

## Examining the FTC's 2003 Proposed Reforms to U.S. Patent Law in View of the Present Legal Landscape

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### ABSTRACT

In October of 2003 the United States Federal Trade Commission ("FTC") released a report assessing the impact of the United States' patent system on competition and innovation. The report concluded that the patent system, in its present state, fosters innovation and competition when valid patents are considered. In the FTC's view, however, the patent system fails to provide adequate mechanisms for challenging and removing patents of questionable validity. This Article summarizes the FTC's recommendations for patent reform and examines them to determine the extent, if any, to which the proposals depart from current law. The FTC proposed that Congress make the evidentiary standard for all invalidity challenges a mere preponderance of the evidence. In addition, the FTC focused on two aspects of obviousness. First, the FTC was concerned that the Federal Circuit applies too rigid a standard in terms of the level of detail required to find a teaching, motivation, or suggestion to combine or modify prior-art references. Second, the FTC questioned the Federal Circuit's presumed nexus between the commercial success of an invention and its nonobviousness. Other proposed reforms include establishing a prior-user defense for infringement suits based on broad claims in a continuation application and replacing the current *inter partes* reexamination proceeding with a post-grant review proceeding. Perhaps the FTC's proposed reforms will make challenging patents easier, but it appears that some of the proposed reforms will actually weaken the patent system, therefore harming, rather than promoting, innovation.

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## I. INTRODUCTION

¶1 In October of 2003 the United States Federal Trade Commission (“FTC”) released a report assessing the impact of the United States’ patent system on competition and innovation. The report, entitled “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy,”<sup>1</sup> culminated twenty-four days of hearings with over 300 panelists from industry, the legal profession, and academia.<sup>2</sup>

¶2 After evaluating the testimony and views of the panelists, the FTC concluded that the United States’ patent system, in its present state, fosters innovation and competition when valid patents are considered.<sup>3</sup> The FTC further concluded that innovation and competition are stifled by what it labeled “poor quality or questionable patents,” i.e., patents that are “likely invalid or contain[] claims that are likely overly broad.”<sup>4</sup>

¶3 In the FTC’s view, the patent system fails to provide adequate mechanisms for challenging and removing patents of questionable validity. Accordingly, it made several

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1. FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW & POLICY (2003) [hereinafter FTC REPORT], available at <http://www.ftc.gov/opa/2003/10/cpreport.htm> (last visited Oct. 22, 2004). Transcripts of the hearings are available at: <http://www.ftc.gov/opp/intellect/index.htm> (last visited Oct. 22, 2004).

2. The FTC also considered over 100 written submissions. FTC REPORT Ch. 1, *supra* note 1, at 2.

3. *Id.* at 4.

4. *Id.* at 5. See also *id.* at 33.

recommendations for reforming the substantive and procedural mechanisms for challenging a patent's validity. The FTC also recommended procedural changes to the patent examination process. Finally, it made recommendations on two discrete issues concerning the enforcement of patent rights: a prior-use defense in the context of continuation applications and limited grounds for finding willful infringement.

¶4 This Article summarizes the FTC's recommendations for patent reform and examines them to determine the extent, if any, to which the proposals depart from current law. Part I evaluates the recommendations on the substantive law concerning patent validity, including lowering the evidentiary standard to a preponderance of the evidence and specifying how courts should apply standards for determining obviousness. Part II analyzes the FTC's recommendations regarding procedural aspects of examining the validity of issued patents and patent applications, and proposes a post-grant review procedure and modifications to several Patent and Trademark Office ("PTO") examination practices. Part III addresses the FTC's proposed recommendations for a prior-user defense relating to continuation applications and modifying the conditions under which a claim for willful infringement may be asserted.

## II. CHANGES FOR SUBSTANTIVELY EVALUATING VALIDITY

### A. Lower the Evidentiary Standard to Prove Invalidity in Litigation

¶5 The FTC recommended that Congress make the evidentiary standard for all invalidity challenges a mere preponderance of the evidence.<sup>5</sup> 35 U.S.C. § 282 specifies that "[a] patent shall be presumed valid" and that "[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting invalidity."<sup>6</sup> Notably, the statute does not establish an evidentiary standard for proving invalidity. Nonetheless, for at least seventy years it has been settled that challenges to the validity of a patent must meet the heightened evidentiary standard of "clear and convincing" evidence.<sup>7</sup>

¶6 Before the enactment of the 1952 Patent Act, the Supreme Court held that those challenging the validity of a patent bore a "heavy burden" and had to prove invalidity with "clear and satisfactory" evidence. In *Radio Corp. of America v. Radio Engineering*

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5. FTC REPORT Ch. 5, *supra* note 1, at 28.

6. 35 U.S.C. § 282 (2004).

7. The "clear and convincing" standard is distinguishable from the "proof beyond a reasonable doubt" standard. As the Federal Circuit has explained:

The "clear and convincing" standard of proof of facts is an intermediate standard which lies somewhere between "beyond a reasonable doubt" and a "preponderance of the evidence." Although not susceptible to precise definition, "clear and convincing" evidence has been described as evidence which produces in the mind of the trier of fact "an abiding conviction that the truth of [the] factual contentions are 'highly probable.'"

*Buildex Inc. v. Kason Indus., Inc.*, 849 F.2d 1461, 1463 (Fed. Cir. 1988) (citations omitted). *See also Intel Corp. v. United States Int'l Trade Comm'n*, 946 F.2d 821, 830 (Fed. Cir. 1991) ("Clear and convincing evidence has been described as evidence which proves in the mind of the trier of fact 'an abiding conviction that the truth of the factual contentions [is] highly probable.'").

*Laboratories, Inc.*, the Court instructed that “[a] patent regularly issued, and even more obviously a patent issued after [an interference proceeding involving] a hearing of all the rival claimants, is presumed to be valid until the presumption has been overcome by convincing evidence of error.”<sup>8</sup> The Court further instructed that “[e]ven for the purpose of a controversy with strangers there is a presumption of validity, a presumption not to be overthrown except by clear and cogent evidence. The question is whether the respondent has sustained that heavy burden.”<sup>9</sup> Thus, “the presumption of validity shall prevail against strangers as well as parties unless the countervailing evidence is clear and satisfactory.”<sup>10</sup> Following *Radio Corp.*, the Federal Circuit has repeatedly held that any challenge to the validity of an issued patent must be proven with clear and convincing evidence.<sup>11</sup>

¶7 The Federal Circuit has noted that requiring challengers to prove invalidity by the “clear and convincing” standard serves to ensure that patents are not invalidated by confusing, technical testimony proffered by a challenger where the challenger cannot lay out a coherent case showing invalidity. Thus, in *Schumer v. Laboratory Computer Systems, Inc.*, the Federal Circuit remarked:

Evidence of invalidity must be clear as well as convincing . . . . It is not our task, nor is it the task of the district court, to attempt to interpret confusing or general testimony to determine whether a case of invalidity has been made out, particularly at the summary judgment stage. Indeed, to accept confusing or generalized testimony as evidence of invalidity is improper. The risk is great that the confusion or generality is the result, not of an inarticulate witness or complex subject matter, but of a witness who is unable to provide the essential testimony.<sup>12</sup>

¶8 A finding of invalidity renders a claim unenforceable against all potential infringers forever, while a holding that a claim is not invalid has no binding effect on later challengers.<sup>13</sup> The permanent deprivation that an invalidity finding has on a

8. *Radio Corp. of Am. v. Radio Eng'g Labs., Inc.*, 293 U.S. 1, 7 (1934).

9. *Id.* at 2.

10. *Id.* at 9.

11. *Intellectual Prop. Dev., Inc. v. UA-Columbia Cablevision of Westchester, Inc.*, 336 F.3d 1308, 1319 (Fed. Cir. 2003) (“The claims of a patent are afforded a statutory presumption of validity. Overcoming the presumption of validity requires that any facts supporting a holding of invalidity be proved by clear and convincing evidence.”) (citations omitted); *Moba B.V. v. Diamond Automation, Inc.*, 325 F.3d 1306, 1319 (Fed. Cir. 2003) (“The Patent Act erects a presumption of validity for an issued patent. Therefore, invalidity requires clear and convincing evidence.”) (citations omitted); *D.L. Auld Co. v. Chroma Graphics Corp.*, 714 F.2d 1144, 1147 n.2 (Fed. Cir. 1983) (“The presumption is a procedural device, not a substantive rule. . . . Submission of evidence by a patent challenger may raise a need for a patentee to go forward with countering evidence, but the burden-assigning effect of the presumption is never lost.”) (citations omitted).

12. *Schumer v. Lab. Computer Sys., Inc.*, 308 F.3d 1304, 1315-16 (Fed. Cir. 2002).

13. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 324-25 (1971) (once a patent is declared invalid by a court, the patent holder is estopped from asserting the patent’s validity in a subsequent action under offensive collateral estoppel unless the patent holder can prove that he did not have a full and fair opportunity to litigate the validity of his patent in the prior suit); *Mendenhall v.*

patentee's property right supports compelling a challenger to meet a heightened evidentiary standard.

¶9 In contrast, the resolution of whether or not an accused product infringes a claim is only applicable to the parties and their privies. It does not have the same public impact as the question of validity.<sup>14</sup> Hence, the law merely requires that infringement is proved by a preponderance of the evidence.<sup>15</sup>

¶10 The FTC's recommendation to lower the standard of proof for all forms of validity challenges departs significantly from the current law as developed over much of the last century. Whether such a modification would effect a real change in the outcome of validity determinations remains to be seen.

## B. Modified Judicial Standards for Evaluating Obviousness

¶11 Not surprisingly, in considering ways to remove dubious patents from the marketplace, the FTC focused on the obviousness criterion. Under current law:

[a] patent may not be obtained though the invention is not identically disclosed or described as set forth in § 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.<sup>16</sup>

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Cedarapids, Inc., 5 F.3d 1557, 1569 (Fed. Cir. 1993) (accused infringer was not collaterally estopped by prior adjudication, which held that the patent was not invalid, and where accused infringer was not a party to the prior adjudication). *See also* Allen Archery, Inc. v. Browning Mfg. Co., 819 F.2d 1087, 1091 (Fed. Cir. 1987).

14. *Sinclair & Carroll Co., Inc. v. Interchemical Corp.*, 325 U.S. 327, 330 (1945) (“[O]f the two questions [infringement or validity], validity has the greater public importance”). *See also* *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 100-02 (1993) (rejecting Federal Circuit's practice of vacating validity counterclaims as moot after affirming in part a noninfringement judgment because validity presents a question of greater public importance). Furthermore, because upholding valid patents promotes innovation, the public has an important interest in seeing that valid patents are enforced, just as it has an interest in seeing that invalid patents are invalidated. *See* *PPG Indus., Inc. v. Guardian Indus. Corp.*, 75 F.3d 1558, 1567 (Fed. Cir. 1996) (noting that “the strong public policy favoring the enforcement of patent rights” justifies granting preliminary injunctions); *E.I. du Pont de Nemours & Co. v. Polaroid Graphics Imaging, Inc.*, 706 F. Supp. 1135, 1146 (D. Del. 1989), *aff'd*, 887 F.2d 1095 (Fed. Cir. 1989):

One of the bases of intellectual property law is to give inventors an incentive to practice their talents by allowing them to reap the benefits of their labor. One of these benefits is the right to prevent others from practicing what they have invented. Otherwise, if inventors cannot depend on their patents to exclude others, we fear that research and development budgets in the science and technology based industries would shrink, resulting in the public no longer benefiting from the labors of these talented people. The public interest does not rest with [the accused infringer].

15. *LNP Eng'g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1356 (Fed. Cir. 2001).

16. 35 U.S.C. § 103(a) (2004).

¶12 While the standard of obviousness is easy to state, it is often difficult to apply.<sup>17</sup> Courts have routinely recognized that what is obvious to one is not necessarily obvious to another.<sup>18</sup> Indeed, during the FTC hearings Judge Newman remarked that obviousness is a “fuzzy ground . . . hard to decide, difficult to administer, [and] even harder to set.”<sup>19</sup>

¶13 The FTC’s recommendations focused on two aspects of obviousness: (1) requirements for combining or modifying prior-art references; and (2) requirements for using commercial success as evidence of nonobviousness.

### 1. Relaxed Standards for Finding a Motivation to Combine or Modify Prior-Art References

¶14 Obviousness can be shown by a combination of prior-art references, modifications to those references, or both. To prevent a challenger from using the challenged patent as a blueprint for combining and modifying the prior art to argue that the patent is obvious, the Federal Circuit requires a teaching, suggestion, or motivation, independent from the claimed invention, showing that a person having ordinary skill in the relevant art (PHOSITA) would so combine or modify the prior-art references to arrive at the claimed invention.<sup>20</sup> “The showing of a motivation to combine must be clear and particular, and it must be supported by actual evidence.”<sup>21</sup> However, the “suggestion or motivation need not be expressly stated” in the prior art, but can be inferred.<sup>22</sup>

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17. The Supreme Court has openly and repeatedly acknowledged that it is not easy to draw a line between an obvious and a nonobvious invention. *C. & A. Potts & Co. v. Creager*, 155 U.S. 597, 606 (1895) (determining whether a claimed invention that uses a component found in the prior art—but for an allegedly new purpose—presents more than an obvious difference and is a question that “has taxed the ingenuity of courts ever since the passage of the patent acts.”). *See also* *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966) (“This is not to say, however, that there will not be difficulties in applying the nonobviousness test.”).

18. *See Graham*, 383 U.S. at 18 (“What is obvious is not a question upon which there is likely to be uniformity of thought in every given factual context.”).

19. FTC REPORT Ch. 4, *supra* note 1, at 13.

20. *McGinley v. Franklin Sports, Inc.*, 262 F.3d 1339, 1351 (Fed. Cir. 2001) (“The genius of invention is often a combination of known elements which in hindsight seems preordained. To prevent hindsight invalidation of patent claims, the law requires some ‘teaching, suggestion or reason’ to combine cited references.”) (citations omitted); *Ecolochem, Inc. v. So. Cal. Edison Co.*, 227 F.3d 1361, 1371 (Fed. Cir. 2000) (“the best defense against hindsight-based obviousness analysis is the rigorous application of the requirement for a showing of a teaching or motivation to combine the prior art references.”); *Smiths Indus. Med. Sys., Inc. v. Vital Signs, Inc.*, 183 F.3d 1347, 1356 (Fed. Cir. 1999) (an invention is not obvious merely because its elements were already known. “Instead, the relevant inquiry is whether there is a reason, suggestion, or motivation in the prior art that would lead one of ordinary skill in the art to combine the references, and that would also suggest a reasonable likelihood of success.”); *In re Dembiczak*, 175 F.3d 994, 999 (Fed. Cir. 1999) (“Combining prior art references without evidence of . . . suggestion, teaching, or motivation simply takes the inventor’s disclosure as a blueprint for piecing together the prior art to defeat patentability—the essence of hindsight.”).

21. *Teleflex, Inc. v. Ficoso N. Am. Corp.*, 299 F.3d 1313, 1334 (Fed. Cir. 2002).

22. *B.F. Goodrich Co. v. Aircraft Braking Sys. Corp.*, 72 F.3d 1577, 1582-83 (Fed. Cir. 1996). *See also* *Winner Int’l Royalty Corp. v. Wang*, 202 F.3d 1340, 1348-49 (Fed. Cir. 2000) (“Although a reference need not expressly teach that the disclosure contained therein should be combined with another, the

¶15 The FTC was concerned that the Federal Circuit applies too rigid a standard in terms of the level of detail required to find a teaching, motivation, or suggestion to combine or modify prior-art references.<sup>23</sup> In the FTC's view, the Federal Circuit should give more credit to the role played by the inherent knowledge and problem-solving abilities possessed by a PHOSITA.<sup>24</sup> Thus, the FTC recommended "that in assessing obviousness, the analysis should ascribe to the person having ordinary skill in the art an ability to combine or modify prior art references that is consistent with the creativity and problem-solving skills that in fact are characteristic of those having ordinary skill in the art."<sup>25</sup>

¶16 The FTC's position appears to follow the Supreme Court's implicit approach in *Graham*. There the Court held that it would have been obvious to a PHOSITA to take the rib of a pouring spout found in the prior art and combine it with other features found in the prior art to arrive at the claimed sprayer-pump invention.<sup>26</sup> This finding was based solely on the fact that the references were found in a prior art category closely related to the claimed invention and directed to the same mechanical closure problem, despite the lack of an express teaching or motivation for combining the two references.<sup>27</sup> Similarly, in *Dann v. Johnston*, the Court instructed that the existence of differences between the claimed invention and the prior art do not render an invention nonobvious if a PHOSITA would consider those differences obvious.<sup>28</sup>

¶17 When the nature of the problem appears to readily lead a PHOSITA to combine or modify relevant aspects of the prior art, the Federal Circuit has permitted the PHOSITA's inherent knowledge to be used to provide the necessary teaching, motivation, or suggestion.<sup>29</sup> Nonetheless, the Federal Circuit has explicitly held that the PTO may not

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showing of combinability, in whatever form, must nevertheless be 'clear and particular.')

23. FTC REPORT Ch. 4, *supra* note 1, at 12-15.

24. *Id.* at 15.

25. *Id.*

26. *Graham v. John Deere Co.*, 383 U.S. 1, 35 (1966).

27. *Id.*

28. *Dann v. Johnston*, 425 U.S. 219, 229-30 (1976) ("the mere existence of differences between the prior art and an invention does not establish the invention's nonobviousness."). *See also Sakraida v. AG Pro, Inc.*, 425 U.S. 273, 282-83 (1976) (claimed cleaning machine was obvious where each element in the machine was old in the art, and within the patented combination none of the elements was used in a different way or performed a different function). *Cf. Potts v. Creager*, 155 U.S. 597, 608-09 (1895) (patent directed to a cylinder having longitudinal metal bars that functioned to disintegrate and pulverize clay in a manner that allowed the pulverized clay to easily absorb water was not invalid over prior-art device of a cylinder having longitudinally placed glass bars used for planing wood, because the prior art glass bars could not achieve the result of disintegrating and pulverizing the clay in the claimed machine; furthermore, since no prior art clay processing machines could disintegrate and pulverize the clay, but could only crush and grind the clay in a manner that impeded the ability of the processed clay to absorb water, the claimed invention achieved a new result and was thus a patentable invention).

29. For example, in *Novo Nordisk A/S v. Becton Dickinson & Co.*, the Federal Circuit upheld a jury verdict finding that an invention directed to an insulin-injection pen using a small 30 gauge needle was obvious. 304 F.3d 1216, 1218-19 (Fed. Cir. 2002). Prior art relating to insulin-injection pens did not show a pen using a 30 gauge needle, but the prior art contained other types of insulin-injection devices that used 30 gauge needles. Further, evidence showed that it was well known in the art that using smaller needles

merely rely on an examiner's notion that common knowledge and common sense would motivate a PHOSITA to combine references in a manner rendering the invention obvious. Rather, the PTO examiner must provide explicit supporting evidence illustrating the alleged motivation. Thus, in *In re Lee*, the court vacated a finding of obviousness because the PTO Board of Patent Appeals and Interferences ("PTO Board") and examiner failed to provide any reason as to the motivation for combining references; rather, they only provided a conclusory statement that "common knowledge and experience" would lead a PHOSITA to combine the references.<sup>30</sup> The Federal Circuit explained:

The factual inquiry whether to combine references must be thorough and searching. It must be based on objective evidence of record. This precedent has been reinforced in myriad decisions, and cannot be dispensed with. . . . [The] factual question of motivation is material to patentability, and could not be resolved on subjective belief and unknown authority. . . . The 'common knowledge and common sense' on which the Board relied in rejecting Lee's application are not the specialized knowledge and expertise contemplated by the Administrative Procedure Act. Conclusory statements such as those here provided do not fulfill the agency's obligation.<sup>31</sup>

The court further explained that "[c]ommon knowledge and common sense,' even if assumed to derive from the agency's expertise, do not substitute for authority when the law requires authority."<sup>32</sup>

¶ 18 Accordingly, it does not appear that the Federal Circuit's limited use of the

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eased the pain caused by the injections. Since the invention sought to produce an injection pen that eased user pain, the Federal Circuit found that the existing knowledge of the way to reduce pain provided the necessary motivation to combine the 30-gauge needle used in the non-pen insulin injection device with the insulin-injection pen. The Federal Circuit applied similar reasoning in *In re Inland Steel Co.*, where it affirmed the PTO Board's finding on reexamination that claims to a method of making steel by adding antimony to improve the magnetic properties of the steel were obvious over a combination of two references. 265 F.3d 1354, 1362 (Fed. Cir. 2001). The first reference set forth each step of the claimed process except for adding antimony. The second reference taught that adding antimony improved the magnetic properties of steel. The Federal Circuit found that a motivation existed to combine these references because both references focused on the same problem, came from the same field of art, and the solutions of each reference corresponded well with each other.

30. *In re Lee*, 277 F.3d 1338, 1342-43 (Fed. Cir. 2002).

31. *Id.* at 1343-44 (citations omitted).

32. *Id.* at 1345. See also *In re Kotzab*, 217 F.3d 1365, 1371 (Fed. Cir. 2000) (reversing PTO Board's § 103 rejection because substantial evidence did not support the Board's finding that one of skill in the art would know to extend the prior art teaching of using a single temperature sensor to control a single zone to using a single sensor to control multiple zones as claimed in the new invention, and stating: "a rejection cannot be predicated on the mere identification in [a prior-art reference] of individual components of claimed limitations. Rather, particular findings must be made as to the reason the skilled artisan, with no knowledge of the claimed invention, would have selected these components for combination in the manner claimed."); *In re Zurko*, 258 F.3d 1379, 1385-86 (Fed. Cir. 2001) (reversing PTO Board's § 103 rejection and stating that while the PTO Board has expertise in the subject matter, this expertise allows conclusions only as to peripheral issues, not core factual findings; rather, core conclusions must be supported by concrete evidence in the record).



inherent knowledge of a PHOSITA rises to the level urged by the FTC. Therefore, the recommendation to give more credit to the inherent knowledge of a PHOSITA appears to signify a change from Federal Circuit precedent.

## 2. Enhanced Standards for Using Commercial Success as Evidence of Nonobviousness

¶19 In the FTC's view, while a product's commercial success may show the invention's *economic* significance, it does not necessarily show the invention's technical significance and thus demonstrate that the invention is nonobvious.<sup>33</sup> Consequently, the FTC recommended that the courts engage in a more in-depth, case-by-case analysis as to whether or not an invention's commercial success evidences nonobviousness.<sup>34</sup>

¶20 The FTC also expressed concern over the Federal Circuit's presumed nexus between the commercial success of an invention and its nonobviousness, where the patentee shows that the commercial product is coextensive with the claimed invention. In the FTC's view, the presumption fails to adequately account for the possibility that marketing factors, not technical elements of the invention, caused the commercial success.<sup>35</sup> Thus, the FTC also proposed that courts require a patentee invoking commercial success to support nonobviousness should bear the burden of showing that the invention's commercial success was due to the merits of the claimed invention.<sup>36</sup>

¶21 Neither of these recommendations appears to present any new development or shift in the law of obviousness. The current law of commercial success as applied by the Federal Circuit at least arguably addresses both of the FTC's concerns.

¶22 An examination of the case law reveals that where a patentee invokes commercial success to show nonobviousness, the Federal Circuit requires the patentee to show that the alleged commercial success was due to the inventive features of the claimed invention so as to determine whether or not there is a valid nexus between the invention's elements and its commercial success.<sup>37</sup> Even when the patentee shows that its commercial

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33. FTC REPORT Ch. 4, *supra* note 1, at 18.

34. *Id.* at 19.

35. *Id.* at 17.

36. *Id.* at 19.

37. *Sandt Tech., Ltd. v. Resco Metal & Plastics Corp.*, 264 F.3d 1344, 1355 (Fed. Cir. 2001) (affirming summary judgment that claims were obvious, discounting evidence of commercial success where there was no evidence that the inventive features of the claimed invention spurred the sales, and stating: "In other words, nexus was not proven between this patented feature and the substantial sales."); *Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1027 (Fed. Cir. 1985) (for commercial success to be relevant to a finding of nonobviousness, "that success must be shown to have in some way been due to the nature of the claimed invention, as opposed to other economic and commercial factors unrelated to the technical quality of the patented subject matter"). See generally *Weatherchem Corp. v. J. L. Clark, Inc.*, 163 F.3d 1326, 1335 (Fed. Cir. 1998) (affirming finding of obviousness where the district court did not clearly err in finding that the commercial success of invention was more attributable to characteristics found in prior patent, rather than the allegedly novel elements of the subject patent); *Sjolund v. Musland*, 847 F.2d 1573, 1582 (Fed. Cir. 1988) (reversing denial of JNOV that patent was invalid, holding that the

embodiment is coextensive with its invention, which may raise a presumption of nexus,<sup>38</sup> the Federal Circuit generally requires that the features of the claimed invention, rather than marketing acumen, be the driving force behind a finding of nonobviousness.<sup>39</sup> Indeed, under both Supreme Court and Federal Circuit precedent, a finding of commercial success should not trump a finding of invalidity when obviousness is clearly shown by the prior art.<sup>40</sup>

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commercial success of the invention was due to an unclaimed feature, “thus, the jury was not entitled to draw the inference that the success of these boards was due to the merits of the claimed invention”).

38. *J.T. Eaton & Co. v. Atl. Paste & Glue Co.*, 106 F.3d 1563, 1571 (Fed. Cir. 1997) (“When a patentee can demonstrate commercial success, usually shown by significant sales in a relevant market, and that the successful product is the invention disclosed and claimed in the patent, it is presumed that the commercial success is due to the patented invention.”). *See also* *Ecolochem, Inc. v. So. Cal. Edison Co.*, 227 F.3d 1361, 1377 (Fed. Cir. 2000); *Winner Int’l Royalty Corp. v. Wang*, 202 F.3d 1340, 1350 (Fed. Cir. 2000).

39. *McNeil-PPC, Inc. v. L. Perrigo Co.*, 337 F.3d 1362, 1370 (Fed. Cir. 2003), *cert. denied*, 124 S. Ct. 1061 (2004) (affirming verdict that claims were obvious and rejection of patentee’s evidence of commercial success, because the district court found that the patentee “had launched a massive marketing and advertising campaign in connection with the launch of the Imodium® Advanced product, obscuring any nexus that might have existed between the merits of the product and its commercial success”); *Brown & Williamson Tobacco Corp. v. Philip Morris Inc.*, 229 F.3d 1120, 1130 (Fed. Cir. 2000) (affirming judgment that claims to one slim cigarette were obvious in light of the prior art and finding presumption of nexus rebutted by proof that a similarly marketed slim cigarette was a commercial failure despite the fact that the patentee had engaged in numerous promotional offers); *Sandt Tech.*, 264 F.3d at 1355 (discounting evidence of alleged commercial success where there was no evidence that the inventive features of the claimed invention spurred its sales, and affirming summary judgment that claims were obvious); *Riverwood Int’l Corp. v. Mead Corp.*, 212 F.3d 1365, 1367 (Fed. Cir. 2000) (evidence of commercial success did not overcome conclusion of obviousness where much of the success was “attributable to factors outside the scope of the claims”); *In re Huang*, 100 F.3d 135, 140 (Fed. Cir. 1996) (affirming PTO Board’s finding that claimed invention was obvious because applicant’s sole evidence of a nexus consisted of applicant’s conclusory personal belief, stated in his affidavit, that the sales were attributable to the inventive feature); *Medtronic Inc. v. Intermedics Inc.*, 799 F.2d 734, 740 (Fed. Cir. 1986) (patentee’s alleged evidence of commercial success did not show nonobviousness where there was no evidence that the patentee’s sales were “due to the inclusion of the claimed features of the R/S patent”); *Pentec, Inc. v. Graphic Controls Corp.*, 776 F.2d 309, 316 (Fed. Cir. 1985) (affirming invalidity finding and ruling evidence of commercial success did not tip the scales of obviousness “[b]ecause [Graphics Controls] was clearly the market leader well before the introduction of the [invention];” thus, the commercial success of the invention could be due to other factors besides the technical superiority of the invention); *Vandenberg v. Dairy Equip. Co.*, 740 F.2d 1560, 1567 (Fed. Cir. 1984) (affirming obviousness where patentee failed to show (1) how the sales of its patented device compared to sales of previous models, (2) what percentage of the market the invention commanded, and (3) a nexus between the patented invention and the sales. The record also showed that commercial success could have been due to an industry-wide increase in the use of the milking system to which the invention pertained); *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144, 1151 (Fed. Cir. 1983) (rejecting evidence of commercial success because evidence reflected only the number of units sold without information regarding market share, growth in market share, or replacement of earlier units sold by others. Thus, evidence of a nexus between the sales and the merits of the invention was lacking, and the Federal Circuit affirmed the finding that claimed invention was obvious).

40. *Graham v. John Deere Co.*, 383 U.S. 1, 36 (1966) (ruling that secondary considerations of commercial success and long-felt need did not overcome the clearly obvious nature of the claimed invention given the prior art); *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 567 (1949) (“Where . . . invention is plainly lacking, commercial success cannot fill the void.”); *Dow Chem. Co. v. Halliburton Oil Well Cementing Co.*, 324 U.S. 320, 330 (1945) (“[Secondary] considerations are relevant only in a close case where all other proof leaves the question of invention in doubt.”); *Altoona Publix Theatres, Inc. v.*

### III. PROCEDURAL CHANGES IN EVALUATING THE PATENT APPLICATIONS

#### A. Enact a PTO Post-Grant Review Proceeding

¶23 In its 21st Century Strategic Plan (“Plan”), the PTO proposed replacing the current *inter partes* reexamination proceeding with a post-grant review proceeding before a “Board of Patent Adjudication.”<sup>41</sup> According to the Plan, the proceeding would enable a PTO administrative law judge to review all validity issues a district court can consider.<sup>42</sup> A third party could request, and later participate in, a review proceeding by making a sufficient initial showing of unpatentability.<sup>43</sup> Limited discovery and cross-examination of witnesses would be permitted.<sup>44</sup> According to the Plan, the PTO could begin post-grant review proceedings as early as 2005.<sup>45</sup>

¶24 The FTC supports this proposal.<sup>46</sup> It recommended that Congress enact legislation establishing a post-grant review proceeding in the PTO, and it identified eight elements that the review proceeding should include.

¶25 According to the FTC, the proceeding should permit adjudication on at least the issues of novelty, obviousness, written description, enablement, and utility.<sup>47</sup> The current *inter partes* reexamination proceeding only permits consideration of novelty and obviousness—and even then only where a substantial new question of patentability is raised.<sup>48</sup> Neither the FTC nor the PTO proposals required that a “new” question of patentability be raised. Indeed, they contemplated that the post-grant review serve as a means for checking the quality of an issued patent by reviewing issues considered by the

Am. Tri-Ergon Corp., 294 U.S. 477, 487-88 (1935) (finding that evidence of commercial success did not overcome obviousness of invention); *In re Inland Steel Co.*, 265 F.3d 1354, 1366 (Fed. Cir. 2001) (holding that evidence of commercial success insufficient to overcome prima facie case of obviousness); *Richardson-Vicks, Inc. v. Upjohn Co.*, 122 F.3d 1476, 1484 (Fed. Cir. 1996) (finding patent invalid for obviousness because secondary considerations of unexpected results and commercial success did not overcome the strong showing of obviousness based on the prior art).

41. United States Patent and Trademark Office, 21st Century Strategic Plan, *Post-Grant Review of Patent Claims* (2003) [hereinafter PTO Plan], available at <http://www.uspto.gov/web/offices/com/strat21/action/sr2.htm> (last modified Nov. 23, 2003).

42. *Id.*

43. *Id.*

44. *Id.*

45. *Id.*

46. FTC REPORT Ch. 5, *supra* note 1, at 23-24.

47. *Id.* at 24.

48. Congress amended the reexamination statute, effective November 2, 2002, to provide that a new question of patentability would not be precluded merely because the invoked prior-art reference had been considered in the original prosecution. 35 U.S.C. § 312(a) (2004). See *In re Bass*, 314 F.3d 575, 576 n.\* (Fed. Cir. 2002). Even under this amendment, however, a reexamination cannot be granted for patentability issues regarding the prior art actually considered by the PTO during an earlier examination. See *In re Recreative Techs. Corp.*, 83 F.3d 1394, 1398 (Fed. Cir. 1996) (“Reexamination is barred for questions of patentability that were decided in the original examination. . . . The question of patentability in view of the Ota reference was decided in the original examination, and thus it can not be a substantial new question.”).

examiners without resorting to a lawsuit. The PTO's proposal differs from the FTC's in that the PTO would permit examination of *any* grounds for invalidity a district court may consider.<sup>49</sup> This includes best mode, new matter, claim definiteness, and double patenting—issues not expressly required in the FTC's recommendation, but not excluded either. Both proposals explicitly excluded disputes regarding unenforceability that arise from allegations of inequitable conduct or patent misuse.<sup>50</sup>

¶26 To protect patentees from frivolous and harassing review proceedings, the FTC agreed with the PTO that a review petitioner must make a "suitable threshold showing" of unpatentability before the commencement of any review proceedings.<sup>51</sup> Both agencies proposed that an administrative patent-law judge should preside over the review proceedings, that the proceedings allow limited discovery and cross-examination of witnesses, and that the administrative patent-law judge has the authority to issue sanctions if a party fails to provide proper discovery.<sup>52</sup> Both recommended prescribed time limits for concluding the proceedings, but the PTO further urged that the Director of the United States Patent and Trademark Office ("Director") have the discretion to modify the time limits for individual cases.<sup>53</sup> The FTC also recommended that limits be set in requesting reviews so as to prevent third parties from harassing patentees with repetitive reviews. Further, the PTO proposed limiting reviews to requests made within twelve months after the patent issues, or within four months of the review petitioner "being placed in 'substantial apprehension' of being sued for infringement of any challenged claim."<sup>54</sup>

¶27 The PTO proposed a preponderance-of-the-evidence standard for evaluating validity.<sup>55</sup> This comports with current reexamination and reissue practice, in which the presumption of validity is not raised and a preponderance-of-the-evidence standard is used.<sup>56</sup> Implicit in the PTO's proposal is the lurking possibility that the PTO seeks to set aside the § 282 presumption of validity. Whether this is possible will depend on the

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49. PTO Plan, *supra* note 41.

50. *Id.*; FTC REPORT Ch. 5, *supra* note 1, at 21.

51. FTC REPORT Ch. 5, *supra* note 1, at 24.

52. *Id.*

53. PTO Plan, *supra* note 41.

54. *Id.* To institute a declaratory-judgment action, the Federal Circuit only requires an accused infringer to show a "reasonable apprehension" of being sued, coupled with present activity or concrete steps taken toward such activity that could constitute infringement. *Fina Research, S.A. v. Baroid Ltd.*, 141 F.3d 1479, 1481 (Fed. Cir. 1998). Whether the PTO intends that its "substantial apprehension" proposal differ from the Federal Circuit's standard requires further analysis.

55. PTO Plan, *supra* note 41.

56. *In re Etter*, 756 F.2d 852, 858 (Fed. Cir. 1985) (en banc) ("§ 282 has no application in reexamination proceedings"); *In re Sneed*, 710 F.2d 1544, 1550 n.4. (Fed. Cir. 1983) (noting that claims in a reissue application enjoy no presumption of validity). The lower evidentiary burden is also justified because of the applicant's ability to amend claims and the specification following an examiner's rejection. *Etter*, 756 F.2d at 859. The PTO proposed that the patentee be given a single opportunity to narrowly amend its claims and that additional amendments be permitted only with a showing of good cause. PTO Plan, *supra* note 41.

implementing legislation.<sup>57</sup> Since the FTC proposed that Congress mandate a preponderance-of-the-evidence standard for all validity challenges, the FTC did not address this facet of the review proceedings.

¶ 28 Both the FTC and PTO proposed that review proceeding settlements be filed with the PTO and made available to others in a manner similar to agreements settling interferences.<sup>58</sup>

¶ 29 The PTO recommended that judicial review of any final decision of the administrative law judge be limited to a direct appeal to the Federal Circuit.<sup>59</sup> The FTC neglected to comment on appellate review of post-grant proceedings. It did suggest, however, that Congress declare that the post-grant review proceedings are a delegation of authority to the PTO, so that the PTO's conclusions of law "carry the force of law."<sup>60</sup> Under this approach, it would appear that PTO conclusions of law, including claim construction,<sup>61</sup> would have claim and issue preclusive effect in later actions seeking to enforce the patent.<sup>62</sup> This could create a myriad of issues regarding the interplay between a district court considering infringement and unenforceability and the PTO considering issues of invalidity.<sup>63</sup> Furthermore, if claim preclusion does apply, an accused infringer

57. The PTO could apply the literal language of § 282 by requiring that the review petitioner bear the burden of proving the invalidity of the patent. Specifically how the presumption of validity and burdens of proof will apply in the review proceeding do not appear to have been fully worked out.

58. See 35 U.S.C. § 135(c) (2004). The PTO further proposed that if a review proceeding is settled, it will not issue any decision on the patentability of any proposed amended claim. PTO Plan, *supra* note 41.

59. PTO Plan, *supra* note 41.

60. FTC REPORT Ch. 5, *supra* note 1, at 24.

61. Like infringement, the first step of any validity analysis requires a construction of the challenged claims. See *Medichem, S.A. v. Rolabo*, 353 F.3d 928, 933 (Fed. Cir. 2003) ("Both anticipation under § 102 and obviousness under § 103 are two-step inquiries. The first step in both analyses is a proper construction of the claims, which we review de novo. The second step in the analyses requires a comparison of the properly construed claim to the prior art.") (citations omitted).

62. See *Morgan v. Daniels*, 153 U.S. 120, 125 (1894) (finding by PTO regarding priority between two parties is binding on future decisions, unless contrary future testimony establishes otherwise). See also *United States v. Utah Constr. & Mining Co.*, 384 U.S. 394, 422 (1966) ("When an administrative agency is acting in a judicial capacity and resolved disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the courts have not hesitated to apply res judicata to enforce repose."). But see *Bio-Tech. Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1564 (Fed. Cir. 1996) (noting that International Trade Commission ("ITC") infringement decisions are not entitled to preclusive effect because of the statutory jurisdictional limitations on the remedies available in the ITC).

63. For example, neither proposal appears to consider the standards applicable to construing claims in a district court as compared to those used in a PTO proceeding. In district court litigation, the courts should, where possible, construe a claim to preserve its validity, i.e., apply a narrow interpretation to avoid invalidating prior art where the intrinsic evidence so permits. *Klein v. Russell*, 86 U.S. 433, 466 (1873) ("The court should proceed in a liberal spirit, so as to sustain the patent and the construction claimed by the patentee himself, if this can be done consistently with the language which he has employed."). See also *Omega Eng'g, Inc. v. Raytek Corp.*, 334 F.3d 1314, 1335 n.6 (Fed. Cir. 2003) (district court's claim construction contradicted rule that courts "should attempt to construe claims to preserve their validity"). In contrast, the PTO construes the claim as broadly as reasonably proper because the patent applicant has the opportunity to narrowly amend a claim to avoid a finding of invalidity. *In re Zletz*, 893 F.2d 319, 321 (Fed. Cir. 1989) ("During patent examination the pending claims must be interpreted as broadly as their

may find itself precluded in a later suit from raising any additional invalidity grounds that it could have asserted in the review proceeding but did not.<sup>64</sup>

### B. Statement of Relevance of References Required Upon Examiner's Request

¶30 It is well settled that as a subset of the duty of candor owed to the PTO, each patent applicant must disclose all information known to the applicant, its attorneys or agents, and those individuals substantively involved in the preparation or prosecution of the patent application that is material to the patentability of the claims in the application.<sup>65</sup> Applicants typically comply by submitting an Information Disclosure Statement ("IDS") in accordance with the procedures set forth in 37 C.F.R. §§ 1.97(b)-(d) and 1.98.<sup>66</sup>

¶31 Under current PTO regulations, submitting a prior-art reference or other information to the PTO in an IDS does not count as an admission of the materiality or relevance of the submitted reference or information to the patentability of the claims.<sup>67</sup> Further, the regulations do not expressly require that an applicant provide any statements identifying the relevance of submitted material. An applicant must submit a concise statement of relevance only when the material is not written in English or accompanied by an English-language translation.<sup>68</sup>

¶32 In its report, the FTC noted the concern that applicants, in complying with their duty of disclosure, would attempt to conceal material information by submitting massive amounts of documents. In response, the FTC proposed that examiners be given the authority to require applicants to submit statements of relevance for submitted

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terms reasonably allow. . . . ambiguities should be recognized, scope and breadth of language explored, and clarification imposed."). *See also In re Bass*, 314 F.3d 575, 577 (Fed. Cir. 2002) ("In examining a patent claim, the PTO must apply the broadest reasonable meaning to the claim language, taking into account any definitions presented in the specification."). As noted above, the PTO's proposal would permit a patentee in a post-grant review proceeding to make at least one narrowing amendment. This difference in claim-construction standards could impact whether a claim construction given in one forum should have preclusive effect in the other forum. *See Comm'r of Internal Revenue v. Sunnen*, 333 U.S. 591, 599-600 (1948) (Collateral estoppel "must be confined to situations where the matter raised in the second suit is *identical in all respects* with that decided in the first proceeding and where the controlling facts and *applicable legal rules remain unchanged*." (emphasis added).

64. A similar doctrine applies to *inter partes* reexamination proceedings, 35 U.S.C. § 317(b) (2004), which contributed to the virtual nonuse of this type of proceeding.

65. *See* 37 C.F.R. § 1.56(a) (2004).

66. 37 C.F.R. §§ 1.97(b)-(d), 1.98 (2004).

67. 37 C.F.R. § 1.97(h) ("The filing of an information disclosure statement shall not be construed to be an admission that the information cited in the statement is, or is considered to be, material to patentability as defined in § 1.56(b)."). *See, e.g., Abbott Labs. v. Baxter Pharm. Prods., Inc.*, 334 F.3d 1274, 1279 (Fed. Cir. 2003) (ruling that the district court erred in narrowly construing claim based on information regarding non-prior art sale submitted in an IDS: "mere submission of an IDS to the USPTO does not constitute the patent applicant's admission that any reference in the IDS is material prior art").

68. 37 C.F.R. § 1.98(a)(3) (2004).

references.<sup>69</sup>

¶33 If the FTC proposal is implemented, applicants should exercise care in preparing statements of relevance so as to avoid inadvertently surrendering claim scope or potential equivalents. The law already provides that arguments made in an IDS characterizing the claimed invention and distinguishing it from the cited prior art can impact the scope of the patent claims, the scope of possible equivalents, or both.<sup>70</sup> Additionally, factual misrepresentations about the references, even if accidental, might be asserted later as a basis for inequitable conduct. The FTC noted this possibility but deemed the current standards of inequitable conduct adequate to weed out dubious claims of inequitable conduct.<sup>71</sup>

### C. Increase Use of Rule 105—Examiner Inquiries

¶34 Rule 105 of the PTO regulations permits an examiner to require an applicant to submit additional information for the examiner's use in examining a patent application.<sup>72</sup> The FTC concluded that the PTO examining corps underutilizes this rule. In its view, the quality of the examination process would be increased if the examiners, when needed, required an applicant to provide more information about a claimed invention, the prior art, and the development of the invention. Accordingly, the FTC recommended that examiners make a concerted effort to increase their use of Examiner Inquiries during prosecution. It also recommended that 37 C.F.R. § 1.105(a)(3), which treats the scenario where an applicant states that the requested information is unknown or not readily available, be modified to permit examiners to scrutinize any allegations of unavailability of the requested information.

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69. FTC REPORT Ch. 5, *supra* note 1, at 12-13.

70. *See, e.g.*, *Pall Corp. v. PTI Techs. Inc.*, 259 F.3d 1383, 1392 (Fed. Cir. 2001) (“Statements made during prosecution that may be used in claim construction include statements that accompany an [IDS].”); *Wang Labs., Inc. v. Am. Online, Inc.*, 197 F.3d 1377, 1385 (Fed. Cir. 1999) (using statements from an IDS submitted in parent case to narrowly construe claim and affirm summary judgment of no literal infringement); *Litton Sys, Inc. v. Honeywell, Inc.*, 140 F.3d 1449, 1462-63 (Fed. Cir. 1998) (statements made in IDS distinguishing references, as required by the then-existing rules, could be used as basis of prosecution-history estoppel even if rejection was not based on the references); *Ekchian v. Home Depot, Inc.*, 104 F.3d 1299, 1303-04 (Fed. Cir. 1997) (noting that statements in an IDS that distinguish an invention from prior art can affect the scope of the granted patent, since by “indicating what the claims do not cover, [the applicant] is by implication surrendering such protection”).

71. FTC REPORT Ch. 5, *supra* note 1, at 13.

72. In relevant part, the regulation provides that in the course of examining a pending application, an examiner may require the applicant to submit “such information as may be reasonably necessary to properly examine” the application. 37 C.F.R. § 1.105(a)(1) (2004). Examples given include the identification of relevant searchable commercial databases; whether any prior-art searches were made, and if so, what was searched; all non-patent publications by the inventors that relate to the invention; all publications used in drafting the application; any information used in the invention process; identification of the claimed improvement over the prior art; and all known uses of the claimed invention, regardless of the time of the use. 37 C.F.R. § 1.105(a)(1)(i)-(vii).

#### D. Extend §122(b) Publication Requirements to All Patent Applications

¶ 35 By amendment to the Patent Act, effective November 29, 2000, Congress requires that the PTO publish United States patent applications eighteen months after the earliest effective filing date claimed in the application.<sup>73</sup> Before this amendment, the PTO maintained the secrecy of patent applications until their issuance.<sup>74</sup>

¶ 36 PTO regulations permit an applicant to request that the PTO not publish the application when the applicant will not seek a patent in foreign countries that require publication.<sup>75</sup> This serves to protect the small inventor who is fearful that if the secrecy of the patent application is not maintained, larger competitors will design around the patent before the small inventor can establish a market position.

¶ 37 In its report, the FTC concluded that publishing patent applications promotes competition and innovation by lessening the risk of submarine patents.<sup>76</sup> It therefore recommends abolishing the limited exception to publishing.<sup>77</sup> The FTC appeared to give little consideration to the concerns of small inventors.<sup>78</sup> The FTC's recommendation is consistent with the PTO's proposal to eliminate the nonpublication and redaction exceptions.<sup>79</sup> However, the PTO wants to eliminate the nonpublication exception for administrative convenience and costs, not for any purported impact on innovation.<sup>80</sup> Nonetheless, extending the publication requirement to all applications merely presents a minor change to the current law.

¶ 38 In this author's view, the more interesting issue, and one apparently not considered by the FTC, is how publication—while addressing submarine patents—might actually harm innovation and competition. In complying with the actual notice

73. 35 U.S.C. § 122(b)(1)(A) (2004). In relevant part, this provision provides that subject to a few exceptions, "each application for a patent shall be published, in accordance with procedures determined by the Director, promptly after the expiration of a period of 18 months from the earliest filing date for which a benefit is sought under this title." See also 37 C.F.R. § 1.211(a) (2004).

74. Under the amended version of 35 U.S.C. § 122(a), patent applications are still maintained in confidence by the PTO until publication.

75. 37 C.F.R. § 1.213(a) (2004). In relevant part, the PTO regulation provides that "[i]f the invention disclosed in an application has not been and will not be the subject of an application filed in another country . . . that requires publication of applications eighteen months after filing," then the applicant can request nonpublication.

76. "Submarine patents" refer to the practice by certain inventors to keep an application under review in the PTO for many years by filing multiple continuation applications, until the market or other competitors rely on the claimed invention. The inventor then allows the patent to be granted, and rents are extracted from infringing parties. The law was amended to prevent this practice. See 35 U.S.C. § 154(a)(2) (2004) (patent term begins from date of filing); 35 U.S.C. § 122(b)(1)(A).

77. FTC REPORT Ch. 5, *supra* note 1, at 15.

78. See *id.* at 14 n.102.

79. United States Patent and Trademark Office, 21st Century Strategic Plan, *Eighteen-Month Publication—Elimination of Non-Publication and Redaction Exceptions and Exclusions of Plant Applications* (2003), available at <http://www.uspto.gov/web/offices/com/strat21/action/lr1hp67.htm> (last modified Nov. 23, 2003).

80. *Id.*



requirement needed to obtain provisional remedies under 35 U.S.C. § 154(d),<sup>81</sup> many patentees send cease-and-desist letters to their competitors upon the publication of their patent application. At this stage, the patent application often contains overly broad claims that have not yet been examined by the PTO. Thus, the competitor is faced with the task of having to perform a validity analysis to determine the scope of protection the PTO will likely allow for the issued patent. The competitor is then forced to make its validity determination without the benefit of a complete PTO examination or a fully-developed prosecution history.<sup>82</sup> Moreover, because the applicant has a right to amend claims during prosecution, the competitor must analyze a moving target.

¶ 39 Before provisional remedies can be awarded, the law requires that the issued patent contain a claim substantially identical to the allegedly infringing claim in the published application.<sup>83</sup> Legislative history shows that Congress included this requirement so as to avoid imposing an unacceptable burden on the public:

Another important limitation on the availability of provisional royalties is that the claims in the published application that are alleged to give rise to provisional rights must also appear in the patent in substantially identical form. To allow anything less than substantial identity would impose an unacceptable burden on the public. If provisional rights were available in the situation where the only valid claim infringed first appeared in the granted patent, the public would have no guidance as to the specific behavior to avoid between publication and grant. Every person or company that might be operating within the scope of the disclosure of the published application would have to conduct her own private examination to determine whether a published application contained patentable subject matter that she should avoid. The burden should be on the applicant to initially draft a schedule of claims that gives adequate notice to the public of what she is seeking to patent.<sup>84</sup>

¶ 40 In practice, however, early publication coupled with the actual notice requirement may force competitors to either spend resources on inconclusive or inaccurate validity and infringement analyses, or to cease practicing in areas covered by unexamined application claims. Either way, innovation suffers.

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81. 35 U.S.C. § 154(d) (2004).

82. Additionally, in sending out a cease-and-desist letter, under the guise of complying with § 154(d), the patent applicant need not worry that the competitor will commence a declaratory-judgment action, because at this stage no patent rights have issued and the claims are subject to alteration. Thus, there will not be an actual controversy ripe for adjudication. *See* GAF Bldg. Materials Corp. v. Elk Corp., 90 F.3d 479, 481 (Fed. Cir. 1996) (declaratory judgment complaint filed at time when patent had not yet issued presented a nonjusticiable issue of a future infringement, and therefore had to be dismissed; the subsequent issuance of the patent did not cure the jurisdictional defect that existed at the time the suit was filed).

83. 35 U.S.C. § 154(d)(2) (“The right under paragraph (1) to obtain a reasonable royalty shall not be available . . . unless the invention as claimed in the patent is substantially identical to the invention as claimed in the published patent application.”).

84. H.R. REP. NO. 106-287, pt. 1, at 55 (1999).

## IV. CHANGES REGARDING INFRINGEMENT

### A. Prior-Use Defense for Certain Claims in Continuation Applications

¶41 During its hearings, the FTC addressed the situation that arises when claims in a continuation application are broader in scope than the claims in the original parent application. Some participants expressed the view that patent applicants abuse the continuation process by using a continuation application to springboard claims covering competitors' products after those competitors had incurred sunk costs for developing those products.<sup>85</sup>

¶42 The FTC proposed legislation establishing a prior-user defense for infringement suits based on broad claims in a continuation application. Under the FTC's recommendation, where the allegedly infringed parent application lacked a "properly described claim" covering a third party's product or process, and the third party had, before the publication of a claim covering that product or process in a continuation application, reduced the product or process to practice, used the product or process, or made substantial preparation to use the product or process, the third party should be protected from infringement claims.<sup>86</sup>

¶43 The potential for problems and injustice under such an approach are evident. The patent system seeks to promote innovation by encouraging early public disclosure of inventions. Consequently, accused infringers generally cannot rely on secret prior art to defeat the validity of a patent.<sup>87</sup> But, under this proposed defense, an accused infringer could rely on a development it had kept in secret to defeat an otherwise proper claim of infringement. In this regard, the prior-user defense could actually harm innovation by severely limiting the incentive for early disclosure. This concern could be addressed by limiting the proposed prior-user defense to public uses and to publicly disclosed reductions to practice or substantial preparations for use. By comparison, Congress has enacted a limited prior-user defense for business methods under 35 U.S.C. § 273(b), where the prior commercial use must have occurred at least one year before the effective filing date of the patent.<sup>88</sup>

¶44 The FTC also recommended that "to the extent that reissue poses, or develops in a

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85. The law permits a patent applicant to deliberately include claims in a continuation application that cover a competitor's product. Such claims may issue if the specification supports the claimed scope and the prior art does not invalidate the claim. *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1988) ("there is nothing improper, illegal or inequitable in filing a patent application for the purpose of obtaining a right to exclude a known competitor's product from the market; nor is it in any manner improper to amend or insert claims intended to cover a competitor's product"). *But see* *Symbol Techs, Inc. v. Lemelson Med.*, 277 F.3d 1361, 1364-66 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 825 (2002) (recognizing that prosecution laches may bar claims in a continuation application if the applicant unduly delayed in asserting those claims); *In re Bogese*, 304 F.3d 1362, 1367-69 (Fed. Cir. 2002) (ruling that PTO has the power to reject application claims on the basis of prosecution laches).

86. FTC REPORT Ch. 4, *supra* note 1, at 31.

87. *Vulcan Eng'g Co., Inc. v. Fata Aluminum, Inc.*, 278 F.3d 1366, 1372 (Fed. Cir. 2002).

88. 35 U.S.C. § 273(b) (2004).

way that poses, comparable competitive problems to those raised by continuations, corresponding protections, including a possible broadening of existing intervening rights, ought to be considered.”<sup>89</sup> In making this recommendation, the FTC did not appear to consider that the Patent Act gives a patentee a statutory right to seek a broadened reissue claim if the application for reissue is made within two years of the original issue date.<sup>90</sup> Also, it did not account for the recapture doctrine, which can limit a patentee’s ability to obtain a broadened reissue claim for subject matter deliberately surrendered during patent prosecution, even if the broader claim is sought within the two-year period.<sup>91</sup> Thus, legal mechanisms already exist to curb possible abuses in broadening reissue applications that do not exist for continuation applications. Further, the FTC did not appear to consider the full scope of absolute and equitable intervening rights for reissued patents provided under 35 U.S.C. § 252, which arguably may give a fairer measure of relief than the proposed prior-user defense.<sup>92</sup>

## B. Limit Grounds for Willful Infringement

¶45 Under the current law of willful infringement, an accused infringer who has actual notice of the patent rights of another and does not exercise care to avoid infringing may be liable for enhanced damages.<sup>93</sup> In evaluating willfulness, however, it generally does not matter how the infringer obtains notice of the patent.<sup>94</sup> The patentee only has to “prove by clear and convincing evidence that the defendant acted without a reasonable belief that its action avoided infringement”<sup>95</sup> to support a case for willful infringement.<sup>96</sup>

89. FTC REPORT Ch. 4, *supra* note 1, at 31 n.185.

90. 35 U.S.C. § 251 (2004).

91. *In re Clement*, 131 F.3d 1464, 1468 (Fed. Cir. 1997) (“The recapture rule, therefore, prevents a patentee from regaining through reissue the subject matter that he surrendered in an effort to obtain allowance of the original claims.”).

92. Intervening rights associated with reissue and reexamination claims grant an absolute right to sue, without liability, competitors who made infringing products before the reissued or reexamined claim issues. For products made after a patent issues, the district court has the discretion to grant equitable intervening rights and to permit continued production and use of a patented process under terms that it deems are just. *See* 35 U.S.C. § 252 (2004); *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1360 (Fed. Cir. 2001); *BIC Leisure Prods., Inc. v. Windsurfing Int’l, Inc.*, 1 F.3d 1214, 1221 (Fed. Cir. 1993).

93. *See* 35 U.S.C. § 284 (2004).

94. *See Amsted Indus. v. Buckeye Steel Castings*, 24 F.3d 178, 186-7 (Fed. Cir. 1994) (noting that actual notice from the patentee is essential for purposes of recovering damages under 35 U.S.C. § 287(a) when the patentee has not marked its product, but is not necessary for determining willful infringement).

95. *Crystal Semiconductor Corp. v. Tritech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1346 (Fed. Cir. 2001). *See also SRI Int’l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997) (“Willful infringement . . . must be established by clear and convincing evidence, for ‘the boundary between unintentional and culpable acts is not always bright.’”) (quoting *Pall Corp. v. Micron Separations, Inc.*, 66 F.3d 1211, 1221 (Fed. Cir. 1995)).

96. Even if a case of willfulness is proven, the district court must still determine, in the exercise of its discretion, whether to award enhanced damages. *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1461 (Fed. Cir. 1998) (en banc) (“A finding of willfulness, however, does not mandate enhanced damages. . . . [T]here is no merit to the argument that a finding of willfulness but a denial of enhanced damages is necessarily an abuse of discretion.”) (citations omitted); *Transclean Corp. v. Bridgewood Servs., Inc.*, 290 F.3d 1364, 1377-78 (Fed. Cir. 2002) (“Enhancement of damages under 35 U.S.C. § 284 involves . . . the court exercising its discretion to determine whether and to what extent to enhance the damages. . . . A

¶46 During the FTC's hearings, several panelists commented that they intentionally avoid reading their competitor's patents in order to prevent allegations of willful infringement in later lawsuits.<sup>97</sup> The FTC concluded that this behavior was adverse to promoting innovation, because potential innovators, out of fear of being charged with willful infringement, were not staying aware of the developments disclosed in their competitor's patents—developments upon which they could potentially improve.

¶47 In an attempt to remove the fear that simply reading a competitor's patent will provide "actual notice" sufficient to subject an accused infringer to a charge of willful infringement, the FTC recommended legislation limiting the types of conduct that constitute willful infringement. Under the FTC's recommendation, to show willful infringement, a patentee would have to either prove that it gave the infringer actual written notice of the infringement, or show that the infringer knowingly copied the patented invention.<sup>98</sup>

¶48 Continued infringing activity in the face of actual notice or deliberate copying of a patented invention is classic grounds for finding willful infringement.<sup>99</sup> Without continued activity, courts routinely deny enhanced damages, despite knowledge of the patent.<sup>100</sup> Indeed, even today many patentees send out cease-and-desist letters before

finding of willful infringement 'authorizes but does not mandate an award or increased damages.')

(quoting *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990)).

97. FTC REPORT Ch. 5, *supra* note 1, at 29.

98. *Id.* at 31. The FTC's proposed actual written-notice requirement is similar to the actual-notice requirement of 35 U.S.C. § 287(a) (2004).

99. See, e.g., *Crystal Semiconductor*, 246 F.3d at 1352 (affirming finding of willful infringement against foreign manufacturer that induced U.S. distributor to make infringing sales, and where infringer failed to obtain opinion of counsel and copied patentee's patented parts to develop the infringing devices); *Amsted Indus.*, 24 F.3d at 181-83 (affirming finding of willful infringement where accused infringer deliberately copied patentee's product); *Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1084 (Fed. Cir. 1987) (affirming finding of willful infringement because the patentee's refusal to license its patented technology to the accused infringer required the infringer to exercise a higher degree of care); *Bott v. Four Star Corp.*, 807 F.2d 1567, 1572 (Fed. Cir. 1986) (affirming willfulness finding where alleged infringer knowingly copied patentee's commercial embodiment from drawings it obtained from a third party, and where infringer had only a conclusory oral opinion from counsel); *Ralston Purina Co. v. Far-Mar-Co., Inc.*, 772 F.2d 1570, 1577 (Fed. Cir. 1985) (affirming finding of willful infringement where accused infringer rejected patentee's offer of a license without seeking the advice of counsel as to whether the license was necessary).

100. See, e.g., *Odetics, Inc. v. Storage Tech. Corp.*, 185 F.3d 1259, 1274 (Fed. Cir. 1999) (affirming district court's denial of enhanced damages where the issue was debatable because the infringer had not copied the invention, had not engaged in litigation misconduct, had no motivation to harm the patentee, and had not attempted to conceal its infringement). See also *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1314 (Fed. Cir. 2002) (affirming denial of enhanced damages despite jury's finding of willfulness in the infringement and copying because district court determined the issue of infringement was close, the jury could have awarded substantially less damages, and the infringer's litigation behavior did not provide a reason to increase damages); *Mentor H/S, Inc. v. Med. Device Alliance, Inc.*, 244 F.3d 1365, 1380 (Fed. Cir. 2001) (affirming district court's decision not to award enhanced damages or attorney's fees even though jury found willful infringement where the issue of willfulness was "close" and that the evidence of willfulness was "not as strong as it could have been and was not of the weight and strength that would support the imposition of enhanced damages").

commencing an infringement suit in order to give actual notice of their patent rights.<sup>101</sup> This is often done so as to comply with the notice provision of 35 U.S.C. § 287(a) if the patentee has not properly marked the products,<sup>102</sup> but it is also done to lay the foundation for a case of willful infringement. Thus, in practice, the FTC's proposed modification may not alter how patentees conduct themselves, though it would restrict the scope of conduct that can be used to find willful infringement.

## V. CONCLUSION

¶49 Perhaps the FTC's proposed reforms will make challenging patents easier, but it seems that some of the proposed reforms will actually weaken the patent system, therefore harming, rather than promoting, innovation. Urging the Federal Circuit to give more credence to the inherent knowledge of a PHOSITA in determining obviousness—a concept susceptible to abuse during litigation—may increase the risk that obviousness determinations will be based on the vagaries of a battle-of-experts rather than on the substantive merits of the prior art. Lowering the standard of proof for invalidity to a preponderance-of-the-evidence standard may exacerbate this risk, especially in jury trials. If the public perceives that the uncertainties of litigation control validity determinations, then its confidence in the patent system and the patent system's ability to promote innovation will suffer.<sup>103</sup>

¶50 Other elements of the FTC's proposed reforms, while appearing to be well-intentioned, require further analysis. For example, creating a post-grant review process for issued patents may, at first blush, appear to be a more cost-effective way to challenge patents, thus providing a viable means of reducing validity litigation in the courts. However, the post-grant review cannot address infringement or enforceability, and therefore will not reduce infringement suits. Moreover, how the PTO's post-grant review will impact district court litigations, and vice versa, in terms of claim and issue preclusion does not appear to have been fully explored in either the FTC's or the PTO's proposal. While a post-grant review proceeding appears to offer advantages to the patent system, further development seems necessary before Congress can enact legislation establishing such proceedings.

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101. To the extent that a patentee seeks a reasonable royalty for activities that occurred after a patent application is published but before it issues under 35 U.S.C. § 154(d), the patentee must give the infringer actual written notice of the patent application and the alleged infringing acts. 35 U.S.C. § 154(d)(1)(B). *See also* H.R. REP. NO. 106-287, pt. 1, at 55 (1999) (“The published applicant must give actual notice of the published application to the accused infringer and explain what acts are regarded as giving rise to provisional rights.”).

102. 35 U.S.C. § 287(a) provides that where the patentee fails to properly mark the product, “no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice.”

103. In its report, the FTC noted that the creation of the Federal Circuit, and the court's upholding of the validity of patents “more frequently than in the anti-patent era of the 30s to the 70s,” significantly helped the U.S. economy by promoting research and development efforts. FTC REPORT Ch. 1, *supra* note 1, at 19-21, 28-29. Considering this statement, it seems odd that the FTC proposes reforms that may harm uniformity and predictability of questions of patent validity.