AIPLA
AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION

November 8, 2011

Via email
(IP.Policy@uspto.gov)

Ms. Elizabeth Shaw
Office of Policy and External Affairs
United States Patent and Trademark Office
Mail Stop OPEA
P.O. Box 1450
Alexandria, VA 22313-1450

Re: Patent Prior User Rights

Dear Ms. Shaw:

The American Intellectual Property Law Association (AIPLA) is pleased to have the opportunity to present its views with respect to the subject of patent prior user rights in response to the "Notice of Public Hearing and Request for Comments and on the Study of Prior User Rights" as published in the *Federal Register* (Vol. 76, No. 195) on October 7, 2011 (the "Notice") for purposes of the United States Patent and Trademark Office (USPTO) preparing a report on the subject, as required by the America Invents Act.

AIPLA is a U.S.-based national bar association whose approximately 16,000 members are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent law and other intellectual property law in the United States and in jurisdictions throughout the world. AIPLA has long supported the adoption of patent prior user rights in the United States, particularly in connection with the adoption of a first-inventor-to-file standard. Thus, AIPLA has a strong interest in the establishment of appropriate prior user rights in the United States.

AIPLA has, for almost 20 years, supported the principle that reasonable prior user rights should operate as a complete defense to infringement, being available to persons making good faith pre-filing commercial use or sale of a patent invention in the United States. That support was detailed at a Hearing before the Subcommittee on Patents, Copyrights and Trademarks of the Committee on the Judiciary of the United States Senate, held on August 9, 1994, in connection with Senate Bill S. 2272. Mr. Gary L. Griswold, then a member of the Board of Directors of AIPLA, testified in support of the provisions of S. 2272 because AIPLA believed that American business, especially small business, should have the protection of a prior user right because foreign-based operations already have such protection.

Almost a decade later, AIPLA's Board of Directors in 2003 reaffirmed the Association's support for prior user rights that are (1) personal and assignable with the entire business, (2) available whenever effective and serious preparations for use or sale have taken place in the United States before filing, (3) based solely on activity in the United States, and (4) limited in scope to the subject matter of the pre-filing activity. Under that 2003 Board action, any requirement for "good faith" on the part of the prior user should be satisfied where the user comes into possession of the subject matter by legitimate means, and does not make a prohibited use of the subject matter. The rights should not otherwise be restricted, *i.e*., by quantitative means or by the imposition of any obligation to the patentee.

This support was maintained during the ensuing years in connection with an AIPLA Response to the October 2003 Federal Trade Commission Report, "To Promote Innovation: The proper Balance of Competition and Patent Law and Policy," and in connection with subsequent legislative proposals for prior user rights in connection with patent reform during the 108th Congress, the 109th Congress, the 110th Congress, the 111th Congress and the current 112th Congress that passed the America Invents Act. In particular, Mr. Griswold, in his capacity as Past President of AIPLA, provided testimony before the Subcommittee on Courts, the Internet and Intellectual Property of the House of Representatives on June 9, 2005, in support of prior user rights provisions in H.R. 2795, the "Patent Act of 2005," particularly in connection with the proposed movement to a first-inventor-to-file system.

[A copy of Mr. Griswold's testimony before the Senate and House Subcommittees is attached.]

AIPLA notes that in the *Federal Register* Notice of October 7, 2011 (the "Notice"), questions are posed for response by two categories of respondents–those having experience related to the use of prior user rights in foreign jurisdictions and those who do not have any such experience. While AIPLA as an association of professionals in the IP field does not itself have the experiences to which the study is directed, its members and the Association have a deep understanding of the practical implications of a prior user rights system and the balance that is struck with regard to the underlying principles and protections provided by the patent system and the protections provided by trade secret law.

Thus, the following answers to the specific inquiries in the Notice of October 7, 2011, represent the Association's opinions with regard to the best practices that may be applied to those inquiries, and not the experiences of the Association's members. It is expected that those members with empirical or anecdotal data will provide that separately to the Office.

1a. Please share your experiences relating to the use of prior user rights in foreign jurisdictions including, but not limited to, members of the European Union and Japan, Canada, and Australia.

In doing so, please include the following:
(a) An identification of the foreign jurisdiction(s);
(b) The frequency or regularity with which prior user rights were utilized or asserted in the particular jurisdiction(s);
(c) Whether prior user rights were asserted as a defense by you or your organization;

(d) Whether another entity alleged prior user rights as a defense to a patent infringement claim asserted by you or your organization;
(e) The technology or industry involved;
(f) The operation of the prior user rights regime in the particular jurisdiction(s); and
(g) The advantages/disadvantages of the prior user rights regime in the particular jurisdiction(s).

AIPLA's members represent entities that have business interests in or connected with members of the European Union, Japan, Canada, and Australia. As already noted, AIPLA members with such experience are expected to provide their own comments separately.

1b. If you do not have any experiences relating to the use of prior user rights in foreign jurisdictions, please identify the following:
(a) The frequency or regularity with which you engage in business abroad including, but limited to, the following foreign economies: members of the European Union and Japan, Canada, and Australia;
(b) Your opinion as to why you believe prior user rights are or are not needed in the particular jurisdiction(s).

The patent laws in the identified jurisdictions are based on a first-to-file standard and provide protection to products and processes that are novel, non-obvious (include an inventive step) and have utility (industrial applicability). Moreover, those laws generally limit novelty destroying activity or events to those that make an invention available to the public; secret practice of an invention, especially a process, is not novelty destroying prior art. Under such circumstances, an earlier inventor or assignee who has decided to keep an invention, particularly a valuable process or method innovation, secret and not file for a patent because of the related costs and public disclosures, may lose the benefit of that invention if a subsequent inventor of the same invention who obtains a patent is able to successfully enforce the patent against the earlier inventor. Common sense and equity suggests that the earlier inventor should be permitted to use his or her invention under reasonable restrictions, such as a limitation to the level of invention prior to the filing of the patent application by the subsequent inventor. Thus, in the absence of appropriate prior user rights, an equitable balance between the first and subsequent inventors would not exist.

2. Please share your experiences in analyzing the effect, if any, of prior user rights on innovation rates in selected countries including, but not limited to, members of the European Union and Japan, Canada, and Australia. Please include empirical and anecdotal data, as well as opinions as to how this analysis may be conducted.

AIPLA has not analyzed prior user rights against innovation rates in other countries, and has not obtained any empirical or anecdotal data with regard to that topic. Studies of prior user rights in 34 countries were reported in 21 AIPLA Quarterly Journal No. 8, (1993) in *Prior User Rights: The Inventor's Lottery Ticket* (Kuppferschmid, K.). A report on the limited use of such rights was reported in 12 International Review of Industrial Property & Copyright, 447, 456 (1981) in *Towards a Harmonized Prior User Rights Within a Common Market System* (Osterborg, L).

Given the limited number of reported cases abroad where prior user rights were enforced, and the likelihood that cases where such right resulted in an unreported settlement would not be reported, such analysis may be difficult. In testimony before the U.S. Senate Subcommittee on Patents, Copyrights and Trademarks in 1994, AIPLA characterized the circumstances for use of this right as being "rare," and it would be expected that future use similarly would be rare. Nonetheless, such provision provides a necessary balance that would permit an early equitable settlement of a patent dispute.

3. Please share your experiences in analyzing the correlation, if any, between prior user rights and start-up enterprises and the ability to attract venture capital to start new companies. Please include empirical and anecdotal data, as well as opinions as to how this analysis may be conducted.

AIPLA has not analyzed prior user rights and start-up enterprises and the ability to attract venture capital for new companies in other countries and has not obtained any empirical or anecdotal data with regard to that topic. A prior user right that was limited to methods of doing or conducting business was enacted in 1999 (35 U.S.C. § 273), but does not appear to have been exercised widely, if at all. As the new provisions of Section 273, which were broadened under the America Invents Act to encompass all patented subject matter and to change the one-year requirement to only commercial use, have only recently been enacted and will be effective only for patents issued on or after the date of enactment, there is insufficient data to reply to this question at this time. AIPLA recognizes that the statutory language of the effective date provision is not as clear as it could be. The provision appears to define the subject matter of the prior user right in terms of the enactment date without stating that the right itself is effective on a particular date. But any ambiguity in the language should be resolved by the heading of the provision, "Effective date."

4. Please share your experiences in analyzing the effect, if any, of prior user rights on small businesses, universities, and individual inventors. Please include empirical and anecdotal data, as well as opinions as to how this analysis may be conducted.

Similar to the answer to question 3, AIPLA has not analyzed prior user rights and the effect on small businesses, universities, and individual inventors. Again, because the broadened provisions of Section 273 governing prior user rights in the United States have only recently been enacted and will only be effective for patents issued on or after the date of enactment, there is insufficient data to reply to this question.

5. Please share your views, along with any corresponding analysis, as to whether there are any legal or constitutional issues with placing trade secret law in United States patent law.

AIPLA does not believe that there are any legal or constitutional issues raised by the proposal to implement a prior inventor rights system, with the appropriate limitations as presently exist. The U.S. Supreme Court addressed the compatibility of trade secret and patent laws in *Kewanee Oil Co. v. Bicron Corp*., 416 U.S. 470 (1974), based upon the common goal of encouraging the development of new inventions.

6. Please share your views, along with any corresponding analysis, as to whether the change to a first-to-file patent system creates any particular need for prior user rights in the United States.

As previously noted, the change to the first-to-file patent system, particularly given the changes to the definition of prior art and the new grace period, eliminates the ability of an earlier inventor to demonstrate earlier invention and, thus, prevents an inventor who files first from obtaining a patent. The earlier independent inventor who maintains the invention as a trade secret, and does not obtain patent protection because of the need to disclose the invention and place it in the public domain after a limited period of exclusivity, should not lose all investments in the substantial implementation of that invention. However, the rights preserved are not without restriction as demanding proof is required for the new prior user right. For example, the defense cannot be asserted:

1) if the subject matter was derived from the patent holder or those in privity with the patent holder; and

2) if the prior user failed to both reduce the subject matter of the patent to practice and commercially use it at least a year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked the 102(b) grace period (whichever is earlier).

In short, the prior use needs to be substantial, as anything less would risk undermining the preference for early disclosures of technology that first to file is meant to encourage.

Thank you for allowing AIPLA the opportunity to provide comments on this important initiative. AIPLA looks forward to further dialogues with the Office in finding solutions and defining programs to address the problems with international patent protection for small enterprises.

Sincerely,

William G. Barber
AIPLA President

Attachments

S. HRG. 103-1083

THE PATENT PRIOR USER RIGHTS ACT AND THE PATENT REEXAMINATION REFORM ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

S. 2272

TO AMEND CHAPTER 28 OF TITLE 35, UNITED STATES CODE, TO PROVIDE A DEFENSE TO PATENT INFRINGEMENT BASED ON PRIOR USE BY CERTAIN PERSONS, AND FOR OTHER PURPOSES

AND

S. 2341

TO AMEND CHAPTER 30 OF TITLE 35, UNITED STATES CODE, TO AFFORD THIRD PARTIES AN OPPORTUNITY FOR GREATER PARTICIPATION IN REEXAMINATION PROCEEDINGS BEFORE THE UNITED STATES PATENT AND TRADEMARK OFFICE, AND FOR OTHER PURPOSES

AUGUST 9, 1994

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Pages iii through 25, and pages 34 through 77, deleted.

tainty that could lead to unnecessary litigation. If faced with the possibility of paying royalties in the domestic market, manufacturers might build plants overseas where prior users do not face the threat of being forced to pay compensation to patent owners.

CONCLUSION

S. 2272 will benefit large and small U.S. manufacturing concerns. Today businesses large and small are finding that the cost is prohibitive to protect all inventions, including minor improvements, with worldwide patents. Particularly in the case of process inventions, for which trade secret protection is a practical and often the best alternative, an assured prior user right will improve the climate for innovation by enabling the first domestic commercial user to protect its investment in research, development, and commercialization at a lower cost.

Non-manufacturing patent owners have expressed fears in the past that prior user rights might undercut the licensing value of patents, but we do not believe there is reason for concern, particularly if the rights are limited as provided in S. 2272. Experience abroad suggests that prior user conflicts rarely occur, so most patent owners will not encounter them. That does not mean that prior user rights are unimportant to manufacturers. it is the possibility—not the frequency—of a complete prohibition of continued use, that pushes U.S. manufacturers toward unnecessary patenting or disadvantageous publishing of manufacturing technology.

The business community cannot afford to wait for clarification of the rights of prior trade secret users through case by case judicial interpretation of the existing patent code, an uncertain prospect. The competitive pressures on U.S. businesses are such that Congress should enact S. 2272 separately from the other patent system reforms now on the drawing board.

S. 2272 is a carefully thought out bill that balances patent rights and prior user rights in a way that will strengthen the technological competitiveness of U.S. industry.

I will be pleased to answer any questions.

Senator DECONCINI. Thank you, Mr. Smith.

Mr. Griswold?

STATEMENT OF GARY GRISWOLD

Mr. GRISWOLD. Good morning, Mr. Chairman. I am Gary Griswold. I am representing the AIPLA. I am a board member of the AIPLA; as you know, it's an 8,500-member national bar association of intellectual property lawyers of all types and sizes. I am personally the Chief Intellectual Property Counsel of 3M, St. Paul, MN; 3M is one of the top 10 U.S. companies in obtaining U.S. patents, so we are a strong believer in the patent system. I would like to thank you, Senator DeConcini, for your leadership over many years in the patent law area. I think the introduction of these two bills is a good indicator of that leadership.

The AIPLA supports both S. 2341 and S. 2272. I am going to change the pace here a little bit, although I would like to make a few comments on prior user rights since I have a bit of interest there.

I will first comment on reexamination. The present law, which was enacted in 1980, relevant to patent reexamination was brought into being to try to reduce the cost in dealing with issues relative to the validity of patents that were raised by newly-discovered patents or printed materials. The present system, because of the limited participation by the third party requestor, has become not so much used and respected as we would like. In fact, it appears to be too much in favor of the patentee because of the limited participation of the third party requestor.

S. 2341 deals with a lot of the concerns that have been expressed by users of the reexamination system, and possible users. AIPLA

has spent many years considering the reforms mentioned in S. 2341. They have also been adopted by the Secretary of Commerce's Advisory Commission on Patent Law Reform in 1992, and as you are well aware, are supported by the Clinton Administration.

The four key elements I would like to comment on today are, first of all, that a final decision by a district court will preclude the Patent Office from considering the same issue at a reissue proceeding. That is in the bill and is an important part of the bill. We don't want the Patent Office going back to deal with the same issue that was raised or could have been raised in a District Court.

The second issue that I would like to mention is the business of consolidating the order for reexamination and first action on the merits to expedite the process. The proposed bill, S. 2341, provides this as an alternative. We would like to see it be mandatory.

Relative to expanding third party reexamination requestor participation, AIPLA's position is that there should be two opportunities, one after the first action and the other at the conclusion of the examination where claims have been determined to be allowable. This has strong support in the AIPLA. The bill allows more participation than the AIPLA proposal. We would like to still see it at two opportunities.

The last point I would like to make on reexamination is the third part requestor being able to appeal. They can appeal to the PTO Board of Appeals, and also to the CAFC. The bill requires that both the third party requestor and patentee now only appeal to the CAFC, not to the district court. We think that's fine, and if the requestor waives the right to raise the same issues or issue that could have been raised in a different forum, if they participate in CAFC, we believe that is fine, as well.

Overall, we believe this is a good bill and support it. There are a few technical amendments that we would like to make comments on, and we will submit those later.

Mr. GRISWOLD. Turning to prior user rights, I would like to make a couple of comments.

One, there are many process inventions that, even if you get a patent on them, you cannot police the patent because you can't tell whether or not the process is being practiced by the product. Therefore the bargain theory of patents, where you trade a disclosure for the patent right, is just not there for the applicant. We therefore believe that in those cases it is not good for the U.S. to push its inventors to file patent applications. This basically provides a disclosure of our technology to people who would use it, to our disinterest — we would be interested, but to our disfavor—without paying any compensation. It's a "free gift" of that technology around the world.

Secondly, when you have 45 percent of U.S. patents being foreign-owned, then what we're talking about here is a situation where if you are in the U.S. as a manufacturer, you do not have a right to stop a foreign-owned patent owner from obtaining an injunction against your operations. We don't think that's fair when in that country—for example, in Japan we may have an American-owned patent that our prior user right would be applicable to in Japan, and we could not stop a manufacturer in Japan. So we

think that equity requires that U.S. patent owners be treated just the same as those in other countries.

Is this a rare event? The evidence is that prior user rights do come up rarely in other countries; but as the comment that is made in our paper, if you are struck by lightning, it doesn't help to say that it's a rare event.

Those are my comments.

[The prepared statement of Gary L. Griswold follows:]

PREPARED STATEMENT OF GARY L. GRISWOLD

STATEMENT SUMMARY

- AIPLA supports the "Patent Prior User Rights Act of 1994" (S. 2272).

  American business, and in particular small business, should have the protection of a prior user right. Foreign based business operations already have this protection.

- AIPLA supports the "Patent Reexamination Reform Act of 1994" (S. 2341).

  The U.S. Patent and Trademark Office and the AIPLA agree that the reexamination procedure has not been as beneficial to inventors as had been envisioned when it was initiated in 1981.

  S. 2341 contains the two key reforms of reexamination supported by AIPLA:

  Increased participation by third party challengers to the validity of the patent, and

  A prohibition of allowing the USPTO to reexamine a patent already found valid by a U.S. district court based on the same challenge.

The American Intellectual Property Law Association (AIPLA) is an 8,500 member national bar association whose membership consists primarily of lawyers in private and corporate practice, in government service, and in the academic community. As such, AIPLA represents a wide and diverse spectrum of individuals, companies and institutions involved directly or indirectly in the practice of patent, trademark, copyright, unfair competition, and other fields of law affecting intellectual property.

I appreciate the opportunity to appear today to offer the position of the AIPLA on the Patent Reexamination Reform Act of 1994 (S. 2341) and the Patent Prior User Rights Act of 1994 (S. 2272).

The AIPLA strongly supports the enactment of both S. 2341 and S. 2272. We commend you, Mr. Chairman, for introducing these bills and for your continued efforts to improve operation of the United States patent system.

A PRIOR USER RIGHT

The AIPLA has consistently supported a strong patent system. Our members know from long experience how effective it is and has been in protecting the work of American inventors and promoting the development of technology. For the great majority of inventions, legal protection is only possible by obtaining a patent. Some inventions, primarily manufacturing processes and equipment, can either be protected as trade secrets under state law or patented. Because trade secret laws generally provide limited protection in comparison to patent laws, only infrequently would trade secret protection be the approach of choice if patent protection was available.

One example is when the "bargain theory" of patents contemplated by the U.S. Constitution (Art. 4) does not hold. The theory is that it will benefit the development of technology if inventions are disclosed by inventors to the public. In order to induce inventors to make disclosures, a period of exclusivity through a patent is granted to the inventor. If the inventor cannot determine if his patent is infringed because the patented product sold does not disclose the process or equipment used to manufacture it, the inventor's side of the bargain disappears.

Additionally, the current reality is that it is not feasible or even possible to attempt to patent every piece of technology which may be patentable. The cost of seeking and obtaining patent protection in the U.S. is high. The cost of worldwide patenting has become so expensive that even large U.S. companies must carefully prioritize which inventions to fully protect. Many small businesses are totally priced

out of patenting in foreign countries, or, at best, limited to protecting their most important inventions.

U.S. manufacturers who invest in developing new technology are facing difficult decisions which impact on their interests, and the U.S. public interest as well. In the case of most technology, obtaining a U.S. patent is essential to protect commercial exploitation of the patented invention in the U.S. market. However, a concomitant failure to patent in foreign countries constitutes a free gift of the technology through the U.S. patent's disclosure to those who would make, use, or sell outside of the U.S.

Industrial process technology presents an even more difficult dilemma. Identifying a competitors use of such a patented process may be extremely difficult in the U.S., and impossible in foreign countries. Even if U.S. patenting is economically possible and accomplished, if foreign patent procurement and enforcement is not possible, teaching foreign competitors manufacturing processes by U.S. patent disclosures has significant potential risk to the U.S. patentee in the U.S. market as well as foreign markets. Products made by the U.S. patented process and imported into the U.S. to compete with the U.S. inventor may be impossible to identify and stop.

Therefore, for these and other practical reasons, many U.S. companies are being forced to choose to keep as trade secrets, or at least not patent, industrial process technology. This creates the possibility that a second later inventor may obtain a U.S. patent on technology already being commercially used, but not publicly disclosed. This, in turn, provides the legal threat that a court injunction will shut down an ongoing venture based on an earlier identical invention by a businessman, or an invention obtained from a third party inventor by the businessman, and used *before* the patentee filed an application. This situation, albeit infrequent, is addressed by the prior user right.

Foreign inventors are faced with these same practical problems in protecting inventions as are American inventors. The crucial difference is that virtually all industrialized countries[1] protect home-based business with a prior user right. An American patentee in Japan, for example, couldn't shut down a Japanese business, based on the patented invention, which existed before the American's filing date. When 45 percent of U.S. patents are foreign owned, the fact that businesses in America are not similarly protected is, of itself, a strong economic argument in support of the enactment of S. 2272. It is well recognized that prior user rights protect domestic businesses and jobs.

The AIPLA support for S. 2272 is predicated on the provisions of the bill which provide a limited scope of the right. These limitations minimize to a very significant degree any interference with the exclusive right of any patentee and in many respects are a better solution than the other possible alternative of having the patent held invalid under section 102(g).[2] These restrictions preclude the possibility of abuse. S. 2272 clearly does not provide any form of "reward" to a prior user, but rather only allows, under restricted circumstances, continuation of a wholly legitimate domestic commercial enterprise.

Before detailing the restrictions in S. 2272, we would point out the rare fact pattern[3] which is a condition precedent to the potential creation and use of a prior user right. A patent is granted to Party B. The identical invention is commercially used by Party A *before* the filing or priority date of Party B's patent application. Party A obtained the invention either by inventing it himself or from a third party but did *not* derive it from Party B. The prior use did not create patent invalidating prior art. Party A continues to commercially use the invention patented by Party B, and that use is discovered by Party B or brought to Party's B attention by Party A. Party B accuses Party A of patent infringement or sues Party B for patent infringement. *Then, and only then,* does a prior user right, if one exists, have relevance because it then may be raised by Party A as a defense.

The right of prior use is only available to one who *prior to the asserted patent's filing or priority date* "commercially used" or made "effective and serious preparation" to use the patented invention. *Commercially used* means that the invention has been used in the United States in the design, preparation, manufacture, or testing of a product or service which is used, advertised, sold or distributed in United

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[1] See Keith M. Kupferschmid, *Prior User Rights: The Inventor's Lottery Ticket*, 21 AIPLA Quarterly Journal No. 3, (1993) for analysis of the features of prior user rights in 34 countries in Europe, South America and Asia.

[2] The issue is not clearly decided. See *W.L. Gore & Assoc. v. Garlock, Inc.*, 721 F.2d 1540 (Fed. Cir. 1983).

[3] See Lise Osterborg, *Towards a Harmonized Prior User Right Within a Common Market System*, 12 Int'l. Review Indus. Prop. & Copyright, 447, 456 (1981) detailing that in 14 years since the creation of the prior user rights in England no case reported in which it was raised as a defense, likewise in Italy during past 13 years, 4 cases in the past 20 years in France, etc.

States or foreign commerce. Commercial use does not require that the invention itself be publicly disclosed or that it be in any way publicly accessible. If a secret process or tool is part of the chain of events which ultimately results in a commercially advertised, disclosed, or sold product, that process or tool shall be deemed to have been commercially used. The test for commercial use is *not met* by persons who have merely made and commercialized a technology *similar* to the invention.

Effective and serious preparation means that a person has:

a. Acquired the technology by himself or from a source not derived from the patentee,
b. Reduced it to practice,
c. Made serious plans for commercialization of the invention,
d. Made a substantial investment, or much of the investment, in the U.S. necessary to use the invention, and
e. Not abandoned efforts in the United States toward commercialization.

The investment necessary to meet the test for effective and serious preparation must be in equipment, testing, advertising or other preparation for commercializing the invention. Documentation and commercialization plans must be in sufficient detail to show the involvement of the claimed embodiment. Regardless of investments made elsewhere, only investment in the United States shall be considered when determining whether there has been effective and serious preparation.

The test for effective and serious preparation is not met by those persons who may have merely:

a. conceived of the invention,
b. developed it in a laboratory, or
c. reduced it to practice without using it commercially or making the investment described above.

Further limitations in subsection (c) that rights granted to a prior user under this act extend only to the patented embodiment that was already in use or developed, planned, and under construction as of the filing or priority date of the patent. If, in order to practice the invention, it becomes evident that the prior user must infringe additional claims of the patent in a manner unforeseen and unplanned at the time of the filing or priority date, then the prior use or effective and serious preparation was insufficient to qualify for prior user rights.

In subsection (d) improvements to the prior use are permitted under some circumstances and not others. Permitted improvements are those that do not infringe on additional claims of the patent. Not permitted are improvements made after the patent filing or priority date that infringe additional claims, even if such improvements were made before the patent issued.

The right of prior use will allow a change in the *volume* of commercial activity. It will also allow reasonable commercialization of the activity that was clearly documented and planned under the qualifying effective and serious preparation.

Further limiting qualifications are that the rights granted under this act are not the same as a license and cannot be assigned, transferred, or licensed to others. The only exception is that the rights may follow the transfer of the entire business or enterprise to which the rights relate. If the patentee is able to show that the prior user had sufficient access to, or reasonably could have obtained sufficient information from the patentee, whether directly or indirectly to reasonably account for the prior user's *original* acquisition of the invention, then there will be a presumption that the prior user derived the invention from the patentee either directly or indirectly. The prior user may rebut this presumption by showing that the invention was obtained from a source other than the patentee.

The limit of permitted activity under the patent right is defined by the wording of the patent claim or claims under which the activity, at the time of the filing or priority date, fell. The right does *not* extend to any other claims. For example, consider a process patent containing a broad claim specifying "applying heat" and a narrow claim specifying a critical heat range between 170 and 180 degrees C. If the prior use had been heating at 160 degrees, then the right would extend to heating in general except that it would *not* extend to the critical range specified in the narrow claim, 170 to 180 degrees. If the prior use was heating to 174 degrees, then the prior use right would include the critical 170 to 180 degree range.

To qualify as prior use or serious preparation therefore, the cumulative activity must have been substantial at the time of filing. Regardless of the degree of commercial use or preparation which may have occurred at an earlier point in time, a defense of prior use may not be employed by someone who had abandoned the use prior to the filing date of the patent. Certain activities, however, are naturally periodic or cyclical. Intervals of non-use between such periodic activities, such as sea-

sonal factors or reasonable intervals between contracts, would not be considered abandonment so long as there is no positive corroborating evidence of abandonment.

And finally, the burden of proof falls on the prior user invoking the defense. The prior user must be able to present persuasive evidence that he has met the necessary tests for prior commercial use or effective and serious preparation. Claims of prior commercial use must be supported by production records, formula books, shipping records, invoices, advertising records, or the like, which when taken together, show how that the prior user had indeed been using the technology in a commercial venture in the United States, or had made qualifying effective and serious preparation therefore prior to the filing or priority date of the patent.

In sum, AIPLA supports the enactment of S. 2272 which provides a carefully limited defensive right, which will infrequently exist and even more infrequently ever be actually used. However, there is a real need to establish this right now. It is no comfort for someone who has just been struck by lightning to reflect on how infrequently such a thing happens.

REEXAMINATION

The U.S. reexamination system was developed by the Judiciary Committees during the 96th Congress, enacted into law in December, 1980, and became effective on July 1, 1981. The Senate Judiciary Committee Report (No. 96–617) accompanying the bill (S. 1679) which established reexamination explained Congressional intent:

> * * * One of the greatest concerns facing innovative businesses who must rely on U.S. patents to protect their new products and discoveries is the threat that their patents might be invalidated in court if the Patent and Trademark Office (PTO) missed pertinent patents or printed materials during the course of patent examination.
>
> * * * It is the purpose of S. 1679 to bring these uncited patents and printed publications to the attention of the PTO for a decision on whether an issued patent is valid; whether its claims should be narrowed, or whether it should not have been issued. Under reexamination, an issued patent's claims could [n]ever be broadened.
>
> * * * The reexamination of issued patents can be conducted with a fraction of time and cost of formal legal proceedings. Reexamination will help to restore confidence in the effectiveness of our patent system by efficiently bringing to the PTO's attention relevant materials that are missing or have been overlooked.

Now, after 13 years of experience with reexamination, the U.S. Patent and Trademark Office and the AIPLA agree that the procedure is not performing as effectively as was envisioned when it was created.

The AIPLA supports S. 2341 which, in substance, contains a plan of reform finalized in 1991 after several years of consideration within AIPLA, endorsed by the Secretary of Commerce Advisory Committee on Patent Law Reform in 1992, and currently supported by the Clinton Administration. We will forward to the Subcommittee comments on drafting and technical issues promptly.

But today I offer the Subcommittee the views of AIPLA on the four elements of reform of existing reexamination law and practice included in substance in S. 2341 and recommended by the AIPLA:

> 1. Once a judgment has been entered in federal district court against a party to a suit that it has not sustained its burden of proving a patent in the suit invalid, that party, and its privies, shall be barred from filing a request for reexamination, or maintaining a reexamination proceeding, of the patent at issue. For these purposes, a "judgment" includes a consent decree, a stipulation, or other dismissal with prejudice unless the right to file for or maintain a reexamination is specifically reserved.
>
> *Discussion:* In 1988, the Federal Circuit decided *Ethicon, Inc.* v. *Quigg*, 849 F.2d 1422 (Fed. Cir. 1988) and held (a) that the PTO could not stay reexamination to await the outcome of an ongoing trial in a District Court, even where the trial had been completed, and (2) that the PTO in reexamination is not bound by a District Court decision (or for that matter a Federal Circuit decision on appeal from a District Court) upholding the validity of a patent but could correctly find the patent to be invalid on the same evidence. The proposition that the PTO in an *ex parte* reexamination could overrule the decision of a federal district court on the validity of patent claims was clearly not intended.

2. The order for reexamination and the first action on the merits in reexamination should be consolidated to expedite the reexamination process and eliminate the seldom used filing of a statement by the patent owner in reexamination requested by third parties.

Discussion: S. 2341 would amend 35 USC § 304 to make this procedure optional rather than mandatory as we recommend.

3. Expand third party reexamination requester participation to permit the requester to file a single set of comments with the examiner at two specific points in the reexamination proceedings: the first after the patent owner's response to the consolidated order and first action on the merits, and the second at the conclusion of the reexamination proceedings before the examiner if any claim is indicated to be patentable, but before any appeal.

Discussion: Providing a third party requester two opportunities to comment during reexamination before the examiner, within time limits and under controls set by the Commissioner to regulate submissions is sufficient. No other comments should be permitted. Providing greater third party participation has received strong support in a number of surveys of AIPLA members.

However, strong concerns have been expressed by some that expanded participation by requesters could lead to lengthy, costly procedures as were experienced with the reissue/protest practice in effect in the PTO in the late 1970s and early 1980s. Parties often abused the reissue/protest practice by delaying tactics and the filing of many lengthy protests and comments during that process.

S. 2341 would amend 35 USC § 305 to allow a third party requester to comment on any response by the patent owner to an Office action on the merits. AIPLA gave serious consideration to this approach. However, we concluded that most of the advantages of third party requester participation would be achieved by two opportunities for comment. The benefits of only two responses are minimal added expense or opportunity of harassment of the patent owner, and little or no time lost in the proceedings before the examiner. We urge the Subcommittee to reconsider this provision of S. 2341.

4. Permit a third party requester to elect to appeal an adverse decision to the Board of Patent Appeals and Interferences and then to the Court of Appeals for Federal Circuit, but making such an election would waive the party's right to assert or continue to assert the invalidity of that patent in any other forum on grounds which were raised or could have been raised in the reexamination proceeding being appealed.

Discussion: This recommendation would permit appeals to be filed by a third party requester who so elects but in doing so the requester waives the right to assert or maintain an assertion of invalidity of the same patent claims in any other forum on any ground that the requester raised or could have raised in the reexamination proceeding. Such grounds would include any assertion of invalidity based on prior patents or printed publications but not non-available grounds such as prior public use or on sale bars.

This provision places the third party requester in a position similar to that of the patent owner who faces a *res judicata* or estoppel effect with respect to matters determined in reexamination. It should discourage harassing or unnecessary appeals by third party requesters and provide a measure of finality to appealed decisions in which third party requesters have participated.

Based on the multiple surveys of AIPLA members, there is strong support for a right of appeal to the Federal Circuit by a third party requester. However, there was concern that problems may arise in a case in which both parties appeal by permitting a patent owner to either appeal to the Federal Circuit or to file a civil action in district court while the third party requester only has a right to appeal to the Federal Circuit. *See Boeing* v. *Comm'r*, 858 F.2d 878, 7 USPQ2d 1487 (Fed. Cir. 1988). The approach recommended removes the patent owner's right to appeal to the district court in reexamination proceedings and to provide no such right to the requester. District court proceedings are generally lengthy and, therefore, contrary to the strong interest that reexaminations be conducted with special dispatch. Further, § 145 is little used in reexamination—in 1989 and 1990 for example, only one such action was filed.

In sum, the AIPLA believes that the two comment/appeal/waiver approach would make reexamination fairer and more useful but with minimal risk or danger of com-

promising its original purpose and goals which importantly included maintaining the *ex parte* nature of patent examination/reexamination. With these changes, we would expect that reexamination will be used more frequently by third party requesters and provide a relatively inexpensive, fast and newly effective *ex parte* proceeding as an aid to strengthening issued patents and as an alternative to litigation.

We believe S. 2341, an amendment to limit third party participation, offers a workable and fair compromise between a strong majority in the bar who support greater third party participation and those who express very valid concerns about preserving the original aims and goals of reexamination and avoiding the pitfalls of the *inter partes*/protest proceedings in effect several years ago.

Thank you for the opportunity to testify today. I welcome any questions the Chairman or Members of the Subcommittee have.

Senator DECONCINI. Thank you, Mr. Griswold.

Mr. Budinger, your situation is of great interest to this Senator, and Senator Biden as well has talked to me about it. That's part of the purpose of these hearings.

If I understand the situation in your particular case, you invented the product and patented it, and then you came up with another integrated process that goes along with the original process that you kept as a secret. Is that a fair summary of it?

Mr. BUDINGER. That is. That's correct.

Senator DECONCINI. Now, the process that you did not patent, you have continued to use for a long period of time?

Mr. BUDINGER. Almost 20 years.

Senator DECONCINI. The patent ran out on the original product?

Mr. BUDINGER. That's correct.

Senator DECONCINI. And now, you are fearful that someone who is manufacturing your product because it is no longer patented, and has been able to figure out the secret process that you use, they have filed a patent on your process and could restrict you from using your secret process, which would prevent you from the sale or manufacture of your product?

Mr. BUDINGER. That's exactly our concern.

Senator DECONCINI. Having said all that, the question is, has that occurred? Has someone patented your process?

Mr. BUDINGER. Yes.

Senator DECONCINI. The so-called secret process?

Mr. BUDINGER. That is correct.

Senator DECONCINI. Have they made any demands on you to not use it?

Mr. BUDINGER. No; fortunately, the patent is owned by a country that has so far been somewhat averse to litigation.

Senator DECONCINI. And do you know of instances where there has been such an enforcement of a patent of someone's business secrets that has prevented them from using that in the continued production of their product?

Mr. BUDINGER. No, we don't, but I'm not sure that's significant because that isn't something that we normally pay a lot of attention to unless it's us.

Senator DECONCINI. I understand.

I wonder how extraordinary this is and whether or not we may be facing a number of potential incidence like this, like yours, if we don't do something.

Mr. BUDINGER. Our counsel tells us that it is not uncommon; in fact, one of the letters that I've submitted to you is from a counsel which says that this has happened to a number of his clients. In

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Statement of

Gary Griswold
Past President of the
American Intellectual Property Law Association

Before the

Subcommittee on Courts, the Internet and Intellectual Property
United States House of Representatives
Washington, D.C.

On

H.R. 2795

"Patent Act of 2005"

June 9, 2005

Mr. Chairman:

I am pleased to have the opportunity to present the views of the American Intellectual Property Law Association (AIPLA) on H.R. 2795 entitled the "Patent Act of 2005." AIPLA congratulates you for your efforts to identify important issues affecting the U.S. patent system and to search for appropriate reforms to increase its effectiveness.

AIPLA is a national bar association of more than 16,000 members engaged in private and corporate practice, in government services, and in the academic community. The AIPLA represents a wide and diverse spectrum of individuals 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. Since our members represent both patent owners as well as those against whom patents are asserted, we have a keen interest in reforms that further an efficient, effective, and balanced patent system.

I appear today in my capacity as a Past President of AIPLA and as the Chair of two Special Committees appointed by then President Rick Nydegger to review and prepare responses to two recent studies on the patent system about which I will say more in a moment. But like one third of AIPLA's active members, I come from the corporate world. I am currently President and Chief IP Counsel of 3M Innovative Properties Company, a subsidiary of 3M. 3M sells over 50,000 products, including consumer products such as "Post-It" Notes and "Scotch" Tape, pharmaceuticals such as Aldara for the treatment of basal skin carcinoma; medical products such as tapes, drapes, and software; brightness enhancement film used in laptops and cell phones; industrial products such as abrasives, adhesives and tape; and electronic products such as flex circuits and electrical connectors. 3M received 585 U.S. patents in 2004, ranking 34th of worldwide and 15th of U.S. companies.

The Need for Reform

The U.S. patent system has, in certain respects, functioned remarkably well. Its successes today are in significant part attributable to a number of reforms that have been made by Congress during the past 25 years. The creation of the Federal Circuit, the passage of the Patent Law Amendments Act of 1984, the adoption of reexamination, and the enactment of the American Inventors Protection Act have made the patent system more open and much stronger as an incentive to invest in innovation. However, there are aspects of the U.S. patent system that are not working well today. Over the past decade, some of these elements of the patent system have, in fact, come to work less well.

This conclusion is shared by others. Two recent studies of the U.S. patent system have produced lengthy reports that have largely come to the same conclusion. The Federal Trade Commission (FTC) report, published in October 2003, found that while most of the patent system works well, some modifications are needed to maintain a proper balance between competition and patent law and policy. The FTC made ten recommendations that focused on tuning the balance between patent owners' rights to effective exclusivity in valid patents and the public's right to be free from the competition-limiting effects of invalid patents.

The report of the National Academies of Sciences' Committee on Intellectual Property Rights in the Knowledge-Based Economy was published just one year ago, in April 2004. Like the FTC effort, it was the culmination of a multi-year study of the patent system. The NAS report found that the U.S. patent system played an important role in stimulating technological innovation by providing legal protection to inventions and by disseminating useful technical information. Moreover, with the growing importance of technology to the nation's well-being, it found that patents are playing an

even more prominent role in the economy. It concluded with seven principal recommendations to ensure the vitality and improve the functioning of the U.S. patent system, several of which overlap those made by the FTC.

AIPLA has also studied the effectiveness of the patent system. Former AIPLA President Rick Nydegger recognized the need to review the functioning of the patent system almost two years ago and established a Special AIPLA Committee on Patent Legislative Strategies in an effort to provide more concrete and coordinated ideas for needed reforms to the patent law. The Special Committee was co-chaired by two other former AIPLA Presidents, Don Martens and Bob Armitage, and its membership was drawn from a diverse cross-section of AIPLA members. It included former senior officials of the United States Patent and Trademark Office, a retired federal district court judge, some of the nation's leading patent litigators including Past Presidents of our Association, and in-house IP counsel drawn from several industry sectors. I served on this Special Committee.

In efforts paralleling that of our Special Committee on Legislative Strategies, I had the privilege, as I mentioned earlier, of chairing two AIPLA Special Committees that undertook an exhaustive analysis of the recommendations in both the FTC and NAS reports and offered replies. These parallel and sometimes intersecting efforts stimulated us to take a closer look at a number of issues and push to further develop and refine concrete proposals for reforms.

The Association's position on needed patent law reforms coming out of this two-year effort consisted of four elements. First, adopt a first-inventor-to-file principle using so-called "best practices" developed in the context of international patent harmonization. Second, remove the "subjective elements" from patent litigation that are responsible for

much of the excessive cost of enforcing and challenging patents. Third, complete the reforms started under the American Inventors Protection Act, a step which is greatly facilitated given the compelling merits for doing so as part of a first-inventor-to-file system. Fourth, create a true post-grant opposition system available during the first nine months after patent grant in which mistakes made in issuing the patent could be corrected in a manner that is both timely and that fairly balances the interests of the patentee and the opposer.

After developing these reform proposals that were ultimately approved following several meetings of AIPLA's Board of Directors, we concluded that it would be highly desirable to take them to a broader public. After discussions with the officials responsible for developing similar recommendations in the FTC and NAS reports, we agreed with FTC and NAS to jointly sponsor three "Town Hall" meetings across the country. These were open forums to explain to all stakeholders the proposed reforms to the patent system and to allow them to offer their reactions and suggestions. We are holding the fourth and final meeting today where you, Mr. Chairman, are scheduled to deliver a luncheon address. This final meeting will allow us to distill the work of the three previous meetings.

What is striking about the parallel efforts by these three quite different organizations with quite distinct missions are the many similarities in the diagnosis of what needs improving in the patent system and, especially between AIPLA and NAS, the convergence in the recommendations for doing so.

For any organization putting together an effort at patent law reform, a critically important task is to make a clear separation between what is right with our patent laws – and does not requiring tinkering – and what is wrong with our patent laws – and,

therefore, should be the subject of focused attention. Where, for example, could reforms have the biggest benefits for all users of the patent system? What is actually ready for reform today - because a sufficient consensus already exists or could be developed - and sufficient study and scholarship has taken place? And where might more study and reflection be needed before forging ahead with changes to the patent system? Our assessment is that our work with the NAS and the FTC in large part validates our four-point reform package as a possible way forward to near-term patent reforms.

We have been especially mindful that patent law reform is never easy because of the diversity of the constituencies with a stake in the patent system. However, AIPLA believes that successful patent law reform has been and always will be an effort at inclusion. This comes naturally to us because our membership reflects the diversity of stakeholders in the patent system – clients of our members both obtain patents and challenge patents. Similarly, our members represent clients for whom money is not a critical limitation on the ability to use the patent system and clients for whom the cost of the patent system is the chief limitation on the ability to enjoy its advantages.

Our notion of inclusion means, therefore, that reforms work to make a better patent system not only for inventors with adequate resources – more often than not inventors connected with so-called "large entities" such as corporations – but also for the least financially able inventors – which includes many "independent inventors," not-for-profit institutions, and small businesses.

Another equally important aspect of inclusion relates to the manner in which the patent system works to protect the interests of those who seek patents, those who challenge patents, and the public. The patent system works best when standards for patentability are rigorously applied and mistakes – that will inevitably be made when

patents are issued that should not have – can be readily corrected. While much emphasis is understandably placed on making the patent system work better for inventors, a fair and balanced patent system needs to work equally well when a member of the public seeks to have a mistake made in issuing a patent quickly and inexpensively corrected.

Against this background, AIPLA believes that the time is right for Congress to adopt a coordinated and interrelated set of reforms to the patent system as recommended by the NAS and which we support:

- Adopt a first-inventor-to file system with an objective definition of "prior art" – the information used to determine if an invention is new and non-obvious.
- Limit or eliminate the subjective elements in patent litigation, i.e., limit "inequitable conduct" and "willful infringement," and eliminate "best mode."
- Complete the desirable legislative enhancements originally proposed in what became the American Inventors Protection Act of 1999.
- Adopt a fair, balanced post-grant opposition system that takes advantage of limiting or eliminating the subjective elements in patentability criteria and other best practice changes that accompany adoption of the first-inventor-to-file principle.

Funding: An Essential Prerequisite for Patent Law Reform

Before discussing our legislative proposals for patent law reform, we cannot overlook the most fundamental problem in need of a solution – adequate and stable funding and operational flexibility for the PTO. Any careful study of the U.S. patent system today would reach this conclusion – indeed, both the NAS and FTC recommended providing adequate funding for the PTO. The Office must be afforded the resources and capabilities to deal with a workload that has grown dramatically – both in

size and complexity. As patent rights have become more important, it has become much more important that the quality of PTO's work improve. Important patents take too long to issue. Technologies new to patenting require building new capabilities for examining them, sometimes almost from scratch.

The need for a more efficient and effective PTO will require adequate funding, but it will also require long-range planning, oversight, and accountability. The PTO can not be expected to successfully engage in such long-range planning without an adequate level of funding that it can depend on year after year, with no diversion of its fee revenues. AIPLA supported the PTO's development of the Strategic Plan requested by Congress. For the Office to be able to build new capabilities, improve its quality, become more efficient, and serve all its constituencies, it must anticipate, plan for, and invest in new capabilities. This requires on-going efforts at long-term planning that must include long-range financial and operational planning.

Of course, PTO planning and Congressional oversight will mean nothing without adequate funding. Many of the reforms that AIPLA and others are proposing, such as post-grant opposition, will require the PTO to play a greater role in the overall patent system. AIPLA is dedicated to working with the Congress, both this Committee and the Appropriations Committee, to secure a financing structure that will allow the patent law reforms which we propose to be achieved. However, we cannot emphasize enough the importance of this goal: the most significant patent law reforms absolutely depend on the PTO having the financing and operational flexibility to carry them out effectively and efficiently.

H.R. 2795

H.R. 2795 contains a number of proposals for modifying the patent system. As explained above, AIPLA developed its recommendations for patent system reform building on the extensive research and hearings held by the FTC and the NAS. Other associations interested in the patent system such as the Intellectual Property Owners Association, the Intellectual Property Law Section of the American Bar Association, and the Biotechnology Industry Organization were developing recommendations along lines similar to AIPLA.

In January, we became aware of a proposal from the Business Software Alliance to revise the patent laws. In some respects, our concerns overlapped. For example, we agreed in concept on the need to adopt an effective post-grant opposition system and the need to constrain burdens placed upon industry by the current jurisprudence involving the doctrine of willful patent infringement. In other respects, our proposals diverged.

AIPLA has worked hard to seek common ground. AIPLA invited the four organizations mentioned above to meet to determine whether it might be possible to narrow the differences between our positions. We have held a number of meetings with these organizations (March 16, March 31, and May 9). Recognizing that there were certain issues where the organizations were far apart, several working groups were established to seek common ground on these issues as well as on issues where the divide was not as large. These working groups addressed willful infringement, damages, injunctive relief, post-grant oppositions, and pre-grant submission of prior art. From May 31st through June 2nd, in response to your urging Mr. Chairman, and with the able assistance of your staff, we held additional meetings with an expanded group of organizations (the Information Technology Industries Council, the Pharmaceutical

Research and Manufacturing Association, the National Association of Manufacturers, and the Financial Services Roundtable among others).

Sec. 3. Right of the First Inventor to File

AIPLA supports the principle in Section 3 of H.R. 2795 that the first inventor to file an application for patent containing an adequate disclosure (35 U.S.C. §112) of an invention should have the right to patent the invention. This change in U.S. patent law would bring a much needed simplification of the process and reduce the legal costs imposed on U.S. inventors. It would also improve the fairness of our patent system, and would significantly enhance the opportunity to make real progress toward a more global, harmonized patent system.

The current system requires complex proofs of invention and is fundamentally unfair to independent inventors and small entities due to its costs and complexities. It frequently does *not* award patents to the first to invent. It uniformly awards patents to the first-inventor-to-file for a patent except in a very small number of cases where sufficient, corroborated invention date proofs can be marshaled to demonstrate that a second-to-file inventor can overcome the *presumption* currently afforded under our patent law in favor of the first inventor who filed.

Moreover, the expense and complexity of the first-to-invent system mean that an inventor can be first to make the invention and first to file a patent application, but still forfeit the right to a patent because the inventor cannot sustain the cost of the "proof of invention" system. According to AIPLA's 2003 Economic Survey, the median cost to an inventor in a simple, two-party interference is $113,000 to complete the preliminary phase (discovery) and over $300,000 to the final resolution. Costs of this magnitude place independent inventors, small entities and universities at a clear disadvantage.

This disadvantage has been heightened in recent years by the new right of foreign-based inventors to introduce invention date proofs. While a decade ago a U.S.-based inventor might have had some advantage because of the bar against relying on a foreign date of invention, this provision of U.S. patent law was outlawed by TRIPs. Thus, independent inventors, small entities and universities are now also subject to this kind of cost disparity from attacks brought by foreign applicants and parties.

Former PTO Commissioner Gerald J. Mossinghoff presented empirical data at our Town Hall meetings based on his earlier research. See Gerald J. Mossinghoff, *The First-to-Invent System Has Provided No Advantage to Small Entities*, 88 J. Pat & Trademark Off. Soc'y 425 (2002). His data demonstrated conclusively that independent inventors, whose right to patent their inventions depended on their ability to prove that they were "first to invent," managed to lose more often than not. In an April 15, 2005 Working Paper published by the Washington Legal Foundation, Mossinghoff's most recent data suggests that the rate of loss by independent inventors has only accelerated over the past several years (Gerald J. Mossinghoff, *Small Entities and the "First to Invent" System: An Empirical Analysis*, http://www.wlf.org/upload/MossinghoffWP.pdf).

An analysis by Professor Mark A. Lemley and Colleen V. Chien reaches an even more stunning conclusion. The Lemley and Chien findings suggest that the current first-to-invent contests "are more often used by large entities to challenge the priority of small entities, not the reverse. This evidence further supports Mossinghoff's conclusion that the first to invent system is not working to the benefit of small entities." See *Are the U.S. Patent Priority Rules Really Necessary?*, 54 Hastings Law Journal 1 (2003).

Given the cost, complexity and demonstrable unfairness imposed by the present first-to-invent system, it is clear that a change to a first-inventor-to-file system in our patent law is justifiable simply on grounds that it is the "best practice."

With the adoption of a first-inventor-to-file rule, 35 U.S.C. §102 can be greatly simplified. Prior art would no longer be measured against a date of invention: if information anticipating or making reasonably obvious the invention was reasonably and effectively accessible before the earliest effective filing date of a patent application, no patent issues. Similarly, the question of whether an inventor "abandoned" an invention would no longer be relevant. And, of course, proofs of conception, diligence, and reduction to practice, all of which require difficult and costly evidence of "what the inventor knew/did and when the inventor knew/did it," become irrelevant.

A first-inventor-to-file system will also clearly benefit large and small businesses. It will eliminate the present delays and uncertainty associated with resolution of interferences which complicate business planning. In addition, it will remove the potential cloud over important inventions that will always be present in a first-to-invent system.

Sec. 4. Right to a patent - Filing by Assignee

As discussed above, AIPLA believes that it is paramount that the patent statute clearly provide that the right to a patent is, in the first instance, the right of the inventor as provided in section 4 of the Committee Print. This fundamental right is captured in the description of the priority system we propose: first-inventor-to-file. This right of the inventor is well understood in the laws of other countries – only the inventor has the right to a patent. The inventor can transfer this right through assignment if desired, but no one can take the invention and obtain a valid patent merely by filing the first application.

To compliment this fundamental right, section 4 authorizes any person to whom the inventor has assigned the invention to file an application for patent. AIPLA supports this provision. It will greatly facilitate the filing of patent applications by companies where their employed inventors have assigned the title to the invention or where they are under an obligation to assign the invention.

Sec. 4. Right to a patent - Eliminate "Best Mode"

As noted above, NAS singled out three so-called "subjective elements" in patent litigation that should be limited or eliminated. The "best mode" requirement is the first of those subjective elements addressed in the Committee Print. Section 112 of the Patent Act requires that an application "set forth the best mode contemplated by the inventor of carrying out his invention." To enforce this requirement, courts inquire whether the inventor, at the time of filing, knew of a mode of practicing the invention that the inventor believed was better than that disclosed in the application. This test is obviously subjective, focusing on the inventor's state of mind at the time an application was filed.

Because the defense depends on historical facts and because the inventor's state of mind usually can be established only by circumstantial evidence, litigation over this issue—especially pretrial discovery—can be extensive and time-consuming. Further, the best mode requirement provides only a marginal incentive for a patentee to disclose more information than is required by the written description and enablement provisions of 35 U.S.C. §112. Given the cost and inefficiency of this defense and its limited incentive to provide additional disclosure to the public, the NAS report recommended its elimination and section 4 adopts that recommendation.

AIPLA endorses this change. Section 4 of H.R. 2795 does not change the requirements that every patent application must provide the public a full description of

the invention (i.e., the so-called "written description" requirement) and fully enable the practice of the invention the inventor seeks to patent (i.e., the so-called "enablement" requirement). However, it removes the problematic and subjective best mode requirement, first introduced into the patent law in the 1952 Patent Act, that the inventor additionally include in the patent application the mode the inventor subjectively contemplated to be the best as of the day that the application was filed.

Sec. 5. Duty of candor

The National Academies singled out the "inequitable conduct" defense as another of three so-called "subjective elements" in patent litigation that should be limited or eliminated. Inventors and patent owners desperately need to have Congress address the issue of the "inequitable conduct" unenforceability defense. Section 5 does this.

The defense of inequitable conduct applies when the patent applicant has made a material misstatement or omission with intent to deceive the PTO. Examples of conduct punishable as inequitable conduct might include the intentional failure to disclose a known prior art reference that is material to patentability (unless cumulative of other art already considered), or making false or misleading statements to the PTO such as when submitting false or misleading evidence of test data to support patentability. Despite the salutary intent of the doctrine, it has become an overused weapon in patent litigation. As noted in *Burlington Industries v. Dayco Corp.* 849 F.2d 1418 (Fed. Cir. 1988), "[T]he habit of charging inequitable conduct in almost every major patent case has become an absolute plague."

AIPLA agrees with the approach in section 5 to limit the "inequitable conduct" defense by accused infringers in patent litigation to clear cases of common law fraud. Under section 5, the defense of inequitable conduct could only be pled where the court

has first invalidated a claim and the accused infringer has a reasonable basis for alleging that, absent the fraudulent misconduct attributable to the patent owner ("but for" the conduct of the patent owner), a reasonable patent examiner would not have allowed the invalidated claim to issue as part of the patent. Where such conduct is proven, a fraud has occurred and the patent would be unenforceable. Thus, while a patent owner who had engaged in a fraud to secure an invalid claim would not be able to enforce the patent – the patent owner's "unclean hands" would preclude such enforcement – section 5 would return the "inequitable conduct" defense to its equitable roots. Importantly, it would drastically reduce the current practice of asserting this defense in virtually all cases, by limiting it only to cases where claims have first been found to be invalid due to such misconduct.

However, of equal importance, section 5 would not excuse other possible misconduct by a patent owner that does not rise to the level of fraud – that is, misconduct that would not have resulted in an examiner allowing a claim even if the omission or misstatement had not occurred. Such misconduct would be referred back to the PTO by the court. Thus section 5 would keep intact the duty of candor and good faith on individuals associated with the filing of a patent application. Further, it would give the PTO the authority to administer that duty where questionable misconduct is uncovered during patent enforcement proceedings. Like other agencies, Congress should look to the PTO to enforce its own rules and charge it with the responsibility for doing so. No agency of government undertaking work of crucial importance to the nation should have rules mandating high standards of conduct for those appearing before it and not have responsibility, resources, and capabilities for administering and enforcing those rules. This would allow the Office – as part of its control over the duty of candor and good faith

– to determine whether or not the allegations merited investigation and sanction in appropriate cases referred to it during litigation.

Giving the PTO authority over the duty of candor and good faith means that the Office could address other related dilemmas faced by those representing clients who – justifiably and consistently – have opposed efforts by the Office to mandate more meaningful disclosures of information. Such more meaningful disclosures could clearly drive the efficiency and accuracy of the patent examination process – for example, by specifying the contents of statements to be submitted regarding the potential relevance of prior art. Today, if such statements are offered, they are fodder for the "inequitable conduct" defenses raised in patent litigation. Placing the PTO in control of the duty of candor and good faith would allow the creation of "safe harbors" for applicants satisfying enhanced disclosure requirements which could not later be used as grounds for an allegation of inequitable conduct.

Giving the PTO such authority could also address an AIPLA concern for the post-grant opposition procedure, namely, that the duty of candor and good faith should meaningfully apply to opposers. An opposer that raises an issue of unpatentability should be no more free to mislead or misrepresent the facts in that proceeding than an inventor or patent owner in a PTO proceeding. This is a hole in the duty today with respect to reexamination that could be filled by giving the PTO such authority.

We therefore support authorizing the PTO to investigate misconduct by opposers and third parties who request reexamination and to impose civil monetary sanctions on patentees and disbarment of their attorneys. In addition, where false statements have been made, the mechanism for sanctioning misconduct should include a mechanism for referrals to the Criminal Division of the Department of Justice.

We believe that such proceedings by the PTO – where the Office elects to proceed after reviewing a referral from a court – would be relatively rare events, but nonetheless a much more effective deterrent to misconduct than the current unenforceability defense. The current reliance on the courts for "enforcement" of the duty is problematic because it can lead to the punishment of benign deeds and the failure to punish bad deeds. The ultimate ineffectiveness of the inequitable conduct defense today is probably best illustrated by the fact that it is raised and litigated in almost every important patent case, but is rarely successful.

Sec. 6. Right of the Inventor to Obtain Damages – Determination of Damages

Section 6 of H.R. 2795 also proposes to add a paragraph to 35 U.S.C. 284 to limit the award of damages in the situation where the infringed patented invention is only one element of the defendant's method or apparatus. The provision seeks to limit the damages to the portion of the total value of the method or apparatus represented by the value of the patented invention.

This provision addresses what is known as the "entire market value" rule, which permits recovery on the market value of an entire machine when the patented feature is the basis for customer demand for the machine. *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549, (Fed. Cir.) (in banc), cert. denied, 116 S. Ct. 184 (1995). There are cases where damages have been based on the value of an apparatus of which the patented invention was only one element. This occurred in a case where the patented invention was found to contribute substantially to the increased demand for the entire product and the infringer acknowledged that improved performance influenced its decision to incorporate the invention into its product. *Bose Corporation v. JBL, Inc*., 274 F.3d 1354 (Fed. Cir. 2001).

A different result was reached, and appropriately so, in *Riles v. Shell Exploration & Production*, 298 F.3d 1302 (Fed. Cir. 2002), where the patent claim was directed to a "method of offshore platform installation." There the Court set aside a jury verdict because the plaintiff's damage model did not "follow proper reasonable royalty criteria" in claiming damages equal to the cost of constructing the platform, 298 F.3d at 1311. Thus, even though the claims were to the construction of the entire platform, the inventive character of the claimed platform was tied to a novel an element of the platform and damages were thus rightfully apportioned based on the value of the inventive element added to the platform rather than on the entire platform.

Under current law, courts can flexibly assess each case on its merits and reach a fair determination on a royalty rate that will be adequate to compensate for the infringement. In determining a reasonable royalty, the courts look to the 15 *Georgia Pacific* factors and seem to manage quite nicely. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1119-1120 (S.D.N.Y. 1970). Therefore, we do not believe that a case has been made for codifying the many considerations in the case law on the proper calculation of damages.

Having noted our reservation, however, we believe that the new formulation of a rule on the calculation of damages is very much improved over the version that appeared in the Committee Print, and it is one which we believe is more balanced and thus will be more acceptable to a wider constituency. It captures the essence of the guidance contained in the *Georgia-Pacific* case for apportioning damages in the case of infringement damages based on claimed combinations where patentability of the combination is essentially tied to the inventive character of a component of the combination rather than the combination itself.

Sec. 6. Right of the inventor to obtain damages – willful infringement

The third of the three so-called "subjective elements" in patent litigation that NAS recommended for limitation or elimination is the doctrine of willful infringement. In its Report, NAS recommended that the doctrine of willful infringement be eliminated from patent litigation. It observed that the question of willful infringement involves an issue of intent that produces a significant discovery burden, introduces an element of substantial uncertainty, and complicates much patent infringement litigation. AIPLA does not recommend its elimination, but agrees with the limitation on willful infringement that is set forth in section 6 of the H.R. 2795.

In practice, exposure to a claim of willfulness is not limited to cases of knowing, intentional infringement. Knowledge of a patent, coupled with a decision to engage in or continue conduct later found to be infringing, may be enough to result in treble damages. During the hearings conducted by the FTC, testimony revealed that some companies forbid their engineers from reading patents for fear that such acts might be used by a patentee to allege that, because the company had "knowledge" of the patent, the company willfully infringed the patent. As reported by the FTC, "the failure to read a competitor's patents can jeopardize plans for a noninfringing business or research strategy, encourage wasteful duplication of effort, [and] delay follow-on innovation…" (*To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Report by the Federal Trade Commission, Chapter 6, page 29 (October 2003)). This fear forcefully demonstrates the chilling effect that the law on willfulness has on what would otherwise be an appropriate use of patents, and how consequently the current law on willfulness effectively undermines the Constitutional purpose of the patent system, i.e., to promote the progress of the useful arts.

Moreover, willfulness is asserted in most cases. Professor Kimberly A. Moore, George Mason University School of Law, conducted an empirical study of willfulness, looking at patent infringement cases that terminated during litigation from 1999–2000. Professor Moore found that willful infringement was alleged in over 92% of the cases, observing that her "results suggest that willfulness claims are plaguing patent law. It seems unlikely that in 92% of the cases, the patentee had sufficient factual basis at the time the complaint was filed to allege that the defendant's infringement was willful." See *Empirical Statistics on Willful Patent Infringement*, 15 Fed. Cir. B.J. 227 (2004).

Additional problems arise from the Federal Circuit's opinion in *Underwater Devices, Inc. v. Morrison-Knudsen Co.,* 717 F2d 1380 (Fed. Cir. 1983). The decision speaks of an accused infringer having an affirmative duty to exercise due care to determine whether he or she is infringing once given notice of another's patent, including the duty to seek and obtain competent legal advice from counsel. This permits patent owners to "game" the system and create an unequal bargaining position by simply "notifying" those in affected industries of the patent, and then demanding large settlements or else face the risk of "willfulness" allegations at trial. This in turn leads to hundreds of thousands of dollars spent by company after company on opinions of counsel as insurance against a finding of willful infringement. This perceived obligation also leads to problems with attorney disqualification since the attorney giving the opinion will be called as a witness during the litigation. As a result, a company's chosen counsel cannot act as both its counselor and its trial attorney. 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 infringement opinion. Complicated issues involving waiver of attorney-client privilege further exacerbate the matter.

These difficulties were not obviated by the en banc reconsideration of *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp*. 383 F3d 1337 (Fed. Cir. 2004). While the Court did rule that it is inappropriate for the trier of fact to draw an adverse inference with respect to willful infringement when a defendant has not obtained legal advice or invokes the attorney-client privilege, the decision leaves untouched the duty of due care and the circumstances which give rise to such duty.

While section 6 retains the concept of willful infringement, it carefully limits the circumstances where a determination of willful infringement can be made to those in which an infringer is truly a bad actor. Of course, every successful patentee will still receive damages adequate to compensate for the infringement, together with interest and costs as fixed by the court. In general, however, absent deliberate copying of a patented invention with knowledge that it was patented, we believe there should be no finding of willful infringement unless the patent owner has provided to the infringer a written notification that details which claims of the patent are infringed and the particular acts that are alleged to infringe, rather than merely sending notice of the patent.

Moreover, we agree with the further limitation in section 6 that there should be no finding of willful infringement if an infringer can establish that, once it had received notice, (1) it obtained competent advice of counsel that there was no infringement on the grounds of invalidity, unenforceability or non-infringement, and (2) it reasonably relied upon such advice. In the case of the intentional copying of an invention knowing it to be patented, the informed good faith belief of the alleged infringer must exist prior to the time the alleged infringing activity begins. This preserves an importance balance, requiring ethical and prudent behavior by those in an affected industry.

Finally, we also agree that the absence of an opinion of counsel should not create an inference that the infringement was willful and that mere knowledge of a patent should not be the basis for enhanced damages. Again, these are important limits on willfulness that prevent excessive use of the doctrine.

Accordingly, we support the provisions in section 6 limiting the circumstances in which a finding of willful infringement can be found.

Sec. 7. Injunctions

Section 7 of H.R. 2795 would make two amendments to section 283. One of these proposed amendments to section 283 would significantly undercut the exclusive rights conferred under a valid patent to obtain final injunctive relief following a final, non-appealable holding that the patent is valid and infringed. It would provide that final injunctive relief might not be granted since “In determining equity the court shall consider the fairness of the remedy in light of all the facts and the relevant interest of the parties associated with the invention." This would reduce, to some unknown degree, the possibility of patentees obtaining permanent injunctions to prevent the continued infringement of their patents following a final, unappealable judgment that their patents are valid and have been infringed.

AIPLA strongly opposes this provision. It would devalue the property right of patentees by undercutting their traditional right to injunctive relief against adjudged infringers. The impact would appear to be especially harsh on independent inventors who already face great difficulty in commercializing their patented inventions. It would likewise be equally harsh on universities which are precluded in many, if not most, cases from directly commercializing their inventions and which must therefore rely on licensing or selling their inventions. It would also set an extremely unfortunate precedent

internationally for the United States by suggesting to other nations that there need be no patent exclusivity for all inventions - that other nations can also pick and choose the patented inventions for which they wish to grant exclusivity. AIPLA strongly urges that this amendment not be made.

The other proposed amendment would provide guidance to trial courts regarding the circumstances in which a preliminary injunction should be stayed, pending an appeal, following a ruling that a patent was valid and infringed. It would instruct courts to stay an injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does not favor the owner of the patent. AIPLA had suggested this proposal to the Chairman and to the interested groups involved in the discussions regarding the content of a patent reform bill as the maximum limitation that should be imposed to meet the concerns of those who advocate limiting the grant of injunctions in patent infringement suits. We believe this proposal is balanced and appropriate and fully addresses the concerns of the proponents for change. Not only would it give an infringer the opportunity in appropriate cases to obtain a stay of any injunctive relief while it tests the correctness of the trial court's ruling, but it also allows the infringer additional time to negotiate a license or develop a non-infringing alternative. Unfortunately, it was not accepted by others in the discussions we have been having, so perhaps it should be deleted from the bill.

Sec. 8 Continuation Applications

In testimony before this Subcommittee last month, Under Secretary Dudas noted the increased workload for the PTO due to the large number of continuing applications filed in the Office. In addition, there is a concern that a few applicants have abused the

use of continuing applications by using them to "track" the commercial development of a technology and then springing a patent on a mature industry. On the other hand, the predominant uses of continuing applications are totally appropriate. They are necessary where an application faces a restriction requirement or where an inventor makes an improvement in his or her invention or where an applicant and an examiner simply have not had an adequate exchange regarding the issues surrounding an application.

To address these concerns in a balanced and fair way, AIPLA believes it appropriate to give the Director the authority to promulgate a regulation specifying the circumstances under which a continuation application may be filed. The PTO clearly is in the best situation to understand the difficulties that applicants face as well as the problems that the Office faces, including the impact on fee revenues that any limitations on continuations might impose. Regulations can also be adjusted to fine tune any needed limitations. Most importantly, the PTO could ensure that no such regulation would deny applicants an adequate opportunity to obtain protection for their inventions.

Sec. 9. Post-grant Procedures

Taking advantage of the proposal to adopt a first-inventor-to-file system and to simplify the definition of prior art, section 9 proposes a post-grant opposition procedure. AIPLA believes that such a system can provide the public with an effective mechanism to promptly correct mistakes made by the PTO in issuing patents. We strongly believe, however, that there should be only one window for requesting an opposition and that the window should be nine months after a patent has issued to encourage the public to act promptly. These procedures should allow the public to correct improvidently granted patents – patents with claims that are too broad or patents that the PTO should not have granted at all. After the initial period of nine months has passed and no opposition has

been filed, patentees should enjoy a "quiet title" without the fear of later administrative challenges, except for the inter partes reexamination procedure which this bill would make more attractive.

Consistent with this approach, AIPLA agrees that, for an opposition brought within this nine month window from grant, an opposer should have the burden of proving the invalidity of a claim by a preponderance of the evidence. This is the same standard used during examination, and encourages use of the pre-grant procedure since the burden of proof is lower than that applied during litigation. Thus, consistent with this approach, we would retain the standard of "clear and convincing evidence" that applies in a patent infringement lawsuit or a declaratory judgment action seeking to invalidate a patent claim. In this way, the procedure strikes a balance – encourage the public to promptly eliminate questionable patents without unduly undercutting the patentee's right to benefit from the invention.

This brings us to the second window proposed in the opposition procedure by section 9 of H.R. 2795 that would permit an individual to file an opposition not "later than 6 months after receiving notice from the patent holder alleging infringement." AIPLA opposes having a second window for bringing an opposition for the life of a patent. The proposed second window, where the burden of proof is a "preponderance of the evidence" instead of "clear and convincing evidence," will increase the risks faced by patent holders and dampen their enthusiasm for investing in the development and commercialization of their patented technologies. It will also increase litigation in the courts since patent holders, to ensure that their patents will not be tested by the lower presumption of validity, will file suit instead of approaching suspected infringers about possible license arrangements or avoiding any infringement. Finally, creating this kind of

second window in effect creates a "patent revocation" system that will greatly tax the existing human and financial resources of the Office to find and train the needed personnel to administer such proceedings and will work undue hardships and prevent patent owners who can least afford it (non-profit entities and individual inventors) from enjoying "quiet title" to their inventions. For all these reasons, AIPLA opposes the addition of the second window in HR 2795.

SEC. 10. Pre-grant Submissions of Prior Art By Third Parties

AIPLA supports the proposed amendment to section 122 to allow a member of the public to submit information to the PTO for consideration following the publication of patent applications. We believe that this proposal will complement the post-grant opposition proposal and assist applicants to obtain stronger, more reliable patent protection by ensuring that the best prior art is before the PTO. The section is balanced and ensures that applicants will not be harassed by multiple submissions. Thus, it is especially significant that the amendment leaves untouched the proscription in current subsection 122(c), and thereby prevents such submissions from becoming a type of pre-grant opposition. This will ensure that such submissions cannot be used to harass applicants. In addition, the provision is crafted in a manner that gives the public maximum opportunity to submit such information while at the same time protecting against the disruption of the PTO's examination process.

Completing the Reforms Begun In the American Inventors Protection Act

There are other important parts of the patent law that are addressed in H.R. 2795 which we support. Moving to a first-inventor-to-file system suggests that changes should be made to the prior user defense to patent infringement. We also endorse the proposal that the PTO publish all pending applications for patent at 18-months after their initial

filing. This will make the patent system more transparent and allow the public to make earlier determinations of whether an invention is novel and non-obvious on the basis of all prior art. It also allows the public to prepare any evidence that may be available for submission in the 9 month opposition period after the patent issues.

Conclusion

The U.S. patent system continues to be an essential driver of our nation's economic and technological success, but there is a growing consensus that it is in need of adjustment. The NAS and FTC have reached this conclusion and AIPLA agrees. While we strongly oppose any weakening of the traditional injunctive remedy of the patent law and the addition of a second window in opposition proceedings, we believe that there are many desirable reforms in H.R. 2795 that do have the widespread support of all stakeholders. We now have an opportunity – indeed, an obligation – to not only address the challenges of today, but also to prepare the U.S. patent system for the future.

We commend you, Mr. Chairman, and the Ranking Member for your continuing leadership in striving to improve our intellectual property system. The AIPLA looks forward to working with you, the other Members of the Subcommittee, and your able staffs to support you in any way we can.