

# THE COALITION FOR 21ST CENTURY PATENT REFORM

*Protecting Innovation to Enhance American Competitiveness*

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ON BEHALF OF THE COALITION FOR 21ST CENTURY PATENT REFORM  
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The Coalition for 21st Century Patent Reform commends Chairman Berman and his co-sponsors on the introduction of H.R. 1908. The 21<sup>st</sup> Century Coalition believes significant reforms to the U.S. patent system should be a priority for the 110<sup>th</sup> Congress.

The 21<sup>st</sup> Century Coalition supports many of the principles embodied in H.R. 1908:

- H.R. 1908 adopts first-inventor-to-file principle. In so doing, it maintains the traditional inventor-focused features of U.S. patent law, including the inventor's 1-year "grace period." That said, and as more fully set out below, the Coalition supports changes to H.R. 1908 that would clarify that prior art is limited to publicly accessible information consistent the positions expressed by other prominent supporters of the adoption of the first-inventor-to-file principle.
- H.R. 1908 would afford so-called "prior user rights" to inventors who are not the first inventor to file for a patent. Those rights permit such inventors to continue practicing their inventions notwithstanding patents issued to others on later filed patent applications.
- H.R. 1908 enlarges the opportunity for patent examiners to consider timely third-party submissions of prior art relevant to a patent application before issuing a patent, thereby opening the prosecution process to the public without unduly burdening patent applicants or the PTO.
- H.R. 1908 takes the first step in eliminating so-called "subjective elements" from patent litigation by limiting the ability to plead that the infringement of a patent was willful to cases that meet an appropriate standard for reprehensible conduct.
- H.R. 1908 would require publication of all pending patent applications, and not just those that have corresponding foreign applications.
- H.R. 1908 would permit assignee filing to reflect the reality of applications for inventions developed by corporate employees.

The 21<sup>st</sup> Century Coalition believes certain additions or modifications to H.R. 1908 would greatly improve the bill, help it garner widespread support in the stakeholder community, and foster the principle of achieving comprehensive and balanced patent reform.

- H.R. 1908 should be amended to move closer to enacting consensus “best practices” for implementing a first-inventor-to-file system. These include eliminating certain conditions for patentability that will no longer be necessary, while assuring that prior art becomes fully tied to *publicly accessible disclosures* made before the patent was sought, whether through use, sale, offers for sale or otherwise.
- H.R. 1908 should be amended to increase the effectiveness of the “duty of candor” by creating an incentive for inventors to work with patent examiners to issue high quality patents. One approach for doing so would be to bar any unenforceability defense based upon “inequitable conduct” in situations where the court affirms that the patent claims in issue are valid, notwithstanding any alleged misconduct before the PTO.
- H.R. 1908 should be amended to repeal the “best mode” requirement, relying instead on the requirements for a complete written description and sufficient enablement to permit the full scope of the claimed invention to be readily carried out.
- If H.R. 1908 is amended to include, “inequitable conduct” and “best mode” reforms (along with first-inventor-to-file), the 21<sup>st</sup> Century Coalition would favor also opening a limited (preferably 9-month) window immediately after a patent issues to allow the public to promptly institute a comprehensive “all-validity-issues” post-grant administrative review of the patent. Following this window, later administrative challenges of a patent should be limited to the use of existing *ex parte* or *inter partes* procedures. These reexamination proceedings should remain available for the life of the patent.

The 21<sup>st</sup> Century Coalition urges Congress to reject as premature or unwise provisions now in H.R. 1908 that would:

- Diminish the existing standard for awarding compensatory patent damages, especially through infringer-friendly proposals that would require courts to subtract out the value of any component of a patented combination that was previously known in the prior art.
- Expand USPTO rulemaking authority to include substantive patentability issues.
- Authorize interlocutory appeals of claim construction rulings as a matter of right.
- Change the patent venue statute.

The Coalition remains committed to working with all constituencies impacted by changes to the patent laws in order to assure that a broad consensus can be developed on the content of the needed reforms.

# THE COALITION FOR 21ST CENTURY PATENT REFORM

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Chairman Berman, Ranking Member Coble, and Members of the Subcommittee:

Mr. Chairman and Ranking Member Coble, it is an honor for me to again appear before this Subcommittee to present the case for major reforms to our patent system. I am testifying today on behalf of the Coalition for 21st Century Patent Reform.

The 40+ members of the Coalition are innovating and manufacturing companies that rely on an effectively functioning patent system that informs their investment decisions to create and market innovative products. (See attached page for members.) 21<sup>st</sup> Coalition members spend billions of dollars on R&D, and provide hundreds of thousands of high quality American jobs to those involved in the creation, manufacturing and marketing of these products.

The Coalition welcomes the introduction of H.R. 1908, the Patent Reform Act of 2007. It represents another step in the search for a balanced approach to strengthening patent quality and improving fairness in enforcement. Although the U.S. patent system has fostered the American ingenuity that is the envy of the world, the time has arrived for reforms that take into account the competing interests that must be reconciled to preserve the global leadership of the U.S. system.

Reforms are needed to elevate the quality of patents initially allowed, to reduce litigation costs that can make patents effectively unenforceable, and to moderate the difficulty and costs of challenging patent validity. Several provisions in H.R. 1908 advance the goal of improving issued patents by instituting a first-inventor-to-file system, mandating publication of all pending applications for patent, providing for assignee filing, and expanding third-party submissions of prior art. Other provisions that take positive steps toward reducing litigation costs include those limiting charges of willful infringement and expanding prior user rights.

However, H.R. 1908, as introduced, fails to achieve the balance necessary to preserve the value of a patent as the driver of innovation. The Coalition believes that it needs changes to address the following concerns:

- H.R. 1908 constrains the ability of courts to award damages that are adequate to compensate patent owners for the infringement of their patents.
- H.R. 1908 includes no reform of the inequitable conduct defense to remove the chilling effect on disclosures to the PTO by patent applicants who fear the risk that a misstatement poses to their patent. This defense has become boiler-plate in pleadings, amounts to a money-pit that drives up discovery costs, and represents a disproportionate and unwarranted “death penalty” for patents, especially where the alleged infraction has nothing to do with the validity of any patent claim.

- H.R. 1908 fails to repeal the subjective and redundant best mode requirement, a feature of our patent law which also accounts for escalating costs.
- H.R. 1908 limits the available venues where patent owners can bring infringement actions, but entirely exempts from these limitations declaratory judgment actions that would be brought by alleged infringers.
- H.R. 1908 addresses patent quality with a post-grant review system that lacks the essential incentives for bringing such challenges early in the life of a patent. Instead, it will create an post-grant challenge regime that can hover like a cloud over patent owners permitting serial challenges for the life of the patent. The bill compounds these issues by preserving the availability of patent reexamination proceedings as a collateral proceeding for validity determinations.

Beyond these particular deficiencies, the legislation has two additional features on which there is no consensus as to their desirability, much less utility. The bill reaches into unknown territory by creating a right to an interlocutory appeal of a claim construction decision, and by giving substantive rulemaking authority to the Patent and Trademark Office.

### **Consensus Exists for Adopting First-Inventor-to-File Principle**

On the positive side, H.R. 1908 begins in *exactly* the right place by adopting a core recommendation of the National Academies: enactment of the first-inventor-to-file principle into U.S. patent law. This reform of U.S. patent law is long overdue, and the Coalition adds its voice to a diverse chorus of voices advocating this change. With these changes, Congress could significantly simplify the patent laws, provide fairer outcomes for inventors, speed final determinations of patentability, and reduce the overall costs of procuring patents.

The implementation of a first-inventor-to-file system would be accomplished by enacting a set of “best practices” that are the product of deliberations since 2001 by a collection of U.S.-based organizations. These best practices, which revise “prior art” and other patent validity tests, would preserve essentially all of the key features of the patent law that have protected the inventors from infringement and the public from patent rights on known or obvious subject matter.

In a very significant respect, however, these “best practices” for defining prior art will expand subject matter that can qualify as prior art and, in doing so, potentially diminish to some degree what subject matter can be validly patented. Heretofore our patent laws have recognized that knowledge of an invention represented prior art only if the knowledge came from a patent or a publication or, if not found in a patent or a publication, must be shown to have been in existence *in the United States*. This type of unpublished knowledge, if it existed only elsewhere in the world – even if readily accessible to the public elsewhere in the world – could not qualify as prior art to deny a patent.

The “best practices” approach potentially expands the knowledge that can defeat the ability to patent an invention to anything that is known anywhere in the world. While this change may make it more difficult for some inventors to be awarded some patents, the Coalition views this as

the right choice. We fully support considering global knowledge of an invention in order to determine whether a U.S. patent for the invention should validly issue. Even if the current U.S.-based limitation on prior art was once justifiable on policy grounds, the emergence of the Internet and the other capabilities of the information age have made geographic limitations on prior art more problematic and less desirable.

### **Damages Reform Could Deny Patent Owners Adequate Compensation for Infringement**

Despite the positive first-inventor-to-file reform, H.R. 1908 attempts responds to perceived litigation defects by over-correcting with a detailed statutory recipe that undermines the ability of patent owners to recover compensatory damages for infringement. The Coalition believes that this amendment fails to accurately codify existing law and could force a court to exclude from a patent damages calculation the value found in an infringing product that is properly attributable to the inventor. In doing so, it would deny the patent owner adequate compensation for infringement of a patent.

#### *Current Law*

For most inventors<sup>1</sup>, the only form of compensation available in the event someone infringes their patent is an award of a “reasonable royalty” for the infringer’s use of the invention. The current law explicitly provides that the minimum amount for adequate compensation can be no less than “reasonable royalty” A reasonable royalty thus both assures fair compensation for the inventor and, for those seeking to avoid liability to the inventor, provides an incentive to others to invent around the patent.

*Reasonable Royalty:* Under current law, once it is determined that a product infringes, a reasonable royalty is determined. It is most commonly determined by asking a jury to determine a “royalty rate” to be applied to sales of an infringing product, in general with evidence of comparable licensing agreements or under a hypothetical license between a willing buyer and willing seller. That rate is then multiplied by the infringing sales (the “royalty base”) to produce the reasonable royalty award. Although a reasonable royalty is the minimum award permitted under law, it can fairly represent the economic value that the infringing use added to the infringing product. Reasonable royalty rates can range from a fraction of one percent to 25% or more, allowing courts to award damages commensurate with an inventor’s contribution to the infringing product.

*The Principle of Apportionment:* Where the infringer shows that an infringing product contains features or other improvements added by the infringer, a court may require a so-called “apportionment” between the value properly attributable to the inventor and such features or other improvements added by the infringer. This can be the case, for example, where the invention is responsible for only part of the infringing product’s economic value. If the infringer makes a showing to this effect, the current law would permit the royalty base to be effectively restricted to just that portion of the product. If the royalty base were not so restricted, then the

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<sup>1</sup> For independent and university inventors, reasonable royalties are the only damages normally available. For businesses, lost profits are sometimes also available, but only to the extent that they can show that they would have made the infringer’s sales. Otherwise, they too rely on reasonable royalty recoveries.

royalty rate would need to reflect the necessary apportionment of value so that the mathematical product of the rate and the base together prevent the inventor from being excessively compensated.

*Entire Market Value Rule:* Where the economic value derived from the infringement extends beyond a patented component in an infringing product, additional flexibility is provided under current law by allowing patent owners to show that the royalty base should be expanded to include more than the value of the patented component.

#### *Proposed Damages Reform in H.R. 1908*

Section 5 of the H.R. 1908 would amend 35 U.S.C. 284, retaining the general rule of reasonable royalty damages in paragraph (1), and creating a new paragraph (2), which would require the court to “conduct an analysis” to ensure that a “reasonable royalty ... is applied only to that economic value properly attributable to the patentee’s specific contribution over the prior art.”

A new paragraph (3) would retain the entire market value rule, requiring the burden under this rule to be on the patentee. A new paragraph (4) would provide that the court may instruct the jury to consider other factors in assessing a reasonable royalty.

#### *21<sup>st</sup> Century Coalition Position on Section 5 of H.R. 1908*

New paragraph (2) requires a court to exclude from every reasonable royalty analysis, among other things, “the economic value properly attributable to the prior art.” While this purports to be an effort to codify the apportionment principle, it does not do so. The apportionment principle has never permitted an exclusion of the value of “prior art”—“prior art subtraction”—from the reasonable royalty analysis.

The Coalition opposes efforts that change the law of damages by mandating any form of “prior art” subtraction from the value of an infringing product. Prior art subtraction ignores the reality that at some level all inventions are combinations of old elements. Any damages provision that automatically subtracts portions of the economic value of an invention from the royalty base to which the royalty rate is to be applied degrades the value of the patent right, as well as the incentives offered by the patent system. The economic value that an invention adds to an infringing product is normally determined by comparing the infringing product to pre-existing (non-infringing) competitive products, not to the “prior art.” This is because the prior art includes literature and other paper disclosures that may never have been commercially feasible.

The introduction of the term “specific contribution over the prior art” is unprecedented and, at best, ambiguous. If the term intended to refer to the subject matter claimed in the patent (that the PTO and court (or jury) have now both determined deserving of patent protection), then the substitution of the term “invention” would be preferable.

Paragraph (2) also fails to specify that the burden of proving the need for apportionment is, as under current law, on the adjudged infringer. To the extent it is interpreted to direct that the

court determine what is excluded from a royalty base, it could abridge a patentee's right to reasonable royalty facts determined by a jury, possibly raising Constitutional questions.

With respect to paragraph (3), this provision appropriately retains the entire market value rule and the patentee's burden of proof on this issue. However, the current language again improperly contrasts the "specific improvement" against the "prior art." It also fails to recognize the possibility that the entire market value rule, in certain situations, may be properly applied to expand the royalty base beyond the particular product or process claimed in the patent. With respect to paragraph (4), it appropriately requires jury instructions on other factors for determining a reasonable royalty, but this provision should explicitly recognize the applicability of existing judge-made law and the need to equally emphasize all of the many factors identified in the case law.

Preserving an adequate measure of patent damages has become even more important than before in the wake of the Supreme Court's *e-Bay* ruling, which substantially curtailed the remedy of injunctive relief as a deterrent to infringement. The remaining deterrent to a blatant disregard for the inventor's rights lies in the liability for monetary damages. Moreover, in light of the proposed limitation on punitive damages, additional difficulty for a patent owner to recover compensatory damages or reasonable royalties may further encourage infringement and discourage innovation.

#### *21<sup>st</sup> Century Coalition Proposal on Damages*

If the jurisprudence on the law of damages is to be codified, it should be faithful to existing law, and not diminish the reasonable royalty damages properly available to inventors. (The 21<sup>st</sup> Century Coalition has suggested language that would achieve this goal.) It is important to preserve the reasonable royalty damages that an inventor is assured of receiving in the event his/her patent is infringed. Faithful codification of the existing law, and improvements in the procedure used to determine reasonable royalty damages, should ensure that reasonable damages are uniformly assessed. Any diminution of reasonable royalty damages will chill innovation, and likely encourage infringement, especially by foreign manufacturers.

#### **Post-Grant Review Proceedings Must Be Fair and Balanced**

The Coalition strongly believes as a matter of principle in the value of an effective system of post-grant review of *all issues* of patentability. However, we are not eager to see Congress move forward on just any proposal for expanding post-grant challenges beyond the current opportunities for reexamination based upon patents and printed publications.

Achieving a fair and balanced post-grant challenge regime is not an easy task. At this juncture, there is a cacophony of voices with differing visions of what an all-issues post-grant challenge should look like, which is reason enough for Congress to move carefully and deliberately. This is an issue where we know the devil is in details, even in the minor details.

We are most alarmed by the provisions in H.R. 1908 that fail to take account of all the concerns of patent owners relating to harassment, “quiet title” after a failed patent challenge, and the lack of incentives for challengers to initiate proceedings promptly after the patent issues. The proposed system would permit challengers to wait until the patent owner has built a business on the presumption that the patent is secure.

We submit that the proposed post-grant review of H.R. 1908, allowing post-grant challenges on all validity questions long after a patent issues, would be most unwise. Limiting such challenges to a short period immediately after the patent issues is critical for any number of reasons. First and foremost, a patent owner should not be subjected to serial post-grant challenges. Patent owners have a right to expect quiet title at some point without facing an endless series of challenges. Most importantly, a limited challenge period has the advantage of promoting positive changes in behavior for members of the public. Big businesses, which are likely to file most of the patent challenges, will be forced into diligent behavior to examine patents as they issue and determine when an issued patent merits a challenge. It will force early challenges to patents that will serve to remove invalid patent claims promptly.

If these same big businesses can hold back because they will have the same opportunity for a challenge in the PTO years later, the public will face the consequences of living with an invalid patent for years and years. The prime virtue of the short, initial period to challenge is the incentive to investigate issued patents and promptly act to eliminate invalid ones.

Further, H.R. 1908 would allow patent challenges years after grant based on public use and oral disclosures that need only be proven by a preponderance of the evidence. While such a burden is appropriate for the initial examination process and during a short window after grant, it is totally inappropriate for establishing as fact such temporal events that occurred many years ago. In these situations, fairness to the patentee demands a clear and convincing burden of proof.

There is no fair way to have long-established patents of significant commercial importance challenged in the PTO without the strongest possible due process protections. Tuning a provision for a challenge shortly after patent grant is an enormous challenge to get just right; creating an administrative revocation provision that could operate at any time during the life of a patent presents challenging issues that H.R. 1908 simply does not adequately address.

### **PTO Improvements on Quality Should Replace Inequitable Conduct Defense**

H.R. 1908 regrettably omits reforms to the inequitable conduct defense which can render an entire patent unenforceable, whether the alleged infraction has anything to do with the validity of a patent claim or not.

#### *History of Inequitable Conduct Defense*

Since at least the 1960s, patent applicants have been subject to a “duty of candor and good faith” when prosecuting patent applications. This doctrine was developed at a time when all patent applications were held and examined in complete secrecy. At the time, examiners relied upon



hand searches of paper files, seldom with the assistance of the foreign search results from other examinations. Applicants had no duty to disclose prior patents and publications of which they were aware, and the public had no knowledge of the patent protection being sought, much less any opportunity to submit prior art that might have been helpful to the patent examiner. And finally, post-grant PTO proceedings were not available to the public to challenge the validity of any patent that erroneously issued.

In a few instances of egregious conduct, courts have applied the equitable rule of “unclean hands doctrine” to refuse to enforce patents that were inequitably procured, as where patent applicants failed to disclose prior art patents and/or publications that would have been fatal to the protection they obtained. The responsibility that this rule imposed on applicants became known as the duty of candor and good faith, which was eventually codified in PTO regulations as 37 C.F.R. 1.56.

The defense of unenforceability on account of inequitable conduct was originally intended to apply to egregious cases. It required proof by clear and convincing evidence that (a) the applicant had withheld or misrepresented information material to the examination of the patent, *and* (b) that the applicant did so with the specific intent to mislead or deceive the patent examiner. Over the years, however, courts moved away from these rigorous standards by (a) applying the duty of disclosure to almost any information that the examiner might have liked to have had disclosed, and (b) presuming “specific intent” to mislead from the failure to disclose and the court’s finding on materiality.

#### *Unintended Consequences on Disclosures to PTO*

Today, the defense of unenforceability based upon inequitable conduct has become the defense of last resort for most infringers, because it is always available even if the patent is entirely valid and unquestionably infringed. Accordingly, the defense of unenforceability has become as common as pleading contributory negligence in auto accident cases. Indeed, the Federal Circuit in *Burlington Industries v. Dayco Corp.* 849 F.2d 1418 (Fed. Cir. 1988) referred to it as a “plague” on the patent system. ( Indeed, the defense is no longer restricted to situations of reprehensible conduct, but rather has become a vehicle which is used to try the patent attorney who prosecuted the patent, rather than a test of the true merits of the invention.

Defendants now shamelessly second-guess everything that is said to the PTO in obtaining a patent, and how it was said. Because it is impossible for a patent applicant and his attorney to tell the PTO everything they know about the field pertaining to the invention, there is always fodder for the contention that the information that was not disclosed was somehow wrongfully withheld.

At the same time that the inequitable conduct doctrine was developing, so too was the openness of the patent prosecution process. Due to the global nature of patent practice, most patent applications now become public either within 18 months of filing or immediately upon filing (where a predecessor application has already been published). Patent examiners now search electronically, and both examiners and applicants have instant access to global information about the technology to which the examined application pertains. Finally, all patents that issue are

subject to life-long public-prompted reexaminations which allow reconsideration of the patented subject matter in view of newly discovered prior art.

Unfortunately, these developments have led to unintended consequences that have set back the quality of patent examination.

- The mere identification of a relevant prior patents or publications has become much less important than an understanding of their contextual meaning.
- Applicants who search the prior art become aware of vast numbers of references, all of which might be argued by a motivated defendant to be relevant to the examination of an application. These applicants feel duty-bound to submit all of them to the PTO, thereby over-burdening the PTO examination process.
- Applicants who do not want to disclose large numbers of patents to the PTO do not search the prior art, and thus neither disclose relevant references that are found, nor craft their applications to focus on patentable subject matter, thereby further burdening PTO examination.
- Applicants have become reluctant to discuss the meaning of the prior art references they cite to the USPTO for fear that anything they say, no matter how innocent, will later be argued by defendants as misrepresentative of the state of the art.

As a result, the continued existence of the unenforceability defense no longer serves the interests of the PTO, or of justice. As the PTO recently experienced when proposing disclosure reforms that would have required applicants to more fully discuss the pertinence of prior art they are disclosing, the existence of the unenforceability defense now makes a meaningful dialogue on that topic a practical impossibility.

Because of the unenforceability defense, patent applicants and their patent counsel are doing no more than acting rationally. Patent attorneys are ethically bound to protect the interests of their patent-seeking clients. This both *expands* the things they disclose to patent examiners and *limits* the types of disclosures that they can make.

### *21st Century Coalition Proposal on Unenforceability*

The Coalition has advanced a reform proposal that reaffirms the duty of candor and would actually strengthen the duty and the authority of the PTO to mold and reinforce it. This proposal is the “but for” proposal, which would provide an incentive to obtain a wholly valid patent and to work with the patent examiner to see that was done. We would urge Congress to give it careful consideration.

The “but for” proposal provides this incentive in an utterly simple and elegant fashion—do not allow the defense of inequitable conduct to be pled in a case where the patent at issue is entirely valid. In such a case, where no actual fraud on the public can exist because a wholly valid property right was secured, it makes sense that any issue of possible misconduct that did not go to the validity of the issued patent be addressed by some means other than a mandatory holding

that the wholly valid patent be rendered permanently unenforceable. As a private remedy, it should be invoked only where there has been a private wrong.

With this Coalition's reform proposal, the primary incentive of the patent applicant would be aligned with that of the underlying rationale for the duty of candor. The best defense to a possible "inequitable conduct" charge would be to work closely with the patent examiner to assure that the examiner made the right decision and the patent that issues is entirely valid.

### **Best Mode Requirement Must Be Repealed**

Another significant omission from H.R. 1908 is the absence of a provision that would repeal the so-called "best mode" requirement, a reform recommended by the National Academies. The repeal best mode has since been supported by the ABA IPL Section, the Intellectual Property Owners Association, the Biotechnology Industry Association, and the American Intellectual Property Law Association.

The case for eliminating this wholly subjective element from U.S. patent law is strong. Much of the debate around the desirability—or undesirability—of keeping this provision part of U.S. patent law is grounded in misconceptions. First, it was codified as part of the U.S. patent law in its present form only in 1952, when the U.S. patent law had succeeded for more 162 years without such a requirement. It is clearly not an essential part of patent law for the United States, any more than it is essential to the patent laws of any of our major trading partners around the world—neither Europe nor Japan has any such requirement.

It is important to clarify what the "best mode" requirement is not. Where the inventor discloses in the patent a multiplicity of modes for carrying out the invention, the "best mode" requirement is not a requirement to identify which of disclosed modes the inventor regards as the best. Finally, if the inventor's work after the initial filing of a patent application leads to an identification of the best mode, there is no requirement to make that finding known—in the patent or otherwise.

At its core, the "best mode" requirement is the most *subjective* validity assessment in all of patent law. It requires knowing what the inventor *contemplated* on the day the inventor filed his patent application.

Its subjectivity is matched only by its redundancy. The patent statute's enablement clause clearly requires the inventor to provide a full, clear, concise and exact description of how the invention is to be made and put into practice. The inventor must do so with such fullness that a person with no more than ordinary skill in the technology of the invention can put the claimed invention into practice. If such a person of ordinary skill can only do so through an undue level of experimentation, the disclosure of the invention is defective and the patent is invalid for that reason alone.

This requirement, however, is another example of why patent litigation in the United States can become so unpredictable and expensive. To know whether or not the inventor might have

contemplated one mode of carrying out an invention was a better mode requires discovery of every mode the inventor knew at the time the patent was sought. This means reviewing every document the inventor wrote – or read – relating to a mode for carrying out the invention. Discovery on “best mode” is then a confluence of “what did the inventor know and when did the inventor know it” with “what might, therefore, have the inventor contemplated and when might those contemplations have taken place.”

### **Venue Amendments Encourage Forum Shopping by Defendants**

Section 10 of H.R. 1908 would amend the venue provisions of Title 28 in response to concerns that patent owners engage in forum shopping based on the view that certain district courts are more favorable to patent owners than to alleged infringers. The amendments would permit patent infringement actions only (1) in the district where either party resides; or (2) in the district where the defendant has committed the infringing acts and has an established place of business.

Section 1400 of Title 28 has long been a special venue provision for patent litigation, providing for venue where the defendant resides or where infringing acts were committed and the defendant has a regular place of business. In 1988, however, the general venue statute at 28 U.S.C. 1391 was amended, defining in subsection (c) the place of residence for corporate defendants as any district in which they were subject to personal jurisdiction. This amendment was made on the recommendation of the United States Judicial Conference to achieve a desirable uniformity in an area of special concern to the judiciary.

The Coalition questions whether this type of legislation is the proper way to address these concerns. The amendments of H.R. 1908 would amend 28 U.S.C. 1400(b) to undo the applicability of the general rule to patent owners, purportedly to rein in forum shopping by patent owners. However, the amendments would entirely exempt from this rule the declaratory judgment actions that an alleged patent infringer would bring against a patent owner. The revised language refers to “[a]ny civil action arising under any Act of Congress relating to patents, other than an action for declaratory judgment or an action seeking review of a decision of the Patent Trial and Appeal Board . . . .” In other words, forum shopping by patent owners is a problem, but forum shopping by alleged infringers for the best venue to avoid the consequences of their infringing activity is not.

Setting aside the inadvisability of a venue change without adequate consultation of the Judicial Conference, this amendment would shift the advantage to alleged infringers. Moreover, we question whether Section 10 will be effective in preventing such forum shopping.

### **Interlocutory Appeal of Claim Construction Rulings Should Not Be Permitted**

Changing the rules to permit patent litigants to appeal interlocutory claim construction rulings as a matter of right would be unwise judicial policy, and the Coalition agrees with the concerns that the IPL Section of the ABA have raised over this reform.

Allowing such appeal would be contrary to the general rule that a party is entitled to a single appeal after final judgment has been entered. The issue of claim construction plays a significant role in just about every infringement and validity dispute. Permitting parties to appeal all interlocutory claim construction rulings would result in a great increase in the number of appeals filed, necessarily increasing the time to dispose of all appeals. In the long run, permitting interlocutory appeals of claim construction as a matter of right would increase significantly the time to resolve a patent dispute by adding the length of time for a claim-construction appeal in practically every case. The proposal makes clear that all proceedings in the trial court must be stayed while this claim construction appeal is pending.

In addition, the claim construction process would become one where the district court takes a first “crack” at the construction, and the dissatisfied party would appeal to the Federal Circuit in hopes of getting a more favorable construction that would apply as law of the case on remand. It would force the Federal Circuit to consider claim construction issues on records that are not as fully developed as they would be after a trial on the merits.

There are too many questions surrounding this proposal to adopt it at this time, if at all.

### **PTO Should Not Be Given Substantive Rulemaking Authority**

Section 11 of H.R. 1908 would amend 35 U.S.C. 3(a) to give the PTO Director substantive rulemaking authority. It would confer authority to issue regulations to “carry out the provisions” of Title 35, expanding the agency’s current authority to simply issue regulations only on PTO proceedings.

Because the case for this provision has not been made, the Coalition recommends further study and consultation with all stakeholders before legislation is passed in this area. With substantive rulemaking authority, the rules and determinations by the Office would have the “force and effect of law” and could be entitled to *Chevron* deference in court proceedings. Rather than promulgate guidelines on the Office’s interpretation of utility under 35 U.S.C. 101 or obviousness standards under 35 U.S.C. 103, the Office could draft substantive rules applying the Office’s interpretation and setting forth a rule-based interpretation of the statute.

Such rules and the resulting determination would have the force and effect of law, which would be entitled to the *Chevron* deference. The determination of the Office would be sustained unless the Court found the rule or determination to not be a “reasonable one.” Such important public policy determinations are far properly made by Congress which can reflect the needed delicate balance of competing policies. Congress is in the best position to make the policy trade-offs to achieve the constitutional mandate to promote the sciences.

Moreover, the proposed language does not contain the important limitation of regulatory authority in current title 35 “not inconsistent with law.” The potential for unintended (and unknown) consequences is too great to adopt this provision without a full appreciation of its impact on patent system users.

## **Conclusion**

The Coalition for 21st Century Patent Reform is true to its name; it is a coalition *for* patent reform, not a coalition for “patent owner” reforms or “accused infringer” reforms. It is not a coalition for piecemeal reform; it is a coalition for comprehensive and balanced reforms, some of which advantage patent owners while others advantage accused infringers. It is not a coalition for industry-specific reforms or creating industry-specific advantages or disadvantages; it is a coalition driven by fairness to all constituencies. The Coalition has concluded that the time is ripe for a collection of major patent reforms in accordance with the legislative recommendations of the National Academies as a package, a package which we believe was and remains fair, balanced and comprehensive.

We would urge Congress to proceed as fast and as comprehensively as a consensus can be developed on proposals ripe for congressional action. We are pleased that H.R. 1908 has moved this process forward and has allowed a serious debate on patent reform to emerge around a concrete proposal.

# **COALITION FOR 21<sup>ST</sup> CENTURY PATENT REFORM**

## **“PROTECTING INNOVATION TO ENHANCE AMERICAN COMPETITIVENESS”**

3M	Genzyme
Abbott Laboratories	GlaxoSmithKline
Air Liquide	Henkel Corporation
Air Products	Hoffmann-La Roche Inc.
AstraZeneca	Johnson & Johnson
Baxter Healthcare Corporation	Medtronic
Beckman Coulter	Merck
Bridgestone Americas Holding, Inc.	Millennium Pharmaceuticals, Inc.
Bristol-Myers Squibb	Monsanto
Cargill, Incorporated	Motorola
Caterpillar	Novartis
Cephalon	Patent Café.com, Inc.
CheckFree	PepsiCo, Inc.
Corning	Pfizer
Dow Chemical Company	Procter & Gamble
Eastman Chemical Co.	Sangamo BioSciences, Inc.
EFI – Electronics for Imaging	Texas Instruments
E.I. du Pont de Nemours and Co.	United Technologies
Eli Lilly and Company	Weyerhaeuser
Exxon Mobil Corporation	Wyeth
General Electric	American Intellectual Property Law Association