



Antoinette M. Tease, P.L.L.C.

February 19, 2008

The Honorable Jon Tester
United States Senate
Granite Tower
222 N. 32nd St., Suite 102
Billings, MT 59101

RE: Patent Law Reform – S. 1145

Dear Senator Tester:

Thank you for the opportunity to visit with you about S. 1145 and how it might impact Montana businesses, inventors and investors. I represent a lot of farmers and ranchers in addition to business people and entrepreneurs, and I believe that S. 1145 would hurt small inventors by reducing the value of their patents and making them more difficult to enforce.

As you know, I am a registered patent attorney practicing in Billings, Montana. Approximately two-thirds of my clientele is located in Montana and Wyoming. The remaining one-third is scattered throughout the rest of the United States and half a dozen foreign countries. In terms of my Montana clients, about one-third of them are start-up businesses, one-third are individual inventors, and one-third are established companies. In addition to representing patent owners, I also represent Montana-based investors seeking to invest in, or acquire, companies based in and outside of Montana.

To give you an idea as to the volume of patent activity in Montana, I have filed and prosecuted hundreds of patent applications. On average, I have filed four patent applications a month for the past several years. Based on information I provide to the *Billings Business* magazine on a monthly basis, I can say that between ten and 20 patents are issued to Montana inventors each month.

There are many reasons why Montana businesses (and individual inventors) pursue patent protection for their inventions. These reasons include preventing competitors from selling a particular product or service (*i.e.*, gaining a competitive advantage); assuring the company a certain freedom to operate (by preventing others from patenting certain inventions); treating the issued patent or patent application as a corporate asset (in terms of company valuations); and attracting investor funding. Individual inventors may be interested in licensing their patent rights and collecting

royalties or in building a business around the patented product or service (and bringing jobs to Montana).

I have the privilege of serving on the American Bar Association Section of Intellectual Property Law (ABA-IPL) Council, which is the governing body of the Section. In that respect, and also by virtue of the fact that I have served on the ABA-IPL Section Patent Law Reform Task Force, I am familiar with the issues presented in S. 1145.

I have brought with me today copies of the ABA-IPL Section *White Paper* on patent law reform, as well as a September 20, 2007 letter from Pamela Banner Krupka, Chair of the ABA-IPL Section, to Senators Leahy and Specter, expressing the Section's opposition to S. 1145. I am not here today to reiterate the arguments made in the white paper or the ABA-IPL letter. Rather, I am here today to express my own views on certain provisions of S. 1145 in light of their impact on Montana companies.

1. Applicant Search Requirements.

S. 1145 would require that patent applicants conduct a patent search prior to filing a patent application *and* that they submit an analysis of the search results in connection with the application. Under current law, patent applicants are not under any obligation to conduct a search, although my clients do. The problem with S. 1145 is not that it would require applicants to conduct patent searches, but that it would require applicants to analyze and explain the search results to the examiner. This requirement would significantly increase the cost of filing a patent application (by potentially thousands of dollars, depending on the scope of the search results) and would cause many individual inventors and start-ups to decide not to file at all.

In addition, searches are necessarily imperfect (primarily because they involve judgment on the part of the individual conducting the search but also because the patent office—not infrequently—misclassifies patent applications), and it would be unfair to hold the applicant responsible for omissions in the search results and/or analysis. The applicant is already under a duty to bring to the attention of the patent office all prior art of which the applicant is aware, and that requirement strikes an appropriate balance between requiring candor and placing an inordinate burden on the applicant.

2. Inequitable Conduct.

Inequitable conduct is a defense raised in patent infringement litigation. According to the ABA-IPL Section, “the standard for what might constitute inequitable conduct is vague and indefinite in its application.” The ABA-IPL Section has advocated for reform of the law relating to inequitable conduct so that a patent would be held unenforceable only when fraud resulted in issuance of an invalid patent claim. Although

S. 1145 would impose on applicants the search requirements discussed above, it does not include any meaningful reform of the law surrounding inequitable conduct.

If the goal is to encourage open and candid communication between the applicant and the examiner, then the penalty for intentionally misleading the patent office should be not only clear but also commensurate with the scope of the misrepresentation. Adoption of a “but for” standard (*e.g.*, a valid and infringed claim would be unenforceable only if the examiner relied on the misrepresentation in allowing the claim) would provide a disincentive for applicants who might otherwise be inclined to commit fraud on the patent office without imposing an unduly harsh penalty—unenforceability of the entire patent—that might not be commensurate with the applicant’s misrepresentation or omission. It would also provide some clarity to the law, which might encourage some practitioners and their clients to be more forthcoming with the patent office when dealing with prior art.

3. Post-Grant Opposition.

S. 1145 would repeal the *inter partes* reexamination procedures, which have not been widely used but which provide a mechanism for challenging a patent in an administrative forum and which allow the challenger to take an active role in the reexamination proceeding (as opposed to *ex parte* reexamination proceeding, where the challenger’s role is limited). Under current law, reexamination proceedings (whether *inter partes* or *ex parte*) can be based only on certain type of prior art (namely, patents and publications).

Under S. 1145, within 12 months after issuance of a patent, a third party could request that the patent office conduct a post-grant review to challenge the validity of the patent (this is called the “first window”). S. 1145 would also provide a “second window” of review, which could occur any time during the life of the patent, if the petitioner files the petition within 12 months after receiving an explicit or implicit notice of infringement and can demonstrate significant economic harm based on the challenged claim. Both windows would open patents up to scrutiny based on all kinds of prior art (*e.g.*, prior use, prior sale or offer for sale, etc.)—not just the limited prior art at issue in a reexamination proceeding.

The open-ended “second window” is problematic because it may have a chilling effect on patent holders in terms of enforcement of their patents. For instance, a patent holder may decide not to send a cease and desist letter for fear that it might trigger a “second window” petition for review. The “second window” would also impose a more lenient standard for invalidation of a patent (“preponderance of the evidence” rather than the “clear and convincing evidence” standard that applies in court challenges), thus eroding the certainty associated with patent ownership.

With the “second window,” there is little incentive for an interested party with a potential basis for invalidating a patent to bring a challenge during the first window. Certainty is good for business, and to that extent I believe that a first window in which all types prior art can be brought to the attention of the examiner, together with a more limited mechanism for review thereafter (preferably in the form of enhanced *inter partes* reexamination procedures), makes sense.

4. Venue.

With certain limited exceptions, S. 1145 would require that an action for patent infringement be brought in the judicial district (Montana only has one judicial district) in which the infringer is incorporated or has a principal place of business or in a judicial district where the infringer committed a substantial portion of the infringing acts *and* has a regular and established physical facility that constitutes a substantial portion of the infringer’s operations. Under current law, a patent holder can file suit in any judicial district in which a substantial part of the events or omissions giving rise to the claim occurred or any judicial district in which the defendant is doing business. Although current law does require a nexus between the case (or the defendant) and the judicial district in which suit is brought, the venue provisions of S. 1145 would severely restrict a patent holder’s choices in terms of where to file suit. In my opinion, the more restrictive venue provisions of S. 1145 would have a disproportionate impact on Montana patent holders because most infringers will be located out of state, and the costs of pursuing an out-of-state infringement action may be double or even triple what it would cost to bring suit in Montana. These venue provisions may make it impractical for Montana patent holders to enforce their patents in court for cost reasons.

5. Interlocutory Appeals.

Since the U.S. Supreme Court handed down its decision in *Markman v. Westview Instruments, Inc.*¹ in 1996, U.S. District Courts handling patent cases have handled so-called “*Markman*” hearings in which the terms used in patent claims are construed (interpreted) by the trial court. To date, the U.S. Courts of Appeals for the Federal Circuit has taken the position that appeals from *Markman* hearings are not an appropriate subject for an interlocutory appeal (an interlocutory appeal is an appeal taken up while the underlying case is still pending and prior to a final judgment). As a practical matter, if the trial court construes a claim a certain way and then grants summary judgment for one party or the other based on that claim construction, the matter could be taken up on appeal because summary judgment is a final judgment. If, however, the claim construction does not result in summary judgment being granted, typically an appeal would not be allowable at that time.

¹ 517 U.S. 370, 38 U.S.P.Q.2d 1461 (1996).

S. 1145 would allow a party to appeal a trial judge's claim construction ruling to the Federal Circuit for immediate resolution (this is called an "interlocutory appeal"). According to the Honorable Paul R. Michel², Chief Judge for the Federal Circuit, between 70 and 80 percent of the cases heard by the Federal Circuit are from summary judgments. Allowing litigants to appeal claim constructions rulings will delay resolution of patent cases at the trial level and significantly increase the workload of an already overburdened Federal Circuit. To the extent that certainty is good for business, I do not believe that prolonging resolution of patent cases³ and increasing costs will be advantageous to patent holders or accused infringers.

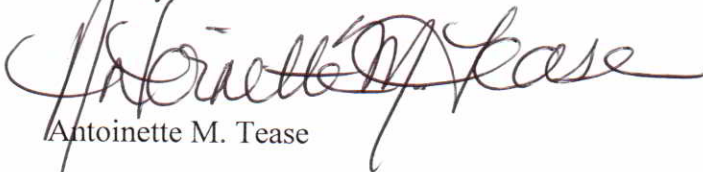
6. Damages.

The damages provisions of S. 1145 are highly controversial because they would require a trial judge to make a factual determination as to the portion of the total economic value of the invention that is attributable to the patent holder's specific contribution over prior art—and then award damages based on that determination. This is not only a very difficult determination to make, but one that will (in the words of Judge Michel) essentially require a "second trial" after infringement has been found. Requiring such an apportionment of damages would not only further delay the resolution of patent cases, but it will also diminish the value of patents generally.

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I recognize that patent law reform is needed, and I understand that many of the issues surrounding patent law reform are difficult to resolve. But I believe that on balance, S. 1145 would do more harm than good. I appreciate your consideration of these issues and would be happy to answer any questions you may have. Thank you.

Sincerely,



Antoinette M. Tease

cc: The Honorable Max Baucus

² Association for Corporate Patent Counsel, Address by Hon. Paul R. Michel, Chief Judge, U.S. Court of Appeals for the Federal Circuit (Jan. 28, 2008) at 11.

³ Judge Michel estimates that on average, the pendency time of appeals to the Federal Circuit is 11.5 months. *Id.* at 1.