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LEGISLATIVE DEVELOPMENTS

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I. Introduction

The congressional shift in power late in 2006 changed prospects for many if not most of then-pending legislative efforts. Not so for patent law. While the House and Senate committee leadership switched chairs for the 110th Congress,¹ the new leadership has much in the way of recent history in patent legislative efforts. And the same industry and bar participants in the 109th Congress continue their efforts in the 110th. As a result, the patent law bills most likely to emerge as legislation in the 110th Congress are those that gathered momentum in the 109th, such as trial court specialization and patent reform proposals.

II. Patent Trial Court Specialization Pilot Program

On May 18, 2006, Representatives Darryl Issa and Adam Schiff introduced H.R.5418, entitled “pilot program in certain United States district courts to encourage enhancement of expertise in patent cases. That bill would establish in certain selected judicial districts (at least five of the top fifteen districts ranked by number of patent cases) a ten-year program under which patent cases would be randomly assigned to judges that opt in to handle such cases. The bill would also direct money to the pilot districts for training of judges and hiring of technically trained law clerks. The House subcommittee on Courts, the Internet, and Intellectual Property passed H.R.5418 on September 13, 2006.

On September 21, 2006, Senators Orrin Hatch and Diane Feinstein introduced S.3923, a counterpart to the Issa/Schiff bill, but with slightly different provisions. This bill did not move in the Senate.

On January 8, 2007 Representatives Issa and Schiff re-introduced their bill as H.R.34. Representative Issa explained that the bill had stalled at the end of the previous session both because of its own popularity, members wanted districts in their states to be among the pilot districts, and because of the change in leadership in the House and Senate.² This bill should move quickly during this session.

¹ Patrick Leahy (D-VT) takes over as Chair of the Senate Judiciary, and Arlen Specter (R-PA) assumes the role of Ranking Member. John Conyers (D-MI) takes over as Chair of the House Judiciary Committee, and Lamar Smith (R-TX) assumes the position of Ranking Member. Howard Berman (D-CA) takes over as Chair of the House Subcommittee on the Courts, the Internet and Intellectual Property, and Howard Coble (R-NC) assumes the role of Ranking Member.

² Erik Larsen, *Patent Pilot Bill Reintroduced*, IPLaw 360 (January 9, 2007).

III. Patent Reform

The present patent reform movement in the United States seeks fundamental changes to our country's patent law and procedure. The proposed reforms would, among other things, convert the first-to-invent system to a first-inventor-to-file system, simplify the Byzantine patchwork of statutory provisions that defines prior art, abandon the requirement to disclose the "best mode" of practicing the invention, allow assignee filing of patent applications and eliminate the option of opting out of publication of applications after 18 months. If implemented, these changes would streamline the patenting process, reduce costs and add certainty for patent applicants. And additional proposed reforms would enhance the quality of U.S. patents by giving the U.S. Patent and Trademark Office more access to relevant prior art and enabling post-grant opposition as a check on the quality of the USPTO's examination. They would also reduce subjective elements in patent infringement litigation such as inequitable conduct and willful infringement. The net benefits of the proposed reforms would be a more streamlined process, enhanced patent quality, reduced costs and increased predictability.

Calls for reform of U.S. patent laws have been heard more or less continuously since Congress enacted the first patent statute in 1790. Because of the many and varied interests implicated by the patent laws, reform of those laws is necessarily a long, drawn-out process. Proposals for patent reform surfaced in Congress in the mid-1990's, many of which had also been suggested in 1992 by the Mosbacher Advisory Commission³ on Patent Law Reform and in 1966 by the Presidential Commission on the Patent System.⁴ A 1999 effort at reform culminated in the American Inventors Protection Act, legislation that left many, if not most, of the reforms on the cutting room floor.⁵ The reform proposals regained significant momentum when they were recommended in reports of the Federal Trade Commission ("FTC")⁶ and the National Academies of Sciences' Committee on Intellectual Property Rights in the Knowledge-Based Economy ("NAS"),⁷ both of which concluded that the processes of obtaining and enforcing patents cost too

³ Advisory Commission on Patent Law Reform, A REPORT TO THE SECRETARY OF COMMERCE (1992). Section I of that report urged adoption of a "first-to-file" system with grace period and prior user rights, while section III suggested pre-grant publication of patent applications and section XIII urged adoption of assignee filing, all of which recommendations are included in the present proposed reforms.

⁴ President's Commission on the Patent System, "TO PROMOTE THE PROGRESS OF . . . USEFUL ARTS" IN AN AGE OF EXPLODING TECHNOLOGY (1966)

⁵ Pub. L. No. 106-113, 106th Cong., 1st Sess., 1999 U.S.C.C.A.N. (113 Stat. 1501A) 552 (1999).

⁶ Federal Trade Commission, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003).

⁷ Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, Policy and Global Affairs Division, National Research Council of the National Academies, A PATENT SYSTEM FOR THE 21ST CENTURY (Stephen A. Merrill, Richard C. Levin & Mark B. Myers, eds. 2004).

much and are too complex. That momentum only accelerated as calls for patent reform began to resonate in the popular press.⁸

The American Intellectual Property Law Association prepared and circulated detailed responses to the FTC and NAS reports, responses that contained recommendations of our own for patent reform. AIPLA then distilled those recommendations into a legislative proposal and took that legislative proposal on the road, seeking input in “patent reform town meetings” held in San Jose, Chicago, Boston and Washington, D.C. with the National Academies Board on Science Technology and Economics and the Federal Trade Commission.⁹

AIPLA’s legislative recommendations include adopting a first-inventor-to-file priority system, adopting a more objective definition of prior art, expanding prior user rights, providing a post-grant opposition system in the USPTO, and reducing subjective elements in patent infringement litigation, such as the best mode requirement, the inequitable conduct defense and willful infringement. In April 2005 many of AIPLA’s recommendations found the receptive ear of Representative Lamar Smith (R - Texas), who then chaired the House Judiciary Committee’s Subcommittee on Courts, the Internet and Intellectual Property. Chairman Smith circulated for comment a document called a “Committee Print,” a draft bill.¹⁰ After Chairman Smith conducted an initial round of hearings,¹¹ in June of 2005 he revised the Committee Print and introduced a bill, H.R. 2795, entitled “The Patent Act of 2005.”¹² This bill contained many, if not most, of AIPLA’s recommendations.¹³ After the initial hearings on the bill,¹⁴ in July 2005 Chairman Smith sought to further advance the reform process by distributing a revised version of H.R. 2795, captioned a “Chairman’s Amendment in the Nature of a Substitute,” and his

⁸ See, e.g., Adam B. Jaffe & Josh Lerner, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT (2004) (urging reform of the patent system).

⁹ See

http://www.aipla.org/Content/ContentGroups/Meetings_and_Events1/Roadshows/20058/Transcripts_of_Their_own_Meetings_on_Patent_Reform.htm

¹⁰ Staff of the House Comm. on the Judiciary, Subcommittee on Courts, the Internet, and Intellectual Property, THE PATENT ACT OF 2005 (Comm. Print April 14, 2005). See <http://judiciary.house.gov/media/pdfs/comprint042005.pdf>.

¹¹ Links to the hearing transcripts and documents are collected at http://www.aipla.org/Content/NavigationMenu/IP_Issues_and_Advocacy/Legislation1/109th_Congress1/Legislative_Update_Chart/Key_Bills_of_the_109th.htm. The hearings on the Committee Print were held on April 20 and 28, 2005, see <http://judiciary.house.gov/oversight.aspx?ID=143> and <http://judiciary.house.gov/oversight.aspx?ID=148>.

¹² The Patent Act of 2005, H.R. 2795, 109th Cong. (June 8, 2005).

¹³ The provisions of this bill were analyzed in Wendy H. Schacht & John R. Thomas, PATENT REFORM: INNOVATION ISSUES (Congressional Research Service July 15, 2005).

¹⁴ The hearing on the bill was held on June 9, 2005. See <http://judiciary.house.gov/hearings.aspx?ID=112>.

subcommittee held an additional hearing.¹⁵ The Subcommittee on Intellectual Property of the Senate Judiciary Committee held three “oversight” hearings that dealt with the patent reform issues.¹⁶

The most fundamental change to the patent laws proposed in H.R. 2795 was a provision that would convert the U.S. patent system from a “first-to-invent” to a “first-inventor-to-file” priority system. This change would simplify the process of obtaining a patent and provide greater certainty and predictability for patentees and the public. And the time came long ago for this basic change; it is truly a best practice. In the few instances where there are disputes between competing inventors under the U.S. first-to-invent system, patents are frequently awarded to the first inventor to file, but only after a long and costly interference proceeding. The median cost to an inventor in a simple, two-party interference is \$600,000, a cost that places independent inventors, small entities and universities at a clear disadvantage.¹⁷ It is no wonder that statistics recently published by a former USPTO Commissioner demonstrate that these groups are disadvantaged by the first-to-invent system.¹⁸

Moving to a first-inventor-to-file system would simplify identification of invalidating prior art because the reference point would no longer be the ephemeral date of invention, but rather the application’s filing date. This simplification would eliminate complicated issues of abandonment, conception, diligence and reduction to practice, focusing instead on whether information anticipating or making obvious the invention was reasonably and effectively accessible before the earliest effective filing date of a patent application.

The bill would have allowed assignees to file patent applications, eliminating the cumbersome requirement that only inventors can file. And it would require publication of patent applications 18 months after filing, eliminating the “opt-out” procedure included as part of the 18-month publication provisions introduced in 1999 and used by applicants to keep approximately 10% of patent applications secret until grant.

¹⁵ Chairman’s Amendment in the Nature of a Substitute, The Patent Act of 2005, H.R. 2795, 109th Cong. (July 26, 2005). The September 15, 2005 hearing on this amendment was entitled “Legislative Hearing on ‘The Amendment in the Nature of a Substitute to H.R. 2795, ‘The Patent Act of 2005.’” See <http://judiciary.house.gov/hearings.aspx?ID=122>.

¹⁶ The April 25 hearing was entitled “Perspectives on Patents,” <http://judiciary.senate.gov/hearing.cfm?id=1475>; the June 14 hearing was entitled “Patent Law Reform: Injunctions and Damages,” <http://judiciary.senate.gov/hearing.cfm?id=1535>; and the July 26 hearing was entitled “Perspectives on Patents: Harmonization and Other Matters,” <http://judiciary.senate.gov/hearing.cfm?id=1582>.

¹⁷ American Intellectual Property Law Association, REPORT OF ECONOMIC SURVEY 23 (2005) (all-inclusive cost for each party in an interference is \$600,000 in 2005, was \$302,000 in 2003, and was \$201,000 in 2001).

¹⁸ Gerald J. Mossinghoff, *Small Entities and the “First to Invent” System: An Empirical Analysis* (2005) (<http://www.wlf.org/upload/MossinghoffWP.pdf>); Gerald J. Mossinghoff, *The First-To-Invent Rule in the U.S. Patent System Has Provided No Advantage To Small Entities*, 87 J. Pat. & Trademark Off. Soc’y 514 (2005).

Taking advantage of the simplified definition of prior art made possible by adoption of a first-inventor-to-file system, H.R. 2795 proposed a post-grant opposition procedure that provide the public with a remedy for improvidently granted patents—patents with claims that are too broad or patents that the USPTO should not have granted. To encourage the public to act promptly, the bill provides a nine-month window after patent grant to request an opposition. The burden of proving invalidity would be proof by a preponderance of the evidence, the same standard used during examination. This standard also would encourage use of the procedure by affording a lower burden of proof than the “clear and convincing” standard imposed on challengers of patent validity in patent infringement litigation.¹⁹

Another provision intended to improve patent quality would allow members of the public to submit prior art for consideration during the examination of published applications. This pre-grant prior art submission would be limited, however, to the period before the issuance of the first office action including a rejection, a limitation intended to prevent harassment of patent applicants and hindrance of prosecution.

H.R. 2795 would also have cut back on what the NAS identified as “subjective elements” in U.S. patent infringement litigation. The bill would have eliminated the “best mode” disclosure requirement, would narrowly confine the inequitable conduct defense (which the United States Court of Appeals for the Federal Circuit has labeled “an absolute plague” upon the patent system²⁰), and would sharply limit allegations of willfulness that serve as a basis for potential recovery of treble damages and attorney fees.²¹ Elimination of these subjective factors, the NAS reasoned, would reduce the cost of patent infringement litigation.

One provision particularly suited to a first-inventor-to-file system and the simplified definition of prior art would have addressed fairness to those that have practiced the invention before the patentee filed her application. This provision would have expanded the prior user defense—a personal defense—to prior users of all categories of inventions, not just the prior users of business method inventions protected by current law.²² This provision fits well with the simplified definition of prior art because under that definition secret commercialization would no

¹⁹ See generally Gerald J. Mossinghoff & Vivian S. Kuo, *Post-Grant Review of Patents: Enhancing the Quality of the Fuel of Interest*, 85 J. Pat. & Trademark Off. Soc’y 231 (2003) (urging adoption of a post-grant opposition system).

²⁰ *Burlington Indus. v. Dayco Corp.*, 849 F.2d 1418 (Fed. Cir. 1988).

²¹ The jurisprudence of willfulness has suffered extensive criticism. See, e.g., Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227 (2004) (urging that “Steps need to be taken to temper willfulness law and its impact on patent litigation”); Thomas F. Cotter, *An Economic Analysis of Enhanced Damages and Attorney’s Fees for Willful Patent Infringement*, 14 Fed. Cir. B.J. 291 (2004) (urging Federal Circuit to “consider sharply limiting the availability of enhanced damages); Douglas Y’Barbo, *Written Opinions From Counsel*, 29 AIPLA Q.J. 65 (2001) (proposing that Federal Circuit “dispense with the current standard”).

²² See generally Thomas A. Fairhall & Paul W. Churilla, *Prior Use of Trade Secrets and the Intersection with Patent Law: The Prior User Rights Statute*, 35 U.S.C. §273, 14 Fed. Cir. B.J. 455 (2005) (urging expansion of prior user rights); Leslie M. Hill, *Prior User Defense: The Road to Hell is Paved with Good and Bad Intentions*, 10 Fed. Cir. B.J. 513 (2001) (suggesting 1999 adoption of limited prior user rights increased value of trade secrets at expense of value of patents).

longer constitute prior art, and while a secret prior user presently could in some circumstances invalidate a patent covering the secretly-used process, under the reform proposal that secret prior user would be able to continue using the process even though the patentee could otherwise enforce its patent.

AIPLA's patent reform proposals that were incorporated into the Committee Print, H.R. 2795 and the Chairman's Amendment in the Nature of a Substitute represent only half the patent reform story. Other organizations, most notably the Business Software Alliance (BSA), Information Technology Industry Council (ITI), Financial Services Roundtable (FSR), and Coalition for Patent Fairness have advanced proposals of their own. Some of these proposals would further strengthen the effectiveness of the patent system and add to the overall patent reform effort. Other proposals have come under sharp criticism because they are seen to significantly alter the balance of rights between patent owners and accused infringers.

The most controversy centered on two proposals relating to remedies for patent infringement. One proposal would have limited the availability of injunctions. A second was crafted to limit the measure of damages for so-called "combination" inventions.

A. Injunctions.

Under U.S. patent law, a cornerstone of the patent owner's right to exclude is the court's power to grant injunctive relief "in accordance with the principles of equity."²³ BSA advanced the view that a patent on an insignificant feature should not jeopardize their members' ability to sell a product that contains many features, patented and unpatented. And while patent infringement disputes between market participants are usually resolved with cross licenses and monetary payments, non-market participants, such as universities, research institutes and independent inventors, are not interested in cross-licenses and often press claims for injunctive relief in order to obtain higher settlement amounts or license fees. "Extortion," BSA called this, and BSA proposed two amendments to the patent statute to limit the availability of injunctive relief.

The first of these BSA-supported proposals, contained in the Committee Print, would have made it more difficult for non-market participants to obtain injunctions.²⁴ If you are not using your invention by making and selling it, BSA reasoned, why should you be entitled to an injunction?²⁵ The controversy over this injunction provision resulted in its exclusion from the draft legislative proposals that appeared subsequent to H.R. 2795.

²³ 35 U.S.C. §283.

²⁴ Committee Print, §7: "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 such a finding, the court shall not presume the existence of irreparable harm, but shall consider and weigh evidence that establishes or negates any equitable factor relevant to a determination of the existence of irreparable harm, including the extent to which the patentee makes use of the invention."

²⁵ The BSA representative who testified in the first hearing on the Committee Print explained:

The Federal Circuit has in recent times interpreted very narrowly the ability of a district court to consider equitable factors (largely limited to health emergencies) when deciding whether or not to grant an injunction. Only weeks ago, the Court overturned a district court's judgment,

BSA responded by proposing another injunction-limiting provision, one that would have amended the injunction statute by dictating:

Unless the court has made a determination that the infringement is willful, in determining equity the court shall consider the fairness of the remedy in light of all the facts, the relevant interests of the parties and the public associated with the invention.²⁶

This proposal was formulated to address what BSA contended was an “automatic injunction” rule developed by the United States Court of Appeals for the Federal Circuit. It generated its own controversy,²⁷ and was not carried over into subsequent legislative proposals following introduction of H.R. 2795. Meanwhile, the United States Supreme Court soon resolved BSA’s concerns by its grant of certiorari and decision in the eBay case rejecting the Federal Circuit’s “general rule” and holding that courts must instead apply the full equitable analysis for permanent injunctions in patent cases.²⁸

B. Apportionment of Damages.

Early in the patent reform process, BSA contended that U.S. trial courts were not correctly applying the law of damages in patent infringement cases involving their products. According to BSA, judges and juries award patent infringement damages based on an entire product or system even though the invention relates only to a relatively insignificant feature that adds little, if anything, to the market value of the product or system.

Damages in patent cases are governed by a statute that states in relevant part that:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.²⁹

based on the specific facts of the case, that a permanent injunction was not warranted because of the patentee’s demonstrated willingness to license the patent. Only in cases of public health emergencies or well-being has the Court readily considered non-issuance of an injunction. Thus, the courts seldom engage in a balance of the equities, and the granting of an injunction has become nearly automatic.

Testimony of Richard J. Lutton, Jr., Chief Patent Counsel, Apple on behalf of the Business Software Alliance (BSA) at the Hearing on “Patent Quality and Improvement” before the Subcommittee on Courts, the Internet and Intellectual Property House Judiciary Committee (April 20, 2005).

²⁶ BSA Proposal (May 2005).

²⁷ See, e.g., C. Boyden Gray, *Patent Reform Bill: A Troubling Proposal for the U.S. Patent Law System*, 70 Pat., Copyright & Trademark J. 121 (2005).

²⁸ *eBay, Inc. v. MercExchange LLC*, 126 S. Ct. 1837 (U.S. 2006).

²⁹ 35 U.S.C. §284

This statute requires adequate compensation for use of the invention, and sets a base or minimum compensation amount equal to a reasonable royalty. This reasonable royalty may take the form of a lump sum or running payments, but in either case is often calculated on a “base” of sales of a particular infringing product or uses of a particular infringing process. That base is not always the same as the claimed invention, a fact that results both from the market for the product or process and the way patent claims are drafted. The market affects the royalty base because some inventions lend significant value to more complex products or processes, while others have little impact on the demand for such products or processes. The form of patent claim affects the royalty base because the patent drafter may draft the claim narrowly to a particular component of the product or step of the process, or may draft the claim broadly to the product or process itself.

Patent law addresses the effect of these factors on the royalty base in two ways. The first is the “entire market value rule,” which recognizes that the economic value added to a product or process by a patented feature may be greater than the value of the feature alone. A decade ago, the Federal Circuit reviewed the background and rationale of the entire market value rule, and confirmed that patent infringement damages should be based on the full value of the infringing product or process in those instances where the patented feature is the basis for customer demand for the entire product or process.³⁰ This expansion of the royalty base beyond the patented invention has posed little in the way of problems because in order to use it the patentee must establish that the patented feature is the basis for the customer demand for the entire product or process. Placement of the burden of proof on the patentee has led to relatively few instances in which the entire market value rule has been used to expand the royalty base.

The second way in which patent damages law addresses the effect of the market and patent claim scope on the royalty base is contraction of the royalty base by a method known as “apportionment.” The seminal analysis of reasonable-royalty damages, the district court’s opinion in the *Georgia-Pacific* case, identified a list of factors that may be relevant to determining a reasonable royalty for patent infringement damages.³¹ Factor 13 is often cited for the proposition that courts should consider “[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer” when apportioning damages.³² In other words, even though the claimed invention is drawn to an entire product or process, portions of the value or profit associated with that product or process can be subtracted from the damages base because they are attributable to the infringer, not the patentee. In this instance, the burden is on the accused infringer to establish that damages should be apportioned.

Courts have had little difficulty applying the current law on apportionment and the entire market value rule to reach just and reasonable findings on assessment of damages. A significant obstacle that BSA has faced in advancing the argument for damages reform is that the cases cited by BSA as indicative of the need for its reforms lend no support to the argument that the law on apportionment or the entire market value rule is broken.

³⁰ *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F.3d 1538, 1549 (Fed. Cir.) (*en banc*), cert. denied, 116 S. Ct. 184 (1995).

³¹ *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and *aff’d*, 446 F.2d 295 (2nd Cir. 1971), cert. denied, 404 U.S. 870 (1971).

³² *Id.* at 1120

One of the cases cited by BSA as an example of unwarranted exercise of the entire market value rule was the *Fonar* case, where the patented invention was directed to a unique patented imaging feature incorporated into an MRI machine that enabled the machine to produce multiple oblique image slices of a patient in a single scan.³³ This feature reduced the required imaging time, resulting in less patient discomfort and increased machine utilization. Other MRI machines available in the market lacked this feature and the infringer actually used this patented feature as a marketing tool to distinguish the infringing machine from others in the market. On this basis, the Court found that it was not unreasonable to conclude that the inclusion of this feature created the customer demand for the entire infringing machine. Rather than a misapplication of the law, this case presented a straightforward and correct application of the entire market value rule to the facts found by the jury.

Another case BSA has cited in support of its proposal is the *Bose* case, in which Bose sued JBL for infringement of its patented loudspeaker enclosure having a port tube that radiated acoustic energy to a region outside the enclosure.³⁴ JBL asserted that the royalty determination should be based only on the value of the port tube. The district court found that the port tube was an integral functioning element of the speaker system that resulted in improved performance that drove customer demand, and that it was this improved performance that JBL sought to achieve by incorporating the patented invention into its speaker systems. Accordingly, the district court calculated damages based on the value of the entire speaker systems. In confirming the judgment, the Federal Circuit said:

The district court found that the invention of the '721 patent inextricably worked with other components of loudspeakers as a single functioning unit to provide the desired audible performance. The court also found that the invention of the '721 patent improved the performance of the loudspeakers and contributed substantially to the increased demand for the products in which it was incorporated. Bose presented un rebutted evidence that the invention of the '721 patent was integral to the overall performance of its loudspeakers by way of the elliptical port tube, which eliminated port noise and reproduced improved bass tones. JBL's marketing executive also acknowledged that improved bass performance was a prerequisite for JBL's decision to go forward with manufacturing and selling certain loudspeakers. Bose presented evidence detailing its efforts to market the benefits of its loudspeakers using the invention of the 721 patent and provided testimony on its increase in sales in the year following the introduction of its speakers containing the invention. All of this was substantial evidence to support an award of a reasonable royalty based upon the entire value of the loudspeakers.

Thus, even though the patent claim specifically related to the overall enclosure within which the inventive port operated, the court neither limited the royalty base to the enclosure, nor apportioned the base to the port alone. Instead, the court considered the effect of the port on the consumer demand for a speaker system having the qualities provided by this combination, found that the port was the basis for the value of the overall speaker system assembly, and determined

³³ *Fonar Corp. v. General Elec. Co.*, 107 F.3d 1543 (Fed. Cir. 1997).

³⁴ *Bose Corp. v. JBL, Inc.*, 274 F.3d 1354 (Fed. Cir. 2001).

that it was appropriate to award damages accordingly. In other words, the *Bose* court correctly applied the entire market value rule to the facts it found.³⁵

Patent infringement damages apportionment and the entire market value rule are the culmination of the courts' long and careful efforts to adhere to the statutory requirement to provide damages adequate to compensate for the infringement of an inventor's patent. Apportionment recognizes the reality that consumer demand for an infringing product or process may in part spring from contributions from the infringer, and to reward the inventor for those contributions is inappropriate. On the other hand, the entire market value rule recognizes the reality that even complex assemblies may owe their marketability to a patented feature—a feature that drives consumer demand for the overall assembly. In those cases, it is entirely appropriate to reward the inventor according to the worth of her invention. To do otherwise would only encourage those who trespass and discourage inventors from making their intellectual efforts available to the public. The courts can be and are flexible in assessing each case on its merits, and they can reliably determine the correct royalty base and rate that will award “damages adequate to compensate for the infringement.”

In an effort to address BSA's concerns, Chairman Smith included in H.R. 2795 a provision that would require:

In determining a reasonable royalty in the case of a combination, the court shall consider, if relevant and among other factors, the portion of the realizable value that should be credited to the inventive contribution as distinguished from other features of the contribution, the manufacturing process, business risks, or significant features or improvements added by the infringer.

In embracing this provision, BSA member company spokesmen have argued this language would correctly limit patentees to damages only on the feature of asserted patents that convinced the PTO examiners to grant them – the now discredited “gist” of the invention concept. Concerned that such an interpretation of the “inventive contribution” language in this provision could lead courts to parse the claimed invention down to its “gist” and add an unnecessary step to the analysis, 37 companies (including some of the largest in the United States) together with AIPLA and the Intellectual Property Owners Association formed a “Coalition for Patent Reform,” which suggested an alternative that would more closely codify *Georgia-Pacific's* apportionment rule:

In determining a reasonable royalty consideration shall be given to, among other relevant factors, the portion of the realizable profit or value that

³⁵ BSA also cites *Symbol Technologies, Inc. v. Proxim, Inc.*, DC Del, 2004, Civ. No. 01-801-SLR, in which damages were awarded by a jury as a percentage royalty calculated against sales reported by the infringer, a sales base that was not challenged or disputed. This decision could not show erroneous application of either apportionment or the entire market value rule as neither was involved in the case: the infringer disputed only the royalty rate, not the base against which it should be applied. A considerably more relevant case would be *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302 (Fed. Cir. 2002), where, even though the patent claim was directed to a “method of offshore platform installation,” the Federal Circuit set aside a jury verdict based on expert testimony that considered the entire cost of constructing the platform. Even though the claims were directed to construction of the entire platform, the royalty base could not be the entire cost of constructing the platform because the infringer could both install and use the platform without infringing the patent. *Id.* at 1311-12.

should be credited to the contributions arising from the claimed invention as distinguished from contributions arising from other features, manufacturing processes or improvements added by the infringer and from the business risks the infringer undertook in commercialization.

Rather than being satisfied with the Coalition's clarification of the present law, one BSA member company accused the Coalition of attempting to change the present case law in order to increase the application of the entire market value rule.³⁶ The "inventive contribution" language would not require parsing of the patent claim to identify the "gist" of the invention, it argues; rather, the inventive contribution could be determined merely by subtracting the prior art elements.³⁷

This "prior art subtraction" approach suffers from several serious problems. One is that it finds no basis in the "inventive contribution" language of the bill, and is not, in fact, a determination of inventive contribution. For example, under the current law, the infringer is allowed to reduce the value associated with the accused product by that attributable to the infringer's manufacturing efficiencies and business risks,³⁸ but BSA's approach would not allow these deductions. On the other hand, BSA's approach would allow the deduction of the value or profit attributable to all prior art components, regardless of whether the infringer had a hand in contributing that value.³⁹

While this "prior art subtraction" would be appropriate in some circumstances, such as, for example, where the infringer invented or licensed in prior art technology that added to the value of the infringing product, it would clearly be inappropriate in other circumstances. The *Georgia-Pacific* case itself explored these apportionment considerations in depth in connection with infringing plywood sheets, and demonstrated that the issue is far more complex than simply subtracting the value of all prior-art components.⁴⁰ Moreover, the blunt subtraction of the prior

³⁶ September 28, 2005 letter from David Simon, Chief Patent Counsel of Intel, to Representative Zoe Lofgren ("under the [Coalition] proposal, the law would not be improved; rather it would be worsened because the patentee will get a windfall of the value of the entire product, even though the inventor's contribution may have been just a tiny fraction of the entire product's value").

³⁷ *Id.* ("Under the test proposed by the BSA, the inventor would be awarded for the value added over and above the prior art, which is his or her inventive contribution – exactly what the patent law contemplates, no more and no less").

³⁸ *Georgia-Pacific*, 318 F. Supp. at 1120. (S.D.N.Y. 1970) ("the portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer").

³⁹ In this regard, the current BSA proposal is similar to its initial proposal to limit damages: "Whenever the invention is incorporated into, or is made a part of, a method or apparatus otherwise known in the art, or is an improved method or apparatus including within it elements otherwise known in the art, then any award of a reasonable royalty or other damages shall be based only upon such portion of the total value of the method or apparatus as is attributable to the invention alone and shall not include value attributable to the method, apparatus or elements otherwise known in the art or contributed by the infringer or its licensors."

⁴⁰ *Id.* at 1133-37 (rejecting apportionment based on patented technique of preventing warping of the plywood panel because prior art showed many ways to prevent warping and patented technique neither saved money nor created consumer demand).

art advocated by BSA would render combination inventions—most of which consist entirely of prior art components, virtually worthless.

Although the cases that BSA has identified may not provide much in the way of support for legislative reform on damages, commentators have subsequently identified other cases as examples justifying change in the law.⁴¹ These cases provide little in the way of support for any need for legislative change, however, as we will see.

*State Contracting and Engineering Corp. v. Condotte America, Inc.*⁴² affirmed the trial court's application of the entire market value rule to expand the royalty base beyond the patented integrated column and pile used in constructing highway sound barrier walls to the entire construction project because the undisputed testimony was that the contract was for a single integrated project (the infringer could not have bid on just the sound barrier walls), and required use of the patented construction. The infringer does not appear to have argued that the damages should have been apportioned. The infringer did challenge the trial court's jury instruction, which authorized recovery on unpatented components of the construction project if they competed with the infringing column and pile and were "functionally part of the" infringing column and pile.⁴³ The challenge to the jury instruction failed, however, because the infringer itself had proposed a functionally equivalent instruction. That instruction would have allowed damages on unpatented components if the "patented integrated column and pile functions with the unpatented components in some manner so as to produce a desired end product or result." Accordingly, this opinion does not establish a principle of law on damages apportionment or the entire market value rule, and provides no basis for demanding legislation on patent damages.

Neither *Golight, Inc. v. Wal-Mart Stores Inc.*⁴⁴ nor *Monsanto Co. v. Ralph*⁴⁵ involved damages apportionment or the entire market value rule. Instead, in both cases the infringer presented no expert testimony and as a result was hit with a relatively large damage award. What has apparently drawn at least one commentator's ire is that both opinions rejected the notion that an infringer's profit should cap the reasonable royalty. Not allowing an infringer's profit, or lack thereof, is particularly appropriate in circumstances where an infringer gives away or sells at a low profit infringing product to induce sales of a complementary product with a high profit margin. Although this commentator criticized the Federal Circuit's failure to reach beyond the facts of the case and articulate an analytical framework for deciding this kind of case, that criticism ignores that the evidence was apparently not available and the arguments were not made.⁴⁶

⁴¹ See, e.g., Amy L. Landers, *Let The Games Begin: Incentives To Innovation In The New Economy Of Intellectual Property Law*, 46 Santa Clara Law Review 307 (2006).

⁴² 346 F.3d 1057 (Fed. Cir. 2003).

⁴³ This same instruction acknowledged that the patents only covered the integrated column and pile.

⁴⁴ 355 F. 3d 1327 (Fed. Cir. 2004).

⁴⁵ 382 F. 3d 1374 (Fed. Cir. 2004).

⁴⁶ Landers, *supra* note 41, at 347-54.

This same commentator has identified what she sees as a troubling trend in courts permitting application of the entire market value rule where there is a functional relationship between the infringing and non-infringing products and the sale of the noninfringing products is foreseeable, rather than requiring the infringing product to be a central reason for the consumers' purchase of the noninfringing product (or, as stated in *Rite Hite*, the patented product be "the basis of the consumer demand" for the unpatented product).⁴⁷ But then to support that trend, she cites only to two appellate cases allowing royalties based on sales of unpatented products made by patented processes or equipment, *Minco, Inc. v. Combustion Engineering, Inc.*⁴⁸ and *Micro Chemical, Inc. v. Lextron, Inc.*,⁴⁹ and then recognizes that *Riles v. Shell Exploration & Production Co.*,⁵⁰ goes the other way. These appellate cases aren't apportionment cases, and they really are not entire market value cases either (the courts appeared to have been using sales of unpatented goods produced by the infringing machines as the surrogate royalty base, which really is an entirely separate subject). They do not establish much of a trend, and they certainly do not support the need for legislation of the kind on the table.

Closer to the point are several district court cases criticized by the same commentator as representing a trend toward "awarding damages for all products that might be foreseeably sold and used with the infringing product."⁵¹ *Lucent Techs., Inc. v. Newbridge Networks, Inc.*⁵² involved application of the entire market value rule to data networking patents covering data congestion control, error handling, speech compression, and circuit board initializing so as to include in the royalty base certain non-infringing software that the evidence showed must be sold along with the patented device. The *Lucent* court recognized that the entire market value rule applies when the patented feature constitutes the basis for customer demand, and then held that requirement satisfied by evidence that the infringer would have anticipated more sales of the unpatented software from its sale of the patented device. "Stated another way, '[w]here a hypothetical licensee would have anticipated an increase in sales of collateral unpatented items because of the patented device, the patentee should be compensated accordingly.'" The infringer argued that the patented and unpatented products are not necessarily sold together, but presented no evidence of how many of its infringing products were sold with or without the noninfringing products. The district court held that "[w]here the plaintiff has shown the propriety of applying the entire market value rule and the defendant fails to offer evidence of apportionment, it is appropriate to include the unpatented items in the royalty basis." This is another case lacking the evidentiary basis for a full exploration of the entire market value and apportionment issues, not the kind of case on which to build legislation.

⁴⁷ *Id.* at 357-59.

⁴⁸ 95 F.3d 1109, 1108 (Fed. Cir. 1996) (based royalty on sale of unpatented fused silica produced by patented rotary furnace where silica sales "[were] or should have been reasonably foreseeable").

⁴⁹ 318 F.3d 1119 (Fed. Cir. 2003) (based royalty on sales of ingredients used with microingredient weighing machine that incorporated claimed invention but were given away for free).

⁵⁰ 298 F.3d 1302 (Fed. Cir. 2002).

⁵¹ Landers, *supra* note 41, at 358-59 and n.283.

⁵² 168 F. Supp. 2d 181 (D. Del. 2001).

*Hem, Inc. v. Behringer Saws, Inc.*⁵³ upheld a jury award of reasonable royalties based on unpatented saws sold with the infringing saw tables. The saw tables used a patented feeding device for moving wood or metal toward machine tools, such as saws or drills. Like the *Lucent* court, the *Hem* court recognized that “[T]he entire market value rule permits recovery of damages based on the value of a patentee's entire apparatus containing several features when the patent-related feature is the ‘basis for customer demand,’” and then explained:

Although the evidence was introduced that the unpatented saws were sold and used independently from the patented feed tables, [the patentee] also introduced evidence that the patented feed tables were never sold independently from the unpatented saws. [The patentee] also introduced testimony that the basis for consumer demand was the end result that was obtained from the use of the patented feed table in conjunction with the unpatented saws. Accordingly, [the patentee] established that the unpatented saws function together with the patented feed table so as to produce the desired end result, which was the basis of consumer demand.⁵⁴

The court further explained that the entire market value rule applies where the unpatented feature produces a result with the infringing feature that is desired by consumers, even though the reason consumers purchased the unpatented components was not necessarily the infringing feature. Clearly, the *Hem* court did not merely extend the royalty base to “all products that might be foreseeably sold and used with the infringing product.”

Despite the weak showing of the need for reform of damages law, BSA, the Coalition for Patent Fairness and others continue to push for damages reform. Others, such as independent inventors groups oppose any change. The middle ground is occupied by the Coalition for Patent Reform, which sees no need for patent damages reform but would agree to a codification of the law of apportionment and the entire market value rule.⁵⁵ A recent call for compromise may well lead to renewed efforts to craft a compromise acceptable to all but the hard-liners.⁵⁶ Only by compromise could participants in the patent reform debate get past this most contentious issue.

C. The PDQ Act

On April 5, 2006, Congressmen Berman and Boucher introduced H.R.5096, the “Patents Depend on Quality Act of 2006,” a proposal more limited and less balanced than the House versions. This bill included a post-grant opposition that included a “second window,” 18-month publication, pre-grant submission of prior art, inter-partes reexamination reforms, willful

⁵³ 2003 WL 23213578 (N.D. Okla. 2003).

⁵⁴ *Id.* at *3.

⁵⁵ September 30, 2005 letter from Gary Griswold, President and Chief Intellectual Property Counsel, 3M Innovative Properties Company, for the Coalition for Patent Reform, to Hon. Lamar S. Smith, Chairman, House Subcommittee on Courts, the Internet and Intellectual Property at 2 (“the members of the Coalition for Patent Reform oppose the damages apportionment language in Section 6 of the Substitute and would prefer no patent reform legislation to any bill containing such language”).

⁵⁶ David Kappos, *Getting Our Act Together – The Case For A Strong But Balanced Patent Regime That Puts The Public Interest First*, <http://ipoa.typepad.com> (January 12, 2007)

infringement reforms, transfer of venue, and the same provision as that of H.R. 2795 limiting the ability to obtain injunctive relief. While this bill did not advance in the 109th Congress, it provides an insight into the predilections of Representative Berman, the new chair of the House subcommittee on Courts, the Internet, and Intellectual Property.

D. The Senate Bill

On August 3, 2006, Senators Orrin Hatch and Patrick Leahy introduced S.3818. This bill contained provisions to implement first-inventor-to-file (albeit in a less than perfect manner), retain the existing “best mode” requirement, limit compensatory and punitive damages, add a “loser pays” attorney fees provision, reform inequitable conduct to a limited extent, repeal 35 U.S.C. § 271(f), implement post-grant review (including “life of the patent” requests upon a showing of reason to believe the patent claim is likely to cause significant harm, allow pre-grant submissions of prior art, amend the patent venue statute, permit interlocutory appeals of claim construction decisions, and confer rule-making authority on the Director of the U.S. Patent & Trademark Office. The key differences between this Senate bill and the House bills are the second window for patent oppositions, retention of the best mode requirement, prior art subtraction approach to patent damages, weakened inequitable conduct and willfulness reforms, loser-pays attorney fee awards, a different venue provision, deletion of 35 U.S.C. §271(f), allowing interlocutory appeal of claim construction rulings, and affording the U.S. Patent & Trademark Office substantive rulemaking authority.

Introduction of this bill late in the session prevented it from moving forward. But this bill will undoubtedly form the starting point for discussions in the current session of Congress

E. Opposition To Patent Reform From Another Quarter

Meanwhile, the battle has been joined by another important constituency for the patent system: independent inventor organizations. At least some of the independent inventor groups have expressed a simple concern: suspicion of big business’ attempts at reform of the patent laws.⁵⁷ One independent inventor group, the Professional Inventors Alliance USA,⁵⁸ is leading the charge against patent reform, casting the issue as a battle between independent inventors and “big companies.”⁵⁹ In a written statement sent to the House Subcommittee, PIAUSA President,

⁵⁷ See, e.g., www.piausa.org/ (“Our Great American Patent System Is on the Verge of Being Destroyed! Help Us Save it By Defeating the Destructive “Patent *Deform* Act of 2005”).

⁵⁸ The PIAUSA, in its own words, is

the premiere organization in the nation providing independent inventors a united voice to improve public policy. The Alliance provides legislative counsel, congressional updates and strategy development to its members through a number of vehicles. Additionally, through its speaker’s bureau, Alliance members have an opportunity to provide expert opinion to many of the nation’s top-tier business, technology and mainstream media organizations.

www.piausa.org/general_info/about_us/.

⁵⁹ Erica Werner, *Inventors roiled by patent reform; Some worry law favors companies over little guys*, THE IDAHO STATESMAN, B1-2 (October 22, 2005) (citing PIA Vice President George Margolin’s fear that “his ability to create is threatened by legislation he says would yank patent protection from little guys like him

Ronald Riley urged that “Congress tread very, very carefully in this policy arena and not move forward with any of these controversial proposals that will benefit only a portion of those who benefit from the current patent system. After all it has served this country well for over 200 years.”⁶⁰

PIAUSA’s primary argument against changing from first-to-invent to first-inventor-to-file is that the new system would create an urgency to file quickly, resulting in an increased number of applications, most of which would be incomplete, inadequately researched and of otherwise poor quality due to their hasty preparation.⁶¹ A corollary to this principle, they argue, is that these poor quality applications would never issue as patents but would nonetheless constitute prior art upon publication, poor quality prior art that would “interfere with subsequent inventors getting the patents they are due.”⁶² I suspect, however, that this result will not necessarily follow.

Eliminating the opt-out for 18-month publication of patent applications is the next most important issue to PIAUSA. And their argument against it is passionate:

The pre-patent world publication after 18 months devalues the application process and actually makes it an adversarial opportunity for unscrupulous entities seeking to steal ideas from those legitimately going through the system. Therefore, the newly knowledgeable firms—both international and domestic—with an ability to review such published applications can begin to advance a not yet patented innovation. With the U.S. Patent Office’s internet site, people around the world can see the details and begin to pirate and market ideas that are currently held in secret.⁶³

In short, pre-grant publication affords third parties the opportunity to “pirate” inventions before they are patented, and without any guarantee that they will be patented. The inventor using the present opt-out choice can delay deciding whether to disclose her invention to the public up to the date of grant, and under the new system would have only 18 months after filing to make that decision. This is a limitation that all but the independent inventor groups are willing to live with in exchange for the added certainty and predictability created by removing the opt-out provision.

PIAUSA also attacks expansion of prior user rights. Their opposition, however, appears to be based on a misunderstanding of the provision:

in favor of big corporations like Microsoft,” and quoting PIA President Ronald Riley as stating “I honestly feel that if we don’t stop what the big companies are trying to do, there won’t be any opportunity for us.”).

⁶⁰ Statement of Ronald J. Riley, President, Professional Inventors Alliance USA, submitted to Subcommittee on the Courts, the Internet, and Intellectual Property, Committee on Judiciary, U.S. House of Representatives for The Legislative Hearing on the Manager’s Amendment to H.R. 2795, the Patent Reform Act of 2005, 11 (September 15, 2005).

⁶¹ *Id.* at 3.

⁶² *Id.*

⁶³ *Id.* at 4.

Prior user rights neutralize and devalue the exclusive rights to a patent. The concept is to allow anyone using technology that is covered by claims made in a patent to pay no royalties to the patent owner if it can be proven that the prior user actually utilized the innovation before the prior patent was issued. Prior user rights provide an open invitation to commit fraud in an attempt to avoid paying for the rights to use the patent.⁶⁴

Stirring words these. But based on an incorrect premise: prior user rights do not apply just because the prior user used the invention before grant of the patent. They apply only if the use was commenced or substantial preparation was made before the filing of the priority application. No such “open invitation to commit fraud” exists.

PIAUSA’s objection to elimination of the “best mode” requirement is similarly based on a questionable foundation:⁶⁵

The purpose for which our Founding Fathers created the U.S. Patent System is to promulgate knowledge and technology. The ‘deal’ with the federal government is that if an inventor provides enough details of the innovation so that someone skilled in the art could duplicate it, the government would provide the inventor an exclusive right (property right) for a limited time and keep others from using the invention. Therefore, there is no reason to hide the innovation and by virtue of knowing the ‘best mode,’ others will learn how to utilize and improve upon it; thereby building knowledge for the public, as a whole. So anything but the ‘best mode’ is in effect gaming the system and cheating the intent of the patent system itself.⁶⁶

Again, stirring words, but based on two incorrect premises. First of all, our founding fathers had nothing do with the best mode requirement, and the constitutional bargain between the public and the government originally had nothing to do with it either. Congress adopted the best mode experiment only in 1952. Second, even without the best mode requirement, patent applicants will still need to disclose a written description of how to make and use the invention, and that description will have to enable one of ordinary skill in the art to make and use the invention without undue experimentation.⁶⁷ This is the bargain that provides the public benefit to which PIAUSA refers. To be sure, the best mode requirement may require the disclosure of information above and beyond that required by the written description and enablement requirements (in those few cases where, at the time of filing a patent application, an inventor may actually have more than one mode), but we part ways with PIAUSA in our view that the additional disclosure is not worth the costs and uncertainty created by the subjective best mode requirement. Remember, the

⁶⁴ *Id.* at 6.

⁶⁵ Independent inventors groups stand almost, but not quite, alone in opposing repeal of the best mode requirement. See Dale L. Carlson, Katarzyna Przychodzen & Petra Scamborova, *Patent Linchpin for the 21st Century?—Best Mode Revisited*, 87 J. Pat. & Trademark Off. Soc’y 89 (2005) (urging retention of the best mode requirement).

⁶⁶ *Id.* at 7.

⁶⁷ 35 U.S.C. §112.

requirement is to disclose the best mode known to the inventor at the time of filing the patent application, a time long before the much more useful commercial best mode has been finalized.

The relevant point here really is that groups purporting to represent the independent inventor constituency have joined the fray and could pose another obstacle to the reform process. AIPLA has reached out and continues to reach out to these groups, as well as to the university community, who traditionally are more closely aligned with independent inventors than with industry or bar groups. Although we harbor no illusion that we can easily change such fervently held beliefs, we do intend to engage in constructive discussion that will lead to greater understanding and perhaps compromise.

Conclusion

2007 looks to be a busy year for patent legislation. Legislation on both patent court specialization and patent reform is likely to move forward, and depending on the willingness of the constituencies to cooperate, we could well have new laws on the books during this session of Congress.