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PATENT TROLLS: FACT OR FICTION?

HEARING

BEFORE THE

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

OF THE

COMMITTEE ON THE JUDICIARY
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PATENT TROLLS: FACT OR FICTION?

THURSDAY, JUNE 15, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:05 a.m., in Room 2141, Rayburn House Office Building, the Honorable Lamar Smith (Chairman of the Subcommittee) presiding.

Mr. SMITH. The Subcommittee on Courts, the Internet, and Intellectual Property will come to order.

I am going to recognize myself in opening statement and the Ranking Member, and we'll get to our witnesses immediately after that. We are looking forward to a great hearing today and learning a lot from who you are testifying.

This morning, the Subcommittee will conduct its seventh hearing on patent reform in the 109th Congress by exploring the much-maligned patent troll. We hope to define trolling behavior in the modern patent world, determine its degree of privilege in the patent system and explore legislative reforms to combat it if needed.

Complaints about trolling heightened public interest in patent reform and led to the development of the legislative drafts that our Subcommittee has reviewed. According to its critics, the troll is an individual who invents a patent product or process of suspect legal integrity or who acquires such a patent from a third party. The owner is characterized by someone who makes money by extorting a license from the manufacturer who allegedly has infringed the patent. Fearing the possibility of an injunction will force the manufacture to cease operations, the company settles.

Critics of the patent system, including many high-tech and software companies, believe that trolls contribute to the proliferation of poor quality patents. Ultimately, these critics assert trolls force manufacturers to divert their resources from productive endeavors to combat bogus infringement suits. Other companies and individuals argue that licensing is a standard and a time-honored component of the patent system. They also assert that some proposals to change certain provisions in the Patent Act will disadvantage many legitimate companies, vendors, and universities.

As our previous hearings have demonstrated, patent practice frequently pits conflicting interests against one another. For example, a software developer might endorse a specific change to the current statutory treatment of injunctive relief where damages computation is set forth in the Patent Act. The same revisions would be op-

posed by a number of patentee interests, especially those in biotechnology and pharmaceutical industries.

Different entities use the patent system in different ways, depending on their respective business models. It is important to acknowledge this dynamic when evaluating the propriety of revising the patent system to combat trolling or promote other goals. Still, the patent system should reward

creativity, not legal gamesmanship.

In terms of the hearing scope, I hope the witnesses direct their testimony to subjects that have been addressed by H.R. 2795, the Patent Reform Act and other substitute drafts that the Subcommittee has reviewed. This includes a discussion about injunctive relief, especially in the wake of the Supreme Court's decision in *eBay v. MercExchange*, apportionment of damages continuations and PTO operations, generally.

Now that concludes my remarks; and the gentleman from California, Mr. Berman, the Ranking Member, is recognized.

Mr. BERMAN. Thank you very much, Mr. Chairman; and thank you for scheduling this hearing so quickly after the eBay decision.

As we have tried to move forward with patent reform, our efforts have been stymied by the many groups clinging to the notion that there was an entitlement to an automatic injunction upon a finding of infringement. I am hopeful that, as a result of the Supreme Court's findings, we are able now to progress with legislation.

Congressman Boucher and I introduced our patent bill 2 months ago, believing that the Federal circuit's interpretation of the injunction statute invited abuse. We said that if we could merely underline or bold the current words in the statute guiding the infrastructure of injunction words like "may" and "equities" and "reasonable", we would have done so.

Our goal is to achieve what the Supreme Court has now done for us: a return to the standard originally intended, that of providing courts with discretion and requiring a weighing of the equities. Therefore, I don't believe at this time there is any further need to legislate on the injunction issue.

However, the concurrence in the eBay decision raises additional issues relating—to quote an industry newly developed in which firms use patents not as a basis for producing and selling goods but instead primarily for obtaining licensing fees.

Perhaps the place to start at this hearing is not the question of whether patent trolls are fact or fiction but rather the definitional question of what is a patent troll. Justice Kennedy asked it best. Is the troll the scary thing under the bridge or is it a fishing technique?

Depending on where you are standing, the view from the bridge may render the same equity, either a patent holder who is simply trying to enforce his rights or a patent troll who is unfairly leveraging newly acquired property.

In part, some of the irony surrounding the analogy to a troll is that, if I remember my fairy tales correctly, the troll usually loses in the end, contrary to what occurs in the marketplace today with patents. While I can provide no clear definition, I can tell you that in undertaking an effort to clarify aspects of the patent law to prevent the abuse of the system, there is no attempt here to impose

a use requirement on a patentee. That's not what we are trying to do. There is no attempt to prevent general licensing, and there is no attempt to weaken intellectual property rights.

I have concerns about those who take advantage of the current patent system to the detriment of future innovations, whether called trolls, entrepreneurs or those that shall not be named. There is a significant problem if the patent being asserted is of questionable validity.

I firmly believe that robust patent protection prevents innovation. However, I also believe that the patent system is strongest and that incentives for integration is the greatest when patents protect only those inventions that are truly inventive.

When functioning properly, the patent system should encourage and enable the inventors to push the boundaries of knowledge and possibilities. If the patent system allows questionable patents to issue and fails to provide adequate safeguards against patent abuses, the system itself may stifle innovation and interfere with competitive market forces.

When considering these principles together, I introduced a bill which provides the reform necessary for the patent system to achieve its intended goal of promoting innovation, including amendments to the Wolfowitz Standard, submission of third-party priority and a post-grant opposition procedure. These reforms are clearly not the only possibilities, and I look forward to hearing from the witnesses as they describe other alternatives and suggestions.

As the New York Times has pointed out, there is legislation in the House to address the issue, and it needs to be taken up. I hope that introduction of the bill, in combination with the recent Supreme Court decision and these hearings, will facilitate the necessary advancement of patent reform legislation. High patent quality is essential to continued innovation litigation abuse. Especially those which thrive on low-quality patents impede the promotion of the progress of science and useful arts.

I would still love to be able to act quickly during this 109th Congress to maintain the integrity of the patent system.

Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Berman.

Without objection, other Members' opening statements will be made a part of the record.

Does any other Member wish to be recognized for an opening statement?

The gentleman from California, Mr. Issa.

Mr. ISSA. Thank you, Mr. Smith.

Mr. SMITH. Before you go on, Mr. Issa, if you will yield for a minute.

It wouldn't surprise me if I anticipate what you are going to comment on. Because you may have noticed that two of our witnesses mentioned one of your favorite subjects and that is a specialized patent court, and that may or may not be what you want to comment on.

The gentleman is recognized.

Mr. ISSA. I will put the balance of my statement into the record. I think you have succinctly hit on an issue that I hope that we do speak of more today.

I do want to add to both of your opening statements, though, by saying that today I hope that we will look at injunctive relief also and look at it in terms of mend it, don't end it.

With that, I yield back.

Mr. SMITH. Thank you, Mr. Issa.

Before I introduce our witnesses, I would like for them to stand and be sworn in, please.

[Witnesses sworn.]

Mr. SMITH. By the way, I have never told this story before, but many years ago when I was first sworn in to Congress, I had my two young children with me. They were aged 7 and 9 at the time. And when the Speaker asked us to raise our hand to take the oath of office, both my children raised their hands and took the oath along with me, and I always felt that the 21st District had three Members of representatives for a couple of years there.

But you are not under the same regimen of that.

I also want to recognize a colleague of ours who has just joined us, Congressman Bass of New Hampshire. He has a constituent and a friend as a witness today, and I don't know whether Congress Bass wants to introduce Mr. Kamen or whether you want me to introduce Mr. Kamen.

Mr. BASS. If the distinguished gentleman will yield to me, I am most grateful for his accommodation. At the appropriate moment, if I could introduce my friend from New Hampshire, I'll be most grateful. I am in no hurry.

Mr. SMITH. Why don't we go out of order and why don't you introduce Mr. Kamen?

Mr. BASS. I will only say that it warms my heart to see Dean Kamen stand up there and put up his right hand and say that he'll tell the truth. Maybe we should do that every time we get together.

I am honored to introduce to this Committee my friend from New Hampshire, Dean Kamen. Dean Kamen really works and represents what is the heart of America's economics and industrial future. He is truly an inventor, and he owns and runs one of the Nation's few really successful modern development labs.

I often think to myself that Dean sits in his office on the edge of the Merrimack River in Manchester and the elevator opens all day long and these frogs jump out of the elevator and they hop down the hall into his office and they sit there and he kisses every one of them. Some of them, 9 out of 10 of them, remain exactly as they are, and he chucks them out of the window into the river behind him. All of a sudden, he kisses one, and it turns into a prince, and that prince goes on to become cures for people that have heart problems, people who are diabetic and need good insulin pumps, people who want different mobility devices and people who are in the business of trying to develop a long-term, stable energy future for our country.

I know you are having a hearing today on the issue of a very thorny issue of patent regulation, if you will. But anything that you do that makes it difficult for people like Dean Kamen to be innovative and to bring new products to the U.S. Economy legitimately would be very tough for our country, and I appreciate his appearing here today.

He's a wonderful friend of mine and a great and compassionate American. So I thank you for being here today.

Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Bass. You got Mr. Kamen off to a good start this morning.

I'll resume and introduce the rest of the witnesses.

Our first witness is Edward Reines, a partner in the technology litigation practice of Weil, Gotshal & Manges in Redwood Shores, California. Mr. Reines is secretary of the Federal Circuit Bar Association and serves on its Board of Governors. He also teaches a patent litigation course at the University of California Berkeley's Boalt Hall of Law. Mr. Reines received a J.D. From Columbia Law School and a BS from the State University at New York in Albany.

Dean Kamen has been introduced. The only thing I might add to the wonderful introduction you received is you are the founder of DEKA Research and Development Corporation, which creates inventions and provides R&D services for corporate clients. The only other thing to add and the metaphor that Mr. Bass used, that you created 150 princes: 150 successful patents.

Our next witness is Mr. Paul Misener, Vice President for Global Policy for Amazon.com. In this capacity, Mr. Misener is responsible for formulating Amazon.com's public policies worldwide, as well as for managing the company's policy specialists in Washington and Brussels. He received his BS in electrical engineering and computer science from Princeton University and his J.D. From the George Mason School of Law.

Our final witness is Chuck Fish. Mr. Fish is Vice President and Chief Patent Counsel for Time Warner. In addition to handling Time Warner's patent affairs, Mr. Fish is a frequent speaker about legal matters before trade associations and other organizations. He is a graduate of the United States Naval Academy and Wayne State University Law School.

Welcome to you all. We have written statements and your complete testimony. Without objection, the complete testimony will be made part of the record.

As you all already know, we hope you'll contain yourselves and limit yourself to 5 minutes during your formal remarks, and we'll follow up with questions in just a minute.

That concludes my introduction.

Mr. Reines, we will begin with you.

TESTIMONY OF EDWARD R. REINES, ESQ., WEIL, GOTSHAL & MANGES, LLP

Mr. REINES. Thank you, Chairman Smith, Ranking Member Berman and Members of the Subcommittee. Thank you again for inviting me to appear before this Committee on patent issues.

To understand my vantage point, you need to understand I come from a law firm that has a very broad-based patent litigation practice. We have got about a hundred attorneys, full-time patent litigationists throughout the country. We represent all kinds of parties: big companies, little companies, all kinds of technologies, plaintiffs, defendants. We have gotten verdicts for tens of millions of dollars. We have defended against claims for tens of millions of dollars.

So we have got a very balanced viewpoint. We are beholden to no type of client or any client in specific, and I hope that permits me to give the Committee an informed view from the trenches day-to-day in a courtroom or in a deposition room or looking at documents and not someone who is in the lobbying business.

So I can give you a view from the front lines, and I hope it is a balanced and informed one. After I give my views, I am happy to answer any questions and hope to.

Before I get to the substance of my testimony, I want to express appreciation for the investment this Committee has put into patent issues. As Chairman Smith says, there have been seven hearings. We all know patents are notoriously dense in terms of the subject matter and can be quite esoteric, and we appreciate the work of the Committee and the staff in taking on this important issue.

To get right to the question of patent trolls, which is the question that the Committee has framed for today, I want to say at the outset the term was coined about 7 years ago and a lot of ink's been spilled and Internet blogs filled trying to come up with a precise definition of the contours of who is a patent troll and who is not. Serious publications like the Wall Street Journal have all addressed this question.

I want to directly answer your question and say that, based on my experiences, I think it's fairly characterized that trolls do exist. So it is a fact.

One instance is a company that we litigated against was a small group of attorneys that had pooled some money, bought a patent for $50,000 at a bankruptcy auction, basically a scavenger hunt. After spending $50,000, demanded billions of dollars from a very large, successful American company. And, fortunately, after a lot of expense and distractions of engineers and managers and other people that can be productively engaged in business, we eliminated the claim as having no reasonable basis. But I can conclude, based on that, that, yes, there are patent trolls that are out there. I think that entity fairly constitutes one.

I'll note that none of the qualities that I described doesn't develop any technology. Only lawyers buy something cheap and try to make a lot money out of it. None of them would fit a Dean Kamen.

So that is a pure patent troll, and they go exist.

Now having concluded that a patent troll exists doesn't necessarily answer the question that we want to answer, and that is how productive is the exercise of defining a patent troll for the process of patent reform. I think it is very elusive to come up with a definition that's neither overinclusive nor underinclusive. It is an emotional hot-button to categorize or label someone as a troll, and I would be concerned that too much focus on that would detract from the important mission of patent reform.

So I think it is to understand there are patent trolls, but the way I see for patent reform, you roll up your sleeves and you craft patent reform, is to address abusive practices, whoever engages in it and not try to necessarily define something with certainty and go at it that way.

Regarding undesirable conduct, that is worthy of attention regardless of who engages in those actions. There are six areas that

I think are appropriate for the Committee to consider. This really doesn't go in to the patent quality issues. That's a separate subject for a different hearing.

But in terms of addressing troll-like behavior, or undesirable behavior in litigation or negotiations, whoever performs it, willfulness and treble damages based on willfulness is an important one.

Submarine patents is important, continuation of these. The Patent Office is doing good work on that, but I think it is going to need this Committee's report.

Damages law hasn't kept up with the changes in innovation in the nature of technology.

Forum shopping and different forum issues have come up and injunctions. Just to address Representative Berman's comment on injunctions, I am hopeful that the eBay decision will remove the debate between various industries about injunctions from being implemented to successful patent reform, and I think that will be true. I think I have heard that in a lot of the hallway discussions, and I am hoping that that will be so.

I have written extensive comments on these subjects, and I'll be happy to answer questions, but with the rest of my I'll leave it at that.

Mr. SMITH. Thank you, Mr. Reines.

[The prepared statement of Mr. Reines follows:]

PREPARED STATEMENT OF EDWARD R. REINES

I.
INTRODUCTION

Thank you for asking me to share my thoughts concerning the question of "patent trolls" and effective patent reform. My name is Edward Reines, and I am a Partner in the law firm of Weil, Gotshal & Manges, LLP. I specialize in patent cases and I am based in Silicon Valley. I am honored to appear again before this Subcommittee.

Let me briefly describe our patent litigation practice so you can understand more about my vantage point. Weil, Gotshal's patent litigation practice is national; we try cases from coast to coast. We have a team of nearly one hundred attorneys who concentrate on patent litigation. At any given time, we handle dozens of active patent cases. We represent small entities and we represent large entities. We represent plaintiffs and we represent defendants. We have won verdicts for many millions of dollars and we have defended against such claims.

In sum, as an attorney who works day-to-day in the patent litigation trenches, beholden to no class of litigant, I plan to share with the Subcommittee an informed and balanced perspective from the front-lines. In that regard, these are my independent views, not those of my law firm or any of its clients. I also welcome the opportunity to answer any questions you may have.

II.
THE TIME IS RIGHT FOR PATENT REFORM

At the outset, as a member of the patent community at large, I would like to express appreciation for the investment this Subcommittee and its staff have made in taking a close look at patent reform. Patent issues can be esoteric and there are many other issues on the Congressional agenda that may be viewed as more glamorous.

There is a building consensus that now is the right time for patent reform. Innovation is the life-blood of our economy and a key contributor to our global competitiveness. While there are fringe pundits who would eliminate our patent system, there can be no serious question that a vibrant patent system is a key ingredient to a thriving technology sector. However, for its own health, the patent system deserves reform now; much as an overgrown plant requires pruning to regain its balance and vitality. Concerns in the business community about excesses and abuses

are at a high.[1] This breeds cynicism and undermines confidence in the patent system. Moreover, the upsurge in Supreme Court activity in the patent area, and the media spotlight on high-profile patent matters such as the Blackberry(c) case, confirm that this is the right time for this Subcommittee to continue to lead the national debate on patent reform.

III.
THE QUESTION OF PATENT TROLLS

The term "patent troll" was coined about seven years ago to refer to abusive patent litigants.[2] Since then, a lot of ink has been spilled—and internet blogs filled—attempting to define exactly who is a troll.[3] Serious publications from Business Week to The Wall Street Journal have addressed this issue.[4]

To answer directly the question posed for this hearing, the existence of entities fairly characterized as patent trolls is a fact. If lawyers start a company purely to buy a patent out of bankruptcy, and promptly seek royalties that are one hundred thousand times what they just paid for the patent, you have a patent troll under any reasonable definition. This is particularly true where the demand is based on an implausible theory of infringement.

I can tell you based on first-hand experience that such entities do, in fact, exist. But a valid, working definition that is neither over-inclusive nor under-inclusive is elusive. This is true because entities which attempt to exploit the existing imbalances in patent law take all shapes and forms. The only limit is human ingenuity. Thus, when it comes to the hard work of rolling up your sleeves and shaping patent reform legislation, it is my view that we are best off targeting actions that are undesirable when undertaken by any litigant. Nonetheless, an examination of the characteristics of what some consider a "pure troll" may be useful in highlighting the nature of the imbalances which need reform. Such an entity:

- Has no significant assets except patents
- Produces no products
- Has attorneys as its most important employees, and
- Acquires patents, but does not invent technology itself.

The patent community's efforts to define a patent troll with precision have borne fruit by provoking helpful, and often passionate, discussion about who is abusing the patent system and how they can be deterred. However, effective reform legislation that addresses abusive practices generally will not only get at the root of the "patent troll" problem, but it also will evenhandedly deter undesirable behavior regardless of who engages in it. In the end, because the debate over whether this litigant, or that litigant, is a troll can provoke an emotional controversy over the intrinsic worth of a company or person, there is a risk that too much focus on labeling particular entities as patent trolls will distract from the greater patent reform effort.

IV.
UNDESIRABLE CONDUCT WORTHY OF ATTENTION

Much of the patent reform debate has focused on patent quality and the need for improvement at the Patent Office. In litigation, we see many patents that are valid and which were properly granted by the Patent Office. We recently tried a case in which we enforced patents covering an invention for which a Nobel Prize was awarded. To be sure, such patents are important. Nevertheless, based on the mixed quality of the patents seen day to day in litigation, patent quality is undoubtedly a subject worthy of scrutiny. However, because this Subcommittee has already conducted productive hearings on patent quality, and because patent quality is not specific to the "patent troll" issue, I will focus my testimony on undesirable conduct by

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[1] Joe Beyers, "Perspective: Rise Of The Patent Trolls," CNET News, October 12, 2005 *http://news.com.com/Rise+of+the+patent+trolls/2010-1071—3-5892996.html* ("The shakedown is on. In the aftermath of the dot-com bust, a new kind of business with a simple, yet potentially lethal, model has emerged. Call them the 'patent trolls.'").

[2] *See* Brenda Sandburg, "You May Not Have A Choice. Trolling for Dollars," The San Francisco Recorder, July 30, 2001 (*quoting* Peter Detkin, ex-Intel legal counsel).

[3] *See, e.g.,* Dennis Crouch, "What is a patent troll?," Patently-O Patent Law Blog at *http://www.patentlyo.com/patent/2006/05/what—is—a—paten.html.* Anyone familiar with modern-day patent litigation should not be surprised that patent lawyers would dedicate such energy to attempt to arrive at a definitive meaning for a common term.

[4] Don Clark, "Inventors See Promise In Large-Scale Public Patent Auctions," Wall Street Journal Online, March 9, 200; Lorraine Woellert, A Patent War Is Breaking Out On The Hill, Business Week, July, 2005.

the users of the patent system, rather than patent quality *per se*. That said, the need for an even-handed review of patent validity is essential, and the Committee should examine post-grant opposition mechanisms that allow for an opposition to be filed after a patent infringement lawsuit is brought.

Below, I identify six areas for potential reform to improve the patent system and discourage undesirable behavior.

A. Treble Damages—Willfulness

Top among the areas worth attention as part of patent reform is treble damages based on claims of willfulness. Too often, patent owners use the threat of treble damages to attempt to extract a greater settlement than is warranted. This frequently happens in negotiations before a case is filed. In patent cases, the specter of treble damages is easy to create because it does not take much to level an allegation of willful infringement. Indeed, I cannot recall a patent infringement complaint that did not have a request for treble damages based on an allegation of willfulness.

Abusive litigants will commonly "notify" a defendant of many allegedly infringed patents leading up to the filing of a complaint, often using clever lawyer language to implicate as many patents in its portfolio as possible. A company in receipt of such a letter is put in a difficult situation. If it would like to have a traditional legal opinion to respond to a willfulness allegation, it obviously needs to secure and pay for an opinion from an independent law firm each time it receives a notice letter. The cost of an opinion can easily reach $50,000 and up per patent, not to mention the time of corporate legal and technical staffs to manage the opinion process. In such circumstances, it can be economically rational for the accused to simply settle the matter before expending the resources and time necessary to gather outside legal opinions for every threatened patent.

Moreover, should the case go to litigation, defendants are put to the difficult choice of waiving the attorney-client privilege to prove that they in fact relied upon "competent" legal advice. If they do not waive the privilege, they will be unable to rely upon the exculpatory advice they sought and received. However, if they do waive the privilege there are heavy costs. Such a waiver is highly invasive and handicaps the defendant from the outset because it is forced to unilaterally turn over its legal theories and strategy. In addition, given the volume of so-called "notice" letters that are sent, it is difficult as a practical matter for even the most conscientious legal staff to secure legal opinions for every patent brought to its attention that cannot be called into question in some way by a skilled trial attorney if the case goes to trial.

In short, the current rules for willful infringement invite abuse and are worthy of this Subcommittee's attention. The duty to respond to an allegation of patent infringement should only arise when a direct allegation of infringement has been made.

B. Submarine Patents

Submarine patents are a problem often associated with patent trolls. Submarine patents are patents that are secret until long after the date of invention and long after the market in an area of technology has developed. Under current United States law, publication of a patent application can be delayed until a patent is actually granted if one does not file corresponding foreign patent applications.[5]

When the existence of a patent application remains secret, the market becomes quite vulnerable to a late-issuing patent. This is because market participants build products and develop industries blind to the claimed patent rights of others. Once the market adopts a technology, altering products to remove that technology can be very expensive and disruptive. Customers get used to a particular technology and will resist change. This is true even if the selected technology is no better than available alternatives. For example, in our country, household appliances have developed based on the design of the common electrical wall plug with which we are all familiar. It would be very difficult to now change the plug style we use in this country, even though we know that there are equally effective wall plug designs successfully used around the world. Thus, taking this example, when adopting a style of wall plug it would be beneficial to know who is claiming the exclusive rights to which style plug so an informed choice can be made.

In short, submarine patents provide a patent owner with unfair leverage as a result of stealth. This problem can be addressed by requiring publication of patent applications 18 months after filing for all patent applications regardless of whether related applications are filed abroad.

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[5] *See* 35 U.S.C. Section 122.

C. Continuation Applications

A problem related to the issue of submarine patents is the unlimited right patent applicants have to file continuation applications when seeking patents. As things stand, after receiving a patent on an initial patent application, the applicant can submit an unlimited number of continuation applications. This allows an applicant to obtain a patent but also "keep alive" a duplicate of that patent application by filing a "continuation." New patents can then be sought on the same technology for years to come.

This common practice allows a patent owner to file suit based on its initial patent while a continuation of the patent application remains pending in the Patent Office. Inevitably, applicants exploit information gained in litigation or from the marketplace to shift their patent rights over time to cover the products in the marketplace rather than to cover what they believed was invented. One negative effect of this practice is that patent owners can threaten a product not only with its existing patents, but with the promise that new and improved patents will issue long into the future. Product makers are then motivated to settle rather than face a long future of patent litigation by a tenacious patent owner, even if they believe they can win the case they are then litigating.

The Patent Office is seriously considering the revision of its continuation rules to address this area of abuse. The Subcommittee should support the Patent Office in its laudable effort to reform continuation practice, as appropriate. In addition, the Subcommittee should continue to monitor this issue to determine whether legislative reform is warranted.

D. Damage Apportionment

The issue of damage apportionment is important, but often overlooked. The problem stems from the fact that modern technology is so complex that one product can relate to thousands of patents. Patent owners often seek a substantial royalty that is a percentage of the value of the overall product, even where the patentee's inventive contribution relates to an extremely small aspect of the product. Thus, if a product sells for $100,000, the patentee will often seek 5% or more of the overall price of the product for a $5000 royalty per product, even if the patent relates only to a minor and rarely used option. This problem is particularly acute when the patent owner sells no products. This is because there is no risk that overreaching royalty demands it makes will be used against it by others.

Unfortunately, current law does not do a good job of ensuring that a patentee receives a royalty in proportion to the true role of the patented invention. As an example, in many cases damages' experts will rely on the traditional principle that, as a "rule of thumb," licensors should receive a quarter to a third of the profit made on a product. However, if there are five patents relevant to a complex product, much less thousands, all the profit and then some would go to patent licensors applying this "rule of thumb." The party that actually created and sold the product would be forced to lose money on its products sales, under this common royalty analysis. Yet, this type of testimony is often permitted because of years of authority and longstanding licensing practices from a bygone era.

Another factor is that the legal form of patent claims can be manipulated to inflate damage demands and awards. A patentee can draft a patent claim to cover a large and expensive product even where the invention relates only to a minor and inexpensive component. For example, if one were to invent a new type of windshield wiper, patent law permits the patent to be granted on a standard car with the improved windshield wiper. Under common interpretations of patent law, the royalty percentage is then based on the price of the entire car, not just the improved windshield wipers. This, not surprisingly, inflates unduly the plaintiffs' demands.

Put simply, in the real world, a host of factors impede attempts to put a patent in context so one can effectively explain to a jury this concept of proportionality. For example, judges often do not want a trial to involve what other patents may cover a product beyond those that are allegedly infringed because it is complex enough for the jury to determine whether the asserted patent or patents cover the product. In addition, a juror is subjected to so much focus on the asserted patent and the accused feature in the trial process that efforts to put into perspective the limited role of the patented technology are difficult.

Reforms to the law of patent damages are worthy of this Subcommittee's attention and simply codifying existing caselaw, such as the so-called "Georgia Pacific" factors, is insufficient.

E. Choice of Forum

Another area worthy of the Subcommittee's attention is the forum selection system for patent cases. Some commentators complain about generalist courts that do

not have sufficient patent expertise or sufficient resources to resolve patent cases fairly. On the other hand, other commentators pick on one or two courts because they attract a lot of patent cases. But the issue is not any particular venue or region. Rather, the issue is that the breadth of the current patent venue statute allows plaintiffs to select a courthouse with such latitude that the selected forum—wherever it may be—is often viewed by the defendant as unfairly inconvenient, unsympathetic or otherwise unfavorable.

Some have proposed experiments with specialized patent courts, others have proposed major revisions to the venue statute, still others believe the current venue transfer rules are more than adequate to address this issue. Regardless of the ultimate answer, this is an area worthy of the Subcommittee's attention.

F. Injunctions

Until the Supreme Court's recent eBay decision, the law of injunctions in patent cases was susceptible to abuse. Settlement negotiations often featured graphic, and public, threats of a permanent injunction designed explicitly to gain undue settlement leverage. Courts would almost always grant permanent injunctions. Exceptions were rare. To avoid the near automatic injunction required an extreme situation, such as the potential for a public health emergency or a threat to national security.

Hopefully, the eBay decision will improve the law of patent injunctions and thus bring closer together the various groups that support patent reform. But while the eBay decision encourages a greater weighing of the equities by district courts, the decision was not determinative as to the future direction of the law of injunctions in patent cases. Accordingly, this is an area worthy of continued monitoring by the Subcommittee.

V.
CONCLUSION

A healthy patent system is important to the continued success and progress of the American economy and society. Our current system is in need of reform. Patent trolls exist and they are a problem. However, the proposed definitions of that term are over-inclusive, under-inclusive or, more frequently, both. Abuse in the patent system is best addressed by identifying undesirable conduct that should be deterred regardless of who engages in such conduct. I hope this testimony helps the Subcommittee identify areas of abuse so that balanced patent reform can be pursued. Improvements in patent law in a very direct sense improve the prosperity of our technology community, which is a crown jewel of the American economy. The work undertaken by the Subcommittee and its staff directed towards patent reform is therefore most appreciated.

Mr. SMITH. Mr. Kamen.

TESTIMONY OF DEAN KAMEN, PRESIDENT, DEKA RESEARCH & DEVELOPMENT CORPORATION

Mr. KAMEN. First of all, thank you for those very kind remarks, but I wish I was getting a prince out of only 10 frogs. It is way worse than that in the real world. Thank you.

I also have only 5 minutes; and, not being a lawyer, I would just say that I of the reasons I am interested in this situation is I've had two kinds of business models in my life, and I only recently found out after reading the definition of a troll that I am one. So I would like to explain to you what my business was and what it is and why I think it is maybe a little unfair and dangerous to characterize people that licenses products as trolls.

So my first business I started when I was in high school. My older brother was in medical school. He's a brilliant guy, and he would come home on the weekends and complain about the fact that equipment didn't exist for treating very, very small babies, neonates, that he was trying to develop cures for their cancers. I built them little pumps over the next couple of years. He would

take it to the various schools, the university where he was, and there was a broader and broader need for these things.

Over about a 6-year period, after taking only a few months or, at most, a year to get the first ones out, it took about 6 years to build a whole business by which I was designing, building, testing, manufacturing, and then delivering these things. I had to build a whole sales organization, and it worked, and we had a successful little business.

We sold that business to a giant company for a couple of reasons. It had grown to be a few hundred people, only 10 or 12 of which were still doing the research on our next generation of products. And running that business was a lot of work. It took a lot of capital. It took a lot of time. And I didn't think we were very cost-effectively getting their product to the market because we had one product or two products and we had to support a whole infrastructure to put them out.

We sold the business, and I decided I could either work on any one of the new products I had, and it would probably take another 6 or 8 or 10 years to convince the world we had a better solution to get it built and delivered, but you only get a few cycles of that in a lifetime and in a career.

My other alternative was, why don't I focus on solving these problems, creating these prototypes which we could develop relatively quickly, take them to these giant companies who do what they do well. They have marketing, they have sales, they have distribution, they have infrastructure, and I deliver the solutions to them. Because I thought we were better at doing that than these big companies and we would create by doing that business model a win-win situation.

I win because I get to do the front-end fun stuff. I get to kiss a lot of frogs, and I can work on a lot of projects. And the big companies win because I deliver stuff to them and they can throw it out if they like and they didn't have to waste time on new stuff. But if they like it, they can take it. And mostly the public would win, because I could get way more products out to way more people more quickly; and it would cost the public less because they are taking advantage of this larger infrastructure of my big corporate client.

Over the next few years, we worked on as many diverse things as we made the first home dialysis systems. There's now 80,000 of them out there. We made our hundred millionth disposable for that this year. We built iBots for people who can't walk up stairs. We built stents for people to eliminate surgery.

We now have the same 200 people I had—well, not the same. We have the same quantity of people, but they are all development people. We work on a lot of stuff. We kiss a lot of frogs, but if we get to something that looks good, and we deliver it to a large company, and they do what they do well, they get out to the public, it is a way faster process of getting innovation out there.

My concern is when I walk into that big company they've got marketing, they've got distribution, they've got everything. If I show them what I have got, the only thing that I have on my side of the table is that patent; and the only way to convince them that they should commit the huge resources to turn that into a product

is to be able to say that I can deliver this to you in return for supporting this product and you singularly are going to have to pay for the development and introduction. You singularly—you exclusively will have the right for some period of time to do this. You give me my royalty; you get your product. The product gets to the public, and it works.

And I think that was the purpose of the patent system. Big companies probably don't need that. They've got de facto standards; they've got market standards. I think the patent system was intended to help encourage everybody to be able to participate in being innovative without needing to be a giant company. I think it works.

I have got 200 people and 200 families that are supported by that system. I have got a lot of big clients that like what we deliver to them, and I think the public has gotten a lot of benefit from what we do.

Mr. SMITH. Okay. Thank you, Mr. Kamen.

[The prepared statement of Mr. Kamen follows:]

PREPARED STATEMENT OF DEAN KAMEN

Statement of

Dean Kamen
President
DEKA Research & Development Corp.

Before the
Subcommittee on Courts, the Internet, and Intellectual Property
Committee on the Judiciary
United States House of Representatives

Oversight Hearing
Patent Trolls: Fact or Fiction

June 15, 2006

Mr. Chairman, Members of the Committee, thank you for the opportunity to be here today at this important hearing. I am Dean Kamen, President of DEKA Research & Development Corp., a technology development company based in Manchester, New Hampshire that I founded in 1982. As a holder of more than 100 U.S. patents, I am pleased to speak to you today regarding an inventor's perspective on the question of patent trolls.

In the increasingly complex debate over patent reform, the appealingly simple concept of a patent troll has taken on a life of its own. In fact, patent trolls, we are told, are the cause of all of the perceived ills of the patent system. In the past 18 months, the term patent troll has been applied to a progressively broader range of parties and activities, including:

- those who don't manufacture products embodying their patent
- those who offer a license as an alternative to suing for patent infringement
- those who sue alleged infringers that have products already on the market
- small entities who sue large entities with deeper pockets
- those who don't "use" their patent

Not only are these activities typically legitimate and constructive, they, in fact, represent part of the intended purpose of the U.S. patent system. Further, while there do seem to be certain bad actors who inappropriately assert questionable patents, there are also bad actors who deliberately infringe the legitimate patent rights of others. In trying to prevent the bad acts of a few so-called patent trolls, we must be careful not to destroy the patent system that has been the driving force behind the innovation that has made the United States an unrivaled global leader over the past two centuries.

The Patent System Must Foster Innovation

The U.S. patent system was created to inspire innovation. Article 1, Section 8, Clause 8 of the Constitution, specifies that the patent system is to "promote the progress of ...the useful arts by securing to ...inventors for limited times the exclusive rights to their ...discoveries." As President Abraham Lincoln stated, our patent system "adds the fuel of interest to the fire of genius." To work correctly, the patent system must appropriately reward innovation and risk.

In exchange for providing the technical knowledge contained in their patent disclosure to the public, the Constitution grants inventors the right to exclude others from using their inventions for a limited period of time. This exclusive right is essential to encouraging investment in research and development.

DEKA Research & Development is a small company built on a strong intellectual property system. DEKA doesn't manufacture any products in volume; rather, DEKA makes the first prototype of a wide range of new products, primarily in the medical field. DEKA's approximately 200 scientists, engineers, and technicians create innovative technology, and then we partner with established corporations to manufacture, market, and sell these products. This business model is truly a win, win, win that fulfills the

fundamental purpose of the patent system. It is a win for DEKA, because we get to focus on what we do best—solving difficult problems in innovative ways—without the need for a large infrastructure. It is a win for the established corporations, who can do what they do best—leverage their financial resources, existing market presence, and distribution capabilities to get these products to market. Finally, it is a win for the public, because these often life-saving products get to the people who need them in the most efficient, expeditious, and economical way.

Because DEKA licenses our patents to established corporations with the appropriate resources rather than manufacture products ourselves, some would call DEKA a patent troll and seek to limit our right to stop ongoing infringement. In fact, we must be able to credibly defend our patents from infringement by others to make our business model work. The ability to enforce our patent rights is essential for DEKA to be able to attract and secure exclusive partners who invest in the development, marketing and sale of the products that result from our inventions. If the desire to defend our patents against infringers, including those infringers who may be larger entities, defines a patent troll, then DEKA is a troll.

Enforcing Patents – Caution Regarding Reform Proposals

I believe that maintaining strong patent protection for America's inventors is critical. I fear that some of the patent reform measures currently under discussion are not only unnecessary to address the issues that exist in our patent system today, but have the very real potential to create substantially worse problems.

One of the areas of consideration for patent law reform that gives me particular concern is the weakening of the right to injunctive relief once a patent has been found to be both valid and infringed. I believe that weakening the right to a permanent injunction would have catastrophic consequences in our patent system and is particularly problematic for independent inventors.

- It is a fundamental principle of United States patent law to recognize patents as forms of property (like physical property). That is, the holder of a valid patent has a right to exclude others from trespassing on that owner's private property.

- The Constitutional right to exclude others is properly enforced by using the mechanism of a permanent injunction. It is important to note that a permanent injunction can only be granted after two significant and independent events: (1) a patent has been granted by the U.S. Patent and Trademark Office and (2) that patent has subsequently been found to be both valid and infringed by a federal court.

- An infringing party will be less likely to settle a dispute if money is the only risk or penalty that they would face for trampling on the valuable property rights of others. Weakening the right to a permanent injunction, therefore, may discourage parties from resolving their disputes, thus further increasing the volume of patent litigation over-burdening the court system and increasing the associated delays and costs of such litigation.

- Weakening the standard for granting permanent injunctions would be tantamount to adopting compulsory licensing. The United States has fought hard to eliminate these types of compulsory licensing schemes in the international arena through the TRIPS agreement.

Equally problematic is a proposal to require a patent owner to personally manufacture and sell products covered by his or her patent before being entitled to an injunction. The Supreme Court recently rejected this notion in its eBay v. Mercexchange decision. Specifically, in eBay, the court recognized that "some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves." Imposing a use requirement would virtually eliminate the individual inventor's incentive to invent.

Improving the Quality of Patents

Rather than dwell on the definition of the hypothetical patent troll, I suggest that it may be more productive to find ways to improve the quality of patents. Indeed, ensuring high quality patents would greatly help to prevent abuses of the patent system by anyone, including the elusive patent troll, as well as those bad actors who deliberately infringe upon the legitimate patent rights of others. It is beyond question that a strong patent system, at its core, must ensure that the U.S. Patent and Trademark Office issues patents of the highest possible quality. To accomplish this, patent applications must be examined effectively by highly qualified examiners using the best available technology and prior art. Any patent reform must fundamentally focus on ensuring patent quality prior to the issuance of the patent.

It is my understanding that one reason this examination process is in need of improvement is because funding for the U.S. Patent and Trademark Office has not kept up with the increased number of patent applications being filed. With the proper funding, I am confident that the U.S. Patent and Trademark Office could find ways to hire, train, retain and reward examiners with the requisite credentials to solve the quality problem at its roots. With state of the art search tools and access to the world's technical literature at their fingertips, along with proper training, supervision and adequate time to do a quality job, many of the real and perceived problems with the patent system should fade away.

Conclusion

As innovation becomes ever more important to America's global competitiveness, a strong patent system is more important than ever. I strongly urge you to be extremely hesitant to move any legislation that could undermine an enduring component of the economic system that has made America the envy of the world for more than two centuries.

Mr. SMITH. Mr. Misener.

TESTIMONY OF PAUL MISENER, VICE PRESIDENT FOR GLOBAL PUBLIC POLICY, AMAZON.COM

Mr. MISENER. Good morning, Chairman Smith, Mr. Berman and Members of the Subcommittee. Thank you very much for inviting me to testify on this important matter.

Mr. Chairman, let me begin by thanking you for your leadership and resolve on patent reform. You and your Subcommittee have long recognized the centrality of intellectual property to our information economy; and now, with household brand names involved in well-publicized lawsuits, the importance of sensible patent litigation reform is becoming increasingly obvious to the public. We also greatly appreciate the efforts of the Ranking Member and others who have worked hard on this important issue.

Let me thank you on the Subcommittee for passing section 115 reform last week. As with music licensing, the law of patent litigation must now be rebalanced. More than any other request in my testimony this morning and on behalf of my customers and company, I ask that you continue your leadership in patent reforms so that legislation can be enacted next year at the latest.

I also ask that you consider Amazon's particular experience with patent litigation in our two specific proposals to solve a pair of problems we have encountered.

At the outset, Mr. Chairman, let me offer my general thoughts on so-called patent trolls. In testimony today and elsewhere, I have tried to avoid using the term "troll," not because troll-like behavior does not exist or should not be proscribed but, rather, because the term may vilify entities that are simply taking advantage of the currently flawed patent litigation system.

Mr. Chairman, notwithstanding Amazon.com's extensive and growing portfolio, which includes at least one well-known business method patent that we have enforced against a competitor, we have long recognized the need to rebalance the patent litigation system which, in our view, currently is unfairly skewed in favor of patent owners.

Indeed, Amazon.com has seen patent litigation from both sides, and we believe the system needs to be tipped back to a level in fairness to entities that bring patented technologies to consumers. Our patent litigation experience over the past 6 years has reinforced our belief in a need to rebalance the current needs system.

In the Pinpoint case, we were sued for over $60 million for damages in the allegations that our customer personalization techniques infringed a patent covering cable TV movie systems. In the IPXL case, we were sued for tens of millions of dollars, with the plaintiff alleging that our 1-Click ordering service infringed a patent covering a bank ATM interface. And, last year, for $40 million, we settled with the owner of a host of E-commerce patents, nearly two dozen of which were purchased for less than $2 million. Soverain had alleged that a few of these patents tread on our use of the virtual shopping cart and other features on our Web site.

Besides the threat of automatic injunction, we encountered in our litigation experience two essential problems with patent law. First, we had little or no way of knowing in advance of the relevance of

patents at issue; and, second, in none of these cases did the plaintiffs substantially practice the patents at issue. Yet in all of these cases the damages sought reflected plaintiffs' belief that they were entitled to compensation beyond reasonable royalties.

Based on this experience, Amazon now respectfully offers two patent litigation reform proposals.

In Amazon's first proposal, we ask that Congress ask successful claimants with method patents to obtain damages only back to the point that the defendant had actual notice or knowledge of the alleged infringement.

For the same reasons that constructive or actual notice is required of the owner of an apparatus patent who practices the patented invention, fairness requires notice with regard to method patents. Therefore, for method patents, where constructive notice is not workable, Amazon proposes that the law be rebalanced to require actual knowledge of the patent by an infringer before damages can accrue.

In Amazon's second proposal, we ask that Congress clarify that when courts analyze whether a plaintiff should be entitled to such an award of lost profits as a matter of law, a plaintiff should be entitled to such an award only if and for the time that the defendant's infringing product competes with a product that the plaintiff makes or sells.

Although the general rule that is that if the plaintiff is not in the marketplace, it is only entitled only to a reasonable royalty, some courts still will occasionally allow a plaintiff that does not practice the patent nonetheless to argue to a jury that it is entitled to obtain lost profits. These outlier decisions create needless uncertainty and impede or artificially inflate the cost of settlements. Therefore, Amazon asks that Congress clarify that patent owners that are not genuinely in the marketplace competing with the defendant are not entitled to lost profits but, instead, to a reasonable royalty.

In conclusion, Mr. Chairman, by virtue of our experience with patent litigation, Amazon.com believes that reform is essential; And we are very grateful for your leadership in this area. To the list of several excellent proposals already on the table, we would like to add the two suggestions I have described this morning to address specific shortcomings in the patent litigation system that we have encountered.

Thank you again, Mr. Chairman. I look forward to your questions.

Mr. SMITH. Thank you, Mr. Misener.

[The prepared statement of Mr. Misener follows:]

PREPARED STATEMENT OF PAUL MISENER

Good morning, Chairman Smith, Ranking Member Berman, and Members of the Subcommittee. My name is Paul Misener. I am Amazon.com's Vice President for Global Public Policy. Thank you very much for inviting me to testify on this important matter. I respectfully request that my entire written statement be included in the record.

Mr. Chairman, let me begin by thanking you for your leadership and resolve on patent reform. You and your Subcommittee have long recognized the centrality of intellectual property to our information economy and, now, with household brand names involved in well-publicized lawsuits, the importance of sensible patent litigation reform is becoming increasingly obvious to the public. We also greatly appre-

ciate the efforts of the Ranking Member and others on the Subcommittee who have worked hard on this important issue. Relatedly, let me also thank you and the Subcommittee for passing Section 115 reform last week. Amazon believes that, as with music licensing, the law of patent litigation must now be rebalanced.

Therefore, more than any other request in my testimony this morning, and on behalf of our customers and our company, which is dedicated to bringing novel products to consumers as quickly as possible, I ask that you continue your leadership in patent reform so that legislation can be enacted next year, at latest. I also ask that you consider Amazon's particular experience with patent litigation, and our two specific proposals to solve a pair of problems we have encountered. As I will describe in detail, Amazon asks that Congress:

1. allow successful claimants with method patents to obtain damages only back to the point that the defendant had actual notice or knowledge of alleged infringement and, as under current law, in no case back more than six years before the complaint was filed; and
2. clarify that when courts analyze whether a plaintiff should be entitled to an award of lost profits as a matter of law, a plaintiff should be entitled to such an award only if, and for the time that, the defendant's infringing product competes with a product that the plaintiff makes or sells.

At the outset, Mr. Chairman, let me offer my general thoughts on so-called "patent trolls," a moniker usually ascribed to entities that own and enforce patents without substantially practicing them. Although this term provides a vivid, colloquial image of some plaintiffs in patent litigation, agreement on a definition of "troll" may not be easy to attain and, more importantly, is not necessary for Congress to dramatically improve our patent system. So, in my testimony today and elsewhere, I have tried to avoid using the "troll" term, not because troll-like behavior does not exist or should not be proscribed but, rather, because the term may vilify entities that simply are taking advantage of the current, flawed patent litigation system. Put another way, as a matter of fairness and sound public policy, America's patent litigation system needs to be rebalanced, but we need not specifically define "trolls" in order to do so.

Mr. Chairman, notwithstanding Amazon.com's extensive and growing patent portfolio, which includes at least one well-known business method patent that we have enforced against a competitor, we have long recognized the need to rebalance the patent litigation system which, in our view, currently is unfairly skewed in favor of patent owners. Indeed, Amazon.com has seen patent litigation from both sides, and we believe the system needs to be tipped back to level in fairness to entities that bring patented technologies to consumers. Six years ago, only months after we successfully sued to enjoin a competitor from infringing our 1-Click® patent, we made several proposals that actually would have curtailed the rights of patent plaintiffs. Since then, there have been several positive changes to the overall patent environment, including the provision of full funding for the U.S. PTO and the Supreme Court's recent decision in the MercExchange case. In addition, Amazon has half a decade more experience in patent litigation. Based on these changes and direct experience, Amazon has modified its specific reform proposals from the year 2000, but still strongly believes that patent litigation reform is needed to rebalance the rights of patent plaintiffs and defendants. This morning, I will offer two modest proposals with respect to damages.

But before I describe these proposals, please allow me to provide some background on Amazon's experience. As noted before, we have a significant and growing patent portfolio, including two business method patents commonly known as the "1-Click®" and "Associates" patents. Despite how these patents occasionally have been portrayed in the press and elsewhere, we continue to believe that they represent novel inventions that seem obvious only in hindsight.

For example, at the time we filed our 1-Click® patent application in the summer of 1997, online sales were focused entirely on the "shopping cart" and "checkout line" metaphors, with all the attendant consumer steps needed just to buy something. Our inventors recognized that, on the Web, such steps are not necessary, and described a much simpler, consumer-friendly, and innovative method for making purchases. Extensive, well-publicized attempts to invalidate these patents, even with monetary bounties available, have failed. We were—and remain—confident in the strength of these patents, and the fairness of litigating them against infringing competitors such as Barnes and Noble which, at the time of our litigation, had vowed to crush our business; had not invested in developing novel online purchasing technologies; and, in many instances, appeared to be copying features from Amazon's website.

Nonetheless, we soon recognized another side of the story: the potential for litigation excesses by patent owners. This recognition came in part because, early in the year 2000, we became associated in the press with litigation abuses, and were criticized by some of our customers. Rather than rejecting or simply ignoring this criticism, we did some soul-searching and, in March 2000, made proposals to Congress which, if they had been adopted, would have restricted our rights as a patent plaintiff.

In one proposal, we suggested that the term of business method and software patents be dramatically shortened to something on the order of three to five years. To our way of thinking, the businesses to which such patents apply change so rapidly that inventors could get enough benefit from a few years of protection without stifling innovation over the longer term. In another proposal, we suggested that some pre-grant opposition process should be instituted in order to help the patent office discover (with the help of third parties) any prior art. This, of course, was one way to engender more confidence in the patent system that appropriately grants protection to some inventions that may seem obvious in hindsight.

These proposals, we thought, would help future patent litigation defendants by insulating them from infringement suits long after an invention was novel and by increasing, in some fashion, the "quality" of patents, thereby reducing defendants' need to do the hard work of invalidating faulty patents. At the same time, we strongly supported this Committee's efforts to allow the U.S. PTO to retain and spend all the funds it collected in patent filing fees. More numerous and better-compensated patent examiners, we knew, would both improve confidence in the system and reduce patent examination delays.

By now, of course, we recognize that a dramatic change to something as fundamental as patent term, especially so soon after the 20-year post filing term was adopted to harmonize with the international norm, would be highly unlikely and probably unwise. And although a short, pre-grant opposition period may still be better than the current circumstance for applications for U.S.-only protection, a post-grant opposition period, such as proposed in H.R. 2795, as well as in H.R. 5096, would be better yet. And, of course, Mr. Chairman, we are very grateful for your and your Subcommittee's leadership in changing the funding mechanism for the U.S. PTO. We believe that, fully funded, the PTO now is much better situated to examine patent applications in a timely manner and issue patents only to novel inventions.

Our patent litigation experience over the past six years has reinforced our belief in the need to rebalance the current system between patent owners and others who practice patents. Several separate matters, in which Amazon was accused of infringement by Pinpoint Incorporated, IPXL Holdings, and Soverain Software, illustrate this experience.

In the Pinpoint case, we were sued for over $60 million in damages on the allegation that our customer personalization techniques infringed a patent covering cable TV movie systems. In the IPXL case, we were sued for tens of millions of dollars with the plaintiff alleging that our 1-Click® ordering service infringed a patent covering a bank ATM interface. And last year, for $40 million, we settled with Soverain, owner of a host of broad ecommerce patents, nearly two dozen of which reportedly were purchased for less than a million dollars. Soverain had alleged that a few of these patents read on our use of the virtual "shopping cart" and other features on our website.

In each case, we were forced to pursue our litigation strategy under the cloud of automatic injunction for successful claimants that, before last month's decision in MercExchange, gave plaintiffs the plausible threat of closing down a significant part of our business if we did not come to terms, regardless of the equities of an injunction under the traditional balancing test. Although we are satisfied that the MercExchange decision has removed the threat of automatic injunction, we strongly believe that other problems with patent litigation that we have confronted should be addressed in reform legislation.

Besides the threat of automatic injunction, we encountered in our litigation experience two essential problems with patent law. These are the two problems we propose this morning to solve with legislation.

First, we had little or no way of knowing in advance the relevance of the patents at issue. Both the Pinpoint and IPXL actions involved business method patents on intangible products in fields distant from Amazon.com's core business and, thus, made the plaintiff's claims to relevant intellectual property all but impossible for us to discover or anticipate. And, likewise, in the Soverain cases, the widespread availability of online shopping carts, and commonly used underlying technologies, including so-called "session IDs," made the patents at issue appear highly unlikely to be validated or enforced.

Second, in none of these cases did plaintiffs substantially practice the patents at issue, yet in all of these cases the damages sought reflected plaintiffs' belief that they were entitled to compensation beyond reasonable royalties as if they had made the investments and taken the risks incident to practicing the patents, and as if Amazon had taken business from them.

Based on this experience, Amazon now respectfully offers two patent litigation reform proposals, each with respect to damages. Although these proposals are focused only on damages, we believe they would go a long way to rebalancing the currently imbalanced patent litigation system.

Please note, of course, that we also generally support other proposals for patent reform already included in bills before Congress. For example, we support the damage apportionment language in H.R. 2795. Where the value of the defendant's product is a combination, the damage award should reflect the incremental value attributable to the patented invention. And, as already indicated, we support enactment of some sort of post-grant opposition procedure, which is addressed in H.R. 2795 as introduced, as well as in H.R. 5096. Lastly, we generally support other proposals advocated by the Coalition for Patent Fairness, which seeks various legislative reforms.

Mr. Chairman, we respectfully request that Amazon's two proposals, which I will now describe, be considered in addition to these other proposals.

In Amazon's first proposal, we ask that Congress allow successful claimants with method patents to obtain damages only back to the point that the defendant had actual notice or knowledge of alleged infringement and, as under current law, in no case back more than six years before the complaint was filed. This would rebalance today's system wherein a defendant can be liable for infringement damages with but little or no reliable way of knowing in advance the relevance of the patents at issue.

Under law today, plaintiffs with method patents need not put defendants on any sort of notice in order to obtain damages for infringement over the previous six years. In contrast, the law requires the owner of an apparatus patent to mark all products covered by the patent to be able to collect damages for infringement prior to time the infringer received actual notice of the patent. If an apparatus patent owner marks its products, then the law permits the patent owner to collect damages going back six years from the filing of the infringement lawsuit. This approach is entirely reasonable for apparatus patents. If a company without knowledge of a particular patent decides to make a product covered by the patent, it will, in the course of its standard market research, discover the patent owner's or a licensee's product, and a simple inspection of that product will reveal the existence of the patent. Marking enables others to study the patent and either seek a license from the patent owner or develop products in a manner that does not infringe the patent. Thus, the marking requirement provides meaningful constructive notice for apparatus patents, at least where the patent owner or licensee is practicing the patent.

With a method patent, however, current law entitles a successful plaintiff to collect statutory damages for infringement going back as far as six years without any obligation to put the world on notice of its patent and, as Amazon has found, with the defendant often having no reasonable way of knowing that it is infringing. If a company develops a system that practices a patented method, market research will not likely reveal the existence of the patent because marking is not required or, in many cases, even possible. And, in addition to being expensive, infringement searches are far from reliable: infringement analyses must be performed on a claim-by-claim basis and each patent can have dozens or even hundreds of claims, and finding the relevant claims in the relevant patents is almost a matter of luck.

Under this system, a company like Amazon has no realistic, reliable way of discovering a relevant patent or potential infringement until the patent owner decides to tell us about it. Patent owners know this difficulty, of course, and thus they can intentionally wait until an infringing company has accrued six years worth of damages before bringing the patent to the attention of that company. Patent owners also can wait to see which companies succeed, then sue only those that do. And because the infringer did not even know about the patent, it had no reason to try to mitigate damages.

For the same reasons that constructive or actual notice is required of the owner of an apparatus patent who practices the patented invention, fairness requires notice with regard to method patents. Therefore, for method patents, where constructive notice is not workable, Amazon proposes that the law be rebalanced to require actual knowledge of the patent by an infringer before damages can accrue. The actual knowledge requirement should include the receipt by the infringer of actual notice from the patent owner, or knowledge obtained by the infringer independent of the patent owner. Only by requiring actual knowledge of the patent by the infringer before damages can accrue will companies that respect the intellectual property

rights of others be able to avoid being unfairly blind-sided with costly infringement claims.

In Amazon's second proposal, we ask that Congress clarify that when courts analyze whether a plaintiff should be entitled to an award of lost profits as a matter of law, a plaintiff should be entitled to such an award only if, and for the time that, the defendant's infringing product competes with a product that the plaintiff makes or sells. That is, we ask that damages be limited to a reasonable royalty where the patent owner does not substantially practice the patent. A plaintiff who does not make or sell a product (patented or otherwise) that competes with the defendant's infringing product should not be entitled to seek lost profits as a matter of law. Our proposal would address the problem of plaintiffs not substantially practicing the patents, yet seeking infringement damages as if they had made the investments and taken the risks incident to practicing the patents, and as if their sales had been hurt as a result of the infringement.

The rationale for this clarification is straightforward. An award of lost profits presupposes that the plaintiff would otherwise be collecting profits on some sales but for the infringement of the defendant. But it is at least arguable, under current law, that a plaintiff who has not invested the time and effort, or risked the resources, to develop a product, nonetheless may be able to obtain damages beyond a reasonable royalty.

Although the general rule is that if a plaintiff is not in the marketplace, it is entitled only to a reasonable royalty, some courts still occasionally allow a plaintiff that does not practice the patent nonetheless to argue to a jury that it is entitled to obtain lost profits. These outlier decisions create needless uncertainty and impede or artificially inflate the cost of settlements. Therefore, Amazon asks that, without disturbing the other factors that bear on a patent owner's entitlement to lost profits, Congress clarify that patent owners that are not genuinely in the marketplace competing with the defendant are not entitled to lost profits but, instead, to a reasonable royalty.

In conclusion, Mr. Chairman, by virtue of our experience with patent litigation, Amazon.com believes that reform is essential and we are very grateful for your leadership in this area. With the MercExchange case decided, we hope that meaningful patent reform can be enacted soon. To the list of several excellent proposals already on the table, we would like to add the two suggestions I have described this morning to address specific shortcomings in the patent litigation system that we have encountered.

Thank you again, Mr. Chairman. I look forward to your questions.

Mr. SMITH. Mr. Fish.

TESTIMONY OF CHUCK FISH, VICE PRESIDENT AND CHIEF PATENT COUNSEL, TIME WARNER, INC.

Mr. FISH. Thank you, Mr. Chairman, Ranking Member Berman, Members of the Committee for being able to talk to you today about the real issue of patent trolls. I think there is consensus on the table that it is hard to define the problem and also that it is really the behaviors that we ought to focus on and the impact of those behaviors.

But to address the opening statement of the Chairman, Mr. Chairman, I think when—if you ask the question what is the degree of prevalence of patent troll behavior, you assume that there is an empirical answer, and it is difficult to give you an empirical answer unless one can come up with an agreed definition, which I think most people would agree is hard to do. I'll give you, hopefully, some ideas about a negative definition what isn't a patent troll, but I would suggest respectfully, sir, that this really isn't a question that we are going to be able to answer empirically, although there are facts and factoids that are perhaps helpful.

To address Mr. Berman's comment about litigation that thrives on low-quality patents, we think you are exactly right, sir, and that that is a major part of the problem that we see.

We would add that the litigation thrives because it exists in an environment that provides incentives for just the sort of behavior that turns the patent system on its head. That we think is what the several proposals look to change, and we applaud the Committee for its work on those activities.

As Members of the Committee know, Time Warner is a company whose lifeblood is intellectual property. We believe that all forms of intellectual property rights are very important to this country. In fact, we would agree with the Founders that property rights are basic to a society where there are ordered liberties. It is important in today's context that we talk about how important the patent right is, because patent rights are also important and it's important that they are national rights. It's just as important today as it was when James Madison wrote in Federalist 43 that it could only be a national right that would protect this, that States couldn't take care of the problem.

In fact, there is an interesting paper that I would recommend to the Committee and others who are interested in the history. Professor Adam Mossoff from Michigan State University Law School recently wrote an interesting paper examining the patent privilege. He uses the term "privilege" in the 18th century sense of a civil right which protects a property right and tries to develop the notion of how have we treated patents in our history. You know, not merely in the way that the Supreme Court talked about it in *John Deere*, this notion of a bargain, but actually as a fundamental property right that's secured by civil rights through the statute.

So Time Warner agrees these are very important property rights and that the property rights shouldn't be diminished. The issue, though, is how are the property rights enforced and how does the system work and is it balanced; and we submit respectfully that it's not. In fact, in our view, there is every indication that, whatever it is we call the people who are responsible for the trend, there is a harmful trend that exists toward speculation and litigation based on patents and away from product innovation that is supported by strong intellectual property rights.

Here's where I'll give you my negative definition. I think if you can find an entity that actually creates technology that is—that invents products rather than inventing patents, if you can find an entity that actually creates prototypes of its products and tries to sell those, if you can find an entity that employs engineers and scientists as an engineer and a scientist rather than as a legal assistant who combs through patents looking for claims against others, you are looking at someone who is not a patent troll.

Also, I'll submit to you that some—this is one of the reasons to call people like Mr. Kamen a patent troll, if in fact anybody ever did. It just doesn't make sense.

So starting with the basis that intellectual property rights are important, the thing that we have seen the Committee focusing on and what we applaud the Committee for focusing on is the way that the patent system operates today. We believe there has been an undeniable increase in patent litigation and in patent assertions, many of them brought by former tort lawyers who have found patent litigation more interesting than other previous forms of litigation.

In the brief period that's left, I would like to say thank you to the Committee for your focus on the important issues that exist. We recognize that the Supreme Court has helped us with patent reform, not only in the eBay case but potentially in this *KSR v. Teleflex* case, as well as in the Microsoft case on worldwide damages.

We think, though, that it is important for the Committee to examine the way the system operates; and I am very glad to be here to help you.

Mr. SMITH. Thank you, Mr. Fish.

[The prepared statement of Mr. Fish follows:]

PREPARED STATEMENT OF CHUCK FISH

TESTIMONY OF CHUCK FISH
VICE PRESIDENT & CHIEF PATENT COUNSEL
TIME WARNER.

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON INTELLECTUAL PROPERTY

PATENT TROLLS: FACT OR FICTION?

June 15, 2006

I. Introduction and Summary

Chairman Smith, Representative Berman, and Members of the Subcommittee, it is an honor to appear before you today to discuss the issue of patent trolls. Thank you for your leadership and hard work in the important cause of ensuring our nation's patent laws continue to promote progress and innovation in the 21st century as in the past. My name is Chuck Fish, and I am Vice President and Chief Patent Counsel of Time Warner Inc.

With respect, we believe the subject of today's hearing should be somewhat different. In our view, it is neither productive to engage in name calling exercises such as branding certain patent owner plaintiffs as "trolls" nor enlightening to debate definitions of the term – rather we believe that a focus on behaviors and the consequences of those behaviors is essential. In our experience, the behaviors associated with patent litigation abuse are harming consumers and both small and large innovative companies. There is every indication that – whatever we call those responsible for the trend – the harmful trend towards patent speculation and litigation and away from product innovation supported by strong intellectual property rights will continue unless Congress reforms the patent system.

The patent system as it exists today touches Time Warner's businesses in many ways and works well in a variety of contexts. There are several areas, however, where improvements are sorely needed. Patent litigation is one of the most urgent and important. As a large and diverse media company, Time Warner has an enormous and unique interest in the maintenance of strong intellectual property protections in all contexts. Creators and innovators must have the fruits of their intellectual endeavors protected or this country will lose its edge in exporting valuable entertainment and technology products and services of the sort Time Warner (and of course others) provide.

A deep commitment to intellectual property protection and, in particular today, a strong and enforceable patent system, is wholly compatible with repairing that system to ensure it continues to function for the common good. As patent litigation and patent licensing by entities that do not innovate has grown dramatically, it is critical that the remedial aspects of the patent law and their judicial application strike the right balance. In my testimony today, I will describe why these problems are serious and create a strong need for reform.

II. Problems in Patent Litigation Today

Patent litigation in the technology areas Time Warner works in is an extremely costly, often unpredictable breed of federal litigation. It is the subject of massive awards and defensive settlements that often bear no relation to the real value of the patent in the marketplace. There has been a huge increase in cases, many of them brought by former tort lawyers who have found patent litigation more lucrative than traditional tort work. This phenomenon has been given a catchy label: the "PI to IP transition."[1]

Nationwide, the number of patent cases more than doubled between 1991 and 2001[2] and the number of cases in 2004 was more than 22% greater than the number in 2001.[3] In Marshall, Texas, where only seven patent cases were filed in 2003, ten patent cases were filed in the last two weeks of April 2006 alone, and more than 116 were filed in the last sixteen months.[4]

Simply looking at the raw numbers of patent suits filed misses the full story of the drain on the American economy. Patent litigation is extremely costly compared to other types of commercial litigation. Companies spent 32% more on outside counsel for intellectual property litigation in 2003 than in the previous year. Those same companies spent only one percent more for outside counsel on non-IP litigation.[5] Today, a typical patent litigation costs $4.5 million through trial.[6] This is over four times as expensive as a typical copyright case with similar exposure[7]. It seems reasonable to assume that patent cases are more expensive than other types of litigation, in part, because in many jurisdictions summary judgment is rarely granted, there are no interlocutory appeals of claim construction rulings (although parties have found agreed procedural routes to what are essentially interlocutory appeals), and trial courts appear to be

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1 Alan Cohen, *From PI to IP*, IP LAW & BUS., Nov. 2005, at 40.

2 William O. Kerr and Gauri Prakash-Canjels, *Patent Damages and Royalty Awards: The Convergence of Economics and Law*, LES NOUVELLES, June 2003, at 83.

3 *See* Table C-2A Cases Commenced, by Nature of Suit, 2000 Through 2004, Judicial Business of the United States Courts 2004 (2004), *available at* http://www.uscourts.gov/judbus2004/contents.html.

4 C. Lindell, *A Litigation Boom*, AUSTIN AMERICAN-STATESMAN, Apr. 16, 2006, at A10; PACER System for the United States District Court of the Eastern District of Texas *available at* https://ecf.txed.uscourts.gov/ (identifying ten cases filed between April 13 and April 30).

5 *Patent Law Reform: Injunctions and Damages*, 109th Cong. 2 (2005) (statement of J. Jeffrey Hawley, President, Intell. Prop. Owners Ass'n).

6 AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, *Report of the Economic Survey* I-110 (2005) (median cost for cases with more than $25 million at issue).

7 AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION," *Report of the Economic Survey* I-110 (2005) (when comparing median costs for cases with more than $25 million at issue).

reversed at a much higher rate in patent cases than in other commercial litigation -- often requiring a retrial of some aspect of the case.

A Significant Economic Impact from Abusive Litigation. The substantial increase in the economic impact of patent litigation might not be cause for concern if the litigation system were in balance and functioning properly – the cost could be explained as a byproduct of the increased value of intellectual property or some other factor. However, there is abundant evidence that the nature of patent litigation has changed fundamentally in recent years and that a very significant share of the increased cost stems from abusive claims. Of course, not every lawsuit filed by patent enforcement companies is abusive. We are not advocating that innovative patentees be denied relief that they deserve, rather we urge that the system be restored to balance in view of the reality of a new breed of middlemen patent speculators.

As Justice Kennedy explained in the *eBay v. MercExchange* decision, "[i]n cases now arising . . . the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. *An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees*".[8]

One popular strategy abusive patent enforcement companies employ is to demand substantial sums of money from an entire industry based on shared procedures mandated by regulations or technical standards. For example, Data Treasury has aggressively asserted its patents against the banking industry – claiming that its patents cover technology for various stages of the check archiving process, including image capturing, centralized processing and electronic storage of document and check information. Several financial institutions have entered into very large settlements instead of running the risk with litigation.[9] Other plaintiffs that pursue this route often assert that their patents cover a technical interoperability standard. Typically, the purported infringement claims are not raised in the standard-setting process and instead are asserted only ***after*** the standard has been adopted.[10] By the time the purported infringement is discovered, it may be prohibitively expensive to adopt and implement a new standard to avoid the patent.

The economic impact of abusive patent cases is by no means limited to lawsuits that are filed, which are only the tip of the iceberg. For example, it is routine for these patent enforcement companies to send demand letters simultaneously to many companies. Indeed, one

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[8] eBay, Inc. v. MercExchange, L.L.C., 547 U.S. ___, 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring) (emphasis added).

[9] *See* Erik E. Larson, *DataTreasury Launches Fresh E-Banking Assault*, I.P. LAW 360, February 28, 2006, http://iplb.portfoliomedia.com/Secure/ViewArticle.aspx?id=5500; *see also* Glen Fest, *Patently Unaware*, BANK TECH. NEWS, April 2006, http://www.banktechnews.com/article.html?id=20060403T76I25I8.

[10] *See, e.g.*, Rambus v. Infineon, AG, 318 F.3d 1081,1085-86 (Fed. Cir. 2003) (involving infringement claim by patent owner who had been a member of a standard-setting organization for the computer memory industry); InterDigital Tech. Corp. v. OKI Am., Inc., 845 F. Supp. 276, 281 (E.D. Pa. 1994) (involving claim by patent holder that multiple manufacturers infringed patents by complying with wireless telecommunications standards). Ultimately, there was no finding of patent infringement in these cases.

plaintiff reportedly sent such letters to ***75,000*** companies.[11] The theory seems to be that at least some recipients will agree to pay license fees to avoid the costs and uncertainties of the current patent litigation system – especially after seeing how companies in similar situations have fared – and their contributions will fund actions against those who have refused to pay tribute.

The economic burden of abusive litigation deters innovation and harms our entire economy. The costs associated with abusive litigation sap resources that would otherwise be available for research and innovation. Every dollar spent defending against abusive patent suits is a dollar that could be spent more productively on research and development. Moreover, the risk of patent litigation is a major consideration in deciding whether to engage in research and development. Aware that they cannot afford the time and expense of patent litigation, many smaller companies reduce or alter their research and development efforts.[12] The research and development decisions of larger companies are affected as well. To avoid abusive patent litigation, some larger companies often seek defensive patents that they would not otherwise prosecute, thereby reducing the funds available for additional research and development.[13] They also forego pursuing smaller innovations because it is safer to use old components and processes that are clearly in the public domain or for which they already own the patents. These consequences effectively turn the patent system on its head, undermining its goal of promoting innovation. Unproductive patent expenditures imposed on large and small companies throughout the economy function as an innovation tax that afflicts some of America's most important and creative firms and their customers.

III. Important Features of Patent Litigation Reform We Hope That the Subcommittee Will Support

We have been following the various proposals to revise the patent system that have been circulating in Congress with great interest and continue to evaluate new ideas to improve the patent system. Like many others, we believe that there are several issues that need to be addressed in order to improve the functioning of the patent system.

Require Meaningful Proof Before Awarding Increased Damages in Patent Suits. We are pleased that there is quite broad agreement across the patent community that the current willfulness doctrine needs to be reformed. Under current law, a finding of willfulness entitles the patent plaintiff to multiply its damages up to treble damages. Willfulness has a very different meaning in patent law than in traditional tort law. It is almost always alleged, and increased damages are routinely awarded in patent cases. In contrast, in other litigation, increased damages are awarded only where parties have clearly acted reprehensibly or egregiously.

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[11] " The company E-Data, sent letters to 75,000 companies informing them that they were infringing an E--Data patent and asking them to pay royalties between $5,000 and $50,000. The company owns a patent which allegedly covers financial transactions on the Internet. Several high-profile companies agreed to license the patent but most refused. E-Data sued forty-one of the companies for patent infringement." Meurer, "Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation," 44 B.U.L. Rev. 509, 517 (2003).

[12] ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT 15 (2004).

[13] *Id.* At 58.

To fend off possible willfulness allegations, companies must go to the expense of hiring patent counsel to produce exculpatory opinion letters for potentially hundreds or thousands of patents where a mere license is offered. As courts have noted, such letters are only useful when they are wrong – after a defendant has been found to infringe – despite the letter's stated belief that there was no infringement. Because willfulness accusations arise in almost every patent case, there is great uncertainty as to the ultimate outcome. Allegations of willful infringement lead to substantial increases in discovery and trial costs, because they are difficult to dismiss at the summary judgment stage, and appear to produce very little benefit to the system.

Moreover, as the FTC noted in its 2003 report, To Promote Innovation, the overbreadth of the willfulness standard in current law introduces unnecessary uncertainty, raises risks, and reduces efficiency because it discourages companies from reading others' patents and from planning non-infringing business models.[14]

We support all proposals that bring patent law into compliance with other litigation standards so that the purpose behind increased damages, to punish those who have acted with disregard for the law, is actually the predicate for willfulness damages being alleged and imposed.

Conform Patent Damages Rules to the Reality of Multiple Patents Covering Products. Current law requires that patentees who succeed in litigation receive damages fully adequate to compensate for the infringement. We support this standard for all owners of intellectual property, but note that in the patent area the elements of damages have been expanded by the courts far beyond the patented contribution to the public. Especially in the areas of complex computer and communication systems, there can be many hundreds of patents covering a product or service.

For example, there are more than 400 patents that are essential to produce a DVD and hundreds of patents are typically related to a computer operating system on a PC. Yet the patent law remains mired in a nineteenth century paradigm of essentially "one patent, one product." As a result, the courts have been required to create and modify complicated, patent specific damage rules to give effect to the statutory purpose and underlying policy, e.g. *Rite-Hite*[15] and its progeny. Thus, in litigation and negotiation, legitimate patentees, as well as those who would twist the patent litigation system for private advantage despite potential harm to the public, routinely urge that the measure of their damages must encompass any remotely relevant revenue of the defendant.

As members of the subcommittee know, there has been much discussion of patent damages rules in the last year and a half as you have tried to craft balanced and prudent reform. One important principle (universally supported in the patent community) is that whatever damages rules exist should be of general applicability. So, for example, if it is the rare patent which is more than an incremental improvement to a product covered by many patents, then the general rule (the starting point) should not be to treat all patents as if they were fundamental,

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[14] FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY Ch. 5 at 28-32 (Oct. 2003).

[15] Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538 (Fed. Cir. 1995).

pioneering advances. Rather, the exceptional patent should be treated as an exception to the general damages rule.

Time Warner supports reforming patent damages law by explicitly directing the courts to begin their damages analysis by focusing on the incremental value attributable to the difference between the patented invention and the prior art. This approach, we believe, will simplify litigation, reduce costs and allow for fair damages awards. We appreciate the Subcommittee's inclusion of apportionment language in H.R. 2795. However, we believe the key issue to focus on is the situation where the accused product or service involves a complicated system incorporating many public domain and patented contributions. In cases like this, full compensation to the patentee should not usually involve apportioning value unrelated to her invention.

Progress on the Patent Injunction Imbalance. We are pleased that in *eBay v. MercExchange*, the Supreme Court restored the law governing issuance of injunctions in patent cases to reflect the plain language of the Patent Act and traditional equity jurisprudence.

We believe that injunctions are an important and essential part of the patent system, and that only parties who can show actual, irreparable harm should be able to receive an injunction following a finding of patent infringement. We also expect that patent holders will be able to establish irreparable harm easily in many situations.

The holding of *MercExchange* plainly commits to the discretion of the district court the decision of whether to issue an injunction. However, it would be a tragic irony if this holding led to further forum shopping. For this reason, as several leading newspapers have concluded in recent editorials, the *MercExchange* decision makes meaningful venue reform more important.[16]

Venue Reform to Stop Forum Shopping. An aggressive patent plaintiff can sue almost anywhere in the U.S. Although the number of patent cases proceeding to a full trial remains low (on the order of 5 %),[17] the number of cases being filed in certain *fora* continues to rise because of the odds of winning in those courts. It seems reasonable to assume that people are filing in certain jurisdictions because they are perceived to be pro-plaintiff. Not surprisingly, the number of cases filed in the Eastern District of Texas, a current hot spot for patent litigation, has skyrocketed --it is now among the top three patent lawsuit filing districts.[18]

This sort of blatant forum-shopping cries out for venue reform, and we are pleased that the Subcommittee is considering including venue reform in H.R. 2795. Venue provisions can be

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[16] "America has taken a first step toward leveling the playing field in patent litigation. There is no excuse to stop now." *Patents improvement Ebay ruling is just a first step in a much-needed US Reform*, FINANCIAL TIMES (London), May 23, 2006, at 14; "Now that the Supreme Court has started fixing the patent morass, lawmakers need to finish the job." *The eBay Effect*, LOS ANGELES TIMES, May 17, 2006, at B12; The Court's *eBay* decision is "progress," but "isn't going to fix all that ails our patent system." *A Winning Bid for eBay*, WALL ST. J., May 16, 2006, at A14.

[17] Jay P. Kesan & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes* (U. Ill. Law & Econ. Res. Paper No. LE05-027), *available at* http://ssrn.com/abstract=808347.

[18] *Texas Challenges California as IP Litigation Hotbed*, IP LAW BULLETIN, Oct. 21, 2005, *available at* http://ip.law360.com/Secure/ViewArticle.aspx?id=4329.

tricky, and crafting balanced reform which does not produce too many unintended consequences will take careful attention. We are mindful that plaintiffs whose only business is to license and litigate on patent portfolios may choose to incorporate in places like Marshall, Texas to manufacture venue, and hope that any venue provision prevents this and similar gamesmanship and focuses on a real and substantial relationship between permissible fora and the defendant's activities.

Improve Patent Trial Procedures. Due to forum shopping, the intensive demands on judicial resources caused by patent cases, and the flood of patent cases into certain districts, Time Warner agrees with the idea of creating specialized procedures for handling patent litigation (especially at the pre-trial stages) and for increasing the expertise of decision makers in patent cases. We very much appreciate Representative Issa's work on this issue. We are also happy to agree with many, including Mr. Myhrvold,[19] who believe that specialized patent trial courts are an idea worthy of serious consideration. We hope to assist in bringing these ideas to fruition.

Level the Playing Field for Patent Litigants on Validity Issues. Currently, issued patents receive a strong presumption of validity. To invalidate a patent, a defendant must prove by "clear and convincing" evidence that the patent should have never been issued. In practice, this means that a defendant must prove that it is absolutely clear that the issuance of the patent was a mistake, even where prior art is asserted that the Examiner was not aware of and did not review. This standard is impractical and unfair when imposed on patents issued under the current patent system. Although the PTO has made great strides with the extremely limited resources it has been given, the task is an onerous one, and most recent reports still recognize the need for further resources and time for the PTO to address inadequate quality of examination and the resulting poor quality of issued patents. Due to the tremendous workload before the PTO, it is often the case that patents do not deserve a strong presumption of validity.

Given the inefficiency inherent in the increasing numbers of expensive validity contests over increasingly weak patents (especially in the software and business method areas), it is important to level the playing field now. We thus propose that, to invalidate a patent, a party relying on prior art not considered by the PTO must prove by "a preponderance of the evidence" that the patent is invalid — in other words a 51% probability that the patent should have never been issued. This is fair, especially considering that when a patent is in litigation, thousands of hours and millions of dollars may be spent on examining whether it should have been issued. This intense scrutiny should be given at least the same amount of weight as the effort of the PTO to issue a valid patent, especially in light of the fact that on average an examiner is typically given less than 30 hours to decide whether to issue a patent, and very often does not have the best prior art before him or her.

Require the "Loser Pays Rule" for Patent Infringement Suits. Patent litigation is extremely expensive, involving high expert witness fees, attorneys' fees and extensive discovery. However, the cost of such litigation often falls disproportionately on defendants. Even when they win on summary judgment, at the conclusion of discovery defendants will usually pay over three

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[19] *Perspectives on Patents: Post-Grant Review Procedure and Other Litigation Reforms*, 109th Cong. (2006) (statement of Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures).

million dollars in fees to prove that a single patent is invalid.[20] Currently, even with (rarely imposed) Rule 11 sanctions, there is a gap in disincentives to deter a patent owner that wishes to launch a nuisance patent infringement lawsuit because the risks of an injunction, increased damages for willfulness, and a statutory entitlement to six years of damages place the risk of litigating overwhelmingly on the defendant. Even when the patent owner is not justified in his actions, defendants are stuck with the tremendous cost of defending the lawsuit. As patent litigation is almost entirely contested between commercial entities (increasingly commercial entities that exist solely for the purpose of threatening or pursuing patent litigation), we believe there is no justification for continuing a system where the risks are skewed so heavily in favor of plaintiffs. Some type of fee shifting mechanism in the case of plaintiffs' actions that are objectively unreasonable or vexatious would go a long way to ensuring that litigation is a last recourse, rather than a first option, as occurs all too frequently today.

We believe that adoption of our recommendation would provide a stimulus to decrease the incidence of patent litigation, and increase negotiated (and hopefully therefore more efficient) resolution of patent disputes.

Other Proposed Reforms. Other reforms to the patent litigation system, including ending the possibility of world wide damages under Section 271(f) of the Patent Law, providing for interlocutory appeals of claim construction rulings (because they are reversed so frequently and require retrial of cases), and requiring rulings on claim construction within a reasonable period after the start of discovery and before trial (to reduce costs of litigation and provide more information to the parties to encourage settlement) would also be valuable improvements.

Overall, we believe that the goal should be to return patent litigation to the mainstream of business litigation and restore traditional balance to patent-specific rules, while respecting the important role that the patent system plays in our economy and the rights of patent owners. We also believe that patent litigation reform can have a near term impact in alleviating patent quality problems while the resources and processes in the PTO are being upgraded to address the challenges of the 21st century.

IV. Conclusion.

In conclusion, patent litigation imbalances present an imminent and urgent threat. In order to improve the entire patent system for the long term good of the nation we believe the following issues also need to be addressed:

- First, the PTO needs to be adequately and consistently funded. Many criticisms are unfairly directed against the PTO. In the recent past, the PTO has been given an enormous task but highly inadequate funding to do its job. We appreciate the work done to make sure the PTO has the resources it needs in this fiscal year, and urge that adequate funding continue so that the laudable programs of Under Secretary of Commerce for Intellectual Property and Director of the PTO Dudas and the professionals at the PTO can bear fruit.

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[20] AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, *Report of the Economic Survey* I-110-(2005).

- Second, to insure the long term viability of the patent system and the continuation of the benefits it has historically brought to our nation, patent quality needs to be addressed. In this area, improvements we support include limits on abuse of continuation practice, meaningful post grant opposition procedures, publication of all patent applications, and improved ability of the public to submit prior art during prosecution. We recognize that many who support improving the quality of issued patents have concerns about some of the proposals in this area, and agree with them that it is important to retain both substantive and procedural fairness for patentees while fixing the problems.

Thank you for the opportunity to testify. We greatly appreciate the Subcommittee's work on this important issue and believe the proposals I've described are important reforms that would make the U.S. patent system much fairer and more reasonable for all parties. In providing this testimony, we hope to stimulate a discussion regarding the best way to reform problems in patent law, including patent litigation. We know that much remains to be done to turn these recommendations into proper legislative proposals, and would be delighted to work with this Subcommittee to help in any way we can.

Mr. SMITH. Mr. Reines, let me add just address my first comments to you and next to Mr. Kamen.

First of all, thank you for your testimony. I find it very helpful, and I appreciated your efforts to define troll. I would like to say at the outset that I think the definition is oftentimes too broad and certainly would not be applied to Mr. Kamen by any definition that I would agree with; and I think we are going to make some progress today in coming up with a definition, because I think we're in general agreement with what a "troll" is or is not, as Mr. Fish just mentioned.

I also like your six potential areas of reform. You didn't get to go into them in too great extent during your testimony, but maybe we could explore a couple of those in a minute.

But, initially, I wanted to read your complete definition of a patent troll and ask the other witnesses if they agreed or disagreed with your testify; and then we'll come back with a couple of questions.

You said, such an indicated patent troll has no significant assets except patents, produces no products, has attorneys as its most important employees and acquires patents but does not invent technology itself.

Is there anybody who would disagree with that definition, or is that a fairly applicable, valid, narrow definition?

Fairly good. All right. You are looking quizzical, Mr. Kamen.

Mr. KAMEN. I don't know whether in order to fit you need to have any or all of those characteristics. There are four of them I guess I have. I do create the intellectual property.

Mr. SMITH. I don't think any of these would apply to you, if that's what you are worried about, and I think that's why it is a workable definition.

And, Mr. Reines, do you want to highlight any of those six particular areas as needing more attention than others?

Mr. REINES. I think I would like to highlight two. One is the damages law.

Mr. SMITH. Right.

Mr. REINES. The complexity of technology now is different than technology when patent law first developed, and I think we need to look at ways to ensure that for the portion of damages for the contributions. We deal with cases where there are thousands, millions of features of a product and people are seeking large royalties.

Mr. SMITH. I think Mr. Misener had the same recommendation as his first proposal. So that's a common element here.

Mr. REINES. And the second thing I guess I would highlight is the area of willfulness. The threat of treble damages, as you can just imagine, is so significant. And let me just explain a little bit about it, because I think it is important to appreciate the practicalities of it.

Basically, if you are informed of a patent and you're told you are infringing or someone thinks you infringe, there is an argument you have a burden to go get a legal opinion from an independent lawyer, and that alone can be $50,000 and up. What happens often is someone will either find not 1 patent but 15 patents or 20 patents, and you don't know which one's the real one at the end of the day is going to be in dispute. But yet a prudent person might go

and get 15 or 20 opinions for $50,000 each, and that's just not the right way to run a railroad. It creates undue leverage.

I think some of the proposals that the Committee has come up with on that are good ways to get at that to make the standard of reality notice the one that, if someone is going to threaten you with at any time, you have the ability to take them to court to clear the air and you are forced to such a high standard that you have an opportunity to set—clear the air and sue them to be free from their allegation.

Mr. SMITH. Good suggestion. I'll ask the others about those in a minute.

One question I had for you had to do with something in your testimony. You stated that even when some patents are properly issued that they can still be abused through litigation. How is that? Why aren't people just asserting their legitimate rights if the patent has been issued correctly?

Mr. REINES. I hope to cover a series of examples, but one is the willfulness example. Just because you're arguably infringing about the patent doesn't meant that you were willfully doing it without disregard to someone's rights.

Mr. SMITH. Okay. Thank you.

Mr. Kamen, I thought you gave a good definition of a troll, and I was going to ask the other witnesses if they agreed or disagreed with your definition, and you actually came up with two definitions of bad actors. One was those who inappropriately assert questionable patents, which is what I would use to define trolls. The other one was bad actors who deliberately infringed on legitimate patent rights of others. We are really not talking about that quite so much.

Does anyone have any disagreement with the definition of accuracy to inappropriately assert questionable patents as being a patent troll. Mr. Fish?

Mr. FISH. Yes, sir. I have a quibbling disagreement, but I am a patent lawyer, so I hope you'll forgive me.

The problem with the definition is that it doesn't teach us anything. That is to put a term like "inappropriately assert" it doesn't distinguish between patentees who believe that they are being appropriate or something else. So I don't think—I think it's descriptively true, but I don't think it is prescriptively true.

Mr. SMITH. Unfortunately, you are going to confirm everything Mr. Kamen thinks about lawyers by quibbling with this definition. But, nonetheless, it is a valid point.

Mr. Kamen, one last question for you. I'll come back on a second round, and I'll have questions for the other witnesses. Do you feel—with regard to injunctions, do you feel they should be granted automatically, or do you agree with the eBay case and its finding?

Mr. KAMEN. Well, the word "automatic" is a very severe term, but——

Mr. SMITH. But a lot of people think that's the system we have been operating under for a number of years.

Mr. KAMEN. I am not a lawyer, but I know in contracts there is one standard; and having a deed to property, for instance, I think is a different standard.

I could disagree with a person about some contract, and you can go settle that somewhere. But the certainty when I get a deed for the property from my house says to me I own this thing, the certainty when I buy a U.S. Government bond that it says will pay the borrower—it doesn't say sometimes. And I don't think the certainty of the different Government documents—not the deed, maybe not the bond but the patent—has that same kind of certainty. If it doesn't have that, I can't do business with a large company if they think, well, maybe I'll have it.

Mr. SMITH. So you do not quibble with automatic injunctions then.

Mr. KAMEN. I think if I have passed the first test of getting a patent and then went to court and both proved it was valid and it was infringed, those were three major opportunities for somebody to take issue.

Mr. SMITH. Okay. Good. Thank you, Mr. Kamen.

Mr. Berman is recognized for his questions.

Mr. BERMAN. Well, this discussion has taken me off where I wanted to question you and decide to focus on something else.

First of all, I am not sure where this notion of defining a patent troll came from. I don't think that's particularly going to be a rewarding effort in terms of patent reform.

The real issue is, are there changes in the system to make sure things that shouldn't have been patented but are being patented—making changes in that system so that the things that shouldn't have been patented aren't? And part of that is giving to people who do that work a chance to have a broader access to what is out there in the world. So to find out if something is novel gives some alternatives to litigation to people who think, wait, that was a big mistake.

So, yeah, you've got uncertainty, but before you get absolute certainty there is a period of time where somebody can come and say you shouldn't have been able to get the deed to that property.

What if there is somebody on the other side of that river that apparently runs through Manchester, New Hampshire, who doesn't have any engineers, who patents every monkey he kisses, who doesn't have a single engineer working for them and spends not a cent on development? All he does is spend his time sitting around and waiting to find out if there is somebody anywhere or anywhere in the country or in the world who is starting to manufacture and produce something that he can make enough of a case that it might infringe on his monkey, that somebody will pay him to go away. Is that an activity that is essential to innovation in America that should be rewarded and that the process should be accepted and legitimate?

Mr. Kamen.

Mr. KAMEN. No. I think everything you said I would violently agree with, and I would characterize it as saying let's solve the problem at its source. Let's make sure only real inventions—they are really novel. They will really not, obviously, get a patent. And I would be willing to live in a world where it's tougher for me to get patents if I knew that, in return for reaching a higher standard, I had the certainty that I presumed I've had in the past.

Another way to say it, I would agree with you if we should go after bad actors, whatever you call them—and, frankly, when bad actors game a system, and it happens in every system everywhere, I think the people it ends up hurting the most specifically isn't even the public. It is the good actors in that same system, because it puts them in question, in doubt, and it typically elicits a response which tries to fix it with a broad brush.

In this particular case, I think the people that really do invent, the people that really do what I think the process was made to do will be hurt if these bad actors are allowed to go. But all laws, unlike the physical law, physics, very precise, the laws that I see written by humans are always a balance of judgment. Let's make the speed limit 50, not 70, because it is a little safer, but you don't make it 20 because you always have to deal with the balance.

In this particular focus, everybody's focusing on one kind of bad actor, the troll, or whatever you call somebody who is abusing the system by exerting unrealistic, unreasonable, unfair influence. And I am sure you could, if you only look at that end of the bad-actor scale, fix it by being more Draconian. But there is equally bad potential at the other end, companies that knowingly, willfully violate things because they think it is too hard to go after them. It is too difficult to get—for the little guy to fight.

So while you might fix this if that's the only part of the thing we focus on, then, in the balance, what is going to happen if you make it relatively easy for somebody to say, I am not going to respect your property rights and if you want me off your property you have got a real problem. I think that will cause more people to tend to abuse the system on the other end. It will make the courts more full of more cases because companies will say, I have no reason to settle with you. You'll have to go through all of these things, all of these processes, and then, in the end, all you are going to get from me is what you would have gotten in the first place—some royalty.

I think we need to make sure we don't throw out the baby with the bath water.

Mr. BERMAN. I would think if you create a system which would allow large companies to do that with essential impunity, you'd be destroying the patent system so—and who's going to spend the time and the energy and inventiveness to go out and figure out that innovative solution if that's what they face? So I couldn't agree with you more.

My time has expired.

Mr. SMITH. Thank you, Mr. Berman.

The gentleman from California, Mr. Issa, is recognized for his questions.

Mr. ISSA. Thank you, Mr. Chairman.

I, too, share the frustration that a troll is whoever is coming after me sometimes. There are 50 percent of all lawyers I found are good. They work for me. All of my patents were pioneer. I doubt the authenticity or certainly the originality has been asserted against me. It is a lifetime phenomenon that, Dean, I know that someday you are going to run into me on the receiving end. You are not always going to be coming up with great innovations.

As a matter of fact, probably two generations of Segway from now, somebody anticipating where you are going will have patented some feature that they think you are going to want. And that is the challenge, that is the challenge of the patent system.

I can only say that this Committee is committed to, one, tightening up what it takes to get a patent; two, dealing beyond mark men with early discovery of what a patent actually means, what it is really limited to.

I have always said that, although I respect the right of an inventor to have 5,000 dependent claims if he wants and at a reasonable price—and I've had more than a few go-rounds with the PTO on their theory that you should be punitive if somebody has more claims—that the claims, whenever possible, should be penalized for having more words in them than necessary.

On that note, I want to do one thing, because I think this Committee should set a tone, and I would like each of your comments on it with the limitations of the Constitution. Just quickly, I'll remind everyone that the only guidance we have under a body of law that we cannot change, which is the Constitution, we cannot change alone, is that it says to promote the progress of science and useful arts by securing for limited times to authors, inventors, the exclusive right to the respective writings and discoveries.

We can take out the authors for a moment, but before we do that, it is interesting to note that exclusive is an absolute right in the copyright which falls from this. Yet we have mandatory licensing arrangements and we, on the dais, deal with that, with that exact problem with a former Member. Sonny Bono wrote, I've Got You Babe, but the radio stations got it without his permission under a theory of law that they're promoting his product and they didn't pay him for it. Fortunately, the record companies did; and so, on balance, he did okay.

But we have gone away from pure exclusive. When we talk about eliminating the injunctive relief or somehow further limiting it, I always am back to the question of don't we still have the obligation of exclusive that is here? So going back to the whole question of trolls, which is the subject for today, to the extent that somebody is called a troll, what do we do to limit—constitutionally limit what they can be awarded? Should this Committee provide a balance, evaluation to the judge and the jury that would allow them to somehow reduce the amount paid if somebody could be defined as a troll?

And before you answer, I might remind you that if a woman is raped, the first thing the plaintiff—the defendant does is describe her as promiscuous in order to somehow minimize the crime that was committed against her.

So with that terrible analogy, but I think necessary, what would you have us do if someone is shown to be a troll of a valid patent?

And I'll start with Mr. Kamen, because, obviously, you have described yourself as—misdescribed as a troll, and I agree that you were misdescribed by anyone who would say that.

Mr. KAMEN. Well, again, I don't envy people that have to live in the vagaries of laws of people, not the laws of physics. They're not precise. But my point was that, at least in my situation, the ability to give a company who I'm asking to uniquely and exclusively pay

for the development, manufacturing, distribution of a good idea, the only thing I can offer them in return is that I will exclusively give it to them, and I can only make that promise to them and deliver on it if I believe and they believe that my patent can do that.

So I think exclusivity is extremely important at one ends of this debate. At the other end, if it's abused, since it is a very powerful thing, it presents a problem. I think all rules created by man have that problem. I think you have a number of ways, however, to prevent that from happening. They exist today, and we should be very, very cautious about trying to focus on this one issue—and we can argue about how big this issue really is, or however big it is. If we only look at the issue of what a troll might do and snuff it out by some change, like you can't have exclusive right and injunctions, what will be the impact, the overwhelming impact, on a 200-year history of using patents to create the most innovative society on the planet.

Mr. ISSA. Thank you, Mr. Chairman.

If the others could answer briefly if they have a comment.

Mr. SMITH. Okay. Very briefly. We are going to have another round of questions. The gentleman's time has expired, but does any other witness have a brief answer to Mr. Issa's question?

Mr. MISENER. Mr. Issa, just very briefly. It seems to me that it would be very difficult to take that approach in litigation itself, because then the first step in litigation would be the defendant trying to define and prove to the court what the plaintiff is or is not. It would be better, in our view, to try to define and proscribe behaviors rather than trying to—instead of a system where we would be as a defendant in the position of having to prove what the plaintiff is.

Mr. SMITH. Mr. Fish.

Mr. FISH. Yes, sir. Very briefly, I think one other thing, Mr. Issa, if you look at the way that damages law is applied in patent cases, and you applied it fairly, it isn't about labeling the patent owner. And, in fact, I think rape shield laws have hopefully moved toward fixing that problem in other areas. It's about looking at the harm which comes to them, and components of that harm include what was the value of what they actually created? How were they hurt if they were a competitor or not? If those rules were generally applicable, you know, are there worldwide damages available when it only happened in the United States—if those rules were applicable, I think it could work, sir.

Mr. ISSA. Okay. Thank you.

Mr. SMITH. The gentlelady from California Ms. Lofgren is recognized for her questions.

Ms. LOFGREN. Thank you, Mr. Chairman.

And, Mr. Kamen, I think the last time I saw you you were in San Jose in front of about 500 screaming teenagers at the FIRST Robotics, so thank you very much for all that you've done for young people across the United States. I know many of the kids in San Jose who got so excited about science and technology through Robotics, and it's a wonderful contribution that you've made to our country and deserves more recognition than you've got.

As I've listened to the testimony and questions here today, it's interesting that—you know, we've really taken our time here, and

I think that's right. We're trying to sort through a very complicated subject so that we don't—first, do no harm, but also, we do recognize there are some abusive situations going on here, and we want to make sure that we have a positive impact on them. Luckily—it's like quantum physics; you can't observe it without changing it.

And so I think just the fact that we've had these hearings has had some positive impact. And luckily the Supreme Court has woken up a little bit. I don't know if that's because of our hearings—I wouldn't presume that we would have that impact on the Justices—but I do think that the eBay case is going to force the courts to look at the merits before issuing a temporary injunction is a positive thing. And I have suggested, too—all of the things that we've looked at really have been about process, they've been about remedies. They haven't been about the substantive law. And I actually made a suggestion—it wasn't me, actually, some academics made some suggestions about a year and a half ago that we take a look at the substantive law. There was no real interest in doing that in the patent community, so I dropped that. But I think the obviousness issue is part of the problem here. And the fact that the court is going to be taking a look at that may help us. And I'm perfectly satisfied to let the courts take that on since we are not going to, and perhaps for very good reasons.

The question in my mind is now that we have the eBay case, you know, we don't need to change everything in the remedies. What one or two other things might kind of set this on its right course? If you had to pick two other things that we would impact by way of either—assuming that we—you know, the Patent Office is doing its best. We're getting them more resources, they're implementing their plan, but the job that they face is just an overwhelming one, and I think that the Patent Office is filled full of people who are doing their best. But if we leave that office to one side, would it be willfulness, would it be postgrant review, would it be apportionment of damages? If you had to do just two things that might tinker the balance to right this course, what two things for each of you would it be?

Mr. FISH. I would say I think you're right, ma'am. Hopefully it would be good if the Supreme Court actually does take cert in the KSR case or an appropriate case. We don't have that yet.

I would say that following eBay, there are two issues—maybe two and a half. The first issue is that, as a result of eBay returning us to what the patent statute says and traditional equity jurisprudence, the role of the district courts is more important. So following eBay, venue becomes a very important issue. And we would applaud balanced, careful——

Ms. LOFGREN. To the venue issue.

Mr. FISH. The venue issue, yes, ma'am. Or perhaps dealing with it procedurally, as Mr. Issa and others have recommended.

The second one I would say is damages in general. And the subparts of that would be—if I'm allowed to sort of make more than two—willfulness first; apportionment second so that you don't assume that every patent is, in fact, a pioneering patent. You know, in fact, the discussion back and forth on that, it strikes me as very, very interesting. Because we're told that it's a bad thing to do to focus on the difference between the thing that was claimed and the

prior art, that that somehow messes up the system. It seems to me, though, if it's true what we're told by our opponents, that most patents are this sort of incremental approach, that they're just a little bit beyond that which is known, then shouldn't the general rule be that most patents don't go to the entire value of a product or a service, most patents are not pioneering?

Ms. LOFGREN. So if there is a lot of prior art, it would actually have an impact in a way on the damages; if there is none, it's breakthrough.

Mr. FISH. Yes, ma'am. I think that if we started at the general rule that in general you don't get to claim the whole product or the whole service, rather you have to show an entitlement to that, that would be good. So my two would be venue and the fixing of damages.

Mr. MISENER. Thanks, Ms. Lofgren.

We would also agree that fixing the damages circumstance in today's law would be the principal way to rebalance the system. You know, you have the inventor of the Segway on this panel, so he knows more about rebalancing than I. Thank you. But it is the case, though, that we have come across these circumstances in our litigation where there are things that are just inflated and not realistic.

It is a fiction, for example, for us to have—for there to be a marking of a method patent. So a lot of times we've just simply been surprised; it wasn't like we were trying to do anything wrong or infringe, we just were surprised by even the relevance of the patent.

The other fiction that's out there is that many of the plaintiffs we've come up against have sought lost profits when we are not in competition with them in any form. They're not either practicing, or we're in a completely different business.

And so if those two aspects of damages were rebalanced, we would see those would be the most important reforms.

Mr. SMITH. Thank you, Ms. Lofgren.

The gentleman from California Mr. Schiff is recognized for his question—oh, I'm sorry. Were there other witnesses who wanted to respond to that question? I didn't see any—I'm not sure—we're waiting to see whether any witnesses wanted to—I didn't detect any interest in any more response, but Mr. Kamen. And then Mr. Cannon would be recognized next.

Mr. KAMEN. Well, you asked for two, and you said but put aside that they do quality patents. I'm a member of the PPAC group that's been trying to work with the Patent Office, and I can tell you that I don't think you can put that one aside because it's like, other than that, Mrs. Lincoln, how was the show?

There is a pendency now of 500,000 patents. As we all know, there is an explosion in the number of people trying to get patents, which I think is a good thing. As someone has pointed out, sophistication is going way up in probiotics and genomics. It's harder and harder. I think we really do have to give them better ways to hire and retain—you've given them more money. They might not even spend all the money you gave them this year, but they tell me they can't use it in a way that can give bonuses or do things to attract and retain good people, which is an inefficient system.

Ms. LOFGREN. With the indulgence of the Chair, I will very quickly—I just wanted that to be put aside for the purposes of this question. We very much understand that there is an issue in the office. There is a plan to improve it. We want to implement that plan. I mean, it's only for the purposes of this question. And my time is——

Mr. SMITH. Okay. Mr. Reines has a brief response as well.

Mr. REINES. Yeah. I just say willfulness, and again, it's rightsizing it, not eliminating it, in case there's any ambiguity about that. And then I think apportionment. If you come up with a new rear-view mirror, the patent claim can claim it as a new car with a new rear-view mirror. The royalty shouldn't be on the whole car just because that's the form of claiming. And those are the kind of issues we need to address.

Mr. SMITH. Thank you, Ms. Lofgren.

The gentleman from Utah Mr. Cannon is recognized for his questions.

Mr. CANNON. Thank you, Mr. Chairman.

First of all, I would just like to thank Mr. Kamen for coming today. It's refreshing to get the insight of someone actually who is involved in these issues, and your insights have been very, very helpful. So thank you.

I'd also like to just note for the record that in an apparent attempt, Mr. Misener, to contain our prurient tendencies, we're talking about trolls rather than the Swedish model today.

But for you, Mr. Misener, and also for Mr. Reines, I'd like to get some elaboration for the record about—I don't even know what to call it. It's like a doctrine, it's like a set of religious briefs that we've developed in the tech community that has resulted in a world where you can take an incredibly advanced device—I mean, this thing probably has 2,000 patents, but I expect not 50 bucks in patent royalties, because there is this kind of religious brief that what we ought to be doing is creating new products and winning in the market rather than focusing on royalties for our innovations that other people pick up and use. And so we have a huge cross-licensing.

Micron is now one of the major patent players. My view of their—I'm saying this, this is not their position, but I suspect the reason they're so aggressively involved in, and that is because they're the last DRAM manufacturer. And by fewer devices, because it costs more money because we have patents out there, we're going to have a slowing of the growth of—in DRAM, and that will hurt their long-term profitability. So they're investing in maintaining this kind of religiosity, this religious set of beliefs involved around cross-patenting or cross-licensing. And that set of beliefs is fundamental and very, very important for the development of technology not only here in America, but in the world.

Now I may be overstating that, but I would like to have your insights into what's going on. But the reality is, in the development of innovation, and the cross-licensing, and the lack of charging for those things, and what that's doing to the world, and why that's important, if I'm right in my assessment, why that's important for what's happening with the technological development of the world.

Thank you, Mr. Misener and Mr. Reines.

Mr. REINES. I mean, I think what you're describing is what we call in the trenches the "patent thicket," that there is just a thicket of patents, and how do you work your products through that. And I think your device there probably is covered by a lot more than thousands, it's probably hundreds of thousands, and I think part of that is just the advancement of technology. And complexity is unavoidable, but part of it is not letting excesses make the ability to license and cross-license effectively and release products, be able to do that more efficiently, and I think some of the areas that the Committee is looking at will do that.

Mr. MISENER. Thank you, Mr. Cannon. And just to add to that, it seems to us that we are trying to innovate in a number of different ways, as well as our competitors are, and we're all within a few months of each other in many different areas of innovation. If they're all out there practicing, as we are, in marketing and providing services to their customers as we do to ours, I think cross-licensing is a very efficient way to manage the development and deployment of innovations.

The problem arises largely when entities are not practicing, and there is sort of this—we're up against sort of an unequal circumstance where we're at risk of losing something. They are not at risk because they're not practicing it.

We settled last year, as I mentioned before, for $40 million on patents that we question their validity. We still do. We also question whether we were infringing. But the fact of the matter was that the patent at issue went to our shopping cart, and Amazon without a shopping cart is not a particularly useful thing for consumers. And so as a result we were anxious to settle in a way that would not have occurred if the patent had been held by one of our competitors.

Mr. CANNON. In the case of Amazon, you guys sell books, and now many other things, but you're relevant today because you do it in an environment of technology. You know, I'm a big fan of your company because I love the shopping cart that allows you to buy a bunch of stuff, and with two clicks I'm out of there. I'm not a very good typist, and typing in my credit card number is something that is daunting to me.

So your company exists in a world that is highly dependent upon many other activities for success, and your success is really actually good for the world, because I just—if I might talk about a book, I read a book recently, and autobiographical piece, by a guy named James Watson, who was a majority whip in the House and then became a majority whip in the Senate, a great guy, and it's a wonderful book, and it's out of print. So I popped on to Amazon and found a bunch of copies. And, by the way, you linked to other sellers where there were more copies.

So the richness of the environment—and I don't mean to just pump Amazon.com, the environment that we live in today—oh, my red light is flashing.

Mr. SMITH. The Chairman is recognized an additional 2 minutes.

Mr. CANNON. I just hate when people are waiting to talk, and I don't want to take time from Mr. Schiff, but just let me say that this is a moral issue. The patent issue is a moral issue that affects not only my life and the richness of my life, but the lives of people

worldwide. I can do Amazon.com on this device; I couldn't on other earlier devices. This is a world that we don't want to slow down by stupid decisions. On the other hand, it comes back to what I think Mr. Kamen way saying: It's a matter of balance, so we hope to do the right thing.

And I yield back what time I don't have, Mr. Chairman.

Mr. SMITH. Mr. Schiff will use it. Thank you, Mr. Cannon.

The gentleman from California Mr. Schiff is recognized for his questions.

Mr. SCHIFF. Thank you, Mr. Chairman.

Having just bought a book through Amazon that was also out of print, where I was connected to a private seller, I certainly didn't want to interrupt that point.

I wanted to explore a little bit more the analogy, Mr. Kamen, that you made, and I think you have the advantage of all of us, not being a lawyer, because you somehow are able to express these complex subjects in ways that people can actually understand.

If we're talking about too many deaths on the highway, there are a lot of remedies for that. You can lower the speed limit, not to 20, but maybe to 55; you can require people to wear seatbelts, as we have; and maybe go beyond that, you can also require the automakers to make safer cars and build in airbags. And the question is, so what combination do we do here?

I think everyone at the table would agree and everyone here would agree that the consensus answer, and probably the largest piece of the puzzle, is improving the quality of the patent process, the issuance of the patents, make sure they're good patents, and we are trying do that. And part of that is money, part of that is management, but none of that will be—none of us will be deterred from doing that by any other remedies we look at.

Congressman Berman has also thought about ways to improve the process where maybe if a patent isn't issued so well on the front end, there is a way to come in and challenge that after the fact.

What I was interested in exploring, and maybe this is already—one of my Committee Members can correct me—maybe this is already a component of existing law, but in the broader legal practice where we have problems with vexatious litigants, many States have statutes that go after vexatious litigants who have been repeatedly shown to be a problem. And I wanted to ask what you would think about some kind of a vexatious patent litigant where you have courts find repeatedly that someone is pursuing patents, and they are ultimately deemed to be a troll, so you go after the worst culprits on the one end. And then I'd like to ask my friends on the other side, what about vexatious infringers? Should we look at having a three strikes you're out when courts find it was done with malice? Anyway, I'd love to hear your thoughts on that.

Mr. KAMEN. I guess what I was going to answer Congresswoman Lofgren of the second most important thing was that there ought to be penalties for people that game the system. And I think the whole general process that you people should be looking at is not how to figure out how to put a bigger burden on the potential victims, but go after the people that are doing the bad things. And instead of undermining the rights of good people that have prop-

erty, because if it was abused, their right would have been too strong, you go after these people.

You pointed out that it was a bunch of lawyers that, in fact, were these trolls. Somebody else pointed out that it was a company that didn't have engineers. What I learned from this is what I already knew: Inventers are good people, lawyers are bad people. But you've now figured out how to——

Mr. SCHIFF. So you're saying vexatious litigant is redundant.

Mr. KAMEN. Well, for instance, I would say that really in all the different kinds of gaming of systems that you see, eventually the legal system figures out how to parse words and do things, these imprecise things. We know that the cost in every field, whether it's torts, the cost of litigation is so high, we hear that companies will willingly pay because it's a good business decision. But that's like saying we do negotiate with terrorists, and that just causes more of that activity.

The companies shouldn't pay if they're not guilty, but then the people that can sue with these marginal and sometimes, we all know, invented positions don't have much of a downside. That's the problem with a lot of the gaming in not just patents, but other kinds of legal issues this country is facing. So one of the ways to deal with that is some form of loser pays. There ought to be a way to penalize people that are abusing this system, not take the people that aren't abusing the system and keep throwing more burdens on us. Go after the people that are the bad actors at both ends. And if there's a big company that has repeatedly just disregarded people's rights, they are as bad as the trolls at the other end that are clogging up the system. But you people ought to focus on getting rid of the bad actors and supporting the good ones.

Mr. SCHIFF. If I could ask the other witnesses, is there anything in current law that has kind of a three strikes effort against the vexatious patent litigants? And what do you think about where you find the company three times maliciously, willfully violating a patent, whether there ought to be some sanction on that end as well?

Mr. REINES. I can address that. There is a provision exceptional case which says—if there is an exceptional case on either end of the spectrum, in other words, exceptionally bad, there is a lack of basis on either side—there can be an attorneys' fees shifting, and there can be increased damages in the case of a plaintiff.

So it's not whether you've done it three or four times, but on a per-case basis that judgment can be made. I think the point that the reset on that is—so that's there for someone that's acting really bad. But the reset is that there's a lot of actions that a patent owner can take that can make it such a pain in the butt to deal with it that you will give them $30,000 or $40,000 to go away so you don't have to pay $50,000 just to protect yourself from a willfulness allegation. And there are instances of people, it's not uncommon, that send out 300 letters or 400 letters and explicitly say, I am asking you for a royalty that is less than what it will take you to get one of your in-house people—forget outside lawyers—to look at the problem. That happens; that happens a fair amount.

And the question is, Dean raises a good point, well, don't negotiate with hostages; but the problem with that is that the number of demand letters at these places—nastygrams is what they're

called, and Ms. Lofgren knows about this from the constituents in the Silicon Valley area, I mean, they get dozens and dozens a year. You can't fight every battle, and $30,000 can eliminate a problem.

Mr. MISENER. Mr. Schiff, I would only add that it seems

to me it still would be very difficult to have to define and prove at each turn the vexatious litigant, either a plaintiff or defendant. And we just believe that if we were to address the damages forum that we've suggested and others have suggested, that you actually take away the incentive for vexatious litigation rather than trying to define and punish the vexatious litigants. It seems to me it would be a burden on the other party to sit there and have to define whether or not the opposing party had participated in such activities in the past——

Mr. SCHIFF. I want to just interrupt. If there is an existing provision, as the shifting of costs, et cetera, you can simply define it as where an attorney has had that happen in three different cases, where the judges found it to be a sufficiently unmeritorious claim or offense that they have shifted fees three times.

Mr. MISENER. But again, it would be the other party in the position of having to dig up that evidence, present it to the court, have the court find it—either that, or some sort of a commission that keeps track of it. Again, if the incentives for vexatious litigation are removed, then there would not be the vexatious litigation or vexatious litigants.

Mr. FISH. If I may, sir, I would point out two things. The first one is this sort of concept of three strikes and you're out or something is a concept that I would say makes sense in the criminal context, but not in the civil context. And so if we have a rule which exists, and we do, that says if it's an exceptional case, attorneys' fees, which, of course are massive in patent cases, can be shifted. The problem is that the rule doesn't operate to protect—it doesn't operate the same for plaintiffs and defendants. If you're found to be a willful infringer, it's not at all uncommon that you also pay attorneys' fees for the plaintiff. If you bring a case that's frivolous, it's very rare that it works out. So that could be balanced.

The other problem I would point out, and this is perhaps one of the distinctions between civil behavior and criminal behavior, is that it's really not as clear as it might be in the civil context. So if you don't know beforehand, if there's a legitimate dispute about what does the patent cover, whether you're a plaintiff or you're a defendant, it seems to be much more draconian to punish people after the fact, after the courts have told them you were right, Mr. Defendant, you were wrong; Mr. Plaintiff, for example.

Mr. SMITH. Thank you, Mr. Schiff.

Mr. Misener, let me address a couple of questions to you, but on the way there what I want to do is read to the other witnesses a proposal that you made and ask them to comment on that proposal and then give you the last word.

And, Mr. Reines, we'll ask you to comment first on this proposal.

Congress allows successful claimants with method patents to obtain damages only back to the point that the defendant had actual notice or knowledge of alleged infringement, and as under current law, in no case back more than 6 years before the complaint was filed. Is that clear? Okay. What is your comment on that?

Mr. REINES. I mean, I think basically that's a notice requirement for damages for method claims, and I think that works. My only caution about that is that virtually any claim that's cast in terms of method can be cast in terms of apparatus, and vice versa. And so I'd want to look at addressing it on the apparatus side to make sure we're not just having everybody flock to one form or another, but it sounds like something worth considering.

Mr. SMITH. Thank you, Mr. Reines.

Mr. Kamen.

Mr. KAMEN. I'm not competent to—I am sure that the lawyers will find the unintended consequence and make it more important than what you're trying to do. That's a subtlety, I'm not——

Mr. SMITH. Okay. Thank you.

Mr. Fish.

Mr. FISH. Yes, sir. I think it's correct to characterize it as a notice requirement, and it's a good idea. The main reason I think it's a good idea is because there's a fiction that exists that it's possible for complicated systems and for standards in recovery operability, for example, that it's possible to search the Patent Office records to find all the patents that one might infringe. In fact, it's not humanly practically possible.

There is an interesting paper that Professor Doug Lichtman from the University of Chicago published just about a month ago that talks about patents and standards and makes exactly that point that, in fact, in these industries it is not something that can be done. And so more notice makes it better, sir.

Mr. SMITH. Okay, thank you.

And, Mr. Fish, that leads to my next question I wanted to address to both you and Mr. Misener, and it is this: What does Amazon.com, what do Time Warner do to try to avoid the infringement lawsuits? Do you conduct clearance searches? What do you try to do to limit our liability and limit your exposure?

Mr. MISENER. Yes, thanks, Mr. Chairman. We do. We conduct the searches. We employ a lot of smart outside counsel and inside counsel to help us and our technical team examine the possible—the intellectual property that could apply to what we're trying to do, the patents that may be out there.

The notice requirement really goes to the issue of something being so distant and hard to find that we're trying to encourage the communication between the patent owner and a practitioner like our company. And so let that communication happen, let them tell us that they think it may apply. They can send us a letter. We may disagree with them, but that would be the point when the damages could start accruing if we turned out to be wrong, but at least let us know about it. If it's in a completely different area, and it's not markable—I mean, this is part of the fiction that Mr. Fish mentioned, for this apparatus patents there is this marking, and you will presumably discover the patent by looking at your competitor's product or relevant products, but with a method, there is nowhere to market, and if it's so distant that we wouldn't know where to look, we're just asking for us to be notified that this intellectual property is out there.

Mr. SMITH. Okay. Mr. Fish, anything to add to that?

Mr. FISH. Yes, sir. I would point out two things, without talking about privileged matters that I, as an attorney for the corporation, couldn't and wouldn't talk about. Time Warner and all of the various Time Warner companies provide their products oftentimes through integrating the technologies that others have developed. And so we go to vendors who sell us, for example, cable set top boxes, or pieces of software that AOL incorporates into its client or whatever.

One of the things that we do our best to do is to get the vendors of that technology to clear it before they sell it to us. And so there are requirements in our contracts and things that say you have the rights, and you sell it to us, and you will indemnify us. And that becomes increasingly difficult in an increasingly complex world where there's more and more that's combined.

Secondly, we try to be reasonable, erring on the side of caution. Since we're a company that depends on intellectual property rights, we think it's vital that we respect other people's intellectual property rights. And so we do clearances where we can. We try to figure out where there are issues, and we try to use our limited resources to be as respectful of other people's rights as we can, sir.

Mr. SMITH. Thank you, Mr. Fish.

And, Mr. Misener, one last question for you. This goes to the 1-Click patent for which Amazon.com is becoming famous. And of course it's under review by PTO. But—I know your answer, but could not Amazon.com be accused of being a troll for patenting the 1-Click?

Mr. MISENER. Oh, we have for about 6 years now. But it's inaccurate, and here are the reasons why. First of all, there's been a lot of complaint about whether or not it was an innovation. And truly it's not innovative only in hindsight. At the time it was a radical departure from the shopping cart model which was ubiquitous on the Web. But more to the point, we have exercised this patent only against a competitor who at the time we exercised it had publicly announced their intention to crush our business. This was not some scheme to hit up small users of 1-Click or similar technologies, it was really to get at a competitor who had not invested anything in developing this technology and had, again, avowed to crush us.

Mr. SMITH. Okay. Thank you, Mr. Misener. And thank you all.

Mr. Berman, do you have any additional questions? Mr. Berman is recognized.

Mr. BERMAN. Thank you.

Paul Barton David, one of Amazon.com's founding programmers, called the 1-Click patent an extremely obvious technology. And Tim O'Reilly, who's been involved in shaping Internet trends, describes the 1-Click patent as an attempt to——

Mr. SMITH. Mr. Misener, we did not coordinate our questions here.

Mr. BERMAN [continuing]. Has not gotten up to speed on the state of the art in computer science. It's been a raging controversy, and I have no idea whether it's valid or not—because I'm a lawyer. But the controversy itself was one of the issues that got at least a few of us 5 or 6 years ago thinking about some issues of reform.

Let's talk about in your testimony you state last year for $40 million we settle with Soverain, owner of a host of broad e-commerce patents, nearly two dozen of which were purchased for less than a million dollars. We settled for 40 million. Did you believe these patents to be invalid because they were too broad?

Mr. MISENER.We still believe them to be invalid.

Mr. BERMAN. Because they were too broad?

Mr. MISENER.In part because they were too broad.

Mr. BERMAN. Did you attempt to initiate a reexamination?

Mr. MISENER.Yes, we did. And it was not going to be completed in time to be relevant to the case.

Mr. BERMAN. Do you consider this company a patent troll because they purchased the patents for less than a million dollars, which presumably didn't represent the value of the patents?

Mr. MISENER.I've shied away as defining them as a troll or not. We were——

Mr. BERMAN. Nobody has shied away from calling you a troll over one claim.

Mr. MISENER.That's true. We worked, by the way, with Mr. O'Reilly; we came and met with Members of Congress 6 years ago because we agreed that there were areas to improve the patent system at the time. We got it immediately. And I will say that there was a large bounty put on 1-Click, I think it was about 2001, 2002, and there was essentially this contest with a large reward to find prior art, and none was found. This has been one of the best known patents around for the past 6 years and still no prior art has surfaced. So I think that goes to whether or not this particular patent was novel.

Mr. BERMAN. Although isn't it fair at this point to note that the Patent Office, within the last month, has granted a reexamination and request based on substantial new questions of patentability based on a prior art reference?

Mr. MISENER. Absolutely. And we're not surprised by it. And the only, perhaps, surprise is it took so long to get to that point, but we've looking forward to the reexamination.

Mr. BERMAN. On the Soverain case, would you have settled if the eBay decision had come out?

Mr. MISENER.As a hypothetical, it's hard to imagine,

but it was a concern to us that we could see a major part of our business——

Mr. BERMAN. Because of the automatic injunction.

Mr. MISENER. Exactly. And again, Amazon without the shopping cart is not a particularly good business.

Mr. BERMAN. All right. I think—well, let me just ask Mr. Fish one question in my remaining time.

You talk about sort of the patent courts, or Mr. Issa's proposal regarding creating some patent judge specialists to try and create better expertise in the patent area among our Federal judges. Is it possible—to what extent will the problem be compounded? What if one of the pilot projects for testing this out was the Eastern District of Texas, and so that plaintiffs now—that that became a specialized court and plaintiffs ran there. Could this process aggravate the problem of forum shopping?

Mr. FISH. Well, Mr. Berman, I actually am not here to argue with the Eastern District as a venue. It's been the case, I think——

Mr. BERMAN. You must have a case there, huh?

Mr. FISH. We have, I think, actually several. It's been a case, since we had a patent system, that forum shopping has happened. I mean, you can go back to the steamboat patents and look at people who are making allegations about forum shopping.

I think that either the kind of proposal that we have floated, which is an article I patent specialist court for pretrial matters that would return the case to article III courts and maintain the jury right would work. And we find one of the great things about the patent reform debate is, you know, you have Time Warner and also the EFF telling you that there are such things as patent trolls. You have Time Warner and Nathan Myhrvold agreeing—saying that specialized patent courts might be a good idea. So it's fun that that happens.

In either case, though, I think, sir, either if you have Mr. Issa's proposal, which we understand to be improving the process sort of through self-selection and adoption of resources, or through taking the article I route and making it more like the Court of Federal Claims, we think it would be better because you could get a higher quality of decision up to the Federal Circuit, so the Federal Circuit could produce higher quality opinions, and as a system it should work, yes, sir.

Mr. BERMAN. Thank you very much, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Berman.

On the way to recognizing the gentleman from California Mr. Issa, let me just say that this Subcommittee is going to be having a hearing on his idea of a specialized court in July; so that is a subject that we will be looking into pretty soon.

The gentleman from California Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

And thank you, Mr. Berman, for continuing that continuity between each of us.

Mr. Fish, since we did broach that subject of what we might for today call augmentation of our court system, because the pilot is intended to do five districts in which you will have, as you said, self-selection of interested judges, at least one of whom is not on senior status, and obviously the resources, particularly when it comes to the support systems—you know, there is a strange phenomenon in our district courts which is that you can have all the clerks you want, but the judge makes the decision. So then the balance is can we make a judge understand Mr. Kamen's latest invention, or, for that matter, the genome—you know, I mean, where do we draw the line on, you know, DNA testing, et cetera?

The answer, obviously, is a balance between the two. And hopefully by giving the resources and by having at least five of the busiest districts in the pilot, we're going to try to prevent forum shopping.

But I do have a question which is related to specifically trolls. Assuming for a moment a troll is not how they purchased, how they got how many engineers they have—I might mention that more than in passing, I have 37 patents, and I'm not a degreed engineer. So one might say I didn't employ engineers, and therefore

I was a troll, and at least one of my patents I never actually created the product, but only because I didn't make cell phones.

The question, though, is, if getting trolls quickly off your back needs to be part of the process, meaning somebody who hands you up 20 patents that they've purchased for $20, that they say even though the title and everything in there doesn't seem to read on your product,that, in fact, it's in there, sort of like Prego, go into that tomato sauce and somewhere you will find meat—not that you have ever actually seen the meat—the question is, if, in fact, we empowered or maybe even sought language that would embolden the courts to consistently bifurcate their cases into a what-does-the-patent-mean as quickly as possible—and this beyond just saying Markman shall be done before the jury is empanelled—but, in fact, force that issue to be an issue before other issues could be brought forward, before they discover how much money you made last year, before they look at every other discoverable item; if we did that, and if at the same time that decision—and we'll just refer to it as a Markman for now, although it might be a different level—if that were the beginning of any question of willfulness, if knowing what the patent means became, by a court of independent jurisdiction, not by the inventor who says it means everything and you say it means nothing—if that first time a patent is brought against a product, either yours or a substantially similar, that you would have to have that first process in order to cross willfulness, and, by the way, in order to cross the question of injunctive relief, would that substantially change how you would view the danger of trolls and the risk to your company and so on?

And I'll start with Mr. Fish.

Mr. FISH. Yes, sir. I think that would be a very helpful thing. You know, whether it were adopted by the judiciary as a rule, you know, in local rules or some sort of national procedural rule, or if the Committee were to indicate it, I think determining what the patent rights are, making it more like, you know, we hear a patent right is a property right just like a deed, and the problem is that surveying is an old art. People know how to do it, you get a deed, and you can actually read it, and you can actually walk the line and decide if something is a trespass or not.

Mr. ISSA. This is a little more like water rights though.

Mr. FISH. It's like water rights, or perhaps even worse; because it's water rights that pop up, and nobody knew where they came from. So I think it would be a very helpful thing.

I mean, I would add that it won't entirely fix the problem. We had an occurrence this week that shows you what happens. There is a company called USA Video that sued MovieLink, the biggest downloader of movies, 2½ years ago in Delaware. The patent was very questionable. They lost on summary judgment. Last week, Friday, the Federal Circuit handed down their opinion, and that loss on summary judgment was affirmed. This week, Tuesday, they sued the entire cable industry in Marshall, Texas, on the same questionable patent, and the problem was that the invalidity motions were found by the first judge to be moot because there was such a clear case of noninfringement.

And so what I'm saying is that there could be still be serial troll behavior going on, but the proposal that you make, I think, would be very helpful, sir.

Mr. ISSA. Yes, Mr. Reines.

Mr. REINES. Yeah, thank you. I sit on the Patent Rules Committee for the Northern District of California, and there is good work being done in the different districts to come up with rules that make sense.

Mr. ISSA. Mr. Chairman, I want to note that that's good work being done in the Ninth Circuit.

Mr. REINES. But the takeaway is that I think we've got to be careful about a one-size-fits-all that doesn't let the different district judges who have experience and different experiences come up with sets of rules and adopt sets of rules for specific situations. So that's just a caution.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Issa. By the way, it's an exception to the rule regarding the Ninth Circuit.

The gentlelady from California Ms. Lofgren is recognized.

Ms. LOFGREN. I thank you, Mr. Chairman.

I was actually intrigued by Mr. Schiff's suggestion on vexatious litigants. I remember when I was in local government, the county would get sued by people who had mental problems. I mean, 50, hundreds of lawsuits that were fantasies, and we did actually use vexatious litigant statutes to go where the court had to approve their lawsuit before they were allowed to file it. It really helped a lot.

But I don't know that it would work in this area, because when you think about it, it's not just litigation, it is the steps precedent to litigation. You send out 400 demand letters, you really can't deal with that in the same way as a vexatious litigant. But I like the concept of having some kind of scrutiny, and maybe that's something that we could pursue down the line.

I'm interested—my prior question, the consensus seemed to be that willfulness and damage issues were ones that we should pay particular attention to. And if you take a look at the draft bill that we have before us that I think all of us have co sponsored, been working with, section 6 addresses the issue of damages in two ways. It amends 284 of the Patent Act that authorizes the court to award treble damages for willfulness conduct, and imposes a threshold notice requirement that applies in any case in which an accused infringer did not intentionally copy an invention known to be patented, and an infringer could still rely upon the advice of counsel as a defense, but it would prevent an adverse inference if that had not occurred.

And then as to damages, the bill says that the damages will be based on the portion of the realizable profit that should be credited to the invented contribution, as distinguished from other features of the combination, the manufacturing process, business risk, or significant features or improvements added by the infringer.

In your judgment, do these two provisions adequately address the willfulness and damage issues that you have identified as important? And could we start with you, Mr. Reines?

Mr. REINES. I think on the willfulness front, those are good steps. On the damages apportionment front, I think it's a really difficult problem. I'm concerned that that doesn't go far enough in terms of really addressing the magnification of the patent. If there is a patent in trial, there is so much focus on that one patent that sometimes you get exaggerations. So I think additional steps on the apportionment issue is worth looking at.

Ms. LOFGREN. Mr. Kamen.

Mr. KAMEN. Well, what little I know about the willfulness business seems to be, again, another opportunity by which people end up—the good people end up doing work they shouldn't have had to do, and the bad ones game it, because it literally is like what I hope is perceived as a humorous statement that somebody says I'm so sick and tired of reading about the link between smoking and cancer, I'm going to just have to give up reading. And if, as I understand it, you're forced to get all these opinions which cost a lot of money, and worse than that, now companies are telling their inventors and engineers, don't read all of those things, then you'll be aware of these things, that seems to me to have exactly the opposite intent of what the patent system was about, which is this Faustian deal that the Government made with me; the reason they're going to give me for a limited time a monopoly is because I'm educating the world about new ideas. That methodology that was imposed with the best of intentions has the consequence of having people not do patents.

Ms. LOFGREN. That's a very good point. We talked about litigation, but bringing it back to the constitution of the deal is that we want to incent you not just for your benefit, but for the benefit of the broader society so that future inventors can build upon your invention to the greater benefit of mankind.

Mr. KAMEN. So anything that you do should be in the spirit of that disclosure being broadly read and not narrowly being prevented from being used by the gamers of the system.

Ms. LOFGREN. Mr. Misener.

Mr. MISENER. Yes, ma'am. The sections in the bill on willfulness and apportionment reform are important. We welcome them, we thank you for them, they're great, and we hope that they're enacted soon.

We also just suggest these two other aspects of damages that have borne out of our corporate experience without—so we didn't even know or had no realistic way of knowing about the applicability or the potential applicability of some patents, and also this fiction of lost profits when we're not competing in any way with the plaintiff. And if those four aspects of damages were fixed, we would be very happy. Thank you.

Mr. FISH. I think you're hearing some more consensus, ma'am. Time Warner would say that the willfulness proposals in really all of the versions of bills that we've seen look great. The problem I think with the apportionment proposals, which vary or are missing in some points, I would say is twofold. The first one is if you look at the damages, the current patent damages statute, it's written at a very high level, I think, for a good reason. It wasn't substantially changed in 1952, and the courts have developed the notion of the patentee will have at a minimum a reasonable royalty on an case-

by-case basis. And through the development of common law, there has been largely good progress—perhaps the Federal circuit could have done a little bit more, but it's been largely good.

To move the statute down by mandating certain factors and not others is problematic, as we've heard in the discussion, for example, from the people who hate the idea of apportionment. So I would suggest that if you legislate at an appropriately high level to allow development by the courts—so, for example, by using some of the suggestions that Mr. Misener mentions, or just incorporating the apportionment principle in a mandatory fashion into the statute and letting the courts decide, you know, is this a Georgia Pacific type of a case, or is this a case where something else should work, I would think that that would probably fix the problem, ma'am.

Ms. LOFGREN. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Ms. Lofgren.

The gentleman from California Mr. Schiff.

Mr. SCHIFF. Thank you. I'll be very brief, Mr. Chairman.

Zoe really asked what I wanted to follow up on as well. The only remaining question I had was on the issue of forum shopping. And, Mr. Kamen, I just want to get your thoughts. If the forum was more limited in the sense of suing where the defendant has their principle place of business or where the infringement took place or whatnot, is that something you could live with?

Mr. KAMEN. Again, I think there is this incredible fine art in the legal profession of knowing all the subtleties. I don't do that. I'm happy to say in 30 years of business, I've never been sued over a patent, I've never sued anybody over a patent. I don't have a lot of direct experience, but when you hear as a laymen or a business person about these things, they all seem to have this issue of the unintended way of, whether it's the lawyer or the troll, gaming the system. And if you put a rule in which in the end makes it easier and cheaper and faster to get smart judges to get to good decisions, everybody has to win. And if you can create these special courts, if you can do anything to prevent these various forms of gaming, I would be in favor of it.

The concern I continue to have is that inevitably the unintended consequence is every time you guys put a patch somewhere, given enough time, people play with it, so you have to be careful to get back to the basics. And the basics to me are that intellectual property is valuable and important, it's responsible for a lot of great things, and we're here talking about all these different versions, including that one, of looking at other issues, and if we get back to making sure that when there are bad actors that are abusing a system, you don't go after the system, you go after the bad actors. Our system of intellectual property is a good one.

Mr. SCHIFF. Is it your sense, Mr. Kamen, that any changes on the presumptions regarding injunctions would be too blunt an instrument and do more harm than good?

Mr. KAMEN. Again, as I said, I'm not a lawyer, but the certainty of our system, people, again, take advantage of banking. If I have a deed or I have a bond, if you do anything that makes me less confident in my ownership of that deed or return that I'm supposed to get from that financial institution or the Government, whatever

other problem you are fixing, you might be unleashing a huge set of issues.

If people can't count on owning intellectual property, the investment by all sorts of individuals, large corporations, the willingness for people to go forward and take risk will be, I think, so dramatically hindered—maybe not by intent—that when we look back at trying to go after trolls, which you might successfully do in some way, I think it would be like you flooded the building to put out a fire in a wastepaper basket.

Mr. REINES. Mr. Schiff, just let me address one thing so that the Committee is clear just on the venue issue. There are some granular issues with it, but at the big-picture level, the current venue statute for patents provides effectively that you can sue anywhere that the products are sold. So we've got millions of Mr. Kamen's tubes going around. Anyplace in this 50 States and territories that they go, you can initiate your case there. That's effectively the rule. And I just think we need to think about whether a more focused venue statute that doesn't let someone that's doing business in New Hampshire that's a relatively small company, has some tubes that go up to Alaska, and all of a sudden they can be sued—under the statute there is a right to seek to transfer for which the presumption is against you—but gets sued in Alaska, and Mr. Kamen all of a sudden has to go up to Alaska.

Mr. SCHIFF. What do you think about changing that presumption, Mr. Reines?

Mr. REINES. Well, that's what the general transfer statute says, that the party seeking transfer has the burden of demonstrating that the plaintiff's choice of forum shall be overcome. And that's a basic principle of the law that I don't think we're going to change anytime soon.

Mr. SCHIFF. And I don't know whether it makes sense to have a more specific venue statute for patent cases, but you could, in theory, do that.

Mr. REINES. You could handle it by making it——

Mr. SCHIFF. You can have the current, sort of generalized—you can bring the case anywhere the product is sold, but remove the presumption in terms of transfer of venue if the equities favor transfer, or you could change the venue statute to limit the jurisdictions where you can bring suit.

Mr. REINES. Any of those approaches would work and I think are worthy of the attention of the Committee.

Mr. FISH. There is one other possibility. You could create a special patent removal right and give it to both parties. So if Mr. Kamen finds himself in Alaska, he has a right to remove either Mr. Issa's patent courts or some other place's. That would be a possibility as well.

Mr. SCHIFF. Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Schiff.

This has been a particularly informative panel and interesting subject, and I appreciate the contributions that everybody has made today.

We stand adjourned.

[Whereupon, at 11:06 a.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND RANKING MEMBER, SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

Mr. Chairman,

Thank you for scheduling this hearing so quickly after the e-bay decision. As we have tried to move forward with patent reform, our efforts have been stymied by the many groups clinging to the notion that there was an entitlement to an automatic injunction upon a finding of infringement. I am hopeful that as a result of the Supreme Court's findings we will be able to progress with legislation.

Congressman Boucher and I introduced our patent bill 2 months ago, believing that the Federal Circuit's interpretation of the injunction statute invited abuse. We said that if we could merely underline or bold the current words in the statute guiding the grant of injunctions, words like may—and—equities—and—reasonable we would have done so. Our goal was to achieve what the Supreme Court has now done for us: a return to the standard originally intended—that of providing courts with discretion and requiring a weighing of the equities. Therefore, I do not believe at this time there is any further need to legislate on the injunction issue. However, the concurrence in the e-bay decision raises additional issues relating to "an industry [newly] developed in which firms use patents not as a basis for producing and selling goods, but instead primarily for obtaining licensing fees."

Perhaps the place to start at this hearing is not the question of whether patent trolls are "fact or fiction" but rather the definitional question of—"what is a patent troll?" Justice Kennedy asked it best—"is the troll the scary thing under the bridge, or it is a fishing technique?" Depending on where you are standing, the view from the bridge may render the same entity either a patent holder, who is simply trying to enforce their rights, or a patent troll, who is unfairly leveraging their newly acquired property.

In part, some of the irony surrounding the analogy to a troll—is that if I remember my fairy tales correctly, the troll usually loses in the end contrary to what occurs in the marketplace today with patents.

While I can provide no clear definition, I can tell you that in undertaking an effort to clarify aspects of the patent law to prevent abuse of the system . . .

- there is no attempt to impose a use requirement on a patentee
- there is no attempt to prevent general licensing; and
- there is no attempt to weaken intellectual property rights

I have concerns about those who take advantage of the current patent system to the detriment of future innovation. Whether called trolls, entrepreneurs or "those that shall not be named" there is a significant problem if the patent being asserted is of questionable validity.

I firmly believe that robust patent protection promotes innovation. However, I also believe that the patent system is strongest, and that incentives for innovation are greatest, when patents protect only those inventions that are truly inventive. When functioning properly, the patent system should enable and encourage inventors to push the boundaries of knowledge and possibility. If the patent system allows questionable patents to issue and fails to provide adequate safeguards against patent abuses, the system itself may stifle innovation and interfere with competitive market forces.

When considering these principles together, I introduced a bill which provides the reform necessary for the patent system to achieve its intended goal of promoting innovation, including amendments to the willfulness standard, submission of third

party prior art and a post-grant opposition procedure. These reforms are clearly not the only possibilities and I look forward to hearing from the witnesses as they describe other alternatives and suggestions. As the New York Times has pointed out, "[t]here is legislation in the House to address th[e] issue[s], and it needs to be taken up." I hope that introduction of the bill in combination with the recent Supreme Court decision and these hearings will facilitate the necessary advancement of patent reform legislation.

High patent quality is essential to continued innovation. Litigation abuses, especially those which thrive on low quality patents, impede the promotion of the progress of science and the useful arts. Thus, we must act quickly during this 109th Congress to maintain the integrity of the patent system.

LETTER FROM MARK T. BANNER, BANNER & WITCOFF, LTD, INTELLECTUAL PROPERTY LAW, WITH ATTACHMENT FROM CHIEF JUDGE PAUL R. MICHEL, TO THE HONORABLE LAMAR SMITH AND THE HONORABLE HOWARD BERMAN

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June 13, 2006

Honorable Lamar S. Smith
Chairman
Subcommittee on Courts, the Internet, and Intellectual Property
Committee on the Judiciary
2184 Rayburn House Office Building
Washington, DC 20515

Honorable Howard L. Berman
Ranking Member
Subcommittee on Courts, the Internet, and Intellectual Property
Committee on the Judiciary
2221 Rayburn House Office Building
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Re: Hearing on "Patent Trolls: Fact or Fiction?"

Dear Chairman Smith and Ranking Member Berman:

Thank you for holding hearings on the important and controversial topic, "Patent Trolls: Fact or Fiction?" and for accepting and considering my views on the topic. I've had the pleasure of speaking with you and your staffs on several occasions in connection with my past service as Chair of the American Bar Association Section of Intellectual Property Law. The opinions expressed in this letter, however, are not in any capacity with the ABA, or with my firm or any of its clients. I'm expressing my views as a patent litigator with over 26 years experience dealing with these issues, and hope you will consider them as such.

In my opinion that the short answer to the question posed by your hearing title is: "Patent Trolls: Overblown Fact." Abuse of the patent system occurs, but I do not think it is properly attributed to parties enforcing patents where they do not intend to practice the patents themselves. Rather, the abuse stems from the attempted enforcement of patents by parties with no reasonable, good faith basis for believing they are infringed. The standards applied by the courts in these complicated areas for assessing whether a violation of Rule 11, FED.R.CIV.P., are too low, but perhaps unavoidably so.

Additionally, until the recent decision of the Supreme Court in the *eBay* case, the potential for injunctive relief was too high. That decision correctly reintroduces greater consideration of the "principles of equity" as required by the statue. These principles take into consideration the position of the purported enforcer in the marketplace as well as the public interest. There is no blanket rule against injunctive relief for patent enforcers who do not practice their invention, which is appropriate, but that fact will now be considered as one factor

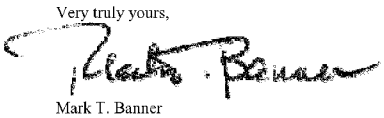
in determination whether injunctive relief is appropriate. I think this is a salutary change, one that returns the law to where it was approximately a decade ago, and will positively impact the "patent troll" issue.

Another factor that will make a beneficial difference in the "patent troll" issue is the relatively recent *en banc* decision of the Federal Circuit in *Knorr-Bremse*, revisiting and overruling a series of cases that had created adverse presumptions where a purported infringer failed to waive the attorney-client privilege. The earlier case law made willful infringement much easier to prove, and was without justification. The proposed changes to the Patent Laws in several of the patent reform bills being considered by your Subcommittee, including the recent "Patents Depend on Quality" Act (H.R. 5096), would also work to remedy imbalances in the law of willfulness, and thus reduce the threat of "patent trolls."

As mentioned above, the "patent trolls" problem stems from the attempted enforcement of patents beyond any reasonable, good faith basis of finding infringement. This is because too many patents issue with claims that are either overbroad or sufficiently ambiguous to arguably be broad beyond the legitimate inventive scope intended by the inventor. Much of this problem was the result of an overworked and under-funded Patent and Trademark Office, but that problem should be resolved once the full impact of the recent fee increases and end of PTO fee diversion is fully appreciated. However, the problem of existing patents being overly-broad is a real issue that impacts the "patent troll" debate. As Chief Judge Paul Michel of the Federal Circuit said recently at the FICPI World Congress, "The principal problem with most national systems, however, is overbroad protection. That is because broad claim are often allowed, even for narrow inventions." (Emphasis in original. Judge Michel's speech is very interesting and provides several possible reform proposals, and even though I do not endorse them all I am attaching it to this letter for your information because you may not have seen it.) Anything that can be done to improve the quality and certainty of the claims in issued patents should be considered.

Again, thank you for your attention to this important issue, and your continuing support of a strong and vigorous U.S. Patent System.

Very truly yours,



Mark T. Banner

Encl: Speech by Paul R. Michel

Optimizing Balances between Patentees and Rivals

Chief Judge Paul R. Michel

I am pleased to be invited to address you. The theme of balancing competing interests of patentee and others is the best possible theme. I congratulate President Ahner and other leaders on its selection. This theme is what judges worry about most. The topic of the panel focuses on the rights of third parties, but I will concentrate less on the rights of certain third parties such as other inventors and consumers than on those of rival manufacturer of patented technologies. Perhaps Judge Meier-Beck or Professor Galloux will concentrate on the other third parties.

In any event, I am honored to be on this panel with them and working under the direction of Mr Tofting.

All patent systems now are claim-based. We should hold to that. Departures will surely replace certainty and predictability. Each claim of a patent creates the right to exclude and thus creates a separate patent right. Each claim contains limitations, all of them should be considered material and meaningful. After all, the patentee as drafter elected to include each one and should be held to that.

Similarly, as his claim seeks to remove from the public domain certain subject matter, all ambiguity should be resolved against him. Certainty of claim scope is equally critical to patentee and to all his rivals. The keys are clarity and fairness. I submit fairness mainly relates to protection being made proportionate to the actual invention. Rivals are entitled to clear notice of what they may not do.

In my view the greatest needs of nearly all patent systems is better :

1. Claim drafting especially linkage to the written description to each claim ;
2. Claim granting by requiring clear claim terms and narrowing amendments, and
3. Conventions for construing claims, especially by Courts.

Most national systems provide adequate and comparable scope of protection to intellectual property right-holders, such as inventors who obtain patents. Remedies, however, vary considerably from one system to another. In many, they seem inadequate, especially where preliminary injunctive relief is never available. Since final judgment of infringement is often many years away, short-term enforcement of the right to exclude others – the essence of intellectual property rights -- often depends on pre-trial injunctions. Money damages are usually adequate, whether calculated as ill-gotten gains of the infringer or lost profits of the patentee. The United States practice of assuring at least a pre-infringement reasonable royalty as a "floor" of recovery seems appropriate. Otherwise, patentees get no recovery for proven infringement in cases in which profits cannot be established.

The principal problem with most national systems, however, is overbroad protection. That is because broad claim are often allowed, even for narrow inventions. These innovations usually deserve the narrower claims, but seldom the broadest. National patent offices seem unable to discriminate effectively, and may grant overly-broad claims after simply being worn down by patent agents or attorneys while facing supervisory pressure to conclude cases. The road of least resistance is simply to issue the patent. At least in the United States this happens routinely, I think.

Overbreadth is further increased because drafters often use vague terms lacking definite meaning in the particular art. Perhaps, offices should require the applicant to include explicit definitions for all claim terms not standard in the art. Vigorous post-grant oppositions proceedings con-ducted by experts could help considerably as well. They are under Congressional consideration now in the U.S.

Finally, validity challenges -- in infringement litigation or elsewhere -- must be practically mountable, not merely available in theory. Although a presumption of validity is sound, an elevated burden to prove invalidity may not. In the United States, using lay juries to decide validity is problematic. The combination of the "clear and convincing" burden and lay juries ruling on validity makes invalidating a U.S. patent too difficult.

In contrast, the use of lay juries to decide infringement after the judges have construed disputed claim terms as required by Federal Circuit case law is less a problem than is widely believed. Therefore, calls for expert juries or technical trial judges are not as well supported as calls for easier validity challenges. Many patent infringement cases in America are now resolved without trial on summary judgment, usually of non-infringement, once the dispositive claim terms are interpreted by the judge. Although this trend increases efficiency, it decreases adjudication of validity challenges, possibly allowing invalid patents to remain in force.

That occurs because having found no infringement, the trial judge may decline to decide validity.

The "public notice" function of patent claims is undermined not only by vague terms in application claims and the absence of definitions, but also by hurried examiners lacking sufficient time to sift each claim independently against the prior art and to demand substitution of more determinate, clearer, narrower claim terms. If adequate resources cannot be found for patent offices, then perhaps courts should impose a presumption of the "narrowest reasonable meaning" in the context of the total patent document for disputed non-art terms that are not explicitly defined in the application. Only then, would competitors receive fair warning and be able to avoid infringement.

Indeterminacy can also come from too broad a doctrine of equivalents to cover non-literal infringement. Certainly, some equivalency is needed, especially where a claimed component is simply replaced by unforeseeable, later-art developments. The historic example is transistors for vacuum tubes. But in other settings, elastic equivalency makes predictions by competitors too difficult. Excess equivalency can be adequately curtailed by vigorous application of three limiting doctrines: (1) prosecution history estoppel; (2) disallowing equivalents for obvious variations of prior art; and known technology that nevertheless went unclaimed; and (3) for subject matter disclaimed,

even implicitly by amendment or argument during prosecution. By contrast, varying the breadth of available equivalency according to whether or how much an invention was pioneering seems impractical and too unpredictable.

Another measure to protect overwhelmed patent examiners would be to limit the number of claims for any particular invention to perhaps 20. Presently many U.S. applications contain hundreds of claims. Similarly, continuation application practice needs to be curtailed. Perhaps patent offices should only allow two "child" applications per "parent." Perhaps only one "grandchild" application should be permitted. American continuation practice and abuses such as "submarine" patents that appear many years, even decades, after the initial filing must be curtailed. The problem will persist even with publication of the application after 18 months. The use of prosecution laches estoppels to invalidate such claims, while a useful recent development in America, may not alone be adequate.

Claim construction, I believe, holds the potential to avoid needless trials, resolve disputes faster and cheaper, and prevent undue pressures to settle suits. Courts, particularly in the United States, should combine claim construction with analysis of certain invalidity defenses, particularly for indefiniteness. So, too, should patent offices. Otherwise, the separation of analysis allows claims that fail to fairly warn others at once

to cause overbroad protection and also to evade invalidation, especially at the hands of a lay jury even when actually indefinite. In 18 years on the Federal Circuit, I can barely remember one patent ruling invalidating for indefiniteness. Yet many of the broader claims of otherwise valid patents look indefinite to me. Perhaps "indefinite as a whole" should suffice even if individual terms seem sufficiently definite when analyzed one-by-one. Another validity doctrine that should be integrated with claim construction is that which requires an enabling written description commensurate with the full breadth of all the claims. It is fair to demand the patentee to so describe the invention that others can easily practice it to the full extent of the claims. I see potential better results in systems if they would enforce this requirement strictly.

Public debate in the Untied States has focused on "questionable patents" as termed by the Federal Trade Commission. But any patent can be questioned, because the issue of non-obviousness ("inventive step") over the prior art is seldom clear. More important is questionable claims, usually the broadest. In nearly all patents I have reviewed, some claims are clearly proper. But others, the broadest, looks highly suspect and are more likely than not invalid if competently challenged. Therefore, the problem is patent offices allowing overly-broad claims in addition to claims for what the inventor actually invented and described.

The same can happen in court, especially with lay injuries in the United States – all claims area analyzed en bloc, instead of one-by-one.

One undeveloped area of patent law in the United States concerns the foundation for the Patent Act in the U.S. Constitution which in Article I, Section 8, authorizes Congress to grant to inventors for a limited period, now 20 years, the right to exclude others. But the patentees must be "inventors" of what the patent protects. If the patentee was the inventor of that claimed in narrower, dependent claims, but not in the broad, independent claim, then the protection actually afforded by the broad claim would seem to violate the Constitution limitations on what protection Congress may establish. To date, no one I know has litigated on this basis. In my view, someone should.

Thank you.