Keynote Address

The Honorable Orrin G. Hatch*

I appreciate the opportunity to be with you today. Over the course of my time in the U.S. Senate, I have had the privilege of associating with many of you who I consider to be close friends and colleagues. You are some of the most distinguished practitioners, scholars, and jurists in the intellectual property community, and it is truly an honor to be here.

With the patent reform bill working its way through Congress,[1] today's symposium about the U.S. Court of Appeals for the Federal Circuit could not have been more timely.

But let me say a few words about the Federal Circuit. When Congress created the Court in 1982,[2] I don't think many understood just how important it would be to the innovator community. The Federal Circuit created a one-stop appeals shop for patent law disputes and greatly minimized forum-shopping by patent lawyers.

The U.S. Court of Appeals for the Federal Circuit reduced costs for the inventor and established uniformity of patent law. Indeed, the new court system sparked an economic boom. Inventors and industry could invest in research-and-development projects without fear that one regional patent court would endanger their company's intellectual property somewhere else in the country.

It was an exciting time in the patent community. Just two years later, in 1984, the Drug Price Competition and Patent Term Restoration Act,[3] commonly referred to as the Hatch-Waxman Act, was signed into law, effectively creating the generic drug industry.

As with the creation of the Federal Circuit, I believe streamlining our patent system could similarly spur innovation. I know many of you have heard this before, but it's worth repeating. We have not

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1 *See* Patent Reform Act of 2009, S. 515, 111th Cong. (as reported by S. Comm. on the Judiciary, Apr. 2, 2009).

2 *See* Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 127, 96 Stat. 25, 37 (codified at 28 U.S.C. § 1295 (2006)).

3 Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified as amended at 21 U.S.C. § 355 (2006)).

made significant improvements to the patent system since 1952.[4] Put another way, the last time the patent system was significantly changed, the structure of DNA had not been discovered, gasoline was around twenty-seven cents a gallon, and we had not yet gone to the moon. Cell phones, MP3 players, GPS navigators, and the Internet were far beyond anyone's imagination.

Technology has surpassed what anyone would have imagined back then, but unfortunately, our patent system hasn't been able to keep up with the growth in American innovation. The courts have interpreted the law in the light of change, but that piecemeal process has left areas of the law unclear and out of balance—leaving some important, unresolved gaps.

If we are to maintain our position at the forefront of the world's economy and continue to lead the globe in innovation, then we must have an efficient and streamlined patent system to allow for high quality patents while limiting counterproductive litigation.

We cannot afford to wait any longer.

Senator Leahy and I have been working on patent reform legislation for years. Three Congresses, to be exact. The Patent Reform Act of 2009[5] is a culmination of countless stakeholder meetings, seven committee hearings, and several markups. The Senate Judiciary Committee was able to report patent reform legislation in the last Congress,[6] and the House passed a companion bill.[7] This year we need to enact it to help bolster our economy. Passing legislation during these challenging economic times could complement the stimulatory efforts currently under way.

We have been struggling to resolve some of the final issues remaining on the bill, namely how to provide true reform to the overly abused inequitable-conduct doctrine and how to craft a balanced and fair damages provision. Of course, there are other issues that will likely be fine-tuned before passage.

For example, some have raised concerns about the prior-use-or-sale language contained in the expanded re-examination provision; others have questioned why the bill is silent on ending the backwards

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4 *See* Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792 (codified as amended in scattered sections of 35 U.S.C.); Ashley Chuang, *Fixing the Failures of Software Patent Protection: Deterring Patent Trolling by Applying Industry-Specific Patentability Standards*, 16 S. CAL. INTERDISC. L.J. 215, 243 (2006) (noting lack of "major reform" in patent system since 1952).

5 *See* S. 515.

6 *See* S. REP. NO. 110-259 (2008).

7 *See* Patent Reform Act of 2007, H.R. 1908, 110th Cong. (as passed by House, Sept. 7, 2007).

idea of diverting fees from the USPTO[8]—especially at a time when the Agency is overwhelmed with a serious financial crisis. To these and other concerns, I firmly believe that once we come to an agreement on inequitable conduct and damages, the rest of the bill will fall into place.

With respect to damages, Senator Leahy and I want to reform the law and end the current practice that gives plaintiffs the unfair advantage in litigation by allowing them to obtain more money than their inventors are actually worth.

Specific language like "apportionment," "contribution over prior art," or "essential features" have been considered and dismissed by many as possible solutions to the underlying problem. Finding a silver bullet to appease all interested parties has not been easy. Yet, at last week's Judiciary Committee hearing,[9] I heard agreement on at least two principles:

(1) everyone was comfortable with a gatekeeper approach—where the judge in a patent infringement trial acts as a gatekeeper, instructing juries on what factors to consider in determining damages; and

(2) that damages should be based on the economic value of the invention of the infringed product or process.

As you know, it was the damages provision that took down the bill last Congress. Last year's process taught us many things, including helping us identify the pressure points of the bill. That's the true genius of the legislative process. We know what it will take to achieve a fair compromise, and I believe it can be done. It will take willing partners to craft a compromise that will not have deleterious effects on any one sector of our economy.

For years I have been arguing if we are serious about enacting comprehensive patent law reform, then we must take steps to ensure that the inequitable-conduct doctrine is applied in a manner consistent with its original purpose: to sanction true misconduct and to do so in a proportional and fair manner.

Inequitable-conduct reform is core to patent reform, as it dictates how patents are prosecuted years before litigation. As you well know,

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8 *See Patent Reform in the 111th Congress: Legislation and Recent Court Decisions: Hearing Before the S. Comm. on the Judiciary*, 111th Cong. 6 (2009) (statement of Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson) (questioning prior-use-or-sale language); *id.* at 12 (statement of Herbert Wamsley, Executive Director, Intellectual Property Owners Association) (calling for prohibition of fee diversion).

9 *See generally id.*

the inequitable-conduct defense is frequently pled, rarely proven, and always drives up the cost of litigation.

Under current law, any perceived transgression of the patent owner is being painted as fraud.[10] If an inequitable-conduct claim wins, a valid patent will be held entirely void, and the infringer walks away without any liability.[11]

There is virtually no downside for the infringer to raise this type of attack. This is why inequitable-conduct challenges are raised in nearly every patent case.[12] It has become, in the words of the Federal Circuit, a "plague" on the patent system.[13]

The current law has made patent applicants overdisclose information to the USPTO for fear of missing something. Last Congress, former USPTO Director Jon Dudas testified before the Judiciary Committee.[14] He brought with him a box of materials to show the Committee what a patent examiner reviews when processing an Information Disclosure Statement.[15] There were 2600 pages of material submitted in one box.[16] There were twenty-seven other boxes that had the same amount of material for the very same patent application.[17] Such a deluge of information does not help produce high-quality patents.

Unfortunately, as things currently stand, anything an applicant does to help the examiner focus on the most relevant information during examination becomes the target of an inequitable-conduct challenge in court. This is a highly corrosive effect of the doctrine that is undermining the open and interactive examination process.

The development of a more objective and clearer inequitable-conduct standard will remove the uncertainty and confusion that defines current patent litigation. We cannot settle for mere codification of current practices.

I understand the generic drug industry considers the inequitable-conduct defense sacrosanct and any attempt to reform this area of law

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10 *See, e.g.*, Star Scientific, Inc. v. R.J. Reynolds Tobacco Co., 537 F.3d 1357, 1365–66 (Fed. Cir. 2008); Digital Control, Inc. v. Charles Mach. Works, 437 F.3d 1309, 1315–16 (Fed. Cir. 2006).

11 *See* Norian Corp. v. Stryker Corp., 363 F.3d 1321, 1330–31 (Fed. Cir. 2004).

12 *See* Multiform Desiccants, Inc. v. Medzam, Ltd., 133 F.3d 1473, 1482 (Fed. Cir. 1998).

13 Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed. Cir. 1988).

14 *See Patent Reform: The Future of American Innovation: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. 5–15 (2007) (testimony of Jon W. Dudas, Director, U.S. Patent and Trademark Office).

15 *Id.* at 10.

16 *Id.*

17 *Id.*

is met with strong opposition. Some have even suggested that those who seek to reform the inequitable-conduct defense condone fraudulent conduct before the USPTO. That line of reasoning could not be more misguided and contrary to the type of reform I am trying to bring about.

Of course there needs to be significant penalties for someone who tries to purport fraud on the Office. But sanctions should be commensurate with the misconduct. Reform to the inequitable-conduct defense should focus on the nature of the misconduct and not permit the unenforceability of a perfectly valid patent on a meritorious invention.

Some argue the *Star Scientific*[18] case has adequately adjusted how courts in the past have applied an overbroad rule of inequitable conduct. Indeed, the case correctly outlines that a sanction must be assessed independently of any misconduct, but I believe more is needed. Specifically, material information must be limited to the information that is central to the job of the patent examiner—information which dictates whether the invention is patentable. The courts can do their part in narrowing the scope of information that can be used to mount inequitable-conduct challenges.

In my opinion, true inequitable-conduct reform has the potential to single-handedly revolutionize the manner in which patent applications are prosecuted. Arguably, reform in this area will have the most favorable impact on patent quality and the ability for the USPTO to reduce its pendency—thereby fostering a strong and vibrant environment for all innovation and entrepreneurship. That is why we cannot let noninnovators stall progress in this area of law.

Let me conclude by saying we all have a stake in a strong and vibrant patent system. Our country's intellectual property is estimated to be worth $5.5 trillion and accounts for nearly seventy percent of corporate assets.[19] With so much on the line, we cannot afford to wait to reform our patent system. Now more than ever, our industries need reassurance and predictability in order to move forward in these challenging times.

Thank you.

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18 Star Scientific, Inc. v. R.J. Reynolds Tobacco Co., 537 F.3d 1357 (Fed. Cir. 2008).

19 Nate Anderson, *USPTO Boss: IBM Bathroom Patent Symbolic of U.S. Patent Ills*, ARS TECHNICA, Mar. 27, 2008, *available at* http://arstechnica.com/old/content/2008/03/uspto-boss-ibm-bathroom-patent-symbolic-of-us-patent-ills.ars.