the district. The other was a patent case in which the Federal Circuit applied Fifth Circuit law and ordered the case transferred to the Southern District of Ohio, *In re TS Tech Corp.* Together, these decisions provide a clear signal that the courts are able to sort out this alleged problem.

Interlocutory Appeal of Claim Construction – NAS made no recommendation for such appeals, but the patent reform bills contain provisions creating a right to interlocutory appeals of trial court decisions of claim constructions and mandating that the action be stayed pending appeal. Conceived to address the high claim constructions reversal rate, these provisions do not address the reasons for such reversal rates and would increase, not decrease, the costs and length of litigation. More deferential review of claim constructions by treating them as mixed questions of law and fact increasing expertise among the district court judges as recently proposed by Senator Specter and Representative Issa offer much better approaches.

Inequitable Conduct – NAS recommended elimination or severe restriction of the inequitable conduct defense to discourage its perceived abuse. Congress responded with

proposals to codify, restrict, and eliminate the existing doctrine (assuring in the latter case that the PTO would be positioned to sanction acts of misconduct). At least panel of the Federal Circuit has already moved in that direction. In *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, that panel tightened up the basis for finding an inference of intent to deceive, stating that it is “...inequitable to strike down an entire patent where the patentee only committed minor missteps or acted with minimal culpability or in good faith.” While *Star Scientific* was not an en banc opinion of the court, nonetheless, Congress may elect to step back and let the courts continue their work.

Best Mode – observing that the requirement to disclose the “best mode” for carrying out the invention is highly subjective and introduces unnecessary cost and unpredictability, the NAS recommended its elimination. Only the House bill proposed any relief in response to this recommendation, and it only proposed that failure to comply with the best mode requirement not be available as a defense to patent validity. Thus, it appears that the subjective best mode requirement will continue plague patentees unless and until Congress steps in.

PTO Rulemaking Power – NAS did not offer any recommendations in this area, but the Patent Reform Act of 2007, with the encouragement of the Bush administration, would have granted the PTO broad substantive rulemaking authority. This authority would have condoned PTO proposed limits on the number of continuing applications and claims that an applicant could make as a matter of right (implementation of the final rules was permanently enjoined by the district court for the ED VA and is being appealed). In the face arguments that the proposal would inappropriately give the PTO policy-making power that Congress should retain, the Senate Judiciary Committee removed any language that would have changed the PTO’s rule making authority. However, the House-passed version of H.R. 1908 incorporated language that would have authorized the PTO to limit continuing applications, thus permitting the PTO to void much of the district court’s ruling. Entirely apart from the wisdom of giving the PTO enhanced rule-making authority, the Federal Circuit will decide whether the PTO needs additional legislative authority to limit claims and continuations as it has proposed.

Open, Post-Grant Review – the NAS recommended “an Open Review procedure, enabling third parties to challenge the validity of issued patents on any grounds in an administrative proceeding within the USPTO.” Congress responded by proposing post-grant review procedures in the various Patent Reform Acts of 2005-8, some of which involved a review based on all issues, with discovery, throughout the life of the patents. Without other reforms necessary to provide patent owners a full and fair opportunity to defend against such challenges, such as inequitable conduct reform, and the PTO’s inability to timely complete its existing reexamination obligations, the focus has shifted to fixing the PTO rather than assigning it new responsibilities.

Summarizing the events of the past four years, Mr. Rooklidge concludes that judicial developments in many areas demonstrate that the courts are not only competent to implement any needed reforms, but that courts may be better suited to this task than Congress. For now, at least, he believes that Congress should instead focus its efforts on areas clearly outside the purview of the courts, such as harmonization and improving the operations of the PTO.