



U.S. Department of Justice

Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

June 20, 2007

The Honorable Patrick J. Leahy
Chairman,
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter provides the views of the Department of Justice ("Department") on the provisions of S. 1145, a bill "to provide for patent reform." As noted below, we have serious reservations about some of its provisions, and are concerned that the government, as a major developer of inventions, will be greatly disadvantaged in defending itself against allegations of patent infringement relating to inventions that it began using long before the patentee, but which it did not seek to patent itself.

1. First to File System

We understand that Department of Commerce has recommended that any change to a first to file system take place within the context of international patent law harmonization negotiations. In those negotiations, the United States also seeks to have a one-year grace period within which certain acts, such as publications by the inventor or offers for sale of the invention would not bar patent protection, adopted by foreign countries. *Ltr. From Dept. Of Commerce to Rep. Berman, dtd. May 16, 2007 at 10*. We defer to the views of the Department of Commerce on the policy issue of whether the United States should adopt a first to file system.

2. Earlier Inventor Defense

Section 5(b) of the bill proposes to amend 35 U.S.C. § 273 to compensate for the change to a first to file system. We understand the defense also is part of the harmonization effort, but, if adopted, an amendment to the defense would be needed. Under the present patent act, a prior inventor who has not abandoned, suppressed or concealed his invention may defend against an infringement action by a patentee who made his invention later, under 35 U.S.C. § 102(g). The bill would eliminate prior invention as a defense that would invalidate the patent. H.R. 1908 seeks to compensate for this change by expanding the prior user, or earlier inventor, defense. Thus, rather than invalidating the later inventor's patent, the earlier inventor defense simply permits that entity to continue its practice of the invention. There are several aspects of this amendment that fail to go far enough, however, to accommodate the government's interests and

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which may render the government liable for practicing inventions, or obvious variants thereof, that it has used long before the filing of a patent application by another.

First, it is by no means clear that the federal government is covered by this defense at all. Section 273(a)(2), which is not amended by the bill, states that this defense may be asserted by a “nonprofit research laboratory” or a “nonprofit entity such as a university, research center, or hospital.” There is some risk that a court might interpret the list of examples given for a nonprofit entity as limiting, and therefore, hold that the federal government is not covered by the defense. The bill should amend § 273(a)(2) to explicitly include the federal government.²

A further problem is that the federal government often develops inventions for its own use in laboratories or research facilities to serve the needs of national security in promoting public safety or welfare. These inventions are frequently fielded through contracts with commercial firms to manufacture embodiments for the government’s use. Under § 273(a)(2)(B), any prior use of an invention in a laboratory or research center would provide a defense to an infringement action only for use in that particular laboratory or research center and not for any subsequent use by other government offices or agencies, or in the performance of government contracts. That would leave the federal government exposed to substantial liability for using an invention made long before in a government laboratory or research center. This puts the federal government in a worse position than it would be under the present law, where it might raise this prior invention as an invalidity defense pursuant to the current § 102(g). *Del Mar Engineering Laboratories, Inc. v. United States*, 524 F.2d 1178, 1182, 1185 (Ct. Cl. 1975), *adopting*, 186 U.S.P.Q. 42 (Ct. Cl. Trial Div.) (holding that prior invention in government laboratory qualified as invalidating prior invention despite having been subject to national security classification).

We suggest that the government’s practice of developing inventions in laboratories or under research contracts and then using them for the public good either in larger government facilities, or through contractors who perform work on behalf of the government, requires an amendment to take this special role of the federal government into account. As noted, this is particularly true if the prior invention invalidity defense is eliminated by the general revision of patent laws proposed in the bill. We suggest that 35 U.S.C. § 273(a) be amended by amending 35 U.S.C. § 273(a)(2) by inserting “the federal government,” after “nonprofit research laboratory” and inserting a new subsection, which after the deletion of the present subsections § 273(a)(3) and (4) proposed by Section 5(d)(1)(C) of the bill would then become new § 273(a)(3):

² This does not pose a problem for state governments because they have been held immune from suit for patent infringement because of the Eleventh Amendment’s bar, absent a state waiver of its sovereign immunity. *Florida Prepaid Postsecondary Ed. Expense Board v. College Savings Bank*, 527 U.S. 627 (1999).

For purposes of this section, the federal government, and any contractors working for it with its authorization and consent to use patented inventions, shall be considered a single entity.

The suggested amendment would assure that the government, and the public, would not face substantially greater liability if the patent law are revised to adopt a first file system for continuing to use inventions that were already made and paid for by the public.

3. Revision to Section 284 on Damages

Section 5(a) of the bill proposes substantial changes to section 284, which deals with the award of damages, and the determination of whether enhanced damages may be awarded for willful infringement. Although the bill proposes to delete a sentence in the current version of 35 U.S.C. § 284 that expressly references the role of the jury in assessing compensatory damages, the bill proposes to add subsections (a)(2) and (a)(4), each of which acknowledges the possibility of jury involvement in royalty determinations. S. 1145, § 5(a) (“the court or the jury, as the case may be, shall consider only those factors in making the determination”), (“In determining damages, the court may also consider, or direct the jury to consider, the terms of any nonexclusive marketplace licensing of the invention, where appropriate, as well as any other relevant factors under applicable law”). Thus, we do not view the proposed amendments to section 284 as changing the present role of the jury in determining damages.

We recognize, however, that these subsections have been somewhat controversial. If they are eliminated in the final bill, we would advise the inclusion of other language expressly referring to the role of a jury in assessing damages. Although a statute cannot override a party’s Seventh Amendment right to have “particular trial decision[s]” tried by a jury “in order to preserve the substance of the common-law right as it existed in 1791,” *Markman v. Westview Instr., Inc.*, 517 U.S. 370, 376 (1996) (Seventh Amendment applies to patent infringement actions), it would improve clarity and ensure consistency to include such language in the statute.

4. Venue

Section 10(a) of the bill modifies the places where venue lies for an infringement suit. First, it adds a new subsection 1400(c) that would narrowly define the place where a party resides (as opposed to that contained generally in 28 U.S.C. § 1391(c)). This proposed subsection defines the place where a corporation resides to include only the judicial district in which it has its *principal* place of business or its state of incorporation. By contrast, section 1391(c) provides that a defendant that is a corporation resides within any judicial district in which it is subject to personal jurisdiction.³

³ Personal jurisdiction for purposes of patent infringement allegedly committed by a corporation involves two requirements: (1) that the corporation must either reside in the forum state or be

We believe that the impetus for this provision was that large corporate defendants said that they were being subjected to suit in “patent friendly” districts that had little connection to either party, but in which sufficient contacts existed for personal jurisdiction. At present, the Eastern District of Texas appears to be a popular venue for patent infringement actions. See Julie Creswell, *So Small a Town, So Many Patent Suits*, N. Y. Times, Sep. 26, 2006 at B1 (Business). We therefore support this provision because it is designed to restrict the ability of plaintiffs to select a forum that has little connection to either party in terms of place of incorporation or principal place of business. This change also does not appear to unduly restrict the places where venue may lie for a patent infringement action.

In addition, the language defining the types of cases that this provision applies to has been changed from “[a]ny civil action for patent infringement” to “[a]ny civil action arising under any Act of Congress relating to patents.” We propose that the original language be used instead. Because the proposed language is broader than the original language, the proposed provision needs to include all of the exceptions that should not be covered by Section 1400 --- not just the two currently listed. This will make the language even more cumbersome than it currently is. For example, if the current language remains, an exception will need to be added for actions pursuant to 28 U.S.C. § 1498(a), which provides the exclusive action where a patented invention is used by or for the government without authorization from the patent owner. Under section 1498(a), such actions must be brought in the Court of Federal Claims. Other examples may exist as well. Retaining the original language of 28 U.S.C. § 1400(b) will avoid the need for a list of exceptions.

Finally, the bill proposes to expand the original language of the statute to find that venue exists “where the plaintiff resides.” We suggest deleting that language, such that 1400(b) would state: (1) the place where defendant resides, or (2) any district in which the defendant has committed substantial acts of infringement and has a regular and established place of business. These changes would address the problem to which section 10(a) of the bill is directed, while avoiding any additional changes which could lead to unintended consequences.

5. Interlocutory Appeal from Markman Ruling

Section 10(b) of the bill proposes to amend 28 U.S.C. § 1292(c) to permit an interlocutory appeal from a decision or order determining claim construction. In the wake of the Supreme Court’s decision in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), holding that the proper interpretation of claims in a patent is an issue of law, courts have adopted

within the reach of the forum state’s long-arm statute, and (2) that the exercise of jurisdiction by the forum state will not offend due process under the “minimum contacts” test of *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945); *Pennington Seed, Inc. v. Produce Exchange No. 299*, 457 F.3d 1334, 1343 (Fed. Cir. 2006).

procedures leading to a decision construing disputed claim language prior to trial or dispositive motions. The outcome of these "*Markman* hearings" can dictate the outcome of the patent infringement action. The proposed amendment to section 1292(c) seeks to permit an early review of a trial court's claim construction decision in order to decrease the expense of patent infringement litigation and improve efficiency. As explained below, we oppose the provision, as written, because it does not appear that it will serve to make patent litigation more efficient.

We have three comments on this provision – one relating to its effectiveness, and two relating to technical issues in the manner in which it is drafted. Looking to the overall purpose to be served by this interlocutory appeal, it is not apparent that permitting this appeal will promote efficiency. While claim construction is often dispositive, it may not be prudent to review this issue after a *Markman* hearing, where the effect of a particular claim construction on the ultimate result may not be clear. There may often be many claim terms whose meaning is at issue in a *Markman* hearing, and yet, the construction of only one term may be dispositive on the question of whether the claims are infringed. In such a case, it is not efficient to hear an appeal on the construction of several claims terms immediately, rather than waiting for a decision which may turn on the meaning of only one of them. Thus, there may be more to lose in terms of judicial economy through this provision than would be gained by earlier appellate review of claim construction issues. Finally, it would not apply to declaratory judgment actions seeking declarations of non-infringement or invalidity. The proposed amendment would only apply in a "civil action for patent infringement under section 271 of title 35." This would seem to exclude declaratory judgment actions seeking resolution of the same issues as could be brought under section 271, such as where a prospective defendant seeks a declaration that the patent is invalid or not infringed in response to threats against customers.

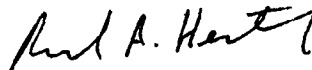
An alternative to this provision that may serve the desire to obtain review of claim construction before other phases of the trial are completed would be to permit review of an order or decision that determines infringement or noninfringement of claims in a civil action, which is not otherwise final, provided that the appeal raises an issue involving construction of a patent claim. At present, where all claims at issue have been held not to have been infringed and judgment has been entered for the defendant, the decision is final and appealable. However, there may be instances in which summary judgment of infringement has been granted, but patent validity or other issues have yet to be adjudicated, and where an interlocutory appeal would permit a review of claim construction in a context that has resulted in a decision regarding infringement. Such a provision permitting interlocutory appeal at that stage would foster the judicial economy sought by section 10(b) of the bill, while avoiding the prospect of needless appeals over claim terms which do not ultimately affect whether the claims have been infringed. Should this appear to be a desirable alternative, the Department would be happy to assist in drafting suitable language. Alternatively, it appears the courts, including the Federal Circuit, may be considering refinements to review the *Markman* decisions that could obviate the need for the provision.

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There are also apparent errors in the text of section 10(b). First, it purports to amend § 1292(c)(2) by inserting a new subsection 1292(c)(3). The bill appears intended to call for amendment of subsection 1292(c). Second, the proposed subsection 1292(c)(3) is ambiguous as to whether it provides for an interlocutory appeal as of right, or whether it contemplates that the Federal Circuit would have discretion to hear such an appeal. The existing subsections of 1292(c) are instances in which the appeal is of right. It would seem likely that the proposed interlocutory appeal from a claim construction decision is similarly intended to be of right. However, the bill calls for the party seeking to appeal a claim construction decision to make “[a]pplication for an appeal” within 10 days of the order. That language appears to parallel the requirement for certified question appeals contained in 28 U.S.C. § 1292(b) that “application” be made to the court of appeals within 10 days of the order. Given that the “court” is undefined, one might conclude that the appeal contemplated by proposed subsection 1292(c)(3) is discretionary with the appellate court. Yet, if that were the case, then the provision would not accomplish anything, since subsection 1292(b) already permits discretionary certified question review. We would suggest that this language be clarified, and if an appeal of right is intended, that the term “application” be replaced with “notice of appeal.”

Thank you for this opportunity to share our views on this important piece of legislation. The Department of Justice looks forward to working with the Subcommittee and the Congress to develop legislation that improves our patent system. The Office of Management and Budget has advised us that there is no objection to this letter from the perspective of the Administration’s program.

Sincerely,



Richard A. Hertling
Principal Deputy Assistant Attorney General

cc: The Honorable Arlen Specter
Ranking Member