

Prepared Statement of Philip S. Johnson,
Chief Intellectual Property Counsel,
Johnson & Johnson

On Behalf of the
Coalition for 21st Century Patent Reform

Before the

United States House
Committee on the Judiciary

On

“Patent Reform Act of 2009”
H.R. 1260

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Executive Summary
Statement of Philip S. Johnson,
Chief Intellectual Property Counsel,
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The primary focus of patent reform should be job growth. Congress should change our patent laws to ensure that meritorious inventions are uniformly accorded patent protection. The resulting patents should be promptly and reliably enforceable against infringers, and result in damages awards that fairly compensate for the unauthorized uses made of the patented inventions. Because the R&D investments made in reliance on the patents dwarf the costs associated with their filing, maintenance and enforcement, the principal objective of patent reform should not be on saving administrative costs, but on changes that will stimulate R&D investment. Collectively, these changes will stimulate job growth.

In the last Congress, this Committee led the way towards meaningful patent quality improvement by bringing a broad spectrum of stakeholders together to compromise on the proper procedures for and scope of post-grant review. Fortunately, additional compromises have now been reached in the Senate Judiciary Committee on the thorny issues of patent damages, best mode reform, venue and interlocutory appeals. As a result, our Coalition believes that consensus legislation is finally within reach.

H.R. 1260 already contains many of the key elements of such consensus legislation. Subject to several needed technical amendments, the heart of such legislation is H.R. 1260's adoption of the first-inventor-to-file principle (Section 3); expansion of the grounds for *inter partes* reexamination to include statements of the patent owner in prior proceedings (excluding challenges based prior use and sale) (Section 6); expansion of the opportunity for the public to submit publications to the USPTO (Section 9); authorization of interlocutory appeals (if limited to certain final determinations) (Section 10); and permission for the Director to set fees if accompanied by statutory protection limiting their use to the USPTO (Section 11).

The other substantive amendments needed to reach consensus may be found in S. 515 as amended, where they have already garnered widespread support. For example, while the Coalition for 21st Century Patent Reform previously opposed the provisions S. 515/H.R. 1260 relating to willful infringement and venue, it now supports the Senate's amended provisions as part of an overall compromise package. As to reasonable royalty patent damages, our Coalition similarly supports inclusion in H.R. 1260 of the patent damages language from S. 515, as ordered reported.

The time has come to enact consensus patent reform. While considerable work remains to be done on certain technical aspects of the bill (such as more nuanced transition provisions) the conceptual underpinnings of this achievable compromise are sound. Our Coalition urges this Committee to seize this opportunity. We remain committed to working with the Committee so that H.R. 1260 can be quickly enacted into law.

Prepared Statement of Philip S. Johnson

Mr. Chairman and distinguished Members of the Committee: Thank you for the opportunity to testify on various aspects of patent law reform. Although I am active in a number of professional organizations with interests in patent law reform, including Advamed, the American Intellectual Property Law Association, PhRMA, BIO and the Intellectual Property Owners Association, I am appearing today in my capacity as Chief Intellectual Property Counsel of Johnson & Johnson, and as a representative of the Coalition for 21st Century Patent Reform (the "21st Century Coalition").

I. Personal/Corporate/Coalition Introduction

By way of introduction, I am a registered patent attorney with 35 years of experience in all aspects of patent law. In addition to drafting and prosecuting patent applications, I have tried patent cases to both judges and juries, and have advised a wide variety of clients, both plaintiffs and defendants, in many industries ranging from semiconductor fabrication to biotechnology. Over the course of my career, I have represented individual inventors, universities, start-ups, and companies of all sizes. In January of 2000, I left private practice to join Johnson & Johnson as its Chief Patent Counsel.

Johnson & Johnson is a family of more than 200 companies, and is the largest broad-based manufacturer of health and personal care products in the world. Collectively, Johnson & Johnson companies represent this country's largest medical device business, its third largest biotechnology business, its fourth largest pharmaceutical business, and very substantial consumer, nutritional, and personal care businesses. Johnson & Johnson companies employ approximately 118,000 people. Johnson & Johnson's companies are research-based businesses that rely heavily on the U.S. patent system and its counterpart systems around the world.

The 21st Century Coalition is a broad and diverse group of nearly 50 corporations including 3M, Caterpillar Inc., Eli Lilly, General Electric, Procter & Gamble and Johnson & Johnson. For more than 100 years, our Coalition's companies have played a critical role in fostering innovation. We invest billions of dollars annually on research and development to create American jobs and improve lives. Representing 18 different industry sectors including manufacturing, information technology, consumer products, energy, financial services, medical device, pharmaceutical, and biotechnology, our Coalition advocates for patent reforms that will foster investment in innovation and job creation.

As the manufacturers and marketers of thousands of products, the freedom to make and sell products in view of the patents of others is always a concern to our Coalition's members. We therefore routinely review thousands of patents during their product development processes, make appropriate design changes to avoid the patents of others and/or obtain appropriate licenses or legal opinions prior to launching their products. Our member companies also become involved in patent litigation. Most of these litigations involve competitors or would-be competitors, although some involve non-manufacturing patentees. Johnson & Johnson's companies, for example, find themselves to be defendants about as often as plaintiffs.

The 21st Century Coalition's interest in patent law reform is to insure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient and reliable patent system will continue to stimulate the investment in innovation that is necessary in today's technologically complex world to create the new products and processes that will lead to better lives for Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimulate U.S. investment in research-based industries.

II. The Primary Focus of Patent Reform Should Be Job Creation

There is bipartisan agreement that the principal focus of patent reform should be the creation of jobs. As Senator Leahy explained upon the introduction of this bicameral legislation on behalf of the co-sponsors,

Patent reform is ultimately about economic development. It is about jobs, it is about innovation, and it is about consumers. All benefit under a system that reduces unnecessary costs, removes inefficiencies, and holds true to the vision of our Founders that Congress should establish a national policy that promotes the progress of science and the useful arts.

As Ranking Member Smith further explained,

Part of stimulating the economy means encouraging growth in industries that are job generators. Intellectual property supports millions of American jobs. The technological and creative materials produced by IP companies are estimated \$5 trillion annually, approximately 17% of the GDP.

Protecting the ideas and inventions of individuals and businesses is critical to restoring American prosperity and creating jobs.

This focus on jobs is the correct one. If done right, patent reform will stimulate the private sector to invest in economic development and job growth. All other considerations should be secondary

Johnson & Johnson's companies are good examples of the relationship of the patent system, and patents, to jobs and job growth. Johnson & Johnson conservatively estimates that 60,000 of its full time jobs depend on the patent portfolios of its companies' 8,000+ U.S. patents (and their foreign counterparts). **Stated differently, we estimate that, on average, each U.S. patent results in, preserves and protects the jobs of 7.5 employees per year, or, over its 20-year life, 150 job-years.** This estimate does not take into account the jobs of countless others at suppliers, distributors and retailers involved in the research, manufacture, distribution and sale of our products that indirectly depend in whole or in part on our patent rights.

Over the past three years, Johnson & Johnson companies' patent filings have averaged about 1,200 original applications each year. During that time, our companies have been awarded approximately 500 U.S. patents per year by the United States Patent

and Trademark Office (“USPTO”). This 42% rate is very close to the current USPTO allowance rate, which is down from over 70% just a few years ago. During these same years, Johnson & Johnson companies have invested \$22.4 billion in R&D, averaging about \$7.5 billion per year, or \$6.2 million in R&D for each patent application filed, and \$15 million for each patent granted. Needless to say, these research and development expenditures have resulted in the direct employment of thousands of people throughout the United States in very good jobs with excellent benefits.

As these numbers reflect, the R&D investments stimulated by the patent system dwarf the costs directly associated with the filing, maintenance and enforcement of patents. Accordingly, in considering changes to the patent system, the primary concern should not only be on the costs of filing or enforcing patents, but also what effect changes to the system might have on R&D investment, and thus jobs and job growth.

As explained below, Johnson & Johnson and the 21st Century Coalition believe that appropriate patent reforms will maintain current jobs and create new jobs by continuing to encourage private sector R&D investment. Proposed changes that increase the likelihood that meritorious inventions will receive patent protection, and that resulting patents may be reliably enforced against infringers to promptly recover fair compensation should be favored, as these changes will have the greatest impact on stimulating R&D investment and job growth.

A. The Causal Relationship Between Patent Protection and R&D Investment

Johnson & Johnson companies are rational decision makers when it comes to deciding whether and how much to invest in R&D. When deciding whether or not to make, or to continue making, an investment in any given project, many factors are taken into account, including the cost of the project, the technical risk and likelihood of success of the project, the expected cost saving or product enhancement to be achieved, and the expected return on investment. In determining the expected return on investment, a critical element is the likelihood that meaningful patent protection will be accorded to deserving inventions resulting from the project, the degree and duration of exclusivity that resulting products or processes will enjoy, and the likelihood that the involved patents will either be respected by competitors, or promptly and successfully enforced in the event of infringement. When such projections indicate that the return on investment exceeds a threshold commensurate with the risk involved, the investment is, or continues to be, made. When it does not, the project is not begun, or is cancelled.

Johnson & Johnson’s companies, and many other manufacturing companies like it, are now finding that the current economic crisis is reducing the likelihood that reasonable returns on investment can be achieved for many of their ongoing R&D projects. For that reason, our companies, and many others like us, have made the painful decision to lay off thousands of employees involved in R&D and other product-related areas.

Simply put, rational business people cannot justify investing in R&D unless the size of the “carrot” and the likelihood of getting the carrot justify the cost of trying to get the carrot. Unfortunately, since the economic crisis is shrinking the size of the carrot, so too are the amounts being spent to get the carrot.

The patent system has a direct effect on both the size of the carrot and the likelihood of getting the carrot. Changes in the patent system that will increase the size of the carrot and/or the likelihood of getting the carrot will cause business planners to invest more in R&D, while those that result in decreases will have the opposite result.

B. How H.R. 1260 May Impact Jobs

Whether the net effect of H.R. 1260 will be to stimulate or retard job growth will depend largely upon its evolution as it is considered by Congress and enacted into law. The provisions of H.R. 1260 supported by the 21st Century Coalition will either be neutral to, or tend to stimulate job growth. With further work, the remaining provisions may be drafted to do the same. Accordingly, there is an historic opportunity for H.R. 1260 to enhance the value of patents and stimulate investment to produce immediate and long lasting job growth.

The 21st Century Coalition members view our current economic conditions as analogous to the economic malaise of the 1970's. Begun as Carter administration initiatives, in the early 1980's Congress passed several bipartisan bills to enhance the value and enforceability of patents, including the Bayh-Dole Act¹ and the Federal Courts Improvement Act of 1982, which created the Court of Appeals for the Federal Circuit.² The reaction of the private sector was immediate and dramatic – investment in R&D substantially increased, and a sustained period of prosperity followed. In the 21st Century Coalition's view, the 111th Congress now has a similar opportunity....and its timing couldn't be better.

As in the 1980's, the focus of H.R. 1260 should be on making changes that will encourage R&D investment. Were they able to justify to themselves, and to their investors, that such additional expenditures would make sound business sense, the 21st Century's companies have both the wherewithal and the desire to hire back thousands of laid-off workers, and many more. To do this in this economic environment, however, will require legislation that will ensure these companies that deserving inventions stemming from their R&D expenditures will receive prompt, high quality examination by the USPTO, and that the patents that the USPTO issues will provide a firm foundation on which to build a growing business. Just as no one would build a house on land whose title could be challenged over and over again, businesses need to be able to count on an extended period of quiet title to their patents if they are to make the kinds of investments in them on which future growth is to be founded.

Many of the provisions already contained in H.R. 1260, such as those relating to the adoption of a first-inventor-to-file system and improved patent examination procedures, should prove to be beneficial to long-term investment and job growth. Additional progress has been made in the Senate on a number of other provisions, including those related to patent damages, best mode reform, venue and interlocutory appeals, which if adopted by this Committee, would further enhance this bill. While work on technical amendments remains, given the progress thus far, the 21st Century Coalition is optimistic that consensus legislation is now within reach.

¹ University and Small Business Patent Procedures Act, Pub. L. No. 96-517 (1980)

² P.L. 97-164 §165, 96 Stat. 50 (1982)

III. Improving the United States Patent and Trademark Office

The first priority of patent reform should be to improve the completeness of patent examination and the quality of patents that issue. These reforms focus on properly financing the United States Patent and Trademark Office (USPTO), simplifying the patentability standards and their application, and expanding public input in the decision to grant a patent. They have garnered broad support from stakeholders and represent an achievable core of needed reforms to improve the operation of the USPTO. While these reforms may not immediately create jobs, they directly address the twin problems of an unacceptably large backlog of pending applications and the public's perception that some patents granted by the USPTO are of low quality. Improvements in patent quality should also improve the reliability of patent protection and the downstream efficiency of enforcement proceedings.

A. Improvements to Guarantee the USPTO Financial Resources

Section 11 of H.R. 1260 would give the USPTO the authority to set its fees by regulation, tailoring the fees to better reflect the extent of the effort needed to thoroughly examine patent applications. A necessary corollary, missing from H.R. 1260, is a mechanism to ensure that the USPTO could retain and use the fees that it collects to fund the work for which those fees were paid. Such a mechanism would permit the USPTO to engage in strategic planning over the course of multiple fiscal years secure in the knowledge that it had a predictable source of funding.

This Committee has long recognized the imperative of the USPTO retaining for its use all of the fee revenues it collects. As far back as the 104th Congress, the then Chair of the IP Subcommittee, Mr. Moorhead, introduced H.R. 3460, the "Inventor Rights Protection and Patent Reform Act of 1996," which would have mandated that all fees paid for services performed by the USPTO be paid to the Office and be used for processing patent and trademark applications. In the 106th Congress, Mr. Coble, introduced H.R. 4034, the "Patent and Trademark Office Reauthorization Act," to achieve the same goal. In the 109th Congress, Mr. Sensenbrenner introduced H.R. 2791, the "United States Patent and Trademark Fee Modernization Act of 2005," to discourage fee diversion by providing for the refund of fees collected in excess of the amount appropriated to the USPTO. In the last Congress, Mr. Berman introduced H.R. 2336 to allow the USPTO to receive and use all of its fee income. Chairman Conyers and many of the members of this Committee joined in most of these efforts.

Indeed, many of the quality and pendency problems confronting the USPTO, and the subsequent litigation that the grant of questionable patents can generate, can be directly traced to the diversion of USPTO fee revenues from 1992 through 2004 to fund other, unrelated government operations. Cumulatively, this diversion resulted in a loss of more than \$750 million in fees paid by patent and trademark applicants for the processing of their applications. As a result, the USPTO was unable to hire the examiners it needed for a decade and has therefore had enormous difficulty hiring, training, and retaining the number of skilled examiners needed to catch-up and cope with the ever increasing number of patent application filings.

While the Congress has permitted the USPTO to retain essentially all of its user fees for the last four fiscal years, users of the patent system recognize that there is

nothing to prevent the return of this devastating practice, a prospect that could more likely materialize in the current Federal budget deficit situation where agencies have been to cut \$100 million as a first step in reducing the federal deficit. The beginning steps taken by the USPTO to address its quality and pendency issues—made possible by its being appropriated all of its fee revenues—demonstrate the importance of a permanent end to this possibility. The USPTO must have such protection in order to intelligently plan for and meet the multitude of challenges it faces – its users who pay the fees deserve no less.

Now that the economic downturn in the economy is resulting in the filing of fewer patent applications, the problems stemming from the diversion of fee revenues become more apparent. Because the USPTO collects and spends fees on a year by year basis, the fees it receives on account of this year's filings are actually used to fund the examination of applications filed in prior years. As long as filings are going up year to year, the real impact of prior year fee diversion isn't so obvious, as current collections are used to examine applications filed in prior years. Now that the filings and other fees are going down, it has become painfully clear that the USPTO lacks the funding needed to pay for the examination of the large backlog of unexamined applications filed in prior years. As a result, the USPTO faces a budget crisis of dire proportions that may lead it to stop hiring patent examiners precisely when they are needed to examine a large backlog of long pending applications.

Once again, there is a proposal to guarantee that the USPTO could retain and use all of its fee revenues, this time in the form of an amendment proposed by Senator Coburn in the Senate Judiciary Committee. This amendment would establish a revolving fund in the Treasury into which all patent and trademark fees would be deposited and be available for use by the Director without fiscal year limitation. Whether modeled after the Coburn amendment, or the series of bills introduced in the House over the past decade, or some other approach, our support of Section 11 giving the Director the authority to set fees is conditioned on Section 11 being accompanied by a statutory provision ending the possibility of diversion.

Although the cure would not be immediate, creation of a revolving fund is the answer to a critical long term problem facing the USPTO. In Canada, for example, when an application is filed, a portion of the fee that is paid therewith is set aside for use in later years to examine the application. In this way, the Canadian patent office does not accrue a large un-funded liability relating to as-of-yet-unexamined applications. A revolving fund would do the same for our patent office, thus avoiding severe funding gaps in future years.

B. International Harmonization Provisions

An essential step identified by the National Academies' Board on Science, Technology, and Economic Policy ("NAS")³ for improving the US patent system is the elimination of the subjective elements in US patent law. The elimination of these subjective elements would improve the operation of the USPTO, benefiting all constituencies, by promoting patent quality, simplifying the administration of the patent

³ Merrill, Levin, and Myers, "A Patent System for the 21st Century", Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, National Research Council, National Academies <http://www.nap.edu/html/patentsystem/0309089107.pdf>

law, and facilitating the ability of the USPTO to work cooperatively with other patent offices to address the global backlog.

1. First-Inventor-To-File

The cornerstone of these harmonizing changes is the proposal to adopt the first-inventor-to-file principle contained in Section 3 of H.R. 1260. It will significantly simplify the patent law, provide fairer outcomes for inventors, speed final determinations of patentability, and reduce overall costs for procuring patents. With the accompanying changes that bring objectivity to the determination of what information can be used to assess the patentability of an invention, 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 patentability of granted patents and avoid costly litigation.

2. "Best Mode" Should Be Eliminated As a Patent Defense

One recommendation of the NAS that does not appear in H.R. 1260 is the elimination of the requirement for applicants to "set forth the best mode contemplated by the inventor of carrying out his invention." The NAS noted that much of what is wrong with the enforcement of patents can be traced to the prevalence of so-called "subjective elements" such as "best mode" in patent litigation. Questions such as "What constitutes a mode of carrying out an invention? Was one mode thought by the inventor to be better than the rest when the patent application was filed? "Were details of such best mode sufficiently disclosed in the patent application? We believe that a convincing case has been made that simply eliminating the "best mode" requirement from the patent statute is appropriate. The public's interest in having a complete patent disclosure is readily achieved by the requirements that the patent fully describes the claimed invention and contains all the information needed to make and use the invention.

While H.R. 1260 does provide that a post-grant review may not be initiated on the basis of the best mode requirement, it does nothing to alleviate the costs of litigating this question in district court proceedings. At a minimum, H.R. 1260 should remove the failure to disclose the best mode as a defense to a patent infringement.⁴ Our Coalition supports this change, and strongly urges this Committee to adopt similar language in H.R. 1260.

3. Orderly Transition Period for First-Inventor-To-File

Before leaving the topic of harmonization, there are two problems with the effective date provisions in H.R. 1260 that I would like to bring to your attention. The more specific problem involves the effective date provision in Section 3(k). It would condition the coming into effect of a first-inventor-to-file system on the adoption by Japan and the nearly three dozen patenting authorities in Europe of a grace period, thus using this step as a negotiating chip in patent law harmonization treaty negotiations. Denying the benefit of a first-inventor-to-file system to U.S. inventors would be unwise

⁴ Section 14 of S. 515, as reported by the Senate Judiciary Committee on April 2nd, would amend Section 282(b) of title 35 to exclude failure to disclose the best mode as a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable

and would not be effective in internationalizing a grace period. The patent law treaty negotiations began twenty-five years ago and a successful conclusion appears further away now than when the talks began. 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 this negotiating chip 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. The 21st Century Coalition urges the deletion on Section 3(k).

The more global effective date problem relates to Section 15(a) of H.R. 1260. This section, subject to Section 3(k) discussed above, would apply the first-inventor-to-file principle to all patents issued on or after 12 months from the date of its enactment. This approach is simply not feasible, as the decision to file, the preparation of the patent application itself, its filing, and its examination should all be performed knowing the patentability rules that will apply to resulting patent. Such an important transformation needs to be made in an orderly manner to give USPTO, inventors, and the patent profession time to properly engineer and adjust to its implementation. We believe that a workable transition provision could be crafted around the concept that any patent application filed with any claimed invention having an effective filing date one year or more after the date of enactment should be subject to the first-inventor-to-file rule.

C. Public Input into the Patent Examination Process

Another way to improve the quality of patent applications is to allow members of the public to provide timely input into the examination process. We are pleased to see the inclusion in H.R. 1260 of Section 9 expanding the opportunity for the public to submit information to the USPTO. Allowing the public to submit information to patent examiners working on individual patent applications, together with concise descriptions of its relevance, will help ensure that all relevant information will be considered before a patent is issued. This provision will contribute to our long-standing objective to have the USPTO conduct a quality examination the first time, before a patent is granted, obviating the need to rely on post-grant clean-up procedures. The public and patent applicants alike will benefit from the grant of more reliable patents based on more thorough and complete examination that this procedure will offer.

IV. Post-Grant Reviews of Patents

In the 110th Congress, this Committee crafted what the 21st Century Coalition and other stakeholders regarded (and still regard) as a constructive compromise for a new regime for post-grant review. This compromise provided the opportunity for a robust post-grant opposition 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 with a less rigid estoppel. Under this compromise, all issued patents would now become eligible for *inter partes* reexamination, but these *inter partes* reexaminations would be limited to substantial patentability issues based upon prior patents, printed publications

and certain written admissions of the patentee.⁵ Although it was suggested to further allow reexamination based upon prior public uses and sales, that suggestion was rejected as both unworkable and unfair.

While generally following the same approach, Section 6 of H.R. 1260 adopts only part of the compromise reached in connection with H.R. 1908. Section 6 would now add a new paragraph (3) to 35 U.S.C. § 301 that would dramatically expand the grounds upon which an *inter partes* reexamination may be instituted to consider activities allegedly in “public use or on sale in the United States more than 1 year prior to the date of the application for patent.” As introduced, S. 515, the Senate counterpart of H.R. 1260, contained similar language.⁶ H.R. 1260 would also further enhance the subjectivity of such evidence by specifically stating that the public use must be “substantial,” a requirement not found in the Senate language.

After consideration of the same issues that led to the original House compromise, the Senate Judiciary Committee voted to eliminate the “public use and sale” language in the version of S. 515 that was ordered reported on April 2nd. In so doing, the Senate Committee recognized that adding “prior public use or sale” to *inter partes* reexaminations in this procedural setting would disadvantage patentees by allowing such issues to be raised many years after a patent has granted. Challengers and patent owners should be given a full and fair opportunity to oppose and defend patents on a neutral playing field, preferably before the patentee has invested heavily in developing 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 judicial process, does not provide a fair proceeding for patent owners. As this new avenue of challenge is neither appropriate nor acceptable, the 21st Century Coalition urges this Committee to amend Section 6 of H.R. 1260 to remove the “public use and sale” language, to thereby track the compromise in H.R. 1908 that the House passed in the last Congress.

There are certain technical amendments that we believe would further enhance the post-grant review procedures that we would suggest. First, while we endorse having *inter partes* reexaminations conducted by an administrative patent judge as proposed by this Committee last year and continued in H.R. 1260, we believe that the delays currently experienced in *inter partes* reexamination proceedings could be significantly ameliorated if these proceedings followed the same procedures as those set forth for post-grant reviews in proposed new Section 326. Second, we believe that the limitation in proposed new Section 329(a)(2) that only permit a patentee to propose a single substitute claim for any challenged claim is too restrictive. Patentees, confronted with new prior art not known when the original claims were being drafted, should be permitted to propose a reasonable number of substitute claims.

⁵ 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.”

⁶ 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.”

Further, while proposed new section 328(a) in Chapter 32 provides that the presumption of validity will not apply in a post-grant proceeding, a person challenging validity of the patent should be assigned the burden of proving invalidity. A patent owner cannot reasonably be assigned the burden of proving the patent valid in order for the USPTO to determine that the patent should not be canceled as proposed new section 328(b) would require.

We also believe further thought needs to be given to the transition provisions in Section 6(k) of H.R. 1260. The transition provisions need to account for the institution of both *ex parte* reexamination proceedings and *inter partes* reexamination proceedings that will be commenced prior to the effective date of the amendments. In addition, the new post-grant review procedures that are to take effect one year after the date of enactment should have effect only for patents subject to the first-inventor-to-file rules. Finally, we believe that the Director should be given authority to limit the number of post-grant proceedings under Chapter 32 that can be instituted in any given year to a number that the Office can handle while it builds its capacity to implement these new proceedings.

V. Patent Damages: The Gatekeeper Compromise Should Be Adopted

No patent reform proposal has engendered more controversy than that relating to patent damages.⁷ Indeed, patent reform failed in the last Congress due in large part to the inability of those involved to reach a suitable compromise on the patent damages issue. We are pleased that the sponsors of H.R. 1260 recognize that the damages language of the last Congress is not the right way forward, and that a new approach to patent damages is needed to achieve consensus.

As described below, it has long been the position of our Coalition that there is no need for legislative action on patent damages, as it is not an issue on which the National Academies recommended action, nor one for which a case has been made that reform is needed. Nonetheless, as described below, our Coalition strongly supports the compromise reached in the Senate Judiciary Committee because it constructively responds to the complaints of those who perceive there to be inconsistency and unfairness in awards of reasonable royalty patent damages. Moreover, due to the widespread support that this compromise has received both in the Senate and among a broad spectrum of stakeholders, it provides our best hope of achieving meaningful patent reform in this Congress. Accordingly, we urge this Committee to adopt the “gatekeeper” damages compromise.

⁷ 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).

A. Available Data Indicates Damages Awards Are Appropriate

In the 21st Century Coalition's view, the case has yet to be made that any reform in patent damages law is needed.⁸ Contrary to critics' assertions of just a few years ago, the number of patent litigations in this country is at least leveling-off, if not declining.⁹ Overall, patentees have had an overall success rate of only 36% over the last 13 years. When they do win, median patent verdicts have been fairly constant since 1995, even trending downward in 2008.¹⁰ These winning verdicts, if ultimately sustained, are barely enough to cover attorneys' fees in most of these cases, much less to compensate patent owners for the infringement that has occurred.

Critics have also wrongly suggested that there are now too many large damages awards. Yet recent experience shows that of the 2,700 cases filed each year, fewer than 5 led to verdicts in excess of \$100 million. Experience also shows that few if any of these verdicts survive post judgment review and appeal. A prime example is the *Alcatel-Lucent v Microsoft* verdict of \$1.5 billion that was touted in the last Congress as the reason for patent damages reform, even though it was later promptly and finally vacated.

Nor have the advocates for a change demonstrated that these few large awards are disproportionate to the damage caused to the patent owner on account of the infringement. Companies in our Coalition, like other big businesses, have many products whose yearly sales are in the hundreds of millions or even billions of dollars. When infringement damages are awarded with respect to a multi-year infringement involving such a product, it should come as no surprise that the proper damages award may be in the range of tens, if not hundreds, of millions of dollars. Size alone, without reference to the magnitude and duration of the infringement, and the nature of damage caused thereby, does not indicate that the damages award was in any way inappropriate.

Critics from some large technology companies nonetheless contend that damages reform is needed because their fears of erratic or spurious awards cause them to settle their cases at higher amounts than are fair. This contention is hard to vet, as settlement terms are normally private, and entered at a fraction of the damages that would be assessed were the case to proceed to judgment. At least one commentator, however, has pointed out that few of these settlements are material to the accused infringer.¹¹

⁸ Recognizing that insufficient data exists on patent damages, Section 18 of H.R. 1260 appropriately proposes that such a study be conducted.

⁹ Aron Levko, Principal, PricewaterhouseCoopers, FTC Hearing on "The Evolving IP Marketplace – The Remedies," February 11, 2009 <http://www.ftc.gov/bc/workshops/ipmarketplace/feb11/docs/alevko.pdf>

¹⁰ There is no empirical evidence to support the claim that damages awards are out-of-control. Indeed, several studies have found that damages awards are not increasing. A recent PriceWaterhouseCoopers study concluded "The annual median damages award since 1995 has remained fairly consistent, when adjusted for inflation." Professor Paul Janicke from the University of Houston Law Center recently testified before the FTC that the median damages award in a patent case is \$5-6 million, and if the cases where the patent owner loses (which happens in 64% of cases) are included, the median drops to less than \$2 million.

¹¹ Pat Choate, "The Patent Reform Act of 2007: Responding to Legitimate Needs or Special Interests? The "Patent Fairness" Issue An Analysis," suggesting that over the period 1995-2006, reported patent settlements for companies in the Coalition for Patent Fairness averaged one ninth of one percent (0.11 percent).
<http://www.innovationalliance.net/files/CPF-Patent%20Reform%20Act%20Analysis%202010-30-2007.pdf>

B. The Litigation Abuse Problem: Is a “Loser Pays” System The Solution?

More commonly, proponents of patent damages reform complain that they are assaulted with baseless actions accusing their best selling products with infringement, and that the sole purpose of most of these actions is to coerce a settlement in an amount less than it would take to mount a successful defense. We have sometimes encountered this problem, which is unique to patent cases because the cost of a patent defense is so expensive that a settlement of a million dollars or more may be cheaper than the alternative. In our view, this problem stems from the common failure to award attorneys fees in patent cases. As a result, such conduct is encouraged, while the bringing of meritorious actions that might not recover enough to offset the litigation costs involved is unfortunately discouraged. One possible solution to this problem would be for the Committee to consider amending H.R. 1260 to include the “loser pays” provision that Senators Leahy and Hatch proposed in S. 3818.¹²

C. Juries Are Being Appropriately Instructed on Damages Issues

Contrary to the opinions of some, our experience is that judges and juries are not left at sea in ascertaining damages in patent cases. Rather, extensive discovery is permitted into opposing parties’ damages contentions, extensive expert reports are exchanged, and both damages-related witnesses and experts are deposed at length. Motions to exclude improper testimony are permitted and considered both before and during trial, and improper evidence is routinely excluded. To the extent it is not, the aggrieved party may preserve its objection for appeal. Juries hear only admissible evidence and testimony, including explanations from qualified experts for both sides, as to value of the use made of the invention, and the base and rate of a fair royalty to be paid for that use. Jury instructions are proposed and negotiated by both sides, and any objections to those instructions may be preserved for appeal. Within the limits of those instructions, skilled trial lawyers for both sides are given ample time to explain their damages positions in closing argument, and the court’s instructions are diligently administered. Following trial, either party may move for judgment notwithstanding the verdict or for a new trial if the verdict is against the clear weight of the evidence.

Were district courts not generally discharging their duties in the area of patent damages, one would expect that critics could point to large numbers of appeals to the Federal Circuit where aggrieved defendants complained that the foregoing procedures were not being followed, or that reversible error occurred. They have not. To the contrary, the public record demonstrates that damages issues are raised in relatively few patent appeals, and then seldom with respect to any of the procedural errors that one would expect were the criticisms espoused rooted in actual experience. See www.patstats.org (compare, for example, the 374 appellate rulings on literal infringement issues to only 22 for reasonable royalties for the 2000-2004 time period).

D. Addressing Damages Involving a Small System Component

In addition to the foregoing, concerns continue to be expressed that there is an undue risk that damages will be oversized when the invention is a feature that is added to a larger system of which the feature is but a small part. In the context where the patent

¹² Section 5(b), S. 3818, 109th Congress.

owner is a non-practicing patentee not otherwise active in the field, there appears to be widespread stakeholder agreement that any reasonable royalty damages awarded should be commensurate with the value added by using the invention. Nonetheless, after years of trying, no substantive language has been proposed that has gained widespread support. We believe that this failure to agree stems from a misunderstanding of the difference between the function of the patent claims to *define* the invention, and the methodology used to *value* that invention.

1. The Nature and Role of Patent Claims: To Define the Invention

To understand the difference, it is first necessary to understand the nature and role of the numbered “claims” that appear at the end of every issued U.S. patent. In order to gain patent protection for their inventions, inventors are required to meet certain strict disclosure requirements relating to the inventions they wish to protect. In particular, every patent application must include a “specification” that contains

a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention. 35 U.S.C. 112 (1st para.)

In addition to meeting these “written description” and “enablement” requirements, every patent application must

conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

A claim may be written in independent or, if the nature of the case admits, in dependent or multiple dependent form. 35 U.S.C. 112 (2nd & 3rd paras.)

These patent claims, as interpreted in view of the description in the specification and the knowledge of a person skilled in the art, are the focus of the patent examination process. Upon approval or allowance by the Patent and Trademark Office, claims serve as the operating definitions of what is actually patented.

Most commonly, the original patent claims submitted with a patent application are not allowed in their original forms. During the patent examination process, each claim is carefully reviewed to ensure that it is adequately supported by the specification (that the invention it claims is both properly described and enabled), that it is sufficiently definite (that it particularly points out and distinctly claims the invention), that it seeks to cover subject matter of the kind that may be patented, that it is novel, and that it was not “obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.”¹³ Most commonly, Patent Examiners find that an applicant’s originally proposed claims fail to meet one or more of these statutory requirements, and accordingly reject them in one or more “Office Actions” that are issued during the patent examination process. Applicants are allowed to file “responses” to such Office Actions, which may amend or rewrite the patent claims, submit additional

¹³ See 35 U.S.C. 101, 102, 103 & 112.

evidence relevant to the patentability determination, explain how the claims should properly be interpreted, and/or explain why the stated grounds for the rejection of the patent claim(s) are unfounded. Most often, this back and forth process will result in a final decision on allowance after two Office Actions, although in a minority of cases, additional reviews and/or appeals will be needed before a final patentability conclusion is reached.

Once the Patent and Trademark Office has determined that the patent claims are proper in all respects, and after one final search to be sure that the same invention isn't the subject of any another prior pending application, they are allowed, issue as part of the granted patent, and serve as the definition(s) of what is patented.

Under current law, the scope of a patent's claims will be reconsidered at the request of any member of the public who files a reexamination request with the Patent and Trademark Office showing that a substantial new issue of patentability exists with respect to one or more of the patent's claims in view of the disclosure(s) of one or more prior patents or publications.

Whether or not a patent's claims have been tested in reexamination, their validity and proper interpretation may again be challenged in federal district court by any accused infringer. During such proceedings, the district court judge is required to conduct a so-called "Markman" hearing to interpret the claims to ensure that they are construed consistently with the "intrinsic evidence," which includes the specification as well as all of the back and forth communications (known as the "prosecution history") that led to their allowance. Once such a claim interpretation is rendered, that interpretation is used in connection with decision of all subsequent issues, including any validity challenges, the determination of infringement, and the assessment of patent damages on account of the infringement.

2. The Proper Approach to Determining an Invention's Value

The process of determining the value of the use of an invention by an infringer is quite different than determining the scope and patentability of the underlying invention. In the normal case, reasonable royalty patent damages are determined by looking at what the infringer would have been reasonably willing to pay, and what the patentee would have been reasonably willing to accept, for a license to use of the invention negotiated at the time just before the infringement began. In the normal context, where the patentee and infringer are competitors, or at least have other business interests in the same field, this determination can be complex, as the sales to be made by the infringer may have a substantial negative impact on the sales being made by the patentee, and/or a license may alter or disrupt market dynamics. Accordingly, litigants normally contest reasonable royalty issues by proffering evidence related to one or more of thirteen so-called *Georgia Pacific*¹⁴ factors that have been developed by the courts relating to various business circumstances that could have had an influence on the outcome of the hypothetical negotiation.

Where the patentee is not a practicing entity (and thus does not compete against or have interests in the same field with the accused infringer), the business context is

¹⁴ *Georgia-Pacific v. United States Plywood*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

simplified. In such cases, most stakeholders appear to agree in concept that the focus of the reasonable royalty determination should be on the incremental value of using the invention, and that that value should not be artificially inflated or diminished merely because an expanded or contracted royalty base is employed in its calculation. In particular, the business value of using an invention should generally be independent of whether it was claimed broadly or narrowly. For example, if the reasonable royalty for using a patented, variable-speed automobile windshield wiper assembly is one dollar, it should not matter whether the amount is assessed as one dollar per wiper assembly, or one dollar per car. Stated differently, a patentee who has drafted his claim to “an improved car with the [novel] windshield wiper assembly” should not be awarded more than one who drafts his claim only to “an improved [novel] windshield assembly” – in this example the resulting incremental value to an auto manufacturer of using the invention does not vary, nor should the amount of reasonable royalty damages awarded.

3. Non-Use, or Non-Infringing Substitute, As a Focus for Comparative Valuation

It appears that a promising approach to this reasonable royalty problem, at least for circumstances involving non-practicing patentees with no competitive interests in the field, may be to focus on ascertaining the incremental value to the infringer, at the time just before the infringement began, of using the invention compared to not using it, or to using its closest reasonably available non-infringing substitute, and then determining the fair proportion of that value that should be paid to the patent owner for that use. In the example of the windshield wiper example, the value of the car with the improved windshield wiper may be compared to the car’s value with a conventional windshield wiper, and a reasonable royalty that is a fair proportion of the determined incremental value could then be assessed.

4. The Invention Should Not Be Redefined for Damages Purposes

Unfortunately, proponents of reasonable royalty reform have gone down the wrong track, and appear to be at risk of doing so again, by trying to narrow the definition of the invention for damages purposes. According to this methodology, the definition of patented invention, as set forth in carefully crafted claims approved by the USPTO, would still be used in the validity and infringement phases of a patent enforcement litigation, but not for purposes of assessing fair damages “for the use made of the invention by the infringer,” as is now required by statute. Instead, these proponents would narrow the claimed invention using one or more definitional devices that are plainly intended to reduce inventors’ recoveries so that the royalties will be based on less than what the Patent and Trademark Office agreed to be patentable.

Some such definitional devices suggested during the last Congress included limiting the claimed invention for damages purposes to “its inventive contribution,” its “patentable features,” or, as proposed in H.R. 1260, “the patent’s specific contribution over the prior art.” After extensive discussion and debate, it was recognized in the Senate Judiciary Committee’s report for S. 1145 that the language “specific contribution over the prior art” would have to be amended to address concerns in the patent-using communities. Indeed, in the 110th Congress, a number of witnesses and commentators noted that language that would require that a claimed invention be dissected down to less than all of its component parts for damages purposes would (a) systematically under-

compensate inventors, and (b) be “toxic” to the progress of other meaningful patent law reform.

5. *Quanta’s* “Essential Features” Language Is Not the Answer

This year, some have suggested that the claimed invention again be re-defined for damages purposes, this time by reducing it to its “essential elements,” as noted by Senator Leahy in his introductory remarks on S. 515. This “essential elements” language is borrowed from the recent Supreme Court decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*,¹⁵ which used it in an entirely different context. *Quanta* in fact has nothing to do with determining the proper amount of damages to be awarded for the use made of an invention by an infringer, and by no means authorizes the kind of systematic limitation on patent damages that would result from this proposal.

Quanta deals with the doctrine of patent exhaustion: when in the distribution chain so much of the patented invention has been sold that it would be unfair to allow the patent owner to control (or collect further royalties from) further downstream sales. The Court held that patent rights are exhausted following the authorized sale of components that must be combined with other components in order to practice the method claimed in the patents in that case. In reaching this holding, the Court quoted its 1942 decision in *United States v. Univis Lens Co.*,¹⁶ “where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article.”

In the context in which the Court used the term “essential features” in *Univis*, the term was clearly intended to capture the thought that exhaustion applies where a patentee has sold a product essentially embodying the whole of a patented invention. The court was not attempting to dissect the invention into essential and non-essential features, nor suggesting the use of “essential features” in damages calculations. The Supreme Court in *Quanta* was only saying that, in line with *Univis*, exhaustion applies where a patentee sells a product that embodies essentially all of the features of a claimed invention so that “the only step necessary to practice the patent is the application of common processes or the addition of standard parts.”

Quanta’s “essential features” phrase cannot be applied to inventions made up of a combination of prior art elements because subtraction of the common processes or standard parts would leave nothing. For those who argue that the “essential features” phrase would not apply to combination inventions, the reality is that, at some level, all inventions are combinations of old elements. As Chief Judge Markey explained “there ain’t no new elements! Only God makes things out of new elements.... It may be possible to think of a non-combination claim, but it’s very hard. Perhaps chemical claims are meant, but they are usually combinations of chemical elements.”¹⁷ Thus, neither *Quanta* nor *Univis* address the value of the use made of an invention and the “essential elements” phrase should not be used in any damages legislation.

¹⁵ 128 S. Ct. 2109 (2008).

¹⁶ 316 U.S. 241, 250-51 (1942)

¹⁷ Howard T. Markey, *Semantic Antics in Patent Cases*, 88 F.R.D. 103 (1980); *Why Not the Statute?* 65 J. PAT. & TRADEMARK OFF. SOC’Y 31 (1983)

6. The Forthcoming *Lucent-Gateway* Decision

One judicial development that may have a substantial impact on the reasonable royalty debate is *Lucent v Gateway*,¹⁸ which is a reasonable royalty damages case now on appeal before the Federal Circuit. Over twenty stakeholders, including Johnson & Johnson, have participated in *amicus* filings in this case, which is scheduled to be argued on June 2 of this year. It is very likely that the Federal Circuit will continue to develop the substantive law of reasonable royalty patent damages in a way that will ensure fairness to inventor and infringer alike.

E. The “Gatekeeper” Solution

The best and most achievable solution to the patent damages issue now appears to be the adoption of the Senate compromise that is contained in S. 515 as reported. Such “gatekeeper” language will ensure that courts or juries consider only those damages contentions that are cognizable at law and supported by substantial evidence. This approach has received widespread, bipartisan support in the Senate, and among a broad spectrum of stakeholders. Accordingly, our Coalition believes it is most deserving of this Committee’s consideration and adoption.

S. 515 now includes a damages provision that retains the general patent damages provision that authorizes compensatory damages, which ensures that:

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

This provision provides firm statutory support to existing and developing case law that focuses the reasonable royalty inquiry on “the use made of the invention by the infringer.”

S. 515 as ordered reported further includes three complementary “gatekeeper” provisions relating to the procedures to be used for determining damages. The first of these sets forth a general rule that ensures that the court or jury will consider only those methodologies and factors that are relevant to making the damages determination.¹⁹ The second requires pre-trial disclosure of the methodologies and factors the parties propose for instruction to the jury, and the specification of the relevant underlying legal and factual bases for their assertions.²⁰ The third gatekeeper provision allows either party, or the court acting *sua sponte*, to challenge one or more of its opponent’s damages

¹⁸ *Lucent Techs. Inc. v. Gateway, Inc.*, No. 2008-1485, -1486, -1487, -1495 (Fed. Cir.)

¹⁹ (1) IN GENERAL- The court shall identify the methodologies and factors that are relevant to the determination of damages, and the court or jury, shall consider only those methodologies and factors relevant to making such determination.

²⁰ (2) DISCLOSURE OF CLAIMS- By no later than the entry of the final pretrial order, unless otherwise ordered by the court, the parties shall state, in writing and with particularity, the methodologies and factors the parties propose for instruction to the jury in determining damages under this section, specifying the relevant underlying legal and factual bases for their assertions.

contentions as lacking a legally sufficient evidentiary basis.²¹ Upon such a challenge, the court is required to provide the nonmovant the opportunity to be heard, to proffer further evidence, and to brief and argue the issue. Thereafter, the court is required to identify on the record those methodologies and factors for which there is a legally sufficient evidentiary basis, whereupon the court or jury is required to consider only such methodologies and factors in making the determination of damages.

Since its suggestion, this gatekeeper has received widespread support from a broad spectrum of stakeholders, including our Coalition. We urge this Committee to consider this solution to the perceived problem that reasonable royalty damages are not being fairly and uniformly assessed by the courts. We believe this compromise has the further advantage of allowing the continued orderly development of case law, which, together with these new provisions, will ensure that inventors are fairly compensated, but not over-compensated, on the account of unauthorized uses of their inventions.

VI. The 21st Century Coalition Supports the Willfulness Compromise

The 21st Century Coalition supports the Senate's compromise on willful infringement as reported in S. 515, but only as part of the overall package adopted by the Senate Judiciary Committee. Our Coalition thus urges this Committee to consider this provision for inclusion in the present bill.

If for any reason this Committee decides not to adopt the Senate approach, our Coalition would urge that H.R. 1260 eliminate any provision relating to willfulness from H.R. 1260, in favor of the law recently established in *In re Seagate*, which has raised the willfulness bar from one requiring a showing of a breach of a duty of reasonable care, to one requiring a showing of "objective recklessness."

A. The Current Language of Section 5(c) is Inconsistent with *In re Seagate*

The 21st Century Coalition opposes the current willfulness provision of Section 5(c) of H.R. 1260, as it is inconsistent with the Federal Circuit's recent decision in *In re Seagate*,²² which abandoned the former "duty of care" standard in favor of the higher "objectively reckless" standard.

First, the willfulness provision contained in H.R. 1260 is a carry over of a provision written to establish a safe harbor from liability that might have existed in a "duty of care" environment. It proposes, for example, to establish a good faith state of mind defense, even though, as the Federal Circuit explains in *Seagate*,

²¹ (3) SUFFICIENCY OF EVIDENCE- Prior to the introduction of any evidence concerning the determination of damages, upon motion of either party or sua sponte, the court shall consider whether one or more of a party's damages contentions lacks a legally sufficient evidentiary basis. After providing a nonmovant the opportunity to be heard, and after any further proffer of evidence, briefing, or argument that the court may deem appropriate, the court shall identify on the record those methodologies and factors as to which there is a legally sufficient evidentiary basis, and the court or jury shall consider only those methodologies and factors in making the determination of damages under this section. The court shall only permit the introduction of evidence relating to the determination of damages that is relevant to the methodologies and factors that the court determines may be considered in making the damages determination.

²² *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007), *cert. denied*, 2008 U.S. LEXIS 2153 (2008).

The state of mind of the accused infringer is not relevant to this objective inquiry. If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.²³

Moreover, in determining whether an accused infringer “acted despite an objectively high likelihood that its actions constituted infringement of a valid patent,” courts must consider “both legitimate defenses to infringement claims and credible invalidity arguments,” provisions not addressed in the current proposal. Accordingly, the potential exists that H.R. 1260 may be interpreted as altering the law of *Seagate*, rather than codifying it.²⁴

Second, while the Federal Circuit set forth the objectively reckless standard in *Seagate*, the court explicitly recognized “that the term [reckless] is not self-defining” and that future cases are needed to “develop the application of this standard.” Thus, to enact legislation at this point would likely interfere with the orderly development of important case law that will elucidate the practical considerations to be met in applying this standard.

Third, as an immediate and direct result of *Seagate*, district courts have begun routinely dismissing claims of willfulness from cases before they reach the trial stage, thus suggesting that undue allegations of willfulness are no longer the problem they once were.

B. The Willfulness Compromise

Recognizing some of the problems in the willfulness language of the original text, S. 515 as ordered reported contains a revised willfulness provision that largely conforms to the language of H.R. 1260, but includes revised safe harbor language.²⁵

While in the 21st Century Coalition’s view, the best course under these circumstances would have been for Congress to exercise legislative restraint in deference to the judicial progress made on this issue, it intends to continue to support the Senate compromise on willfulness as part of the overall package adopted in S. 515, as reported.

²³ *See id.*

²⁴ *See id.*; *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, No. 2007-1243, 2007-1244, 2008 U.S. App. LEXIS 207, at **18 (Fed. Cir. Jan. 7, 2008).

²⁵ (A) IN GENERAL- Notwithstanding paragraph (2), an infringer may not be found to have acted with objective recklessness where for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement of the patent, and—

(i) there was reasonable reliance on advice of counsel;

(ii) the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or

(iii) there is sufficient evidence that the infringer had a good faith belief that the patent was invalid or unenforceable, or would not be infringed by conduct later shown to constitute infringement of the patent.

VII. Our Coalition Supports S. 515's Venue and Jurisdiction Compromises

Section 10 of H.R. 1260 would amend title 28 of the United States Code regarding venue and interlocutory appeals in patent cases. The 21st Century Coalition opposes both of these amendments for the reasons explained below; however, Our Coalition would support the venue and jurisdiction compromises of S. 515 as ordered reported, but only as part of the overall package adopted by the Senate Judiciary Committee. If the Committee believes legislation in these areas is necessary, our Coalition urges the Committee to adopt the Senate's compromise provisions for inclusion in Section 10.

A. Venue

The proposed amendment to the venue provisions for patent cases in Section 10 of H.R. 1260 unfairly discriminates against most corporate patent owners. We believe that it lacks balance and discriminates against the legitimate interests of corporate patent owners. It would prevent them from bringing an infringement action in the district where they perform research, development, manufacturing, or other commercialization of the involved technology – *i.e.*, where their relevant evidence and witnesses are likely to be located. For example, although Section 10 would allow patent-owning individuals, universities and nonprofit organizations to file suit where they reside, corporate defendants are denied such rights, and must bring suit in a district where a defendant has its principal of business or carries out a substantial portion of its operations. Not only is this dichotomy unfair to corporate patent owners, it also overreaches to address the perceived venue problem that has spurred the calls for reform – cases being brought in purportedly pro-plaintiff venues that lack any substantive connection to any party's activities or to the evidence relating to the case.

The rationale for recognizing a plaintiff's home district as an appropriate venue for bringing a patent infringement action exists for corporate plaintiffs as well as individuals, universities and nonprofit organizations. Given the high costs and burdens associated with patent litigation, for many corporate plaintiffs, geographic convenience is a primary concern. They prefer to bring suit in their home districts, where their witnesses, documents and other information typically are located. Moreover, for many corporate patent owners, their home forum typically is the place where they often have invested in research, development and commercialization of the patented technology. Their interests in protecting those investments in their home districts should not be ignored in favor of an accused infringer's interests in litigating in its home court. Nearly every patent infringement action presents geographical inconvenience to one party or the other; and in our view, a venue rule that imposes that inconvenience on a corporate patent owner in all cases is neither fair nor justifiable.

Equally important, the need for venue reform has been alleviated by recent judicial decisions. Section 10 of H.R. 1260 is spurred in large part by the call to reduce the number of patent infringement cases filed in the Eastern District of Texas, which has been criticized by some as a pro-plaintiff forum. If such a remedy were ever needed, several developments now appear to have made it unnecessary. First, there was a 17% decline in filings in the Eastern District in 2008, perhaps due to its mounting case

backlog. Second, the Fifth Circuit's recent decision *In re Volkswagen of America, Inc.*,²⁶ which was promptly followed by the Federal Circuit's decision *In re TS Tech Corp.*,²⁷ appears to have largely remedied the venue shopping problem by holding that cases must be transferred to locales where there is a considerable nexus to the forum, such as to those *fora* where the witnesses and evidence may be found.

As introduced in the Senate, Section 8 of S. 515 contained the same venue language as Section 10 of H.R. 1260. Recognizing the impact of these recent judicial decisions, however, the Senate Judiciary Committee amended Section 8 of S. 515 to codify them, ensuring that patent cases may be transferred if filed in inconvenient judicial districts. It addresses the gamesmanship without discriminating against corporate patent owners by denying them their existing right to bring suit in their home judicial districts. This compromise is balanced and fair to all parties in patent infringement cases, preserves judicial discretion and efficiency in case management, and has gained widespread support as part of a compromise package among multiple stakeholders. If the Committee wishes to address this issue, the Coalition would urge that it also take the approach of codifying the *Volkswagen* and *TS Tech* cases.

B. Interlocutory Appeals

Section 10 of H.R. 1260 also would amend 28 U.S.C. § 1292 to permit patent litigants to appeal interlocutory claim construction rulings. Under current law, there are already two ways such *Markman* rulings may be appealed. The first is by bringing a successful, dispositive summary judgment motion, whereupon the claim construction ruling is reviewed as a matter of right on appeal. The second way, which has been very rarely granted, is to seek certification of the *Markman* ruling from the ruling district court judge, whereupon the appeal will be heard only at the discretion of the Court of Appeals for the Federal Circuit.

Although Section 10 of H.R. 1260 would give the trial court discretion whether to approve such appeals and, if granted, whether to stay its proceedings during the pendency of such appeal, it would change current law by mandating that the Federal Circuit hear and decide the appeal. Our Coalition believes that this approach is fraught with opportunities for mischief. Such an approach is likely to lead to piecemeal litigation that will clog the docket of the Court of Appeals, slow the timely resolution of patent cases, and, ultimately, reduce the value of the patent award. As stated by Chief Judge Michel of the Court of Appeals for the Federal Circuit:

Interlocutory appeals of *Markman* rulings need no legislative compulsion ... because they already happen. The majority of our appeals are from summary judgments of non-infringement based on claim construction. What would be added are mainly cases where the claim construction is not

²⁶ See *In re Volkswagen of America, Inc.*, 545 F.3d 304 (5th Cir. 2008) (*en banc*) (granting writ of mandamus directing the Eastern District of Texas to transfer the case because the trial court "gave undue weight to plaintiffs' choice of venue, ignored [] precedents, misapplied the law, and misapprehended the relevant facts"), *cert. denied sub. nom. Singleton v. Volkswagen of America, Inc.*, 129 S.Ct. 1336 (2009).

²⁷ *In re TS Tech Corp.*, 551 F.3d 1315 (Fed. Cir. 2008) (granting a writ of mandamus holding that Eastern District of Texas clearly abused its discretion in denying a motion to transfer patent infringement case to Southern District of Ohio).

dispositive, which hardly seems efficient. Greater cost and delay will follow when everyone agrees costs and delays need to be reduced.²⁸

Moreover, where the case involves the alleged invalidity of a patent, and/or where factual disputes exist as to the nature of the alleged infringement, our experience is that further proceedings, including trial, are normally needed to develop the issues. For this reason, and because patent cases normally involve the assertion of multiple claims raising many issues of interpretation, many *Markman* rulings are not case dispositive. Moreover, it is not infrequent for district court judges to modify their claims construction rulings during the course of the case, as they become more familiar with the technology at issue and better appreciate the context, significance and potential ambiguities of their initial interpretations.

For these reasons, and because it would compound and delay already-complex patent litigation, we do not favor giving litigants an unfettered right to bring interlocutory appeals on all claims construction rulings. Nonetheless, if a right of interlocutory appeal is to be given, it should be limited to appeals from denials of potentially case-dispositive summary judgment motions based on the interpretation of one or more of the patent claims in issue. Moreover, such appeals should not proceed unless the district court believes that the evidentiary record is sufficiently developed to fairly support the appeal, the appeal will materially advance the ultimate termination of the litigation and one or more issues to be appealed is likely to be outcome determinative.

The issues raised by interlocutory appeals in patent cases were discussed extensively during the Senate Judiciary Committee's consideration of Section 8 of S. 515 which as introduced had interlocutory appeals language identical to that of Section 10 of H.R. 1260. Responding to the concerns expressed by various stakeholders, the Senate Judiciary Committee ordered reported an amended Section 8 which addressed many of the concerns outlined above. As amended, Section 8 would allow district courts to maintain control of the management of their cases, while ensuring that those claim construction issues that are appealed will be of sufficient importance to merit the time and attention of the Federal Circuit.

Again, if the Committee believes that legislation in this area is necessary, we would urge it give favorable consideration to the amendments to Section 8 ordered reported by the Senate Judiciary Committee.

VIII. Conclusion

Johnson & Johnson and the Coalition for 21st Century Patent Reform appreciate the invitation to provide our views to the Committee on these and other patent reform proposals, and look forward to working with the Committee on this bill to bring it to successful passage.

²⁸ "A Strong Patent System," remarks by Paul R. Michel, Chief Judge, U.S. Court of Appeals for the Federal Circuit, before the Association of Corporate Patent Counsel, January 28, 2009
http://www.patentmatter.com/issue/20090128_michel_acpc.htm