PART TWO
PATENT ENFORCEMENT ISSUES

V. REDUCTION OF THE COST AND COMPLEXITY OF PATENT ENFORCEMENT

A. Overview and Introduction

The Commission recognizes that one of the most significant problems facing the United States patent system is the spiraling cost and complexity associated with enforcement of patent rights. Patent litigation suffers from many of the problems of excessive costs and delay which plague the modern system of civil justice in the United States. Yet, additional unique problems exist for patent litigation, problems which are not shared by other forms of civil litigation, and which have the potential to eradicate the basic incentive provided by the patent system.

In addressing this issue, the Commission looked at ongoing legislative and judicial efforts to reform civil litigation in the United States, and identified specific proposals from those efforts that would be particularly beneficial in reducing cost and complexity of patent litigation. The Commission also considered the unique aspects of patent litigation, and formulated proposals which address these unique aspects. In both instances, the Commission was cognizant of the problems associated with dramatic reform, and therefore formulated three tiers of recommendations. The first set of recommendations propose reforms to practice which can be implemented without legislative action. The second set require more extensive action, including legislative reform. The final set are directives for further study on novel approaches to resolution of patent disputes.

Most of the recommendations of the Commission concentrate on procedural reforms, rather than reform of substantive patent law. Reducing "transactional" costs of modern civil litigation, particularly through efficient and straightforward procedures for enforcing patent rights, will provide the most immediate tangible benefit for parties involved in patent-related disputes. Subsequent reform of substantive patent law principles, and provision of alternative mechanisms for resolution of patent related disputes can then follow to maximize benefits.

1. Litigation Problems as a Threat to the Patent System

For over 200 years, the patent system has been hospitable to private inventors and entrepreneurs of limited means, to businesses, both large and small, and in more recent times, to universities. This has been so notwithstanding instances where owners of meritorious patents have been unable to enforce their patent rights, or where commercial firms have been required to pay tribute to patents of no merit, due to high transaction costs associated with litigation. In recent years, however, this situation has changed substantially, due to the explosion in both the volume and cost of modern civil litigation.[1] The protracted nature of modern complex civil proceedings results in enormous costs, measured not only in dollar amounts, but in lost opportunities and burdens on the day-to-day operations of businesses, both small and large.[2]

Yet, the inherent value of granting a right to exclude others from making, using or selling a patented invention, can only be realized if the patent owner has effective and inexpensive access to an efficient judicial system. This is due to the unique nature of the property right bestowed by the grant of a patent. The value of this right of exclusivity cannot be realized without the exercise of the option of resort to the Federal judicial system for enforcement of that right. As such, the patent system has a particularly close and dependent relationship with our system of civil justice.

Recent cases involving multi-million dollar damages awards tend to camouflage the problem of excessive costs in enforcing patent rights.[3] In such instances, legal fees in excess of even a million dollars appear to be a reasonable expenditure based on the magnitude of the return. But viewing excessive costs of enforcing patent rights as an acceptable form of "transaction" fee which merely reduces the patentee's net

return is a dangerous step to take. Current levels of litigation costs can be easily absorbed for only the most significant, and economically valuable patented inventions. The vast majority of patented inventions that serve to promote the technological advancement of our Nation, however, are not those of a "pioneering" stature, but instead are incremental, useful improvements to established technology. As Judge Rich of the Court of Appeals for the Federal Circuit aptly summarized,

> [i]n the very nature of things, progress is made as a result of the big and the little contributions, mostly the latter. We get a telephone or a triode -- in modern jargon a "major scientific breakthrough" -- only at rare intervals. The seemingly little advances are the bread and butter of progress and sometimes turn out to be of much greater importance than at first thought. The biggest contribution the patent system makes is to induce a steady flow of contributions and secure their continuous disclosure.[4]

Significant transaction costs threaten this steady flow of innovations, and their voluntary disclosure, by making enforcement of patents to such innovations impossible from a simple cost-benefit analysis. Removing the capacity of the innovators of such techniques and improvements to benefit from use of their patent rights due to excessive "transaction" costs thus threatens the basic incentive that the patent laws are intended to provide; namely, the reward of exclusive rights in exchange for disclosure of the innovation.

Thus, there is an essential relationship between the value of patent rights, and the cost of patent litigation. Where the market value of a patented invention is less than the cost of its enforcement, the patent has essentially no economic value to its holder. If the patent owner does not have a strong financial posture, threatened litigation can be used as a bargaining tool to decrease or even eliminate the potential value of a patented invention to the patent owner. Even where parties are equally situated, excessive "transaction" costs in enforcing patent rights serve only to lessen the value of patents to their holders, and thus, weaken the incentive they are designed to provide.

The Commission fears that, unless problems of cost and delay in patent litigation are addressed now, the central purpose of the patent system to provide an *effective* incentive for development and commercialization of new technology, will be seriously eroded. Such an erosion could well pose a threat to the very existence of the patent system, and to the significant contributions the patent system makes to the Nation's economic and competitive status.

2. *Common Problems - General Civil Justice Reform Initiatives and Reform*

Many of the sources of delay and expense in patent litigation are not unique, but rather are shared by other forms of complex civil litigation. The Commission therefore believes that reform of the basic model of civil litigation in the United States in a subject matter independent fashion will provide the most effective first step in reducing the cost and complexity of litigation related to patent enforcement. Recognizing this, the Commission has endeavored to study existing legislative, administrative, and private initiatives to reform civil litigation.[5]

In 1990, Congress took a major step to address the problems of modern civil litigation, when it passed the Civil Justice Reform Act. This Act provides a framework to effectuate reform by reducing the cost and delays associated with modern civil litigation.[6] The specific goals of the Act are to facilitate deliberate adjudication of civil cases on the merits, monitor discovery, improve litigation management, and ensure a just, speedy, and inexpensive resolution of civil disputes. It seeks to achieve these goals through use of mechanisms such as differential case management, judicial monitoring and reporting requirements, and through additional judicial resources. The only mandatory requirement of the Act is implementation of civil justice expense and delay reduction plans in each Federal district by December of 1993. The Act does not require implementation of a defined or minimum set of specific procedures, but leaves this to be determined by advisory groups appointed by the courts in each district. Expense and delay reduction plans

thus will be developed and implemented on a district-by-district basis. Early adoption of cost control and reduction plans is voluntary, except for certain courts which are designated as early implementation district courts.

The President's Council on Competitiveness also commissioned a study by a Commission on Federal Civil Justice Reform, led by former Attorney General Kenneth Starr. The Commission's study of civil litigation, titled the *Agenda for Civil Justice Reform in America*, set forth a series of measures designed to reduce cost and delay in modern civil litigation.[7] The report is helpful in both identifying current problem areas, and in providing substantive reform measures which would effectively reduce litigation costs in the United States. A bill based upon the report, entitled the Equal Access to Justice Act of 1992, was recently introduced into both houses of Congress, and incorporates a number of the recommendations of the Agenda for Civil Justice Reform, including

- implementation of the so-called "English Rule" of awarding costs and attorney fees to the losing party,
- a requirement for pre-filing notification by a potential plaintiff of the intent to file suit, and
- a "multi-door courthouse" system for promoting alternative dispute resolution through the framework of the Federal Judiciary.[8]

In addition to the bill, President Bush issued Executive Order 12778 of October 23, 1991, which directs Federal agencies to adopt many of the suggestions made by the *Agenda for Civil Justice Reform* in conducting civil litigation.[9]

The patent bar is also active in studying and analyzing civil justice reform, in the specific context of patent litigation. Several excellent reports on the costs and problems of modern patent litigation have been produced by associations such as the Patent, Trademark and Copyright Law Section of the American Bar Association (ABA/PTC), and the American Intellectual Property Law Association (AIPLA). These reports have been an important source for both the identification of problems of modern patent litigation, and for information and solutions to these problems.

Finally, an invaluable source of information is the public, either through the commentary received in response to the Commission's invitation for public comments,[10] or via commentaries in the legal and technical literature and in the press. This source has provided perspectives and suggestions as to how best to reduce the cost and complexity of patent litigation, and civil litigation generally, in the United States.

3. Overview of Problems in Modern Patent Litigation

To accurately assess the status of modern patent litigation, the Commission analyzed enforcement of patent rights from two perspectives; interpretation and application of substantive patent law to define rights of patent owners and parties charged with infringement, and the procedural system of resolving disputes related to patent rights.

The former area has seen dramatic improvement since the implementation of the Court of Appeals for the Federal Circuit in 1982.[11] Prior to the Federal Circuit, there were numerous problems in the enforcement of patent rights caused by different interpretations of substantive patent law among the various districts. Forum shopping was rampant, the presumption of validity of patents was seriously eroded, and the divergence among districts in application of the standards of validity and infringement led to a tremendous uncertainty in patent rights. Since its inception, the Federal Circuit has greatly assisted in bringing about uniformity, consistency and certainty to the patent law, and this has led to a stabilization of problems in the application of the substantive patent law.[12] For this reason, the Commission has provided relatively few recommendations calling for changes to the application and interpretation of the patent laws.

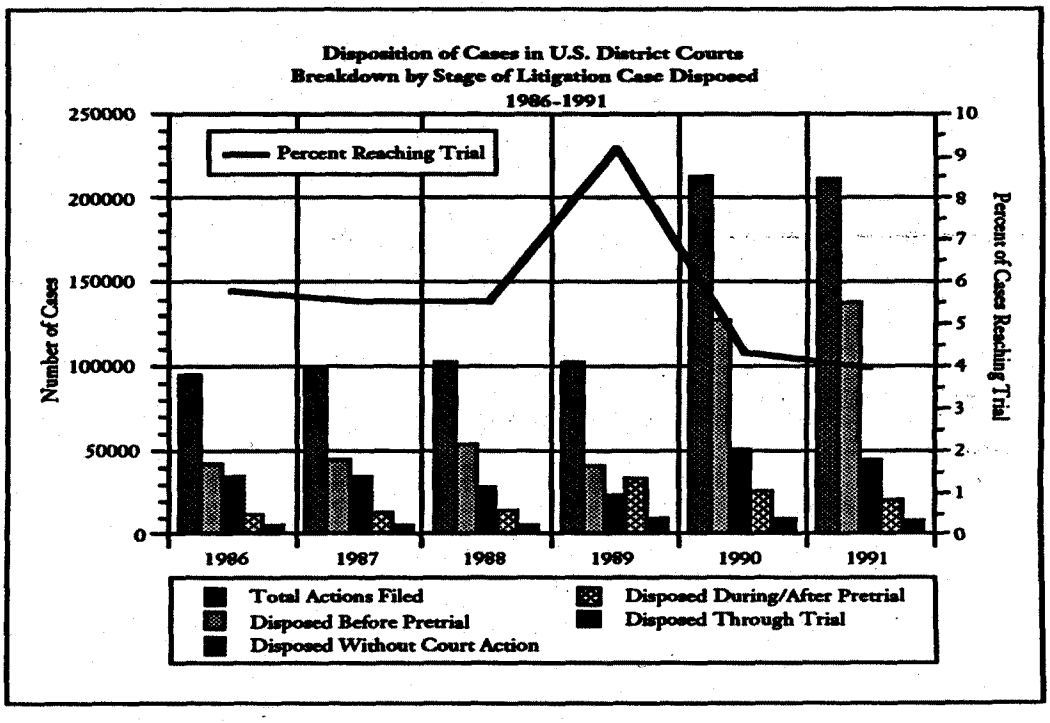
While great progress has been made toward stabilization of the substantive patent laws, the opposite has occurred as to the process of defining and interpreting

patent rights. There has been a large increase in the number of criminal cases filed and heard in Federal courts, and a noticeable rise in the volume of Federal civil litigation. These two forces have placed tremendous burdens on the Federal courts, which in turn has led to increased delays and spiraling costs in litigation. Unfortunately, the delays and complexity of modern patent litigation have provided overly aggressive lawyers with an ample assortment of opportunities to stall, delay and harass. The net of these factors is that patent litigation has become an increasingly inefficient, ineffective and undesirable means of resolving patent-related disputes.

(a) Discovery Problems

The problems in modern civil litigation have led to many studies and calls for reform, some of which were mentioned earlier. The implementation of any effective cost and delay reform program, however, first requires identification of the factors which increase cost and complexity. Not surprisingly, there is a substantial correlation between the perceived problem areas for patent litigation and complex civil litigation in general. The most significant single problem area, without a doubt, is uncontrolled or abusive discovery practice.

Excessive and uncontrolled discovery is cited in nearly every study of civil litigation as being the dominant factor adversely influencing modern civil litigation. For example, Congress cited a "compelling need for judicial officers to control discovery and its attendant costs" pursuant to enacting the Civil Justice Reform Act.[13] Lawyers who overdiscover cases rather than focusing on controlling issues, and who use discovery as an adversarial tool or tactic, were the most frequently cited cause for increased transaction costs. The *Agenda for Civil Justice Reform* indicates that over 80% of the time and cost of a typical lawsuit stems from the pretrial examination of facts through discovery. More shocking is their finding that fully 77% of the litigators in one large U.S. city acknowledged that they used discovery as an economic weapon against their opponent.



This view of discovery is also shared among members of the patent bar, the patent user community and the public in general. For example, in a recent AIPLA report, discovery problems led a list of factors which representatives of the patent bar, corporate patent counsel, and the

smoking gun the other side just knows has to be there.

Of course, all the while, both sides have to fight about the scope of discovery, privilege, protective orders, the length (and place) of depositions, and

control their cases, especially during the discovery stage, is a significant cause of delay and expense.[19] This, however, was not the sole problem. The report indicates that a substantial number of lawyers and judges also consider the failure of judges to hold early substantive conferences, to use the rules and discretion with which they are empowered, and to set early, firm trial dates creates unnecessary costs and contributes to delays. The concern over efficiency of the trial process is also reflected in the Agenda for Civil Justice Reform, which stresses the need for more efficient litigation.

The AIPLA reports also rank inadequate control over litigation as a primary factor in increased costs and delays in patent enforcement. The Myrick report, for example, compiled a list of the most significant factors which lead to cost increases and delay. These factors include:

- inadequate judicial case management, including failure of courts to control the discovery process, to impose sanctions or protective orders, to manage cases within the rules and within court discretion, and to hold substantive conferences at an early stage;
- the court's failure to schedule early, firm trial dates, and to promptly decide motions and render opinions, and
- clogged dockets, backlogs of cases, and interruptions from criminal dockets due to the requirements of the Speedy Trial Act.

Thus, the reports stress the need for more aggressive control by the courts over litigation, as well as substantive reforms to avoid delays in beginning and concluding litigation proceedings.

(c) Problems Unique to Patent Litigation

As noted above, many of the problems encountered in enforcing patent rights are not unique to patent litigation. Positive, substantive changes to the basic model of civil litigation will have a correspondingly positive impact on patent litigation.

However, there are features unique to patent litigation which have a direct bearing on costs and complexity. These include the quality of the patent itself and certain provisions of substantive law. The extent to which a patent owner or accused infringer is willing to commit resources to engage in litigation depends not only on the merits of the claimed invention but also on the quality of the patent. The Commission believes that patent enforcement can be improved by increasing the quality of patent examination at the USPTO. Increased quality of examination will strengthen the presumption of validity, which in turn will decrease the number of unwarranted challenges to patent validity. This will also increase the confidence of the courts in applying the statutory presumption of validity.

Therefore, the Commission firmly believes that it is essential that the USPTO continually strive to improve the quality of its examination process and that it be provided with the resources to do so. The Commission endorses USPTO's efforts to improve patent quality through examiner training courses, improvements in searching facilities, and other such programs.

There are several provisions, however, in the patent law which, in the view of the Commission, impose disproportionately large costs on the patent enforcement process compared to their punitive benefit.

Certain problem areas of modern civil litigation have a particularly detrimental effect during patent litigation. For example, uncontrolled discovery can pose an especially heavy burden on both the patentee and the accused infringer. Interruptions in the work schedules of key scientific or research staff can cause significant delays in a product development cycle, and can lead to economic harm unrelated to the patent dispute. Where there is intense competition in the field between the two parties, litigation, and in particular discovery, can be exploited as a potent economic weapon. Another problem is the inadequate or ineffective use of protective orders, as well as sanctions for violation of such orders, which can lead to disclosure of sensitive information useful to one's opponent outside of the context of the litigation.

Also, because patent enforcement actions frequently raise complex technical or scientific issues, there is frequently a heavy reliance on testimony of expert witnesses. Inadequate control over expert witnesses in patent litigation can lead to a disproportionately greater risk for abuse because of this reliance. When an expert witness is permitted to act as an advocate, the process of fact-finding becomes distorted. Furthermore, conflicts in testimony from experts from either side of the dispute increase the complexity of the already complicated issues involved in the patent enforcement action.

Finally, patent rights are uniquely susceptible to abuse, due to the availability and increasing reliance upon injunctive relief. Here, the mere threat of an injunction can be used as an economic weapon against a party unable to afford either the time or the cost to defend against a patent infringement suit. Similarly, where a start-up company has obtained a patent and intends to rely on those rights to establish itself in the market, the threat of a long, drawn-out and expensive patent fight can force that party to effectively relinquish the advantage it has earned through procurement of the patent grant.

B. Summary of Public Comments

There was nearly a universal consensus among the public comments that the costs, delays and complexity associated with modern patent enforcement are excessive.[20] Numerous comments stressed the need for a means for resolving patent-related disputes in a cost-effective manner, noting that patent rights become basically worthless if the costs of enforcing such rights outweigh their commercial value.

While echoing the concern over the costs of patent litigation, many respondents, however, noted that problems in enforcing patent litigation are not unique, but are common to nearly all forms of complex civil litigation. As such, these comments suggested reform in a subject matter independent fashion. Several comments also suggested that existing judicial reform measures, such as the Civil Justice Reform Act, once implemented, will sufficiently address many of the problems associated with patent litigation.

The most frequently cited source of excessive cost and complexity in patent litigation was discovery, specifically, abuse of the discovery process by overzealous, uncontrolled trial counsel, and lack of judicial oversight and control over discovery requests. While many suggestions were offered to address problems related to discovery practice, the most frequent was for strict control of, and limitations on, discovery practice to control costs of litigation. Specific suggestions included:

- require greater judicial control over discovery proceedings, either by the judge hearing the case, or through use of a magistrate or "special" master;
- require parties seeking unnecessary discovery to pay all costs associated with the discovery request;
- require "standardized" forms of interrogatories and requests for admissions on key issues ("core issues") pertaining to validity, infringement, and damages, coupled with judicial enforcement to ensure complete and candid responses;
- encourage more efficient resolutions of discovery disputes;
- encourage greater use of sanctions for abuse of discovery practice;
- require mandated admissions and answers, and a severely limited motion practice;
- require more concrete pleadings;
- impose an inflexible discovery period in every case;
- restrict the ability of parties to defer responding to discovery requests through pro forma initial responses followed by

supplemented responses at a much later date; and

- enact a "small claims" procedure which would have as a main element a significantly limited discovery practice.

The second general problem area pointed out in the public comments is the failure or inability of judges to control discovery and trial proceedings. Two sources were cited for this problem. The first was the scheduling burdens created by heavy criminal dockets by the Speedy Trial Act and an ever-increasing jurisdiction of Federal courts over criminal activity. The second was the failure of certain judges to use their authority to manage and control cases. For example, one response stated that the Federal Rules of Civil Procedure provide enough authority for a court to adequately control parties through use of sanctions, but is not exploited by many judges in their handling of patent-related cases. Some indicated that these problems were largely due to judges and trial counsel inexperienced in handling the complicated legal and technical issues endemic to patent litigation.

Several problems were cited as being caused by this lack of control. For example, several individuals suggested that inadequate control over litigation enables parties to file unwarranted requests and motions designed to delay the proceedings and harass the other party. Others suggested that interruptions and delays in long, complex litigation significantly increase the costs of litigation because witnesses, counsel and parties must constantly reschedule their appearances, re-prepare testimony, and repeatedly refresh their familiarity with all the issues in the case.

The suggestions offered to combat these problems included:

- encourage or mandate greater control over all phases of the litigation and over the parties by the judiciary;
- require Federal judges to decide fully submitted matters within a stated and fixed time period;
- impose a strict, non-extendible timetable (e.g. between six and eighteen months) for trial and entry of judgment, similar to ITC proceedings (one party predicted that such a timetable would encourage use of alternative dispute resolution (ADR) to resolve patent disputes);
- provide better training of judges and counsel, with respect to management of complex litigation;
- make the criteria for obtaining punitive damages more severe;
- limit the number of witnesses which can be called at trial;
- eliminate the option of a jury trial for patent validity cases;
- encourage courts to approach summary judgment motions more aggressively; and
- encourage use of judge-party conferences after pleading and basic discovery to focus litigation on only essential issues.

Factors other than problems in discovery and control over litigation were cited as well. For example, some argued that the availability of certain defenses to patent infringement such as the "best mode" requirement and non-objective standards for evaluating inequitable conduct only serve to increase litigation cost and complexity without providing benefits commensurate with their costs in practice. Some of the suggestions offered to generally improve patent litigation included:

- remove patent validity issues from judicial consideration by creating an administrative panel located in the USPTO with exclusive jurisdiction to hear patent validity questions, staff the panel with knowledgeable and experienced people, permit the panel to issue decisions on validity, infringement and/or damages issues, permit the entire range of patent defenses to be raised, and prohibit live testimony;
- eliminate or reform the non-substantive mechanisms for invalidating patents (e.g. "best mode" requirement, formalities of the oath/declaration, duty of candor requirements), as such procedures do not clearly enhance

the quality of the public disclosure made through the patent, and typically do not have counterparts in foreign patent enforcement systems;

- create a special branch in the Federal district court system, which would be staffed by judges experienced in patent litigation, would not have criminal dockets, and would provide only bench trials;
- appoint a special "patent" expert magistrate or judge to each Federal district court to assist or handle patent-related litigation;
- reduce the number of trial courts with patent jurisdiction rather than create specialized patent courts;
- permit the use of "express mail" filings in district courts, and permit parties to be represented by non-local counsel which have been admitted to practice in another Federal district, to reduce the need for "local" counsel; and,
- reform current reexamination proceedings, and/or provide for pre- or post-grant oppositions.

The responses showed mixed support for the concept of a "small claims" patent proceeding or court. Some respondents argued that such a proceeding would be unnecessary once adequate reforms to the basic civil litigation model were effected. Others added that a small claims proceeding which excluded the option of injunctive relief would not be widely used due to the frequent requirement for this form of relief as part of a patent enforcement strategy. Others suggested that specialized patent courts, rather than a "small claims" court, should be pursued. Finally, one response commented that a small claims proceeding would only serve to tie up the currently overcrowded Federal district court dockets, and would introduce additional complicated procedures and issues into the already complex and confusing current nature of patent litigation.

On the other hand, several responses indicated support for a straightforward, simple, and low-cost procedure to enforce patents. The responses supporting such a proceeding believed it would provide a viable alternative to full scale patent litigation, provided that parties of unequal bargaining strength could be compelled to use the "small claims" format, that there would be a severely limited discovery practice, that a realistic upper limit on the amount and form of damages, and that the costs associated with such a proceeding were kept at a minimum.

A summary of the elements recommended for inclusion in a small claims patent court or proceeding included:

- restrict the issues and defenses which could be raised during such a proceeding;
- avoid introduction of procedures which unfairly favor a claimant;
- require strictly controlled discovery, by requiring particularized pleadings, standardized discovery requests, tightly controlled discovery deadlines, and early identification of witnesses;
- allow the procedure to be compulsory at the option of a small claimant;
- if injunctive relief is permitted, only allow such relief in the form of a post-trial, and not pretrial, injunction;
- permit awards of attorneys fees and increased damages where appropriate;
- restrict issues to the main claims and compulsory counterclaims; and
- provide a direct appeal to the Court of Appeals for the Federal Circuit.

Finally, many individuals indicated support for increased use of ADR mechanisms. Many comments pointed out that the benefits of alternative dispute resolution procedures, such as speeding resolution of a dispute settlement, simplifying the process of resolution, and providing greater control over the procedure and effects of the resolution. Other responses, however, pointed out problems associated with either the alternative dispute resolution process, or its lack of use. For example, some comments suggested that there is no significant cost savings or reduction in complexity of issues or of a

proceeding when arbitration is used. Others pointed out that arbitration will not be sought voluntarily except when both sides to a dispute are forced into a mutually undesirable situation. Reasons offered for the failure of parties to pursue the use of alternative dispute resolution means included a lack of formal authority, or of participation by business principals which causes problems during negotiation, a lack of adequately skilled arbitrators, and the inability of small entities to force larger entities into using alternative dispute resolution.

Suggestions offered to encourage greater use of alternative dispute resolution mechanisms included:

- allow judicial discretion to assign costs of trial to a party which refuses to employ ADR, and then loses on the merits;
- encourage, as appropriate, the practice of having judicial officers point out the benefits of an alternative dispute resolution proceeding early in the litigation;
- impose strict requirements on litigation as a means of providing an incentive to use extrajudicial procedures to resolve patent disputes;
- combat the lack of expertise of the bar in use of alternative dispute resolution procedures through education and promotion; and
- provide experts from the Patent and Trademark Office to mediate disputes related to validity.

The responses as a whole were very helpful, both with respect to identifying problem areas and in providing possible solutions.

C. *Recommendations and Discussion*

The tenor of nearly every recent study of civil litigation stresses the need for some change of the existing system, whether that change takes the form of formal revisions to the Rules of Civil Procedure, creation of specialized procedures or courts, or simply urging courts to take a more aggressive role in controlling litigation. Whether one views the basis for change as a necessary means for controlling modern civil litigation, or as a means for ensuring that the value of the patent grant as an incentive continues, change, per se, is not objectionable, provided it reduces the transactional costs associated with modern civil litigation. As both the Brookings Report and the Myrick Report noted, there is no inherent advantage to either defendants or plaintiffs through changes in procedure which are effective in reducing these "transaction" costs. Thus, the Commission presents a series of specific recommendations designed to change the way modern patent litigation is conducted, so as to reduce the transactional costs associated with the litigation.

Recommendation V-A

(i) Encourage implementation by the district courts of differentiated case manage-ment plans for cases raising issues of patent validity or infringement, where that plan includes:

(a) the early setting of a firm trial date;

(b) use of a discovery case management system that requires the court, either through direct intervention of the trial judge, use of a magistrate, or through appointment of a "special master" pursuant to Rule 52 of the Federal Rules of Civil Procedure, to exhibit careful and deliberate monitoring over discovery so as to encourage the limiting of issues by the parties, the range of issues discoverable, and the number and extent of discovery requests;

(c) strict deadlines for filing, hearing and deciding discovery-related motions;

(d) use of a mandatory disclosure procedure for core information having the following elements:

(1) an automatic protective order that will cover any infor-

mation provided under the core disclosure requirements which the parties designate, and which the court shall issue prior to the disclosure of such designated core information;

(2) a short time frame to comply with the mandated disclosure requirement;

(3) the use of Rule 11 sanctions for non-compliance with the mandated disclosure provisions;

(4) a pretrial conference to define the remaining scope of discovery, to finalize the pleadings, and to limit issues pending in the action to take place shortly after the mandated disclosure has been completed;

where the information to be disclosed by each party is established by the Court according to preestablished guidelines and shall not be subject to change through actions of the parties or the court;

(e) use of a mandatory mediation conference to resolve some or all issues pending in the action, conducted not by the trial judge but by a person trained in the conduct of mediation, to be held at a time before the final pretrial conference.

(ii) Provide formal recommendations to the advisory groups of each district on key provisions for inclusion in the district's civil justice expense and delay reduction plan.

(iii) Implement changes to practice in a uniform and consistent manner among the Federal district courts.

The first element of the Commission's plan for reform of patent litigation is based upon a central theory of the Civil Justice Reform Act, namely, differential case management.[21] Differential case management procedures will permit courts to fashion flexible, content-oriented procedures for handling specific classes of litigation, such as patent litigation. Importantly, courts can implement case management plans to address problems commonly encountered in patent litigation by exploiting existing provisions of the Federal Rules of Civil Procedure. Through such plans, immediate benefits in reducing costs and complexity associated with patent enforcement can be realized.[22]

Development and implementation of specific differential case management plans has been entrusted to Civil Justice Reform Act advisory groups in each district. As such, the Commission favors promoting certain procedures which it believes will provide the basis for effective patent case management scheme. The recommendations on this point are thus largely directed at these advisory groups with the hope that they will consider the model scheme in formulating their final civil justice cost and delay reduction plan. The Commission believes it is imperative that these groups take into account the special needs of patent litigation in formulating their litigation cost and delay reduction programs.

It is important to stress, in view of the desire for uniform national policy on patent law, that adoption of civil cost and delay reduction plans which address the unique problems of patent litigation should take place in a uniform manner nationwide. While justifications exist for variations in local rules, such variations should be restricted to those matters for which there is a clear local need. Inconsistencies in rules of practice between the different Federal district courts introduces unnecessary transactional costs through the need for local counsel and additional training of retained counsel. As such, the Commission encourages the various Federal district courts, and the Federal Judicial Center, to

implement rule changes in a uniform, and consistent manner.

With the goals of increased control over proceedings, and decreased costs and delays, the Commission identified certain procedures which should serve as the basis for voluntarily adopted plans for management of patent litigation.

1. Useful Elements of a Patent Litigation Case Management Program

The findings and recommendations of the Commission represent a compilation of changes which can provide immediate benefits in reducing costs and delay in patent litigation. The list of procedures and practices is not intended to be exhaustive, nor is it intended to restrict discretion of the court in conducting litigation proceedings. The recommendations instead serve as a basic template which can be adopted by a court desiring to reduce the cost and delays in patent litigation through use of a differential case management plan.

An underlying basis for the recommended elements of a differentiated case management plan for patent litigation is active and controlled judicial involvement in the proceeding. To effectuate this increased control, courts are encouraged to utilize pre-trial conferences,[23] as well as increase the use of magistrates or "special masters" to oversee and control certain stages of the litigation proceeding.[24] Each conference would provide the court with an opportunity to encourage parties to limit issues in dispute, limit the range of necessary discovery, and implement key scheduling dates. Through these measures courts could increase control over the litigation proceedings.

In addition to the general role of increased judicial participation and control over proceedings, the Commission identified several specific procedures which courts should employ to exert control over the proceedings, and to streamline and reduce the time and costs involved.

(a) Early Setting of a Firm Trial Date

An oft-cited problem of modern civil litigation is the inability of parties to obtain a fixed, firm trial date early in the proceedings. Setting a firm trial date can have a "galvanizing effect on the attorneys and parties alike; establishing the date promptly and firmly reduces the occasions for delay and gamesmanship."[25] As many of the public comments noted, the failure to reach trial as scheduled requires each party to engage in duplicative and unnecessary preparation, which only adds to the overall cost of the litigation. The Commission believes, therefore, that shortly after the commencement of an action, the court should set a firm trial date which ensures that trial will commence between 12 and 18 months after filing of the complaint.[26] This policy should be strictly enforced in all but the most exceptional cases.

A firm trial date will be particularly effective in reducing the incentive for intentional delays where such delays are used primarily as a litigation tactic. Requiring parties to work within an inflexible time frame prior to trial will also force parties to narrow issues in dispute, and will provide an incentive to use alternative, non-judicial means for resolving such disputes. A firm trial date should, therefore, impose less of a burden on the parties involved.

The Commission recognizes that judicial adherence to the practice of setting a "firm" or "inflexible" trial date may be difficult due to the impact of heavy criminal dockets. Judicial discretion in scheduling is confined by the limits of the Speedy Trial Act, which restricts the discretion of courts to postpone or delay criminal trials by giving criminal cases precedence over civil cases.[27] Absent legislative reform of the impact or implementation of the Speedy Trial Act, the prospect of minimizing interruptions and forced rescheduling of fixed trial dates due to pressures from criminal dockets may seem limited. Yet it is imperative that some action be taken, and the most effective means short of legislative reform is through judicial action in case management and scheduling. Thus, while the Commission is cognizant of the scheduling pressures in the district courts, it remains convinced that action to set and adhere to a firm trial date is not only essential, but will assist in reducing burdens on judicial resources.

(b) Use of a Discovery Case Management System

The Commission urges courts to take greater control over discovery by implementing effective discovery case management practices. Maintaining effec-

tive control over discovery may be the most direct means courts can use to control costs and avoid delays during the early stages of patent litigation. This extra effort on the part of the judiciary to control and monitor litigation is an essential component of the Commission's plan for patent litigation management.

The Commission is cognizant, however, of the existing burdens on judicial resources, and is not intent on adding to those burdens. Yet, effective and early involvement by the trial court in litigation will lessen, rather than add to the workload of trial courts in managing complex litigation. For example, developing and enforcing an efficient discovery schedule will enable the court to spend less time responding to motions and resolving disputes between the parties. Careful judicial monitoring of discovery will also deter parties from using the discovery process to harass and delay opponents during litigation, and will encourage limiting the issues, reducing of the volume of discovery considered necessary, and progressing toward resolution of the dispute.

Tailoring a discovery management plan to each case at an early stage in the proceedings is an essential component of the Commission's model. As contemplated, an initial pre-trial conference would be used to set a discovery schedule, taking into account the mandatory disclosure phase discussed below. This initial pre-trial conference would also provide the court with an opportunity to encourage parties to narrow issues to those actually in dispute, set the guidelines for conduct of discovery, and to finalize pleadings.

In implementing an effective discovery case management system, courts should also consider the general guidelines for discovery management set forth in the Civil Justice Reform Act.[28] These guidelines, along with the suggestions of Judge Schwarzer of the Federal Judicial Center, were considered by the Commission, and are generally useful measures for preventing excessive and uncontrolled discovery during early stages of litigation. The *Agenda for Civil Justice Reform* likewise contains several mechanisms which can be employed by courts to implement an effective discovery case management system. Several of these procedures bear mention.

First, to conserve judicial resources, parties should be required to attempt to resolve discovery disputes among themselves prior to seeking resolution of the dispute from a judicial officer. For example, courts could require that parties meet and confer to resolve discovery disputes, obtain leave of the court to file any motion pertaining to discovery disputes, and could assign costs against the party refusing to comply with a discovery request who eventually loses the motion to compel discovery.

Second, phased discovery may be a suitable tool to employ in facilitating resolution of a patent dispute. The Commission's recommendation on use of a mandated disclosure procedure, discussed infra, presumes that there will be at least two phases of discovery. Courts, however, may find it useful to further segregate discovery into stages which are tailored to the predominant or dispositive issues raised in each case. This will be possible if courts take an active role in identifying and limiting the actual issues in controversy in each case. Segregating the discovery in such a fashion could aid in early disposition or settlement of cases, but must be applied in a case-specific fashion, rather than a general rule.

Third, presumptive limits on the numbers of discovery requests may prove to be useful in certain contexts. For example, if the scope of discovery is extremely limited, a presumptive limit on the number of interrogatories, depositions, and requests for production, coupled with cost-shifting for discovery beyond the presumptive limits may prove effective. The Commission cautions courts to not use such presumptive limits blindly, as the limits may unfairly restrict parties from conducting necessary discovery. A more appropriate system would be to include a portion of Recommedation 4 of the *Agenda for Civil Justice Reform*. Namely, the court should require parties to formulate an agreed-to discovery plan which sets limits on the number of discovery requests. Costs for additional discovery beyond the agreed-to limits would be imposed upon the requesting party. Of course, judicial supervision would be required to ensure that parties reach a fair discovery plan.

Finally, use of magistrates or a special master to oversee discovery should lessen

the direct burdens on the trial judge. This issue will be discussed in greater detail below.

(c) Reform of Motions Practice During Discovery

Modern motion practice, particularly motion practice during discovery, is another area in need of reform. Motions impose a significant burden on judicial as well as on party resources, as they mandate a formal response from counsel and judicial involvement to resolve the underlying dispute. Many such "disputes" are more appropriately disposed of through direct discussions between the parties. Yet, a party intent on harassing its opponent and causing delay can, through current practice, use motions for precisely these reasons. Modern motion practice during discovery has thus become another weapon for wearing down opponents and diverting attention from the merits of the case.

The Commission agrees with the suggestions of others that would require parties to meet and confer, in good faith, to resolve the discovery disputes, and to obtain leave of the court to file any motion pertaining to a discovery dispute.[29] Such a practice would decrease burdens on judicial resources, particularly during the early stages of the litigation. It would also reduce the opportunity for delays, intentional or otherwise, caused by the requirement of judicial involvement to resolve the dispute.

To further encourage good faith during such meetings, courts should not hesitate to impose costs associated with such motions on the party that opposes resolution of the dispute through this mechanism, and which subsequently loses the motion. The Commission agrees with the recommendation of the *Agenda for Civil Justice Reform* that costs should be imposed on the "loser" of a discovery-related motion to this extent.[30] Although this rule could be viewed as being unnecessarily harsh, exceptions should be provided only to avoid unfair results. For example, if a discovery request is opposed, yet the opposing party prevails on a concurrent motion for a protective order, this may justify the court in refusing to impose costs on the loser.

Certain administrative steps should also be implemented to assist courts in managing motion practice. For example, absolute page limits should be imposed on motions and responses. Hearings on motions could be discretionary with the court, so that disposition of the motion could be made without a hearing. Courts should set time restrictions for filing and responding to motions, and enforce those provisions strictly.

Finally, early disposition of motions by the bench will contribute substantially to an orderly and efficient proceeding. Many sources attribute unnecessary delays and interruptions during the discovery phase of litigation to the failure of courts to render prompt decisions on motions.[31] To address this problem, judges should be required to decide fully submitted motions within a set time frame after the motion is placed before the court, such as 60 days. Use of magistrates or special masters to monitor and control discovery would greatly assist courts in adhering to such guidelines.

(d) Mandatory Disclosure of Core Information

One of the more controversial aspects of the Commission's recommendation is a procedure to compel automatic disclosure of core information by parties shortly after the onset of the litigation. This process is designed to place in the hands of each party information which is essential to evaluation of the substantive merits of the case, without requiring substantial efforts of either party, or of the court. Possession of this information will allow parties to narrow the issues in dispute, and to restrict the amount of additional discovery necessary to prepare for trial. It is hoped that altering the first stage of the discovery process in this fashion will work to simplify the litigation substantially, and to avoid the need for extensive, generalized discovery.

The mandated disclosure will also address one of the most significant barriers to early resolution of a patent dispute—the opposition to disclosure of basic information that eventually will be disclosed through the discovery process. By making disclosure of the information mandatory and automatic, parties will not have to resort to motions to compel discovery, will avoid placing additional burdens on judicial resources and will be able to address substantive issues rapidly. If properly implemented, no harm will stem from compliance with this process, as the information to be provided is

of a nature whose disclosure cannot be precluded through the discovery process.

Implementation of the mandated disclosure process in an inflexible, unsupervised fashion will not effectuate the intent of the recommendation. To be truly effective, the manner in which the disclosure process is implemented must take into consideration the facts of each case. For example, where a patent infringement suit occurs after the breakdown of protracted negotiations between the parties, there is often no excuse for not requiring essentially complete voluntary disclosure of the information identified by the Commission very early in the proceeding. On the other hand, where there is little or no contact between the parties, so that neither side considered the substantive merits of the patent in suit, a rigid complete disclosure process will not be useful. The court must, therefore, ascertain the nature of the relationship between the parties early in the proceeding to determine how the mandatory disclosure process will operate, designating which information will be disclosed at what point, and taking into account the need for parties to not only assemble and produce the mandated information, but to evaluate the information so provided prior to providing additional information. The discretion required of the court will thus be limited to how and when the information will be provided, rather than which information must be provided.

The Commission is aware of the criticism of mandatory disclosure procedures. For example, some have questioned the effectiveness of such a procedure, arguing that it will only introduce an additional stage to discovery, spawn numerous disputes and further burden judicial resources in resolving those disputes. The Commission took such concerns into consideration in crafting its mandatory disclosure procedure.

First, the Commission's model identifies the specific information to be provided by each party, rather than requiring disclosure information using a generalized standard of relevance to the proceeding.[32] Use of a generalized standard which does not itemize the information to be provided will only lead to more disputes over the information to be provided, and will require more judicial participation to resolve those disputes. Requiring a specific, itemized listing of the information to be provided, on the other hand, will prevent, rather than create disputes over discovery and compliance with the mandated disclosure program. The common characteristics of such information can be summarized as follows:

- the information will be pertinent to nearly any patent case raising questions of validity or infringement;
- the scope of information to be disclosed is limited to "hard" evidence, such as, records and information which are objective records, rather than evidence of subjective beliefs; and
- disclosure of the designated information cannot be precluded through the discovery process.

Thus, the information is restricted to that information which would be elucidated through conventional discovery, despite efforts of parties to preclude such disclosure.

Second, the Commission's model contemplates disclosure as only the first stage of a controlled discovery proceeding. Once the basic information has been disclosed, the parties and the court are in a particularly appropriate position to narrow the issues in dispute, finalize pleadings, and identify issues for which additional discovery is necessary. Thus, as contemplated, a pre-trial conference to reduce the number of issues remaining in issue and to identify and schedule remaining discovery will take place shortly after the conclusion of the mandated disclosure period, and before any further discovery takes place.

Third, the Commission views as an essential component of a mandated disclosure procedure the use of an automatic protective order to protect information the disclosure of which is compelled through the procedure. This step is designed to address perhaps the greatest single source of discovery disputes; the opposition to disclosure of confidential or sensitive information to one's opponent. By having the court automatically issue a protective order on whatever information is provided by each party that the party designates, there will be a substantial decrease in the number of disputes and in the number of motions seeking protective orders. Requests

for in camera review of information to be provided under this program will be rare, as disclosure of the information designated for mandatory disclosure normally cannot be precluded.

Fourth, the mandated disclosure is designed to effect disclosure of significant information within a relatively short fixed time period, rather than permit delays in the disclosure of basic information throughout the entire course of discovery. Implementing the core disclosure process will require flexibility on the part of the courts and the parties. For example, many items to be disclosed under this process will not be known to the party required to produce the information at the time the complaint and answer are filed. Forcing a party to respond at that point is likely to provide nothing more than a "not currently known" denial. Likewise, disclosure of certain information may not be appropriate or necessary depending upon the development of the litigation. Certain defenses or stipulations may obviate the need for mandatory disclosure of some information. As such, the mandatory disclosure process should be applied by the court or a judicial officer in a way which will account for the unique aspects of each case.

Although some members of the Commission hoped to complete the disclosure process within a very short time frame, such as 30 days after filing of the answer, such a time frame may prove to be unrealistic and unproductive except for certain unique situations. For example, where the parties had extensive preliminary negotiations pertaining to the patent in issue, it would be appropriate for the court to set a short deadline for satisfaction of the core disclosure requirements. In such instances, most of the information that will have to be provided will be known to the parties.

A better approach is to ensure that mandatory disclosure be completed within a reasonably limited time after the filing of the answer, with the court playing an important role in determining what is reasonable. In most cases, this should be within two to three months after the action commences. The most significant factors for courts to rely upon in setting the appropriate time should be the degree of familiarity the parties have with the issues in dispute, the preparations made by both sides prior to trial, and the ability of the parties to satisfy the disclosure requirements within the allotted time.

As to the actual implementation of the procedure, the court can segment the mandated disclosure process into two or more stages, provided the overall time frame for the entire process remains under six months. The first session would require disclosure of information in possession of the parties that can be identified with reasonable certainty. Dates could be set later in the proceeding for disclosure of additional information, after each party has a reasonable opportunity to identify, compile, and evaluate the initial information provided. Such a practice will enable courts to segment the discovery process into manageable stages, and will provide opportunities for directed judicial intervention to ensure that the case is proceeding in an efficient manner. Of course, the duty to update any information provided will remain in effect as it would for any evidence provided pursuant to a discovery request.

Fifth, courts are encouraged to apply sanctions under the Rule 11 standard to ensure compliance with the mandated disclosure requirements. Some authorities suggest that the sanction for non-compliance should be forfeiture of any right to conduct further discovery. This, however, is a particularly harsh, and unnecessary sanction. The judicious use of sanctions will also ensure that this practice of mandated disclosure is implemented in a fashion which is consistent with the framework of civil litigation defined by the Federal Rules of Civil Procedure.

Sixth, in conducting the mandatory disclosure procedure, courts should recognize the need for parties to identify and prepare evidence to be disclosed, as well as the need for each party to evaluate the evidence received. Also, it is important to recognize that some of the information identified for disclosure through this procedure may not be available or known to the parties very early in the proceedings. As such, courts should be prepared to divide the mandated disclosure procedure into appropriate stages, so as not to require disclosure of information until an adequate time to identify and prepare the information has been provided, and so as to provide ample time for parties to evaluate

the information received. For example, a complete list of prior art to be relied upon by a party charged with infringement may not be available at the start of the litigation. Mandating disclosure of such information at the start of the action will provide very little in terms of useful information. The overall goal of streamlining the disclosure of essential information early in the process can be met through flexibility in conducting the mandatory disclosure procedure, provided the overall time frame for ensuring disclosure is respected.

Courts should also be particularly careful not to let the process restrict the valid rights of the parties. It is very important that parties not be forced into disclosing information for which a legitimate claim for attorney-client privilege may exist. Likewise, parties must have an adequate opportunity to assess the implications of foregoing the privilege over certain documents, as well as identify the basis for rebutting or forwarding certain claims which will affect the nature of information which must be provided. Thus, in implementing the core disclosure procedure, courts should remain cognizant that it is designed to assist the orderly execution of the initial stage of discovery, and not designed to alter in substance the rights of parties to either conduct expansive discovery, or to restrict information which is not discoverable under existing rules of evidence and procedure.

The mandated disclosure requirement thus focuses on removing the grounds for parties to contest basic discovery requests, while at the same time providing information which invariably would be disclosed, and is common to nearly all actions involving a challenge to patent validity or a claim of infringement. The Commission contemplates this initial disclosure as part of a coordinated effort to control the discovery process, and to propel litigation toward a rapid and fair conclusion. Providing the designated information at an early stage will permit parties to determine the relative merits of their respective sides before engaging in costly and time-consuming discovery.

Finally, the Commission notes that much of the unnecessary costs associated with discovery can be attributed to the efforts of parties to oppose disclosure of certain information. This activity manifests itself in the form of a barrage of motions, either to compel disclosure, to preclude discovery, to obtain in camera review prior to disclosure, or to obtain a protective order for the information. Courts should consider offering parties the option of extending the automatic protective order to any information voluntarily supplied during the initial round of automatic disclosure as an incentive toward disclosure of significant information, and as a means to reduce the procedural complications in such disclosure.

Model Definition of Core Information

(i) Information to be disclosed by the patent owner charging infringement:

- copy of the patent in suit and its file history plus the cited prior art references;
- copy of any prior art actually considered by the inventor(s), any attorney or agent who assisted in prosecution of the patent application, the current patent owner and the patent owner during prosecution of the patent application;
- copies of the following major records reflecting the research and development of the invention of the patent in suit:
  - laboratory notebook entries,
  - weekly or monthly reports,
  - project reports,
  - invention disclosure forms submitted to in-house patent counsel, where no claim for attorney-client privilege for the documents will be claimed,
  - test data comparing the performance of the invention to the prior art, and
  - test data reflecting the performance of any examples in the patent;
- information relating to the date of conception and actual reduction to practice of the patented invention;

- names and addresses of all witnesses having information to support dates of conception, development, and reduction to practice; and
- a list of claims alleged to be infringed by the accused product or process, with at least one claim applied to the accused product to establish a basis for the infringement accusation.

(ii) Information to be disclosed by the accused infringer:

- a copy of the formula, specifications, or drawings of the article or process accused of infringement;
- a complete list of all prior art then known which will be relied upon to challenge the validity of the patent on the basis of lack of novelty or of obviousness;
- a copy of the following major records showing the research and development of the accused article or process:
  - laboratory notebook entries,
  - weekly or monthly reports,
  - project reports,
  - test data or performance data for the invention, and
  - evidence of the date of first sale or use;
- identification of persons most likely to have significant information regarding:
  - the research and development of the accused article or process,
  - the nature or mechanisim or performance of the accused article or process, and
  - the decision to make and sell the accused article or process;
- samples of accused products or components, along with specification test data on the products, either provided to the plaintiff, or allowed to be inspected by the plaintiff;
- a statement of whether the defendant intends to claim any affirmative defenses, and whether or not the defendant will deny infringement; and,
- names and addresses of all witnesses to be called to support dates of conception, development, and reduction to practice of the accused product or process.

(e) Mandatory Mediation Conference

The *Agenda for Civil Justice Reform* estimates that over 90% of all civil lawsuits are settled prior to trial.[33] Settlement which occurs after extensive discovery has taken place, however, may distort the true nature of the settlement. In such cases, the settlement may be due to the costs and delays of extensive discovery rather than the merits of the case.

The Commission, therefore, advocates the use of mediation conferences to facilitate the early settlement and simplification of patent-related disputes. Mediation conferences will be particularly useful in resolving ancillary issues in a patent dispute, focusing the attention of the parties on the essential issues in dispute early in the proceeding, and offering an opportunity for early settlement of the case. Furthermore, by requiring a mediation conference, the court can remove one barrier to the voluntary use of mediation; namely, the tactical disadvantage created by the perception of weakness associated with one party advocating non-litigation measures to resolve the dispute.

As contemplated by the Commission, mediation would be conducted by a neutral third party experienced in mediation. The mediation session would be held at some point between the close of the mandatory disclosure period and the conclusion of discovery. More than one mediation conference may be appropriate where the court implemented staged discovery, to permit the parties to mediate the dispute after adequate disclosure of important facts. To streamline the process of setting up the mediation conference, the court could require the parties to select a mediator from a supplied list, or simply appoint one as part

of the case management planning process. To be effective, however, the mediation session must involve principals capable of binding the parties, whether those are corporate executives or counsel empowered with the authority to speak and bind the party. Mediation will also be effective only if it takes place in a non-judicial setting, with the results of the mediation not having a substantive effect on the litigation beyond that agreed to by the parties.[34]

The Commission recognizes that in some instances mediation will be ineffective to speed resolution of the litigation. This is true particularly where a party may have only one acceptable outcome, such as an injunction, or where the action is filed to harass the other side. However, the Commission believes that even in such instances, a mediation conference can be used to reduce the number of issues which must be resolved through a full trial, and therefore, will assist in reducing the overall cost, duration and expenses of the proceeding, as well as lessening the demand upon judicial resources.

Finally, the Commission notes and commends the growing trend in use of mediation to resolve patent-related disputes, both within the context of litigation, and as an extra-judicial means for resolving patent disputes.[35]

Recommendation V-B

Make broad use of magistrates or Special Masters pursuant to Rule 52 in pretrial matters such as discovery and motion practice, provided that such use does not detract or displace the proper role of the trial judge in the litigation.

Increased judicial supervision and involvement during the early stages of litigation is an essential component of many civil justice reform efforts. Yet the demands for increased judicial participation in monitoring and controlling litigation have been opposed by the judiciary due to the already significant burdens on judicial resources. The slow pace at which judicial openings are being filled and the mandates of the Speedy Trial Act make it unrealistic to believe that judges have the time to become involved to the degree contemplated. One compromise solution offered by the Commission is the increased use of magistrates or special masters to control the pre-trial stage of litigation.

Shifting the burden of resolving discovery disputes to magistrates or special masters will decrease the burdens placed on the trial judge while at the same time increasing judicial monitoring and involvement in the litigation proceeding. Such conservation of judicial resources allows the court to better manage its criminal and civil dockets, and to reduce the number of interruptions in complex civil proceedings such as patent-related disputes.

The use of magistrates, however, has the potential to create an adverse impact on litigation costs and delays. This may occur where the channels of communication between the magistrate and the judge hearing the case are not adequate, or where the magistrate displaces key functions of the trial judge. A breakdown in communication between a magistrate overseeing pre-trial discovery and case management, for example, can require the parties to expend unnecessary resources in acquainting the trial judge with the current status of the case, especially the key facts and issues which were elucidated through discovery. Allowing a magistrate to displace the role of the trial judge can actually increase demands on the trial judge's time, as decisions properly within the judge's discretion may be appealed after a decision by a magistrate. In this respect, the Commission notes that the Brookings Report expressed concern that "a number of Federal district courts are relying too heavily on magistrates in civil cases to conduct certain tasks that are properly reserved to judges."[36] Also, the *Agenda for Civil Justice Reform* emphasized the necessity of personal involvement of the judge in litigation, stating "[a]ctive involvement by judges early in the proceedings is one of the most effective ways to reduce the time required to resolve a dispute."[37]

One concern that has been expressed over increased use of magistrates is the experience level of magistrates in handling complex civil litigation. Two solutions are available to answer this problem. First, courts can appoint special masters to monitor the discovery process. Such individuals can be selected on the basis of

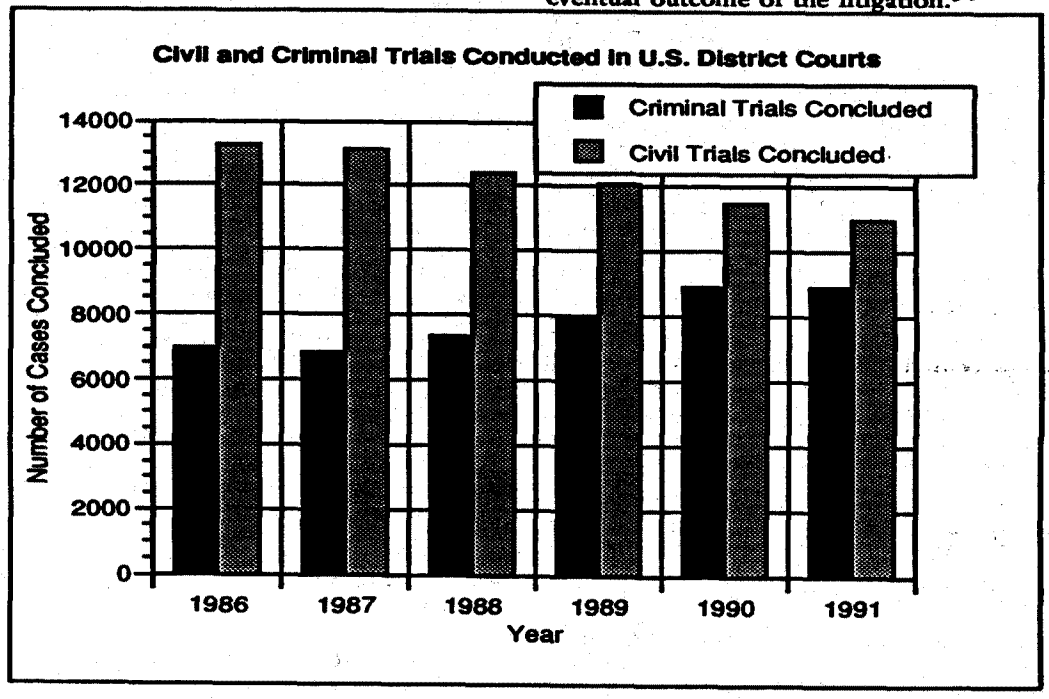
their expertise in patent litigation or in managing litigation. Parties can recommend selection of appropriate special masters as well. Second, increased training of magistrates to equip them with the skills needed to effectively monitor and control discovery can be provided. Existing training initiatives should, therefore, be supplemented with training on effective case management techniques.

The Commission, despite the concerns expressed by some over delegation of duties of the court in managing pretrial issues, is unaware of any significant objection to the use of magistrates in patent cases. Thus, it agrees with the recommendation of the 1966 Presidential Commission on Patent Law Reform that greater use of magistrates is desirable. The Commission accordingly advocates broad, productive use of magistrates or special masters to control pretrial activity, provided that such use does not detract or displace the proper role of the trial judge in the litigation.

Recommendation V-C

Find a solution to address problems created by accommodation of the need for speedy criminal trials which does not disrupt the conduct of complex cases such as patent cases.

The Speedy Trial Act, which ensures criminal defendants of a speedy disposition of criminal indictments, has had a significant impact on civil litigation.[38] This Act is frequently cited as being a primary reason for the interruptions and concomitant delays in civil litigation. The impact of these interruptions on complex proceedings such as patent disputes can be extremely costly, and can contribute to delays in reaching an eventual outcome of the litigation.[39]



Possible solutions to the problems caused by the Speedy Trial Act include segregation of civil and criminal litigation into discrete courts, improvements in scheduling and case management, and expansion of judicial resources to manage civil and criminal litigation. One clearly undesirable trend has been the recent tendency of Congress to expand the scope of criminal jurisdiction of the Federal district courts. This has led to further clogging of the single docket system in the Federal courts.

Although reforming the Speedy Trial Act is desirable, the Commission recognizes that this is clearly beyond its limited mandate. While the Commission strongly favors any measure which would reduce the negative impact of the Speedy Trial Act, it believes that it would be inappropriate to recommend changes based only upon the concerns of patent litigation. For example, while the Commission recognizes and to an extent agrees with arguments in favor of creating discrete courts for criminal and civil litigation at the Federal level, it recognizes the traditional appeal of the single court model for both criminal and civil actions. For this reason, the Commission advocates bringing greater attention to the problems of civil litigation caused by the Speedy Trial Act.

Recommendation V-D

(i) Reduce the use of "experts" to the giving of testimony in areas where expertise is required and diminish their role as advocates.

(ii) Prohibit contingent fees for expert witnesses, and require the disclosure of all fees paid to experts.

The role of the "expert witness" is often more important and influential in patent litigation than in other forms of civil litigation. This stems from the complex technical and legal issues which commonly arise during patent litigation. Also, the trend in recent years in patent suits is to expand the role of the expert to nearly all phases of the case, including topics such as USPTO practice, claim interpretation, equivalents, industry practice, and damages. Thus, modern experts go far beyond the conventional and historical role of the expert witness in patent cases of explaining the technology involved. Since one side's expert is invariably matched with an expert from the party's opponent, this leads to duplicative advocacy, by the experts and by trial counsel.

Outside the context of patent litigation, there is a growing consensus that the lack of control over the use of expert witnesses has led to abuse of their proper role. The *Agenda for Civil Justice Reform*, for example, states that "reform of expert witness practice is also essential if trials are to remain fair and rational mechanisms for conflict resolution" and advocates requiring testimony of expert witnesses to be based upon "widely accepted" theories.

The Commission recognizes a bona fide need for experts to provide assistance in explaining certain aspects of a case, particularly in the need for imparting an understanding of the technology involved. Beyond that role, however, the Commission encourages judges to require a strong showing of the need for expert testimony before use of such testimony is permitted.[40] Specific steps can be taken by courts to reduce the impact of the expert witnesses who assume an improper advocacy role in patent litigation.

First, courts could require parties to submit conflicting expert testimony to a magistrate or special master for resolution prior to presentation to the jury. This could entail preparation of an expert report, approved in its final form by the parties and subsequently presented to the fact finder by a neutral third party. This process would mitigate the negative and confusing impact of the "parade of experts" which is so common in patent litigation. Use of the neutral party to prepare and present the report would also restrict the effect of "advocacy-oriented" testimony. Alternatively, the court could require that testimony which is not contradicted by either side be stipulated and presented to the fact finder by a neutral party. This would reduce the amount of testimony provided by each party's experts, and would consequently reduce the ability of those experts to present advocacy-oriented testimony, as opposed to objective testimony.

Second, courts can control the presentation of expert testimony to assist the fact finder. For example, conflicting testimony to be presented on common issues can be presented on the same day or in succession. This would assist the fact finder in segregating the issues which are in dispute from those which are not. It would also provide more structure for the fact finder to better follow the presentation of the evidence.

The concern of the *Agenda for Civil Justice Reform* for expert testimony not based on "widely accepted" theories is noted but is perceived to be directed at discovery abuse in tort cases such as medical malpractice and product liability. Although conceivably this could be a problem in patent litigation, it is not known to be so. Furthermore, in many instances, there is no single "widely accepted" theory for a technical question; in such instances, this standard may be inappropriate to follow. A more appropriate standard for the content of expert testimony is one based upon theories supported by a substantial basis in the field. The goal of such a standard should be to screen and thereby exclude testimony which merely serves to advance the case of the offering party, where that testimony has no objective basis in fact.

Finally, the *Agenda for Civil Justice Reform* indicates that contingent fees for expert witnesses should be banned. Such a step would appear to be directed at preventing practices which turn expert witnesses into "hired guns." There is anecdotal evidence which suggests a potential trend in the use of such fee arrangements in patent cases. As part of the effort to divest the expert witness of his role as an advocate, the Commission recognizes the appeal of implementing a ban on the use of contingency fee arrangements for expert witnesses, or other fee arrangements which create an incentive for the expert witness to act solely as an advocate. The Commission, however, notes that an easier way to control use of contingent fee arrangements is through disclosure of the arrangement during cross-examination of the expert witness, which will significantly undermine the expert's credibility to the fact finder.

Recommendation V-E

(i) Promote greater awareness and use of alterntive dispute resolution (ADR) through mandatory law school programs and through continuing education programs.

(ii) Require courts in each case to identify issues suitable for resolution through voluntary ADR and to assist the parties in designing an appropriate ADR process for those issues.

Alternative dispute resolution (ADR) procedures, such as arbitration, mediation, and negotiation, offer many benefits to parties involved in a patent-related dispute. These procedures enable parties to choose an experienced decision-maker to resolve the dispute, to place restrictions on the degree of discovery permitted as well as the issues to be considered, to provide a rapid time frame for resolving the dispute, and to confine the impact of adverse results to the parties involved. Yet despite their many advantages, the different forms of alternative dispute resolution traditionally have been infrequently used in resolving patent-related disputes.

For example, in a recent survey a large proportion of corporate patent counsel indicated that they never used arbitration or mediation to resolve patent-related disputes.[41] Interestingly, there was, however, a noticeable increase between 1981 and 1991 in the proportions of the parties responding who actually used mediation to resolve patent disputes, while the proportion reporting use of arbitration was essentially constant. One third of these respondents, however, indicated that they would be inclined to use arbitration or mediation in the future.[42] Thus, from at least one sector's perspective, there is evidence of at least an intent to rely more extensively on alternative dispute resolution procedures.

The public comments, as well as those from the Commission members, generally support the increased use of alternative dispute resolution procedures to resolve patent-related disputes. Because these procedures must be voluntary, however,

there is little that the Commission can recommend beyond measures to encourage, rather than mandate, their increased use.

The Commission believes that the most significant single step that can be taken to increase use of alternative dispute resolution procedures is a concerted effort to increase the awareness of attorneys and patent holders, of the benefits of alternative dispute resolution. For this reason, the Commission advocates a two-pronged approach to increase the familiarity of parties with alternative dispute resolution procedures.

First, increased awareness of the benefits, as well as the limits of the different forms of alternative dispute resolution, can be achieved through mandatory legal education. This can take the form of required law school courses which would complement conventional law school curriculum which focuses predominantly on formal civil litigation as a means for resolving civil disputes. Education can also be implemented through required continuing legal education programs.

Second, the judiciary can take an aggressive role in promoting the use of alternative dispute resolution. The Commission believes that such procedures can be suggested by the trial judge to dispose of minor or peripheral issues, or even as a means of settling the case. In addition, the use of a mandatory mediation conference early in the proceeding will complement the issue-oriented suggestions.

Finally, the parties to a patent-related dispute should also assume an active role in advocating use of alternative dispute resolution procedures to resolve patent-related disputes. For example, where corporate parties are involved, discussions pertaining to the possible use of ADR should include in-house counsel since trial counsel may tend to prefer the methods they know best, namely, civil litigation. Corporations should also commit themselves to pursue alternative dispute resolution as a mandatory precurser to litigation. Many corporations under the auspices of the Business Roundtable signed commitments to use ADR as a first step to resolve any disputes between or among them. Such commitments should not only be encouraged, but should be followed up on once a patent-related dispute arises.

Recommendation V-F

Promote study and consideration of special procedures or systems for conducting patent litigation and enforcing patent rights, including:

- **(i) restriction of patent jurisdiction to one designated court per circuit;**
- **(ii) designation of judges having special expertise in conducting patent litigation in each judicial district and provision of flexible authority over judicial assignments to permit such judges to hear patent cases throughout each district where necessary; and**
- **(iii) implementation of a "small claims" procedure for resolving patent disputes in existing Federal district courts.**

The Commission recognizes that businesses, large and small, often do not have a cost-effective means of resolving patent-related disputes. Whether the business is charged with infringement of a patent, or is attempting to enforce its own patent rights, its primary considerations focus not on the substantive merits of the patent-related dispute, but on whether the business can afford the litigation process. This problem is not limited to independent inventors or small businesses, although for such entities, the effects of this problem can be particularly severe. As noted earlier, if the only patents which parties could afford to enforce were those of a pioneering stature, the patent system would not effectively encourage innovation and technological development.

Different sectors of the patent user community have contemplated special measures or approaches to solve the problems associated with modern patent litigation. One approach is implementation of streamlined or simplified means for resolving patent-related disputes. Suggestions were made to create a special administrative body to hear patent validity

challenges, to provide special courts or administrative bodies to resolve patent enforcement actions, and to implement novel procedures in the existing Federal court system for resolving patent disputes. Another approach would be to build expertise in the judiciary in conducting patent litigation while retaining the same administrative and judicial framework, rather than pursuing a wholesale restructuring of the methods by which patents are enforced in the United States.

Specialized patent enforcement procedures were adopted in many industrialized nations. These specialized schemes provide for interpretation and enforcement of patent rights. Such schemes range from essentially administrative patent validity courts, to courts with exclusive patent jurisdiction, to specialty patent courts which are staffed with judges who have extensive experience in patent litigation.

In the United Kingdom, a special system was created which permits the judiciary to designate any county court as a "Patents County Court." One such court has been designated. The court is not given exclusive jurisdiction over patent actions; rather, parties may elect to file in the court. The structure of the court benefits those parties who are able to substantially prepare an action prior to filing of the pleading. In fact, the court is structured to provide expedited review and disposition of the patent enforcement actions.

The Patents County Court model contains several unique elements. First, the court is staffed by a judge with extensive experience in patent matters. The use of a patent expert is designed to permit the court to control the proceeding and focus on the critical issues without the need for extensive guidance from the parties. Second, to file an action in this court, parties must use detailed pleadings. For example, the party charging infringement must identify which claims are alleged to be infringed and why, the grounds relied upon to support the infringement claim, and identification of all facts, matters and arguments to be relied upon to prove the infringement. The specific pleadings requirement is also imposed on the party charged with infringement. Third, a restriction on extensions is imposed on the parties, so that even by consent, no date may be extended beyond 42 days, and any extension of time requires leave of the court. Fourth, within 14 days of the pleadings, both parties are required to file and serve an "application for future conduct" which contains the final pleadings and the documents to be relied upon. The "application" will also summarize the outstanding issues, the future steps which need to be taken to prove claims, results of any testing or experimentation, and the party's desired course of action. Once the "application" is filed, the judge will evaluate the statement, and may order the USPTO to conduct specific testing, experimentation, or preparation of scientific reports. Approximately three months after the "application" is filed, the judge will render a decision. Limited discretion to delay the proceedings is given to the parties, as noted above.

A different structure is used in Germany. In the German model, one court, termed the Bundespatentgericht, is given exclusive jurisdiction over patent validity issues which one commentator has labeled a "quasi-patent office tribunal" stature to the court.[43] The benefit of this structure is an experienced panel which evaluates challenges to patent validity. This provides a higher degree of certainty to the process for evaluation. The German system also builds judicial expertise in resolving patent disputes by limiting the number of district courts having jurisdiction over patent matters involving infringement issues.[44] Likewise, at the appellate level, there are only two courts to which an appeal can be made—providing a similar benefit to that provided by the implementation of the Court of Appeals for the Federal Circuit in the United States.

In view of the ongoing reform efforts of the procedural system of civil justice in the United States, the Commission believes that radically reforming the U.S. system of enforcing patent rights would be premature. Furthermore, several of the Commission's recommendations will provide a cost-effective means for evaluating and resolving patent-related disputes. For example, the Commission is recommending revisions to the reexamination system which should encourage third parties to make greater use of the procedure in assessing the question of validity of a patent. After evaluating the progress of current civil justice reform efforts toward providing cost-effective

procedures for patent enforcement, further consideration of these alternative schemes should be undertaken. If found appropriate at that time, they should be implemented.

(2) Restriction of Patent Jurisdiction to a Single District Court Per Circuit

This proposal seeks to build expertise of one court per district in the conduct of patent litigation. With this increased expertise, courts would be able to more effectively control litigation proceedings, and ensure consistency in the application of substantive patent law. A single court could also draft local rules and employ court personnel to address unique aspects of patent litigation. Furthermore, the designated court could be selected on the basis of a relatively low volume of criminal cases, thus avoiding the problems in scheduling and interruptions facing many district courts in high-crime regions. Implementation of this restricted jurisdictional scheme would require only a modest change to the Federal Rules of Civil Procedure.

Of course, the restricted jurisdictional provision would reduce the flexibility currently available to parties to file action pursuant to the general jurisdictional authority. Yet, patent practice is an essentially national practice in the United States. The "costs" in terms of lost flexibility associated with this change would appear to be relatively minor in comparison to the prospective benefits in uniformity of practice.

(3) Designation and Use of Judges with Special Expertise in Patent Litigation

Another procedure which would increase expertise of courts in handling patent litigation would be to implement flexible judicial assignment policies. This would allow judges with special expertise in handling patent litigation to be shared among the district courts. Thus, judges particularly adept at controlling patent litigation could be assigned to hear patent litigation actions filed at any district court in the circuit. This sharing of existing judicial resources would greatly promote the consistency in the handling of patent litigation in each circuit.

The expertise contemplated here is not necessarily expertise in patent law, but rather in the ability of the judges to conduct the patent litigation proceeding efficiently. Several members of the public and of the Commission pointed out that certain judges make very effective use of the existing rules of civil procedure and are able to control patent litigation proceedings particularly well. A parallel effort to identify individuals to serve as "special masters" or sitting magistrates would complement this judicial assignment effort.

(4) Small Claims Patent Proceeding

A different approach for providing more cost-effective means for enforcing patent rights is the concept of a limited claim patent proceeding. Such a proceeding would provide an optional format for enforcing patent rights in the Federal district courts without subjecting the parties to a full scale patent litigation, and without creating "specialized" patent courts. Such a proceeding would be implemented as an optional litigation format available to parties filing a patent action which met specific requirements as to remedies sought and the relative bargaining strength of the parties. The Commission believes that a limited claims proceeding would be particularly useful in two situations; where the bargaining strength or financial posture of the parties is grossly imbalanced, and where the potential recovery through a conventional patent enforcement action would be less than the litigation costs.

Several respondents to the invitation for public comments indicated support for a limited claims patent proceeding. These responses expressed support for a means of enforcing patent rights in a straightforward, inexpensive, and rapid manner. Yet a number of respondents also argued against creation of such a proceeding, arguing either that general reform to litigation will provide the same benefits in a more direct manner, or that such a proceeding would provide a certain class of patent rights holders with unfair benefits, especially if parties could not "elect out" of the small claims format. Most parties, including many Commission members, opposed the concept of a special patent court which would be outside of the Federal court system, as such a step would improperly treat patent litigation as being substantially different from other forms of civil litigation.

Use of the limited claims format would require certain concessions by the party

instigating the lawsuit. One proposal under consideration by the AIPLA suggests that the predominant concessions for the electing party include a limit on the available remedies through the action (e.g., monetary damages up to $1 million, and no injunctive relief), a waiver of the right to a jury trial, and a limit on the degree and duration of discovery. The actual trial element of the proceeding would also be subject to restrictions, such as a limit on the number of expert witnesses, the form of presentation of evidence (e.g., limited live testimony), and the overall duration of the trial. Finally, only the non-electing party would be provided with a full right of appeal, and any such appeal would be directly to the Court of Appeals for the Federal Circuit.

The Commission believes that to be an effective solution, the limited claim format should only be available at the option of the patent owner, and if elected, would be binding on both parties. In other words, if the patent owner elected to use the limited claim format, the opposing party could not "opt out" and would be required to use the format. A minority view of the Commission would permit the opposing party to "opt out" but would require a reasonable basis, and would require that party also to pay costs beyond those which would have stemmed from the limited claim format.

Finally, before implementing a limited claim procedure, any potentially detrimental effects must be considered. One such effect would be the capacity of such a system for creating a means for harassment and abuse. In this regard, if the proceeding imposes no cost on the party bringing the action, a significant potential for abusive practices would be created. Thus, the potential for detrimental effects of such a proceeding must be considered.

Recommendation V-G

Remove challenges to patent validity which create a disproportionate effect on costs and delays during patent litigation without providing a corresponding public benefit, specifically:

(i) eliminate the "best mode" requirement of 35 U.S.C. § 112, first paragraph; and

(ii) restrict the application of the "on sale" bar to patentability of 35 U.S.C. § 102(b) to completed sales, where a completed sale is defined as sale plus actual delivery, rather than extending to merely an offer to sell.

While the Commission is of the opinion that general reforms to the model of civil litigation will provide direct benefits in reducing the costs and complexity of patent enforcement, there are steps which can be taken to address problems which are unique to patent litigation. In this regard, the Commission identified certain provisions of the patent laws that, due to their application, do not provide public benefit commensurate with their costs. Such costs are measured by evaluating the impact of the availability of certain defenses on adding costs to litigation, and in creating uncertainty in patent rights.

For example, in defending against an action for patent infringement, a party can raise a number of defenses, including a patent validity challenge based upon a failure to satisfy one of the statutory requirements of patentability. One cannot question the fact that the right to challenge a patent on the grounds that it was improperly granted is a basic element of the patent system. Yet, some of the requirements for patentability are never considered during examination of the patent. When such grounds are raised to challenge the validity of the patent at trial, extensive efforts and uncontrolled discovery are often ensued. For two statutory requirements; namely, the best mode requirement of 35 U.S.C. § 112, and the application of the "on sale" bar of 35 U.S.C. § 102(b), failure to meet these requirements does not necessarily lead to some objective harm to the public.

(5) Elimination of the Best Mode Requirement of 35 U.S.C. § 112

One challenge that a defendant to an infringement action can mount is a failure of the patentee to satisfy the "best mode" requirement of 35 U.S.C. § 112, first paragraph. This section of Title 35 requires a patentee not to only provide a fully

enabling and adequate description of how to make and use the claimed invention, but also disclose in the specification the best mode of practicing the invention as contemplated by him at the time the patent application was filed. During prosecution of the patent application, the question of whether the patent applicant has in fact disclosed the "best mode" is rarely encountered, primarily because it is very difficult to assess the subjective belief of the patent applicant due to the nature of the *ex parte* proceeding. Yet, the failure to meet this subjective standard can serve as the basis for invalidating some if not all the patent claims in litigation.

The apparent objective of the best mode requirement is to ensure that the public receives a full and fair disclosure of the preferred embodiment of an invention; in other words, a "high quality" patent disclosure. In theory, the best mode requirement compels a party to disclose more than what would be required to merely practice the claimed invention; it requires the patent owner to disclose the best way known to him of practicing the invention. Thus, as articulated by the predecessor court to the Federal Circuit,

> [m]anifestly, the sole purpose of this latter requirement [the best mode requirement] is to restrain inventors from applying for patents while at the same time concealing from the public preferred embodiments of their inventions which they have in fact conceived.[45]

The converse of this logic would suggest that, without the best mode requirement, the patent applicant would be able to conceal the best mode actually known, and provide only inferior methods of practicing the invention to the public. Thus, the best mode requirement attempts to maximize the public benefit obtained through the grant of a patent in exchange for public disclosure of an invention.

The best mode requirement, as construed through recent holdings of the Federal Circuit, focuses on the subjective state of mind of the patent applicant.[46] Briefly stated, the best mode provision requires the patent applicant to disclose within his patent application the "best" method of practicing the claimed invention. The best mode requirement thus does not require disclosure of what would be the "best" mode measured objectively. Instead, it merely requires the patent applicant to disclose what he/she perceives to be the best method of practicing the invention. The subjective assessment of best mode is made using the applicant's state of mind at the time the application is filed; not when the patent is granted.

While the goal of ensuring high quality patent disclosures is laudatory, members of the Commission and of the public question whether the best mode requirement actually promotes this objective.[47] Furthermore, even assuming that the best mode requirement does in fact encourage greater disclosure by the patent applicant, it is questionable whether the costs of the best mode requirement outweigh any benefit gained from the additional disclosure.

The disturbing rise in the number of best mode challenges over the past 20 years may serve as an indicator that the best mode defense is being used primarily as a procedural tactic. A party currently can assert failure to satisfy the best mode requirement without any significant burden. This assertion also entitles that party to seek discovery on the "subjective beliefs" of the inventors prior to the filing date of the patent application. This broad authority provides ample opportunities for discovery abuse. Given the fluidity by which the requirement is evaluated (e.g., even accidental failure to disclose any superior element, setting, or step can negate the validity of the patent), and the wide ranging opportunities for discovery, it is almost certain that a best mode challenge will survive at least initial judicial scrutiny.

The costs imposed through the availability of the best mode requirement are most apparent when an otherwise valid and enforceable patent is held invalid due to a finding of a failure to satisfy the best mode. A sad irony of the best mode requirement is that it is most frequently used to disadvantage the U.S. inventor. Over the past twenty years, the overwhelming majority of patentees who have either lost patent rights due to deficiencies of the best mode requirement, or had to devote extensive resources to defeat challenges based upon this requirement have been United States inventors.[48]

Thus, although the concept of the best mode requirement remains superficially attractive, in practice the best mode requirement is an anachronistic and burdensome requirement. If deleted, some argue that the quality and completeness of U.S. patent disclosures will suffer. This concern, however, is misplaced due to the enablement and written description requirement of section 112 and the deterrents to concealment from other provisions of the patent code.

The Commission recommends elimination of the best mode requirement. First, the best mode requirement is not necessary to ensure "full and fair" disclosures of patented inventions. The objective requirement of enablement ensures that the public is put in possession of at least one operable embodiment of a patented innovation. The enablement and written description requirements can be assessed without regard to the subjective intent of the patent applicant. Both requirements ensure that an adequate description of an invention is provided in exchange for the patent grant. Arguments based upon a fear that the enablement and written description requirements will be insufficient to ensure adequate disclosures in patent documents overlook the significant industrial competitiveness of countries such as Japan and Germany, where there is no "best mode" requirement. Despite the absence of a "best mode" requirement, there are no general concerns over the quality of the German or Japanese patent disclosures.

Second, aside from the positive requirement for adequate disclosure imposed by the enablement requirement, there are substantive deterrents to concealment of useful or material information in patent documents. Active concealment by a patent applicant of a material element of his invention renders the entire patent unenforceable, through the inequitable conduct doctrine. Concealment of non-material information, but "significant" embodiments of a patented invention places a "concealment-oriented" patent applicant at risk from later innovators who discover and then patent the significantly superior embodiment. Finally, in extreme cases, a patentee may find that an exceptionally weak disclosure may provide a basis for application of the reverse doctrine of equivalents to restrict the literal scope of his patent claims, due to inadequate disclosure.[49]

Third, the best mode requirement does not effectively compel higher quality disclosures. This is due to the subjective and non-mandatory nature of the requirement.[50] The best mode requirement does not require disclosure of an objectively superior method; it only requires disclosure of what the applicant perceives to be his best mode at the time the patent application was filed. Disclosure of a best mode of practicing the invention is also frequently not a mandatory element of a patent disclosure because there is no absolute duty of a patent applicant to discover "best mode" of practicing a claimed invention. If, at the time the patent application is filed, the applicant does not view one mode as being superior to others, there is no best mode to disclose. Thus, the requirement will have no direct effect on compelling a higher quality disclosure.

Fourth, in rapidly evolving technologies, such as biotechnology or computer-program related inventions, the "best mode" of an invention at the time the patent application is filed may differ dramatically, and is likely to be inferior to the "best mode" at the time the patent is granted. The competitive pressures of the modern business world require universities and corporations to file patent applications early in the development cycle, at a stage when it is difficult if not impossible to ascertain a "best mode" of exploiting the underlying technology. Here, the best mode does not function as a guarantor of high quality patent disclosures; there is little or no additional, useful information beyond that required to satisfy the requirements of enablement which enhances the public benefit. If the United States adopts a "first-to-file" system for awarding priority between competing patent applications, additional pressure to file early will ensue. This will increase the likelihood that the application is filed before the best mode for commercial success is known. In such an environment, the problems usually experienced by research-oriented enterprises will be shared by a much larger sector of the patent user community.

Finally, the best mode requirement as we know it has been an element of the U.S. patent system only since the 1952 Patent Act. The pre-1952 "best mode" requirement was much restricted in its application, and required a showing of intent to conceal. The heavy burden of the old best mode requirement may be a reason why there were only a handful of cases where a best mode challenge was raised or sustained to invalidate a patent during the first 160 years of the patent system. Thus, the best mode requirement is not the long-standing and integral element of the patent system some perceive it to be.

Accordingly, the Commission favors elimination of the best mode requirement of 35 U.S.C. § 112. The Commission does not seek to diminish the quality of patent disclosures. Instead, the intent of the Commission is to shift the question of adequate and complete disclosure back onto the framework of the enablement requirement of 35 U.S.C. § 112. Elimination of the best mode requirement will reduce costs of litigation through a reduction in necessary discovery, and through a decrease in the level of complexity in a large number of patent cases. It will also speed harmonization of the U.S. patent system with foreign patent systems which uniformly do not have a special "best mode" requirement. Greater reliance upon the enablement requirements of 35 U.S.C. § 112 during examination and enforcement of patents, along with the additional deterrents against intentional concealment noted above, will prevent the elimination of the "best mode" requirement from diminishing the quality of U.S. patent disclosures.[51]

(6) Restriction of the "on sale" Bar of 102(b) to Actual Sales, Rather than Offers to Sell

Section 102(b) of U.S. Code, Title 35, provides that a person shall be entitled to a patent unless that person's invention was "... on sale in this country, more than one year prior..." to the U.S. application filing date.[52] The underlying policies of the "on-sale" novelty bar are to prevent an inventor from extending the limited monopoly created by the patent laws by commercially exploiting his invention more than one year prior to the U.S. filing date,[53] and to encourage prompt and widespread disclosures of new inventions to the public.[54]

To effectuate the purposes of the 102(b) "on-sale" bar the courts have concluded that an actual sale of the invention is not necessary to bar the inventor from receiving a patent.[55] Rather, an offer to sell will be sufficient to bar the patentability of the invention.[56] Even a single offer for sale will be sufficient to bar patentability under the statute, as applied.[57] Moreover, only a single article need be placed on sale to bar the patenting of the article, even if the offer to sell is made to only one customer.[58] The case law sets forth numerous other conditions defining the parameters of the "on sale" bar.[59]

Irrespective of the parameters established by the case law, in practice it is often difficult for the inventor and the courts to determine whether and when an invention has been "offered" for sale.[60] One problem in applying the "on sale" bar stems from the uncertainty in determining to what extent the invention must be developed before the invention can be subject to the "on sale" bar. The case law does not provide a consistent standard for determining whether the invention is complete to the degree necessary for the invention to be placed "on sale."

Stating the principles of the on sale bar is not difficult; application of those principles in a cogent, understandable, and predictable fashion is the problem.

Early judicial decisions adopted an "on hand" test for determining whether an invention was placed "on sale" and thus subject to the preclusive effects of the on sale bar. This standard required that the invention actually be produced and on hand for delivery more than one year prior to the filing date to be considered "on sale."[61] Yet, the "on hand" test was rejected about fifty years later in the *Timely Products*, because it did not adequately achieve the underlying policies of the "on sale" bar.[62] The *Timely Products* decision came at a point in the history of the patent system where antitrust concerns were rampant, and patent rights were viewed with a skeptical eye. The court in *Timely Products* announced a three-part test which substituted an actual

reduction to practice test for the "on hand" test to determine whether an invention was sufficiently complete to place it "on sale."[63] Even the less stringent "reduction to practice" standard proffered by *Timely Products* was criticized as setting too high a standard for completion of the invention. Critics claimed that, similar to the "on hand" test, the reduction to practice standard permitted inventors to commercialize their inventions more than one year prior to filing merely by avoiding an actual reduction to practice.[64]

The *Timely Products* standard was recently replaced by the "substantial embodiment" test enunciated by the Federal Circuit in *UMC Electronics v. United States*.[65] The "substantial embodiment" test calls for a three-part factual inquiry to determine (1) the nature of the claimed invention, (2) the degree to which the invention was completed, and (3) the extent to which the commercial activities were conducted.[66] These factual determinations, in conjunction with the underlying policy of the section 102(b) "on-sale" bar, are used to determine whether the invention was capable of being placed "on sale" more than one year prior to the date a patent application was filed. It does little to address the problem of whether an "offer" to sell should always be equated to full public disclosure of the invention. Furthermore, the new "substantial embodiment" test has the adverse effect of creating an uncertain standard for ascertaining when the "on sale" bar has been met. For example, under the "substantial embodiment" test it is extremely difficult for the inventor to determine at what point in development of his invention the court will deem his invention to be "on sale."

The benefits of the "on sale" bar *as applied* do not appear to outweigh the costs of the implementation of this statutory bar to patentability. As stated above, the rationale for providing an "on-sale" bar is twofold; to prevent extension of the limited monopoly provided by the patent law and to encourage prompt disclosure. These policy objectives, per se, continue to be fundamental. The means chosen to effectuate the policy, grounded on the notion that an "offer" to sell is equivalent to full disclosure and also provides substantial benefits to the inventor, however, is outdated and inaccurate.

Accordingly, the Commission recommends restriction of the "on sale" bar of 35 U.S.C. § 102(b) so as to apply only to actual sales, rather than offers to sell. To ensure that the definition of "actual sale" remains objectively ascertainable, the Commission proposes to limit the definition of actual sales to situations where there is an actual sales agreement *plus* delivery to the purchaser. This standard, although somewhat arbitrary in its definition, can be assessed through a straightforward inquiry that leaves little room for subjective factors. By using a predominantly objective standard, there will be less uncertainty in assessing patent validity, and a decreased opportunity for abusive discovery. Courts and parties will gain greater control over discovery through the "sold" standard. Identification of evidence of actual sales, and the requirement for proving actual delivery, as opposed to the subjectively controlled standard of whether an inventor engaged in behavior that can be classified as "an offer for sale" of the invention, will be easier for both parties to ascertain.

Several other factors compel this modification as well. First, the availability of "on sale" bar, as implemented, contributes significantly to litigation costs, most notably in the area of discovery. Because a patent may be invalidated by showing that the invention was merely offered for sale prior to the critical date, there is considerable incentive to conduct extensive discovery to find any indication of "on sale" activity.[67] Parties may use the excuse of seeking evidence of an offer to sell to gain virtually unrestricted access to marketing and sales data directed far beyond the scope of a patented invention. Taken to its extreme, the validity of a patent can hinge on the interpretation of conversations between an inventor and a prospective customer, or a single slip of paper.

Second, while it may seem consistent to justify the on-sale bar in a first-to-invent system, this is not the case in a first-to-file patent system. For example, the pressure on inventors to file as quickly as possible is so compelling that most inventors will file immediately after making an invention. Any inventor who attempts to extend the limited monopoly of his invention by marketing the invention prior to the critical date runs the much greater risk of forfeiting

patent rights entirely. This is a risk few inventors will be willing to take.

Third, the goal of 35 U.S.C. § 102(b) in precluding withdrawal of inventions from the public domain which the public justifiably believes are freely available due to prolonged sales activity can be met through the combined effect of the restricted "on sale" bar and the public use bar to patentability.[68] The latter, as codified in section 102(b), precludes any invention in the public domain prior to the critical date from receiving patent protection.[69] This standard also requires that the disclosure be sufficient so that a realistic argument can be made that the public has actual possession of the innovation.

Finally, the change will resolve ambiguities present in the "on sale" standard. An inventor, and a party charged with infringement, can more readily ascertain the date on which an inventor sold his invention, rather than when his invention was offered for sale.

While the Commission believes, on the whole, that the proposed restriction to the on-sale bar would benefit patent litigants by reducing litigation costs, there are special considerations to take into account. First, even though an actual sale standard would represent a more objective standard, it may turn out that the standard is less than perfect. For instance, questions would remain as to whether a sale "on trial" or "on consignment" would fall within the "sold" bar, whether a rejected article would constitute a sale, and whether conditional sales would be included within the scope of the doctrine.[70] Second, while discovery costs would be lessened, they would remain burdensome, particularly where the success of the invention is highly dependent upon a confidential marketing strategy. Finally, in a first-to-file system, the distinction between sold and offered for sale becomes fairly insignificant, as the pressure for early filing would outweigh the effect of the on sale bar in either format.

Recommendation V-H

Encourage opposing trial counsel to respect appropriate standards for civility during litigation, including respect of the role of the attorney as an officer of the court, and through cooperation not inconsistent with the role of the attorney as an advocate of his or her client.

The Commission commends the recent efforts of courts and bar associations to restore civility to modern litigation. Civility, as articulated by Chief Judge Helen Nies of the Court of Appeals for the Federal Circuit, encompasses more than professionalism and courteous behavior. It reaches to the interplay between counsel representing adverse parties in the litigation. The lack of civility in this context is not a problem without detrimental effects; indeed, the lack of civility in modern litigation plays a significant, detrimental role in the cost effective resolution of patent disputes in the Federal district courts.

There is an increasing concern over the loss of civility in the legal community. At the forefront is the Seventh Circuit, which assembled a committee to study the problems of lack of civility in modern litigation. The committee released an interim report with numerous finding and suggestions, including:

- inclusion of civility training in law school curriculum;
- use of civility training for newly hired lawyers, in both the public sector and in private practice, and increased use of internal standards of civility conduct to guide practice;
- participation in and expansion of the Inns of Court by members of the judiciary and the bar;
- adoption of standards for professional conduct which include civility elements; and
- increased discussion and debate of the problems of civility.[71]

The Committee's report is an excellent initiative that warrants further attention and consideration by other circuits.

Lack of civility adversely affects cost effective patent litigation as manifested in

the form of a growing trend of litigants to use an uncooperative, combative approach in every encounter with opposing counsel. This so-called "Rambo-lawyering" shifts the role of opposing counsel from officers of the court to foot soldiers in an all-out war to destroy their client's opponent.[72] This combative approach manifests itself in the form of uncooperative behavior, and the creation of unnecessary obstacles during litigation.[73] Likewise, each document request or motion of opposing counsel is viewed as an event which must be challenged with a full scale attack and defense. Petty trial tactics, such as scheduling depositions at inconvenient times and use of delays in the mail to reduce opposing counsel's opportunity to respond adequately, are used merely to harass opposing counsel and provide no substantive advantage to clients. Finally, there is an increasing tendency of counsel to use judicial resources to remedy trivial disputes without any attempt to resolve the dispute through contact with opposing counsel.

This type of behavior leads to a litigation environment that is not only unpleasant, but one that contributes to increased costs and delays during litigation. First, judicial resources are often wasted resolving petty or trivial disputes which could easily be resolved through direct communication between opposing counsel. Second, the "all out war" mentality of trial counsel leads to an unnecessary diversion of resources. For example, the failure of counsel to resolve minor disputes in an extrajudicial manner not only wastes judicial resources, but requires efforts and time of trial counsel. Finally, the lack of civility tends to shift the focus of the litigation away from the substantive merits of the patent dispute, and toward the conduct of counsel.[74]

The Commission accordingly encourages judges to focus the attention of trial counsel on the element of civility during litigation. Judges, however, cannot be expected to shoulder the burden of promoting civility during litigation alone, nor should they be forced to monitor the behavior of trial counsel during litigation. To complement the efforts of the judiciary, the bar should make a concerted effort to promote civility during litigation. This may take the form of mandatory continuing legal education and law school courses, as well as informal efforts to promote appropriate behavior during litigation. Additional efforts to promote civility, through such mechanisms as the Inns of Court, should be employed to reach the practicing attorney. Finally, as the Seventh Circuit's Committee on Civility noted, increased discussion and debate is necessary to ensure that civility remains an important objective for the bar and the judiciary.

Recommendation V-I

Gather statistically valid data from a representative sample of the Federal judicial district courts to permit determination as to whether or not the trial of patent cases is substantially different from the trial of other complex cases and, if different, in what ways.

In carrying out its analysis of the issue of cost and complexity in patent enforcement, the Commission relied essentially on three sources of information. First, the reports referred to earlier in this paper, namely, the Agenda for Civil Justice Reform, the Civil Justice Reform Act, the Brookings Task Force Report, the Myrick Study, and the Forstner Study, provided useful information on both patent-specific litigation, and in civil litigation generally. Second, the public response to the invitation for public comment carried out by the Commission provided a useful source of comments and anecdotal evidence. Finally, the personal experience of the members of the Commission served as a useful information source during the formulation of the recommendations.

Despite the usefulness of these sources of information, the Commission believes that a comprehensive study of patent litigation would be useful to ascertain whether patent litigation is unique in its costs, delays, and complexity. The anecdotal information relied upon by the Commission is supported through the public comment and other studies and surveys. Yet, whether the problems noted create additional costs and delays beyond what may be experienced in civil litigation generally cannot be definitively answered

absent a comprehensive and well-planned study of patent litigation.

As such, the Commission recommends creation of a formal body to study patent litigation. The goal of such a group would be to compare patent litigation to civil litigation generally, so as to identify aspects of patent litigation which are uniquely significant in contributing to excessive costs, delays, and complexity in resolving patent-related disputes. Studies conducted by this body would necessarily be restricted to cases in which issues of patent validity or infringement arise; controversies involving license provisions in which patent validity or infringement is not an issue are more akin to traditional contract actions. The Commission is confident that the results of such a study will verify the recommendations which are set forth above, and may serve as the basis for further recommendations.

Recommendation V-7

Initiate public debate on the appropriateness of the use of juries to resolve questions of patent validity or infringement in litigation, and in particular:

(i) the applicability of the VIIth Amendment of the U.S. Constitution to the right to have a jury decide issues of infringement or validity; and

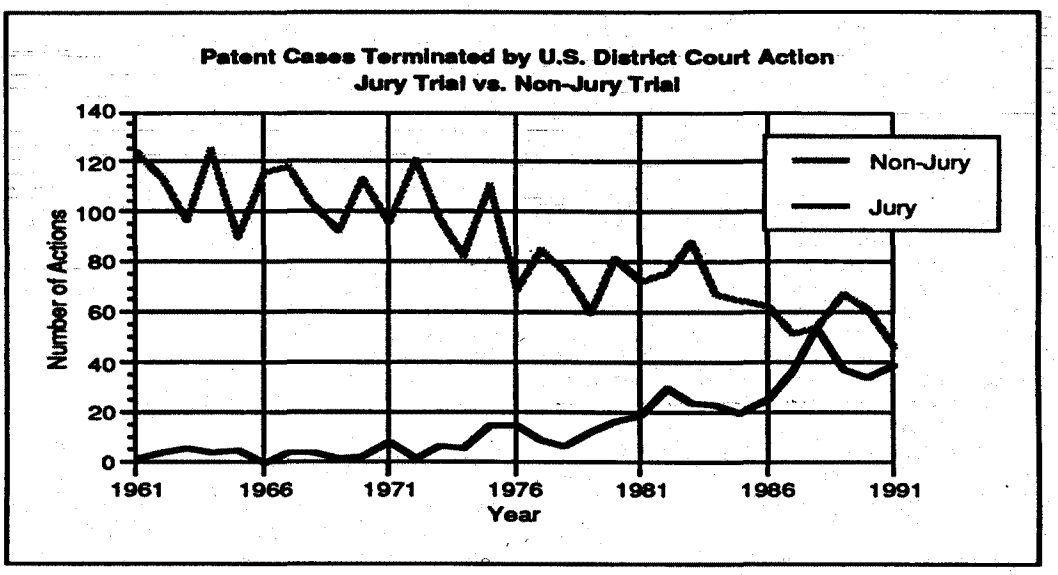
(ii) the extent to which a "complexity exception" can and should be applied to deny a demand for a jury trial.

Definition of patent rights through civil litigation has become a particularly complex and time-consuming process. Extraordinary demands can be placed on the fact finder in comprehending the principles of patent law, as well as the technical elements of the invention. When the fact finder is the court, parties gain at least the benefit of an entity experienced in understanding and application of legal principles. Also, the court can interrupt a complex presentation and ask questions for purposes of clarification.

When the fact finder is a jury, the body assessing the evidence typically has little or no experience in the technical or legal issues which are presented in the case. In fact, through voir dire, any individual juror that is likely to have such training, or relevant education and experience is likely to be excused by one of the parties. Because interruptions are not permitted, the jurors must sit mute through complex technical presentations for days and often weeks. These jurors are then presumed to have absorbed and understood the necessary technical details offered throughout the presentations.

In many cases, the litigation process becomes at best a rough form of dispensing justice, and at worst, a process which is no better than a gamble. This process explains the historical reluctance of parties to employ a jury as the fact finder in patent litigation. For example, in the modern history of patent litigation, juries have been used in less than ten percent of all patent trials.[75] Recently, however, the proportion of jury trials has exploded to the point where between thirty and fifty percent of all patent trials employ a jury as the fact finder.[76] This dramatic increase in the use of juries is generating concern in the patent user community that juries are being used to avoid the substantive merits of a patent dispute. Whether it is the patentee enforcing a patent or a party seeking to avoid infringement, the concern of the Commission is the abuse of the jury trial right to distort accurate resolution of patent-related disputes.

The question of whether jury trials are appropriate for patent litigation is not a new one. One view, shared by the former Chief Judge of the Federal Circuit, is that jury trials are not only appropriate in complex civil litigation, but guaranteed and protected by the Seventh Amendment. Proponents of this view stress that trial counsel has the burden of ensuring that the jury comprehends the facts and the principles of law. This view presumes that the jury is capable of adequately dispensing justice, and thereby effectively and accurately carrying out its designated function.



A different view is emerging, however, offered by those who feel that giving the jury discretion over specific issues such as validity in patent litigation is inappropriate. This perspective stresses the frequent inability of a jury to comprehend the technical and legal principles involved, and to absorb the often voluminous evidentiary showing which is common to patent litigation. This group, including several of the parties who submitted comments to the Commission, believes that the jury trial right should be severely restricted, and where juries are used, means of controlling their discretion should be employed.

The Commission agrees that jury trials in patent litigation raise special considerations that, to date, were addressed in a substantive manner. For this reason, debate should be initiated on the topic, with the objective of providing options for reform of the jury trial demand in patent litigation. For two reasons, the Commission cannot reach specific conclusions on either the Constitutional or legal basis for juty trials in patent cases, or, on the wisdom of utilizing lay juries to decide any or all of the issues which arise in such cases. First, this question was not rasied in time to request public comment. Second, the Commission simply lacked the time to study the issue in the depth it deserves. Despite this, the Commission hopes that by raising this issue, other bodies will initiate the appropriate studies and debate.

Several members of the public offered their views. Without exception, those commenting felt that the problems were serious, that jury trials were "getting out of hand," and that use of jury trials should be curtailed if possible. Most of the negative comments were focused on the use of a jury to determine patent validity, but many extended their criticism to use of juries to determine infringement issues as well.

This question of limiting the role or the availability of jury trials for complex civil litigation received some attention following a series of cases in the late 1970s and early 1980s. In such cases, a so-called "complexity" exception to the Seventh Amendment right to jury trial was justified on two independent grounds.[77] The first ground was that where a jury could not understand the legal and factual issues raised, the parties affected by the judgment were denied due process of law under the Fifth and Fourteenth Amendments.[78] Thus, one could argue where a jury holds a patent invalid without understanding either the legal or technical merits of the invention, the patent holder is subject to an improper

taking without adequate process of law. The second ground was that complex cases are more akin to "equitable" causes of action than "legal" causes, and under the logic of the Seventh Amendment would traditionally be heard by a court of equity. [79] As such, there is no jury trial right for patent disputes. Both of these arguments have been criticized.

In other fora, the right to a jury trial has been limited. In two instances, the Federal Circuit held that the right to jury trial is not violated when the USPTO holds a patent invalid after conducting a reexamination.[80] In such a proceeding, the question of whether the patent is valid is assessed and considered by an administrative body. If the question arose during litigation in the Federal courts, it would be classified as a question of fact which would be assessed by a jury. Thus, extending this argument logically, one could argue that at least the question of patent validity could be taken away from the jury during litigation and reserved for a special administrative body such as the USPTO.

Arguments that the jury cannot adequately resolve complex issues or that it would be proper to limit their use in complex civil litigation, however, are not a uniform position. Judge Bownes, of the Court of Appeals for the First Circuit has characterized the Seventh Amendment right to a jury trial as a basic right to which there can be no complexity exception. He expressly disagreed with proponents of limiting the right to a jury trial, such as Justice Harlan, who stated that the Seventh Amendment merely preserved the right to a jury trial in those actions that were tried by a jury in 1791 when the Seventh Amendment was adopted. He added, "[w]ith respect to factual issues, it is unlikely that one judge has any special competence that makes him superior to the collective ability of twelve jurors."[81]

Judge Bownes is not alone in his opposition to a complexity exception. Former Chief Judge Markey of the Federal Circuit emphasized in dicta that

> [w]e discern no authority and no compelling need to apply in patent infringement suits for damages a " complexity" exception denying litigants their constitutional right under the Seventh Amendment. There is no peculiar cachet which removes "technical" subject matter from the competency of a jury when competent counsel have carefully marshalled and presented the evidence of that subject matter and a component judge has supplied carefully prepared instructions. There is thus no warrant for limiting even complex patent litigation to an exclusive professional ritual engaged in only by lawyers and judges. Elbowing to one side the Seventh Amendment, and the compelling social and democratic (much less constitutional) bases for its existence, would be at best an unseemly judicial exercise.[82]

However, with due respect to these distinguished jurists, the Commission's limited investigation suggests that the Constitutional parameters are not at all clear. Also, the extent to which a complexity exception can be invoked to insure due process does not appear to be definitively decided. If the trend toward use of juries in patent cases continues, many Commission members believe that a serious threat to the patent system itself could be developing. After all, the courts are the final arbiters and if the public believes that their results are little more than a throw of the dice, interest in using the patent system will rapidly wane. Therefore, it is essential that further study of this issue take place quickly.

Finally, while the Commission is unable to resolve the basic question of whether jury trials are mandated or appropriate for patent litigation, the Commission notes that some means must be employed to ensure consistent and accurate results in jury trials. Many courts already employ jury management procedures which are within the discretion and authority of trial courts through the Federal Rules of Civil Procedure. Explicit guidance in jury management techniques has been provided by Chief Judge Markey as follows.

> For those whose concern for jury competence would deny patent litigants the same right to jury trial available to others,

reassurance abounds. To begin, the same governing Rules apply. First, if genuine material fact issues are absent, jury trial may be denied and summary judgment granted as a matter of law. Rule 56, Fed. R. Civ. P. Second, a court may remove a case from the jury on motion for a directed verdict, the facts presented at that point being undisputed by the movant and failing in law to support any possible verdict for the non-mover. Rule 50(a), Fed. R. Civ. P. Third, after the jury has returned its verdict, the court may set it aside on motion for JNOV when, on the totality of the evidence, and after drawing all inferences and credibility determinations in favor of the non-movant, no reasonable jury could have reached that verdict. Rule 50(b), Fed. R. Civ. P. Lastly, judges exercise substantial control over jury trials in choosing to require a general or special verdict, Rule 49(a), Fed. R. Civ. P., in admitting and excluding evidence, in instructing the jury on the law, in choosing to employ interrogatories, Rule 49(b), Fed. R. Civ. P., and in granting new trials, Rule 59, Fed. R. Civ. P., See generally Ropski, Constitutional and Procedural Aspects of the Use of Juries in Patent Litigation (Part II-Conclusion), 58 J. Pat. Off. Soc'y 673 (1976).

Reassurance resides also in the role of judge and counsel in managing, simplifying, and assuring presentation of complex evidence with clarity to the fact-finder. That effective trial management is the route to fair resolution of "complex" matters in jury trials is a truism unchallenged by extant empirical evidence.

> As they have in varying degrees for almost 200 years, trial judges daily require, as did the district court here, pretrial procedures in an effort to identify and focus the issues. They discourage unnecessary pleadings and encourage stipulation of undisputed matters. They precharge the jury and explain legal and technical terms to be used. They shield the jury from irrelevant, non-probative evidence and from unnecessarily lengthy or complicated "foundation" laying. They encourage use of charts, graphs, and other visual devices to focus and clarify the evidence. Following summations, trial judges greatly facilitate the jury's function when they give clear-cut, comprehensible jury instructions in plain and simple English.

The Commission urges district courts to use such techniques to assist and control juries in patent cases. This will permit meaningful review of both the jury verdict and the trial court's holding. These practices, already common in many jurisdictions, will lessen, but not eliminate some of the concerns over the use of jury trials in patent litigation. At the very least, this will permit the parties and the reviewing court to identify the rationale used by the jury to reach its verdict, and assess the jury's verdict in light of the evidence presented and the applicable legal standards.

VI. GROUNDS FOR HOLDING PATENTS UNENFORCEABLE

A. Introduction and Overview

In the United States, a defendant to an infringement action can raise an equitable defense of unenforceability in response to a charge of patent infringement if misconduct on the part of the patentee can be established. This defense is often justified through reference to the "unclean hands" doctrine. In other words, a court sitting in equity should prevent a "bad actor" from gaining the benefit of its "bad conduct." If the defense is sustained, all claims in the patent will be held unenforceable, irrespective of the substantive merit of these claims (e.g., whether or not the patent itself is valid). The types of activities which justify this judicially imposed equitable penalty include inequitable conduct and patent misuse.

Judicial interpretation of inequitable conduct focuses upon the two elements of intent and materiality to judge whether an inventor's, assignee's, or attorney's conduct before the USPTO warrants holding the patent unenforceable. As the Federal Circuit has stated,

> [i]nequitable conduct resides in failure to disclose material information, or submission of false material information, with an intent to deceive, and those two elements, materiality and intent, must be proven by clear and convincing evidence.[83]

As contrasted with earlier positions, courts have found that information withheld by an applicant is material if a "reasonable examiner" would have considered it important during the determination of patentability of the invention. At one extreme, this standard could include prior art known to the applicant that would not in fact preclude grant of the patent. As to intent, the courts have emphasized that a specific intent to mislead is required, rather than gross negligence standing alone.

Patent misuse focuses on actions taken by the patentee following the grant of patent rights. Generally, use of patent rights in an attempt to expand the enforceable scope of protection defined by the patent may serve as a basis for a finding of patent misuse. Examples of patent misuse include situations such as a patentee demanding that royalty payments extend beyond the term of the patent, or requiring the license or purchase of unwanted products as a condition to the license of a patented invention. Actions such as these are used as a basis for finding antitrust violations. The conditional sale example mentioned above, for instance, has been classified as a per se illegal "tying arrangement." Legislative reform of the antitrust provisions has been debated for several years, with the object being a clarification of the significance of possession of patent rights as a measure of market power. Finally, patent misuse, unlike inequitable conduct, is purgeable through appropriate actions of the patentee.

The Commission, as well as a substantial number of the public respondents, supports the defense of unenforceability where a patentee engaged in inappropriate conduct during the procurement of the patent. Although the defense has the potential to increase both the cost and complexity of patent litigation, many respondents believe that the cost is justified to discourage inappropriate conduct, and to ensure open and fair dealing during the ex parte prosecution of patent applications before the Patent and Trademark Office. The Commission also recognizes the necessity of some mechanism to induce patent applicants to provide the Patent and Trademark Office with clearly relevant prior art known to the applicant during examination of the patent application. Finally, although the penalty of unenforceability is considered by some to be harsh, many believe it to be the most appropriate, and most direct manner of sanctioning a party which engages in improper conduct.

Although there is support for the continued availability of the defense of unenforceability, this support is conditioned upon a clarification of the appropriate

standard of conduct necessary to justify application of the defense. Both the Commission and some sectors of the patent user community agree that, as interpreted by the Federal Circuit, the current standards for interpreting inequitable conduct are inappropriate in assessing the nature of conduct which will result in the sanction of unenforceability. Specifically, the Commission believes that the "reasonable examiner" standard for assessing the materiality of information withheld during prosecution, as interpreted in recent holdings, does not accurately reflect the appropriate level of materiality of information which can be used to support the sanction of unenforceability.

Some members of the patent user community advocate adoption of an objective "but for" standard for assessing the significance of information known to the applicant but intentionally withheld during prosecution. This standard would not provide a defendant with access to the equitable defense of unenforceability unless the intentionally withheld information would *in fact* have rendered the claimed invention unpatentable if it had been presented.[84] In the Commission, and in the public comments, many have argued that this is the only appropriate standard for assessing the significance of information which is withheld during prosecution of a patent application.

Recently, the Patent and Trademark Office has sought to respond to the concern over the question of the appropriate standard for measuring inequitable conduct by changing the rules which govern the disclosure obligations of patent applicants. The USPTO has thus amended 37 CFR 1.56 to replace the former "reasonable examiner" standard for measuring the materiality of information withheld with a more easily quantifiable standard.[85] The new standard holds that information is material if it creates a *prima facie* case of unpatentability of any claim, either by itself or in combination with other information. The *prima facie* standard is satisfied if the information compels a conclusion that a pending claim is unpatentable, using a preponderance of the evidence standard, as applied to the broadest reasonable interpretation of the claims in question, and before any rebuttal evidence is considered. This new standard thus seeks to base the question of materiality on familiar evidentiary and claim construction standards. Importantly, the new rule also clarifies that disclosure requirements are satisfied if the material information reaches the examiner through any means, which relieves the patent applicant of supplying additional information which is only cumulative to the information before the examiner, and construes disclosure requirements in the context of pending claims only.

B. Summary of Public Comment

The public response received on patent unenforceability defense generally agreed that the defense was appropriate for a clear case of patentee misconduct. Many referred to the desirability of using the defense to reduce the possibility of invalid patents issuing due to a failure of the USPTO to discover the most relevant prior art. Others stressed its necessity to prevent fraud on the USPTO, by providing an incentive for patent applicants and their representatives to deal fairly with the USPTO, and to force parties to take their duty of disclosure seriously. Irrespective of their beliefs regarding the application of the defense, many comments recognized the need for some means for encouraging voluntary citation of prior art by the patent applicant.

Despite the general belief expressed in the comments that the defense is necessary, many expressed their opinion that problems exist in the application of the inequitable conduct doctrine. The most commonly cited drawbacks focused upon the application of the inequitable conduct doctrine. Some comments suggested that the availability of the defense unnecessarily adds to the complexity and cost of patent litigation. Others urged that the present remedy of unenforceability is too harsh, especially since there are no provisions which allow "purging" of the conduct as there is for patent misuse. Much concern was expressed that the inequitable conduct defense is often abused by parties, and does not accurately reflect truly fraudulent activity. The comments suggested that these problems cause the unenforceability defense to undermine the purpose of the patent system, decrease the prestige of patents, and sometimes unfairly punish inventors for the actions of their representatives.

Many comments urged replacement of the inequitable conduct doctrine with a more objective standard for assessing materiality of information withheld, specifically, an objective "but for" standard. Such a standard would only find conduct to be actionable if, "but for" the conduct, the USPTO would not have issued the patents. Comments often pointed out that the "but for" standard is fairer to the patentee and his representatives, because it only punishes conduct which omits clearly pertinent art citations. Some parties suggested a new Federal Rule of Civil Procedure which would permit the award of costs and attorneys fees for charges of inequitable conduct that are not borne out at trial. Others urged that the "fraud on the Office" defense should be construed according to true fraud standards (e.g., plead with particularity).

The responses arguing against the continued applicability of the unenforceability defense included numerous suggestions regarding alternative sanctions. These included:

- discipline the lawyer who partakes in conduct which would amount to inequitable conduct, but do not hold the patent to be unenforceable;
- restrain the party found to be guilty of inequitable conduct from enforcing the patent against the accused infringer, but do not hold the patent to be unenforceable against all later parties;
- restrict the scope of the unenforceability sanction to be commensurate with the nature of the conduct; specifically, allow the patentee to enforce claims which would be patentable irrespective of the withheld prior art, but not those which would be unpatentable over such art — such a standard would properly distinguish the degree of culpability of the patentee and also would diminish the tendency of those charged with infringement to relentlessly pursue evidence to support an inequitable conduct claim;
- require forfeiture of damages awarded to the patentee, with the amount to be transferred to the Patent and Trademark Office, and include a preclusion against awarding plaintiff fees or costs; and
- provide an opportunity for a special reexamination proceeding to enable a party to purge misconduct in the form of withheld prior art.

These suggestions for reform show that the unenforceability defense retains its desirability as a means of preventing improper conduct on the part of the patent owner, particularly during the patent prosecution.

C. Recommendations and Discussion

Recommendation VI-A

Clarify the nature of conduct by a patent rights holder that justifies the use by a defendant to a patent infringement action of the equitable defense of unenforceability consistent with the following guidelines:

(i) continue to hold unenforceable patents in which the applicant, its attorney or its representative during the prosecution of the application for that patent before the Patent and Trademark Office failed to meet the appropriate requirements for disclosure of information within their knowledge having to do with the allowability of presented claims;

(ii) implement a more objective standard for materiality of information than one based upon the perspective of a "reasonable examiner," and

(iii) create a presumption that the standard of disclosure is satisfied if required information is before the examiner in a timely manner, regardless of how that information came to the attention of the examiner.

The debate over the appropriate materiality standard has divided the patent community. Within the Commission, there are factions which favor and oppose

the objective "but for" standard for materiality, as well as the new "prima facie" standard of the recently amended Rule 56. Despite the difference in opinion as to the precise standard for materiality, the Commission recognizes the desirability of addressing the broader goal of implementing a materiality standard which is more objective than the "reasonable examiner" standard. The Commission also recognizes the need to ensure that changes in standards used during prosecution of patent applications before the Patent and Trademark Office remain consistent with the interpretation of those standards in the Federal courts, particularly by the Court of Appeals for the Federal Circuit. Thus, the Commission focused its recommendations on the broader goals of ensuring a more objective standard for interpreting the materiality of withheld information. The Commission's recommendation accounts for the need to provide an unenforceability defense where a party has withheld information, while at the same time not penalizing parties for not providing cumulative information.

The first element of this recommendation is based upon the Commission's belief that the unenforceability defense is a necessary one and should be available to parties charged with infringement in appropriate circumstances. Some mechanism to ensure fair dealing between the patentee, the public and the Federal Government has been part of the patent system for over 200 years.[86] In its modern form, the unenforceability defense provides a necessary incentive for patent applicants to engage in fair and open dealing with the Patent and Trademark Office during the ex parte prosecution of patent applicants, by imposing the penalty of forfeiture of patent rights for failure to so deal. The defense is also considered to be an essential safeguard against truly fraudulent conduct before the Patent and Trademark Office. Finally, the defense provides a means for encouraging complete disclosure of information relevant to a particular patent application. This strengthens the presumption of validity of issued patents. Thus, from a policy perspective, the defense of unenforceability based upon inequitable conduct is desirable and should be retained.

The second component of the recommendation embodies the belief of the Commission that a more objective standard for measuring the materiality of information is necessary to justify the unenforceability sanction. A significant amount of anecdotal evidence from the public comments suggests that claims of inequitable conduct based upon questionable grounds are becoming more prevalent. Indeed, without the imposition of a strong burden of proof, one would expect that claims of inequitable conduct, which can negate infringement of all claims of a patent, would be routinely made as part of the defensive strategy of the accused infringer. Grounding the inequitable conduct defense on a more objective basis will deter these frivolous or questionable claims of inequitable conduct. It will also clarify the standards for conduct for patent applicants and their representatives. This will enable these parties to guide their future conduct during prosecution of patent applications. In this regard, the new formulation of Rule 56 will provide some measure of improvement, as it provides a more easily quantifiable standard to be used by the patent applicant in assessing whether information is material.

Finally, the Commission recognizes that information not supplied by a patent applicant, but nevertheless fully considered by the patent examiner prior to the grant of the patent, should not serve as the basis for upholding a claim of inequitable conduct. This may occur where information withheld by the patent applicant is merely cumulative to that already considered, or where information is withheld by the applicant but is independently discovered and considered by the patent examiner. Under old Rule 56, in both of these situations the failure of applicant to provide the information can render the patent unenforceable, even though the information was fully considered by the patent examiner.

To effectuate this element of the proposal, the Commission believes that the courts should not hold the patent unenforceable where the information withheld was actually considered by the patent examiner. The inequitable conduct defense would remain available to alleged infringers where the examiner did not consider the withheld information. Thus, the inequitable conduct defense would still deter frivolous or poorly supported claims of

inequitable conduct early in the proceeding. This, in turn, can be expected to reduce discovery burdens and unnecessary litigation expense. The Commission's proposal here is presently incorporated into amended Rule 56.

Recommendation VI-B

Changes to the standards for judging inequitable conduct before the United States Patent and Trademark Office should not prejudice the rights of patent rights holders, so that in any action to enforce a patent which was granted prior to the effective date of such changes, the patent rights holder should be given the choice of being judged by either the standard used before, or the standard employed after the amendment.

The Commission is concerned that unwarranted and undesirable effects of the recent change in the standard of materiality will adversely affect parties which prosecuted patent applications under one standard for duty of disclosure, and subsequently face a different standard during litigation. Accordingly, the Commission recommends that parties enforcing patent rights should be given the choice of defining the standard under which their conduct before the USPTO will be measured.

Certain baseline considerations must be articulated. First, parties who receive a patent grant after the effective date of the new rules shall be governed by the new standard. Second, litigation which was already in progress at the time of the enactment of the new rules should continue to be governed by the "reasonable examiner" standard. Finally, for all other instances, namely patent grant prior to the date of enactment and no pending litigation, the patentee should be given the choice of defining the standard of materiality, in the form of a non-reversible election prior to commencement of discovery. This flexibility will ensure that patent rights are not adversely affected simply because of a rule change in the USPTO.

Recommendation VI-C

Enact legislation which establishes that possession of intellectual property rights should not give rise to a per se presumption of market power, in the context of an antitrust proceeding.

The Commission is concerned about the effect of several decisions which permit a presumption that possession of intellectual property rights confers market power upon the holder of those rights.[87] This presumption shifts the burden of proof to the antitrust defendant, and has the effect of encouraging litigation related to and counterclaims during enforcement of intellectual property rights.

The Commission believes this presumption and its effects are both inappropriate and undesirable. This presumption ignores the distinction between possession of intellectual property rights and the economic element of market power. For example, a patented article may have numerous economic substitutes which preclude the patent holder from asserting market power. Possession of patent rights in such a situation does not establish that the patent owner has obtained market power. Many commentators share the Commission's view that permitting parties to rely upon a per se presumption of market power presents a serious threat to the effective incentive that the patent law is intended to provide to inventors.[88] Finally, the Commission believes that this perception of intellectual property rights plainly ignores the pro-competitive function of patents in stimulating further innovation and competition.

Accordingly, the Commission advocates a legislative remedy which would prevent courts from presuming the existence of market power from the possession of intellectual property rights. Specifically, the Commission advocates revival of recent legislative efforts which would provide this remedy.[89]