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United States House of Representatives
Subcommittee on Intellectual Property, Competition and the Internet**

Hearing

“Review of Recent Judicial Decisions on Patent Law”

Prepared Statement of
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My academic research interests focus on patent law, intellectual property law and internet law. In addition to traditional academic publications, I also author the *Patently-O Patent Law Blog* that has a daily circulation of over 30,000 and is regularly read by most US patent law practitioners. Prior to joining the University of Missouri faculty, I was a visiting professor at Boston University School of Law and worked as a patent attorney at a major intellectual property law firm in Chicago where I represented inventors pursuing patent protection as well as clients litigating claims of patent infringement. Before entering law school, I served as a United States Peace Corps Volunteer in rural Ghana, West Africa; worked as a manufacturing engineer in upstate New York; and conducted research on microgravity combustion with NASA. I am not a registered lobbyist, I do not represent any clients, and I do not own stock in any particular company with a vested interest in patent rights (beyond broad-based mutual funds).

This testimony is not intended to serve as a comprehensive analysis, but rather as an introduction to many of the important changes that have occurred in patent law over the past several years.

I. Introduction:

We are likely nearing a turning point in a decade-long process of patent reform. Although there is still clearly a strong demand for legislative measures, much has changed since the landmark FTC and NAS point-by-point criticisms of the patent law system were released in 2003 and 2004 respectively.¹ Likewise, much has changed in the six years since the Patent Reform Act of 2005 was introduced in the House of Representatives.² Perhaps in response to these external pressures, the Federal Courts have taken a more active role in shaping patent policy from the bench and have particularly addressed many of the concerns raised by the various patent reform initiatives.

II. The Rapid Developments in Patent Case Law over the Past Several Years:

In most areas of law, court-developed doctrines mature quite slowly. Over the past decade, however, patent law has been a dramatic counter-example. The courts have substantially altered many longstanding patent doctrines in the course of a few short years.³ Several factors combine to explain this phenomenon. First, unlike most other federal legal questions appealed to regional Circuit Courts of Appeal, virtually all patent law related appeals from across the country are heard by the Court of Appeals for the Federal Circuit (the "Federal Circuit"). The national reach of the Federal Circuit means that a ruling by the court has an automatic nationwide impact in much the same way that decisions by the United States Supreme Court have a nationwide impact. However, unlike the Supreme Court, the Federal Circuit hears hundreds of patent cases each year. Over the past ten years, the funneling of patent appeals to the Federal Circuit has resulted in the court hearing over four thousand patent infringement appeals in addition to its review of patent decisions from the United States Patent and Trademark Office (the "Patent Office") and the International Trade Commission.⁴ The large number of cases provides the court with the opportunity to rapidly shift the law, even when each case presents only an incremental change. In addition to the means to effect change, it is apparent that both the Federal Circuit and the Supreme Court have taken an interest in shaping

¹ Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy, A Report by the Federal Trade Commission*, October 2003; Nat'l Res. Council of the Nat'l Acads., *A Patent System for the 21st Century* (Stephen A. Merrill et al. eds., National Academies Press).

² Patent Act of 2005, H.R.2795.

³ See William C. Rooklidge & Alyson G. Barker, *Reform of a Fast-Moving Target: The Development of Patent Law Since fee 2004 National Academies Report*, 91 J. Pat. & Trademark Off. Soc'y 153 (2009).

⁴ Federal Circuit Statistics, *Filings of Patent Infringement Appeals from the U.S. District Courts* at <http://www.cafc.uscourts.gov>.

patent law policy.⁵ Finally, unlike many Federal statutes, the Patent Act as codified in Title 35 of the United States Code is a relatively sparse statute that leaves tremendous leeway for interpretation.

Over the past six years, the Supreme Court granted *certiorari* and issued a number of important patent decisions that:

- Make it easier to invalidate (or reject) a patent on obviousness grounds, *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (eliminating technical hurdles for proving an invention obvious and instead applying a “common sense” analysis for assessing patentability);
- Make it more difficult for a patent holding company to obtain injunctive relief to stop ongoing infringement, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (holding that even an adjudged infringer should not be automatically enjoined from continuing to infringe; rather an injunction should only issue after consideration of the traditional four-factor test for equitable injunctive relief);
- Make it easier for a manufacturer to obtain a declaratory judgment of non-infringement, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (holding that declaratory judgment (“DJ”) jurisdiction may exist even if the patent holder could not have sued the DJ plaintiff for infringement; apprehension that patentee will sue for infringement is not a necessary element for Article III jurisdiction);
- Solidify our understanding of the scope of patentable subject matter available for business method patents, *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) (invalidating Bilski’s claimed invention – a method of hedging against the occurrence of bad weather – as an unpatentable abstract idea);
- Limit the doctrine of export infringement under 35 U.S.C. § 271(f), *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007) (holding that Microsoft could not be held liable for exporting software code because the exported source code does not qualify as a “component” under the statute); and

⁵ Polk Wagner & Lee Petherbridge, *Is the Federal Circuit Succeeding? An Empirical Assessment of Judicial Performance*, 152 U. Pa. L. Rev. 1105 (2004) (“since its inception, the [Federal Circuit]—with some assistance from the Supreme Court—has moved aggressively in support of its widely perceived mandate”); Paul R. Michel, *Assuring Consistency and Uniformity of Precedent and Legal Doctrine in the Areas of Subject Matter Jurisdiction Entrusted Exclusively to the U.S. Courts of Appeals for the Federal Circuit: A View from the Top*, 58 AM. U. L. REV. 699, 702 (2009); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law’s Uniformity Principle*, 101 Nw. U. L. Rev. 1619 (2007); Dan L. Burk & Mark A. Lemley, *The Patent Crisis and How the Courts Can Solve It* (2009)

- Provide roadmaps for stronger patent licensing agreements, *see Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (patent “exhausted” under first sale doctrine because patentee did not restrict licensee’s sales to third party purchasers) and *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006) (holding that in antitrust tying cases, courts should not presume that a patent confers market power).

During this time, the Federal Circuit has also actively addressed patent reform issues with decisions that:

- Attempt to implement venue reform in a way that limits unreasonable forum shopping, *In re TS Tech United States Corp.*, 551 F.3d 1315 (Fed. Cir. 2009) (on writ of mandamus, ordering case transferred out of venue that had no meaningful ties to the patent infringement case);⁶
- Rationalize patent damage awards, *Uniloc USA, Inc. v. Microsoft Corp.*, ___ F.3d ___, 2011 U.S. App. LEXIS 11 (Fed. Cir. 2011) (holding that the 25% Rule for calculating patent damages is “fundamentally flawed” and that total product revenue cannot be considered in the reasonable royalty analysis unless the Entire Market Value Rule applies.) and *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009) (requiring a proof that purported “comparable” licenses used for calculating a royalty rate are, in fact, comparable); *Wordtech Systems, Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308 (Fed. Cir. 2010).
- Limit enhanced damages, *In re Seagate*, 497 F. 3d 1360 (Fed. Cir. 2007) (limiting the potential for treble damages to cases where the adjudged infringer’s actions were at least “objectively reckless”) (see Chart 1);
- Expand the false marking doctrine, *Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed. Cir. 2009);
- Limit inequitable conduct pleadings, *Exergen Corporation v. Wal-Mart Stores, Inc.*, 575 F.3d 1312 (Fed. Cir. 2009) (requiring that inequitable conduct pleadings include “specific who, what, when, where, and how of [any] material misrepresentation or omission”); and

⁶ The *TS Tech* decision appears to have had a major impact on patent venue jurisprudence. In the two years since the case was decided, its analysis has been followed by almost four dozen different courts. See, for example, *Promote Innovation LLC v. Leviton Mfg. Co.*, 2011 U.S. Dist. LEXIS 16294 (E.D. Tex. Feb. 17, 2011) (granting accused infringer’s motion to transfer venue from the Eastern District of Texas to the Eastern District of New York).

- Reject Patent Office substantive rulemaking authority, *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009).⁷

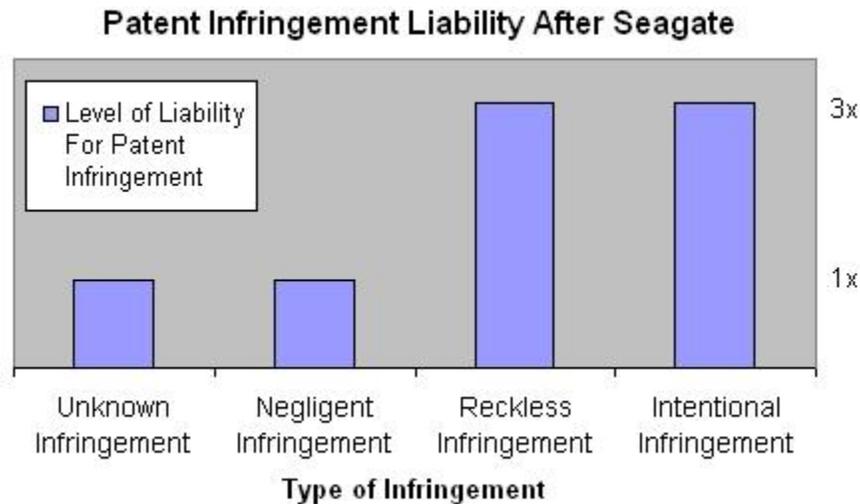
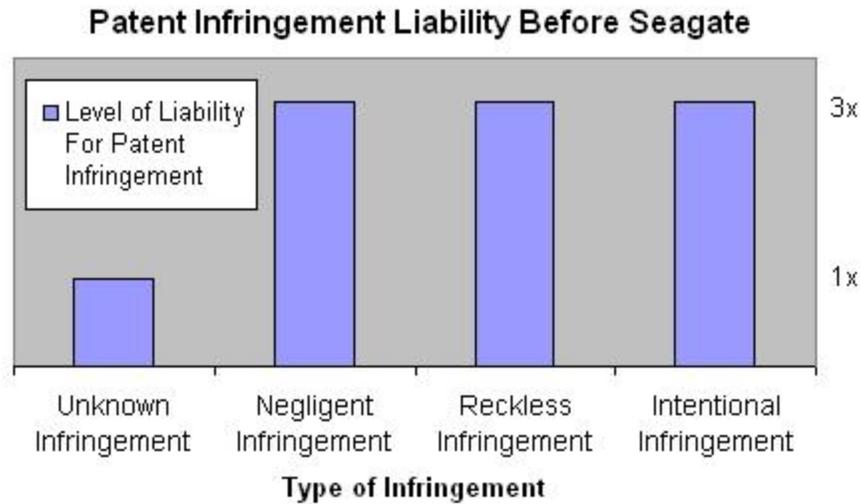


Chart 1

⁷ The *Tafas* decision was vacated pending rehearing en banc and eventually dropped after the USPTO retracted its planned implementation of rules that would limit both the number of claims that an applicant could file per patent application and the number of continuation applications an applicant could file based on a single invention disclosure. See also, Arti K. Rai, *Growing Pains in the Administrative State: The Patent Office's Troubled Quest for Managerial Control*, 157 U. PA. L. REV. 2051 (2009).

As we sit here today, the courts also have a number of important cases pending resolution. Among others, these include:

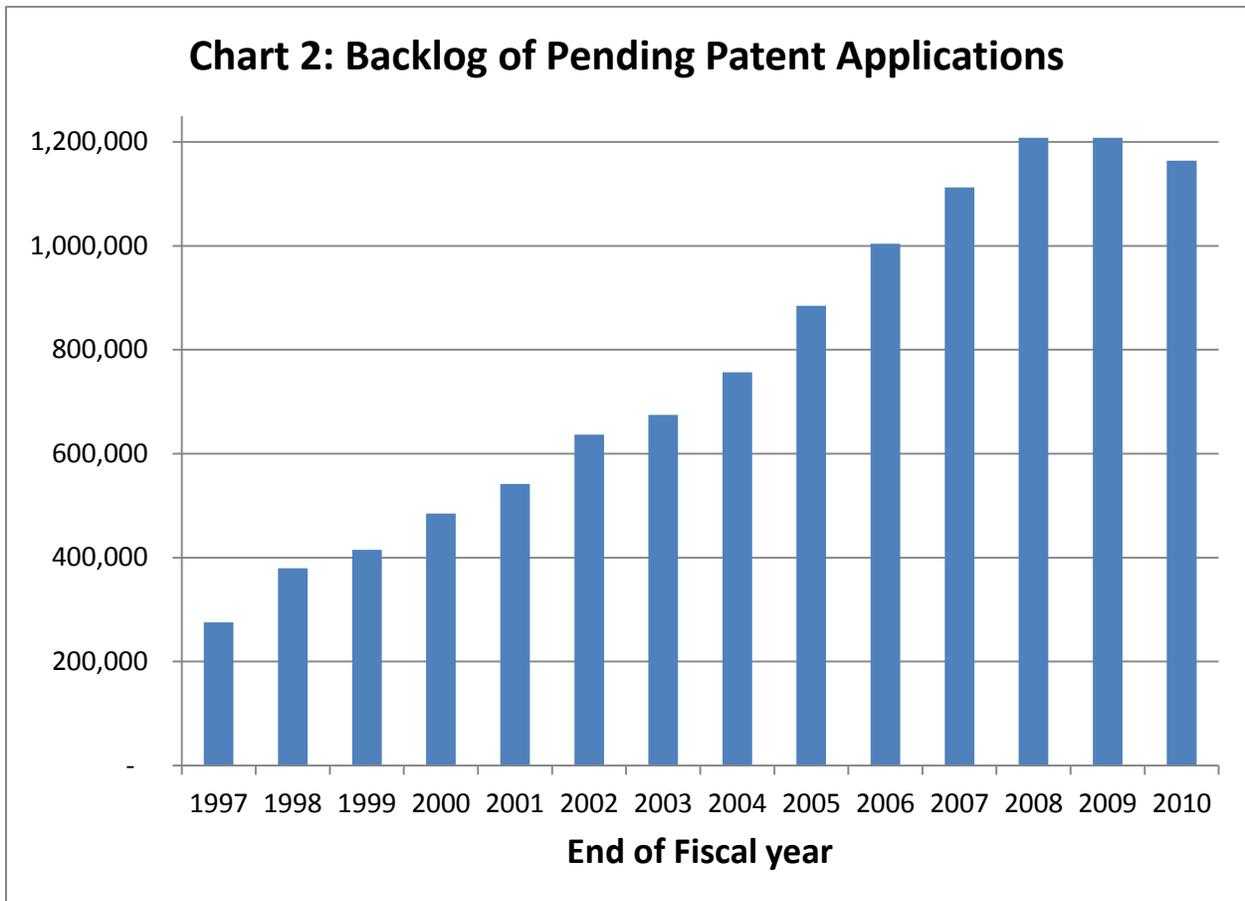
- A challenge to the presumption of validity associated with issued patents, *Microsoft Corp. v. I4I Ltd. P'ship*, 131 S. Ct. 647 (2010) (certiorari granted on the issue of whether the presumption of validity associated with an issued patent must always be overcome with clear and convincing evidence);
- A challenge to the patentability of genetic material, *See Ass'n for Molecular Pathology v. United States PTO*, 2010 U.S. Dist. LEXIS 35418 (S.D.N.Y. 2010) (holding BRCA gene patents invalid for being directed to a law of nature);
- A Constitutional challenge to the False Marking provisions of the Patent Act, *Unique Prod. Solutions, Ltd. v. Hy-Grade Valve, Inc.*, 2011 U.S. Dist. LEXIS 18237 (N.D. Ohio 2011) (holding the False Marking statute unconstitutional) and *United States ex rel. FLFMC, LLC v. Wham-O, Inc.*, Fed. Cir. App. No. 2011-1067 (pending appeal challenging Constitutionality of the statute);⁸
- A question regarding the *mens rea* requirement for inducing infringement under 35 U.S.C. § 271(b), *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 458 (2010) (grant of certiorari);
- A major challenge to the implementation of the judge made law of inequitable conduct, *TheraSense, Inc. v. Becton, Dickinson & Co.*, 374 Fed. Appx. 35 (Fed. Cir. April 26, 2010) (en banc order requesting briefing); and
- A challenge to patent ownership rights under the Bayh-Dole Act, *Bd. of Trs. of the Leland Stanford Junior Univ. v. Roche Molecular Sys.*, 131 S. Ct. 502 (2010) (grant of certiorari).

For better or worse, the courts have substantially shifted the playing field over the past six years. And, the cases currently pending and in the pipeline appear poised to continue this process. Of course, the courts have limited power and cannot make statutory amendments or offer funding to the Patent Office. It is safe to say, however, that the courts have addressed (or are addressing) virtually all of the legitimately raised patent reform issues that fall squarely within their purview. Within this dynamic, an important ongoing role of Congress is at least to ensure that the courts are making the right policy choices.

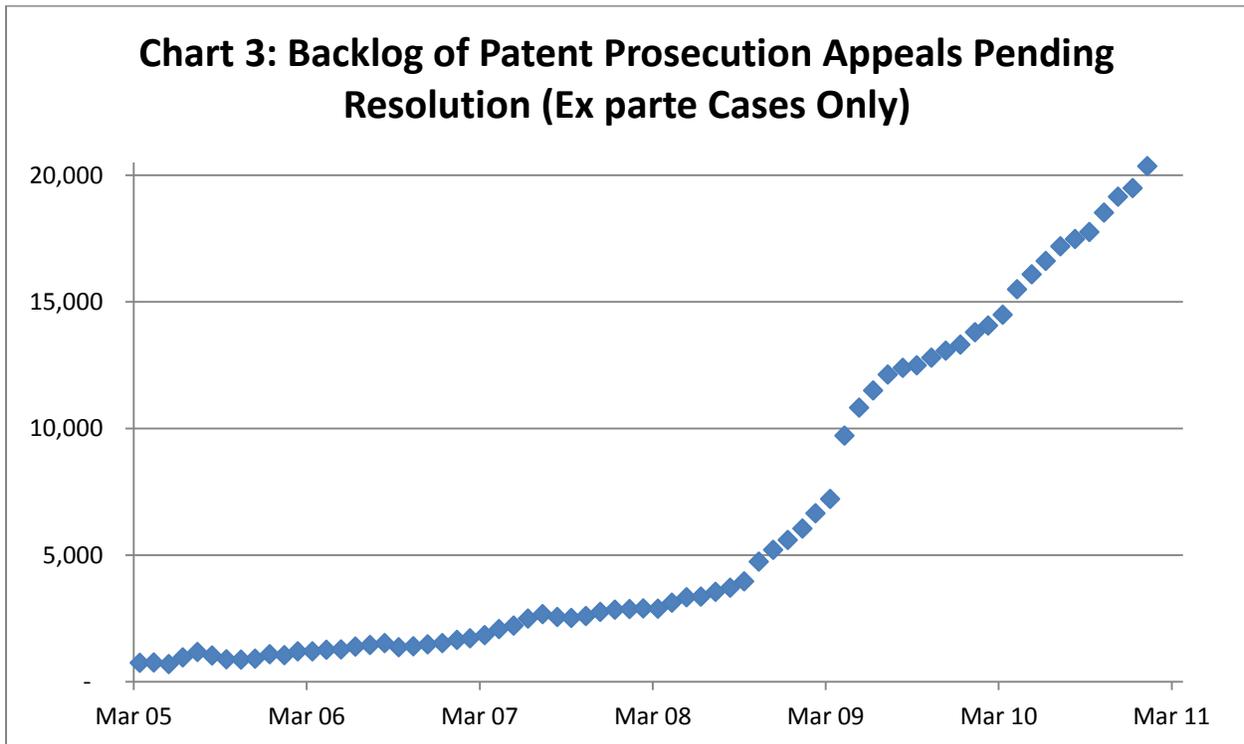
⁸ Over 1,000 false marking claims were filed in 2009 and 2010. *False Patent Marking* at <http://www.falsemarking.net/cases.php>.

III. Administrative and Practice Changes that have Arisen Over the Past Several Years:

Patent Office Backlog: A key issue of patent law policy that has not been adequately addressed in the past six years is the growing backlog of patent applications pending at the Patent Office. Although the current Patent Office management team is quite focused on reducing the backlog, their efforts have not been overwhelmingly successful to-date. As seen in Chart 2 (below), the overall backlog of patent applications pending at the USPTO has increased more than 30% since 2005. The forced delay is troubling for patent applicants because the exclusive patent right is only enforceable once the patent issues, and typically only against post-issuance infringement. The multi-year prosecution delay is also troubling for potential competitors and customers because the patent right may eventually spring-forth to re-capture exclusive rights that had been in public use for years.



Even more dramatic, is the twenty seven fold (~2700%) increase in the backlog of cases awaiting decision at the Board of Patent Appeals and Interferences (BPAI). (Chart 3). The long and growing backlog of appeals more than doubles the expected duration of the patent prosecution process for the almost 50% of patent applicants that achieve at least a partial victory on appeal.



These backlogs likely cannot be directly corrected by the courts. Instead, every effort must be made to ensure that the Patent Office is enabled and encouraged to right its own ship. In the short term, the Patent Office will need to hire more examiners; re-work its failing information technology system; and apply effective negotiation theories to the examination process. In the longer term, world patent offices must work-share when examining duplicate patent applications that have been filed in multiple countries.⁹ In addition, there are some relatively easy steps that can be taken to help ensure that patent applications are filed in a way that make them easier to examine. This may include (1) requiring applicants to better delineate their invention and its purposes and (2) more rigorously enforcing the requirement that claims be clearly drafted in a way that relates to the invention as disclosed.

⁹ See Rai, *Growing Pains* at note 6.

Obviousness and the Backlog: The bulk of time spent in the patent examination process and in appeals to the BPAI revolves around the issue of obviousness.¹⁰ In other words, the backlogs can be largely attributed to time spent arguing the difficult issue of obviousness. Unfortunately, nothing in the proposed legislation does anything directly to alleviate this burden. Although the process of examining patents for obviousness may seem to be one best left to the administrative agency, the Patent Office is bound to follow the examination processes laid out by the courts in *KSR v. Teleflex*¹¹ and *Graham v. John Deere Co.*¹² Because so much time and energy is spent on this issue during the examination process, it may be one where increased substantive rulemaking authority would allow the Patent Office to create a more manageable approach to the statutory question.

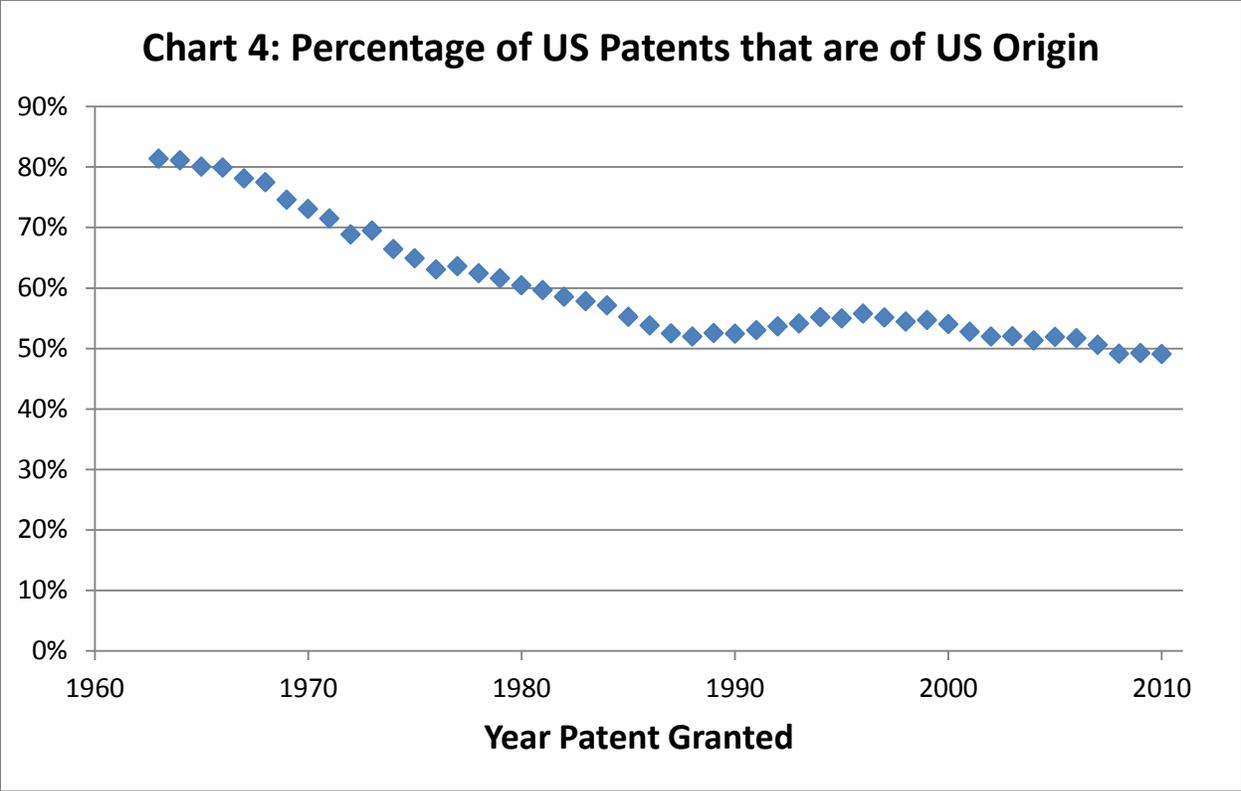
Foreign Inventor Influence on the US Patent System: Through a number of reciprocal international agreements such as Paris Convention, the US has promised citizens of other countries access to the US patent system.¹³ Under these agreements, an innovative Japanese company seeking exclusive rights in the US market could obtain US patent protection and enforce those rights in US courts against US competitors. Despite this offer of rights, the bulk of issued US patent have always been based on US originated inventions. This practical statistic meant that, historically, US patent reform primarily impacted US companies and US inventors. Over the past six years, the statistic changed, and for the first time in history, the majority of US patents are now being issued on foreign-originated inventions. (Chart 4).

¹⁰ Dennis Crouch, Understanding the Role of the Board of Patent Appeals: Ex Parte Rejection Rates on Appeal, University of Missouri School of Law Legal Studies Research Paper No. 2009-16 (2009) at <http://ssrn.com/abstract=1423922>. (90% of BPAI appeals involve a question of obviousness).

¹¹ 550 U.S. 398 (2007).

¹² 383 U.S. 1 (1966) (setting out the process of the obviousness inquiry as used in both courts and the Patent Office).

¹³ Paris Convention for the Protection of Industrial Property, art. 2.



For some, this decline in US-centric dominance of the US patent system will serve as a sign that US innovation could use additional encouragement. In addition, however, the decline may signal a need to change our outlook on the role of patent rights in US policy. Certainly, the offer of patent rights encourages innovation and disclosure of new inventions. However, this incentive is felt around the world – encouraging companies in Australia or Germany to innovate in their home countries in order to capture an exclusive slice of the US market.¹⁴ In this framework, patent reform is much more than a domestic policy issue. Rather, it becomes an issue of rooted in international trade and international relations. This is not a new concept, but one that should be kept in mind as the legislation moves forward.

Rise in Patent Reexamination Filings: The US has two primary post-grant opposition processes already in place: (1) *inter partes* reexamination and (2) third-party requested (or prompted) *ex parte* reexamination. Prior to 2005, it appeared that many potential defendants and accused infringers were reluctant to use the post-grant opposition processes. That reluctance has largely evaporated – in part because of the USPTO’s successful implementation of a Central Reexamination Unit (CRU) composed of elite and highly trained patent examiners in sufficient

¹⁴ See *Commonwealth Sci. & Indus. Research Organisation v. Buffalo Tech.*, 542 F.3d 1363 (Fed. Cir. 2008) (Australian government entity suing on its US software related patent in the Eastern District of Texas).

quantity to have a high response rate.¹⁵ In addition, patent law professionals have seen that reexamination can be an effective and relatively inexpensive alternative to litigation. At this point, high-dollar patent infringement lawsuits are usually associated with a parallel reexamination of the patents in-suit – so long as the defendant has a credible obviousness argument based on published materials. Table 1, shows the rise in popularity of reexaminations over the past few years.

Table 1¹⁶	FY2000-2004	FY2006-2010	Percent Change in Number of Reexamination Requests
<i>Inter Partes</i> Reexamination Requests	53	903	1704%
<i>Ex Parte</i> Reexamination Requests	1,719	3,272	190%

A notable limitation of the current reexamination system is that reexaminations are only allowed to consider certain invalidity arguments (obviousness and anticipation) and apply a limited set of prior art (patents and printed publications). Many countries offer broader latitude in their opposition proceedings, although some of those countries completely divide duties between the administrative agency (handling invalidity issues) and the court (handling infringement).¹⁷ The dramatic shift in usage of available post grant options gives me pause to consider whether the proposed reforms in 2005 offered a permanent solution to what was merely a temporary problem.

IV. Identifying Elements of the Reform Measures that have not been Implemented:

A more straightforward approach to issues now before the Committee is to identify elements of prior patent reform measures that have *not* been addressed by the courts. These include:

- (1) Easing the USPTO’s ability to set fees for its services and to retain all fees collected;
- (2) Moving from a “first-to-invent” system to a “first-to-file” system;
- (3) Expanding prior-user rights;
- (4) Requiring that all patent applications be published by the USPTO;
- (5) Allowing pre-issuance protests (or prior art submissions) by third parties;

¹⁵ Gregory Novak, *Concurrent Reexaminations as a Strategic Patent Litigation Defense Tool*, 1020 PLI/Pat 797 (2010) (“since the inception of the Central Reexamination Unit (CRU), reexamination proceedings are producing favorable results [for the third-party] in a more timely manner”).

¹⁶ Derived from USPTO *Inter Partes* and *Ex Parte* Reexamination Data (December 31, 2010) at http://www.uspto.gov/patents/stats/Reexamination_Information.jsp.

¹⁷ To my knowledge, no one has studied the potential impact of increasing the scope of US reexamination practice or adding a broader layer of post grant opposition.

- (6) Expanding the scope of post-grant reexamination or adding an additional post-grant opposition proceedings;
- (7) Eliminating the “best mode” requirement; and
- (8) Easing the rules for assignee submission of patent filings without the inventor’s express permission.

Each of these reform measures have their own potential benefits and detriments that vary according to the implementation approach chosen.

Thank you for this opportunity to present my remarks.

Dennis Crouch
March 10, 2011