THE HONORABLE ORRIN G. HATCH
U.S. Senate Judiciary Committee
"Patent Reform in the 111th Congress: Legislation and Recent Court Decisions"
March 10, 2009

Question for the panel:

More than ever, I believe we need to discourage weak cases from clogging our judicial system. I believe we should strengthen the current attorney fee provision in the Patent Code, which currently allows reasonable attorney's fees in *exceptional* cases. Section 505 of the Copyright Statute gives courts the *discretion* to award reasonable attorney's fees to the prevailing party.

What are your thoughts on incorporating attorney's fee language, similar to the Copyright Act, into the Patent Code?

Mr. Johnson's Answer: Our Coalition believes that strengthening the current attorney fees provision, as for example by incorporating language similar to the Copyright Act, would discourage frivolous suits, and encourage meritorious ones. It was to deter such behavior that we suggested incorporating language along the lines of the "loser pays" provision that you proposed in S. 3818. Such a provision would be particularly beneficial to individual inventors and small businesses that have smaller, meritorious claims that are often not brought because the cost of attorney fees eats up most, if not all, of the recoveries they might reasonably expect. In addition, it may be helpful to make the award of attorney fees mandatory in certain kinds of cases, such as cases where inequitable conduct is alleged.

Question for the panel:

Do you think this would have any kind of deterrent effect on weeding out weak claims?

Mr. Johnson's Answer: Yes, it would definitely reduce the institution of suits based on weak claims. In an effort to provide a quantitative response to your question, I conducted a survey of patent attorneys practicing within Johnson & Johnson, and those in private practice at some of the patent-oriented law firms we retain. In response to the question, "What do you think the impact would be of requiring courts to award attorneys fees to the prevailing party in every instance where inequitable conduct is pled?" 88% of the responses received indicate there would at least be "some reduction" in inequitable conduct pleading, while 46% of the responders answered there would be at least a "considerable" reduction in such pleading.

Question for the panel:

In this current fiscally difficult climate, is there something more that we could do to keep our patent system strong? As you know, people either are not filing or choosing not to prosecute existing patent applications.

I don't need to tell you what that does to the revenue stream at the USPTO, and consequently, what impact that will have on our economy.

What are your thoughts on restoring the USPTO with monies that were lost due to the past practice of fee diversion?

Wouldn't that send a strong signal that our country recognizes the vital role that IP and research and development play for all sectors of our economy?

What are your thoughts?

Mr. Johnson's Answer: There is indeed something more that could be done to keep our patent system strong, and ensuring that the USPTO has adequate resources to carry out its responsibilities would be high on that list.

It would be very fitting if, in addition to including anti-diversion language in S. 515 to ensure that the Office could retain and use all of its fee revenues for the purposes for which they were paid, Congress restored the $750 million in fee income that it withheld from the USPTO for the twelve year period from 1992 through 2004. Many of the current problems experienced by the Office can be directly traced to its inability to hire the examiners needed to keep pace with the increasing workload during that period and to its inability to make the necessary investments in its infrastructure. Moreover, restoring these diverted funds at this juncture, when the USPTO is experiencing a drop in fee revenues due the economic downturn, would mitigate the adverse consequences that would otherwise occur.

Finally, the restoration of the diverted funds would send a strong signal to our trading partners that patent systems are not to be used as cash cows.

Question for Mr. Phil Johnson, Johnson & Johnson:

For years I have been arguing if we are serious about enacting comprehensive patent law reform then we must take steps to ensure that the inequitable conduct doctrine is applied in a manner consistent with its original purpose: to sanction true misconduct and to do so in a proportional and fair manner. Inequitable conduct reform is core to patent reform, as it dictates how patents are prosecuted years before litigation. The inequitable conduct defense is frequently pled, *rarely* proven, and *always* drives up the cost of litigation tremendously.

Under current law, any perceived transgression of the patent owner is being painted as *fraud*. If an inequitable conduct claim wins, a valid patent will be held entirely void, and the infringer walks away without any liability. There is virtually no downside for the infringer to raise this type of attack. This is why inequitable conduct challenges are raised in nearly every patent case.

1. How do inequitable conduct claims add complexity and expense to your litigation proceedings?

Mr. Johnson's Answer: The assertion of an inequitable conduct claim substantially increases the cost and length of a patent litigation. Defendants eager to assert such a claim begin by taking far-reaching documentary and testimonial discovery, which results in the collection of vast amounts of information. Because the USPTO does not want applicants to submit less relevant or cumulative information, there is always much more information collected in discovery than was, or should have been, submitted to the USPTO. Defendants then analyze the differences between the information collected and that submitted, and develop contentions that certain of the information not submitted was material to the examination (and should have been submitted), and/or that certain of the information not submitted was inconsistent statements made by the patentee to the USPTO (and was thus withheld).

Because a successful showing of inequitable conduct also requires proof of a specific intent to mislead or deceive the USTPO, additional evidence is also sought on this issue. On very rare occasions, direct evidence of specific intent is found, as for example in a contemporaneous writing or the like, in which case the likelihood of success of this defense is increased. But in the overwhelming majority of cases, there is no such direct evidence, leaving defendants to resort to circumstantial evidence, or to inferences that the materiality of the information itself supports an inference of specific intent.

To defend against such allegations often involves the hiring of expensive experts, extensive motion practice, and a prolonged or separate trial directed to the inequitable conduct allegation. Because the transactions at issue have always taken place in the distant past, the involved witnesses almost always have no present recollection of their states of mind at the time.[1] They are therefore left to defend themselves by referring to their standard practices or routines at the time, and their present day beliefs that they never had a specific intent to deceive or mislead the USPTO.

In the event the court finds inequitable conduct, post-trial motions inevitably follow, as does an appeal to the Federal Circuit.

[1] There is no statute of limitations on allegations of inequitable conduct. It is thus not unusual for the inequitable conduct trial to take place 10 to 15 or more years after the alleged withholding or misstatement. In Hatch-Waxman cases it is not unusual for inequitable conduct trials to take place as much as 20 years after the relevant time period.

In the event inequitable conduct is established, the case is normally deemed "exceptional" and attorney fees are awarded to the defendant. On the other hand, if the patent owner successfully defeats a claim of inequitable conduct, the case is not normally deemed "exceptional" and no attorney fees are awarded.

Question for Mr. Phil Johnson, Johnson & Johnson:

> I've heard that people have a real fear of an inequitable conduct claim in future patent litigation.
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> How real is that fear?
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> How does it impact your patent application prosecution?

Mr. Johnson's Answer: Patent attorneys who have been active in preparing and prosecuting patent applications have a very real fear of being *falsely* accused of having perpetrated inequitable conduct. In our survey, 45% of the responding attorneys reported that they worried "a lot, but not every day" or "every day" about such false accusations, while an additional 40% reported that they worried "some, from time to time, but not a lot," about them.

This fear stems from the fact that most of these attorneys know, or know of someone in the profession, who has been falsely accused. Studies of such allegations in connection with Hatch Waxman ANDA-related cases indicate that generic manufacturers accuse over 75% of branded products of being protected by patent(s) alleged to have been inequitably procured. Of Johnson & Johnson's drug products challenged in ANDA-related litigation, about 60% of these products have faced inequitable conduct accusations, even though none of these IC allegations has ever been successful.

Assertions of ill-founded allegations of unprofessional conduct are a disservice to the patent system, to our judiciary, and to the patent profession. They serve to undermine public confidence in the patent system, and bring years of needless heartache to honest practitioners who work hard to do their jobs right in a very difficult and technically complex field.

In the same survey, about half of the responding attorneys estimated that, because of the existence of the inequitable conduct doctrine, a substantial amount (10-20%) or more than a substantial amount (20%-50+%) of work is created beyond that which is fairly necessary for a complete, high quality patent examination. This additional work relates to the citation of cumulative or less relevant prior art that is nonetheless submitted for fear that, if not submitted, a later litigant will contend that its withholding is an IC violation. These additional citations bog down the patent examination process, and make it more difficult for all involved to improve the quality of patent examinations.

In addition to adding work to prosecution, the existence of the inequitable conduct doctrine chills attorneys' willingness to volunteer their views on the significance of cited references, which

views would likely also improve the patent examination process. The concern is that later litigants may allege that the expression of such views somehow misled the examiner away from other pertinent portions of these references, from other references, or from other disclosures in the prior art. If such views are never volunteered, they can never be second-guessed by later litigants.

The existence of the inequitable conduct doctrine, which is a creation of the courts, also stands as a hurdle to the ability of the USPTO to manage its docket of patent applications.