

Council of Regional Information Technology Associations

Submission to the Senate Committee on the Judiciary Subcommittee on Intellectual Property

February 9, 2006

The Council of Regional Information Technology Associations (CRITA) represents over 45 IT and Technology trade associations having among their membership more than 15,000 technology-related businesses in the Americas. CRITA members range from individual inventors and very small companies dependent on venture capital funding to some of the largest corporations in the world. Due to this diversity in membership, CRITA's views on patent reform are unique in comparison to those of other "special interest" organizations in that they represent an acceptable compromise on hotly contested issues.

On October 26, 2005, various chief and other executive officers from CRITA companies met with Chairman Hatch of the Senate Subcommittee on Intellectual Property, Chairman Smith of the House Subcommittee on Courts, the Internet and Intellectual Property, and other staff members to discuss one of the most critical reform initiatives to impact industry in recent memory—that of patent reform. During the discussion, Chairman Hatch requested CRITA to provide specific input on meaningful legislative solutions to enhance the competitive environment in the United States, and to level the litigation playing field for both patent holders and technology users.

CRITA offers this paper in response to the Chairman's request for input. The paper begins with a brief summary of the foundational principles that govern the US patent system, and then proposes areas in which Congress should focus to remedy the growing abuse of patent litigation and reverse the reduction in innovation incentives plaguing industry today. Item numbers 1, 9 and 10 respond to Chairman Hatch's concerns relating to the so-called "troll model," ending fee diversion and the creation of Article I courts.

A. Background

Article I, section 8, clause 8 of the Constitution empowers Congress to promote the progress of science and the useful arts by giving authors and inventors the exclusive right to their writings and discoveries for a limited time. The structure of the Patent Clause makes clear that the promotion of innovation is the primary aim; the right to exclude others from using the invention is but a means of furthering the Constitutional objective.

CRITA believes that a patent system that promotes innovation and permits innovators to reap the rewards of their efforts—including, where necessary, through litigation—is a key enabler of technological advancement. The patent system, however, must fairly and realistically enable accused infringers to prove that their products do not infringe or that asserted patents are invalid or unenforceable. We believe that the rules that govern litigation in US courts have increasingly become biased against the accused infringer, leaving few options other than to accept the plaintiff's royalty demands. CRITA believes that Congress should take steps to level the playing field.

B. Proposed Legislative Solutions

CRITA recognizes that differences of opinion on these issues exist. We believe, however, that those differences can be balanced and should not inhibit the United States Congress from enacting meaningful reform that will have the effect of preserving the innovation investments of U.S. businesses and inventors. While the pace of innovation has increased exponentially in recent years, the patent acquisition and enforcement regimen has become imbalanced. With the goal of recalibrating the system CRITA offers support for the following patent reform initiatives. Numbers 1-4 represent much needed litigation reforms, while numbers 5-9 focus on improving patent quality. In number 10, CRITA recommends that the question of whether Congress should create an entirely new system for resolving patent disputes, should be considered in separate legislation.

1. Re-introducing Equitable Balancing into the Determination of Whether an Injunction Should Issue

As noted above, the Patent Clause strikes a careful balance between exclusivity and the promotion of innovation. It does not compel Congress to exercise its power in any particular way by mandating any particular remedies. But, it does make clear that when the interests in exclusivity and innovation diverge, the Constitution demands recognition of the principal, rather than the subsidiary, interest served by the Patent Clause. *See Pennock v. Dialogue*, 27 U.S. 1, 19 (1829) (“While one great object was, by holding out a reasonable reward to inventors, and giving them an exclusive right to their inventions for a limited period, to stimulate the efforts of genius; the main object was ‘to promote the progress of science and useful arts.’”).

Thus, injunctive relief has never been an absolute right; it has just been one of multiple possible remedies. Patent rights are creations of the government, and it is entirely appropriate for Congress to give courts flexibility in determining what remedies are appropriate in what circumstances—just as they have in other areas of “property” law. It is with this understanding that CRITA encourages Congress to change the law to force courts to analyze the equities before granting a permanent injunction (courts already analyze the equities when considering requests for preliminary injunctions). Since 1819, the Patent Act has consistently made clear that equitable principles should govern the grant or denial of injunctive relief in patent cases. Legislation is needed, however, to clarify (or at least reinforce) equity’s traditional requirement that injunctions should issue only to prevent irreparable harm and only where damages are not an adequate remedy.

CRITA does not believe that a patent holder who consistently, and without discrimination, offers to license others under the patent can show that the denial of injunctive relief as to the nth licensee constitutes irreparable harm. Indeed, it may be said that in such a case, the patent holder herself has disclaimed the exclusionary entitlement. In such instances, automatic entry of a permanent injunction against an infringer is not necessary to implement the Constitutional and statutory purpose of the patent system. Those who use patents merely to collect royalties, without having themselves made any contribution to the effort that produced the patent, should normally be entitled only to collect monetary damages from infringers and not to shut down companies who have taken the entrepreneurial risk of developing, manufacturing, and selling innovative products.

CRITA does not believe that *any* reduction in the ease with which injunctions are granted in some cases will make injunctions harder to justify in all cases, nor does CRITA accept that such a reduction, if carefully tailored, will severely diminish the value of the exclusionary

rights secured by a patent. Congressional testimony offered during 2005 in both the House and the Senate cited concerns of the biotech and pharmaceutical industries that any reduction in the right to an injunction would prejudice the ability to recoup the significant investment costs associated with developing a new drug if the infringer were permitted to continue selling the drug in competition with the patent holder. Far from presenting an example of how injunctions would be harder to justify, CRITA suggests that this testimony presents the classic justification for entry of injunctive relief. Any equitable balancing, whether under the 1952 Patent Act or under the clarifying modifications proposed by CRITA, will guarantee that patent holder an injunction.

One alternative has been offered by way of compromise on this issue—to stay the entry of an injunction pending appeal. CRITA believes that this proposal misses the point and is based on the erroneous assumption that an injunction should automatically follow a final determination that a valid patent has been infringed. Not only is the assumption incorrect, as noted above, but the truly improper litigation leverage is the threat of ultimate injunction wielded by the patent opportunist who has been unfairly broadening the claims in the patent office in light of marketplace innovations by US industry. Thus, this compromise merely postpones the patent holder's application of crushing leverage from the time negotiations or litigation begins to the completion of the appeal process.

CRITA believes that Congress should force a refocus on the principles of equity and give to district courts the discretion to balance the relevant factors and to render equitable results. Toward that end, CRITA suggests the following proposed statutory language for consideration:

§ 283. Injunction (proposed statute)

- (a) The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.
- (b) If the patent holder seeking an injunction:
 - (i) is not the inventor named on the patent;
 - (ii) did not fund the research effort which produced the patent;
 - (iii) is not making the patented product and placing it in commerce, or using the patented process in commerce;
 - (iv) is not taking tangible steps to begin within a commercially reasonable time to make the patented product and place it within commerce or to use the patented process in commerce; and
 - (v) has previously granted licenses under the patent to third parties without restrictions on fields of use or geographic segments;then the patent holder shall not receive an injunction against an unlicensed infringer unless the patent holder shows by clear and convincing evidence that the patent holder will be irreparably harmed, in a manner not compensable by money damages, by the unlicensed infringer activity which it seeks to enjoin.

Under this language, for instance, an individual inventor could still use his or her patent to get funding to start a company. A company of any size that funds research that produces patents could still assert those patents even if it is not selling the patented product itself. A company of any size that sells a patented product could still stop the manufacture or sale of competing infringing products.

2. Apportionment of Patent Damages

CRITA supports legislation clarifying, and limiting the application of, the “entire market value” rule.

Applicants have become more aggressive in recent years at crafting patent claims covering both a discrete invention and the larger context in which that invention is intended to function. Examples abound, but include, for example, (i) situations where the invention is an improved door hinge, but the claim is directed to an improved door utilizing the hinge; (ii) where the invention is an improved chassis, but the claim is directed to the entire automobile, or (iii) where the invention relates to a single manufacturing step for a semiconductor device where that step is merely one of dozens, or perhaps hundreds, of steps. In such cases, while the law should certainly seek fair compensation for the patent holder, it should not grant a windfall to the patent holder as a reward for cleverly claiming his minor contribution in the context of a larger system or process that predates the applicant’s claim.

Legislation should also recognize that a feature which costs only a small percent of the product’s total manufacturing cost, or otherwise appears by some criterion to be only a small fraction of a product, can nonetheless make a very large improvement in market value as reflected in product safety, product reliability, product efficiency, etc. Damage measures should recognize that possibility and give judges corresponding discretion. Factor 13 in the *Georgia Pacific* analysis is a good guide in this regard.

CRITA proposes that Congress enact provisions to ensure that patent damages are based on the market value of the inventive features of the patent, rather than on the value of the system in which the invention appears.

3. Willful Infringement

On top of disproportionate damages claims, defendants typically are faced with allegations of “willful” infringement and the threat of triple damages. Willful infringement is merely a predicate act to the enhancement of damages (under 35 U.S.C. § 284) and enhanced damages are punitive in nature. Accordingly, CRITA recommends changes to the damages statute to focus attention on the nature of the infringer’s conduct. In addition, CRITA believes that an opinion of counsel should no longer be required to avoid a finding of willful infringement.

4. Venue

CRITA supports Congressional efforts to amend the venue statutes that apply to patent cases. Current proposals allow a patent holder to file in any district court where jurisdiction is proper, but then allow for a transfer to a more suitable forum on defendant’s motion. CRITA believes the better course is to define at the outset the jurisdictions in which venue is proper. The venue provision in Section 9 of H.R. 2795 as presented on July 26, 2005 represents the better solution.

5. Post Grant Opposition

CRITA supports the statutory creation of a post-grant opposition proceeding, including the creation of a “second window” for the commencement of and opposition proceeding that opens either with direct suit, or on a specific notice of infringement, by the patent holder. In

the case of a second window opposition, CRITA does not support a mandatory stay of pending patent litigation.

6. Third Party Submissions of Prior Art

CRITA supports codifying the right of third parties to submit prior art relevant to the patentability of a pending application for consideration by the Director. To prevent potential abuse by those who would benefit from delayed issuance of a patent, CRITA also supports limiting the time window for such submissions, and the imposition of penalties for submitting art solely for purposes of delay. CRITA proposes that the Director extend the duty of candor imposed by 37 C.F.R. § 1.56 on third parties, and on their attorneys, who submit prior art under this section.

7. Continuation Reform

The practice of expanding the scope of patent claims during an extended prosecution of a “family” of patent applications, or tailoring claims to read on innovations first seen in the marketplace, presents the most anti-competitive obstacle facing industry today. There is general recognition that this conduct wreaks havoc on the industry and gives too much litigation leverage to the patent holder. Faced with the high costs of defending against such claims, and with the potential downside, firms are often forced to accept predatory royalties that bear little or no relation to the value of the technology covered by the patent. CRITA believes that Congress should empower the PTO to implement, by substantive rule making authority, rules to curb this abuse, either by putting an outside time limit on the ability to submit broadened claims, or limiting the number of permissible continuation applications that can be filed as a matter of right.

8. First to File

CRITA supports in principle legislation providing that the right to a patent belongs to the first inventor to file an application for patent in compliance with Section 111.

Care must be taken, however, to provide definitional support for what constitutes prior art; for example, whether an inventor’s secret, prior use of the invention more than a year before the effective filing date disqualifies the application; whether public sale of a product made by a process that can not be ascertained by an examination of the product constitutes an invalidating prior use; what the term “inherently known” in subsection 102(c)(1) is intended to mean; whether information known to a discrete group of people, but otherwise unavailable and unknown to a skilled researcher in the relevant field qualifies as “reasonably and effectively accessible” within the meaning of the statute, etc.

9. Other Quality Reforms

CRITA also believes that Congress should take steps to improve patent quality. CRITA believes that the PTO must improve training for examiners and increase staff to alleviate backlogs at the office. A ready source of funding already exists in application and maintenance fees and would require no new funding source. We urge Congress to continue its efforts to prevent the diversion of patent fees (estimated over \$200 million per year) to the General Treasury and allow those funds to be used for training and increasing staff. In addition to securing funding, Congress should enact reforms aimed at shortening the duration of the application process. This, together with the post grant opposition procedures discussed above, will serve to reduce the number of patent disputes and lessen the litigation burdens on courts.

10. Article I Courts

CRITA understands that the resolution of patent disputes is a lengthy and expensive process that too often plays out before uninitiated and inexperienced judges and juries. Outcomes are often difficult to predict. As a result, planning in the patent theatre cannot be done with the same certainty as it can be done in other theatres of operations. That said, CRITA believes that any proposal to establish regional Patent Courts staffed with specially trained judges deserves significant further study before legislative solutions are presented to Congress. CRITA is particularly concerned with the law of unintended consequences, and believes alternatives in addition to Article I courts should be considered with an eye on reducing dispute times and saving resources for innovation as opposed to litigation and injecting predictability to the capital investment decision-making process. In particular, CRITA believes it is important to consider whether any specific regional Patent Court proposal would increase the cost and complexity of resolving patent disputes, particularly for small companies that drive much of the job creation in our economy.

Conclusion

CRITA believes that any delay in meaningful, near-term litigation reform will cause perhaps irreversible damage to US industry, and that Congress must act now to avert serious consequences. As business decision makers make tough choices on the allocation of limited or shrinking capital budgets, an election to invest in US-based manufacturing infrastructure or research and development is more susceptible to criticism and presents greater uncertainty. Already low-cost, off-shore geographies will prove irresistible if they also avoid the uneven litigation playing field in US courts.