

**NYIPLA Review**

**of the**

**October 2003**

**Federal Trade Commission Report:**  
***“To Promote Innovation: The Proper Balance  
of Competition and Patent Law Policy”***

**New York Intellectual Property Law Association  
Past President’s Committee**

**May 2005**

# **NYIPLA Past President's Committee**

Appointed To Investigate And Comment Upon  
The Federal Trade Commission's October, 2003 Report:  
*"To Promote Innovation: The Proper Balance  
Of Competition And Patent Law Policy."*

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**I. INTRODUCTION**

The New York Intellectual Property Law Association (“NYIPLA”) has reviewed the October 2003 report and recommendations of the Federal Trade Commission (“FTC”).

NYIPLA supports the FTC’s recommendation 1 (post grant oppositions), recommendation 4 (adequate PTO funding), two parts of recommendation 5 (expanded “second eyes” review of applications, and improved PTO balancing of the applicant’s and the public’s interests), recommendation 7 (18 month publication of all applications) and recommendation 9 (legislation clarifying the predicate for finding infringement was willful).

FTC recommendation 8, which would provide broader intervening or prior user rights, is not warranted, but NYIPLA would support a limited amendment of the existing prior user rights. Regarding FTC recommendation 3, NYIPLA believes that the FTC concerns over the legal standards used to evaluate obviousness do not justify legislation. Similarly, the two parts of FTC recommendation 5, suggesting PTO rule changes to require statements of relevance by applicants of prior art they submit and expanding examiner inquiries to applicants, would be counterproductive. Finally, NYIPLA opposes FTC recommendations 6 and 10, which would require courts to consider various competition policy issues in deciding patent cases. IP policy issues should be determined by Congress, not case-by-case, which would increase uncertainty and reduce the value of intellectual property rights.

**II. BACKGROUND**

**A. NYIPLA AND ITS INTEREST IN PATENT LAW**

The New York Intellectual Property Law Association (“NYIPLA”) was founded in 1922 to provide patent lawyers in New York with a means to make their views known in Washington and to provide support for the judiciary. NYIPLA’s patent views have developed through years of intimate involvement both with the patent laws and the patent community. As a result, NYIPLA can offer a unique perspective on the type of legislation that is likely to function in practice.

NYIPLA has a long history with patent legislation and was instrumental in drafting the current Patent Statutes. In the 1940’s, the Patent Office was asked to draft “an overall patent revision bill.” It consulted with prominent members of the patent community, including leading members of NYIPLA. Giles Rich, a Vice President of NYIPLA, was appointed to the two-man Patent Act drafting committee on behalf of the National Council of Patent Law Associations. After the 1952 Patent Act was passed, NYIPLA devoted its efforts toward having the President and Congress appoint a patent attorney to the Court of Customs and Patent Appeals in an effort to strengthen the patent system. In 1956, Giles Rich was appointed to the Court of Customs and Patent Appeals, the predecessor of the Court of Appeals for the Federal Circuit.

Today, NYIPLA continues to serve as a vehicle to promote the development and administration of intellectual property interests by educating the public and members of the bar and continually working with foreign associations to harmonize the substance and interpretation of international conventions for the promotion of intellectual property. The Association membership includes nearly 1,500 intellectual property attorneys and has twenty-four active committees. These committees cover all aspects of intellectual property law, practice, and related topics including: alternative dispute resolution, legislative oversight and amicus briefs, meetings and forums, and continuing legal education.

## B. THE NEED FOR PATENT REFORM

In recent years, complaints about the U.S. Patent System have continued to increase. Recent research suggests that the U.S. Patent System is out of balance. Due to overextension and lack of funds, the United States Patent and Trademark Office (“PTO”) appears to be allowing too many patents of “questionable” validity to issue. When patents are issued for inventions lacking novelty or for inventions that are obvious, consumers are harmed, competition is inhibited, and innovation is stalled. These consequences are diametrically opposed to the underlying purposes of the Patent System and are harming the patent community.

Patent owners and those who are charged with patent infringement, along with patent attorneys, are nearly unanimous in voicing two main concerns: the lack of certainty and predictability in the Patent System; and the exorbitant cost and delay associated with patent litigation. It is generally agreed that these ills are primarily due to the number of “questionable” patents issued by an overextended, underfunded PTO. Marketplace competitors and inventors, with the assistance of their patent attorneys, desire to make reliable conclusions involving patents in order to inform their business decisions. Yet, despite the clearly-defined statutory standards of patentability, the flood of “questionable” patents is undermining their confidence. Companies are increasingly finding themselves caught between a “Scylla and Charybdis”: either completely avoid development in a particular field or pay for an expensive and prolonged infringement lawsuit. Clearly, more certainty and predictability are needed in order to make important decisions regarding research and development to consequently spur innovation, and to allow a competitor to decide whether it may enter a particular technology without fear of a costly law suit.

## C. THE FTC REPORT

In order to address these problems, several organizations recently have made various recommendations. The Patent Office first published its recommendations in its 21<sup>st</sup> CENTURY STRATEGIC PLAN released in 2002<sup>1</sup>. In 2004, the National Academy of Sciences (“NAS”) published A PATENT SYSTEM FOR THE 21<sup>st</sup> CENTURY.<sup>2</sup> In the past few years, the Intellectual Property Law section of the American Bar Association (“ABA”) has drafted various resolutions and participated in various hearings before the Subcommittee on Courts, the Internet and Intellectual Property Committee on the Judiciary regarding changes to the patent laws.<sup>3</sup>

From a competition perspective, the FTC has also become concerned with the effects of “questionable” patents. Based on twenty-four days of hearings, with testimony from more than 300 panelists, the FTC issued a report in October 2003: TO PROMOTE INNOVATION: THE PROPER

BALANCE OF COMPETITION AND PATENT LAW POLICY<sup>4</sup> (“FTC Report”). The FTC Report asserts that “the patent system is out of balance with competition policy,” as “[p]oor patent quality and legal standards and procedures” have the effect of “hamper[ing] competition that otherwise would stimulate innovation.”<sup>5</sup> In an effort to rectify this imbalance, the FTC proposes ten recommendations to reform the U.S. Patent System. In April 2004, the American Intellectual Property Law Association (“AIPLA”) published its RESPONSE TO THE FTC REPORT.<sup>6</sup>

The FTC Report is the most comprehensive proposal. It iterates the gamut of problems existing in different scientific fields voiced by over 300 members of the patent community during twenty-four days of hearings. NYIPLA has reviewed the FTC Report and addresses it precisely because of its breadth. NYIPLA has also reviewed the surrounding proposals and critiques of the FTC Report made by other organizations, and supports the positions presented by the AIPLA in the AIPLA’s RESPONSE TO THE FTC REPORT. Overall, NYIPLA concludes that that the FTC Report provides several useful recommendations that will aid in establishing predictability and clarity in the Patent System. These useful recommendations will assist in removing patents of “questionable” validity from the marketplace and thus help relieve the public of costly and extensive patent litigation. On the other hand, NYIPLA respectfully disagrees with some of the FTC’s recommendations as failing to address the need for certainty in the Patent System, the need to minimize extensive litigation costs, and the need to shorten and simplify judicial resolution. In fact, NYIPLA is apprehensive that some of these latter recommendations may actually exacerbate these problems.

## II. FTC RECOMMENDATIONS 1, 4, 5, 7, AND 9 WILL AID IN SOLVING PROBLEMS CURRENTLY PLAGUING THE PATENT SYSTEM

NYIPLA supports the following five FTC recommendations as useful, believing that they will help remove patents of “questionable” validity from the marketplace and relieve the public of costly, extensive patent litigation.

FTC Recommendation 1	<i>“As the PTO Recommends, Enact Legislation to Create a New Administrative Procedure to Allow Post-Grant Review of and Opposition to Patents.”</i>
FTC Recommendation 4	<i>“Provide Adequate Funding for the PTO.”</i>
FTC Recommendation 5 (two out of the four recommendations)	<p><i>“Modify Certain PTO Rules and Implement Portions of the PTO’s 21<sup>st</sup> Century Strategic Plan.”</i></p> <p><i>“Implement the PTO’s recommendation in its 21<sup>st</sup> Century Strategic Plan that it expand its “second-pair-of-eyes” review to selected areas.”</i></p> <p><i>“Continue to implement the recognition that the PTO ‘forges a balance between the public’s interest in intellectual property and each customer’s interest in his/her patent and trademark.’”</i></p>
FTC Recommendation 7	<i>“Enact Legislation to Require Publication of All Patent Applications 18 Months After Filing.”</i>
FTC Recommendation 9	<i>“Enact Legislation to Require, as a Predicate for Liability for Willful Infringement, Either Actual, Written Notice of Infringement from the Patentee, or Deliberate</i>

Following is an account of NYIPLA's positions in support of these five FTC recommendations.

**A. FTC RECOMMENDATION 1: Post-Grant Review**

*"As the PTO Recommends, Enact Legislation to Create a New Administrative Procedure to Allow Post-Grant Review of and Opposition to Patents."*<sup>7</sup>

**1. FTC Position**

The FTC supports efforts to develop effective post-grant review of patents to address the inadequacy of the current *inter partes* and *ex parte* reexamination procedures along with the costly and time-consuming alternative of litigation. According to the FTC, the post-grant review will provide substantial opportunities to improve "patent quality by drawing upon the information and expertise of competitors." Furthermore, post-grant review will offer a market-based method of "focus[ing] the most intensive inquiry on the most significant patents," as opposed to making an extensive attempt to perfect examinations of every patent application which would be costly and inefficient. In addition, the FTC believes that post-grant review will offer an opportunity "for timely resolution of uncertainty regarding patent validity," thus addressing the concern of harm to competition resulting from prolonged judicial resolution. The FTC also explains that post-grant review, as an alternative to litigation, would likely reduce private costs of challenging validity and thus would be likely to provide an incentive for competitor's to challenge "questionable" patents.<sup>8</sup>

To ensure that the post-grant review will not suffer the general neglect associated with the *inter partes* reexamination, the FTC urges that any established post-grant review implement at least eight requirements<sup>9</sup>:

1.	The post-grant review should extend reviewable subject matter beyond the novelty and obviousness issues currently allowed, to further include enablement, written description, and utility.
2.	Such a review should be "initiated or allowed to be maintained only upon a suitable threshold showing by the review petitioner," in order to provide some protection for patentees against the harassment of multiple, trivial requests for review.
3.	A set of decision makers "competent to handle the broader array of procedural and substantive issues" is required in the form of independent administrative patent judges in order to avoid any possible conflicts arising from asking the PTO's core of examiners to review its own decisions of record.
4.	The post-grant review should allow cross-examination of witnesses and an opportunity for appropriate, carefully circumscribed discovery as they are needed in order to challenge an applicant's assertions and expert evidence "on issues that extend beyond straight forward application of printed prior art."
5.	In order to guard against patentee harassment and undue delay, the post-grant review proceeding should "be conducted within defined time limits and under sanctions authority necessary to control proceedings of this

	nature.”
6.	Further limitations should “be established to protect against undue delay in requesting post-grant review and against harassment through repetitive petitions for review.”
7.	“[S]ettlement agreements (including collateral agreements referred to therein) resolving post-grant review proceedings to be filed with the PTO and made available, on written request, to other government agencies under terms comparable to those currently applicable to settlements of interferences.”
8.	“[S]uch a post-grant review proceeding be declared a delegation of authority permitting the ensuing PTO conclusions of law to carry the force of law.”

## 2. NYIPLA Review

NYIPLA supports efforts to develop effective post-grant review of patents in the form of post-grant opposition proceedings. It is increasingly evident that an escalating number of patents having questionable validity are being issued and that the current procedures available for challenging them are deficient.

Litigation is very expensive and time-consuming. Moreover, the possibility of litigation as a testing ground for patents of questionable validity is fundamentally based on the behavior of the patentee and ignores the general concerns of competitors. A concerned competitor can test a patent’s validity through litigation only if the patentee brings or threatens an infringement action against it. In order to avoid allegations of infringement and ensuing costly litigation, many competitors forego development altogether in particular areas which may be covered by a patent—including a patent of questionable validity. Certainly, a competitor’s choice not to develop in an area that is allegedly covered by a patent is a natural consequence of the Patent System, which is justified by the initial public disclosure of the innovation for a bargained for temporary exclusivity. However, this acceptable consequence is transformed when a majority of the patents in a field are of questionable validity. Unless a competitor begins to develop the innovations allegedly covered by the patent (which would constitute a redressable infringement and effect a costly litigation), these questionable patents will never be tested in court and will continue to block innovation for the life of the patent. The inevitable result is a disturbing standstill resulting in the stifling of innovation based on a patent that should never have issued.

The current *ex parte* and *inter partes* reexamination procedures are equally deficient. *Ex parte* reexamination, for example, denies any meaningful participation by the requester as it involves only the patentee and the examiner once it is initiated. *Inter partes* reexamination, on the other hand, requires the requester to be revealed and thus essentially forces the requester to target itself for an infringement suit. Moreover, *inter partes* reexamination imposes a stern estoppel provision—despite the requestor’s lack of recourse to proper discovery. Both of these reasons have strongly contributed to the public’s virtual disregard of the *inter partes* proceeding as a viable option for challenging patents of questionable validity.

In an attempt to address these and other associated problems, several organizations in addition to the FTC have requested that a post-grant review system be established. As part of its

21<sup>st</sup> CENTURY STRATEGIC PLAN released in 2002<sup>10</sup>, the PTO called for a post-grant review. The American Intellectual Property Law Association (“AIPLA”) also called for a post-grant review as expressed to the Subcommittee on Courts, the Internet and Intellectual Property Committee on the Judiciary in June 2004<sup>11</sup> and in the AIPLA RESPONSE TO THE FTC REPORT dated April 2004<sup>12</sup>. The National Academy of Sciences (“NAS”) 2004 report, A PATENT SYSTEM FOR THE 21<sup>st</sup> CENTURY, recommended the creation of an “[o]pen review procedure” to provide “more timely, lower cost, and more efficient review of granted patents,” to replace the current reexamination procedures.<sup>13</sup> Also, the Intellectual Property Law section of the American Bar Association (“ABA”) is generally supportive of a post-grant review.<sup>14</sup> NYIPLA joins these respected organizations in expressing support for a post-grant opposition proceeding, believing the time is ripe for a post-grant review process that will provide a more meaningful, timely and cost-effective alternative for the public to challenge questionable patents.

While NYIPLA is in general agreement with the FTC’s Recommendation for a new administrative post-grant review procedure, NYIPLA believes that the Recommendation leaves open issues concerning the scope of the proceeding and protections to guard the patentee from harassment. NYIPLA recognizes the difficulty of delineating a system that will balance the need for a broad scope and level of inquiry, while keeping the costs low and the outcome prompt. The AIPLA has tackled the difficulty of delineating such a system. NYIPLA believes that the post-grant review proposal prepared by the AIPLA provides a good foundation from which to build a post-grant proceeding that addresses the public need for a fair, effective, relatively economical, and timely method of challenging patents of questionable validity.

NYIPLA cautions, however, that in formulating legislation to enact a post-grant opposition proceeding, Congress should be particularly wary in drafting an estoppel provision. History has shown that literally building an estoppel provision into the legislation for a post-grant opposition proceeding will most likely have a chilling effect on its use. NYIPLA proposes that any estoppel that may attach should be determined by the Courts applying the same principles developed in other litigation arising from administrative proceedings. If an estoppel provision is included in the new legislation, prospective patent challengers will most likely refrain from using the post-grant opposition for the many reasons iterated above. However, if prospective patent challengers know they will have their day in Court to argue their specific circumstances with regard to estoppel issues, prospective challengers may feel more in control of their future and thus avail themselves of a post-grant opposition proceeding. At the very least, the inclusion of an estoppel provision should be carefully investigated and scrutinized in an effort to preempt any later chilling effects on the use of a post-grant opposition proceeding.

Consideration of the AIPLA recommendations<sup>15</sup> which NYIPLA finds particularly helpful follows:

1.	Any person should be permitted to file a request for opposition to an issued patent. However, the request must be made no later than nine months after the patent is granted with the exception that the patent owner may consent to the filing of a request at anytime during the life of a patent. Thus, if a patentee decides to charge a competitor with infringement, the parties can agree to substitute a costly and long litigation with the post-opposition proceeding. The requester would be required to provide a full disclosure of the basis for opposition together with the request. The evidence and opinions should be provided in the form of affidavits or declarations.
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2.	The real party in-interest must be identified; however, a real party in interest can request that its identity be kept separate from the file of the opposition. Thus, a party's concern of identifying itself as a target for an infringement action is addressed. In fairness to the patentee, however, the identity of the real party-in-interest must be revealed if the party relies upon factual evidence or expert opinions presented in the form of affidavits or declarations. This will allow the patentee to adequately cross-examine the opposer's affiants and declarants.
3.	The grounds for requesting a post-grant review proceeding should be broader than those currently allowed in a reexamination proceeding to be co-extensive with the issues that a patent examiner considers in deciding whether to permit an application for patent to issue. Excluded would be issues that depend on the state of mind of the inventors which are not really susceptible to resolution in an administrative proceeding. These excluded issues include "best mode" in section 112 and priority of invention in section 102(g). The issues to be considered in a post-grant opposition include all issues of novelty and nonobviousness under 35 U.S.C. §§ 102 and 103 that are based upon patents or publications, along with the issues of written description and enablement under 35 U.S.C. § 112 paragraphs 1 and 2, utility, subject matter eligibility for patenting (35 U.S.C. § 101), and non-statutory double patenting.
4.	An opposition would be instituted upon request unless the Director determines it lacks substantial merit, thus mollifying harassment to the patentee. The Director would then assign the opposition proceed to a panel of three Administrative Patent Judges ("APJ"). Having the three independent judges will safeguard against any concerns of conflict arising from asking the PTO's core of examiners to review its own decisions of record.
5.	In order to avoid excess costs and unduly protracted proceedings, there should be limitations on the discovery. The NYIPLA is in agreement with the AIPLA that the only form of discovery available should be the right to cross-examine a person providing factual evidence or expert opinions. This cross-examination should be limited to depositions of the witnesses who submitted affidavits or declarations. No other discovery should be allowed except upon express finding by the Administrative Patent Judge that additional discovery is necessary in the interest of justice. Oral argument should be part of the proceeding, but live testimony should not be permitted.
6.	The fact-finding would be done on a "preponderance of the evidence" standard. The requester would have the initial burden of making arguments and establishing fact by a preponderance of the evidence. The determination of invalidity would be based on the "broadest reasonable construction" of the claim—the same test applied in analyzing the patentability of a claim during examination.
7.	Any party adversely impacted by the decision should have the right to request reconsideration or modification with final recourse to the Court of Appeals for the Federal Circuit.
8.	The NYIPLA agrees with the AIPLA that in order to address the need for a prompt post-grant proceeding, it is very important that the proceeding terminate with a final determination within one year after institution. However, in exceptional circumstances, any party to an opposition would be able to obtain an extension of up to six months upon a showing of good cause, and, the APJ could <i>sua sponte</i> extend the period for up to six months.
9.	The proceeding should be designed to promote certainty for both patentees and the public. However, to ensure against harassment of the patentee, no patent for which an opposition has been instituted should later be the subject of either an <i>inter partes</i> reexamination or another opposition requested by the same requester that initiated the initial post-grant review.
10.	Similar to reexaminations, any claim determined to be patentable would be subject to the intervening rights provision specified in the second paragraph of 35 U.S.C. § 252 for claims in reissued patents.
11.	A post-grant proceeding would, of course, be terminated upon the joint request of the opposer and patentee, with no estoppel as to that opposer. NYIPLA is in agreement with the AIPLA and the FTC that settlements

resolving a post-grant review proceeding should be filed with the PTO and made available to other government agencies in the same manner as the current interference practice.
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NYIPLA reiterates its agreement with the FTC recommendation calling for a post-grant opposition system. Such a system must balance various significant factors, while providing an option for third parties without harassing patentees. NYIPLA believes that the AIPLA's plan offers a solid foundation on which to create just such a post-grant opposition system.

## B. FTC RECOMMENDATION 4: Adequate PTO Funding

*"Provide Adequate Funding for the PTO."*<sup>16</sup>

### 1. FTC Position

The FTC strongly recommends that Congress increase the PTO's funding so that the PTO may improve the quality of its examinations. The FTC iterates that the quality of the PTO's work depends on adequate funding, echoing and reinforcing the comments made by patent review committees in past years. The FTC noted several observations positing that the inadequate funding makes it difficult for the PTO to hire enough staff to examine patent applications carefully and efficiently. The FTC also acknowledged comments indicating that even if the PTO is able to hire talented staff, it is difficult for them to retain these employees when faced by competition from the private sector which offers substantially higher salaries.<sup>17</sup>

### 2. NYIPLA Review

The NYIPLA fully endorses the FTC's position that Congress increase the PTO's funding. However, NYIPLA conditions this funding on the PTO's improving its operations to prevent issuance of questionable patents. Clearly, the PTO is facing an explosive growth in patent applications that must be met by adequate resources, such as expanded prior art databases and qualified examiners. The FTC Report notes that patent applications have increased at the rate of 10% per year, and have doubled over the past twelve years.<sup>18</sup> Meanwhile, patent examiners have an extremely limited time to evaluate patents, estimations ranging from 8 to 25 hours per application.<sup>19</sup> This is probably less time than a patent drafter takes in drafting an application and definitely less time than is spent challenging the patent during litigation. One hearing participant testified that the PTO granted patents at a rate of 98% in 2000 as opposed to the patent grants in Europe and Japan, which were 67% and 64%, indicating that the PTO is clearly overworked.<sup>20</sup> All the FTC's recommendations attempt to address the harmful effects of having too many questionable patents in the marketplace. Clearly, the problem will be greatly reduced if the PTO were to have the proper funding to devote to resources that would enhance its examination capabilities.

## C. FTC RECOMMENDATION 5: Modify Rules And Implement Portions of PTO Plan

*"Modify Certain PTO Rules and Implement Portions of the PTO's 21<sup>st</sup> Century Strategic Plan."*<sup>21</sup>

## 1. FTC Position and NYIPLA Review

The FTC presents four suggestions for the PTO that it believes will aid in preventing the issuance of questionable patents. The NYIPLA agrees with two of them which will be addressed specifically:

- a. *“Implement the PTO’s recommendation in its 21<sup>st</sup> Century Strategic Plan that it expand its “second-pair-of-eyes” review to selected areas.”*<sup>22</sup>

The “second-pair-of-eyes” review was first used by the PTO to improve the quality of business method patents with encouraging results. The FTC explains that the “second-pair-of-eyes” review allows the “PTO to quickly flag issues that need further attention by the examiner or the examiner’s supervisor.” The FTC agrees with the PTO’s recommendation that this program should be expanded to fields with “substantial economic importance,” which currently include semiconductors, software, and biotechnology, but may include other technologies as they emerge. The FTC further agrees that expanding the “second-pair-of-eyes” review only to certain fields as opposed to universally would ensure that the costs do not outweigh the benefits.<sup>23</sup>

The NYIPLA supports this recommendation as an effective method for weeding out questionable applications.

- b. *“Continue to implement the recognition that the PTO ‘forges a balance between the public’s interest in intellectual property and each customer’s interest in his/her patent and trademark.’”*<sup>24</sup>

The FTC asserts that the PTO works as a “steward of the public interest, not as a servant of patent applicants.” The FTC believes that raising this recognition will help the PTO to “protect the public against the issuance of invalid patents.” The FTC expressed concern that past PTO statements have described patent applicants as their customers, thus possibly suggesting that the agency’s mission “is to promote the welfare of patentees.” By way of example, the FTC provided the following quotation from the PTO’s Corporate Plan for fiscal year 2002: “[t]he Patent Business is one of the PTO’s three core businesses. The primary mission of the Patent Business is to help customers get patents.”<sup>25</sup> Moreover, the FTC was concerned by the testimony of one prior examiner who stated that:

I don’t know that the examiners view their roll as protecting the public anymore. I think more often than not they view their role as protecting the customer. And the customer, according the patent office, is the individual filing for a patent.<sup>26</sup>

Thus, the FTC is anxious that the proper role of the PTO become recognized in order to avoid any bias towards the patentee to the detriment of the public.<sup>27</sup>

The NYIPLA is in favor of promoting the recognition that the PTO “forges a balance between the public’s interest in the intellectual property and each customer’s interest in his/her patent and trademark.” However, the NYIPLA does not agree that the PTO functions solely as

“a steward of the public interest.” The concern of issuing invalid patents must not lead the PTO to err on the side of failing to issue valid patents. Examiners’ recognition of the above policy should instill the objective approach they must have when analyzing patent applications; their examination should be objectively based on the legislative and regulatory materials. Thus, to the extent that the interpretation of the PTO’s objective suggests that the PTO should take a biased view either in favoring the public interest or the patent applicant, the NYIPLA opposes that interpretation.

#### D. FTC RECOMMENDATION 7: Eighteen Month Publication For All Patent Applications

*“Enact Legislation to Require Publication of All Patent Applications 18 Months After Filing.”<sup>28</sup>*

##### 1. FTC Position

The FTC recommends having **all** patent applications published eighteen months after filing. Currently, all applications, **except those filed only in the United States**, are published months after filing. Thus, roughly 90% of patent applications are published eighteen months after filing. According to the FTC, this mandatory publication has helped to address circumstances where an applicant’s competitor substantially invests in developing a product and bringing it to market, “only to learn, once the patent finally issued, that it was infringing a rival’s patent and owed significant royalties.” According to the FTC, this new procedure has increased business certainty and promoted positive business planning; therefore, the FTC believes that the publication should extend to **all** patents, including those that are solely filed domestically, as these domestically filed patents may have “competitive significance.” Patent applicants are protected from the copying of their inventions by statutory royalty rights. As the 1996 Advisory Commission on Patent Law Reform explained, “[e]arly publication could prevent needless duplication of the disclosed work, promote additional technological advances based on the information disclosed, and apprise entrepreneurs of their potential liability.”<sup>29</sup>

##### 2. NYIPLA Review

NYIPLA supports the FTC’s recommendation to publish all patent applications eighteen months after filing. NYIPLA believes this is an effective procedure for balancing the interests of the public and of patent applicants. The public will obtain more certainty by the disclosure of emerging technologies, learning about technologies before investing time and money in developing and subsequently marketing products that infringe. This will prevent wasted funds and needless litigation. Moreover, this recommendation will help alleviate the problem of secret continuing applications that later capture an entire market by remaining hidden in the PTO until the time is ripe for drafting claims to cover successful products. At the same time, the patentee’s rights remain in balance by allowing statutory damages for any copying due to the early disclosure.

## E. FTC RECOMMENDATION 9: Actual Written Notice Or Deliberate Copying For Willfulness

*“Enact Legislation to Require, as a Predicate for Liability for Willful Infringement, Either Actual, Written Notice of Infringement from the Patentee, or Deliberate Copying of the Patentee’s Invention, Knowing it to be Patented.”<sup>30</sup>*

### 1. FTC Position

The FTC’s position is meant to address the “ad terrorem” effect of the current willfulness doctrine which is undermining the benefits of public disclosure established by the Patent System. A growing number of companies have issued policies for their employees not to read patents for fear of being liable for willful infringement. According to the FTC, failure to read patents “can jeopardize plans for a noninfringing business or research strategy, encourage wasteful duplicative efforts, delay follow-on innovation that could derive from patent disclosures, and discourage the development of competition.” The FTC believes that its recommendation to require, as a predicate for willful infringement, “either actual, written notice of infringement from the patentee, or deliberate copying of the patentee’s invention, knowing it to be patented,” would allow companies to read patents for their disclosure value, while retaining a viable willfulness doctrine that protects wronged patentees.<sup>31</sup>

### 2. NYIPLA Review

Pursuant to 35 U.S.C. § 284, a court may award up to three times the amount of damages assessed if the defendant has willfully infringed a valid patent. In order to willfully infringe, the defendant must have known about the patent and nevertheless continued with the infringing conduct without a reasonable basis for doing so. The analysis is based on the very uncertain “totality of the circumstances” test. Because of the ambiguity associated with this test, an “ad terrorem” effect has resulted which undermines the public disclosure policy of the Patent System. For fear of willfulness liability, inventors and companies are ceasing to read patents all together. This inevitably slows down the dissemination of development and is delaying innovation. NYIPLA believes the FTC proposal will mollify the growing “ad terrorem” reaction by providing a degree of predictability in the marketplace without compromising the protection afforded the patentee under the willfulness doctrine.

The public’s growing refusal to read patents for fear of willfulness liability undermines the Constitutional purpose of the Patent System: “to promote the Progress of Science and useful Arts.”<sup>32</sup> Under the current law, there are a variety of ways for a potential infringer to be placed on notice.<sup>33</sup> For example, the knowledge of one employee in a big corporation may trigger such notice, as the determination is based on a totality of the circumstances. This “can place a potential infringer in a dilemma between ignoring a vague reference to a patent, for example learning of a patent number or an abstract from a patent application, and incurring great expense to determine whether there is an infringement. Patentees often attempt to confer notice in such a way as to create such a dilemma.”<sup>34</sup>

In addition to the FTC recommendation regarding willfulness, the AIPLA has also addressed this growing problem by providing a similar recommendation:

A duty to exercise due care under this subsection shall only arise upon (i) written notice by or on behalf of the patentee of specific acts of infringement or (ii) the deliberate copying of a patented invention with knowledge that it is patented. Proof by clear and convincing evidence that an infringer deliberately copied the patented invention with knowledge that it is patented and without due consideration of whether the patent may be infringed, unenforceable, or invalid, establishes that the infringer failed to exercise due care.

Under this section, no adverse inference may be drawn from an assertion of attorney-client privilege or other immunity as a basis for not revealing advice of counsel.<sup>35</sup>

The time is ripe to reconsider the effects of the notice requirement for willfulness liability. The willfulness doctrine is beneficial, but without any tangible boundaries, the public is growing increasingly “terrified” into ignoring patents. This cultivated ignorance undermines the purpose of the patent laws and, in effect, grants a patentee a temporal monopoly for no public gain. The FTC and AIPLA proposals are both noteworthy attempts at rectifying the current problems of the willfulness doctrine, which are fully supported by NYIPLA.

### III. FTC Recommendations 2, 3, 5, 6, 8, and 10 Will Not Alleviate The Current Problems Of The Patent System But May In Fact Exacerbate Them

NYIPLA respectfully opposes the following six FTC recommendations (including two subparts of recommendation five) as failing to address the concerns of the patent community regarding: certainty, predictability, expensive litigation, and prolonged judicial resolution:

FTC Recommendation 2	<i>“Enact Legislation to Specify That Challenges to the Validity of a Patent Are to be Determined Based on a ‘Preponderance of the Evidence.’”</i>
FTC Recommendation 3	<i>“Tighten Certain Legal Standards Used to Evaluate Whether a Patent is ‘Obvious.’”</i>
FTC Recommendation 5 (two out of the four recommendations)	<p><i>Modify Certain PTO Rules and Implement Portions of the PTO’s 21<sup>st</sup> Century Strategic Plan.”</i></p> <p><i>“Amend PTO regulations to require that, upon the request of the examiner, applicants submit statements of relevance regarding their prior art references.”</i></p> <p><i>“Encourage the use of examiner inquiries under Rule 105 to obtain more complete information, and reformulate Rules 105 to permit reasonable follow-up.”</i></p>
FTC Recommendation 6	<i>“Consider Possible Harms to Competition—Along with Other Possible Benefits and Costs—Before Extending the Scope of Patentable Subject Matter.”</i>
FTC Recommendation 8	<i>“Enact Legislation to Create Intervening or Prior User Rights to Protect Parties from Infringement Allegations That Rely on Certain Patent Claims First</i>

	<i>Introduced in a Continuing or Other Similar Application.”</i>
FTC Recommendation 10	<i>Expanded Consideration of Economic Learning and Competition Policy Concerns in Patent Law Decisionmaking.”</i>

In fact, NYIPLA believes some of these latter recommendations may actually exacerbate the current Patent System problems. Following is an account of NYIPLA’s positions regarding these six FTC recommendations:

A. FTC RECOMMENDATION 2: Challenges To Validity Based On A “Preponderance Of The Evidence”

*“Enact Legislation to Specify That Challenges to the Validity of a Patent Are to be Determined Based on a ‘Preponderance of the Evidence.’”<sup>36</sup>*

1. FTC Position

The FTC proposes changing the standard for challenging the validity of a patent from “clear and convincing” evidence to a “preponderance of the evidence.” The FTC’s primary reason for adopting this change is rooted in the belief that the “clear and convincing” standard distorts the litigation process. The FTC explains that the “plethora of presumptions and procedures” in favor of the issuance of a patent “state a compelling case against imposing a heightened evidentiary standard on those challenging patent validity.” The FTC further notes that the PTO’s own determinations supporting “issuance of patents are based only on a preponderance of the evidence,” while third parties who challenge the patents are subject to the higher standard of “clear and convincing” evidence. Moreover, the FTC believes that the PTO’s determinations “are made under tight time constraints and on an *ex parte* basis allowing minimal opportunity to hear a third party’s opposing views.” Thus, there is speculation as to whether the limited examination in terms of hours and ability warrants a deference requiring those who challenge the validity of a patent to demonstrate invalidity by “clear and convincing” evidence. As a result, according to the FTC, a patent that would never have issued had it been subject to thorough administrative review, may very well “hold up” in court and have harmful effects on competition. The FTC believes the solution rests in “legislation . . . specifying that challenges to the validity of a patent be determined based on a preponderance of the evidence.”<sup>37</sup>

2. NYIPLA Review

NYIPLA opposes the FTC recommendation for legislation to replace the current “clear and convincing” standard of proof with the lower “preponderance of the evidence” standard. The scope of the “clear and convincing” standard is explained by the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) in *Rosco, Inc. v. Mirror Lite Co.*: “the party challenging a patent must prove **facts** supporting a determination of invalidity by clear and convincing evidence.”<sup>38</sup> Thus, it is the **facts** that must be proven by “clear and convincing” evidence and not the legal conclusion of invalidity. The motive for the “clear and convincing” standard is demonstrated by decades of well-reasoned precedent that adopted the standard in a

successful effort to reject attempts to invalidate patents based on sham allegations, such as uncorroborated oral testimony of prior uses, sales, or inventions.

To the extent that any discrepancies among the courts are present, NYIPLA believes that the solution rests in the judicial branch and not the legislature. It is generally the province of the courts to interpret statutes and to necessarily determine requisite levels of proof in order to arrive at judicious conclusions. NYIPLA believes that any discrepancies are being clarified in the courts through proper advocacy and appellate review.

Furthermore, as the AIPLA noted, the “clear and convincing” standard is “not particularly difficult to meet when the evidence is documentary.”<sup>39</sup> Patents are especially good evidence because of the statutorily required disclosures. Since they are required to meet the technical requirements and proof standard of patent law, “patents are *per se* clear and convincing proof of their contents.”<sup>40</sup>

The FTC’s concerns revolve around the advantages that a patent applicant may have during *ex parte* prosecution. However, these concerns are adequately addressed by the presentation of evidence during trial, as the party asserting invalidity can present any defects in the patent’s prosecution to the court. Moreover, there are patents that have been properly examined by the PTO and are deserving of the presumption of validity. They should be invalidated solely upon “clear and convincing” proof. If the PTO examination process were improved, the number of deserving patents will only increase. To presently alter the standard will only create uncertainty regarding adequate proof for patents that actually warrant the deference of a presumption of validity.

In conclusion, NYIPLA believes that the FTC did not address the litigation-based issues that make a heightened burden of proof necessary. For example, prior use, invention, or sale, should be established by “clear and convincing” evidence in order to avoid easily fabricated, non-rebuttable proof. The FTC also did not consider that meeting a “clear and convincing” standard is not necessarily difficult when the challenger relies on documentary evidence. The “clear and convincing” standard was carefully selected through years of judicial precedent. The strength of this judicial analysis should not be taken for granted.

#### B. FTC RECOMMENDATION 3: Tighten Standards For Evaluating Obviousness

*“Tighten Certain Legal Standards Used to Evaluate Whether a Patent is ‘Obvious.’”<sup>41</sup>*

The non obviousness requirement ensures that the patent system does not grant patents that have no “social benefit because . . . others would have developed the idea even without the incentive of a patent.”<sup>42</sup> The non obviousness requirement is codified in 35 U.S.C. § 103:

a patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 . . . , if the difference between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person

having ordinary skill in the art to which said subject matter pertains.

In applying the statute, the Supreme Court and the Federal Circuit have developed various tests, including the “suggestion test” and the “commercial success” test. The “suggestion test” requires that “the prior art would have **suggested** to those of ordinary skill in the art that they should make the claimed composition or device, or carry out the claimed process.”<sup>43</sup> This protects against invalidating patents based on hindsight. The commercial success test provides an indication that a patent may not be obvious if the allegedly patented embodiment has had commercial success that resulted from the invented aspect of the product.

The FTC, has expressed concern that these tests are being applied in manners that harm competition. NYIPLA, however, believes it is clear that the FTC’s concerns are not necessarily with the tests themselves, but with the varying applications of those tests. Thus, NYIPLA opposes the FTC proposals to “tighten certain legal standards used to evaluate whether a patent is obvious,” as there does not appear to be any need to change the law based on their concerns. Instead, NYIPLA submits that the issues raised by the FTC are self-correcting through the natural progression and evolution of the case law as refined by proper advocacy and appellate review.

#### 1. The “Suggestion Test”

In applying the statutory non obviousness requirement for patentability, the Federal Circuit has developed the “suggestion test.” The “suggestion test” requires that “the prior art would have **suggested** to those of ordinary skill in the art that they should make the claimed composition or device, or carry out the claimed process.”<sup>44</sup> The driving policy underlying the “suggestion test” is to ensure that inventors are protected from findings of obviousness based purely on hindsight.<sup>45</sup> The Federal Circuit elucidated that “[g]ood ideas may well appear obvious after they have been disclosed, despite having been previously unrecognized.”<sup>46</sup> Accordingly, the Federal Circuit explained that “the best defense against the subtle but powerful attraction of a hindsight-based obviousness analysis is rigorous application of the requirement for a showing of the teaching or motivation to combine prior art references.”<sup>47</sup> Otherwise, “[c]ombining prior art references without evidence of such a suggestion, teaching, or motivation simply takes the inventor’s disclosure as a blueprint for piecing together the prior art to defeat patentability—the essence of hindsight.”<sup>48</sup> Thus, the inquiry into obviousness does not rest solely on whether pieces of prior art reflect one or more of the features or elements of the claimed invention, but also on whether there was some suggestion, teaching, or motivation as understood by one of ordinary skill in the art to combine the references resulting in the invention.

##### a. FTC Position

While the FTC agrees with the Federal Circuit’s concern with invalidating patents based on hindsight, it believes that the court’s have been applying the “Suggestion Test” too stringently. Specifically, the FTC believes that the courts seem to require “specific and definitive [prior] art references with clear motivation of how to combine those references,” instead of also considering the ability of one of ordinary skill to combine or modify the prior art. By limiting the “Suggestion Test” solely to definitive, concrete suggestions and motivations in the references themselves, the FTC is concerned that the courts are raising the bar for finding

obviousness and thus permitting more “obvious patents” to issue which “raises competitive concerns.”<sup>49</sup>

The FTC explains that the issuance of “obvious” patents contributes to a “proliferation of patents that increase search and licensing costs unnecessarily.” This effect, in turn, harms healthy competition. While the “rigorous application” of the “suggestion test” might well help confirm obviousness, the FTC believes that it falls short of detecting patents which are obvious based on the natural motivation to combine that would be exercised by one of ordinary skill in the art. Therefore, the FTC recommends that in applying the “suggestion test,” the courts consider the ability to combine or modify prior art that one of ordinary skill would have in analyzing a patent:

*[t]he analysis should ascribe to the person having ordinary skill in the art an ability to combine or modify prior art references that is consistent with the creativity and problem-solving skills that in fact are characteristic of those having ordinary skill in the art. Requiring concrete suggestions or motivations beyond those actually needed by a person of ordinary skill in the art, and failing to give weight to suggestions implicit from the prior art as a whole, suggestions from the nature of the problem to be solved, and the ability and knowledge of one of ordinary skill in the art, errs on the side of issuing patents on obvious inventions and is likely to be unnecessarily detrimental to competition.*<sup>50</sup>

#### b. NYIPLA Review

The FTC itself notes that while some recent applications of the “suggestions test” warrant concern, there are cases such as “the Federal Circuit’s most recent articulation of the suggestion test [that] seem to signal greater appreciation of these issues and would better facilitate implementation of the test in ways sensitive to competitive concerns.”<sup>51</sup> NYIPLA believes the cases that have found an insufficient motivation without considering the level of skill in the art are the exception and not the rule. To the extent that there is a problem in the application of the test among the different courts, it appears to be self-correcting through traditional evolution of case law. Thus, there does not appear to be a need for any legislative change of the suggestion test. Instead, NYIPLA submits that since the problem does not rest in the rules, but in the varying application of the rules, it follows that through proper advocacy and continual appellate review, the natural progression of the law should resolve the issue without the need to rewrite the patent laws.

#### 2. Secondary Considerations: The “Commercial Success Test”

In applying the statutory non obviousness requirement for patentability, the Supreme Court has explained that:

*[s]uch secondary considerations as commercial success, long felt but unresolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the*

subject matter sought to be patented. As indicia of obviousness or non obviousness, these inquiries may have relevancy.<sup>52</sup>

Application of the secondary considerations of non obviousness provides some level of certainty in determining the non obviousness of a patent. Hence, these indicia assist courts and juries in determining the non obviousness of a patent, and also assist inventors and businesses in predicting the patentability of their own inventions and those of their competitors.

#### a. FTC Position

The FTC's main concern with the secondary considerations revolves around the court's application of the commercial success test. Under the law, if the commercial success of an invention can be tied to the inventive aspect of a product, it is an indication that the invention is non obvious. The FTC, however, believes that the commercial success test raises significant issues from a competition perspective. Specifically, the FTC believes that commercially successful patents "are the ones most likely to confer market power . . . . Thus the commercial success test could tend to allow grants of unnecessary patents that confer market power, systematically tilting the patent rules toward those whose preexisting prominence may make commercial success more likely." The FTC concedes that the application of the "secondary consideration" of non obviousness can give greater certainty in analyzing whether an invention is obvious; however, the FTC has concerns on the effect of that certainty when it is based on a factor—specifically commercial success—that the FTC considers an unreliable indicator of non obviousness.<sup>53</sup>

First, the FTC contends that the commercial success test has no direct connection to the "technical advance" at issue in a non obviousness inquiry. It explains that economic significance does not necessarily reflect technical significance, and that under the Supreme Court's decision in *Graham v. John Deere Co.*, the commercial success test is only justified "through the inference that others had tried and failed, and the separate objective factor that focuses directly on failure by others seems to take account of the same consideration with greater accuracy." Instead of the commercial success being the result of the invention, the FTC feels that it is often times the result of other factors such as: incumbents having advantages over entrants; vertical integration, marketing, distributing, or other products. In fact, the FTC avers that courts often confuse the actual cause of a product's commercial success. Thus, the FTC stresses that case-by-case inquiries need to be made to assess the actual nexus of the commercial success.<sup>54</sup>

Furthermore, the FTC asserts that additional complications result when applying the "commercial success test" because once the patentee "shows that the claimed feature is coextensive with those of a successful product," the courts seem to shift the burden to the challenger to present evidence to rebut the inference that the invention—rather than factors such as the marketing, advertising etc.—caused the commercial success. Thus, the FTC explained that the fact that the patentee is likely to have the greatest access to relevant information counsels against this "default rule that establishes a presumption that the invention caused the commercial success." The FTC warns against finding a mere correlation between the invention and the success; instead, it suggests that a "case-by-case inquiry into the *cause* of the products commercial success is necessary in court litigation, just as it is in the PTO."<sup>55</sup>

Thus, the FTC recommends:

*First, . . . that the courts evaluate on a case-by-case basis whether commercial success is a valid indicator of the non obviousness of the claimed invention. Second, the Commission recommends that patentees bear the ultimate burden of demonstrating that the claimed invention caused the commercial success. In the absence of these inquiries application of the commercial success test errs on the side of issuing patents on obvious inventions and is likely to be unnecessarily detrimental to competition.<sup>56</sup>*

#### b. NYIPLA Review

NYIPLA submits that there is no basis for the FTC’s assertion that “commercial success” is not evaluated on a case-by-case basis to determine whether the particular commercial success is a valid indicator of non obviousness.<sup>57</sup> Contrary to the FTC’s assertion, the law simply does not stand for the proposition that obviousness hinges **only** on **any** commercial success associated with an allegedly patented product. By way of example, as the Federal Circuit explains in *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, when a patentee asserts that commercial success supports its contention of non obviousness, a **causal nexus** between the commercial success and the claimed invention **must be shown** and the burden of proving that nexus lies with the party asserting it.<sup>58</sup> The court reasoned that,

[i]n meeting its burden of proof, the patentee in the first instance bears the burden of coming forward with evidence sufficient to constitute a prima facie case of the requisite nexus. . . . A prima facie case of nexus is generally made out when a patentee shows both that there is commercial success, and that the thing that is commercially successful is the invention disclosed and claimed in the patent. . . . when the patentee has presented a prima facie case of nexus, the burden of producing contrary evidence then shifts to the challenger, as in other civil litigation. . . . Once a prima facie case of nexus is made the court must consider the evidence adduced on both sides of the question, with such weigh as is warranted. . . . A patentee is not required to prove as part of its prima facie case that the commercial success of the patented invention is *not* due to factors other than the patented invention. . . . A requirement for proof of the negative of all imaginable contributing factors would be unfairly burdensome, and contrary to the ordinary rules of evidence.<sup>59</sup>

The law clearly addresses and contemplates the concerns presented by the FTC. Thus, there does not appear to be any reason to make any changes for proving commercial success. Similar to the circumstances surrounding the “suggestion test,” the problems with the commercial success test do not appear to rest in the rule, but in the varying applications of the rule. It follows that through proper advocacy by lawyers and continual appellate refinement, the

natural progression of the law should resolve the issue without the need to rewrite the patent laws.

### 3. Conclusion

While the FTC has raised some legitimate concerns regarding the application of the “suggestion test” and the “commercial success” test, NYIPLA believes that the FTC’s concerns do not warrant a change in the law because the concerns are not at odds with the law. With regard to the “suggestion test,” the case law clearly requires that the capability of one of ordinary skill to combine references must be considered. By retaining the integrity of the “suggestion test,” inventors are protected from having their patents rendered obvious through hindsight. By retaining the integrity of the “commercial success” test, inventors and businesses, courts and juries, have some level of certainty in determining the patentability of an invention. NYIPLA submits that the problems iterated by the FTC arise in cases that are the exception and not the rule; it therefore follows that through proper advocacy and appellate review, the natural evolution of the law should resolve the issues without the need to rewrite the patent laws.

#### C. FTC RECOMMENDATION 5: Modify PTO Rules and Implement PTO Plan

*“Modify Certain PTO Rules and Implement Portions of the PTO’s 21<sup>st</sup> Century Strategic Plan.”<sup>60</sup>*

##### 1. FTC Position and NYIPLA Review

The FTC presents four suggestions for the PTO that it believes will aid in preventing the issuance of questionable patents. NYIPLA agrees with two of them which were discussed above at “III. C. Recommendation 5.” NYIPLA respectfully disagrees with the remaining two FTC suggestions which will be addressed specifically:

- a. *“Amend PTO regulations to require that, upon the request of the examiner, applicants submit statements of relevance regarding their prior art references.”<sup>61</sup>*

To address the concern that a patent applicant tends to inundate the examiner with alleged prior art, “resulting in lots of ‘information,’ but little ‘knowledge,’” the FTC proposes that upon the request of an examiner, the applicant shall submit statements of relevance regarding prior art references. The FTC believes that these statements will “materially enhance” the examiner’s review by allowing the examiner to “draw more fully on the patent applicant’s knowledge base” to identify the most relevant sections of prior art references. The FTC acknowledges that there may be cost increases and that errors could “fuel claims of mischaracterization and inequitable conduct,” however, the FTC feels that under their proposal, those problems will be surmountable. The FTC also notes that the requirement that the submissions only be made upon request of the examiner will confine costs. With regard to the possibility of increased inequitable conduct charges, the FTC dodges the issue by blankly stating that the record “suggests that the law in recent years has developed in ways that reduce the potential for abuse.”<sup>62</sup>

The NYIPLA opposes this recommendation primarily because the harmful effects will inevitably outweigh any benefit. As a preliminary matter, to allow the examiner to request relevancy statements from an applicant may very well chill the applicant from conducting any search at all with respect to its patent application—an action which generally assists the examiner in locating prior art. Applicants will most likely avoid doing a search rather than be forced to make statements that will subject them to later inequitable conduct allegations along with unpredictable estoppels. Moreover, since the PTO is already overstretched, it is likely that if the patentee does not present the relevant prior art, the examiner may not be able to locate the same pieces that would have been presented to it by the applicant. This recommendation will simply result in more questionable patents issuing that will have to be tested through expensive and time-consuming litigation.

There is no reason to believe these concerns will be avoided by imposing the duty to make a statement upon an examiner's request. In fact, considering the short amount of time an examiner has to conduct the examination, the examiner will probably request a statement for most, if not all, of the submitted prior art. Furthermore, the patent community will suffer as the attorney costs for patent prosecution will rise dramatically as will the probability of encountering inequitable conduct charges and estoppels. For the foregoing reasons, NYIPLA strongly objects to this proposal.

- b. *“Encourage the use of examiner inquiries under Rule 105 to obtain more complete information, and reformulate Rules 105 to permit reasonable follow-up.”*<sup>63</sup>

PTO Rule 105 permits an examiner to request “such information as may be reasonably necessary to properly examine or treat the matter [under reexamination].” The FTC recommends that examiners be encouraged to make more inquiries under the right granted by this rule in order to help the examiner make a more thorough examination and thus issue better quality patents. However, the FTC explains that in order to be effective, Rule 105 should be amended so that applicant responses stating that the applicant “does not know” the answer, or that the necessary information “is not readily available,” are treated as responses on which the examiner may follow up, instead of being accepted as complete. The FTC believes that the current rule is undermined by the PTO's required acceptance of such “excuses.”<sup>64</sup>

NYIPLA objects to this FTC recommendation. Such questions by way of the examiner and such responses will be subject to many different interpretations. This will only further confuse the record. As the AIPLA explained: “[o]ne need only look to the ineffectiveness of interrogatories as a means of obtaining useful information in civil litigation to see how such questions would be similarly ineffective in patent prosecution.”<sup>65</sup> Moreover, this proposal will raise the likelihood of superfluous inequitable conduct and estoppel charges. Inevitably, this FTC recommendation will increase the length and cost of litigation as there will be more ambiguous information to clarify in court.

#### D. FTC RECOMMENDATION 6: Consider Harms To Competition Before Extending Scope of Patentable Subject Matter

*“Consider Possible Harms to Competition—Along with Other Possible Benefits and Costs-Before Extending the Scope of Patentable Subject Matter.”<sup>66</sup>*

##### 1. FTC Position

The FTC believes that the Constitutional intention that patents “promote the Progress of Science and useful Arts” is served by requiring that decision makers, including the courts, to consider possible harms to competition before extending the scope of patentable subject matter. Using the patenting of business methods as an example, the FTC expresses that allowing patents on such matter, “much of which is based on incremental innovation based on preceding work,” will raise the potential for thickets of patents that will “hinder, rather than accelerate, innovation and commercial development.”<sup>67</sup>

##### 2. NYIPLA Review

NYIPLA opposes the FTC proposal to have decision makers, especially the courts, consider possible “benefits and costs” before extending the scope of patentable subject matter. NYIPLA believes that the proper framework to make decisions based on any “benefits and costs” rests with Congress and not with the courts or the PTO. Congress has already implemented its policies in the current statutes and the courts over the years have done their duty as the judicial branch to carefully interpret and apply the statutes. The courts should not now establish restrictions based on vague criteria that have no statutory basis.

Moreover, to allow courts or the PTO to consider this policy in making decisions will only lead to more ambiguity, which will inevitably stimulate litigation. Parties before the courts and the PTO will have a vehicle for inundating the decision maker with vague, costly arguments attempting to predict and define the appropriate “benefits and costs” for the technology at issue. This will only serve to stunt innovation and increase the time and cost for resolving these patent disputes.

Instead of introducing additional uncertainty into the Patent System, NYIPLA suggests that the PTO and courts pursue enforcement of the existing statutory criteria of patentability. Unlike the ambiguity of “benefits and costs,” the statutory criteria are concrete definitions that will improve the quality of patent decision-making.

#### E. FTC RECOMMENDATION 8: Create Intervening Prior User Rights

*“Enact Legislation to Create Intervening or Prior User Rights to Protect Parties from Infringement Allegations That Rely on Certain Patent Claims First Introduced in a Continuing or Other Similar Application.”<sup>68</sup>*

##### 1. FTC Position

In order to help address the problem of how to remedy the opportunistic broadening of claims to capture competitor's products, the FTC recommends enacting legislation to create intervening rights. The FTC is concerned that after publication, an applicant may continue to amend its claims; therefore, a patent that states broader claims than those published at eighteen months can still emerge and capture a successful market. The FTC believes that these intervening rights "should shelter" inventors and users who "infringe a patent only because of claim amendments following a continuation or other similar application, provided that the sheltered products or processes are developed or used (or the subject of substantial preparation for use) before the amended claims are published."<sup>69</sup>

## 2. NYIPLA Response

While the NYIPLA agrees that some changes are necessary to create an effective prior user right, it is not in favor of creating completely new legislation as proposed by the FTC. The FTC's intervening right will cause substantial unintended consequences, such as prolonged litigation and extended discovery costs. Furthermore, the need for such a right will be averted, if all patent applications are published eighteen months after filing. The possible extent of a patentee's rights are disclosed in the eighteen month publication, and one cannot add claims which are not supported by this disclosure. Thus, at eighteen months, the public is apprised of the possible scope of the patentee's invention.

The NYIPLA is, however, in favor of amending the **existing** prior user right set forth in 35 U.S.C. § 273 as suggested by the AIPLA: to remove the limitation to processes, to remove the requirement that the prior use be reduced to practice one year prior to the effective filing date, and to include "substantial preparation" as an act of prior use."<sup>70</sup>

### F. FTC RECOMMENDATION 10: Expand Consideration Of Economic And Competition Policy In Patent Law

*"Expanded Consideration of Economic Learning and Competition Policy Concerns in Patent Law Decisionmaking."*<sup>71</sup>

#### 1. FTC Position

The FTC believes that to find the proper balance between patents and competition, "such policy-oriented interpretations are necessary." The FTC indicates that over the past twenty-five years, incorporation of economic policy into antitrust law has provided insights that have substantially improved antitrust law and competition policy. The FTC believes that the PTO and the Federal Circuit mostly limit their roles to applying the statutes verbatim without considering these policies. The FTC alleges that the PTO and the Federal Circuit will benefit from "much greater consideration and incorporation of economic insight in their decision-making."<sup>72</sup>

#### 2. NYIPLA Position

NYIPLA opposes this FTC recommendation. NYIPLA echoes the AIPLA's conviction that "Congress and not the PTO or the courts, is the proper authority to consider economic theory and competition policy-oriented principles."<sup>73</sup> From a litigation perspective, costs and time for

resolution will increase if parties are given the opportunity to sway a court's decision based on indeterminate "economic and competition" policies. Moreover, in view of ever-changing economic environments and theories, any new patent common law regarding these policies will most likely develop inconsistently. The attempt to apply such nebulous and ever-changing criteria will only result in further ambiguity.

Moreover, attempts to equate patent and antitrust law are inappropriate. Patent Law enhances consumer welfare in a different way than antitrust law. Every patent has the potential to increase prices and constrain supply of the patented technology in the short term, potentially harming competition. This is part of the bargained for exchange of disclosure. The Patent Laws provide consumer benefit by encouraging new technologies and creating new markets.

The Supreme Court has adopted the "rule of reason" approach for resolving ambiguity in the Sherman Act. In patent law, however, the Supreme Court delineated specific mandatory factors such as: the scope and content of the prior art, level of ordinary skill, and specific "secondary considerations." Furthermore, unlike the antitrust laws, the patent law criteria for utility, novelty, and disclosure are each standards which are not evaluated for their reasonableness. The requirements for patentability are based upon statutes of mandatory authority which were carefully drafted to promote specific policies; these policies are different from those underlying the antitrust laws. While flexibility may be a concern for the antitrust laws, it will only exacerbate uncertainty in the patent laws.

#### IV. CONCLUSION

NYIPLA strongly believes that the five supported FTC recommendations will help alleviate the problems of certainty, predictability, and extensive litigation costs and delay currently plaguing the Patent System. However, as discussed in the latter half of this review, the other six FTC recommendations warrant close scrutiny. While they are noble attempts to rectify the current problems of the Patent System, NYIPLA believes that the implementation of these latter recommendations as proposed by the FTC might harm the Patent Community and undermine the Patent System. NYIPLA respectfully submits that Congress, the Courts, and the PTO can begin to rebalance the Patent System and thus "promote the Progress of Science and useful Arts" by implementing the five FTC recommendations supported by the NYIPLA.

## ENDNOTES

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<sup>1</sup> UNITED STATES PATENT AND TRADEMARK OFFICE, 21<sup>ST</sup> CENTURY STRATEGIC PLAN (2002).

<sup>2</sup> NATIONAL ACADEMY OF SCIENCES, A PATENT SYSTEM FOR THE 21<sup>ST</sup> CENTURY 82, 95-103 (2004).

<sup>3</sup> AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY LAW SECTION, SUMMARY OF ABA/IPL SECTION RESPONSE TO THE FTC REPORT (2004).

<sup>4</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY (October 2003).

<sup>5</sup> *Id.*, Exec. Summ. at 5.

<sup>6</sup> AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 1-4 (2004).

In light of all this activity, the Subcommittee on Courts, the Internet, and Intellectual Property of the United States House of Representatives (“Subcommittee”) has recently prepared a draft bill entitled “Patent Act of 2005” in April 2005. SUBCOMM. ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY OF THE HOUSE COMM. OF THE JUDICIARY, 109<sup>TH</sup> CONG., PATENT QUALITY IMPROVEMENT (Comm Print 2005). This draft bill implements many of the changes proposed by these various organizations. Currently, the Subcommittee is holding hearings to discuss the draft bill. The Subcommittee expects to have a finalized bill by the end of May 2005.

*Oversight Hearing on the "Committee Print Regarding Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. Of The Judiciary, 109<sup>th</sup> Cong. (April, 20, 2005), (closing statement of Rep. Smith, Chairman, Subcomm. on Courts, the Internet, and Intellectual Property of the House Comm. Of The Judiciary).*

<sup>7</sup> *Id.*, Exec. Summ. at 7.

<sup>8</sup> *Id.* Exec. Summ. at 7-8; Ch. 5 at 24.

<sup>9</sup> *Id.*

<sup>10</sup> UNITED STATES PATENT AND TRADEMARK OFFICE, 21<sup>ST</sup> CENTURY STRATEGIC PLAN (2002).

<sup>11</sup> *Patent Quality Improvement: Post-Grant Review: Hearing Before the Subcomm. On Courts, The Internet, and Intellectual Property of the House Comm. On the Judiciary, 108<sup>th</sup> Cong. 1-9 (2004)*(Statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

<sup>12</sup> AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 1-4 (2004).

<sup>13</sup> NATIONAL ACADEMY OF SCIENCES, A PATENT SYSTEM FOR THE 21<sup>ST</sup> CENTURY 82, 95-103 (2004).

<sup>14</sup> AMERICAN BAR ASSOCIATION, INTELLECTUAL PROPERTY LAW SECTION, SUMMARY OF ABA/IPL SECTION RESPONSE TO THE FTC REPORT (2004).

<sup>15</sup> *See* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 1-4 (2004); *Patent Quality Improvement: Post-Grant Review: Hearing Before the Subcomm. On Courts, The Internet, and Intellectual Property of the House Comm. On the Judiciary, 108<sup>th</sup> Cong. 1-9 (2004)*(Statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

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<sup>16</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 12-13, Ch. 6 at 18 (October 2003).

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*, Ch. 5 at 4.

<sup>19</sup> *Id.*, Ch. 5 at 5.

<sup>20</sup> *Id.* citing *FTC/DOJ Hearings on Competition and Intellectual Property Law in the Knowledge-Based Economy 7* (2002)(Statement of Cecil D. Quillen, Jr.).

<sup>21</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 13 (October 2003).

<sup>22</sup> *Id.*, Exec. Summ. at 14, Ch. 6 at 19-20.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*, Exec. Summ. at 14, Ch. 6 at 20-21.

<sup>25</sup> *Id.*, Ch. 6 at 21, citing UNITED STATES PATENT AND TRADEMARK OFFICE, FY2001 CORPORATE PLAN (2001).

<sup>26</sup> *Id.*, Ch. 6 at 21, citing *FTC/DOJ Hearings on Competition and Intellectual Property Law in the Knowledge-Based Economy 31* (October 25, 2002)(Statement of Chambers).

<sup>27</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 14, Ch. 6 at 20-21 (October 2003).

<sup>28</sup> *Id.*, Exec. Summ. at 15, Ch. 5 at 15.

<sup>29</sup> *Id.*, Ch. 5 at 15, citing *Report Of The President's Commission On The Patent System, reprinted in, To Promote The Progress Of The Useful Arts, Subcomm. On Patents, Trademarks And Copyrights Of The Senate Comm. On The Judiciary, 90<sup>th</sup> Cong. (1967); Id.*, Exec. Summ at 15-16, Ch. 5 at 14-15.

<sup>30</sup> *Id.*, Exec. Summ. at 16, Ch. 5 at 31.

<sup>31</sup> *Id.*, Exec. Summ. at 16-17, Ch. 5 at 28-31.

<sup>32</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>33</sup> J. Abate and Steven Purdy, *What Did You Know And When Did You Know It? A Look At The FTC Recommendation Regarding The Law Of Notice For Willful Infringement* (NYIPLA CLE Fall Half-Day Program: "Rethinking the Foundations of the Patent System: The Federal Trade Commission's Proposal for Patent Reform," New York, New York), Oct. 7, 2004, at 10.

<sup>34</sup> *Id.*

<sup>35</sup> AMERICAN INTELLECTUAL PROPERTY ORGANIZATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: "*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*" 31 (2004).

<sup>36</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 8, Ch. 5 at 28 (October 2003).

<sup>37</sup> *Id.* at 8-10, Ch. At 3205 at 26-28.

<sup>38</sup> 304 F.3d 1373, 1378 (Fed. Cir. 2002)(emphasis added); *see generally AK Steel Corp. v. Sollac*, 344 F.3d 1234, 1238 (Fed. Cir. 2003); *Schumer v. Lab. Computer Sys.*, 308 F.3d 1304, 1315 (Fed. Cir. 2002);

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*Apotex USA, Inc. v. Merck & Co*, 254 F.3d 1031, 1036 (Fed. Cir. 2001); *Monon Corp. v. Stoughton Trailers, Inc.*, 239 F.3d 1253, 1257 (Fed. Cir. 2001).

<sup>39</sup> AMERICAN INTELLECTUAL PROPERTY ORGANIZATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 16 (2004).

<sup>40</sup> *Id.*

<sup>41</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 10 (October 2003).

<sup>42</sup> ROBERT P. MERGES & JOHN F. DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS 646 (LEXIS NEXIS 2002).

<sup>43</sup> *Velander v. Garner*, 348 F.3d 1359, 1363 (Fed. Cir. 2003)(emphasis added).

<sup>44</sup> *Id.*

<sup>45</sup> *Al-Site Corp. v. VSI Int’l*, 174 F.3d 1308, 1324 (Fed. Cir. 1999); *W.L. Gore & Associates v. Garlock, Inc.*, 721 F.2d 1540, 1553 (Fed. Cir. 1983).

<sup>46</sup> *Arkie Lures, Inc. v. Gene Larew Tackle, Inc.*, 119 F. 3d 953, 956 (Fed. Cir. 1997).

<sup>47</sup> *In re Dembiczak*, 175 F.3d 994, 999 (Fed. Cir. 1999).

<sup>48</sup> *Ecolochem, Inc. v. Southern Cal. Edison, Co.*, 227 F.3d 1361, 1371 (Fed. Cir. 2000).

<sup>49</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 10-12, Ch. 4 at 8-15 (October 2003).

<sup>50</sup> *Id.*, Exec. Summ. at 11, Ch. 4 at 15; *Id.* Exec. Summ. at 10-12, Ch. 4 at 8-15.

<sup>51</sup> *Id.*, Ch. 4 at 14, citing *In re Berg*, 320 F.3d 1310, 1315 (Fed. Cir. 2003).

<sup>52</sup> *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966)(emphasis added).

<sup>53</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 10-11, Ch. 4 at 15-19 (October 2003).

<sup>54</sup> *Id.*

<sup>55</sup> *Id.*

<sup>56</sup> *Id.*, Exec. Summ. at 11, Ch. 4 at 19.

<sup>57</sup> See AMERICAN INTELLECTUAL PROPERTY ORGANIZATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 20 (2004), citing *J.T. Eaton & Co. v. Atlantic Paste & Glue Co.*, 160 F.3d 1653 ( Fed. Cir. 1997).; *Brown & Williamson Tobacco Corp. v. Phillip Morris Inc.*, 229 F.3d 1120 (Fed. Cir. 2000).

<sup>58</sup> *Demaco Corp. v. F. Von Langsdorff Licensing Ltd.*, 851 F.2d 1387, 1392-1394 (Fed. Cir. 1988).

<sup>59</sup> *Id.* (emphasis in original).

<sup>60</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 13 (October 2003).

<sup>61</sup> *Id.*, Exec. Summ. at 13, Ch. 5 at 12-13.

<sup>62</sup> *Id.*, Exec Summ. at 13, Ch. 5 at 11-13.

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<sup>63</sup> *Id.*, Exec. Summ. at 13, Ch. 5 at 14.

<sup>64</sup> *Id.*, Exec. Summ. at 13, Ch. 5, at 13-14.

<sup>65</sup> AMERICAN INTELLECTUAL PROPERTY ORGANIZATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 26 (2004).

<sup>66</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 14, Ch. 4 at 43 (October 2003).

<sup>67</sup> *Id.*, Exec. Summ. at 14-15, Ch. 4 at 42-43.

<sup>68</sup> *Id.*, Exec. Summ. at 16, Ch. 4 at 31.

<sup>69</sup> *Id.*, Exec. Summ. at 16, Ch. 4 at 29-31.

<sup>70</sup> AMERICAN INTELLECTUAL PROPERTY ORGANIZATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 34-35 (2004).

<sup>71</sup> FEDERAL TRADE COMMISSION, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY, Exec. Summ. at 17 (October 2003).

<sup>72</sup> *Id.*, Exec. Summ. at 17, Ch. 4 at 7-9.

<sup>73</sup> AMERICAN INTELLECTUAL PROPERTY ORGANIZATION, AIPLA RESPONSE TO THE OCTOBER 2003 FEDERAL TRADE COMMISSION REPORT: “*TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW POLICY*” 41 (2004).