Testimony of

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June 14, 2005

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Mr. Jonathan Band

"Patent Law Reform: Injunctions and Damages"

BEFORE the

Senate Judiciary Committee Subcommittee on Intellectual Property

Dirksen Senate Office Building
June 14, 2005

Introduction

Chairman Hatch, Ranking Member Leahy, and members of the Subcommittee, my name is Jonathan Band. I am an attorney in private practice specializing in intellectual property. I am pleased to testify today on behalf of Visa U.S.A. and The Financial Services Roundtable.

The Visa Payment System is the largest consumer payment system in the U.S. and in the world, with more volume than all other major payment cards combined. In the U.S., there are about 14,000 financial institutions in the Visa system. They issue approximately 450 million Visa cards, consisting of almost 280 million Visa credit cards and over 150 million Visa debit cards. Visa U.S.A. member institutions have signed up approximately 5.5 million U.S. merchants to accept Visa payment card products. Annual volume in the U.S. is $1.3 trillion, of which almost $1 trillion is in card sales. Last year, Visa cardholders used their cards for over 18 billion transactions in the U.S.

I am also pleased to testify on behalf of The Financial Services Roundtable's Patent and Intellectual Property Working Group, to which Visa U.S.A. belongs. The FSR represents 100 of the largest diversified financial services companies providing banking, insurance, and investment products and services to American businesses and consumers. The Working Group has closely followed and participated in the discussions in different fora in Washington concerning patent quality and patent litigation reform. FSR representatives have testified twice before the House Intellectual Property Subcommittee on patent issues.

The financial services community is intensely interested in patent quality and litigation issues, and is grateful that you are considering these matters. The subject of today's hearings is injunctions and damages, and I will focus my oral testimony on these topics. However, our views on the need for reforming the laws relating to injunctions and damages in patent litigation can be understood only against the background of the serious patent quality problem. Today, over 800,000 applications are pending in the PTO and Examiners are unable to spend enough time to provide a meaningful examination on complex applications. Regardless of which factors contribute to a lack of patent quality, businesses of all shapes and sizes, including banks, broker-dealers, insurers and finance companies are threatened by a large and growing number of frivolous claims of patent infringement. Currently pending claims of infringement are a serious problem, but they are only the tip of the iceberg because of the lag in allowance of patent applications related to business methods and financial services. After the landmark decision in State St. Bank & Trust Co. v. Signature Fin. Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998), the number of pending patent applications that involve financial services have surged generally. Because it typically takes more than three years to procure allowance of applications for business methods (e.g., Class 705), the risk of increased litigation for the financial services industry is now present.

While the Patent Act's provisions concerning injunctions and damages would need adjustment even if the Patent Office granted only valid patents, the patent quality problem makes the need for litigation reform all the more compelling. The possibility of a broad injunction and treble damages means that a financial services institution must take even the most frivolous patent infringement claim seriously. The current rules regarding injunctions and damages place all the leverage in the hands of the patent owner, even if the patent is extremely weak. If Congress does not correct the remedies under the patent law, the surge in the number of patents relating to financial services will lead to financial services institutions paying out ever-larger license fees to holders of suspect patents, to the detriment of our customers.

There are steps that Congress can and should take to provide financial firms and other businesses with additional safeguards against these frivolous claims, without impairing the important protections afforded to intellectual property under the patent law. Specifically, Congress should:

? Modify the standard for injunctive relief; and

? Clarify the damages rules with respect to willfulness and apportionment.

Congress should also address patent quality issues by adopting a robust post-grant opposition proceeding, and expand prior user rights.

Injunctive Relief

In most litigation contexts, the prevailing plaintiff bears the burden of showing that it is entitled to injunctive relief because money damages are insufficient. In patent cases, conversely, if the patent owner shows that a patent is valid and infringed, the court presumes that the patent owner is irreparably harmed by the infringement. In theory, the defendant has the opportunity to rebut this presumption, but as a practical matter, courts treat the presumption as virtually irrebuttable. The threat of a permanent injunction, even in the absence of any real irreparable harm, significantly increases the risk to a defendant of going to trial to prove invalidity or non-infringement. Accordingly, this presumption forces defendants to settle prematurely, even in cases with weak patents held by patent "trolls."

In other countries, including Canada and most European countries, injunctive relief is not available for paper patents that have not been worked. In the U.K., a party may apply for a compulsory license if the patentee fails to work the patent at any time after the expiration of three years from the date of the grant of the patent and if relevant grounds are satisfied.

Rather than adopting a complex compulsory license provision, we support amending Section 283 of the Patent Act to provide that a court should grant an injunction on a patent only if the patentee demonstrates that it is likely to suffer immediate and irreparable harm that cannot be remedied by the payment of money damages alone. Only if an inventor can demonstrate a likelihood of irreparable harm and the patentee or its licensee have worked the invention in the U.S. within a reasonable time (e.g., 1 to 3 years) after the grant of the application, should injunctive relief be available.

The House IP Subcommittee's Committee Print contained such language. Unfortunately, the bill actually introduced by Chairman Smith, H.R. 2795, does not go as far as the Committee Print. It implies that the defendant bears the burden concerning irreparable harm, rather than the plaintiff. Still, the language in H.R. 2795 is an improvement over the status quo because it directs a court to "consider the fairness of the remedy in light of all the facts and the relevant interests of the parties...." Even if courts continue to presume that the harm is irreparable, this language makes clear that the presumption is rebuttable.

Clarify the Damages Rules

The present patent law is subject to abuse by patent holders who go fishing for infringers, or worse, coerce law-abiding companies to pay large licensing fees. By simply sending a letter, at the cost of nothing more than a 37-cent stamp, a patent holder can set in motion a very costly process for the alleged infringer: hence the term "37-cent notice." The recipient of the letter has to undertake an investigation, incurring the cost of personnel time and legal counsel, both of which can be substantial. Failure to conduct the necessary due diligence could later subject the alleged infringer to treble damages. The accusing patent holder incurs no risk or cost, other than the cost of a stamp.

The patent law should be modified to provide that enhanced patent infringement damages may be awarded for any infringement only if: (a) the defendant received written notice from the plaintiff of a charge of infringement which identifies the specific patent, claims, and alleged infringing products or services at issue and which is sufficient to give the defendant an objectively reasonable apprehension of suit on the patent; (b) the infringer deliberately copied the patented subject matter with knowledge that it was patented; or (c) the patent was asserted against the infringer in a previous U.S. judicial proceeding, and the subsequent infringement is not more than colorably different from the conduct asserted to be infringing in the previous proceeding.

At the same time, the Patent Act should make clear that enhanced damages should not be available with respect to any period during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement. This informed good faith belief could be established by advice of counsel. Further, a patentee should not be able to plead willful infringement before a court has determined that the patent is valid and infringed by the defendant. We are pleased that H.R. 2795 contains provisions along these lines concerning willful infringement.

Another area of concern is the apportionment of damages when a patent covers a small component of a larger product. The Act should direct a court to award only the portion of the realizable value of a product that should be credited to the inventive contribution as distinguished from other features of product, the manufacturing process, business risk, or improvements added by the infringer. We are pleased to report that H.R. 2795 has appropriate language concerning apportionment.

Other Litigation Reforms

We urge the Senate IP Subcommittee to consider two litigation reform provisions not included in H.R. 2795. First, an interlocutory appeal to the Federal Circuit should be permitted after a Markman hearing. This would prevent unnecessary jury trials of exceedingly complex issues. Second, patent cases should be brought only in the venue where the defendant is incorporated. This would prevent forum shopping.

The Prior User Rights Defense

The prior user rights defense under 35 U.S.C. 273 is an important protection for financial institutions especially due to the recent growth in patent litigation. However, in its current form, the prior user rights defense is merely limited to "business methods." Business methods have proved difficult to define in practice and are not defined anywhere in the Patent Act. Accordingly, a patent owner of a business method patent may characterize its business method as a system or apparatus to circumvent the application of the prior user defense. For this reason, the prior user defense should be modified to apply equally to any methods, products or services covered by a patent, as proposed in H.R. 2795. Further, we suggest that any bill strike the automatic provision of attorney's fees.

Another problem with the prior use defense is the high level of proof required to successfully assert the prior user defense. Currently, the prior user defense requires "clear and convincing evidence." Although "clear and convincing evidence" is generally appropriate where patent invalidity is invoked as a defense, here under the prior use defense the patent owner's patent is not invalidated and may be enforced against third parties. The limited applicability of the defense to circumstances of the prior use and the absence of patent invalidity supports changing the language of former Section 273(b)(4) from "clear and convincing" to "preponderance of the evidence."

Finally, the prior user right should be available to any entity that controls, is controlled by, or is under common control with the prior user. This is particularly important in the financial services industry, where companies tend to establish separate subsidiaries for the provision of new services because of the applicable regulatory framework.

Opposition Proceeding

The USPTO proposed a post-grant review of patent claims in its 21st Century Strategic Plan that was released in 2002. We strongly support establishment of an opposition proceeding and appreciate its inclusion in H.R. 2795. We recommend that the opposition procedure allow the public to petition the USPTO to cancel one or more claims in a patent within 12 months of issuance (a timeframe supported by the Administration) under section 323. The counterpart U.K. opposition law provides for an opposition proceeding within two years after the date of grant, but the European Patent Convention opposition period is only 9 months. We respectfully suggest the creation of a reasonably moderate time frame of 12 months by changing the language of section 323 in H.R. 2795 from "9 months" to "12 months."

Further, we recommend allowing anyone who is threatened with a patent infringement action to file a request for an opposition proceeding within six months after receiving notice of the patent infringement action. Without the six-month window for initiation of an opposition proceeding upon a threat of patent infringement, the opposition proceeding would be seldom used. Organizations would not likely expend the resources necessary to monitor the patents of their competitors or the resources necessary to invalidate a patent in an opposition proceeding without any tangible economic return. However, an infringement action provides a sufficient economic incentive to use an opposition proceeding to avoid paying infringement damages for a questionable patent or a patent of suspect validity. Moreover, the 6-month window for launching an opposition would foster a more detailed scrutiny of patents than ordinarily occurs during the typical 25 hours or less of examination at the PTO. We are pleased the H.R. 2795 contains this second 6-month window.

H.R. 2795 currently requires the new opposition proceeding to be stayed if the owner of the patent files an infringement action during the 9-month or 6-month windows for filing an opposition. This stay provision should be removed because it encourages costly litigation and allows the patent owner to control the opposition.

Conclusion

Both Visa U.S.A. and The Financial Services Roundtable are strong believers in the U.S. patent process as fundamental to a healthy U.S. economy and robust free enterprise system, and strong believers in the process you have started. With increases in pending patent applications and claims of infringement, there is a need for Congressional debate and frank discussion with members of the financial services industry and the patent community at large. Given the importance of the patent process, the USPTO should be fully funded without fee diversion and given adequate resources to perform its duties. At the same time, it is not enough for the USPTO to turn out patents in greater quantity if those patents are not of the highest quality. I know that Director Dudas shares this view and we appreciate his dedication to patent quality issues. Moreover, because of increases in frivolous claims of patent infringement, we encourage you to continue your focus on appropriate defenses and other tools for litigation risk management, especially efforts to curb the use of injunctive relief.

We look forward to participating further as you develop and move legislation to improve the patent laws.

Biography

Jonathan Band received a B.A., magna cum laude, Phi Beta Kappa, in 1982 from Harvard College, and a J.D. from Yale Law School in 1985. From 1985 to 2005, Mr. Band worked at the Washington, D.C., office of Morrison & Foerster LLP, including thirteen years as a partner. Mr. Band established his own law firm in May 2005. Mr. Band helps shape the laws governing intellectual property and the Internet through a combination of legislative and appellate advocacy. He has represented clients with respect to the drafting of the Digital Millennium Copyright Act (DMCA); database protection legislation; the Uniform Computer Information Transactions Act; and other statutes relating to copyrights, privacy, spam, cybersecurity, and indecency. He complements this legislative advocacy by filing amicus briefs in significant cases related to these provisions.