

IS THE PLAYING FIELD LEVEL?

PATENT INFRINGEMENT AND INVALIDITY

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I. History of the Game - Pre-Federal Circuit/Post Federal Circuit

Over one hundred years ago, when Doc Naismith hung the peach basket on the wall of the Springfield, Massachusetts, YMCA Building and adopted 13 rules for the game, the typical score in a basketball game might be 5 to 4. Watching any basketball game today, it is hard to recognize the high scoring, offensive battles as originating from the low scoring, defensive games originally created by Doc Naismith.

A. Why the Federal Circuit was Created

Like the immense changes that have occurred in the game of basketball since its creation, drastic changes have occurred in the enforcement of patent laws, particularly since the creation of the Court of Appeals for the Federal Circuit (hereinafter "Federal Circuit").¹ Everyone involved in the practice of patent law recognizes that one drastic change is the significant strengthening of patents since the creation of the Federal Circuit in 1982.² Polaroid Corp. v. Eastman Kodak Co.³ illustrates an increase in patent rights through both injunctive relief and large monetary rewards. The estimated cost to Kodak, in addition to being forced out of the instant photography business, exceeded \$200 million plus damages.

As a result of the drastic changes created by the Federal Circuit, most people candidly admit that the playing field is not level.⁴ Started by the Federal Circuit,⁵ these changes, tilting the field in favor of the patent owner, are so significant that they have been called a "revolution." Even though a small minority of people believe the tilt in favor of the patent owner brings the playing field level for the first time,⁶ everyone agrees that the

¹Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 1982 U.S.C.C.A.N. (96 Stat. 25) 11.

²Barry D. Rein, "The Technology Audit: A Timely Step Toward Greater Competitiveness," 1 The Journal of Proprietary Rights 12 (1988).

³Polaroid Corp. v. Eastman Kodak Co., 641 F. Supp. 828 (D. Mass. 1985), stay denied, 833 F.2d 930 (Fed. Cir. 1986), aff'd, 789 F.2d 1556 (Fed. Cir. 1986), cert. denied, 479 U.S. 850 (1986).

⁴Roy E. Hofer, "The Real World of Juries, Damages, and Injunction in Patent Cases," 50 Alb. L. Rev. 596 (1986).

⁵"Legal Affairs - Patents," Bus. Wk., May 22, 1989, at 78.

⁶Paul M. Barrett, "Good News for Inventors," Wall St. J., Feb. 24, 1989, at R8.

patent owner's chances of success are much greater today than they were 20 years ago.⁷ Recognizing this drastic change, industry and the patent practitioner need to know why it occurred, how it occurred, and what is likely to occur in the future.

1. The Recognized Need for Stability and Uniformity

As stated by former Chief Judge Markey in the first decision handed down by the Federal Circuit, one purpose of the Court was to create "stability and uniformity" in the field of patent law.⁸ Judge Markey's words found their origin in the legislative history of the Federal Courts Improvement Act of 1982, which created the Federal Circuit.⁹ Prompted by the Court's tendency in the late '60s and early '70s to hold patents either invalid or not infringed,¹⁰ the general public, legislators, and patent attorneys pled for uniformity of the patent laws.

Statistical data shows that between 1966 and 1973 only 31 percent of the patents reviewed by the United States Courts of Appeals were found valid. During that same period, only 38 percent of the patents reviewed by the U.S. District Courts were found valid. The logical conclusion--the Federal Courts had adopted the most stringent standards of patentability since the 1930s.¹¹ The trend to hold patents invalid not only led the Commissioner of Patents and Trademarks to comment that there had been a "decline in the confidence of the American patent system,"¹² but led one Justice of the United States Supreme Court to comment that "the only patent that is valid is one which this Court has not been able to get its hands on."¹³

⁷Thomas A. Stewart, "Brain Power: How Intellectual Property is Becoming America's Most Valuable Asset," Fortune, June 3, 1991, at 44; John R. Emshwiller and Brent Bowers, "More Inventors Try Their Luck as Aid Increases," Wall St. J., Aug. 19, 1991, at B1; "Harvesting The American Mind," Wall St. J., Nov. 14, 1988, at R5.

⁸South Corp. v. United States, 690 F.2d 1368, 215 U.S.P.Q. 657, 658 (Fed. Cir. 1982).

⁹Federal Courts Improvement Act of 1982, Pub. L. 97-164, 1982 U.S.C.C.A.N. (96 Stat. 125) 11, 12, 15, and 48.

¹⁰Linnete C. Harlan and Paul W. Skjerven, "Patent Development Programs for High Technology Companies: Why to Have Them and How to Run Them," VII The Computer Lawyer 1 (1990).

¹¹L. Baum, "The Federal Courts and Patent Validity: An Analysis of the Record," 56 J. Pat. & Trademark Off. Soc'y 758, 760-761 (1974).

¹²S. Diamond, "Our Patent System . . . Past is Prologue," 62 J. Pat. & Trademark Off. Soc'y 437, 441 (1980).

¹³Jungersen v. Ostby & Barton Co., 335 U.S. 560, 572 (1949)(Jackson, J., dissenting).

2. The Correct Submission of Issues Prompts Affirmation on Appeal

Senator Patrick J. Leahy termed creating uniformity in the patent laws as the "need for uniformity in decision making . . . and reducing . . . inconsistency in patent litigation."¹⁴ If the decisions of the Federal Circuit are followed in (1) jury charges and interrogatories or (2) findings of fact and conclusions of law by the judge, there is a much greater tendency for the Federal Circuit to approve the decision of the lower court, clearly creating uniformity.¹⁵ Additionally, while some attorneys may disagree, various decisions by the Federal Circuit emphasize that the Federal Circuit does not wish to substitute its opinion for that of the trier of fact.¹⁶ In other words, in a jury trial the patent lawyer should make sure the jury instructions and interrogatories follow the decisions of the Federal Circuit. If the verdict is in your client's favor and judgment is entered in accordance therewith, the Federal Circuit will, in all probability, affirm the judgment. This is particularly true since the standard for reversal of a lower court's decision on the merits is (1) clearly erroneous factual findings, (2) legal error, or (3) a manifest error of judgment. Alternatively, if the District Judge enters a judgment notwithstanding the verdict, the odds are that the District Judge will be reversed on appeal.¹⁷

B. Philosophical Reasons for Creating the Federal Circuit

Over a century ago, strengthening of the patent laws helped lead the industrial revolution to the United States. By the 1950s, the United States dominated the world markets and patent rights seemed less important. The Justice Department brought antitrust suits against companies that aggressively enforced their patents.¹⁸ By 1974, however, the United States was suffering manufacturing trade deficits, and the tune changed, focusing attention once again on intellectual property.¹⁹ With American Telephone & Telegraph Company, Xerox Corporation, and Texas

¹⁴Federal Courts Improvement Act of 1982, Pub. L. 97-164, 1982 U.S.C.C.A.N. (96 Stat. 125) 11, 48.

¹⁵Ronald B. Coolley, "What the Federal Circuit Has Done and How Often: Statistical Study of the CAFC Patent Decisions - 1982 to 1988," 71 J. Pat. & Trademark Off. Soc'y 385 (1989).

¹⁶Stanek v. Dept. of Transp., 805 F.2d 1572 (Fed. Cir. 1986).

¹⁷Amstar Corp. v. Envirotech Corp., 823 F.2d 1538, 1542, 3 U.S.P.Q.2d 1412, 1415 (Fed. Cir. 1987).

¹⁸"The Battle Raging Over 'Intellectual Property,'" Bus. Wk., May 22, 1989, at 78.

¹⁹Id. at 79.

Instruments, Inc. as typical examples of companies experiencing tremendous growth and success in the past due to strong enforcement of their patents, the public finally realized that much of the earlier industrial success of the United States was due to strong protection of patent rights.

Despite these industrial success stories, however, the public believed that the individual inventor did not stand a chance against the corporate infringer.²⁰ More importantly, the public's concern was that the United States created technology only to sell, give, or trade it to other countries. Although this concern was low in the '50s when the public viewed foreign imports as junk, strong feelings blossomed in the '70s when foreign imports surpassed the United States' own production. Suddenly, the American public felt that foreign copiers should be stopped.²¹

The true irony in the belief that foreign companies' acquisitions of United States technology is a reason for the strengthening of the United States patent system is that after the creation of the Federal Circuit, the foreign companies were the most effective in utilizing the strengthened patent system.²² In the five years after creation of the Federal Circuit, three Japanese companies obtained the largest number of patents issued to corporations by the United States Patent and Trademark Office.²³ During the same time, foreign inventors obtained 46.6 percent of the issued United States patents compared to 35 percent 12 years earlier.²⁴ Ironically, it is the foreign inventors and corporations that more effectively use the United States patent system.

C. Statistics Concerning Patent Infringement and Invalidity

1. Pre-Federal Circuit

One of the best studies presenting pre-1982 statistics is entitled "The Federal Courts and Patent Validity: An

²⁰Eugene Carlson, "For Inventors, Patent Fights May Spoil the Whole Idea," Wall St. J., Dec. 4, 1990, at B1.

²¹Benard Wysocki, Jr., "The Final Frontier," Wall St. J., Nov. 14, 1988, at R1.

²²"Missed Opportunities," Wall St. J., Nov. 14, 1988, at R21.

²³Id.

²⁴Id.

Analysis of the Record."²⁵ This study, as well as other reports, clearly indicate a pre-Federal Circuit trend toward consistently holding patents invalid or not infringed.

Baum's data indicates that from 1921-73 appellate courts held over half of the patents adjudicated invalid, with an increase occurring over the 50 years studied. During the period from 1921 to 1935, about 57 percent of patents were held invalid, with 70 percent held invalid since 1935.²⁶ Although favoring the patent owner slightly more than the appellate courts, district courts have similarly held over half of the patents adjudicated invalid. From 1921 to 1935, 39 percent of patents were held invalid, with 61 percent held invalid since 1935, exhibiting a similar trend to that in the appellate courts.²⁷ Not surprisingly, the Supreme Court has held 82 percent of the patents before it invalid.²⁸

In considering the court's treatment of validity and infringement before creation of the Federal Circuit, the facts speak for themselves. From 1920 to 1935, considerably fewer than half of the cases decided were in the patentee's favor with a decrease since 1935.²⁹

2. Post-Federal Circuit

A statistical analysis of Federal Circuit decisions is provided in Ronald B. Coolley's article entitled "What the Federal Circuit Has Done and How Often: Statistical Study of the CAFC Patent Decisions - 1982 to 1988."³⁰ Mr. Coolley observed that if the lower court found the patent claims valid, the Federal Circuit, in all probability, would uphold the decision (25 times versus 3 times), but if the lower court held the patent claims invalid, the Federal Circuit was as likely to affirm as to reverse the lower court (18 times versus 19 times). Similarly, if the Federal Circuit reviewed a lower court decision that found claims

²⁵L. Baum, "The Federal Courts and Patent Validity: An Analysis of the Record," 56 J. Pat. & Trademark Off. Soc'y 758 (1974).

²⁶Id. at 760.

²⁷Id. at 761.

²⁸Id. at 776.

²⁹Id. at 764.

³⁰Ronald B. Coolley, "What the Federal Circuit Has Done and How Often: Statistical Study of the CAFC Patent Decisions--1982 to 1988," 71 J. of Pat. & Trademark Off. Soc'y 385 (1989).

of the patent infringed, the Federal Circuit was six times more likely to affirm than to reverse (67 times versus 10 times).

Without ruling on individual claims, but determining if the patent in suit was valid, the Federal Circuit affirmed decisions of validity four times more often than it reversed (42 times versus 10 times). If the patent in suit was ruled invalid, however, the Federal Circuit was only slightly more likely to affirm than to reverse (33 times versus 25 times).

During the time period covered by Mr. Coolley's survey, the Federal Circuit reviewed 36 jury trial decisions, affirming the lower court's decision three times more often than reversing the decision (15 times versus 5 times). These statistics exhibit the Federal Circuit's tendency to affirm the lower court decision if the patent in suit is found valid and infringed with the greatest probability for reversal existing when the lower court holds a patent invalid.

Considering the trends visible from statistical data and the huge damage awards that have followed,³¹ "patent infringement litigation is a sudden death game for the accused infringer."³²

II. HOME COURT ADVANTAGE - *Venue and Jurisdiction*

In the mid '60s, when the University of Kentucky was a basketball powerhouse and Auburn University was a clear underdog, a basketball game was played between the two schools in the "Barn," Auburn's home court. Students mobbed the ticket office. There was such a crowd that after a person bought tickets, he had to be passed back over the heads of the crowd so that the next person could buy tickets. Kentucky's coach, Adolph Rupp, said that playing Auburn in the "Barn" was like spotting them 20 points prior to the game. That night Auburn defeated Kentucky, the number one team in the country.

A. Infringer Can Be Sued Anywhere There is Minimum Contacts

1. The Law Prior to 1988

Any coach can tell you the importance of the home court advantage. In the past, patent owners normally did not have a home court advantage. Most patent attorneys began practicing

³¹Smith Int'l, Inc. v. Hughes Tool Co., 229 U.S.P.Q. 81 (C.D. Cal. 1986)(damage award exceeded \$200 million, settled and vacated); Polaroid Corp. v. Eastman Kodak Co., 789 F.2d 1556, 229 U.S.P.Q. 561 (Fed. Cir. 1986)(court's decision estimated to have had a billion dollar impact on Eastman Kodak Company).

³²Roy A. Hofer, "The Real World of Juries, Damages, and Injunctions in Patent Cases," 50 Alb. L. Rev. 593, 599 (1986).

when the venue statute governing patent litigation was 38 U.S.C. § 1400(b). Under this statute, a patent owner could bring suit for patent infringement only (1) "in the judicial district where the defendant resides" or (2) "where the defendant has committed acts of infringement and has a regular and established place of business."³³ The applicability of this statute, in effect for over 100 years, was further supported by the United States Supreme Court, which had specifically stressed the inapplicability of the diversity statute³⁴ to patent actions.³⁵

2. The Law After 1988

In 1988, with little publicity and with no objections from the Patent Bar, Congress modified the general venue statute, 28 U.S.C. § 1391(c), providing a new definition for "reside" as it applies to corporate defendants. Most patent attorneys were unaware of the change to the venue statute. Those who were aware believed it did not modify the special venue provisions of 28 U.S.C. § 1400(b). After about a year and a half, however, conflicting lower court decisions surfaced, some courts holding that the general venue statute modified the special venue statute, 38 U.S.C. § 1400(b), and some holding that it did not.³⁶ These conflicts clearly indicated the need for resolution by the Federal Circuit.

3. V. E. Holding Corp. v. Johnson Gas Appliance Co.

In late 1990, the Federal Circuit resolved the conflict in V. E. Holding Corp. v. Johnson Gas Appliance Co.³⁷ by holding that the general venue statute overrides the special venue statute. The Federal Circuit essentially eliminated the practical effect of 28 U.S.C. § 1400(b) except as it applies to non-corporate entities, namely individual inventors and patent owners.

Under V. E. Holding Corp., a patent owner may now sue a corporate defendant in any District Court (chosen by the patent owner) where the defendant has had minimum contacts as

³³38 U.S.C. § 1400(b).

³⁴28 U.S.C. § 1332.

³⁵Fourco Glass Co. v. Transmirra Prods. Corp., 353 U.S. 222 (1956).

³⁶Joslyn Mfg. Co. v. Amerace Corp., 729 F. Supp. 1219, 14 U.S.P.Q.2d 1223 (N.D. Ill. 1990); Century Wrecker Corp. v. Vulcan Equip., 733 F. Supp. 1170, 13 U.S.P.Q.2d 1715 (E.D. Tenn. 1989).

³⁷V. E. Holding Corp. v. Johnson Gas Appliance Co., 917 F.2d 1574 (Fed. Cir. 1990), cert. denied, 111 S.Ct. 1315 (1991).

defined under the Long Arm Statute of the forum state. Assume, for example, that a corporation located in Minnesota is incorporated in Delaware, but advertises and sells its product throughout the United States. The patent owner could sue that corporation anywhere in the United States, preferably in a forum that is convenient for the patent owner, but inconvenient for the corporation. For instance, if the patent owner lives in San Antonio, Texas, the patent owner will probably sue the patent infringer in the San Antonio U.S. District Court. Other than a possible transfer under 28 U.S.C. § 1404(a) for convenience of the parties, the case will remain in San Antonio. This is particularly true since in determining a motion to transfer for the convenience of the parties, preference is always given to the location of the first filed suit.³⁸

These changes to the venue statutes enable the patent owner to bring suit with little danger of the court dismissing or transferring the case, increasing the probability of patent enforcement and, subsequently, the value of the patent to the patent owner.³⁹

B. Notice of Patent Versus Notice of Infringement

1. Previously, Notification of Patent Could Trigger Declaratory Judgment

Prior to creation of the Federal Circuit, informing a potential infringer of your client's patent would usually trigger a declaratory judgment action by the alleged infringer,⁴⁰ which action would be filed in the most convenient forum for the alleged infringer. This placed the patent owner in a dilemma, particularly if the patent was for a process rather than an apparatus. The owner of a process patent lacks a tangible invention for affixation of a patent notice. Therefore, the patent owner, attempting to avoid any limitation on damages for failure to place notice on the patented invention,⁴¹ must notify the suspected infringer, particularly if seeking enhanced damages.⁴² Once the suspected infringer received notice of infringement, however, he filed a declaratory judgment action in his most convenient forum.

³⁸Clopay Corp. v. Newell Cos., Inc., 527 F. Supp. 733, 213 U.S.P.Q. 636, 638 (D. Del. 1981).

³⁹John E. Vick, Jr., "The Expansion of Patent Venue: Patent Infringers Beware," Tex. B.J., Jan. 1992 at 22.

⁴⁰Grafon Corp. v. Hausermann, 602 F.2d 784, 203 U.S.P.Q. 168, 169 (7th Cir. 1979); Super Prods. v. D. P. Way Corp., 546 F.2d 753, 192 U.S.P.Q. 420 (7th Cir. 1976).

⁴¹35 U.S.C. § 287.

⁴²Donald S. Chisum, 5 Patents § 20.03[7] (1991).

2. A "Notice of Patent" Does Not Entitle a Declaratory Judgment Action

The Federal Circuit, unlike earlier courts, holds that simply informing a potential infringer of your patent does not entitle the potential infringer to file a declaratory judgment.⁴³ At the same time, however, informing a potential infringer about your patent, even without actually accusing the infringer of wrongdoing, is usually sufficient to put the potential infringer on notice of infringement.

If, however, the potential infringer subsequently files a declaratory judgment action in his convenient forum, the patent owner may get the declaratory judgment dismissed since mere notice of a patent "fails to constitute an actual case or controversy."⁴⁴ This is a distinct advantage for the patent owner. It permits the patent owner to manipulate notice to the potential infringer and allows the subsequent filing of a patent infringement action in the patent owner's convenient forum after the accumulation of damages. The Federal Circuit essentially skews the notice of infringement issue, an issue which governs support of a declaratory judgment action, in favor of the patent owner.

III. ARE THE RULES OF THE GAME FAIR - *Odds Favor Patent Owner*

Basketball started as a low scoring, defensive game. Because the fans wanted more action, the rules were changed. Zone defenses were eliminated and what were once charging calls are now blocking calls. The time clock was also added to insure the game remained a fast paced, offensive battle in favor of the team in possession of the ball.

A. Ex Parte Obtaining of Patent

Just as the rules for basketball games have been changed to favor the offense, things have been changed to favor patent protection.

As all good patent attorneys are aware, all patent applications before the United States Patent and Trademark Office are, by statute, kept confidential until the patent issues.⁴⁵ The confidential nature of patent applications in turn limits those who may communicate with the Examiner to the patent applicant or

⁴³Jervis B. Webb v. Southern Sys., Inc., 742 F.2d 1388, 222 U.S.P.Q. 943, (Fed Cir. 1984).

⁴⁴Arrowhead Indus. Water, Inc. v. Ecolchem, Inc., 846 F.2d 731, 6 U.S.P.Q.2d 1685 (Fed. Cir. 1988).

⁴⁵35 U.S.C. § 122.

his representative.⁴⁶ The patent applicant, not surprisingly, is biased in favor of patent issuance. The other participant, the patent Examiner, is presumably unbiased, protecting the public interest by insuring that only valid patents issue.⁴⁷ However, these patent Examiners, pressed with quotas requiring disposition of set numbers of applications within set periods of time,⁴⁸ allow some questionable patent applications for the sake of time and so that quotas are met.

Therefore, other than the patent Examiner who is striving to meet a quota, the only other party involved in obtaining a patent is the pro-patent applicant. Since potential infringers play no part in the obtaining of a patent, all evidence submitted is biased or slanted toward the pro-patent "basket."

B. Legal Presumption of Validity For Issued Patents

Once the patent application issues, the patent, including each of the claims, is presumed valid.⁴⁹ With this statutorily created presumption of validity and the burden of proving invalidity facing the party challenging the patent's validity,⁵⁰ the Federal Circuit's decision regarding the quantum of evidence necessary to overcome the presumption is crucial.

C. Presumption of Validity Can Only be Overcome by "Clear and Convincing" Evidence

Prior to creation of the Federal Circuit, various standards existed for overcoming the presumption of validity. The Federal Circuit, however, adopted the "clear and convincing" standard, a standard favoring the patent owner, but continued even farther stating that the presumption of validity does not "vanish" or "weaken" when the Examiner fails to consider the best prior art.⁵¹ Hence, the standard of proof does not fall to "mere

⁴⁶USPTO Manual of Pat. Examining Procedures § 104[R-9] (5th ed. 1989).

⁴⁷R. L. Baechtold, "How to Sell Non-Obviousness and Obviousness," 1988 Practicing L. Inst. 511, 525.

⁴⁸Harold C. Wegner, "Inequitable Conduct and the Proper Roles of Patent Attorney and Examiner in an Era of International Patent Harmonization," 16 AIPLA Q.J. 43 (1988).

⁴⁹35 U.S.C. § 282.

⁵⁰35 U.S.C. § 282.

⁵¹Lindemann Maschinenfabrik v. American Hoist & Derrick, 730 F.2d 1452 (Fed. Cir. 1984).

preponderance" even if the Examiner has failed to consider the best prior art.

In language reflecting the strong favoritism existing for patents, former Chief Judge Markey stated, "A patent is born valid. It remains valid until a challenger proves it was stillborn or had birth defects, or it is no longer viable as an enforceable right."⁵²

IV. ARE THE REFEREES BIASED - *Natural Bias in Favor of Patent Owners*

Back in the 1950s, the Boston Celtics were notorious for taking advantage of the visiting team any way they could. Tactics included over heating the visitor's locker room and making sure the referees were hometown boys. The Celtics always seemed to "get the call" in the Garden. Players and coaches throughout the league came to expect what came to be known as "home cooking" by the referees.

A. General Public Places Great Importance on Patents

Just as every sports fan becomes angry when they believe the referees are calling the game against their team, potential infringers should realize there is an automatic and legal bias against them. When a member of the general public sees an official patent issued by the United States Patent and Trademark Office carrying the colorful seal of the United States government, great weight and emphasis is normally placed on the document. Shortly prior to formation of the Federal Circuit, one study showed that District Judges invalidated patents two thirds of the time while juries held patents valid two thirds of the time.⁵³ While there is no question that the Federal Circuit's trend creates a favorable atmosphere for patents, businesses have also begun to emphasize the importance of patents.⁵⁴ The increased importance and value placed on patents has led businesses, as well as the general public, to find that it now pays to obtain patents.⁵⁵ With people often placing more credibility on a particular product if there is a patent application on file,⁵⁶ and with the imposition of stiffer

⁵²Roper Corp. v. Litton Sys., Inc., 757 F.2d 1266, 1270 (Fed. Cir. 1985).

⁵³Hofer, "The Real World of Juries, Damages, and Injunction in Patent Cases," 50 Alb. L. Rev. 593, 594 (1986).

⁵⁴"Going on the Offense," Wall St. J., Nov. 14, 1988, at R39.

⁵⁵Clint Willis, "It Pays to Patent," Venture, Oct. 1988, at 38.

⁵⁶Id. at p. 39.

penalties against infringers,⁵⁷ it is not surprising that leading publications emphasize the importance of patents.⁵⁸ Patents are now considered the most valuable asset many corporations own.

B. Encouraged to Invent

In today's favorable climate toward patents, corporations and individuals are encouraged to invent at a level never before imagined.⁵⁹ This encouragement to invent may mean money in the inventor's, as well as the employer's, pocket. This encouragement to invent also brings money to small firms. Major corporations continually acquire small firms with new products for introduction into their line of goods.⁶⁰

This push to invent comes, however, with cries of "patent blackmail."⁶¹ Despite these "patent blackmail" cries, an inventor with a reasonably good invention made on a large scale may be able to interest a party in pursuing the infringers on the inventor's behalf.⁶² This is particularly true since patent owners have begun to win their patent infringement suits.⁶³

C. Almost Everyone Believes That They Have Lost Out On a Great Idea

Patent attorneys can relate story after story of individuals who contend their idea or invention was stolen. These tales, however, are told and believed by a significant percentage of the public, marking a strong bias favoring the patent owner. Even successful inventors tell tales outlining the years of struggle endured prior to the success of their product.⁶⁴ The struggles and hardships faced by inventors during times of both

⁵⁷Paul M. Barrett, "Good News for Inventors," Wall St. J., Feb. 24, 1989, at R8.

⁵⁸Thomas A. Stewart, "Brain Power," Fortune, June 3, 1991, at 44.

⁵⁹John R. Emshwiller and Brent Bowers, "More Inventors Try Their Luck as Aid Increases," Wall St. J., Aug. 19, 1991, at B1.

⁶⁰"Harvesting the American Mind," Wall St. J., Nov. 14, 1988, at R5.

⁶¹Edmond L. Andrews, "The 'White Knight' Draws Cries of 'Patent Blackmail,'" N.Y. Times, Jan. 14, 1990, at F5.

⁶²Id.

⁶³"Patent Holders' Big Wins," The Recorder, Oct. 3, 1991, at 9.

⁶⁴Doug Garr, "The Practical Inventor," Venture, Oct. 1988, at 35.

patent issuance and enforcement⁶⁵ have turned the public's sympathy toward the patent owner's end of the court.

D. The Trend is to Request Juries Because of Their Natural Bias Toward Patent Owners

The headline for Forbes magazine in July 1985 was "Juries Love the Patent Holder."⁶⁶ The \$45 million award in a patent infringement suit had just been entered against American Hospital Supply. In Smith Int'l v. Hughes Tool Co., another patent infringement case pending at that time, the patent holder requested \$722 million, ultimately obtaining a judgment exceeding \$200 million, the largest ever awarded at that time.⁶⁷

In explaining why juries love the patent owner, John Kidd of Pennie & Edmonds stated, "Juries believe in the patent system more than judges do."⁶⁸ Other patent attorneys such as R. Douglas Lyon of Lyon & Lyon have used even stronger language: "Any plaintiff [patent owner] case I have in the future will be filed in front of a jury."⁶⁹ The patent owner is clearly at a distinct advantage, particularly since patent owners now receive what Donald Dunner terms "meaningful" damages. As stated by George Whitney with Braumbach, Graves, Donahue & Raymond, "There is incentive to litigate and to take it to the end of the road--the CAFC."⁷⁰

While everyone recognizes the growing trend to use juries in patent cases, everyone also recognizes the trend for juries to favor the hometown party⁷¹ (normally the patent owner) and the small time patent owner. Because of the increased willingness of patent owners to enforce and defend patents, Maxim Waldbaum with the firm of Darby & Darby stated, "Guys who had patents of questionable merit and scope have started bringing them out of the closet, wiping the cobwebs off them, and prosecuting."⁷²

⁶⁵Eugene Carlson, "For Inventors, Patent Fights May Spoil the Whole Idea," Wall St. J., Dec. 4, 1990, at B1.

⁶⁶Anthony Baldo, "Juries Love the Patent Holder," Forbes, July 17, 1985, at 147.

⁶⁷Smith Int'l, Inc. v. Hughes Tool Co., 229 U.S.P.Q. 81 (C.D. Cal. 1986).

⁶⁸Anthony Baldo, "Juries Love the Patent Holder," Forbes, July 17, 1985, at 147.

⁶⁹Id.

⁷⁰Id.

⁷¹V. Bryan Medlock, Jr., "Jury Trials of Patent Cases," Patent Litigation, 1988 Practising Law Institute 133, 126.

⁷²Nancy J. Perry, "The Surprising New Power of Patents," Fortune, June 23, 1986, at 57.

E. The Federal Circuit Favors Patent Owner

Almost all articles appearing in recent years call the Federal Circuit pro-patent, some going so far as to call it "blatantly pro-patent."⁷³ While former Chief Judge Markey denies the accusation, his lone voice seems to be in a minority.⁷⁴

There is some irony in this patent owner bias as corporations strive for stronger patent protection only to find themselves sued for patent infringement.⁷⁵ With the new patent owner bias and enormous damage awards, a company found infringing can lose it all.⁷⁶ The problem with this was probably best stated by Commissioner Harry F. Manbeck, Jr. when he was former Chief Patent Counsel for General Electric: "The court [Federal Circuit] denies it is pro-patent. But guys like me regard the risk of infringement to be greater today than five years ago."⁷⁷

Other than the lone protest of former Chief Justice Markey, there is little doubt in anyone's mind that patents now enjoy a favored status with judges, juries, and the Federal Circuit. Some believe the pendulum has swung too far and, in fact, stifles entrepreneurs trying to market new products. Representative Robert W. Kastenmeier, who for years played a pivotal role in intellectual property legislation, stated it best when he said, "We're pressured to create new property rights all the time now. But there is a danger in giving too much leverage to one side."⁷⁸ The question the American public has to answer is "has the pendulum swung too far?"

V. **YOUR OPPONENT RUNS A SIMPLE POWER OFFENSE** - *Patent Owner's Presentation is Very Simple*

In basketball, as in few other games, a premier "big man" can turn a mediocre team into a contender. This allows the basketball team to concentrate its efforts on getting the ball to the big man on which the opposing defense will collapse. Collapsing of the defense frees up other players for the easy, open shot. Some of the big men that have dominated basketball are George Mikan, Wilt

⁷³Id.

⁷⁴Id.

⁷⁵Nancy J. Perry, "The Surprising New Power of Patents," Fortune, June 23, 1986, at 57.

⁷⁶Smith Int'l, Inc. v. Hughes Tool Co., 229 U.S.P.Q. 81 (C.D. Cal. 1986)(resulted in a \$205 million judgment with Smith International subsequently filing Chapter 11 Reorganization).

⁷⁷Nancy J. Perry, "The Surprising New Power of Patents," Fortune, June 23, 1986, at 57.

⁷⁸"The Battle Raging Over 'Intellectual Property,'" Bus. Wk., May 22, 1989, at 78.

Chamberlain, Kareem AbdulJabbar (formerly Lou Alcindor) and now Patrick Ewing, Hakeem Olajuwon, and David Robinson.

A. The Inventor's Testimony

Just as basketball teams get the ball in to the "big man," the inventor becomes the "big man" in a patent infringement suit. Before making a decision on whether to request a jury, the patent owner normally should consider the story the inventor will tell.⁷⁹ Typically, an inventor may tell how he struggled for years with the invention, solving a long existing problem. The inventor may tell how he overcame the doubts of his fellow employees and his employer, his employer finally authorizing a patent application. The inventor's story does not end once he files the patent application. The inventor will tell about his lengthy negotiations with the Examiner, finally convincing the Examiner of the merits of the invention. The inventor will tell of the tiring battle he endured just to obtain the patent.

Depending upon the identity of the infringer and the patent owner, the story may continue. The inventor may relate his conflict with the infringer and his struggle to finance the costly litigation against the company that dared challenge his patent. If the inventor is an employee, he may tell of his struggles convincing his employer to pursue the infringer. If operating privately, the inventor may relate how the infringer practically drove him out of the market, attempting to deprive him of his legal patent rights.

Depending upon the facts of the particular case and the ability of the particular witness, it may be possible to present the patent owner's entire case with the inventor as the only live witness. Interrogatories or depositions can show the volume of infringing sales in support of the inventor's testimony. If tried before a jury, the patent owner can use to his advantage the fact that juries normally base their verdict on a small number of critical points. By creating a central theme and a simple story, the jury may organize and decide the case consistent with their own view.⁸⁰ Additionally, by using this central, simple theme on your client's home court, the patent owner can present his case in an extremely economical manner.⁸¹

⁷⁹V. Bryan Medlock, Jr., "The Jury Trials of Patent Cases," 1988 Practicing Law Institute 113, 126.

⁸⁰John E. Kidd, "Patent Jury Trials in the 1990s," 1990 Practicing L. Inst. 367.

⁸¹Ted D. Lee, "How to Try an Intellectual Property Case Economically," 1986 Pat. L. Ann. 7-1.

B. Adverse Testimony Regarding Sales of Infringing Products

In a simple power offense with the inventor testifying concerning the facts, the only adverse testimony necessary is confirmation and information concerning sales of the infringing product. Proving sales of the infringing product is relatively simple through use of interrogatories and/or depositions of the opposing party. Once the volume of infringing product sales is established, it is a fairly simple matter to establish damages, basing those damages on reasonable royalties or lost profits.⁸²

C. The Testimony of an Expert on Infringement

One of the problems encountered when presenting the patent owner's entire case with the inventor as the only live witness is that the inventor must also testify concerning infringement, requiring review of the complete prosecution history of the patent in suit.⁸³ Additionally, most inventors do not proficiently understand the procedures that occur in the United States Patent and Trademark Office. This calls for the testimony of a patent law expert, traditionally a patent attorney, regarding infringement. Other experts, however, having technical degrees are used in patent cases, the question simply being one of credibility and believability. In spite of the typical need for a patent expert, if the inventor proves credible and believable concerning infringement, it may be unnecessary to call an expert.

D. The Testimony of an Expert on Damages

An expert such as an economist or patent attorney is traditionally necessary for testimony concerning reasonable royalties as damages, particularly since an inventor is normally not knowledgeable in this area. This is not always the case, however, as some inventors, involved in technology for years may be able to testify as to reasonable royalties charged in that particular field.

Alternatively, inventors are usually not recommended as witnesses for damages if the measure of damages is lost profits since they have a tendency to believe their losses are much greater than what they actually are. Unless the inventor is an economist, his bias for the invention will usually be apparent to the jury, greatly diminishing his credibility.

⁸²State Indus., Inc. v. Mor-Flo Indus., Inc., 948 F.2d 1573, 20 U.S.P.Q.2d 1738 (Fed. Cir. 1991).

⁸³Radio Steel & Mfg. Co. v. MTD Prods., Inc., 788 F.2d 1554, 229 U.S.P.Q. 431, 434 (Fed. Cir. 1986).

The patent owner's simple power offense, requiring few experts, forces the accused infringer to spend enormous sums of money defending against infringement claims. It is not unusual for the amount spent by the accused infringer in defending against infringement claims to be several times higher than that spent by the patent owner, another plus for the patentee.

VI. THE OPPOSING TEAM IS SPOTTED 20 POINTS BEFORE THE GAME - *Standard of Invalidity*

Earlier in this NBA basketball season, the San Antonio Spurs were notorious for having a lapse in the second or third quarter when the opposing team would outscore them by 10 to 20 points. Then, in the fourth quarter, the Spurs would make a valiant come-back, but normally it was too late.

A. The Clear and Convincing Standard of Evidence

It is very difficult for a basketball team to come back after getting behind by 20 points. Similarly, it is hard for an alleged infringer to overcome legal presumptions in favor of the patent holder. After a patent is obtained through the ex parte proceedings, the patent is presumed valid.⁸⁴ This, in turn, transfers the burden for establishing invalidity to the patent challenger. As if this burden is not heavy enough, the Federal Circuit dictates a clear and convincing evidence standard for proving invalidity,⁸⁵ a standard much stricter than the previous "preponderance of the evidence" standard. This clear and convincing evidence standard remains unchanged even if the Examiner failed to consider the best prior art.⁸⁶ Former Chief Judge Markey of the Federal Circuit equates the invalidity of a patent to the death of a new born baby, establishing an extremely pro-patent atmosphere and making it hard to imagine the invalidation of a patent regardless of whether the patent owner lied or cheated.

B. Different Standards Existed Prior to the Federal Circuit

Prior to creation of the Federal Circuit, the various circuits applied inconsistent standards of invalidity. The Eighth Circuit applied a "substantial evidence" standard, a much lower

⁸⁴35 U.S.C. § 282.

⁸⁵American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350 (Fed. Cir. 1984); Railroad Dynamics, Inc. v. A. Stucki Co., 727 F.2d 1506 (Fed. Cir. 1984); Lindemann Maschinenfabrik v. American Hoist & Derrick, 730 F.2d 1452 (Fed. Cir. 1984).

⁸⁶Lindemann Maschinenfabrik, *supra*.

requirement to establish invalidity.⁸⁷ The Second and Sixth Circuits relied on a "preponderance of the evidence" standard to establish validity.⁸⁸ Other circuits, however, having a tendency to be more favorable to patent owners, adopted a "clear and convincing" standard.⁸⁹ One court, while conceding that "substantial evidence" and "clear and convincing" were different standards that did not "lend themselves to precise definition or quantification," went on to indicate that the proof was sufficient to establish either standard, thereby dodging the bullet.⁹⁰

C. The High Standard of Invalidity Starts the Jury Rolling in Favor of the Patent Owner

If a jury is requested in a case involving issues of patent infringement and invalidity, the first issue decided is validity of the patent or claims of the patent.⁹¹ Before hearing evidence on validity, the jury is instructed as to the clear and convincing evidence standard that the patent challenger must meet to establish invalidity. After validity is decided, the jury then answers questions regarding other issues.

If the jury begins answering in favor of one party, their tendency will be to continue answering in favor of the same party, much the same way a voter does on election day, resisting any midway changes and voting consistently with one point of view. Just as the typical voter, if the jury answers the first interrogatories in favor of the patent owner, the ball starts to roll toward the patent owner, a momentum that is hard to reverse. Much as basketball is a game of momentum, so is the process that occurs in the jury room.

D. The Instructions From the Bench Favor The Patent Owner

If the alleged infringer expects any help from the judge in instructing the jury, the alleged infringer is out of luck. In

⁸⁷Clark Equip. Co. v. Keller, 570 F.2d 788 (8th Cir. 1978); L. A. Prods., Inc. v. Britt Tech Corp., 365 F.2d 83, 86 (8th Cir. 1966); Wood Stream Corp. v. Herter's, Inc., 446 F.2d 1143, 1149 (8th Cir. 1971).

⁸⁸Lorenz v. F. W. Woolworth Co., 305 F.2d 102, 105, 134 U.S.P.Q. 152 (2d Cir. 1962); Dickstein v. Seventy Corp., 522 F.2d 1294, 187 U.S.P.Q. 138 (6th Cir. 1975).

⁸⁹Aluminum Co. of Am. v. Amerola Prods. Corp., 552 F.2d 1020, 1024 (3d Cir. 1977); Chicago Rawhide Mfg. Co. v. Crane Packing Co., 523 F.2d 452, 458 (5th Cir. 1975), cert. denied, 423 U.S. 1090 (1976); Minnesota Mining & Mfg. Co. v. Kent Indus., Inc., 402 F.2d 99, 100 (6th Cir. 1969).

⁹⁰Clark Equip. Co., supra., at 795.

⁹¹Duane Burton, 2 Jury Instructions in Intellectual Property Cases §§ 11.03[6] and [7] (1990).

addition to instructing the jury about the alleged infringer's heavy burden of clear and convincing evidence, the judge will also inform the jury that the patent is presumed valid. The judge may even quote opinions, taking comments from such judges as former Chief Judge Markey. Such powerful words from the bench can easily slant the jury in the patent owner's favor.

Other instructions, such as those for the doctrine of equivalents, tell the jury they may find something infringing even though it does not initially appear that the accused product infringes. Such instructions can easily lead the jury to believe that a patent's scope is much broader than that which they initially believed, actually far exceeding the correct scope. If this seems doubtful, try explaining to a lay person the doctrine of equivalents, file wrapper estoppel, and the secondary considerations enunciated in Graham v. John Deere.⁹² After explaining the doctrine of equivalents where the accused device or process is "substantially the same thing, used in substantially the same way, to achieve substantially the same result,"⁹³ the jury's eyes begin to fog over. All the jury will actually remember is that the suit involves a patent, the patent is presumed valid, and it takes an incredible amount of evidence to prove otherwise.

The accused infringer in federal District Court also has to worry about the judge commenting on the evidence,⁹⁴ such comments often proving detrimental to the alleged infringer's case. Just as juries have a tendency to be pro-patent in today's environment, recent results show that lower court judges are also biased in favor of patent owners. This bias is easily manifested in the judge's comments on the evidence.⁹⁵

VII. YOUR OPPONENT CHEATS AND GETS AWAY WITH IT - *Changing Standards of Rule 56*

All of the pro basketball fans watching the NBA Championships when the Detroit Pistons won the crown could not help but notice the commentators pointing out how "aggressive" the Pistons were. The Pistons were shoving, pushing, fouling, hacking, and holding--and getting away with it. Normally such activities were not seen by the referees because they occurred away from the

⁹²Graham v. John Deere Co., 383 U.S. 1 (1966)(including, but not limited to, commercial success, long-felt but unsolved needs, and failure of others).

⁹³D.M.I. v. Deere & Co., 755 F.2d 1570, 1575 (Fed. Cir. 1985).

⁹⁴Kerr-McGee Corp. v. Ma-Ju Marine Services Inc., 830 F.2d 1332 (5th Cir. 1987); James Wm. Moore, Moore's Fed. Prac. § 51.6 (1992).

⁹⁵Although state court judges may not comment on the evidence, more cases than expected are tried in state court. Roy Acord Jr. v. GM Corp., 669 S.W.2d 111 (1984); TRCO 277; Ted D. Lee and Ann Livingston, "The Road Less Traveled: State Court Resolution of Patent, Trademark, and Copyright Disputes," 19 St. Mary's L.J. 703 (1988).

basketball. Opposing teams and fans sincerely believed the Pistons were cheating, and getting away with it.

A. Rule 56 Originally

While cheating occurs in most sports, including basketball, the fans still become angry even though they realize only a small percentage of the cheaters are ever caught. The same type of cheating occurs by the patent owners and, again, very few are actually caught. Even before the adoption of 37 C.F.R. § 1.56, the United States Supreme Court condemned common law fraud, especially when used to obtain a patent on an invention.⁹⁶ If fraud was found in the obtaining of the patent, the patent claims were rendered unenforceable.⁹⁷ If the conduct surrounding the fraudulently obtained patent was knowing and the attempt to use the patent to obtain or maintain a monopoly was in bad faith, attorneys fees and triple damages were allowable under antitrust laws.⁹⁸

1. The "But For" Test

One of the early cases under Rule 56 attempting to define a "technical fraud" on the United States Patent and Trademark Office adopted a standard commonly referred to as the "but for" test.⁹⁹ In adopting the "but for" test, the court in Norton v. Curtiss stated, "If it can be determined that the claims would not have been allowed but for the misrepresentation, then the facts were material regardless of the effect on the objective question of patentability".¹⁰⁰ [Emphasis in original.] While adopting what seemed to be a fairly clear standard, the Court of Customs and Patent Appeals indicated state of mind as an important element to consider. Muddying the water, the court then stated that subjective intent (i.e. state of mind), while it should be considered, is not controlling. In other words, even a person having only the best intentions may still be charged with committing fraud on the United States Patent and Trademark Office.

⁹⁶Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806 (1945).

⁹⁷Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp., 407 F.2d 288 (9th Cir. 1969).

⁹⁸Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172 (1965).

⁹⁹Norton v. Curtiss, 433 F.2d 779, 167 U.S.P.Q. 532 (C.C.P.A. 1970).

¹⁰⁰Id. at 545.

Regardless of whether patent practitioners agreed with the "but for" test, at least in the early '70s, there was a degree of stability concerning fraud on the Patent Office.

2. The "Material" Information Test

Stability concerning fraud on the Patent Office did not last long. In 1977, the "Dan Amendments"¹⁰¹ were passed, negatively referred to by many legal scholars as "notorious," which was one of the milder commentaries.¹⁰² The new Rule 56 created by the "Dan Amendments" deemed information material when "there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent."¹⁰³ With this new definition, it became clear that reckless or unexplained conduct could infer the necessary level of intent for "bad faith or gross negligence."¹⁰⁴

B. Case Law Confuses Rule 56

Immediately after creation of the Federal Circuit, the court began handing down decisions under Rule 56. These decisions proved confusing, illogical, and inconsistent, driving one commentator to compare the decisions to the famous Chicken Little statement "the sky is falling,"¹⁰⁵ and another to compare the decisions to the Cheshire cat in Alice in Wonderland.¹⁰⁶ While it is hard to sort out and understand all the various decisions rendered by the Federal Circuit, A. B. Dick Co. is generally accepted as the high water mark concerning inequitable conduct

¹⁰¹Harold C. Wegner, "Inequitable Conduct and the Proper Roles of Patent Attorney and Examiner in an Era of International Patent Harmonization," 16 AIPLA Q.J. 38 (1988); The "Dan Amendments" introduced the failed re-issue regulations, later withdrawn, and the "duty of disclosure," 37 C.F.R. § 1.56(a) and "prior art statement," 37 C.F.R. § 1.97 et seq.

¹⁰²Harold C. Wegner, "Inequitable Conduct and the Proper Roles of Patent Attorney and Examiner in an Era of International Patent Harmonization," 16 AIPLA Q.J. 38 (1988).

¹⁰³37 C.F.R. § 1.56(a) (1991).

¹⁰⁴John F. Lynch, "An Argument for Eliminating the Defense of Patent Unenforceability Based on Inequitable Conduct," 16 AIPLA Q.J. 7, 12 (1988).

¹⁰⁵Jerome G. Lee, "Introduction: The Special Ad Hoc AIPLA Committee on Rule 56 and the Evolution of Proposed Rule 57," 16 AIPLA Q.J. 1, 1 (1988).

¹⁰⁶Lowell L. Heinke, "Is Intent An Important Element of Inequitable Conduct in the Patent and Trademark Office?," 16 AIPLA Q.J. 21, 21 (1988).

under Rule 56.¹⁰⁷ In A. B. Dick Co., the court threw out the patent even though the applicant cited and distinguished more pertinent prior art. The less relevant prior art cited by the applicant late in the prosecution, after the Examiner discovered it, was sufficient to render the patent unenforceable.

The position taken by the court in A. B. Dick Co. conflicts with one school of thought concerning prior art statements.¹⁰⁸ This conflicting school of thought teaches providing the Examiner with none of the prior art disclosed in independent searches by the applicant, thereby forcing the Examiner to perform a "fresh" search to locate prior art. After the Examiner's search, the applicant makes all of the remaining references available to the Examiner. A. B. Dick Co. follows the other school of thought, which is to force the patent applicant to disclose the prior art very early as "a means of accelerating the examination process."¹⁰⁹

The Federal Circuit in other decisions interpreting Rule 56 has only added to the existing uncertainty. These decisions include Rohm & Hass Co. v. Crystal Chem. Co.¹¹⁰ [an applicant may have an opportunity to "cure" a prior act of inequitable conduct], J. P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc.¹¹¹ [nondisclosure at the level of "gross negligence" justifies an inference of culpable intent sufficient to render a patent unenforceable], Argus Chem. Corp. v. Fibre Glass-Evercoat Co., Inc.¹¹² [patent attorney was not reasonable in assessing materiality where materiality required disclosure of theoretical and practical problems], Reactive Metals & Alloys Corp. v. E.S.M., Inc.¹¹³ [patent found valid despite undisclosed public use activities and undisclosed prior sales and advertisements], and F.M.C. Corp. v. Manitowoc

¹⁰⁷ A. B. Dick Co. v. Burroughs Corp., 798 F.2d 1392, 230 U.S.P.Q. 849 (Fed. Cir. 1986).

¹⁰⁸ "The Doctrine of Inequitable Conduct and the Duty of Candor in Patent Procurement: Its Current Adverse Impact on the Operation of the United States Patent System," 16 AIPLA Q.J. 74 (1988). This is a position paper prepared by the Ad Hoc Committee on Rule 56 and Inequitable Conduct, American Intellectual Property Law Association (Mar. 11, 1987).

¹⁰⁹ The author remembers Professor Irving Kayton with the Patent Resources Group emphatically emphasizing not to disclose prior art to the Examiner until after the Examiner had performed a patentability search and issued the first office action. See Section VII (B).

¹¹⁰ Rohm & Hass Co. v. Crystal Chem. Co., 722 F.2d 1556, 220 U.S.P.Q. 289 (Fed. Cir. 1983).

¹¹¹ J. P. Stevens & Co., Inc. v. Lex Tex Ltd., Inc., 747 F.2d 1553, 223 U.S.P.Q. 1089 (Fed. Cir. 1984).

¹¹² Argus Chem. Corp. v. Fibre Glass-Evercoat Co., Inc., 759 F.2d 10, 225 U.S.P.Q. 1100 (Fed. Cir. 1985).

¹¹³ Reactive Metals & Alloys Corp. v. E.S.M., Inc., 769 F.2d 1578, 226 U.S.P.Q. 821 (Fed. Cir. 1985).

Co.¹¹⁴ [emphasized good faith in believing a speech was not a prior art publication].

As a result of the Federal Circuit's inconsistent decisions regarding inequitable conduct, there are many critical articles about Rule 56 and the Federal Circuit's interpretation of Rule 56.¹¹⁵ Regardless of whether one agrees with the Federal Circuit's decisions, one quickly recognizes the tremendous cry for consistency concerning inequitable conduct.

C. Inconsistency Favors Patent Owner

To show how inconsistencies in Federal Circuit rulings under Rule 56 favor the patent owner, a simple list containing burdens of proof, biases, and participants provides a good illustration.

1. The patent process is ex parte, the patent applicant representing his interests and the Examiner representing the public's interest. All the patent applicant must do is convince the Examiner by a preponderance of the evidence that the patent should issue. The Examiner, in the meantime, must meet quotas to get his/her next pay raise.
2. Once the application issues as a patent, it is presumed valid. This will be hammered home to any judge or jury during litigation.
3. There is an automatic bias in favor of patent owners by both juries and judges.

¹¹⁴F.M.C. Corp. v. Manitowoc Co., 835 F.2d 1411, 5 U.S.P.Q.2d 1112 (Fed. Cir. 1987).

¹¹⁵Evan R. Witt, "Inequitable Conduct in the Duty of Disclosure in Patent Procurement," 19 Intell. Prop. L. Rev. 143 (1987); Jerome G. Lee, "Introduction: The Special Ad Hoc AIPLA Committee on Rule 56 and the Evolution of Proposed Rule 57," 16 AIPLA Q.J. 1 (1988); John F. Lynch, "An Argument for Eliminating the Defense of Patent Unenforceability Based Upon Inequitable Conduct," 16 AIPLA Q.J. 7 (1988); Lowell L. Heinke, "Is Intent an Important Element of Inequitable Conduct in the Patent and Trademark Office?," 16 AIPLA Q.J. 21 (1988); Harold C. Wegner, "Inequitable Conduct in the Proper Roles of Patent Attorney and Examiner in an Era of International Patent Harmonization," 16 AIPLA Q.J. 38 (1988); Laurence H. Pretty, "Inequitable Conduct in the PTO - Is the 'Plague Entering Remission?," 71 J. Pat. & Trademark Off. Soc'y 46 (1989); "The Doctrine of Inequitable Conduct and the Duty of Candor in Patent Procurement: Its Current Adverse Impact on the Operation of the United States Patent System," 16 AIPLA Q.J. 74 (1988)(this is a position paper prepared by the Ad Hoc Committee on Rule 56 and Inequitable Conduct, American Intellectual Property Law Association, on Mar. 11, 1987).

4. To overcome the presumption of validity, inequitable conduct must be shown by "clear and convincing" evidence.¹¹⁶

With this heavy burden of proof and automatic bias in favor of the patent owner, the patent owner only has to create a little confusion or muddy the water under Rule 56 in order to persuade the jury or judge to rule in his favor. Without a simple definitive standard, any level of confusion slants the case toward the patentee.

D. Rule 57 Was Intended to Replace Rule 56

The controversy surrounding the inconsistent application of Rule 56 by the United States Patent and Trademark Office and the courts led to proposed Rule 57.¹¹⁷ Rule 57 adopted the "but for" standard of materiality similar to that in Norton v. Curtiss¹¹⁸ and a mechanism for purging inequitable conduct. To make it more palatable to the U.S. Patent and Trademark Office, Rule 57 also proposed an extra fee for late disclosure and submission of a mandatory information disclosure statement. Proposed Rule 57 provided for the disclosure of "all information which . . . would render unpatentable any pending claim in the application,"¹¹⁹ essentially substituting the objective "but for" test of Norton v. Curtiss for the subjective Rule 56 test.

After the AIPLA suggested some significant modifications, the U.S. Patent and Trademark Office withdrew proposed Rule 57.¹²⁰ There was genuine concern by the AIPLA that not only were patent rights in question, but, more importantly, professional reputations of well respected patent practitioners were now in question.¹²¹ The Federal Circuit, also obviously concerned, stated that "fraud

¹¹⁶Norton v. Curtiss, 433 F.2d 779, 167 U.S.P.Q. 532 (C.C.P.A. 1970).

¹¹⁷Jerome G. Lee, "Introduction: The Special Ad Hoc AIPLA Committee on Rule 56 and the Evolution of Proposed Rule 57," 16 AIPLA Q.J. 1 (1988).

¹¹⁸Norton, 1670 U.S.P.Q. at 545.

¹¹⁹Laurence H. Pretty, "Inequitable Conduct in the PTO--Is the 'Plague Entering Remission?," J. Pat. & Trademark Off. Soc'y 46, 54 (1989).

¹²⁰Laurence H. Pretty, "Inequitable Conduct in the PTO - Is the 'Plague Entering Remission?," 71 J. Pat. & Trademark Off. Soc'y 46 (1989); "AIPLA Response to PTO Proposals," 16 AIPLA Q.J. 1 (1988); 1134 Official Gazette of the U.S. Pat. & Trademark Off. 141 (1992).

¹²¹Harold C. Wegner, "Inequitable Conduct and the Proper Roles of Patent Attorney and Examiner in an Era of International Patent Harmonization," 16 AIPLA Q.J. 38, 40 (1988); Halliburton Co. v. Schlumberger Technology Corp., 925 F.2d 1435, 17 U.S.P.Q.2d 1834 (Fed. Cir. 1991).

on the PTO has been overplayed, is appearing in nearly every patent suit, and is cluttering up the patent system."¹²²

In August 1991, the United State Patent and Trademark Office proposed a new Rule 56, abandoning the "reasonable examiner" standard.¹²³ Under the new amended Rule 56, information must be disclosed if it "establishes . . . prima facia case of unpatentability of a claim; or it refutes, or is inconsistent with a position the applicant takes in . . ." the PTO. This new Rule 56 issued as a final rule on January 17, 1992.¹²⁴ Hopefully, the adoption of new Rule 56 will add some consistency to the decisions of the Federal Circuit. At the very least, if there truly has been fraud on the United States Patent and Trademark Office, an accused infringer should have a chance of proving this to the trier of fact.

VIII. QUESTIONABLE RULES ALWAYS INTERPRETED IN FAVOR OF THE OPPONENT - *Subjective Determinations Always Favor Patent Owner*

When the San Antonio Spurs play the Chicago Bulls in San Antonio, everyone wants to see the superstars, Michael Jordan and David Robinson. Because of the superstars, more people come to the games, which means more money for the owners. As a result of questionable calls being interpreted in favor of the superstars, many fans believe there is an unwritten rule that all questionable calls are interpreted in favor of the superstars in order to keep them in the game.

A. The Patent Owner's Advantage

Normally, players on a basketball team get very flustered when the "superstar" gets all the calls, much the same as an accused infringer gets flustered because every questionable call goes in favor of the patent owner. Already evident, the questionable issues previously discussed are normally decided in favor of the patent owner. Coupled with a patent's presumption of validity, successfully challenged only by clear and convincing evidence, the bias in favor the patent owner may already be insurmountable. Discussed below are other issues, however, which also slant in favor of the patent owner.

B. The Doctrine of Equivalent versus File Wrapper Estoppel

¹²²Kimberly-Clark v. Johnson & Johnson, 745 F.2d 1437, 1454 (Fed. Cir. 1984).

¹²³42 BNA's Pat., Trademark, Copyright J. 330 (1991).

¹²⁴43 BNA's Pat., Trademark, Copyright J. 231, 258 (1992).

Stated by the Supreme Court in Garver Tank Mfg. Co., Inc.,¹²⁵ infringement under the doctrine of equivalents "does not require complete identity for every purpose and in every respect." Infringement requires only identity of function, means, and result. The U.S. Supreme Court, concerned about the "unscrupulous copyist" copying the invention and being careful to omit "unimportant and insubstantial" portions of a claim, created a way for a patent owner to expand the meaning of his claims from their literal interpretation. The doctrine of equivalents, which favors the patent owner and allows for expansion of the claim language, is followed by the Federal Circuit.¹²⁶

Prosecution history estoppel is the counter-doctrine to the doctrine of equivalents.¹²⁷ Under this counter-doctrine, if an express representation is made to obtain allowance of the patent, the patent owner cannot later contend that the claim covers, under the doctrine of equivalents, what was originally sacrificed to obtain allowance.¹²⁸

The Federal Circuit, in a 1987 *en banc* decision, discussed the doctrine of equivalents in great detail.¹²⁹ In holding for no infringement, the Federal Circuit in Pennwalt Corp. performed an element-by-element analysis. Citing Garver Tank, however, the four dissenting judges strongly criticized the majority opinion as disregarding the "as a whole" consideration of the invention in deciding infringement. Regardless of the claim analysis method, the doctrine of equivalents could not expand the claims to cover the accused device if such expansion would render them invalid in view of prior art.¹³⁰

Following Pennwalt Corp. and Garver Tank, at least one panel of the Federal Circuit expanded the doctrine of equivalents, allowing hypothetical claims.¹³¹

In Wilson Sporting Goods, the Federal Circuit initially indicated that independent claim 1 could not be expanded to cover

¹²⁵Garver Tank Mfg. Co., Inc. v. Linde Air Prods. Co., 339 U.S. 605, 609, 85 U.S.P.Q. 328, 330-31 (1950).

¹²⁶Lear Seigler, Inc. v. Sealy Mattress Co., 873 F.2d 1422, 10 U.S.P.Q.2d 1767 (1989).

¹²⁷Donald S. Chisum, 4 Patents §18.05[4] (1991).

¹²⁸Hughes Aircraft v. United States, 717 F.2d 1351, 219 U.S.P.Q. 473 (Fed. Cir. 1983).

¹²⁹Pennwalt Corp. v. Durand-Wayland, Inc., 833 F.2d 931, 4 U.S.P.Q.2d 1737 (Fed. Cir. 1987), cert. denied, 108 S.Ct. 1226 (1988).

¹³⁰Henrik D. Parker, "Doctrine of Equivalents Analysis After Wilson Sporting Goods: The Hypothetical Claim Hydra," 18 AIPLA Q.J. 262 (1990).

¹³¹Wilson Sporting Goods Co. v. David Geoffrey & Assoc., 904 F.2d 677, 14 U.S.P.Q.2d 1942 (Fed. Cir. 1990).

the accused device because such expansion would render the patent invalid based upon prior art. Consistently supporting the contention that failure to infringe the broader independent claim means a failure to infringe the narrower dependent claims,¹³² case law appears to release the accused infringer. In Wilson Sporting Goods, however, the Federal Circuit proceeded to write a "hypothetical claim" that distinguished over the prior art and used a dependent claim as its basis. The Federal Circuit then held the hypothetical claim infringed. With such drafting of hypothetical claims on dependent claims, the patent owners now have one additional shot at the basket.

Wilson Sporting Goods has created considerable confusion among patent practitioners, many believing that it is simply a red herring. Numerous critical articles, however, exist regarding Wilson Sporting Goods,¹³³ one commentator suggesting that with hypothetical claims, no presumption of validity should exist since the patentee has to prove the validity of the hypothetical claim.

C. The Uncertainty of Advising Clients

The real problem with Wilson Sporting Goods is that now an attorney advising his client must try to figure out what speculative inquiries the trial court will entertain in establishing the hypothetical claims. If the court continues to permit hypothetical claims, the public will not know the limiting extent of the file wrapper until the patent is actually litigated.¹³⁴ This lack of knowledge puts patent attorneys and competing businesses at distinct disadvantages because they no longer know what is permitted under the claims. One author, while discussing hypothetical claims, described the pro-patent stance of the Federal Circuit stating "it has created a 'penumbra of uncertainty' surrounding the patent claims so that the public rarely knows the scope of the claims 'until a district court passes on the issue.'"¹³⁵

It is not certain what other panels of the Federal Court will do. Presently there does not appear to be much enthusiasm for the hypothetical claim procedure used in Wilson Sporting Goods. In

¹³²Wahpeton Canvas Co., Inc. v. Frontier, Inc., 870 F.2d 1546, 10 U.S.P.Q.2d 1201, 1208-9 (Fed. Cir. 1989).

¹³³Robert W. Turner, "The Doctrine of Equivalents and Hypothetical Claims" Twenty-Ninth Annual Institute on Patent Law, The Southwestern Legal Foundation (1991); Ronald D. Hantmann, "Prosecution History Estoppel: Part II," 73 J. Pat. & Trademark Off. Soc'y 234 (1991).

¹³⁴Ronald D. Hantmann, "Prosecution History Estoppel: Part II," 73 J. Pat. & Trademark Off. Soc'y 234, 247-48 (1991).

¹³⁵Id. at 254-55.

fact, some courts have either refused to apply the hypothetical claim or have indicated they do not understand the doctrine.¹³⁶ The Patent Bar will be blessed if Wilson Sporting Goods dies a natural death by refusal of other courts to apply this highly confusing expansion of the doctrine of equivalents.

D. The Abandonment of An Invention

Under 35 U.S.C. § 102(c), it logically appears that an inventor could easily abandon an invention. Subsection (c) provides that "a person shall be entitled to a patent unless . . . (c) he has abandoned the invention." The Federal Circuit, given an opportunity to rule on 35 U.S.C. § 102(c), held that a four year period of inactivity did not result in abandonment.¹³⁷ The U.S. Supreme Court, however, over a hundred years ago held that nine years of delay was sufficient to establish abandonment.¹³⁸ Logic seems to indicate that an invention is abandoned in something less than nine years, though the Federal Circuit appears to prefer an abandonment time period longer than four years.

By requiring longer periods of time to establish abandonment, the Federal Circuit is again favoring the inventor. There should be a logical point at which competitors are free to make or use a device or process if the first inventor has failed to take action to protect his rights. To do otherwise simply stifles competition.

E. Resurrection of the Assignor Estoppel Doctrine

Patent practitioners believed that in Lear, Inc. v. Adkins the Supreme Court killed estoppel against challenging patent validity.¹³⁹ After Lear, Inc., it appeared that any interested party could challenge a patent's validity. The Federal Circuit, however, in Diamond Scientific v. Ambico, Inc.,¹⁴⁰ interpreted Lear, Inc. to apply only to "licensees," not "assignors." While admitting that Lear, Inc. wrote the obituary for licensee estoppel, the Federal Circuit in Diamond Scientific indicated, much to the

¹³⁶Refac Int'l Ltd. v. Matsushita Elec. Corp., 17 U.S.P.Q.2d 1203 (D.N.J. 1990).

¹³⁷Paulik v. Rizkalla, 760 F.2d 1270, 226 U.S.P.Q. 224 (Fed. Cir. 1985).

¹³⁸Consolidated Fruit-Jar Co. v. Wright, 94 U.S. 92 (1876).

¹³⁹Lear, Inc. v. Adkins, 395 U.S. 653, 162 U.S.P.Q. 1 (1969).

¹⁴⁰Diamond Scientific v. Ambico, Inc., 848 F.2d 1220, 6 U.S.P.Q.2d 2028 (Fed. Cir. 1988).

surprise of everyone, that assignor estoppel was still alive and well.

Since Diamond Scientific, district courts have gone even further, prohibiting an accused infringer from proving a patent invalid even though it clearly reads on the prior art.¹⁴¹ In Hexcel Corp., the court prohibited the defendant from proving the patent invalid, even though the claims read on the prior art, because the defendant assigned the patent. The defendant's good faith and intent were ignored.

With the resurrection of the assignor estoppel doctrine, the Federal Circuit has again favored the patent owner. While others can challenge a patent's validity, an assignor or person privy to the assignor, according to the assignor estoppel doctrine, cannot challenge the validity, even though the assignor may be the only person interested in challenging the patent's validity.

IX. COST FACTORS ALWAYS FAVOR THE HOME TEAM - *Less Expensive if You Are Patent Owner to Litigate Patent*

Recently, the players for the San Antonio Spurs demanded a private airplane for away games. The players complained that because of the long hours spent traveling and waiting in airports they were arriving at away games drained of their energy. During the same time frame, the Spurs started losing away games. The owner, Red McCombs, relented and spent over a million dollars retrofitting a private plane for the team to use when traveling to away games.

A. The Simplicity of the Patent Owner's Presentation

Just as basketball players are worn down by a long road trip, alleged infringers are worn down by the high cost of litigation, which may be several times the costs paid by the patent owner. As discussed in Section V above, the patent owner's presentation is very simple, sometimes requiring only one live witness. Conversely, the alleged infringer is in the same position as the visiting basketball team of being forced to overcome travel fatigue as well as the referee's and crowd's bias. The alleged infringer's case, by its very nature, is much longer and more complicated than the patentee's, requiring transport of additional witnesses and documents for trial, which, in turn, drives up the cost of the litigation.

B. The Alleged Infringer Has Extensive Discovery

¹⁴¹Hexcel Corp. v. Advanced Textiles, Inc., 716 F. Supp. 974, 12 U.S.P.Q.2d 1390 (W.D. Tex. 1989); American Fence Co. v. MRM Sec. Sys., Inc., 710 F. Supp. 37, 11 U.S.P.Q.2d 1295 (D. Conn. 1989).

Upon being accused of patent infringement, the first step the alleged infringer must take is to evaluate the patent, its file wrapper and cited references. After this initial evaluation, the alleged infringer must reach a determination of whether the allegation has any merit, which normally means the alleged infringer must hire a patent attorney and get his opinion concerning infringement. The failure to obtain such an opinion, whether formal or informal, could result in punitive damages and attorney fees.¹⁴²

If it appears that the alleged infringer may, in fact, be infringing the patent, an extensive investigation should be made concerning the prior art. Typically, someone is employed to perform an extremely extensive literature or patent search which hopefully results in an invalidating prior art reference. If suitable invalidating prior art is found, the alleged infringer may be off the hook. However, if there is no identical prior art reference, the alleged infringer must argue, under 35 U.S.C. § 103, that a combination of references renders the patent obvious in light of prior art.¹⁴³ This obviousness question is ultimately a factual issue for the trier of fact.¹⁴⁴ Unlike the alleged infringer, the patent owner does not have the costs associated with an extensive search of the prior art.

The alleged infringer will typically also want to investigate the statutory bars under 35 U.S.C. § 102, including sale, offer for sale, and first to invent. This investigation usually means extensive discovery of not only the inventor, but co-workers and others skilled in the area. This extensive discovery, although possibly uncovering anticipated bars under 35 U.S.C. § 102, is still a cost avoided by the home team, the patent owner.

Possible Rule 56 violations should also be thoroughly investigated by the alleged infringer. The alleged infringer should take discovery, determining exactly what the participants, including the patent attorneys, knew during the prosecution of the patent application. If the patentee failed to disclose relevant information to the Patent Office, a claim can be made for fraud on the Patent Office.¹⁴⁵ Again, like other defenses, Rule 56 violations require extensive discovery by the alleged infringer, but virtually none by the patentee.

¹⁴²Underwater Devices Inc. v. Morrison-Knudsen Co., 717 F.2d 1380, 219 U.S.P.Q. 569 (Fed. Cir. 1983).

¹⁴³35 U.S.C. § 103; In re Vaeck, 947 F.2d 488, 20 U.S.P.Q.2d 1438 (Fed. Cir. 1991).

¹⁴⁴Modine Mfg. Co. v. Allen Group, Inc., 917 F.2d 538, 16 U.S.P.Q.2d 1622 (Fed. Cir. 1990).

¹⁴⁵37 C.F.R. § 1.56.

Additionally, the accused infringer may want to investigate whether the patentee has complied with 35 U.S.C. § 112, particularly whether the patentee has disclosed the best mode of practicing the invention. Since there is a presumption that the patentee disclosed the best mode flowing from the patent's presumed validity,¹⁴⁶ the alleged infringer, forced to meet the heavy burden associated with this best mode disclosure presumption, will have to take extensive and costly discovery.

C. The Alleged Infringer Typically Brings Witnesses from Considerable Distances

For the patentee, playing the game correctly can mean forcing the accused infringer to litigate the case on the patentee's home court. Traveling to the patentee's home court, the alleged infringer, unlike the patentee, is faced with considerable costs, including costs for his travel, the travel and expenses of witnesses, and the transport of necessary evidence. In addition, the accused infringer will probably employ several expert witnesses. These experts, typically testifying on invalidity, damages, and infringement, require payment for their services in addition to reimbursement for their travel expenses, all costs which the patentee avoids.

D. The Alleged Infringer's Costs In Foreign Forum

The most significant cost to the accused infringer is probably attorneys' fees. The accused infringer must either hire a local attorney to handle the case or bring his lawyer to the foreign forum. Even if the accused infringer brings his attorney to the foreign forum, good local counsel is vital. These litigations costs, like those previously mentioned, are factors that result in several times more cost to the accused infringer than to the patentee.

X. IS THE BUILT-IN BIAS GOOD FOR THE GAME - *Long Term Effects on Patent Litigation*

After basketball developed into a high scoring game, some basketball teams lacking the offensive punch, but having good aggressive, defensive players, started playing a slow-down defensive game. Some teams would stall to the point that just a few shots would be taken at the basket during the entire game. In this manner, a team that was weak offensively, but strong defensively, may win the game. With the adoption of the shot clock, stalling or the slow-down game was essentially eliminated. Many fans and coaches believe that the elimination of the stall does not add to the sport of basketball, but instead takes away from the game.

¹⁴⁶ Application of Bird, 344 F.2d 979, 145 U.S.P.Q. 418 (C.C.P.A. 1965).

A. Changes Bring Mixed Reviews

Just as everybody has a different opinion as to what is good for basketball, everybody has a different opinion on what is good for the patent system. There's an old saying that something is good or bad depending on "whose ox is being gored." If your client is the patentee, he will obviously want to gore the ox of the infringer. If your client, however, is the accused infringer, he may scream that the game is not played fairly, realizing that his ox stands a poor chance of making it through the game.

There is general concern, however, that the Federal Circuit has gone too far, stifling innovation.¹⁴⁷ Patent lawyers believe that the Federal Circuit has gone too far in its pro-patent stance. Gary Hoffmann of Dickstein, Scipiro & Morin stated, "The court [Federal Circuit] forgot to stop at the center."¹⁴⁸

Although not all agree with the pro-patent stance of the Federal Circuit, everyone agrees that patents now have significant effects on most businesses. As technology continues to develop, patents will be increasingly asserted for a competitive advantage. The Federal Circuit has essentially created economic importance for patents never before seen. As S. Leslie Misrock with Pennie & Edmonds stated, "The court [Federal Circuit] has such economic importance that it is staggering."¹⁴⁹

B. Possible Future Effects on Patent Litigation

The effect of the pro-patent stance currently taken by the Federal Circuit may have any number of results. There is no crystal ball to predict with accuracy what will occur, but following are a few possibilities.

First, the Federal Circuit's pro-patent stance may prompt businesses to simply drop potentially infringing product lines. This, in turn, will result in fewer available products and increased prices. For patent attorneys, this translates into less patent litigation and less work.

Second, the pro-patent stance could result in the opposite, namely a boom in patent work and in patent litigation.

¹⁴⁷Garry Sturgess, "From Chaos to Complacency," Legal Times, June 17, 1991, 11.

¹⁴⁸Id.

¹⁴⁹Id.

Patent owners may be willing to sue anyone possibly infringing their patent, causing a boom similar to that seen in the product liability field.

Third, Congress could curtail this extremely pro-patent stance. There have already been comments that if the Federal Circuit gets too pro-patent, the Federal Circuit's jurisdiction may be taken away.¹⁵⁰ Certainly if Congress giveth, Congress can taketh away.

The probable result will be somewhere between the extremes. Most patent practitioners believe that some change will occur as a result of the Federal Circuit's extreme pro-patent position, this change possibly prompted by foreign companies' use of our patent system to their competitive advantage.

Regardless of one's position on the pro-patent stance, most agree that something will occur. The only questions now are how soon, how much, and to whom.

¹⁵⁰38 BNA's Pat., Trademark & Copyright J. 459, 461 (Aug. 31, 1989).