

**Personal Comments for the Joint FTC and DOJ Public Hearings
on *Intellectual Property Law* beginning February 6, 2002 entitled:
“Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy”**

These notes represent the *purely personal* views of a patent attorney who has been in full time patent practice for 39 years, and has been extensively professionally active in Intellectual Property law association activities. These comments are based on an FTC staff indication that the topics for discussion in these public hearings (which are only briefly listed in the FTC *Federal Register* Notice of 11/19/01, 66 FR 58146) will correspond to those same topics as discussed in much greater detail in the published 11/15/01 address to the ABA Antitrust Section, entitled “*Competition and Intellectual Property Policy: The Way Ahead*” “Prepared Remarks” by the current FTC Chairman, Timothy J. Muris. Thus, these personal remarks have been prepared in partial response thereto, and also with a view to some anticipated hearing-participant remarks. However, my remarks will attempt to be almost entirely be limited to those topics for which I have actual experience.

I would like to first make a few general observations on this topic. Intellectual Property rights have often been subject to inaccurate reporting, even by otherwise reputable media. Merely as two examples: (1) a 1999 lead editorial in the New York Times repeating a lobbyist attack on important pending patent reform legislation based on something that was *not even in* the legislation (having been removed by amendment some time earlier); and (2) the extensive media reporting of the obviously aberrant (and predictably reversed by the CAFC) preliminary injunction issued by a lower court judge against Barnes & Noble on the Amazon “one click” patent without his having even seriously considering the validity of the patent!

Furthermore, IP and IP law has also been the subject of some academic speculation, on anecdotal rather than factual bases, by persons with little or no actual experience with the actual workings of the patent procurement system or modern patent practices. Unwarranted speculation as to current patent or business practices or motives is also encouraged by law school educations based on egregious old patent-antitrust cases from a very different era, and/or the actions of aberrant individuals, not at all representative of normal modern-day practices of competent IP or antitrust (AT) attorneys, or even necessarily representative of the current views of the United States Supreme Court.

The erroneous use of the term “patent monopoly” also continues in some quarters in spite of clear explanations of that error by the Federal Circuit and others. Furthermore, only a small percentage of patented ideas ever even survive the product development cost burdens, manufacturing problems, marketing problems, and other rigors of getting into an actual product. Many patented ideas that do end up in products only cover alternatives, incremental optional features, cost savings, etc., in the manufacture of existing products, that do not displace alternatives and/or are easily “designed around” [see more on this below]. For example, if the participants in this hearing have a modern stackable plastic drinking glass in front of them, it probably has a patent on it, but certainly does not have monopoly pricing power! A valid patent is merely a limited term right to bring an expensive and lengthy lawsuit against infringers of its claims. Filing a patent application only affects uses or sales of new products utilizing the new, patented, invention, and clearly covered by the patent claims. Any prior use, sale, publication or public knowledge one year or more prior to the application filing date is an absolute bar defense. Thus, only extremely rarely can a patent, even if fully enforced, provide significant market exclusivity, and only in a narrow and *new* market, for a limited term, no matter how unfairly one would seek to define the “relevant market.” The number of truly “pioneer invention” patents that turn out to even become potentially capable of providing significant market power with sufficiently broad claims is miniscule and are usually well deserved. Some are now owned by universities and provide important research and educational funding.

Furthermore, it has always seemed peculiar to IP lawyers that some antitrust lawyers or academics seem to have a misplaced attitude that antitrust law is somehow morally or legally superior to, or dominant over, patent and copyright law, even though patents and copyrights are expressly provided for in the United States Constitution, while the antitrust laws are not. That attitude sometimes even extends to arguing that statutory law written by Congress into the patent or copyright statutes could not overrule old AT caselaw!

In 35 USC §271(d) in particular, Congress clearly provided that “[n]o patent owner . . . shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of his [sic] having . . . [among various other enumerated protections] . . . (4) *refused to license or use any rights to the patent.*” [Emphasis added]. By those express terms, this statute precludes a finding of antitrust liability based on a patentee’s unilateral refusal to license (or

sell, since that would be both a compulsory license and a forced “use of rights to the patent”) a patented invention.¹ Section 271(d) codified many prior consistent Supreme Court and other decisions upholding that basic principle. One such decision further expressly held that “where a patent has been lawfully acquired, subsequent conduct permissible under the patent laws cannot trigger any liability under the antitrust laws.” *SCM v. Xerox*, 645 F.2d at 1206 (2d Cir. 1981) (Cert. Denied). Furthermore, Congress specifically established the Federal Circuit in order to have a single Court of Appeal provide consistent, authoritative, patent law interpretation. That Court has *unanimously done so* for 35 USC §271(d), as discussed below.

Of course, otherwise unlawful business conduct is not immunized from antitrust scrutiny merely because the antitrust defendant owns some Intellectual Property rights, as held in the recent *Microsoft* case. The Federal Circuit itself has also made that clear [contrary to misrepresentations of its holdings by some critics, as further discussed below].

Turning now to the specific FTC 11/15/01 “Prepared Remarks,” some can be fully agreed with. Note, for example, the highlighted text in the following language from Section II of these FTC “Remarks”:

"In addition, there are broader public policy issues *involving IP law*. For example, if the patent review process is too permissive - e.g., patents are granted too easily for trivial or non-existent improvements that do not meet statutory requirements for patentability - competition through entry and expansion by others may be impeded.

Many of these and other issues cannot be addressed solely by enforcing the antitrust laws. They profitably can be addressed in our upcoming hearings, in which we anticipate that we will receive valuable input from business, consumer, and government representatives; the antitrust and intellectual property bars; economists; and academics."

¹ The IPO CAFC brief noted that the legislative history confirms that Section 271 *means what it says*. When Section 271 was amended in 1952 to cover “illegal extension[s]” of patent rights, it was recognized that the effect “might be to carve out an area in which the antitrust laws would not operate. . . . The proponents of the bill indicated that such a result [was] contemplated in the language of [the bill].” *Hearings on H.R. 3760 Before Subcommittee No. 3 of the House Committee on the Judiciary*, 82d Cong., 1st Sess., June 13, 14, and 15, 1951, Serial No. 9 at 207. When Section 271 was amended again in 1988 to make clear that refusal to license a patented invention was not an illegal extension of the patent right, the bill’s principal proponent cited cases holding that a refusal to license did not violate the antitrust laws and stated that “codification of the ‘refusal to use or license’ as not constituting patent misuse is consistent with the current caselaw and makes sense as a matter of public policy.” 134 Cong. Rec. H10646, H10648 (Oct. 20, 1988) (statements of Rep. Kastenmeier).

The above statement that “many of these and other issues cannot be addressed solely by enforcing the antitrust laws” is an understatement. These are entirely PTO and/or patent validity problems. Note that this stated topic does *not* relate to fraudulent obtaining or fraudulent enforcing of patents, for which there is existing and fully effective antitrust law, and complete unenforcably defenses. My other comment on this stated topic is that few if any of said “business, consumer, and government representatives; the antitrust .. bars; economists; and academics antitrust experts” are even qualified or competent to speak on this stated topic. That is, competently addressing, or helping to correct, alleged problems with the topic of “patents granted too easily for trivial or non-existent improvements that do not meet statutory requirements for patentability.” That requires expert working knowledge of the operations of the PTO and its laws and regulations, the patent laws, and CAFC case law. That is, extensive actual patent prosecution experience with the realities of what really goes on in the U.S. Patent Office during the examination process, and in patent enforcement, especially, the limited PTO resources available for prior art searching, and the inadequacies of the two current patent reexamination systems. Only examination-registered and well experienced patent practitioners are fully competent to speak on that subject. Also, expert patent attorney input is needed for realistically evaluating patent enforcement, including familiarity with the many recent precedential patent claim-narrowing decisions of the Federal Circuit.

As one example of a prior public comment on the above issue, below is a copy of my letter sent to, and published in, the MIT *Technology Review* in 2000, well before this hearing was contemplated:

'MIT Technology Review - Letters to the Editor'

As a long-time IP lawyer, I greatly appreciate the public service your latest issue has provided by extensive, thoughtful, articles on intellectual property (IP) law, especially Internet business related patents. They were unusually free of the misleading "patent nonsense" [bad pun intended] typical of many media articles on IP.

However, a few additional points should be made:

First, the U.S. has the patent system it pays for. The U.S. public is NOT willing to spend several thousand dollars extra for a really thorough prior art search and examination of all of the more than 220,000 patent applications a year [do the arithmetic - it's real money]. So, we have what the public, via Congress, has been willing to charge in patent fees - a system in which the norm is a single young patent examiner, with a technical degree but no formal legal education, allowing a patent application after only about six-twelve total hours available for examining it. With only part of that brief time available to search for prior art, the U.S. Patent and Trademark Office (PTO) is inherently going to issue many patents that will not stand up to much more expensive searching scrutiny for novelty or

unobviousness over every piece of prior art available in this "information explosion" era. [Not even to mention the PTO's searching systems and inadequate software database problems.]

Another point not to overlook, however, is that only the CLAIMS of a patent determines its breadth, and most patents have claims too narrow to stop careful companies from using other versions of basic concepts.

Also, even for apparently broad patent claims, preliminary (pre-trial) injunctions, as in the Amazon v. Barnes & Noble "one-click" suit, are rare.

Also, there is a very low cost alternative to patent litigation to get rid of invalid patents: reexaminations. Although reexamination fairness could be greatly improved, at least it doesn't have the high presumption of validity which the CAFC (the controlling appeals court) gives patents in litigation. Reexamination can be requested for any U.S. patent, at any time, by anyone, with a simple document and a fee payment. [Under the new 11/29/99 patent statute there will be a choice of two different types of reexaminations.] But, you have to do more than just kvetch! You have to submit really relevant patents or publications which are earlier than the patent's filing date. [You should probably also submit an affidavit as to why what is being claimed should have been obvious from those prior publications to one of ordinary skill in that technology.]

This ties in to another way in which flaky patents can be exposed - by setting up "patent busting" web sites, to which anyone can email cites and copies of specific prior art, for anyone to use in a reexamination, or otherwise.

As noted in the Schulman article, the PTO Commissioner may even start a reexamination himself or herself in egregious cases with sufficient media coverage, IF the public provides the PTO with adequate prior publications.

Furthermore, our new patent reform statute of 11/29/99 provides a limited "prior user defense" for business methods, including software, which you were commercially using from a year before the patent was filed, even if not published.

Last but not least, WITHOUT effective IP protection, any "me-too.com" can enter the same business, and take it over or destroy the profit margins. Thus, as your article points out, a key public benefit of IP protection by patents [or trade secrets, mask works and/or copyrights] is supporting venture capital investments in new businesses.

However, for LONG TERM success of internet businesses, I predict that old fashioned hard-earned customer reputations for quality and service generates the strongest and most valuable IP of all - Famous TRADEMARKS which the public has come to trust.

...

Paul F. Morgan
330 Oakdale Dr.
Rochester, NY 14618
Tel. (H) 716-442-0027 (W) 716-423-3015

Referring now to Section III. A. of these FTC "Remarks," entitled *'The Increasing Number of Patents,'* the "commentators suggested . . . explanations" stated there for this increase are speculative and deficient. An objective evaluation of the increasing number of U.S. patents granted over the years must take into consideration the following highly relevant additional factors which were not even mentioned by the quoted "commentators":

First, there is the large increase in investments in research and development, and the exponential explosion in technology, which can only be effectively protected by patents from being taken for free by others in most cases. This is emphasized, for example, by the famous observation that “most of the scientists in the history of the world are alive today.” The principal form of long distance transportation in my childhood was by steam locomotive or steamship. Most current consumer and office devices, and the controls of automobiles, businesses, factories and communication systems, etc., did not even exist a single generation ago. However, they are quickly taken for granted with little lay-public appreciation of all their inventive and novel technologies. Merely as one example, the 1/21/02 “Business Week” reports that one-third of 3M Corp. revenues are from products that did not exist four years ago.

Secondly, there has been the great increase in the number of U.S. patents being sought and obtained in recent years *by foreign applicants*, increasing to more than 40% of total U.S. patent applications.

Thirdly, the total number of patents *issued* is a meaningless number for purposes of this hearing. The only relevant number is the number of *unexpired patents in force*. Since the change in U.S. patent law requiring payment of substantial “maintenance fees” *a large percentage of U.S. patents are now abandoned only 3½, 7 ½, or 11 ½ years after they issue*. Those patents are as freely available to the public as full term expired patents, and must be excluded from any realistic analysis of whether the number of U.S. patents is actually increasing or not.

As to some of the other quoted academic speculation by “commentators” in this same Section III. A., the old “*patent thicket*” bugaboo has little factual basis, and was discredited in the one case in which it was thoroughly aired, *SCM v. Xerox, supra*. The new AT theory of competition in “innovation markets” (related to “patent pooling”) seems to be based on the contents of some untried, untested, government complaints against a few patent pools which the defendants did not consider worth contesting. [A complaint is not normally considered a source of legal authority.] Also, this commentator, who does not have any esoteric knowledge of economics, confesses to difficulty in seeing an “innovation market” where there is no product to market, especially one that has not even been invented yet.

Further as to “patent pooling,” inventions in some technologies, like airplane safety for example, may have good public policy reasons for being shared rapidly among all manufacturers. Do we really want to fly in some airplanes having less safety features just to enhance competition on that basis?

The other cited, and related, bugaboo, of “*overlapping patents*,” has little basis in legal reality. If a patent was actually “overlapping” it would be invalid under well established patent laws of “double patenting,” or because the other patent was “prior art,” or because the patents would be “interfering” with one another. Only one year after the publication or issuance of a patent application it becomes irrefutable “prior art” against any subsequently filed patent application under the 35 USC §102(b) bar and 35 USC §103. Under the extensive 1999 AIPA patent reform law, almost all important patent applications will now be published only 18 months after they are originally filed, and thus become prior art.

Furthermore, under *current* patent law, filing continuations, or filing divisional patent applications (which can only be filed on separate inventions that are fully disclosed in the original application) *no longer extends the term of any of those patents*. All related patents now have a patent term running from, and limited by, the *original* filing date of the *earliest* application from which priority benefit is claimed in any of them. The statute thus now precludes related-patent extensions of patent terms by divisionals, which was part of the rubric of “overlapping” patent accusations.

Also, no longer can some individual applicants who had previously manipulated delay opportunity loopholes in PTO operations obtain an effectively much longer patent by long delayed issuance of “submarine” patents. This 1995 legislative limiting of patent terms from their filing dates rather than their issue dates represents a significant *narrowing* of the economic impact of patents [contrary to an NAS “project” allegation discussed below]. It now prevents long-delayed patent issuances (and keeping them a secret) until others have made major commercial product investments, and then rewriting their long-pending application claims to cover those major investments of others. [Once a patent has issued, no part of its claims can be broadened in any respect after 2 years, nor can cancelled claims be “recaptured”.]

One reason a larger number of patent applications are often required in the chemical and pharmaceutical industries is because patenting requirements differ in those arts. In particular, the typical refusal of the PTO to grant broad or generic patent claims in those two particular

technologies without plural or multiple species examples in the specification. The PTO thus effectively forces filing separate patent applications on separate species of the invention as they are developed and tested, because it is too dangerous to risk delaying filing until after completing all the research and testing for many different chemical species. That is dangerous not only because of the above “prior art” problems, but also because the rest of the world operates on a “first to file,” not a “first to invent,” patenting basis. Even in the U.S., the first to file can almost always overcome someone filing later. Thus, applications on improvements or new species need to be filed promptly after they are invented, not delayed for combining into later-filed generic applications.

In any case, patents cannot ever be truly “overlapping” because a later patent cannot ever block the utilization of any prior patents or products, or prior public knowledge, only the infringing use of the newly disclosed and claimed improvement itself. Nor can valid patents be obtained on previously known medicinal-property plants or trees, old herbal or tribal remedies, or anything else previously publicly known or used or published, contrary to widespread current internet and third world political-agenda propaganda and legal nonsense.

Referring now to Section III. B. of the FTC Chairman’s “Remarks,” it contains a statement which can be strongly *agreed* with: *“there may be a divergence between the legal life and the economic life of a patent.”* That is very frequently the case, particularly considering typical three to four year delays in obtaining a patent in new technologies. Thus, it is quite common for a patent to be effectively obsolete, and thus effectively worthless, before it even issues, or shortly thereafter. Yet the speed of obsolescence is increasing with the increasing pace of innovation and knowledge. This delay in issuing patents also seriously deters new business venture capital funding. Delays in obtaining patents are even longer where an appeal is required to obtain broad claims, or there is an interference proceeding. Even after a patent is finally obtained, the patent litigation to enforce it can drag on for more years, by which time the infringer may well have developed an alternative non-infringing product which cannot be enjoined, and thus only be liable for limited back damages, at most. Delays in issuing patents also impacts a key pro-competitive feature of patents – providing prompt full, enabling, public disclosure of otherwise secret technology.

Thus, the FTC and the Justice Department should be strongly supporting adequate PTO funding, and the elimination of said PTO fee diversions, to reduce such highly undesirable

patent application processing and examination delays. Even though the PTO is fully user fee supported, not taxpayer supported, recent Administrations have allowed, and even directly supported, a growing practice of taking patent fees paid by the public away from the PTO and spending them on completely unrelated projects. That is a *de facto* “innovation dis-incentive” tax. The FY 2003 Administration Budget proposal contains a shocking \$162 million PTO inventor’s “fee increase” *to be entirely diverted away from the PTO to a completely unrelated activity*.

Another alleged issue raised in this FTC paper Section III. B. is not even understood. It says: “Another issue to consider is whether, in some industries, strong technology companies can extend the economic significance of patents beyond their corresponding legal lives.” ? The Courts have expressly held that no royalties can be obtained for patents after their expiration date, and of course a patent is fully dedicated to the public as of its expiration date. E.g., *Brulotte v. Thys*, 370 U.S. 29 (1964).

As to the alleged increase in licensing in certain technologies, besides the absence of hard data, it is particularly worth noting that the exponentially increasing pace of new technology has resulted in entire new technologies which did not even exist 20 years ago, that is, less than the lifetime of *any* patent in that technology. Therefore, it should not be surprising that in certain completely new technologies, such as parts of biotechnology, that some fundamental *pioneer* patents are still unexpired (unlike other, more mature, technologies). Therefore, it should not be surprising that more licensing may be required in order for such pioneer inventors to reap their justly entitled Constitutional reward.

With respect to so-called “business method patent” problems [many should be more accurately described as novel software-enabled method patents], I have already noted that the problems in that area are primarily Patent Office examination and database problems, and media misinformation problems. Furthermore, the extensive 1999 AIPA patent reform statute has already provided a major new defense against business method patents.

If the FTC or Justice Department want to help on this and other such patent examination issues, they should help support passage of the pending legislation strengthening the two existing *patent reexamination* systems, to better enable simple, low cost, narrowing or elimination of invalid issued patent claims on prior art which the PTO missed or did not

appreciate in the necessarily brief initial PTO examination of the patent application. [Passage of some of that pending legislation already appears likely.] Also, better databases of prior art on software and business methods should be encouraged.

Further as to patent reexaminations, last year PTO Commissioner Q. Todd Dickinson helpfully responded to *pro bono* suggestions by myself and others for some internal PTO reexamination procedural reforms that could be accomplished without requiring any statutory or formal rulemaking. These were announced in 1237 OG 138 (the PTO “Official Gazette”) of August 29, 2000 entitled Change in Policy of Examiner Assignment in *Ex Parte* Reexamination Proceedings and Establishment of Patentability Review Conferences in *Ex Parte* Reexamination Proceedings.

Referring now to Section III. C., an NAS (National Academies of Science) “project” is cited there for the *legal* conclusion that: “*Intellectual Property rights have been greatly strengthened in this country since the 1980’s through legislation and judicial interpretations.*” I have some familiarity with that NAS [subsidiary] “Project of the Board on Science, Technology and Economic Policy” (STEP) of the “National Research Counsel” (NRC), their “public hearing” last year, and their published alleged bases for their above *legal* conclusion. The latter contains several clearly erroneous statements about IP law and its history. [They will be readily apparent to knowledgeable IP attorneys who have actually practiced IP law “*since the 1980’s.*”] Merely as some examples of those errors, they include misrepresentations that software and mask works were not legally protectable until the copyright statute was amended to expressly say so (see the caselaw); that software was not previously patentable (industrial methods and machine controls specifically implemented by software have been patented for many years); that trade secrets are now federalized (all *civil* trade secret rights have always been, and remain, controlled by state law or common law); and that the term of patents has been made “less predictable” (when, in fact, the generation of “submarine” patents has been legislatively eliminated, as discussed above, by changes since 1995 in the patent statute making patent terms run (and thus expire) from their original filing date instead of their (variable) issue date). The law now punishes those who delay issuance of their patents by *reducing* their patent term. Also, I am not aware of any legal education or qualifications of the two indicated principals of that NAS NRC project, Dr. Richard Levin, President of Yale University, and Dr. Mark Myers, a former corporate V.P. Neither is listed as an inventor or co-inventor on any

patents which I can find in the PTO's on-line searchable patent database, although I found two old (1960's era) patents listing Dr. Myers as a co-inventor in another database. There is also no NAS representation, or likelihood, that these NAS "project" views reflect the views of any former employers. I find it particularly disturbing that the FTC would cite *lay* opinions on what are clearly *legal* questions as to IP legislation and IP case law, and without checking for legal errors in their underlying legal assumptions.

The statutory extension of the copyright term is, of course, one example of an extension of IP rights in that time period [not defended by this writer]. However, in that same time period there have also been important legal clarifications that copyrights do *not* protect *any* ideas, technologies, functions or independent work, merely the actual copying of unique forms of authorship expression. Furthermore, there has also been a significant *narrowing* of copyrights, denying protection for many valuable extensive and costly data or fact collections, including entire telephone books, by a major 1991 Supreme Court decision in this time period (*Feist v. Rural Tel.*, 499 U.S. 340) increasing author originality requirements for copyrights.

As to patents, the overwhelming view of those actually practicing patent law is that in recent years the current Federal Circuit has been moving to severely *limit* the scope of patent claims, and therefore severely *limit* the enforceability of patents. Merely as one supporting example, Professor (of patent law) Irving Kayton has recently published the following and other comments in connection his well-known "Patent Resources Group" CLE course for patent attorneys:

"During the past 12 years, it has been as difficult to get a patent claim held infringed under the doctrine of equivalents in passage through the CAFC as it was to have one held valid under §103 more than 20 years ago when the regional U.S. Courts of Appeals reviewed patent cases." ... "Using and following the clear blueprint and virtual flow diagram, delineated by the CAFC in cases from *Pennwalt* to today, any patent practitioner can counsel his or her client on how to 'design around' the patented invention with almost certain impunity - a design which appropriates the patented invention, and which, prior to *Pennwalt*, would have been held an infringement rather than the socially desirable activity of 'designing around.'" ... "[T]o put it simply, *Festo*, in combination with other Federal Circuit cases expanding the list of estoppel-

creating events, effectively precludes all access to the doctrine of equivalents for all claims that have been amended or argued in any way, and does so retroactively for all patents now in force. *Query: How many patents has the reader procured in the past five years in which no claim was amended?*” ... “Moreover, under the guise of *claim interpretation*, a current line of cases has held claims in predictable arts that are indisputably literally infringed, (i.e., the claims read literally on the accused devices or processes), to be *not* infringed by *the simple artifice of importing, by fiat, limitations or elements from the specification into the claims*. Those cases are: *Hockerson-Halberstadt Inc. v. Avia Group International*; *Watts v. XL Systems, Inc.*; *Kimberly-Clark v. Tyco International*; *Wang Labs, Inc. v. America Online*; *Toro Co. v. White Consolidated Indus.*; *Scimed Life Systems v. Advanced Cardiovascular Systems*; and *Netword, LLC v. Centraal Corp.*”

Not surprisingly, a very high percentage of patent infringement suits are now being disposed of on summary judgements of non-infringement. Without any trial, and without even needing to address any patent invalidity issues. Especially since the recent judicial imposition of pre-trial “Markman” hearings for judicial claim interpretation. Also in said 1980 to present time period, the courts has greatly expanded the scope of draconian totally-patent-fatal defenses for “best mode,” “inequitable conduct,” “duty of candor” and broadening reexamination violations. Nor will the CAFC read patent claims more narrowly to save them from prior art, or give any broader scope to “pioneer” patents, as prior caselaw did. The change in typical patent practice from bench trials to jury trials was also not the result of any legislative changes. But all of these changes have inherently precluded or otherwise affected many patent suit outcomes as compared to patent cases of prior generations.

In *Symbol Technologies, Inc. v. Lemelson Medical, Education & Research Foundation, L.P. 00-1583* on Jan. 24, 2002, the Federal Circuit held that the equitable doctrine of laches may bar enforcement of patents granted after unreasonable and unexplained delay in the USPTO, i.e., “submarine patents”. It is unfortunate that other District Courts took so long to get that issue to the CAFC for a decision.

There is, however, one specific CAFC caselaw precedent which some patent attorneys feel has somewhat over-strengthened the *difficulty* in challenging patent *validity*, especially for “obviousness,” in patent litigation. See, e.g., the article published by the highly respected IPL leader Don Martins in the October 1999 ABA IPL Newsletter, and my own JPTOS article published September, 1994, Vol. 76, No. 9, at p. 720-721. The Federal Circuit early-on adopted a general requirement of “*clear and convincing evidence*” to invalidate patents on almost all grounds in patent litigation [but not in PTO proceedings]. That was not really a new evidentiary requirement, merely an extension of an existing one developed by the United States Supreme Court as early as “The Barbed Wire Patent Cases” of the 18th century, in view of the ease and prevalence of manufactured fraudulent evidence of alleged older prior art devices. This CAFC “*clear and convincing evidence*” rule also helpfully addressed the frequent use or abuse of *ex post facto* allegations of hired “experts,” like science professors, in patent litigation to testify that the patented invention would have been 35 USC §103 “obvious” (in hindsight).

This is, again, a patent law, not an antitrust law, issue, and there is a simple “fix” for the above. It is to simply legislate [or, convince the CAFC to *en banc* reverse itself] that the burden for proving invalidity of a patent may be by a normal “preponderance” of the evidence (rather than “clear and convincing”) *when the authenticity of documentary prior art is not in dispute*. That would cover typical prior art in the form of patents, or printed publications of a known date. It would leave the “clear and convincing evidence” standard for what it was originally intended for, i.e., evidence which can be too easily “manufactured” by a defendant, such as alleged dates of prior invention, alleged prior public use or sale of alleged old prior products allegedly containing the inventive features, and hindsight oral allegations of “obviousness” by paid trial “experts”.

Another concern by some patent attorneys as to the CAFC caselaw standards for finding patents to be “obvious” is an apparently rather high requirement of a finding of a *specific suggestion* to combine references. This is exemplified most recently in *In re Lee*, ___F3d___, ___USPQ2d___, (Fed. Cir. 1/18/02). It reiterates, *inter alia*, that: “...a showing of a suggestion, teaching, or motivation to combine the prior art references is an essential component of an obviousness holding” quoting *C.R. Bard, Inc., v. M3 Systems, Inc.*, 157 F.3d 1340, 1352, 48 USPQ2d 1225, 1232 (Fed. Cir. 1998); *In re Dembiczak*, 175 F.3d 994, 999, 50 USPQ2d 1614, 1617 (Fed. Cir. 1999) (“Our case law makes clear that the best defense against

the subtle but powerful attraction of a hindsight-based obviousness analysis is rigorous application of the requirement for a showing of the teaching or motivation to combine prior art references.’); *In re Dance*, 160 F.3d 1339, 1343, 48 USPQ2d 1635, 1637 (Fed. Cir. 1998) (there must be some motivation, suggestion, or teaching of the desirability of making the specific combination that was made by the applicant); *In re Fine*, 837 F.2d 1071, 1075, 5 USPQ2d 1596, 1600 (Fed. Cir. 1988) (‘teachings of references can be combined only if there is some suggestion or incentive to do so.’) (quoting *ACS Hosp. Sys., Inc. v. Montefiore Hosp.*, 732 F.2d 1572, 1577, 221 USPQ 929, 933 (Fed. Cir. 1984)).” . . . “*In re Kotzab*, 217 F.3d 1365, 1371, 55 USPQ2d 1313, 1317 (Fed. Cir. 2000) (‘particular findings must be made as to the reason the skilled artisan, with no knowledge of the claimed invention, would have selected these components for combination in the manner claimed’)” .. “*In re Fritch*, 972 F.2d 1260, 1265, 23 USPQ2d 1780, 1783 (Fed. Cir. 1992) (the examiner can satisfy the burden of showing obviousness of the combination ‘only by showing some objective teaching in the prior art or that knowledge generally available to one of ordinary skill in the art would lead that individual to combine the relevant teachings of the references’).” However, it is noted that there are other CAFC decisions that have found patent claims to be obvious from a combination of references in the same field of art without any such specific suggestion for their combination.

Another actual current patent law problem is with CAFC *stare decisis*, or inconsistencies between CAFC panels on points of patent law, either by ignoring earlier panel decisions on point or by directly disputing them. For example, on the scope of “product by process” claims, and on whether there is laches from patent owners failing to pay attention to, or investigate, long-infringing products of others before sending any notice or bringing suit. Some of these *stare decisis* problems may be due to the unfortunately small number of patent attorneys appointed to the CAFC.

Further as to this issue there is noted an article by William C. Rooklidge and Matthew F. Weil in the November 1998 Journal of the Patent and Trademark Office Society (JPTOS), entitled “Stare Un-Decisis: The Sometimes Rough Treatment of Precedent in Federal Decision Making”. Two follow-on articles by those authors are: “Judicial Hyperactivity: The Federal Circuit's Discomfort with its Appellate Role”, 15 BERKELEY TECHNOLOGY L.J. 1 (2000); and “In Banc Review, Horror Pleni, and the Resolution of Patent Law Conflicts”, 40 SANTA CLARA L. REV. 101 (2000).

Another current actual patent concern is the number of patent threats or suits being brought on very old, even expired, patents – especially, contingent-fee shakedown suits for license fees just under defense litigation costs by so-called small inventors. [Taking patent suits on a contingent fee basis used to be very rare.] Few non-patent attorneys are even aware that (unlike other torts) there is no actual statute of limitations or repose for patent suits. Only a limitation on back damages of 6 years back from the date of suit, plus preclusion of damages or an injunction from the patent expiration date. That allows suits to be brought against products that have been using the claimed invention as long as 20+ years from the filing date of the patent application even for patents granted under the current patent term statute, and much longer than that for some pre-1995 granted patents.

It should be noted that the recent Supreme Court *Wal-Mart* and *Traffix* decisions have significantly *reduced* anti-competitor “*trade dress*” suits against product configurations. Such *product trade dress suits* had heretofore been far less constrained in scope and term than patent suits, much more difficult to end by summary judgement, and confused by differences in the law between Circuits.

Turning now to Section III, E. of the FTC “Remarks,” the Federal Circuit's recent decision in an independent service organization (ISO) suit (*CSU v. Xerox*) is specifically discussed. I will respond below, to the best of my own limited personal knowledge and recollection, because I believe that this case has been seriously misrepresented by some commentators. {By way of full disclosure and disclaimer, I had indirectly followed that litigation of my client, and had offered a few patent law suggestions as it went along, but I was not ever directly involved in it.}

A more *objective* discussion of the complete and actual *CSU v. Xerox* CAFC holding may be found in the January 2001 *Brief of the United States Solicitor General* requested by the United States Supreme Court and presumably relied upon by the Supreme Court in its decision to deny certiorari in that case. The Solicitor did *not* ignore the patent statute and the consistent prior Supreme Court authority that the right to exclude [and not be compelled to license or sell] the patented invention is the very essence of the patent grant and its value.

First, it should be noted that that this litigation is now over, other than what appears to be some “revisionist history” by some AT critics. The Supreme Court was asked to take cert. on this decision, and refused to do so after seeking and obtaining advice from the United States Solicitor General. Some of the criticisms by some AT lawyers of this CAFC decision have been based on quotes taken out of context and ignoring other CAFC statements of law, and/or would confuse this completely unilateral refusal to license patent case with very legally and factually different cases on *contractual agreement restraints of trade*.

As recently as a January 9 “AT-IP REPORT” “Newsletter” for the FTC's anti-CAFC-jurisdiction position in the [very different] case of *Holmes v. Vornado* (now pending at the Supreme Court), the following representation was made in the first paragraph: " ...in *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000), the Federal Circuit had jurisdiction to decide CSU’s antitrust claim because Xerox had counterclaimed for patent infringement, *even though the patent issues were not appealed.*" [Emphasis supplied]. It is hoped that this italicized representation will not be made to the United States Supreme Court in *Holmes v. Vornado*. In fact, CSU was specifically appealing to the CAFC from the D.C. holding of patent infringement, on a counterclaim suit for patent infringement, for which the CAFC has exclusive jurisdiction. CSU was arguing an alleged antitrust "misuse" of the patents as a complete, and sole, defense to their patent infringement, both below and on appeal. Thus, the identical facts and issues were in dispute and on appeal for both the initially asserted AT and the patent infringement. It would have been completely duplicative, inefficient, and illogical to have had two different courts of appeal decide exactly the same issues on exactly the same facts in *that* case.

It is disingenuous to attempt to equate the *CSU v. Xerox* case with the very different factual and statutory situation of *Holmes v. Vornado*, which is a DJA against asserted “*trade dress*” infringement, not an AT case, in which the counterclaimed patent (of the trade dress owner) is presumably legally and factually *irrelevant* - without legal or factual issues in common - with either the trade dress case or its defense. In fact, for the same party to sue on both a patent and trade dress on the *same* product feature would be “shooting oneself in the foot” under the recent Supreme Court *Traffix* decision. Furthermore, the actual CAFC *holding* in *Holmes v. Vornado* (as to which CAFC jurisdiction is being objected to) has nothing to do with patents, it is on *collateral estoppel of the same trade dress by a prior 10th Circuit decision!*

Furthermore, there were other significant differences in the *CSU v. Xerox* case which clearly distinguish it from the prior 9th Circuit *Kodak* case on ISO's, which some commentators (but not the United States Solicitor General) have attempted to equate. [That 9th Circuit *Kodak* decision has been widely criticized by Judges and others for its unworkable subjective intent test, but that is beyond the scope of my comments.] Among other distinctions, unlike *Kodak*, Xerox did *not* ever refuse to sell its patented parts to any purchasers or lessees of any Xerox machines needing any parts. Furthermore, in the *Kodak* case, Kodak's alleged patent rights were only belatedly argued as a belated AT defense attempt, and never even identified, much less ever sued on and proven to be infringed. In contrast, in the Xerox ISO case the ISO (CSU) *was* successfully sued for patent infringement of specifically identified Xerox parts patents. Likewise as to extensive blatant direct copying of copyrighted Xerox software and service manuals, also generated at great R&D cost by Xerox for many of its major products. That ISO never even alleged any attempts to develop its own diagnostic software or service manuals, or to "design around" the Xerox patents on Xerox parts. The ISO was simply blatantly ignoring Xerox patents and copyrights. That ISO did not even attempt to obtain patented parts legally, as it could have, by having the customers order their needed parts, or by designing non-infringing substitutes. That ISO instead simply exploited scofflaw sources of infringing direct copies of patented Xerox parts, presumably without quality controls.

A general question that should be asked of critics of the *CSU v. Xerox* CAFC decision is this: Is it the intent of Congress (much less publicly desirable) to force a developer of a new product to give a *compulsory and free license* in any and all Intellectual Property in that new product to anyone who wants to get into the product servicing business, without doing any work, or paying anything, to freely copy and use infringing parts and materials from any source?

Note also that well established patent law *already* provides a very strong "*repair vs. reconstruction*" *legal defense* providing a *de facto* free license for anyone to replace any worn or replaceable parts of a patented product *without* infringement of any patents on the overall product itself (as opposed to a patent on the specific part itself). {Otherwise, the ISO's could have been infringing hundreds more patents.}

Another important legal value of the *CSU v. Xerox* opinion, disliked by some AT commentators, is that in spite of efforts to misinterpret or ignore the congressional intent and

specific language of 35 USC §271(d), that statute was correctly applied in this case. In my personal experience, the real problem seems to be that it is difficult for some antitrust lawyers to accept the fact that any provision in the Patent Laws can be relevant to antitrust issues, even though this statute specifically addresses them, as discussed earlier in these comments and footnote ¹.

Furthermore, some commentators seem to have deliberately confused a purely *unilateral* refusal to license a patent (a right expressly guaranteed by the Patent Statute), as in the *CSU v. Xerox* case, with very different cases involving *contractual* tying or other restraint of trade *agreements*. As the Attorney General's Report on the Antitrust Laws noted years ago, *unilateral* refusals to deal are not specifically covered by any specific provision of the antitrust laws.

Thus, **35 USC §271(d)** is not in conflict with any other laws, and does not need to be changed or "reinterpreted." Congress has spoken. It merely needs to be properly applied to and limited to the situations it covers.

If the United States government, directly, or via its authorized procurement suppliers, chooses to infringe *any* patent, it may always *do so freely*, without fear of any injunction. Only a very limited jurisdiction (sovereign immunity waver) claim for *damages* is provided to any patent owner. [Notwithstanding some recent widely media reported alleged statements of a Government Official as to acquiring a patented antibiotic drug in connection with the anthrax scare.] [Also, as to that controversy, query if forcing someone to sell something below the going market price might be an unconstitutional "taking," irrespective of whether or not it was patented?]

Furthermore, a recent decision of the United States Supreme Court has rendered all of the *states* of the United States effectively *immune* from any patent enforcement! There is also some existing caselaw suggesting that where a patented product is of great public health importance, a court can choose to refrain from granting an injunction for infringement.

As to the noted issues of the pharmaceutical industry with respect to the Hatch-Waxman Act of 1984, these are unique issues with that special FDA-delays-related legislation that should be dealt with in separate proceedings. It should not be confused with the recent antitrust investigation against what is alleged to have been an unusual contractual restraint and reverse payment included in a patent litigation settlement agreement between a patent holder and a

potentially competing generic drug manufacturer. The latter alleged *contractual* conduct is not representative of normal licensing, or normal patent litigation settlements, and does not need new legislation.

Referring now to paragraph 3B of the FTC Remarks on industrial “standards setting” the FTC has already acted effectively in some questionable situations in which a patent or patent application owning company knowingly actively participated in the setting of a standard which would result in widespread infringement of its patents without disclosing the existence of its patents to the other members of the standard-setting organization. Thus, current law seems adequate. Also, that problem is now being specifically addressed in advance by the rules and/or contracts of most technical standards-setting organizations.

It should be noted however, that “standards setting” patent issues are often not as clear or simple as the situation above. For example, a low-level engineer in a large company may be participating to some extent in some standards-setting without the knowledge of the company or its patent attorneys. Or, the company may well not even be aware that it may have a pending application that may eventually be granted patent claims arguably relevant to a product complying with the final agreed standard. Also, few participants in most standard-settings are legally competent to decide what patent claims of their company, if any, might actually apply to products that might change to comply with a new standard. It is hoped that FTC enforcement actions in this area will appreciate these difficulties.

Finally it should be noted that disputes (or agreements) among economists over the lack of sufficient economic data to “justify” the patent system on that basis ignore one of the most fundamental principles of law *and* economics. Namely, that radical and highly disruptive changes in long-established legal systems can have very serious social and economic consequences, and should not be undertaken lightly. Especially, without replacing them with a clearly better, more workable, and tested, system. That is, providing a practical alternative system of incenting technological innovation and the recoupment of large R&D investments. The problem is that *none exists!*

Modern patent systems (those protecting only useful and novel innovations for a limited term, not “royal monopolies”) have now had several hundred years of development and testing, by practical human experience, in many countries, over those centuries, from Venice (one of the best-governed nations of the renaissance, as Jacque Barzan points out) and other leading

countries, including the famous Act of Parliament under Elizabeth the First of England. Thus, it is no accident that such a limited patent system was enshrined in the United States Constitution itself, and that similar patent systems are part of *every* major industrial (non-third-world) country in the world.

Academic discussions are one thing, but it would be quite another matter to make serious proposals to "throw the baby out with the bath water" with radical legislative proposals based merely on speculative economics and/or underlying assumptions as to *current* IP law that may not even be correct, as demonstrated above.

Further as to real-world economic examples, another commentator has pointed out that if very weak or effectively non-existent patent systems (allowing anarchical stealing of all R&D investments of others) were economically beneficial to a country, countries on the Commerce Department's TRIPS "watch list" of IPL "scofflaws" should all be booming.

To the contrary, economic studies have shown the direct relationship to national industrial success of long term predictability and stability in property laws, including patent law. E.g., Institutions, Institutional Change and Economic Performance by Douglass C. North, (a Nobel Prize winner in Economics) Cambridge University Press. Although patent law is not normally referred to as "commercial law," in effect it is. A key principle of commercial law, being reconfirmed by some economists (e.g., recently reported studies of the economic failures of South American countries), is that what is really important is to provide long term legal predictability or certainty, so as to encourage and enable long term capital investment rather than the flight of capital to other countries. The full economic effects of major changes in patent law on the funding and commercialization of new technology and new commercial products would be incalculable, but obviously be very large. What are the *measurements* for lost patent protection or interrupted new technology efforts, for actual or proposed patent law changes? Some recent oral argument responses to questions from the Supreme Court in the *Festo* case illustrate the danger and unreliability of mere attorney argumentation in this area, which the undersigned can only hope the Supreme Court will not rely on in its decision.

Even from a purely legal philosophy perspective, established legal principles should not be lightly changed on a pedagogical or theoretical basis, as expressed much more eloquently by the great Judge Learned Hand, per his recent biography.

Furthermore, the fundamentalness of *exclusivity* to intellectual property law is clear. The Constitution explicitly provides that Congress shall have the power “To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the *exclusive right* to their respective writings and discoveries.” Article I. § 8, cl. 8 (emphasis supplied). Implementing that right, the Patent Code, 35 U.S.C. § 154, provides the “*right to exclude others* from making, using, offering for sale or selling the invention throughout the United States ..”. Congress has further specifically provided that refusing to give up that “right to exclude” shall not be a basis for denying a patent owner relief or deeming the owner guilty of “misuse or illegal extension of the patent right” in 35 U.S.C. §271(d)(4), as discussed above. It has often been demonstrated, and almost universally held by the courts, that only the threat of *injunctive* relief will adequately protect and reward patent owners. Especially, to protect small innovative high-risk start-up businesses (like Haloid) from being promptly crushed by much larger companies copying market-demonstrated new technologies. The Copyright Act, 17 U.S.C. §106, likewise provides the owner with the “*exclusive rights*” to reproduce, distribute, copy, perform, or display various copyrighted works. The Trademark Act, 15 U.S.C. § 1114, similarly requires permission of the registrant to use registered marks in commerce. Trade secret laws also provide for enjoining wrongful users of trade secrets. Thus, *exclusivity* is the very essence of the intellectual property right, and the core of intellectual property protection.

In conclusion, it is respectfully suggested that if the FTC and the Justice Department wish to help improve the patent system, as this hearing indicates, they should work with experienced patent practitioners, and actively support final passage of pending legislation that will ***improve the existing statutory patent reexamination system, and help stop PTO fee diversions***. A strengthened reexamination system will make it easier and more effective for anyone to be able to remove or narrow invalid patent claims, in a PTO proceeding which is much less expensive and time consuming than litigation, and does not require a “clear and convincing” burden of proof. I have also noted herein a suggestion for legislation to modify that CAFC evidentiary rule burden for contesting patent invalidity based on fully authenticated documentary evidence. Several of the erroneous allegations by “commentators” as to intellectual property law on which this hearing is based have been factually rebutted herein,

balanced with personal views on some *genuine* current patent law difficulties. I have also noted herein three specific enforcement activities in which I believe that FTC and/or Justice have commendably already taken appropriate actions against certain unusual activities not encompassed or protected by IPL rights.

As noted, these are purely personal and independent observations and comments, submitted in hopes of clarifying some of the IPL issues being raised in this public hearing. I have serious *pro bono* professional concerns as to Intellectual Property Law misinformation that has already been given to the FTC, as reflected in some above-discussed FTC quotations of “commentators.” These personal comments do not represent the views of any client or employer. Nor has any client or employer even read or reviewed them. Any errors or omissions are entirely my own.

Respectfully submitted,

Paul F. Morgan