

July 2, 2007

Hon. Arlen Specter
Hon. Jon Kyl
United States Senate
Committee on the Judiciary
Washington, DC 20610-6275

Re: Patent Reform Legislation

Dear Senators Specter and Kyl:

Thank you for your June 25, 2007 letter and the accompanying e-mails from Ryan Triplette, Stephanie Middleton and Joe Matal. I am pleased to have been asked for input on these patent reform topics as I have been keenly interested in the patent reform debate for years, and have had the privilege of participating in that debate as an officer, board member and special committee member of the American Intellectual Property Law Association, a series of positions that started years ago and ended just last October. My interest also stems from my 20 years of experience as a patent litigator, handling cases for patentees and accused infringers in a wide variety of technological areas in venues across the country. Please understand, however, that my responses to your inquiries and those of your staff are based on my own personal views and experiences, and not those of my law firm, any clients of myself or my law firm, or AIPLA.

Interlocutory Appeals. In my experience, claim construction does occur in multiple episodes in many cases. The most common situation where it occurs in only a single episode is where the claim construction ruling leads to settlement, or where the claim construction ruling leads to the grant of summary judgment, which can itself lead to settlement or to final judgment and appeal. In these situations, there is no need for interlocutory appeal, and the proposed interlocutory appeal with mandatory stay would in fact delay resolution of the case.

Where the case does not settle after an initial claim construction ruling or summary judgment motion, the case will continue to develop on its way to trial. Claim constructions are indeed subject to change, and sometimes multiple changes. In a case that I handled for Verizon California Inc., the district court conducted a Markman hearing and arrived at what it viewed as a comprehensive claim construction, revised the claim construction on summary judgment, and then clarified and augmented that claim construction in a subsequent order.¹ Multiple claim

¹ *Verizon California Inc. v. Ronald A. Katz Technology Licensing LLP*, No. 01-CV-09871 RGK (RCx), U.S. District Court LEXIS 23553 (December 2, 2003) (Order on summary judgment clarifying construction from *Markman* order)

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construction rulings are not at all unusual in hard-fought, complicated cases. Indeed, the reporters are replete with cases in which district courts have revisited claim constructions, correcting errors before settlement or final judgment.² Courts have construed patent claims as late as during the trial itself.³ The Federal Circuit has expressly approved of trial courts revisiting their claim construction rulings.⁴ Indeed, the Federal Circuit itself has changed its own earlier claim construction.⁵

All that being said, I have no way of quantifying the portion of patent lawsuits in which claim construction occurs in an extended manner except to say that in my experience it happens in a significant portion of hard-fought, complex cases that do not settle after a ruling on claim construction or summary judgment, or are not resolved on summary judgment.

I do not believe that permitting interlocutory appeals of claim construction rulings as a matter of right would be desirable. I have analyzed the reasons for my position in a paper, a copy of which I am attaching as an attachment to this letter.

of term “format”); (March 4, 2004) (Order after summary judgment revisiting construction of term “format” and construing for the first time the term “imposed condition with respect to time”).

² See, e.g., *Cardiac Pacemakers, Inc. v. St. Jude Med., Inc.*, 296 F.3d 1106, 1112 (Fed. Cir. 2002) (after holding second claim construction hearing, district court issued “Supplemental Entry on Claim Construction Issues”); *Wechsler v. Macke Int’l Trade*, 56 Fed. Appx. 935, 938 (Fed. Cir. 2003) (overruled on other grounds, nonprecedential) (noting that district court issued two claim construction orders, the second construing additional portions of the claims); *Baldwin Graphic Systems, Inc. v. Siebert, Inc.*, 2007 WL 1610449 *9 (N.D.Ill.) (revisiting claim construction during on summary judgment); *Centillion Data Sys., LLC v. Convergys Corp.*, No. 1:04-cv-0073-LJM-WTL (June 12, 2007) (“Order Regarding Additional Claim Construction”); *PHT Corp. v. Invivodata, Inc.*, Nos. 04-60, 61 (March 9, 2006) (“Supplemental Order” construing additional term 10 months after claim construction ruling); *Competitive Techs., Inc. v. Fujitsu Ltd.*, 333 F. Supp. 2d 858, 869 (D. Cal. 2004) (on summary judgment, court construed terms not construed in claim construction order); *AstraZeneca AB v. Mut. Pharm. Co.*, 278 F. Supp. 2d 491, 496 (D. Pa. 2003) (same).

³ See, e.g., *NCube Corp. v. Seachange Int’l, Inc.*, 313 F. Supp.2d 361, (D. Del. 2004) (noting that district court issued claim construction ruling during trial); *Princeton Biochemicals, Inc. v. Beckman Coulter, Inc.*, 2004 WL 1398227 *75 (D.N.J.) (same); *Kim v. Conagra Foods, Inc.*, 2003 WL 22669035 *8 (N.D. Ill.) (deferring claim construction issues until completion of the presentation of the evidence at trial).

⁴ *AFG Indus., Inc. v. Cardinal IG Co.*, 373 F.3d 1367, 1372 n.2 (Fed. Cir. 2004) (“This court does not suggest that a district court should in all circumstances avoid refining an ambiguous claim construction.”); *Utah Med. Prods., Inc. v. Graphic Controls Corp.*, 350 F.3d 1376, 1381-83 (Fed. Cir. 2003) (affirming district court’s amended claim construction).

⁵ *CVI/Beta Ventures, Inc. v. Tura Lp*, 112 F.3d 1146 (Fed. Cir. 1997) (Federal Circuit reversing its own earlier claim construction).

Mandatory stay pending resolution of interlocutory claim construction appeals would be a heavy burden, particularly on patentees attempting to enforce their patents. Those appeals would swamp the Federal Circuit, lengthen the pendency for all that court's appeals, repeatedly interrupt district court proceedings for years at a time, and encourage gamesmanship. I cannot imagine a procedure more beneficial to patent infringers.

As I explain in my paper, Congress should turn its attention from the symptom of the Federal Circuit's high claim construction reversal rate to the problems that result in that symptom, including the district court's need for increased expertise in patent matters and the Federal Circuit's lack of deference to district court claim construction decisions.

Damages. Turning to the issue of damages, I have studied the present proposal and have prepared a paper on that topic as well. I am attaching a copy as another attachment to this letter. As you will see from my paper, I do not believe that it is appropriate to require courts and juries to engage in a threshold apportionment determination in every case when calculating a reasonable royalty.

First, that analysis would only be relevant to a hypothetical negotiation. A reasonable royalty may be shown different ways, only one of which is the hypothetical negotiation. For example, a reasonable royalty may be shown by proof of an established royalty in the industry. See *Rude v. Westcott*, 130 U.S. 152, 165 (1889), citing *Seymour v. McCormick*, 16 How. 480, *Corporation of New York v. Ransom*, 23 How. 487; *Packet Co. v. Sickles*, 19 Wall. 611, 617; *Birdsall v. Coolidge*, 93 U.S. 64; and *Root v. Railway Co.*, 105 U.S. 189, 197. Requiring an apportionment determination where the parties are focusing on an established royalty, and neither has raised apportionment or the entire market value rule, would waste considerable time and resources of the parties, the court, and the jury.

Second, in my experience damages apportionment has been relevant in only a small percentage of reasonable royalty damages cases. Often the subject matter claimed in the patent is of the same scope as the accused product or process, and the infringer does not seek apportionment and the patentee does not seek application of the entire market value rule. Requiring an apportionment determination where neither party introduces evidence on that issue would waste considerable time and resources of the parties, the court, and the jury.

Even in cases where the parties introduce evidence on the hypothetical negotiation approach to determining a reasonable royalty and introduce evidence on apportionment or the entire market value rule, no one has demonstrated either the need to replace, or justification for replacing, the current approach: requiring the infringer to identify its contributions to subtract from the base of the infringing product or process under the apportionment analysis, and requiring the patentee to prove that its claimed invention was the basis for the customer demand for the infringing product to expand the royalty base under the entire market value rule. In his recent letters, Chief Judge Michel has focused on the difficulty of the calculation and the burden

on the courts of such a “prior art subtraction” approach, and I agree wholeheartedly with his analysis. Further, as I explain in my paper, the provision in the current bill would minimize or eliminate all but nominal patent infringement damages. Again, the damages provision in the current bill would be extremely beneficial to patent infringers.

Post-Grant Opposition. Although I have not studied the post-grant opposition provisions to the same extent as I have the interlocutory appeal and damages provisions, and I do not yet have a paper to offer on the topic, I have been concerned with proposals to deny a patent the presumption of validity and apply only a preponderance of the evidence standard of proof in post-grant opposition proceedings that occur many years after a patent has been granted. While these lower thresholds may be justified in proceedings brought promptly after patent grant, they should not apply to proceedings initiated many years after patent grant when memories have dimmed and witnesses have disappeared. In *The Barbed Wire Patent*, 143 U.S. 275, 284 (1892), the Supreme Court recognized the wisdom of requiring a heightened standard of proof for allegations like invalidating oral disclosures or public uses of prior art devices that happened over a decade before the trial. “In view of the unsatisfactory character of such testimony, arising from the forgetfulness of witnesses, their liability to mistakes, their proneness to recollect things as the party calling them would have them recollect them, aside from the temptation to actual perjury, courts have not only imposed upon defendants the burden of proving such devices, but have required that the proof shall be clear, satisfactory and beyond reasonable doubt.” This concern is heightened under S. 1145 since it expands the source of invalidating prior art from the United States to the entire world. Proof of the predicate facts underlying such an invalidity challenge must be by clear and convincing evidence, otherwise the patentee would be subject to harassment on the most flimsy of evidence. Without the presumption of validity and clear and convincing standard of proof, the post-grant opposition procedure would have to afford the patentee considerable discovery to be able to adequately investigate questionable validity challenges, and discovery could approach the complexity and attendant cost of the validity portion of a district court patent infringement or declaratory judgment proceeding, making the mandated short time period for the post-grant opposition illusory.

The post-grant opposition procedure should lead to the just, speedy and inexpensive determination of patentability. In order to do that, the design of those proceedings must strike a balance between allowing opposers and patentees to adequately present evidence regarding alleged patent-defeating events, while at the same time ensuring that such proceedings can be concluded in 12 months. For this reason, in addition to patents and printed publications, parties to such proceedings should be allowed to present evidence of prior public uses and oral disclosures, but only by affidavit or declaration, and under the presumption of validity and clear and convincing standard of proof. The only form of “discovery” that should be available to a party to the opposition - whether opposer or patentee - should be the right to cross-examine an adverse party’s declarants or affiants with respect to the statements and opinions presented. Thus, a patent owner should be able to depose an opposer’s declarants and/or affiants, and an opposer should be able to depose a patent owner’s declarants and/or affiants. Importantly, only

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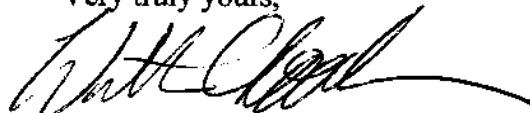
those persons submitting an affidavit or declaration as part of the submission of a party should be deposed during an opposition proceeding.

Other than depositions of these declarants or affiants, the USPTO's decision-making officers should have the authority to order additional discovery only if the requesting party demonstrates that some additional discovery is required in the interest of justice. This authority would be the same as is set forth in 37 C.F.R. §1.687(c) so that discovery in a post-grant proceeding would be available only to the same extent that discovery is currently authorized in patent interferences. This has proven workable in the context of interferences and should be adequate to provide a reasonable opportunity for both parties in a post-grant proceeding to fully present the facts. It would allow discovery of an opposer in circumstances where it is needed in order to obtain evidence held by the opposer that would refute or is inconsistent with a position that the opposer has taken in a submission. Where the interests of justice require such discovery, and the patentee demonstrates its necessity, discovery could be authorized. In addition, where appropriate, adverse inferences could be drawn for failure to provide any discovery that is authorized, including deeming facts as admitted or excluding evidence, in order to assure fundamental fairness and full due process protections are maintained in the proceeding.

This discovery scheme would produce the necessary information at reasonable cost in a reasonable time. It is calculated to be fruitful but to avoid the more burdensome types of discovery that are allowed in civil litigation, and to avoid most discovery duplication against the patentee. To permit additional discovery would significantly increase the time and cost for conducting post-grant proceedings, and would rarely be of more than marginal value. I have studied the patent reform reports of the National Academies of Sciences and the Federal Trade Commission, and both envisioned post-grant proceedings as a quick and inexpensive procedure to limit or eliminate overly broad patents. Allowing extensive discovery would defeat this goal, and make such proceedings the equivalents of district court proceedings. Further, it would permit well-financed parties to harass patentees with unnecessary and burdensome discovery requests. This could be devastating to independent inventors and start-up companies.

I appreciate the opportunity to comment on this important work of the Senate, and I look forward to following your work in improving the bill. In the meantime, please call me if you have any questions.

Very truly yours,



William C. Rooklidge

WCR:psf
Enclosures