

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

Statement of

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Before the

**Subcommittee on Intellectual Property,
Competition, and the Internet**

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On

**Crossing the Finish Line on Patent Reform: What
Can and Should be Done**

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Mr. Chairman:

I am pleased to have the opportunity to present the views of the Coalition for 21st Century Patent Reform on the need to improve the United States patent system and to present the legislative reforms that our Coalition believes will address this need. We especially appreciate your holding this hearing with a focus on crossing the finish line. For too long now, many beneficial improvements to the patent system have been held hostage while solutions to difficult and highly controversial issues have been pursued.

The U.S. patent system has, in most respects, functioned remarkably well. Since its last major revision nearly sixty years ago, however, certain aspects of the patent system have come to work less well. For those members who are new to the Subcommittee, a few words about where we have been leading up to this Congress might be appropriate.

The current momentum to revise the patent system began with the 2003 report of the Federal Trade Commission, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy." The Federal Trade Commission found that, while most of the patent system works well, some modifications were needed to maintain a proper balance between competition and patent law and policy. The FTC made ten recommendations that focused on achieving the appropriate balance between patent owners' rights to effective exclusivity in valid patents and the public's right to be free from the competition-limiting effects of invalid patents.

The effort to revise the patent law was kicked into high gear with the release of the report of the National Academies of Sciences, Committee on Intellectual Property Rights in the Knowledge-Based Economy (NAS) in April 2004. The Committee was co-chaired by the President of Yale University, Richard C. Levin, and Visiting Executive Professor of Management at The Wharton School at the University of Pennsylvania, Mark B. Myers. Following an intensive four-year study, the NAS found that, while the patent system was working well and did not require fundamental changes, economic and legal changes were putting new strains on the system. To address these concerns, the NAS offered seven recommendations for achieving a 21st Century patent system:

1. Preserve an open-ended, unitary, flexible patent system.
2. Reinvigorate the non-obviousness standard.
3. Institute a Postgrant Open Review Procedure.
4. Strengthen USPTO capabilities.
5. Shield some research uses of patented inventions from infringement liability.
6. Modify or remove the subjective elements of litigation.
7. Harmonize the U.S., European, and Japanese Patent Examination Systems.

The FTC and NAS reports prompted the introduction of a series of patent reform measures beginning with H.R. 2795 by the predecessor of this Subcommittee in the 109th Congress in 2005. Patent reform bills have been introduced in both the House

and Senate in each of the succeeding Congresses, including most recently, S. 23, which was favorably reported by a unanimous vote of the Senate Judiciary Committee last week.

I will focus my remarks on the major improvements that we believe the current legislative process can realistically achieve.

First-Inventor-To-File

The adoption of a first-inventor-to-file system with a grace period is an essential reform for significantly simplifying the patent laws, providing fairer outcomes for inventors, speeding final determinations of patentability, and reducing overall costs for procuring patents. The first-inventor-to-file principle was recommended by the NAS and was originally included in H.R. 2795 by then Chairman Smith in 2005. This change in U.S. patent law would bring a much needed simplification of the process and reduce the legal costs imposed on U.S. inventors. It would also improve the fairness of our patent system, and would significantly enhance the opportunity to make real progress toward a more global, harmonized patent system in general.

The current system is based on complex proofs of invention and is fundamentally unfair to independent inventors and small entities due to its costs and complexities. It frequently does not award patents to the first to invent. It uniformly awards patents to the first-inventor-to-file for a patent except where sufficient, corroborated invention date proofs can be marshaled to demonstrate that a second-to-file inventor can overcome the presumption currently afforded under our patent law in favor of the inventor who filed first. Moreover, the expense and complexity of the first-to-invent system mean that an inventor can be first to make the invention and first to file a patent application, but still forfeit the right to a patent because the inventor cannot sustain the cost of the “proof of invention” system.

Former PTO Commissioner Gerald J. Mossinghoff compiled empirical data that demonstrates that independent inventors, whose right to patent their inventions depended on their ability to prove that they were ‘first to invent,’ more often than not lost contests to determine who was first-to-invent.¹ In a follow-up paper, Mossinghoff found that the rate of loss by independent inventors has accelerated.² An analysis by Professors Mark A. Lemley and Colleen V. Chien suggested that the current first-to-invent contests are more often used by large entities to challenge the priority of small entities, not the reverse.³ This evidence further supports Mossinghoff’s conclusion that the first to invent system is not working to the benefit of small entities as many incorrectly believe.

¹ Gerald J. Mossinghoff, The First-to-Invent System Has Provided No Advantage to Small Entities, 88 J. Pat & Trademark Off. Soc’y 425 (2002).

² Gerald J. Mossinghoff, Small Entities and the ‘First to Invent’ System: An Empirical Analysis, Washington Legal Foundation (April 15, 2005) <http://www.wlf.org/upload/MossinghoffWP.pdf>).

³ Are the U.S. Patent Priority Rules Really Necessary?, 54 Hastings Law Journal 1 (2003)

Given the cost, complexity and demonstrable unfairness imposed by the present first-to-invent system, it is clear that a change to a first-inventor-to-file system in our patent law is justifiable simply on grounds that it is the best practice. In addition, with the adoption of a first-inventor-to-file rule, 35 U.S.C. §102 can be greatly simplified. Prior art would no longer be measured against a date of invention: if anticipatory information was reasonably and effectively accessible before the earliest effective filing date of a patent application, no patent issues. Similarly, the question of whether an inventor 'abandoned' an invention would no longer be relevant. And, of course, proofs of conception, diligence, and reduction to practice likewise become irrelevant. A first-inventor-to-file system will also clearly benefit businesses, both large and small. It will eliminate the present delays and uncertainty associated with resolution of lengthy interference proceedings that frustrate business planning. In addition, it will remove the potential cloud over important inventions that will always be present in a first-to-invent system.

With accompanying changes that bring objectivity to the determination of what information can be used to assess the patentability of an invention - patents, printed publications, or other publicly known information - the adoption of the first-inventor-to-file principle would allow the United States to join the world patent community and make patentability determinations on objective criteria using publicly available information. The public could more readily assess the validity of granted patents and avoid costly litigation. It would also facilitate making other reforms, especially the creation of a fair and effective opportunity to promptly challenge patents during a short period after grant to weed out any questionable patents that might have slipped through. Finally, adoption of first-inventor-to-file would encourage US inventors to file for patents more quickly, thereby preserving rightful priority for their inventions, both in the US and in countries around the world where priority is determined solely by who reaches the patent office first.

H.R. 2795 and H.R. 1908 (as introduced) would have transitioned from the current first-to-invent to a first-inventor-to-file principle at a date certain following the date of enactment of the Act. H.R. 1908 was amended before it was passed by the House, however, to condition or trigger the first-inventor-to-file principle taking effect upon the "patenting authorities in Europe and Japan" adopting a grace period substantially the same as that contained in H.R. 1908. H.R. 1260 continued this trigger. S. 515, the Senate counterpart to H.R. 1260, did not contain such a trigger and S. 23 does not either.

Denying the benefit of a first-inventor-to-file system to U.S. inventors would be unwise and would not be effective in internationalizing a grace period. The patent law harmonization treaty discussions began over twenty-five years ago and a successful conclusion appears further away now than ever. Further, since 1995, foreign-based inventors have had the benefit of a change in U.S. patent law required by the TRIPs Agreement that has allowed them to prove dates of invention based on work in their countries. This change largely, if not totally, eliminated the clamor of other nations for

the United States to adopt a first-inventor-to-file system. Thus, the “persuasive” force of using U.S. adoption of first-inventor-to-file as a negotiating chip to obtain a grace period is very limited. The likely effect of this provision would simply be to deny to U.S. inventors the advantages of a first-inventor-to-file system, perhaps indefinitely. For these reasons, the 21st Century Coalition urges the Subcommittee not to condition the effective date for first-inventor-to-file on other nations’ adopting a grace period.

Preissuance submission by third parties

One feature of all the patent reform bills, beginning with H.R. 2795 in 2005 through H.R. 1260 in 2009, that has drawn near universal support is the proposed amendment of section 122 to allow a member of the public to submit information for consideration by examiners following the publication of patent applications. Such pre-issuance submission of information affords a means for enhancing the quality of issued patents by assuring that all available prior art is considered and the most thorough examination possible is conducted in the USPTO before a patent examiner decides whether to issue a patent. In addition, the provision is crafted in a manner that gives the public maximum opportunity to submit such information while at the same time protecting against the disruption of the PTO’s examination process and harassment of patent applicants. The 21st Century Coalition has consistently supported this provision as an important quality-enhancing complement to post-grant review and would urge its inclusion in any patent reform bill this Subcommittee develops.

Post-Grant Reviews of Patents

NAS recommended and H.R. 2795 included an all-issues, post-grant-review procedure in which a patent could be challenged during the initial nine months from grant on any of the issues of invalidity that could be considered in litigation, including double patenting and any of the requirements for patentability set forth in sections 101, 102, 103, 112, and 251(d) of title 35. In the 110th Congress, this Committee crafted a constructive compromise for certain features in the post-grant review (“PGR”) procedures in H.R. 1908 prior to its approval by the House. This compromise provided the opportunity for a robust post-grant proceeding during the initial 12 months after patent grant, followed by an expanded *inter partes* reexamination procedure for the remainder of the life of the patent. Under this compromise, all issued patents would now become eligible for *inter partes* reexamination, but these *inter partes* reexaminations would be limited to patentability issues under sections 102 (novelty) and 103 (non-obviousness) based on prior patents, printed publications and certain written admissions of the patentee.⁴ Although some suggested allowing reexamination based upon prior public uses and sales, that suggestion was rejected as both unworkable and unfair.

⁴ H.R. 1908, as passed, would have expanded *inter partes* reexamination procedures to permit consideration of “written statements of the patent owner filed in a proceeding before a Federal court or the Patent and Trademark Office in which the patent owner takes a position on the scope of one or more patent claims.”

Unfortunately, in our view, this compromise approach was not followed in H.R. 1260 in the 111th Congress. That bill would have added a new paragraph (3) to § 301 of title 35 that would have expanded the grounds upon which an *inter partes* reexamination could be instituted to allow consideration of public uses or sales in the United States. Challenges based on uses and sales, that could have occurred many years in the past after memories have faded and evidence has become hard to find, would have made fair and effective processing nearly impossible to achieve in a timely and equitable fashion. S. 515, the Senate counterpart of H.R. 1260, originally contained similar language,⁵ but after considering the problems raised by the admission and proofs of such inherently unreliable grounds, the Senate Judiciary Committee voted to eliminate the “public use and sale” language in subsequent iterations of *inter partes* reexamination procedures in S. 515. The Senate Committee recognized that adding “prior public use or sale” to *inter partes* reexaminations in this procedural setting would severely disadvantage patentees. Challengers and patent owners should be given a full and fair opportunity to challenge and defend patents on a neutral playing field, preferably before the patentee has invested heavily in commercializing the invention. Adding prior public sale or use arguments in reexamination proceedings initiated many years after the alleged acts took place, without guaranteeing the right of the patent holder to take discovery and cross examine witnesses, who may be available only through a judicial process, would not provide a fair proceeding for patent owners. Accordingly, the 21st Century Coalition urges this Committee to retain the improvements to *inter partes* reexamination initiated by the House in H.R. 1908 and perfected by the Senate Judiciary in the Managers’ Amendment to S. 515 in the last Congress and in S. 23 in this Congress.

S.23, as approved by the Senate Judiciary Committee, also continues some very important safeguards that have been refined during the consideration of post-grant proceedings. In the “first window” post-grant review (PGR) proceeding available during the initial nine months following patent grant:

- the threshold for initiating the proceeding requires that the information presented in the petition be sufficient to establish that it is more likely than not that at least 1 of the challenged claims is unpatentable;
- a petitioner cannot initiate a PGR if it has previously filed a civil action challenging the validity of the patent or more than six months after a petitioner is required to respond to a civil action filed by the patentee;
- a petitioner may not request or maintain a PGR with respect to a claim on any ground that the petitioner raised or reasonably could have raised during a PGR, and may not assert the invalidity of a claim in a civil action arising under section 1338 of title 28 on a ground raised during a PGR that resulted in a final written decision;
- if a patentee files an action alleging infringement within 3 months of patent grant the court may not stay its consideration of a motion for a preliminary injunction on the basis that a PGR has been filed or instituted;

⁵ S. 515 as introduced would have amended paragraph (1) of Section 301 to allow the citation of “evidence that the claimed invention was in public use or sale in the United States more than 1 year prior to the effective filing date of the application for patent in the United States.”

- all PGRs will be conducted by the Administrative Patent Judges on the Patent Trial and Appeal Board (“PTAB”); and,
- a final determination in a PGR must be issued not later than 1 year after it is instituted (with a possible 6 month extension for complex cases).

Similar safeguards and protections for patentees would be added to “second window” *inter partes* reexamination (IPR) proceedings. These include a higher threshold (reasonable likelihood of prevailing) for initiation, stronger estoppels (no subsequent proceedings in the Office or court on grounds that “the petitioner raised or reasonably could have raised”), IPRs would be conducted by the PTAB, and final determinations would be required in one year/18 months. These safeguards make IPRs quicker, fairer, and less burdensome for both patentees and challengers than existing *inter partes* reexamination proceedings.

The 21st Century Coalition strongly supports the post-grant procedure in S. 23 that resulted from the collaborative work of the House and Senate Judiciary Committees and urges this Subcommittee to adopt that work product.

Adequately Funding the USPTO

One of the most critical problems facing the patent system today is the need to provide adequate and stable funding for the US Patent and Trademark Office (“USPTO”). Many of the criticisms and concerns about the patent system stem from the issuance of patents of questionable merit. The simple fact is that the resources available to the USPTO have not kept pace with the growth in patent filings. In the past 20 years, the backlog of unexamined patent applications has grown from 104,179 in FY 1990 to 736,331 in FY 2010.⁶ However, more thorough examination, more training for examiners, upgrades to the IT infrastructure needed to enhance efficiency and implementation of the enhanced mechanisms available in S. 23, e.g., 3rd party submission of prior art, the new PGR proceedings, etc. all require funding that the USPTO does not have.

Both the NAS and FTC recognized this problem and recommended providing the USPTO with the resources and capabilities necessary to cope with a workload that has grown dramatically both in size and complexity. As patent rights have become more central to our nation’s economic growth and competitiveness, the failure to have a fully funded Patent and Trademark Office is no longer acceptable. We cannot emphasize enough the need to ensure that the Office be given the financing and operational flexibility required to carry out these reforms effectively and efficiently.

Contrast this with current activities in China where the State Intellectual Property Office (“SIPO”) is embarking on an unprecedented surge in hiring of patent examiners to more quickly process the rapidly increasing patent filings across China. According to a recent

⁶ United States Patent and Trademark Office Performance and Accountability Report, Fiscal Year 2010 <http://www.uspto.gov/about/stratplan/ar/2010/USPTOFY2010PAR.pdf>

SIPO report, China intends to roughly double the number of patent examiners to 9,000 within the next 4 years.⁷ The US has only about 6,300 examiners. We concur with the conclusions reached by USPTO Director David J. Kappos in the NY Times article that “The leadership in China knows that innovation is its future”...They are doing everything they can to drive innovation, and China’s patent strategy is part of that broader plan.”

The 21st Century Coalition has long favored authorizing the Director to set fees charged by the Office as proposed in the 111th Congress by H.R. 1260. However, this authority is only a partial solution. It must be coupled with a mechanism to ensure that the fees collected can be retained by the USPTO and spent for the purposes for which they were paid. This necessary step would have been achieved by H.R. 5322, introduced by the former Chairman, Mr. Conyers, and the former Ranking Member, Mr. Smith, late in the 111th Congress. This legislation would have established in the Treasury of the United States a revolving fund to be known as the “United States Patent and Trademark Office Public Enterprise Fund”. Patent and trademark fees collected under the relevant sections of the patent and trademark laws would be deposited into the Fund and be available for use by the Director without any fiscal year limitation. Patent and trademark users would be more than willing to have their fees set at a level that would fully fund the Office if given the assurance that their fees would be used for the purposes for which they were paid. Unfortunately this legislation did not advance in 112th Congress, but we are very hopeful that it or a similarly effective solution will be incorporated in the patent reform bill that this Subcommittee develops.

Patent Marking

Another recent legislative proposal that is sorely needed is H.R 4954, introduced in the 111th Congress by Representative Issa with ten cosponsors, including Chairman Smith and ranking Member Conyers. Congressman Issa’s bill would eliminate the archaic *qui tam* remedy for false marking in section 287 of existing law, in favor of allowing any party that has suffered competitive injury as a result of such marking to seek compensatory damages. The bill would continue to allow the United States to seek the \$500-per-article fine.

The origins of the marking provisions in Section 287 trace back to 1842⁸ when it was difficult to determine whether an article of manufacture was patented unless the patent owner notified the public by placing the term “patent,” together with the number of the patent, on the product itself. The notice function served by section 287 is as outdated in today’s internet-enhanced, mass communication world as a horse and buggy would be on today’s super highways.

Failure to modernize the marking statute, including elimination of the *qui tam* provision, has opened the door to costly and unproductive litigation. Beginning with *Forest Group*,

⁷ “When Innovation, Too, Is Made in China, *New York Times Magazine*, January 1, 2011.

⁸ 5 Stat. 544-45 (1842).

*Inc. v. Bon Tool Co.*⁹, opportunistic individuals and entities have literally deluged federal district courts with *qui tam* actions under subsection 292(b) targeting high volume products. The vast majority of these suits are based on situations where products marked with a valid patent number continued to be sold for a time after the patent's expiration. Given the time and difficulty involved in changing molds or other means by which a product is marked as patented, it is hardly surprising that some such sales occur for a period of time.

Statistics published by Justin E. Gray reveal that over 800 *qui tam* actions have been filed since the *Bon Tool* decision was handed down on December 28, 2009.¹⁰ The *Bon Tool* decision stimulated such actions with its holding that the statute “requires courts to impose penalties for false marking on a per article basis.” The Federal Circuit reinforced the incentive for *qui tam* actions in August 2010 by ruling that the phrase “Any person” in section 292(b) operates as a statutory assignment of the United States’ rights even though the *qui tam* plaintiff has suffered no injury.¹¹

If indeed there is any party that might suffer an injury, it would be the competitors of a patentee who failed to remove a patent number from a product – a prospect now more likely since some attorneys are advising companies to stop marking patent numbers on their products altogether despite the significant benefits that inure to the patent holder when products are marked.¹²

H.R. 4954 would have corrected this imbalance by empowering competitors who suffer actual competitive injury by virtue of a falsely marked product to bring actions under subsection 292(b) to recover damages adequate to compensate for their injury. Representative Issa’s bill would leave in place the authority of the government to bring actions on behalf of the public in any cases where false marking has harmed the public distinct from any injury to competitors. S. 23 goes a step further and clarifies that only the United States may sue for the penalty authorized by subsection 292(a). Revisions to the marking statute such as proposed by Representative Issa and contained in S. 23 represent a fair and balanced solution that enjoys overwhelming support across all industries. We strongly urge that such provisions be incorporated into the patent reform bill this Subcommittee develops.

Subjective factors in patent litigation

The NAS found that among the factors that increase the cost and decrease the predictability of patent infringement litigation are issues unique to U.S. patent jurisprudence that depend on the assessment of a party’s state of mind at the time of the alleged infringement or the time of patent application. These include whether a

⁹ 590 F.3d 1295 (Fed. Cir. 2009)

¹⁰ see Gray on Claims, <http://www.grayonclaims.com/>

¹¹ *Stauffer v. Brooks Bros., Inc.*, Fed. Cir. App. No. 2009-1428, -1430, -1453

¹² (see “Will Anything Stem the Pending Flood of Patent-Marking Suits?” The Wall Street Journal Law Blog, September 1, 2010).

patent application included the “best mode” for implementing an invention, whether an inventor or patent attorney engaged in “inequitable conduct” by intentionally failing to disclose all prior art when applying for a patent, and whether someone “willfully” infringed a patent. The NAS concluded that reform in these areas would increase predictability of patent dispute outcomes and reduce the cost of litigation without substantially affecting the underlying principles that these aspects of the enforcement system were meant to promote. I will address each of these factors in turn.

Best mode – The requirement in existing law for an inventor to disclose the “best mode” for carrying out the invention is one of the highly subjective aspects of current law that the NAS recommended be significantly limited or eliminated. It introduces unnecessary cost and unpredictability into patent infringement litigation, and does not provide the public with any better disclosure than that required by the written-description and enablement provisions of section 112.

Both H.R. 1260 and S. 515 (as introduced) would have only precluded the initiation of a PGR on the basis of the failure to disclose the “best mode;” neither bill would have eliminated it from the patent law. S. 23 would amend section 282(b) to remove failure to disclose the best mode as a defense to patent validity. The elimination of this problematic feature as a basis for invalidating a patent would reduce litigation costs and further harmonize US patent laws with those of the rest of the world. We would urge the Subcommittee to at least remove best mode as a basis for invalidating a patent if not eliminating the requirement altogether.

Inequitable conduct – The defense of unenforceability on the ground of inequitable conduct was originally intended to apply to egregious cases such as where a patent applicant obtained a patent by intentionally withholding or misrepresenting prior art that would have been fatal to patentability. Over time, infringers began routinely alleging inequitable conduct in cases where the prior art at issue did not negate patentability, and where any non-disclosure or misrepresentation by the patentee was at most negligent. This development led the Federal Circuit to refer to the inequitable conduct doctrine as an absolute “plague” on the patent system,¹³ and NAS to recognize that the subjective intent requirement of inequitable conduct was highly uncertain and of little if any value. Accordingly, NAS recommended that the “inequitable conduct” doctrine – which otherwise would permit a court to refuse to enforce an entirely valid and clearly infringed patent – be eliminated or at least substantially curtailed. While the need for inequitable conduct reform continues to exist, neither S. 515 nor H.R. 1260 contained any provision to implement this NAS recommendation. Nonetheless, the Federal Circuit is now in the process of an *en banc* reconsideration of this doctrine.¹⁴

Willful infringement – Section 284 of the patent law provides that a court “may increase the damages up to three times.” The statute provides no standard for the court to apply in making this determination. In practice the threshold question, usually submitted to a

¹³ Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed.Cir.1988)

¹⁴ Therasense, Inc. v. Becton, Dickinson & Co., Fed. Cir. App. No. 2008-1511, -1512, -1513, -1514, -1595

jury, is whether the defendant has been “willful” in the infringement. If the jury finds willfulness, then the judge will determine whether and how much to increase damages.

The NAS found that the willful infringement doctrine had perverse anti-disclosure consequences (companies instructing engineers to not read patents for fear of a charge of willful infringement) and recommended the doctrine be substantially curtailed or eliminated. Beginning with H.R. 2795, all of the patent reform bills have struggled to find the right formula to appropriately implement the NAS recommendation. In August, 2007, the Federal Circuit in an *en banc* decision in *In re Seagate*¹⁵ found the “duty of care” willfulness rule, which it created in 1983 in *Underwater Devices Inc. v. Morrison-Knudsen Co.*¹⁶, was inconsistent with the Supreme Court’s view that to be willful, some level of “objective recklessness” must be involved. While an attempt was made with S. 515 in the last Congress and with S. 23 in the current Congress to legislate an “objective recklessness” standard, the courts have not waited and have adopted and applied the *Seagate* standard. Last week, the Senate Judiciary Committee approved an amendment offered by Senator Feinstein to strike the willful infringement provision from S. 23. We agree with this action in light of *In re Seagate* and subsequent lower court rulings following the *Seagate* guidance and believe that legislation on willful infringement is no longer needed.

Supplemental examination

The bipartisan Managers’ Amendment to S. 515 contained a provision for “supplemental examination” which was continued in S. 23. This provision would allow a patent owner to ask the Office to consider or correct information believed relevant to patentability. If the information submitted raises a substantial new question of patentability, a reexamination will be ordered. Any patent emerging from such reexamination shall not be held unenforceable on the basis that such information had not been previously considered. While the “supplemental examination” does not correct the problems identified by NAS with the inequitable conduct doctrine, we do support the concept of supplemental examination and would urge that it be included in any bill developed by the Subcommittee.

Venue

The question of where a patentee should be able to bring an action for patent infringement was first added to the patent reform process by the Amendment in the Nature of a Substitute to H.R. 2795 in July 2005 offered by then Chairman Smith. Proponents of this provision contended that it was necessary to prevent their being sued by shell entities with mailboxes located in their favorite venues thousands of miles from any real parties of interest, evidence, or witnesses to maximize their leverage. In the last Congress, both H.R. 1260 and S. 515, as introduced, contained such a provision that essentially limited the venue for patent infringement actions to the location

¹⁵ 497 F.3d 1360 (Fed. Cir. 2007) (en banc)

¹⁶ 717 F.2d 1380 (Fed. Cir. 1983)

of the defendant. The difficulty with these provisions was that they precluded traditional corporations from bringing suit where they performed their research, development, and manufacturing activity.

While not unsympathetic to the problems caused by forum shopping, the 21st Century Coalition believes that any curative provision must be balanced and have a minimal increase in litigation costs – qualifications which these venue proposals have not satisfied. More importantly, as has happened with other patent reform proposals that are subject to judicial as well as legislative correction, the courts acted first. The Federal Circuit in *In re TS Tech USA Corporation*¹⁷ held that “a motion to transfer venue should be granted upon a showing that the transferee venue is ‘clearly more convenient’ than the venue chosen by the plaintiff.” This approach has been applied by the Federal Circuit in several subsequent cases, demonstrating its intent to end forum shopping. Similar such language was incorporated into the bipartisan Managers’ Amendment to S. 515 and also in S. 23. While we believe this development of the law – favoring transfer upon a showing that the transferee venue is ‘clearly more convenient’ than the venue chosen by the plaintiff is sound – is desirable, we believe its codification is no longer necessary.

Patent Damages

No patent reform proposal engendered more controversy than that relating to patent damages.¹⁸ Neither the FTC nor the NAS recommended limiting reasonable royalty damages. The proposals to constrain perceived excessive damage awards have taken various forms, including limiting such damages to the “realizable value that should be credited to the inventive contribution”¹⁹ or, more recently, the “invention’s specific contribution over the prior art.”²⁰

Presently, reasonable royalties are determined by looking at the realities of the marketplace at the time the infringement began to determine what the infringer would willingly have paid, and what the patentee would have willingly accepted for a license to do what has later been found to be the infringement. In our view, the case has simply not been made that there is any need to reform the way patent damages are now awarded. This was recognized by the Federal Circuit in *Lucent Technologies, Inc. v. Gateway, Inc.*²¹ where the court signaled that it is not the substantive law on damages that needs to be revised; what is needed is more discipline in the proof and analysis

¹⁷ 551 F.3d 1315 (Fed. Cir. 2008)

¹⁸ William C. Rooklidge and Alyson G. Barker, “Reform of a Fast-Moving Target: The Development of Patent Law Since the 2004 National Academies Report,” JPTOS, March, 2009, Vol. 91, Number 3, pages 153 – 199, also available at http://www.patentsmatter.com/issue/pdfs/20090205_rooklidge_barker.pdf See also Scott Shane, The Likely Adverse Effects of an Apportionment-Centric System of Patent Damages http://www.mfgpatentpolicy.org/images/Appportionment_of_Damages_Adverse_Effects_Jan14_09.pdf (Jan. 14, 2008).

¹⁹ Amendment in the Nature of a Substitute to H.R. 2795, 109th Congress

²⁰ H.R. 1260, 111th Congress

²¹ 580 F.3d 1301 (Fed. Cir. 2009)

presented by the parties on damages and in the trial court's review of the sufficiency of the evidence supporting such damage claims. The bipartisan Managers' Amendment to S. 515 adopted this reasoning in a "gate keeper" provision that directs district court judges to follow the Federal Circuit's guidance. This trend of clarifying the rules for determining reasonable royalty damages was most recently evidenced in *Uniloc USA, Inc. v. Microsoft Corp.*²² where the Federal Circuit held that the so-called "25 percent rule of thumb" rule that automatically allocates 25% of the profits to the patent owner is a "fundamentally flawed tool for determining a baseline royalty rate." The *Uniloc* court also emphasized that "for the entire market rule to apply, the patentee must prove that the patent-related feature is the basis for consumer demand." Given *Lucent Technologies* and *Uniloc*, the Federal Circuit appears to have obviated the need for a legislative "gate keeper" provision.

For these reasons, while the 21st Century Coalition is willing to accept the compromise reached in the Senate Judiciary Committee as a constructive response to the complaints of those who perceive there to be inconsistency and unfairness in awards of reasonable royalty patent damages, our Coalition remains unconvinced that any legislative change to the law of patent damages is needed. Accordingly, if the Subcommittee ultimately determines some that legislative guidance regarding the law of patent damages is needed, we would urge it to go no further than the "gatekeeper" damages compromise.

Conclusion

Mr. Chairman, the 21st Century Coalition for Patent Reform believes an effective and achievable patent reform bill is within our grasp. We believe that the problems identified by the NAS are satisfactorily addressed by the legislative proposals and judicial rulings that I have discussed above. Together, they provide solutions that will benefit the US patent system and the US Patent and Trademark Office, fairly balance the interests of the public, patent holders and patent challengers, and represent a balanced package of the least controversial and most widely accepted improvements to the patent system. Given the hard work by Senate and House staffers and countless stakeholders over the past several years, the pieces are now in place. We pledge our full support to work with you to bring this difficult journey to fruition.

²² 290 Fed. App'x 337 (Fed. Cir. 2011)