VII. REEXAMINATION

A. Introduction and Overview

The genesis of the present reexamination system is the 1966 recommendation of the President's Commission on the Patent System. That recommendation sought an *ex parte* administrative procedure as a faster and less costly alternative to a validity challenge in court. While largely successful in providing patent owners an efficient means for confirming the patentability of issued patents and thereby reducing the likelihood of a validity challenge, the substantially *ex parte* character of the present system may discourage its use by many third parties as an alternative to validity challenges in court.

Under the present system, a third party seeking reexamination has an initial opportunity in his request to present arguments for unpatentability of issued claims in view of newly-discovered documentary prior art. If he is unsuccessful in convincing the examiner that "a substantial new question of patentability" exists, the third party's sole remedy is a petition for de novo review by the Group Director. A USPTO decision refusing reexamination is final and not appealable. If the examiner orders reexamination, the third party may have a second and final opportunity to present arguments of unpatentability, but only if a statement is filed by the patent owner responding to the decision ordering reexamination. Thereafter, reexamination is completely *ex parte*; the third party having no opportunity to address issues raised during the reexamination. While the patent owner may appeal any adverse decision, the third party cannot appeal a decision to grant a reexamination certificate. A third party may be granted an opportunity to intervene in a patent owner's appeal to the Federal Circuit or in a de novo review in the district court, although he is not able to participate in an appeal to the USPTO Board of Patent Appeals and Interferences.

Since 1981, over half of all reexamination requests have been filed by third parties.[90] Notwithstanding such third party participation, because reexamination is essentially *ex parte*, reexamination is limited to consideration of patentability issues solely arising from documentary prior art.[91] Since the USPTO's reexamination decision is likely to be given great weight by a court in considering validity of the reexamined patent, a third party's burden of proving invalidity will be more difficult to sustain. The third party's validity challenge in court may also be weakened if the USPTO refuses a third party's request for reexamination. Thus, many third parties do not perceive the reexamination system as a fair alternative to challenging validity in court[92] and are less likely to request reexamination as an alternative to litigation because of the perceived unfairness of the system. If the reexamination system discourages its use by third parties as an alternative to litigation, the system is failing one of its primary purposes -- to provide an expert forum as a faster, less expensive alternative to litigation of patent validity.

Initially, the Commission's views differed on the preferable scope of third party participation in reexamination. There was strong support for a full *inter partes* proceeding, with certain restrictions designed to avoid abuse and to limit the scope of evidence upon which a third party can rely. For example, those supporting full *inter partes* reexamination would limit USPTO consideration to documentary prior art and would preclude discovery or reliance on testimonial evidence such as depositions taken in related judicial proceedings. Other Commission members were concerned that a full *inter partes* proceeding, even with certain restrictions, would lead to abuses of the process much as occurred in the reissue protests under the Dann amendments.

As presently constituted, the USPTO is not an appropriate forum for an *inter partes* adversarial proceeding addressing all potential issues of validity. Even if the USPTO were to develop the capability to handle full adversarial proceedings, such a procedure would not be an alternative to litigation but rather litigation in an administrative forum. Providing for third party participation at every stage of reexamination would unduly complicate the

proceeding, adding undue cost to the parties and the USPTO and requiring excessive time before a decision could be reached. Broadening the scope of reexamination to consider all issues material to validity and infringement would impose on the USPTO examiners evidentiary burdens beyond their primary expertise.

Any modification of the present reexamination system must be a compromise. Consistent with its intended purpose of providing a desirable alternative to validity litigation, the reexamination system should be modified to provide third parties with a greater opportunity to participate. Any modifications, however, must not result in harassment of patent owners, or unreasonably increase the cost or duration of the proceedings, or impose unreasonable burdens on the USPTO. The Commission believes that its recommendations satisfy all these criteria.

B. Summary of Public Comments

Many of the public comments on the reexamination system focused on expanding the scope of third party participation in reexamination proceedings. These comments included creating a tribunal within the USPTO for full examination of all validity and infringement issues, establishing a post-grant opposition procedure similar to those in European systems for consideration of all validity issues, and permitting third party participation at all stages of reexamination, including interviews with the examiner. Other public comments, however, supported the reexamination system as it presently operates.

Several of the public comments summarily proposed that reexamination be permitted for all issues affecting validity, thus implicitly proposing that Section 112, among other issues, be the basis for and within the scope of reexamination. The majority of comments which specifically addressed section 112 and the scope of reexamination either did not address Section 112 as a basis for ordering reexamination or specifically excluded it as a basis for reexamination without explanation.

The public comments addressing application of a uniform claim construction standard in USPTO reexamination and the courts were generally split, with some in favor of a uniform standard and some opposed. Several public comments suggested assigning reexamination cases to special reexamination examiners, to a panel of examiners, or to an examiner who did not issue the patent. Others suggested that reexamination should be permitted only for a limited period after issuance of the patent.

It was also suggested that third parties be forced to use reexamination, or be prevented from relying upon any prior art not considered by the USPTO in the original examination or during reexamination or reissue proceedings. This, however, was perceived by many commentators as depriving such third parties of meaningful access to the courts.

C. Recommendations and Discussion

Recommendation VII-A

The basis for and scope of reexamination should include compliance with all aspects of 35 U.S.C. §112 except for best mode.

Since one purpose of reexamination is to correct an administrative error of the USPTO,[93] it is appropriate for the USPTO to examine patent claims for compliance with section 112. The recommendation provides that failure to comply with section 112 by itself may be a basis for ordering reexamination and that the scope of reexamination (of original as well as new and amended claims) should include section 112 issues, except for best mode issues.[94]

To the extent section 112 issues are amenable to documentary presentation and are of the type ordinarily considered by examiners (i.e., written description, enablement, claim definiteness), it should be a basis for ordering reexamination. A "substantial new issue of patentability" should be found where the requester establishes in the request a prima facie violation of section 112 which was not considered previously on the record. While this may present certain evidentiary issues where affidavits are involved, this is no more than examiners face in examination of original applications. Limiting the basis for reexamination to documentary prior art precludes administrative determination of

substantial issues of patentability well within the ambit of the USPTO's expertise and, indeed, well within what the USPTO should have considered in the initial examination.

Entirely separate from permitting section 112 to form the basis for reexamination, once reexamination is ordered, section 112 should be within the scope of examination, even of the original claims. Since new and amended claims submitted during reexamination are examined for compliance with section 112,[95] there is no reason not to reexamine the original claims for such compliance. Examining all claims for section 112 compliance would not significantly increase the examiner's burden and would avoid the difficult task of examining amended claim language for section 112 compliance without examining the unamended portion of the claim.

Since best mode issues generally involve disputed factual evidence not normally considered by examiners, exclusion of this issue from the basis for and the scope of reexamination keeps the examination within the primary expertise of the USPTO. Other issues traditionally outside the normal practice of examiners because of the evidentiary issues, i.e., public use or on sale bars, inequitable conduct, etc., should not be a basis for or within the scope of reexamination.

Although litigation validity decisions are rarely predicated solely on section 112 issues, permitting such issues to be the basis for and within the scope of reexamination will provide a more complete alternative to litigation.

Recommendation VII-B

The order for reexamination and the first Office action should be consolidated and any third party requester should be permitted, within strict time deadlines, to submit written comments on the patent owner's response to the first office action. The third party's comments should be limited to issues covered by the examiner's office action and the patent owner's response.

Under current practice, a third party requester may only comment on the patent owner's statement in response to the decision ordering reexamination. In order to deprive the third party of this opportunity, many patent owners do not file a statement, waiting instead for the first Office action. This recommendation, therefore, ensures the third party requester an opportunity to comment while shortening the duration of many reexamination proceedings.

The recommendation also will shorten the necessary time to conduct a reexamination requested by the patent owner. Since the examiner's first Office action may introduce prior art and patentability issues not addressed in the third party's request, the third party's comments after the first office action may aid in focusing the issues early in the reexamination proceedings. Also, it may avoid the need to reopen reexamination after the close of prosecution as a result of the third party's comments at that stage.

The recommendation is not intended to change the standard used in determining whether to order reexamination. The examiner would first consider whether a request raises a substantial new question of patentability. If the request does not meet the standard, the examiner would issue a notice to that effect. If, however, reexamination is deemed appropriate, the examiner would then consider whether a prima facie case of unpatentability exists. The first communication from the examiner in this instance would issue as an Office action addressing the question of whether there is a substantial new question of patentability, and then any applicable grounds for rejection.

In this and other recommendations regarding reexamination, the third party requesters must have access to all communications between the patent owner and the USPTO. Accordingly, the patent owner should be required to serve copies of such communications on the third party requester.

Recommendation VII-C

A third party requester should have the right to participate in any examiner interview initiated by the patent owner or by the examiner. Such an interview should be conducted under controlled conditions before the examiner and a senior USPTO representative. The third party should not be permitted to initiate interviews.

While not unanimous, several Commission members urged either that third parties be given the right to participate in examiner interviews or that interviews in reexaminations be banned altogether. Their position is that interviews present an opportunity for mischief since the record rarely reflects all that transpired. In their view, where a reexamination is requested by a third party, neither party should have the opportunity for *ex parte* contact with the examiner. This could be achieved either by banning interviews or permitting *inter partes* interviews. In lieu of banning interviews, which would deprive the USPTO of a proven and effective means of communication, *inter partes* interviews have been recommended. The recommendation is limited to interviews initiated by the patent owner or the examiner.

There was opposition to the recommendation by those Commission members who feel the changes to the reexamination system should preserve as much as possible its present *ex parte* nature while providing third parties with greater opportunity to participate. The reexamination process is intended to make use of the normal examination procedures, including interviews. It presumes that examiners will comply with the examination requirements, including that of a detailed interview summary. Giving third parties the opportunity to participate in interviews will come close to transforming the reexamination process into a full adversarial process with the attendant delays and costs and may burden the USPTO with adversarial hearings before examiners untrained to deal with such proceedings.

As an alternative to *inter partes* interviews, a transcript of *ex parte* interviews could be provided to third party requesters. This was deemed less acceptable by those promoting *inter partes* interviews. Moreover, there was no agreement as to who should bear the cost involved.

Recommendation VII-D

A third party requester should have the right to submit written comments at the close of prosecution of a patent under reexamination. Such comments, which should be limited to issues raised during *ex parte* reexamination, should be considered by the examiner before any appeal by the patent owner of an adverse decision and before issuance of a Notice of Intent to Issue a Reexamination Certificate. If the third party's comments cause the examiner to change his decision, the examiner should be permitted to reopen prosecution to the extent of issuing a supplemental final action to which the patent owner should be entitled a single response under 37 C.F.R. § 1.116. If, in the single response, the patent owner makes any claim amendment, the third party should be permitted to submit comments limited to the claim amendments. Thereafter no further comments should be received from either the patent owner or a third party. The third party comments should be a part of the record considered on any appeal by the patent owner or the third party.

Allowing the third party requester to comment on the outcome of prosecution in which he could not participate will enhance reexamination as an alternative to litigation without unduly complicating the process or burdening the USPTO. To minimize the burden on the reexamination process, the third party will only be able to submit comments after the close of prosecution and to only those issues raised during *ex parte* prosecution. The content of any comments may be a composite of previously offered comments and any additional comments, provided the composite remains restricted to the issues raised during the reexamination prosecution.

While in a few cases the third party's comments may result in a supplemental final Office action, the additional administrative burden and concomitant delay in the process should be acceptable if it reduces litigation on the validity of the patent by encouraging greater third party use of the reexamination system.

This recommendation presents a concept which may require new rules to ensure procedural control over the process. Once the concept is accepted, it is within the ambit of the USPTO to implement it procedurally.

Recommendation VII-E

A third party who requested and participated in a reexamination should be permitted to appeal any adverse decision of the Examiner to the Board of Patent Appeals and Interferences and to the Federal Circuit. The third party and the patent owner should be permitted to participate in any appeal by the other. The third party's appeal to the Board and the Federal Circuit should be limited, respectively, to issues raised in the third party's comments after close of prosecution and to issues dealt with by the Board. A third party's right to appeal to the Federal Circuit should be conditioned upon filing of a written waiver by the third party of any right to assert, in any forum, the invalidity of any claim determined to be patentable on appeal on any ground which the third party raised or could have raised during the reexamination.

The Commission is unanimous that, at a minimum, third party participation in patent owner appeals of reexamination decisions would be necessary to make reexamination a meaningful alternative to validity litigation. Given the increased burden of subsequently proving invalidity of a reexamined claim, many third parties would be reluctant to use reexamination without an opportunity to at least participate in judicial review of the USPTO's decision. Although third party participation in patent owner appeals will increase the burden on the USPTO and delay the reexamination process, any such increased burden and delay would likely be minimal and an appropriate trade-off for increased third party use of the reexamination system.

The Commission, by a slim majority, also recommends that a third party who participates in a reexamination should be given the opportunity to appeal any decision adverse to the third party, but the Commission believes that right should be conditioned upon the third party's waiver of any right subsequently to litigate the same issues. Several members opposed such a condition, arguing that, contrary to the purpose of the recommendation, the waiver requirement would discourage third party use of reexamination as an alternative to litigation. Those favoring the condition believe that, without the proposed waiver, there would be no finality to reexamination proceedings, thus permitting a third party to burden a patent owner and the courts with subsequent litigation over the same issues.

Several members believe that the third party should not be specifically given the right to participate in appeals beyond the Board. They note that under existing precedent a third party would likely be permitted to participate as an intervener in appeals from decisions of the Board to the Court of Appeals for the Federal Circuit and in de novo review actions under 35 U.S.C. § 145.

The Commission believes that third party appeals from decisions of the Board should be limited to the Court of Appeals for the Federal Circuit, and should not include de novo review actions under 35 U.S.C. § 145. Section 145 review would merely add an additional layer of review to the process and is considered undesirable. Since under current law the patent owner is permitted the section 145 option, consideration should be given to eliminating the option as to the patent owner as well. If it is not eliminated, it would be necessary to take steps to preclude the possibility of court review of the USPTO decision in different courts, in those situations where both the patent owner and the third party are dissatisfied with the USPTO decision.

Recommendation VII-F

A reexamination should not be initiated or continued on any patent claim held valid in an entered judgment, or its equivalent, of a district court in an action in which the requesting party or its privies raised or could have raised the same issues.

By this recommendation, a third party (and its privies) would be precluded from pursuing reexamination of any claim in which the validity was determined adversely to the third party by a court in a judgment or dismissal with prejudice. This avoids the potential for inconsistent treatment by the USPTO after completion of a judicial determination of validity of the patent. The prohibition would be effective unless the judgment were reversed or unless the right to reexamination was specifically preserved in a consent judgment or dismissal. The prohibition would not apply to reexamination on issues of patentability which the requesting party did not raise and could not have raised in court. Under this standard, a party would not be able to request a reexamination based upon any prior art actually known to the litigators in the prior court proceeding, but would be able to do so if the request was based upon prior art discovered after termination of that earlier proceeding.

D. Other Considerations

1. Use of Different Standards of Claim Construction in the USPTO and in the Courts

Under prevailing Federal Circuit law, the USPTO in a reexamination proceeding construes the claims as broadly as is reasonably possible while according the reexamined patent no presumption of validity. On the other hand, that same patent being litigated in a district court would normally not have its claims construed as broadly as reasonably possible but in a manner to save their validity based on a presumption of validity.

These different approaches to claim evaluation provide an opportunity for considerable mischief. A claim saved from invalidity by a district court through a narrow reading which avoids the prior art may nevertheless be held to be infringed, either literally or through the doctrine of equivalents, without raising any issues of intervening rights. That same claim presented to the USPTO in a reexamination proceeding, however, may be required to be amended to avoid the prior art, creating the possibility of intervening rights. Where the patent owner himself/herself elects to have his patent reexamined, there is no reason for concern, since the patent owner controls the process and accordingly can elect the procedure which best suits his/her needs. The patent owner, however, suffers a disadvantage where a third party forces a reexamination, due to the potential for intervening rights as aforenoted.

While this problem is in need of rectification, the potential solutions to the problem each have their own set of attendant problems. For example, requiring reexamination examiners to construe claims narrowly to sustain validity while granting the claims a presumption of validity would require the examiners to apply standards outside the ambit of their normal experience and might well serve to discourage third party participation in reexamination proceedings. Alternatively, requiring courts to construe claims as broadly as the USPTO does in ordinary prosecution would place patent owners at a severe disadvantage since the claims could not be amended in court, and requiring the patent owner to go back to the USPTO for reexamination or reissue would subject him to the intervening rights problem noted above. One possible solution that should be explored is an appropriate amendment to 35 U.S.C. § 307(b). This amendment would require equitable treatment of any claim by a third party of intervening rights arising from a reexamination requested by that third party and preclude application of the first sentence of the second paragraph of 35 U.S.C. § 252 in that situation.

Given the foregoing, and since the public comments addressing application of a uniform standard in the USPTO and the courts were generally split, no specific recommendation is made on this issue, though it is worthy of further consideration.

2. Reexamination by Different Examiners

Several public comments sought to direct assignment of reexamination to

special reexamination examiners, to a panel of examiners, or to an examiner who did not issue the patent. These suggestions apparently were based on perceptions that regular examiners were insufficiently skilled to handle reexaminations or that the original examiner would be biased in favor of his original examination and allowance. There is no evidence of the former, particularly since the scope of reexamination is limited to areas within the skill of ordinary examiners. The USPTO's experience belies the latter since original and different examiners have nearly identical records in treatment of claims on reexamination.[96] The impact on the USPTO's costs and efficiency in handling reexaminations if special or different examiners were required is much greater than the limited benefit, if any, of such procedures.

3. Limited Time for Filing Reexamination Requests

Another public suggestion concerned permitting reexamination only for a limited period after issuance of the patent. One suggestion recommended that the limited period not exceed nine months after issuance. While this could limit reexamination requests, many patents do not achieve a value worthy of validity litigation until many years after issuance.[97] If reexamination were limited to relatively new patents, the process would not act as an alternative to validity litigation for those patents which mature in value later in life.

4. Forcing an Accused Infringer Into Reexamination

The suggestion that accused infringers in a court proceeding be prevented from relying upon any prior art not considered by the USPTO in the original examination or during reexamination or reissue proceedings was perceived by many commentators as depriving third parties of meaningful access to the courts. Given the weight courts apply to USPTO consideration of prior art, requiring all prior art to be considered by the USPTO is consistent with the ultimate purpose of the reexamination process — to reduce litigation. Forcing a third party to use reexamination without the benefit of full *inter partes* participation, however, would unduly favor the patent owner and might overwhelm the USPTO. Moreover, it would, provide a built-in delay factor to most patent infringement suits.

VIII. LICENSEE CHALLENGES TO PATENT VALIDITY

A. Introduction and Overview

For many years, the licensee of a patent was estopped from challenging the validity of that patent by the judicial doctrine of "licensee estoppel." The rationale for this doctrine was that by taking a license, the licensee in effect admitted the validity of the licensed patent. The courts felt that it would be inequitable to allow the licensee to challenge the validity of the licensed patent, while the licensee was immune from suit for patent infringement by virtue of his license. In 1969, however, the U.S. Supreme Court abrogated the doctrine of licensee estoppel in the case of *Lear v. Adkins, Inc.*[98] Relying on the "important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain", the Supreme Court held that a licensee cannot be estopped, by agreement or otherwise, from contesting the validity of any patent for which he has obtained a license.

The *Lear* policy permitting licensees to challenge patent validity is not without limits. In defining these limits in subsequent cases, courts have disagreed upon specific practices that are permissible and those which violate public policy. In the years since the *Lear* decision, courts have differed on the rights of the parties with respect to termination of a license and payment of royalties where the licensee challenges the validity of the licensed patent.

While some of the confusion has been dissipated by decisions of the Court of Appeals for the Federal Circuit, certain areas of disagreement remain to be resolved. For example, a licensee who continues to use the licensed patent while challenging its validity is shielded from a claim of patent infringement only if the licensing agreement remains in force. When licensees stop making royalty payments, or make royalty payments into escrow, some courts allow patent owners to terminate the license agreement and sue for patent infringement.[99] By continuing to pay royalties under the licensing agreement, licensees are able to maintain their agreements in force while challenging validity.

Confusion also exists as to whether a patent license agreement may provide for termination of the agreement by the licensor if the licensee asserts the invalidity of the licensed patent. Courts have been reluctant to enforce license provisions permitting the patentee to cancel the license solely upon the licensee's challenge of the validity of the licensed patent. Courts also disagree on when a licensee can cancel a licensing agreement by asserting invalidity of the licensed patent without being held in breach of the agreement.

B. Summary of Public Comment

A number of parties responding to this issue stated that although clarification of the doctrine is desirable, adequate legislation would be difficult to draft, and there is not a sufficient demand for such legislation. Other responses, however, indicated that legislation is necessary because it represents the only means available to clarify the rights of both parties to a patent license agreement. While the number of responses addressing this issue was rather small, the comments were extremely well thought out and stressed the need for some degree of reform.

Many helpful comments were offered as to the nature of the reform needed. For example, several comments suggested that unless otherwise specified by the license agreement, the licensee would be required to either expressly terminate the license or continue to pay the full royalty rate until the patent is found to be invalid. This was the most frequently cited suggestion in the comments. Other comments suggested generally that provisions are needed which would equalize the bargaining power of the parties to a patent license agreement, and that there is a need to address the handling of settlements in pending actions. Specific provisions were offered for legislative reform, including provisions which would:

- enable both the licensor and the licensee to have the right to cancel

the license agreement, should the licensee challenge the patent;

- allow statutory or treble damages for disadvantaged parties;
- preclude restrictions on the ability of a patent licensee to challenge the validity of the licensed patent, so that agreements to the contrary would be unenforceable;
- permit the licensor to require the licensee to continue to pay royalty obligations until the right to terminate is exercised, a final determination of validity is reached, or royalty payments are paid into escrow during the patent challenge if the license agreement gives the licensee the right to terminate the license;
- restrict the bases for challenging patents to those available for challenging a contract provision (e.g., fraud);
- preclude the right of patentees to retain royalties collected during the period of challenge of the patent license, in the event that the patent is held invalid; and
- apply any provisions relating to licensee estoppel to assignors where the assignor is also a licensee.

Of the comments addressing this issue, a majority indicated that basic contract law, as interpreted and applied through the courts, should be the primary framework through which patent license challenges should be addressed.

C. Recommendation and Discussion

Recommendation VIII-A

Enact legislation to improve the balance between the right of a licensee to challenge the validity of a licensed patent, in accordance with the holding in Lear v. Adkins, and the right of the patent owner to enforce the licensed patent by:

(i) Permitting the parties to agree that either party may terminate the agreement if the licensee has asserted in a court action that the patent is invalid; and

(ii) Permitting the parties to agree that the licensee will be required to continue performance in accordance with the agreement until either the agreement is terminated or a final determination has been made that the claims practiced by the licensee are invalid.

The Commission recognizes the basic policy determination that the right of a licensee to challenge the validity of the underlying patent should outweigh contract provisions which act to preclude this right under any circumstances. As reflected in the holding of the Supreme Court in *Lear v. Adkins*, the "important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain" outweighs the right of parties to freely contract license provisions which preclude this right, per se. To effectuate this policy objective, license provisions which prevent the licensee from challenging the validity of a patent under any circumstances should continue to be viewed as unenforceable contract provisions.

Although the policy of allowing licensees to challenge the validity of a licensed patent is established, many believe that the effect of post-*Lear* judicial interpretations unfairly shift the balance of rights in favor of the patent licensee. The Commission believes that the freedom of *both* the patent owner and the licensee to create enforceable contract provisions through a patent license agreement should be preserved to the extent that such rights do not conflict with the basic policy objectives articulated in *Lear v. Adkins*. In particular, the Commission believes that contract provisions which permit either the licensee or the patent owner to terminate the license agreement upon challenge of the validity of the licensed patent should be binding and enforceable. In addition, the Commission considers the right of the patent owner to collect royalties under a license agreement up until the point where the license is terminated or the patent is finally adjudged to be invalid or unenforceable to be an important corollary

to the right of the licensee to challenge the validity of the licensed patent.

The Commission believes that the patent owner, as well as a licensee, should be able to reserve a right of termination of the license agreement should the underlying patent be challenged through a court action by the licensee. Such a right does not impede the ability of the licensee to challenge the validity of the patent; instead, it places the patent owner on equal footing with the patent licensee when a dispute related to the validity of the licensed patent arises. Allowing the licensee to elect to terminate the license counterbalances this right of the patent owner. Of course, if the licensee does elect to terminate the license agreement, and the patent validity challenge fails, the former licensee will be liable as an infringer.

Providing the termination right to the patentee will in certain instances cause a patent licensee to forego a patent validity challenge. This, however, is not viewed as an undue burden for the licensee. By providing the patent owner with the ability to include an enforceable termination clause, the prospective licensee will be required to carefully assess the validity of the patent at the time the license is taken, as well as when subsequent factual situations arise which cause the licensee to contemplate a formal challenge to the validity of the patent. This in turn will lead to a strengthening of the value of patent rights generally, and serve as a deterrent to frivolous or questionable challenges by the licensee. Furthermore, providing this right to the patent owner may lead a licensee to consider use of steps short of a formal, judicial challenge to the patent validity to resolve a dispute related to the license agreement or the validity of the licensed patent. For example, a current or prospective licensee may elect to use a reexamination proceeding to assist in evaluation of the validity of the licensed patent instead of mounting a formal judicial challenge to the patent validity.[100]

The Commission also believes that the licensee should remain liable for stated royalty obligations of a license agreement until the license agreement is either terminated or the underlying patent is held invalid or unenforceable. Presently, a licensee contemplating a challenge to patent validity faces essentially no risk. If the patent is upheld after the judicial challenge, the liability to the patent owner will be limited to the license agreement. If the patent is held invalid, the licensee has no liability. If the licensee is an exclusive licensee, the patent owner will be deprived of the sole source of revenue from the patent during the entire duration of the judicial action, despite having the statutory presumption of validity of the underlying patent.[101] Allowing a licensee to challenge a patent, divert royalty payments into escrow, and then recoup those payments in the event the patent is declared invalid thus has the potential to provide a licensee with a tremendous, and unnecessary advantage over the patent owner.

Requiring the licensee to honor the license agreement obligation during the challenge to validity will not place an unforeseen financial burden on the licensee. Instead it will merely require the licensee to continue to abide by the terms of the original license, to which it voluntarily agreed. Such a requirement will also not present an undue deterrent to bringing an action to invalidate the patent. If the basis for challenging the patent is sound, the licensee should prevail in its action to invalidate the patent.

To adequately remedy the current imbalance, the Commission advocates a limited legislative clarification of the rights of patent owners and licensees. Such legislation should be drafted narrowly, so as to define only the minimum set of rights necessary to correct the current imbalance. The general right of the parties to freely negotiate binding license provisions should not be impeded, provided such terms do not conflict with the basic rights of each party as articulated above. Finally, prior legislative efforts to clarify the rights of parties to a patent license agreement should be studied, and if found to be consistent with the Commission's recommendation, should be revived and pursued.[102]

IX. REISSUE

A. Introduction and Overview

Late in its tenure, the Commission was requested by a member of the public to consider reformation of certain aspects of reissue practice. The Commission found the proposals offered sufficiently important to justify their consideration.

Three issues were raised: first, whether the right to a reissue should require an "error" as stated in the statute (this issue is significant in view of the confusion surrounding the meaning and scope of the statutory term); second, whether a patent owner should be deprived of valid claim coverage given up during the original prosecution through the court-made doctrine of recapture; and finally, whether there should be any limit on the period during which the patent owner may apply for a broadening reissue.

While cognizant of dissenting views, the Commission considered the public's right to certainty at least as important as a patent owner's right to amend a patent to obtain a valid broadening of claim coverage within the scope of the originally filed disclosure. It is believed appropriate, therefore, to place limits on the right to reissue. The "error" requirement, the recapture doctrine, and the time limit on broadening reissues all serve to limit the patent owner's scope of reissue. Each of these restrictions, however, does not provide the same benefit to the public as compared to the loss suffered by patent owners due to their continuance.

B. Summary of Public Comment

The Advisory Commission began consideration of this topic after the conclusion of its invitation for written public comments. However, the public was given an opportunity to comment at the fourth Commission meeting. The only comment from the public addressed the issue of intervening rights as it related to reissue practice.

C. Recommendations and Discussion

Recommendation IX-A

The concept of "error" as a required condition for reissue should be eliminated.

The statutory requirement of an "error" unduly limits the basis for reissue and generates a great deal of confusion and uncertainty. The courts have been inconsistent in their interpretation of "error" as it appears in 35 U.S.C. §251.[103] What mistakes constitute error for purposes of reissue are also subject to differing opinions.[104] The public's need for certainty is not helped by the uncertain limits on the right to a reissue. There is no public policy reason for limiting reissue to "errors" except in the case of deceptive intent. Absent the latter, and subject to time limits on broader claims, a patentee should be entitled to obtain by reissue any valid claim to which he or she would have been entitled during the original prosecution.

Recommendation IX-B

The prohibition in reissue practice against "recapturing" subject matter surrendered during the original prosecution should be eliminated.

The judicially created doctrine of recapture is designed to allow the public to rely upon actions and representations made during prosecution of a patent. But, if a patentee can obtain claims by reissue which were not given up during prosecution, why should a patentee arbitrarily be denied the right to obtain valid claims given up during prosecution of the original patent? The principal policy reason for holding a patentee to the mistakes he or she made, without deceptive intent, during the original prosecution is certainty for the public after a patent issues. If the public is willing to

suffer the uncertainty of broadening reissues for a limited time, it should be willing to permit recapture, during that same limited period of time, of broader claims canceled during prosecution.

The "error" requirement and the recapture doctrine unduly limit a patent owner's rights without commensurate benefits to the public. In both cases, the principal risk to the public is use of reissue to obtain broader claims than originally issued. If this right is limited in time so the public, after a date certain, can be assured that the broadest scope of the claims is known, any limited risks imposed on the public may be remedied by intervening rights.

Recommendation IX-C

The right to seek by reissue claims broader than originally issued should be limited to one year following grant of the original patent.

As to the time for filing for broadened reissues, there was limited support in the Commission both for permitting broadened reissues at any time and for eliminating altogether the right to obtain broader claims through reissue. It was felt that eliminating altogether the right to broadened reissues was too harsh since there are legitimate circumstances when, in fairness, a patentee should be entitled to pursue broader protection. On the other hand, public uncertainty for the entire term of the patent was considered a sound basis for rejecting expansion of the right to broadened reissues. Although proponents of an expanded right asserted that the public's interest was protected by intervening rights, the Commission believes that intervening rights were too uncertain to justify this degree of an increased right to obtain broadened claims through reissue.

To provide still greater certainty for the public as to the scope of the patent grant, a majority of the Commission felt further narrowing of the right to file for broadened reissues was appropriate. There appears to be no meaningful reason for the two-year period provided in 35 U.S.C. § 251 for broadened reissues. That period was selected to correspond to the two-year grace period for filing which was in effect at the time the reissue right was so limited. Since the grace period is now one year, the Commission believes that a one-year period for filing a broadened reissue is adequate to protect the interests of patentees.

X. FEDERAL PROTECTION FOR TRADE SECRETS

A. Introduction and Overview

Industries throughout the United States rely extensively on manufacturing and business know-how to stay competitive. In some instances, trade secret protection is the only means available to U.S. industry for protecting this know-how. Misappropriation of these trade secrets is harmful to U.S. industry especially if the trade secrets are being transferred to foreign competitors.

The misappropriation of trade secrets is closely tied to state causes of actions in tort or contract. Contract issues often arise since the misappropriation is often done by those having a contractual relationship with the owner of the trade secret, i.e., employer/employee relationships, principal/agent relationships, licensor/licensee relationships. Because of this close tie to state causes of action, trade secret protection currently is provided under state law.

Thirty-four states have enacted the Uniform Trade Secrets Act, which was drafted by the National Conference of Commissioners on Uniform State Laws in 1979, and approved by the American Bar Association in 1980. The Uniform Act provides civil remedies for misappropriation of trade secrets in those states which have enacted it. Even in these states that have enacted the Uniform Trade Secrets Act, the treatment of trade secrets may still vary since many of the states enacted various modifications to the Uniform Trade Secrets Act. Several other states, e.g., Massachusetts and North Carolina, have trade secret statutes based on the Restatement of Torts, 2d (1978), or on common law principles providing civil remedies for misappropriation or theft of trade secrets. Other states impose criminal penalties for theft of trade secrets, provide protection through administrative schemes, or rely on common law principles.

The protection available for trade secrets under these various state laws differs from state to state. The differences may pertain to court procedures, the definition of a trade secret, the kind of trade secret that may be protected, the requirements for making a prima facie case, time limitation statutes governing when suit must be brought, what relief may be obtained, and the remedies available. Under state trade secret laws, there may also be varying difficulties in establishing jurisdiction over foreign parties.

Taking into consideration the current protection of trade secrets under state law, the Commission set out to determine whether there was a need for Federal statutory protection for trade secrets. If a need was identified, the Commission was to determine how a Federal statutory scheme should relate to state statutes.

B. Summary of the Public Comment

The public response to this issue noted some problems were caused by a lack of a Federal law, and mentioned specific areas where a Federal statutory law would be helpful. In general, however, the responses indicated that there was not a compelling need for Federal statutory protection for trade secrets.

Some of the responses mentioned that a lack of uniformity among the states increases the costs and difficulties for a company doing business in more than one state. In addition, having varying trade secret laws throughout the United States makes it more difficult for foreign corporations to do business in the United States.

Other responses mentioned a variety of specific areas where a Federal statutory law would be beneficial. For example, it was mentioned that a Federal statutory law would be helpful in protecting commercial activity in outer space. Another response noted that Federal protection would improve protection of trade secrets embedded in software, and thereby reduce software piracy. Another noted that a Federal statutory law would assist in clarifying the treatment of Government contractors and reports submitted to Federal agencies. It

was also noted that information which would otherwise be trade secret is now labeled "Limited Rights Data" which has a meaning unknown to many Government employees, and, consequently, it is treated differently and in different ways than a trade secret otherwise would be treated.

Other responses noted that a Federal statutory law would be helpful in cases involving the interstate transport of stolen trade secrets; the importation and exportation of stolen trade secrets; the use of interstate commerce to unlawfully obtain trade secrets; and trade secret litigation involving the U.S. Government or foreign companies.

It was further noted that a Federal statutory law would be helpful in imposing consistent criminal sanctions for theft of trade secrets.

Other responses expressed the viewpoint that a Federal statute on trade secrets would have the benefit of trade secret cases being brought before the Federal courts. The comments suggested that Federal courts are a better forum for litigating cases involving complex technical facts (which are common in trade secret litigation) than state courts. A counterpoint was made that such a Federal law would cause further congestion of already burdened Federal district court dockets.

Another reason given for enacting Federal statutory protection is to help persuade foreign governments to have trade secret protection in their own countries. It was noted that it is more difficult to encourage other countries to adopt trade secret protection when there is not a Federal statutory scheme for protection in the United States. For example, during the negotiations pertaining to the North American Free Trade Agreement, the Mexican delegation proposed that the United States enact a uniform Federal trade secrets law. A uniform Federal law may provide U.S. negotiators with a more persuasive basis for convincing other nations to provide trade secret protection.

It should be noted, however, that based upon the standards defined in the "Dunkel" text of the General Agreement on Tariffs and Trade (GATT), there is significant likelihood that the United States will be able to fulfill treaty obligations calling for protection of trade secret rights.[105] The rights available through state law provide an adequate minimum level of protection.

Although a major group of responses recognized that a uniform trade secret law was deemed to be important, this same group of responses also stated that this did not necessarily require the enactment of a Federal law. It was stated that adoption by all states of the Uniform Trade Secrets Act can result in a greater uniformity of trade secret protection, thereby achieving at least part of the goals of Federal trade secret protection.

The position was taken that if there was a need for a Federal law, the Federal law should be based upon tort but not on contract law. Federal trade secret protection should preempt state protection of secret information, but should not preempt state law causes of action based upon contract. Others stated that a Federal law should only be enacted in specific areas of trade secrets that are not adequately protected by state law, i.e., employee rights matters should be left to state jurisdiction. It was stated that a bifurcated or dual system of state and Federal laws concerning trade secrets for domestic activities would need to be carefully drawn to avoid confusing and conflicting overlap and forum shopping. Others favored a Federal law that would preempt state law and were opposed to a bifurcated system of state and Federal laws concerning trade secrets.

All of the public submissions addressing this issue were taken into consideration in formulating the following recommendation.

C. Recommendation and Discussion

Recommendation X-A

Protection of trade secrets is adequate under state laws.

Although uniformity in trade secret law is important, this does not necessarily require the enactment of a Federal law. Forty states have already adopted some form of trade secret protection, with thirty-four of those states having adopted the Uniform Trade Secrets Act. While some differences do exist between these state laws, overall there is substantial consistency. The

adoption by all states of the Uniform Trade Secrets Act can result in greater uniformity of trade secret protection.

The state laws as they presently exist provide adequate protection against the theft of trade secrets. The problems that have been identified under state law protection of trade secrets do not warrant promulgation of an entirely new Federal law. Due to the varying legal theories which States use to provide rights under trade secrets, it is recognized that there would be numerous practical difficulties in reconciling a single Federal law to define the nature of trade secret rights.

Thus, the Commission believes that there is no compelling need that would require the enactment of Federal statutory protection at this time.

NOTES FOR PART TWO

1 For example, the President's Council on Competitiveness recently reported that the United States spends an estimated $300 billion annually in direct and indirect costs of the civil justice system. *See* PRESIDENT'S COUNCIL ON COMPETITTIVENESS, AGENDA FOR CIVIL JUSTICE REFORM (1991).

2 Estimates on the average cost of resolution of a patent dispute vary widely. One commentator has cited an average cost of $350,000, noting a range between $100,000 and $1,000,000. *See* Vandenburg, 73 J. PAT. & TRADEMARK OFF. SOC'Y 301 (1991).

3 The most celebrated patent damages award came in 1990, when Polaroid was awarded damages of nearly a billion dollars from Kodak. *See* Polaroid Corp. v. Eastman Kodak Co., 789 F.2d 1556, 229 U.S.P.Q. 561 (Fed. Cir.), *cert. denied sub nom*, 479 U.S. 850 (1986); *later proceeding*, Polaroid Corp. v. Eastman Kodak Co., 867 F.2d 1415, 9 U.S.P.Q.2d 1877 (Fed. Cir. 1989), *cert. denied sub nom*, 490 U.S. 1047 (1991).

4 In re Nelson, 126 U.S.P.Q. 242, 251 (1960).

5 These include the Civil Justice Reform Act of 1990, 28 U.S.C. §§ 471 to 482 (1990); the AGENDA FOR CIVIL JUSTICE REFORM IN AMERICA, *supra* ; and the *Access to Justice Act*, S. 2180, H.R. 4155, 102nd Cong., 2d Sess.

6 *Id.*

7 *See* AGENDA, *supra* note 1.

8 S. 2180; H.R. 4155, Access to Justice Act of 1992.

9 Exec. Order No. 12,778 (1990).

10 Invitation for Public Comment, 56 Fed. Reg. 22,702 (1991).

11 Federal Courts Improvement Act of 1982, Pub. L. No. 97-164 (1982).

12 *See* L.G. Kastriner, *The Revival of Confidence in the Patent System*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 5 (1991)("The CAFC has not only succeeded in bringing about uniformity and certainty in interpretation of the patent laws — the express purpose for which it was established — but has also significantly enhanced the economic power of patents.").

13 Schwarzer Memo on Implementation of the Civil Justice Reform Act, p. 16 (Jan. 16, 1991) [hereinafter Schwarzer Memorandum]. This perspective on discovery problems arose through a 1989 report on civil litigation by a Task Force of the Brookings Institute, which reported that discovery was "the most important cause of high transaction costs or delays that increase these costs." *id.*; JUSTICE FOR ALL: REDUCING COSTS AND DELAY IN CIVIL LITIGATION, A Study of the Brookings Task Force on Civil Justice Reform (1980).

14 Myrick, *Overview of Considerations and Approaches to Delay Reduction and Cost Control in Intellectual Property Litigation*, presented to the ABA/PTC Law Section Annual Spring Educational Program, "Patent, Trademark, and Copyright Law: Litigation and Corporate Practice,"(1991) [hereinafter Myrick Study].

15 Forstner, *A Corporate Viewpoint on Controlling Cost and Reducing Delay in Intellectual Property Litigation*, presented at a meeting of the ABA/PTC Law Section May 4-5, 1991, Arlington, Virginia [hereinafter Forstner Study].

16 *See infra* a summary of the public comments received in response to the invitation for public comments of the Commission.

17 Kieve, *Discovery Reform*, A.B.A.J. 79-81 (1991).

18 *Id.* at 80.

19 The Brookings Institute Report, *Justice for All*, significantly influenced Congress during the development and enactment of the Civil Justice Reform Act of 1990.

20 56 Fed. Reg. 22,702 (May 16, 1991).

21 The Act requires courts to consider "systematic, differential treatment of civil cases that tailors the level of individualized and case specific management to such criteria as case complexity, the amount of time needed to prepare the case for trial, and the judicial and other resources required and available for the preparation and disposition of the case."

22 Because these procedures can be adopted voluntarily in each district court, action can be taken to implement an appropriate case management prior to the statutory deadline for action mandated by the Civil Justice Reform Act.

23 FED. R. CIV. P. 16.

24 FED. R. CIV. P. 52.

25 *See* recommendation 7, Quayle Report. In exceptional cases, the date for trial could be scheduled to occur beyond the 18th month, but such a case would require a showing of exceptional circumstances.

26 *See* Myrick Study, *supra* note 14 (advocating an upper limit of 18 months from filing of the action). Several responses to the invitation for public comments advocated a 12 month after filing standard for the trial date. *Id.*

27 *See infra* Recommendation III-D and discussion.

28 *See* 28 U.S.C. § 473.

29 *See* Schwarzer Memorandum, *supra* note 13, para. 4, pp. 15-16; AGENDA, *supra* note 1, p. 18, recommendation 5.

30 *See* AGENDA, *supra* note 1, recommendations.

31 Several of the public comments, as well as the A.I.P.L.A. studies, reported on the adverse effect of unusually long delays between filing and disposition of motions by the court.

32 For example, the Advisory Groups for three district courts have released cost and delay reduction plans which call for mandated disclosure of information which "reasonably is likely to bear substantially on any of the claims or defenses in the action." See, e.g. proposed Rule 2.02, Expense and Delay Reduction Plan of the United States District Court for the District of Massachusetts.

33 *See* AGENDA, *supra* note 1, p. 7.

34 As contemplated, a judge experienced in mediation of patent-related disputes may be employed provided he is not the judge, magistrate or master affiliated with the present dispute.

35 *See* Field, *Prospects for ADR in Patent Disputes: An Empirical Assessment of Attorneys' Attitudes,"* -- IDEA --- (1992).

36 *See* Report of the Brookings Task Force on Civil Justice Reform *Justice for All, supra* note 19, p. 28 [hereinafter Brookings Report].

37 *See* Hands-On Docket Management, AGENDA *supra* note 1, p. 20.

38 Speedy Trial Act of 1974, 18 USCS § 3161 (1992) 88 Stat. 2076, Aug. 2, 1979, Pub. L. No. 96-43, 93 Stat. 327 (1979).

39 Extra costs stem from the necessary preparation, retention, and use of attorneys, witnesses, and experts. When a trial date is postponed to a later date, each side must repeat efforts to familiarize themselves with the issues, and to prepare for trial.

40 A minority view of the Commission is that the court should take a more active role in controlling the use of expert witnesses. One view stated that the court should appoint experts directly, and should indicate the extent of the testimony deemed necessary. Another view was that the court should require the parties to present a single, agreed-to joint statement as to the subject matter of expert testimony, thereby diminishing the direct impact of one party's expert witness.

41 *See, Prospects for ADR in Patent Disputes, supra.*

42 The survey data can be used in conjunction with the public comment to provide at least one perspective on the extent of the use of alternative dispute resolution procedures for resolving patent-related disputes.

43 *See* Wegner, Comparative Patent Law, § 343.10 (1991).

44 Such courts are termed the Landgericht.

45 In re Gay, 309 F.2d 769, 135 U.S.P.Q. 311 at 315 (C.C.P.A. 1962). *See also* In re Nelson, 126 U.S.P.Q. at 253 ("There always exists, on the part of some people, a selfish desire to obtain patent protection without making a full disclosure, which the law, in the public interest, must guard against. Hence section 112 calls for description in "full, clear, concise, and exact terms" and the "best mode" requirement does not permit an inventor to disclose only what he knows to be his second-best embodiment, retaining the best for himself.").

46 *See* Chemcast Corp. v. Arco Indus. 913 F.2d 923, 16 U.S.P.Q.2d 1033 (Fed. Cir. 1990) (stressing that the best mode inquiry focuses on the inventor's state of mind at the time he filed his patent application, and is a subjective, factual question). The Federal Circuit set forth a two-step test for assessing whether the best mode requirement was satisfied in *Chemcast*. First, courts must ascertain whether the inventor contemplated a best mode at the time the patent application was filed. If no best mode was contemplated, the inquiry ends, and there is no basis for challenging the patent due to a failure to satisfy the best mode requirement. If the inventor conceived of a best mode of practicing the invention, then the court must apply the second element of the test by determining whether or not the best mode was adequately disclosed in the patent. Most of the uncertainty in the area of best mode jurisprudence involves this second element, as it raises the question of how much information must be disclosed to satisfy the best mode requirement. *Id.*

47 *See, e.g.*, Bradley, *The Best Mode Requirement of Section 112—A Veritable Minefield*, 3 J. OF PROPRIETARY RTS. 6 (Jan. 1992); Adamo, *What's Better, What's Best — the Best Mode Requirement in U.S. Patent Practice*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 811 (1991). Both of these articles illustrate best mode challenges are of a fairly recent vintage and confusion currently plagues the application of the requirement.

48 An informal survey of reported district court cases raising best mode challenges revealed no instances of a U.S. patent based upon a foreign-originated application being held invalid for failing to satisfy the best mode requirement. Also note that discovery as to the intent of foreign inventors prior to filing becomes nearly impossible through restrictions on discovery outside the borders of the United States.

49 Because claims are construed in light of the specification, it is unlikely that a patentee will seek to intentionally withhold material information regarding known or planned commercial embodiments of the claimed invention. Such a concealment may result in a questionable expansion of patent rights, and may result in a finding of a limited form of estoppel through the reverse doctrine of equivalents.

50 Two directly detrimental effects from these factors bear mention. First, where advances in technology outpace the examination period for patent applications, we find ourselves in the peculiar position of requiring disclosure of techniques which, by the time the patent has been granted, will be objectively inferior to those developed after the patent filing. Yet, failure to disclose these objectively inferior techniques or embodiments can be used to render the patent invalid. Second, our best mode requirement has turned our patent system into one which is peculiarly biased against U.S. inventors, who, under the first-to-invent system, commonly file patent applications at a stage of development later than their foreign competitors. This phenomenon leads to greater opportunities for U.S. inventors to develop and then fail to incorporate a description of their best mode into the patent application.

51 Support was expressed for a less drastic change. Rather than wholesale elimination of the best mode requirement from 35 U.S.C. § 112, some advocate a change in the nature of conduct which would result in a finding that the best mode requirement had not been met, namely, restriction of the best mode requirement only to cases where there has been an intentional withholding of the best mode. This would preclude the invalidation of patents where omission of the best mode stemmed from an accidental omission. In response to this point, the Commission points out that the inequitable conduct doctrine serves this role of punishing intentional withholding of essential information from the Patent and Trademark Office during prosecution of a patent application.

52 35 U.S.C. § 102:

"A person shall be entitled to a patent unless --

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent[.]"

53 Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516, 68 U.S.P.Q. 54 (2d Cir.), *cert. denied*, 382 U.S. 840, *reh'g denied*, 382 U.S. 881 (1946) (Judge Learned Hand).

54 General Electric Co. v. United States, 211 U.S.P.Q. 867, 873 (Ct. Cl. 1981) (identifying the four policies underlying the "on sale" bar as: 1) the policy against the removal of inventions from the public which the public justifiably believes are freely available as a consequence of prolonged sales activity; 2) the policy favoring widespread and prompt disclosure of new inventions to the public; 3) a policy

preventing the inventor from commercially exploiting the patent monopoly beyond the 17-year period; and 4) the policy of giving inventors a grace period so that they may determine whether a patent is a worthwhile investment).

55 Amphenol Corp. v. General Tire Corp., 158 U.S.P.Q. 113, 114 (7th Cir. 1968).

56 Wende v. Horine, 225 F. 501 (7th Cir. 1915).

57 *See, e.g.,* Fulfoam Corp. v. Kroehler Mfg. Corp., 138 U.S.P.Q. 641, 644 (W.D.N.C. 1963); Emerson v. National Cylinder Gas Co., 111 U.S.P.Q. 305, 310 (D. Mass. 1956); Chromalloy American Corp. v. Alloy Surfaces Co., 173 U.S.P.Q. 295, 301-02 (D. Del. 1972).

58 Chromalloy American, 173 U.S.P.Q. at 301-02.

59 *See* Wende v. Horine, 225 Fed. 501 (7th Cir. 1915) (holding that a mere offer to sell may bar patenting of an invention where the offer is never received by or accepted by the prospective purchaser); Union Carbide v. Filtrol, 170 U.S.P.Q. 482 (concluding that shipment of a product from one division to another in the same corporation does not put the item "on sale").

60 William C. Rooklidge, *Application of the On-Sale Bar to Activities Performed Before Reduction to Practice*, 72 J. PAT. & TRADEMARK OFF. SOC'Y 543, 544 (1990).

61 Robert E. Garrett, *Comment: Reduction to Practice and the On Sale Bar*, 69 J. PAT. & TRADEMARK OFF. SOC'Y 581, 582 (1987).

62 Timely Products Corp. v. Arron, 187 U.S.P.Q. 257 (2d Cir. 1975).

63 The three-part *Timely Products* inquiry is:

(1) The invention claimed must have been embodied in or obvious in view of the thing offered for sale.

(2) The invention must have been tested sufficiently to verify that it is operable and commercially marketable. This is simply another way of expressing the principle that an invention cannot be offered for sale until it is completed, which requires not merely its conception but its reduction to practice; and

(3) Finally, the sale must be primarily for profit rather than for experimental purposes.

64 *See* Garrett, *supra* note 61, at 584.

65 The court specified that "reduction to practice" standard was not rejected "as an important analytical tool in an on sale analysis." Instead, the court specified that on sale analysis does not necessarily turn on whether the claim invention was reduced to practice. UMC Electronics v. United States, 816 F.2d 647, 2 U.S.P.Q.2d 1465 (Fed. Cir. 1987).

66 *Id.*

67 The scope of discovery is further increased by the uncertainty of the "substantial embodiment" standard. It is commonly understood that the more nebulous the standard applied, the more expensive and extensive the discovery.

68 General Electric, 211 U.S.P.Q. 867 at 873.

69 35 U.S.C. § 102(b).

70 *See* Robert A. Choate, *"On Sale" Review and Circumspection*, 47 J. PAT. & TRADEMARK OFF. SOC'Y 906, 907 (1965).

71 *See* Interim Report of the Committee on Civility of the Seventh Federal Judicial Circuit (available from the Federal Judicial Center).

72 Much of the material for this section derives from comments of Chief Judge Nies which have been the subject of numerous lectures and discussions around the country. *See* for example, Helen Nies, *Rambo Lawyering: the Need for Civility in Civil Litigation*, 32 IDEA 1 (1991).

73 Examples of undesirable behavior cited by Judge Nies include the refusal of counsel to cooperate during discovery, such as in the scheduling of depositions or the date and place of document exchanges. *See* Nies, *supra* note 72, at 3.

74 For example, appeals may be taken based upon alleged attorney misconduct, rather than the substantive issues in dispute.

75 *See* Ropski, *Constitutional and Procedural Aspects of The Use of Juries in Patent Litigation*, 58 J. PAT. & TRADEMARK OFF. SOC'Y 609, 609-11 (1976) (stating that from 1819 until the present almost all patent cases heard in the Federal district courts were bench trials). As recently as the 1970's the percentage of patent jury trials ranged from 4.2% to 6.8%.

76 Robinson & Abel, *Patent Jury Trials—Avoiding the Mistakes of Your Predecessors*, 4 J. PROPRIETARY RTS. 29 (Jan. 1992).

77 *See* In re Japanese Elec. Prods. Antitrust Litigation, 631 F.2d 1069 (3d Cir. 1980); Bernstein v. Universal Pictures, Inc., 79 F.R.D. 59 (S.D.N.Y. 1978); ILC Peripherals Leasing Corp. v. IBM Corp., 458 F. Supp. 423 (N.D. Ca. 1978), *aff'd on other grounds sub nom.*, Memorex Corp. v. IBM Corp., 636 F.2d 1188 (9th Cir. 1980); In re Boise Cascade Securities Litigation, 420 F. Supp. 99 (W.D. Wash. 1976); Davis-Watkins Co. v. Service Merchandise Co., 500 F. Supp. 1244 (M.D. Tenn. 1980), *aff'd*, 686 F.2d 1190 (6th Cir. 1982).

78 Oakes, *The Right to Strike the Jury Trial Demand in Complex Litigation*, 34 U. MIAMI L. REV. 243, 289 (1980); Note, *The Right To An Incompetent Jury: Protracted Civil Litigation and the Seventh Amendment*, 10 CONN. L. REV. 775 (1978).

79 *See, e.g.*, Arnold, *A Historical Inquiry Into The Right To Trial By Jury in Complex Civil Litigation*, 128 U. Pa. L. Rev. 829 (1980). *But see* Campbell and Le Poidevin, *Complex Cases and Jury Trials: A Reply to Professor Arnold*, 128 U. PA. L. REV. 965 (1980); *see also* ILC Peripherals, 458 F. Supp. at 447; Devlin, *Jury Trial of Complex Cases: English Practice at the Time of the Seventh Amendment*, 80 COLUM. L. REV. 43 (1980); Note, *Complex Civil Litigation and the Seventh Amendment Right to a Jury Trial*, 51 U. CHI. L. REV. 581 (1984).

80 Patlex Corporation v. Mossinghoff, 758 F.2d 594, 225 U.S.P.Q. 243 (Fed. Cir. 1985).

81 H.H. Bownes, *Should Trial by Jury be Eliminated In Complex Cases?*, RISK - Issues in Health and Safety 75, (Winter, 1990).

82 SRI Int'l v. Matsushita Electric Corp., 775 F.2d 1107, 227 U.S.P.Q. 577 (Fed. Cir., 1985). *See also*, Senmed, Inc. v. Richard-Allan Medical, Inc., 888 F.2d 815, 12 U.S.P.Q.2d 1508 (Fed. Cir. 1989); Newell Co. v. Kenney Mfg. Co., 864 F.2d 757, 9 U.S.P.Q.2d 1417 (Fed. Cir. 1988).

83 The inequitable conduct doctrine can be used as a defense to a charge of patent infringement. If proven by clear and convincing evidence, a court may hold the patent unenforceable because of the patentee's conduct. To show inequitable conduct, the party must establish that the patentee withheld *material* information, or submitted false information, with an *intent to deceive*. The party raising the

defense must establish both of these elements by clear and convincing evidence. See *Kingsdown Medical Consultants, Ltd v. Hollister, Inc.*, 863 F.2d. 867,872 (Fed. Cir., 1988).

84 For a comprehensive overview of the "but for" standard of materiality, *see* Goldstein, *The Proper Standard of Materiality in Determining Fraud or Inequitable Conduct in the Patent and Trademark Office*, a paper presented to the Annual Meeting of the ABA/PTC, August 12, 1991. A copy of this paper was provided to the Advisory Commission during its invitation for public comment.

85 *See*, 56 Fed. Reg. 37,321 (August 6, 1991).

86 The "whole truth" defense was implemented in the 1790 Patent Act as a means to ensure that the patentee did not mislead the public by failing to disclose essential information regarding their inventions. It worked a forfeiture of the patent right if the patentee was found to have not disclosed the "whole truth" regarding the patent, either through an intentional misstatement or a material omission. Patent Act of 1790, § 6, 1 Stat. 109 (1790).

87 Courts have allowed a presumption of market power to be based upon the mere possession of intellectual property rights. This presumption originated in the Supreme Court Decision in *United States v. Loew's, Inc.*, 371 U.S. 38 (1962), and has been expanded through subsequent holdings. *See, e.g.*, Jefferson Parish Hosp. v. Hyde, 466 U.S. 2 (1984); Digidyne Corp. v. Data General Corp., 734 F.2d 1336 (9th Cir. 1984), *cert denied*, 473 U.S. 908 (1985).

88 For example, one commentator has stated:

"Many patents confer absolutely no market power to their owners, and often patented products are not even marketable at their cost of production . . . The economic case for "presuming" sufficient market power to coerce consumer acceptance of an unwanted tied product simply because the tying product is patented [or] copyrighted...is very weak".

See, Hovencamp, ECONOMICS AND FEDERAL ANTITRUST LAW, § 8.3, p. 219 (1985).

89 For example, the Senate has passed on more than one occasion a bill which would preclude courts from presuming (per se) market power from the grant of a patent or the registration of a copyright. For example, S. 270, and its companion bill H.R. 469, were introduced in the 101st Congress, passed in the Senate, but were not enacted.

90 USPTO statistics regarding reexamination from inception through March 31, 1991, are included in this Report as Appendix C. Those statistics show that 56.3% of all reexamination requests were by third parties.

91 While issues under 35 U.S.C. § 112 may be addressed in the examination of claims amended or added during reexamination, 37 C.F.R. § 1.552(b), this is an exception to the basic rule limiting the proceeding to documentary prior art.

92 *See* In re Opprecht, 868 F.2d 1264, 1265 (Fed. Cir. 1989); Custom Accessories, Inc. v. Jeffrey-Allan Ind., Inc., 807 F.2d 955, 961 (Fed. Cir. 1986); Patlex Corp. v. Mossinghoff, 758 F.2d 594, 603 (Fed. Cir. 1985).

93 *See* Patlex Corp. v. Mossinghoff, 758 F.2d 594 (Fed. Cir. 1985).

94 The Commission is recommending that the "best mode" requirement of 35 U.S.C. § 112 be eliminated as a requirement for U.S. patent applications. The best mode

issue is addressed in full with respect to Issue III, Cost and Complexity of Patent Enforcement.

95 "[A] claim which is amended or a new claim which is presented containing a limitation not found in the original patent claim should be considered for compliance under 35 U.S.C. § 112 only with respect to that limitation. To go further would be inconsistent with the statute to the extent that 35 U.S.C. § 112 issues would be raised as to matter in the original patent claim." M.P.E.P. § 2258, p. 2200-39 (July 1989).

96 Reexamination was conducted by the original examiner in 52.5% of those cases in which reexamination certificates issued. In reexaminations by original examiners all claims were confirmed in 24% of the cases, all claims were canceled in 11% of the cases, and some claims were changed in 65% of the cases. Of the 47.5% of reexaminations by different examiners, the results were virtually the same, 24% - all claims confirmed, 14% - all claims canceled, and 62% - some claims changed. *See* Appendix C.

97 The average age of patents at the time of reexamination has been 5.2 years, the newest being reexamined one day after issuance and the oldest 22.6 years after issuance.

98 Lear v. Adkins, 395 U.S. 653, 162 U.S.P.Q. 1 (1969).

99 *See* Cordis Corporation v. Medtronic, Inc., 780 F.2d 991, 228 U.S.P.Q. 189 (Fed. Cir. 1985).

100 The reexamination proceeding was unavailable at the time of the *Lear v. Adkins* decision.

101 Several commentators have labeled as inequitable the situation where a licensee may benefit from a license under a patent while concurrently challenging the validity of the underlying patent. *See, e.g.*, McCarthey, *Unmuzzling the Patent Licensee: Chaos in the Wake of Lear v. Adkins*, 59 J.PAT. Off. Soc. 475 (1977); Rooklidge, *Legislative Update: Lear v. Adkins*, 6 A.I.P.L.A. Selected Legal Papers 116 (1988); Dreyfuss, *Dethroning Lear: Licensee Estoppel and the Incentive to Innovate*, 72 VA. L. REV. 677 (1986).

102 *See, e.g.*, S. REP 100-83, Process Patent Amendments Act of 1987 (S.1200), pp. 68-72.

103 *Compare, e.g.*, In re Byers, 230 F.2d 451, 454 (C.C.P.A. 1956), *with* In re Wesseler, 367 F.2d 838, 849 (C.C.P.A. 1966), *and with* In re Wadlinger, 496 F.2d 1200, 1207 (C.C.P.A. 1974).

104 *Compare* In re Wilder, 736 F.2d 1516, 1519 (Fed. Cir. 1984), *and* In re Richman, 424 F.2d 1388, 1391-92 (C.C.P.A. 1970), *with* Hewlett-Packard Co. v. Bausch & Lomb, Inc., 882 F.2d 1556, 1564-66 (Fed. Cir. 1989), and In re Weiler, 790 F.2d 1576, 1582-83 (Fed. Cir. 1986).

105 The Dunkel text is the current text of the GATT being negotiated. It was released in December 1991, by the GATT, as document MTN.TNC/W/FA. The Trade Related Aspects of Intellectual Property Rights appears as Annex III of the Document.