

Patent Reform Legislation – Public Comments on Substitute HR 2795 and the Role of the Antitrust Modernization Commission

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Introduction and Summary

Reforming the patent system is important. Patents are critical to innovation, and the patent system generally works well in encouraging invention. But the system also has problems, and is in need of an overhaul. In particular, improvements can be made in two main areas: (1) streamlining the law by simplifying unnecessarily complex rules and harmonizing our laws with foreign laws to the extent possible; and (2) preventing abuses of the system by people who use patents not for their intended purpose of supporting innovation, but to hold up legitimate innovators.

These are both important problems, and patent reform that addresses those problems will be an important step in encouraging innovation in the United States. It is particularly important that Congress act to prevent abuses of the patent system by so-called “patent trolls,” who use the patent system not to develop and make products but to squeeze a disproportionate amount of money out of those who do. While there are no reliable statistics on the extent of the holdup problem, there is no question that it is a widespread and extremely serious problem in the semiconductor, computer, and telecommunications industries. Large, innovative companies such as Intel and Cisco never have a week go by without threats of suit from a non-manufacturing patent owner claiming rights in technology that the defendants did not copy from the patent owner – usually they’ve never even heard of the patent owner – but instead developed independently. While there is a legitimate role for small and individual inventors who patent their technologies and license their ideas to others, increasingly the patent owners are not contributing ideas at all, but popping up years or even decades later and trying to fit an old patent to a different purpose. Trolls do this because the law permits it, and because it gives them a chance to make a lot of money – under current law, far more money than their technology is worth.

Patent reform needs to deal with these abuses of the system without interfering with the normal, legitimate use of the system to protect and encourage innovation. Doing so requires careful balancing of the interests of patent owners, technology companies, and the public.

One fact that complicates patent reform efforts is that the patent system works very differently in different industries. See Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, **Va. L. Rev.** (2003). While innovators in the semiconductor, computer, Internet and telecommunication industries identify abusive patent litigation as the major problem they face, there is no similar problem in the medical device, biotechnology and pharmaceutical industries. Those industries have very different characteristics – pharmaceutical patents are more likely to

cover a whole drug, rather than one of 5,000 different components of a semiconductor chip. So patent owners in the pharmaceutical industries don't have to worry about an endless stream of patent owners asserting rights in their drugs. Further, innovators in the biotechnology and pharmaceutical industries consider patent protection far more important to their R&D efforts than do the information technology industries. The challenge is to craft a unitary patent law that can accommodate the very different needs of each of these important industries.

Two significant policy reports recommended substantial changes to the patent system to deal with these problems. With one exception, discussed in detail below, I endorse the findings and recommendations of both reports. The Antitrust Modernization Commission could help this process by adding the weight of its recommendations to the groundswell of support in favor of patent system reform.

Patent legislation pending at this writing would implement some but not all of the proposed changes in these reports. That bill, substitute HR 2795, deals well with the problem of simplification and harmonization, updating outdated territorial limitations, eliminating doctrines that add unnecessary complexity to patent litigation, and bringing U.S. law into closer harmony with the patent systems of the rest of the world. However, and unlike the FTC report, the substitute bill contains only very modest changes designed to deal with the problem of patent holdup, and those changes are unlikely to solve the holdup problem. In this testimony, I detail my views on the specific patent reform issues under discussion.

Before I do so, however, it is worth discussing the relationship between patent reform and the work of the Antitrust Modernization Commission. Patent law is of course of great relevance for antitrust law. The tension that exists between the two in both ends and means requires antitrust law to tread carefully when dealing with patents, and vice versa. *See generally Herbert Hovenkamp et al., IP and Antitrust* (Aspen Law & Business 2006 ed.). Many of the proposed patent reforms will have little or no impact on the patent-antitrust interface. For that reason, it may be that the greatest contribution the Commission can make in this area lies not in its position on patent reform but in thinking about patent issues that the current reforms will not deal with. Some necessarily brief suggestions along those lines follow. I raise them more to begin discussions than to offer concrete proposals.

Innovation and Technology Markets. For the reasons I explain below, any likely patent reform legislation is unlikely to solve the problem of patent holdup. Antitrust may have a role to play in dealing with holdup. But if it is to do so, antitrust doctrine must move beyond a focus on existing product markets and pay more attention to innovation and technology markets. The Antitrust Division began to do so with the publication of its Intellectual Property Guidelines in 1995, but so far technology market analysis has largely been confined to the merger context. Thinking about the role of patent acquisition and licensing in technology markets could allow the courts and agencies to bring antitrust scrutiny to bear on patent holdup in appropriate circumstances.

Abuse of Hatch-Waxman Regulatory Provisions. Pharmaceutical companies regularly engage in anticompetitive conduct designed to take advantage of loopholes in the Hatch-Waxman regulatory scheme to extend their patent rights beyond their lawful term. During the

late 1990s, many of those abuses involved anticompetitive settlements in which the patentee paid substantial sums to an accused infringer to settle litigation involving a questionable patent and stay out of the market. See Herbert Hovenkamp et al., *Anticompetitive Settlement of Intellectual Property Disputes*, 87 **Minn. L. Rev.** 1719 (2003). While the law regarding such settlements is not entirely consistent, those settlements have largely disappeared as a result of both FTC enforcement efforts and changes to Hatch-Waxman in 2004 that made such settlements less lucrative. Nonetheless, other problems persist, including “product-hopping” (in which patentees switch formulations as soon as generic drugs are approved, forcing generic manufacturers to restart the regulatory process) and “tame generics” who threaten entry to compete away a generic manufacturer’s limited period of market exclusivity. Antitrust needs guidelines for dealing with these and other issues in the pharmaceutical industry.

Patent Licenses in the Context of Standard-Setting Organizations. Standard-setting organizations (SSOs) serve important procompetitive functions in the modern economy, especially in the information technology industries. Those industries are the ones most threatened by patent holdup. SSOs respond to the problem of patent holdup by imposing rules on their members that compel disclosure and licensing of intellectual property rights that cover an industry standard on reasonable and nondiscriminatory terms. But SSOs feel constrained by antitrust liability from actually determining in advance what a patentee is willing to charge for rights covering a standard. They need clear guidance or legislative change permitting ex ante discussion of royalty rates, of the kind now allowed in Europe by ¶225 of the EU licensing guidelines.

Patent Reform Legislation

A. Inequitable Conduct

Summary: Eliminating inequitable conduct from litigation is a major change that should not be entered into lightly because it will encourage deceit by unscrupulous patent applicants. This section should be included in patent reform legislation only if counterbalanced by significant limitations on abuse of the patent system.

The substitute version of HR 2795 makes significant strides in solving the first problem with the patent system – the need for simplification and harmonization. Unfortunately, compared to the original draft of the bill, the substitute version is unlikely to be very effective in solving the holdup problem. Gone from the substitute version are any limits on injunctive relief, any limits on abuse of continuation practice, and as a practical matter any ability to use the post-grant opposition system to fight trolls, who tend to wait around until the patent becomes valuable before suing and therefore won't be affected by the narrow 9-month opposition proceeding. The only things the bill still does to fight holdup are to require apportionment of damages and to make it much harder to claim willfulness. And even the damages provision remains controversial, with the coalition draft seeking to water it down further.

This doesn't mean that the revised reform bill isn't a good idea. Making it harder to claim willfulness and making it clear that courts must apportion damages are valuable changes to the law. Taken alone they won't solve the holdup problem, but they will reduce the extent of the problem. There are also a number of other benefits to the bill that have nothing to do with abuses of the patent system. Adopting first inventor to file, prior user rights, and 18-month publication, and eliminating the estoppel effect of inter partes reexamination, will all improve the patent system.

Unfortunately, one provision of the bill poses the risk of increasing rather than solving abuse of the patent system. That is the section dealing with inequitable conduct. The doctrine of inequitable conduct discourages deception by patent applicants during the *ex parte* patent examination process. It is very important to discourage that deception, because the patent examiner can't independently verify what the applicant tells him. At the same time, the doctrine of inequitable conduct is often abused by litigation defendants, who assert bogus claims of inequitable conduct.

H.R. 2795 as currently drafted essentially abolishes the litigation defense of inequitable conduct, replacing it with an administrative system within the patent office. Courts could not consider inequitable conduct unless and until a patent claim had already been invalidated. Even in the patent office, the provision makes it harder to prove inequitable conduct by requiring that a deception of the patent office actually have led to a patent that would not otherwise issue. This tightening of the standard may be appropriate as a means of preventing abuse of the defense in litigation. But as the statute is currently drafted, it raises the prospect that an unscrupulous patent owner could get away with filing fraudulent patent applications in certain circumstances. This is a particular risk because the substitute bill no longer contains effective provisions deterring patent trolls, who have particular incentives to mislead the PTO.

Limiting abuse of the patent system is an important element of the reform package. Eliminating inequitable conduct could actually make the problem worse, not better. So to balance the elimination of various pro-defendant measures, Congress should eliminate this pro-plaintiff measure as well.

B. First Inventor to File

Summary: This is an important change, and this section of H.R. 2975 needs no revision. However, the section works only if the bill continues to include the provisions of section 9 requiring publication of all patent applications and expansion of prior user rights. If those provisions are not included, the move to first inventor to file becomes more problematic.

The move to a first-inventor-to-file system is an important step for several reasons. First, it simplifies the complex of rules for deciding whether a patent applicant is the first inventor. One way a focus on the filing date simplifies things is to eliminate the need to determine when an invention occurred in the vast majority of cases, an inquiry that has proven difficult. But the changes to section 102 also get rid of three other confusing rules that add uncertainty to the patent system: the “secret prior art” rules governing commercial but nonpublic use, and that differ depending on whether the user is the patentee or not; the “experimental use” exemption based on a totality of the circumstances analysis; and the perplexing definition of when an invention is on sale. All these rules have created inconsistent judicial guidance and made it hard to know when an inventor was entitled to a patent.

Second, first inventor to file recognizes the international nature of today’s markets. The current statute defines prior art differently depending on whether a sale or a conference occurs in the U.S., Canada or Europe. Eliminating this distinction makes sense in the modern world. Because the rest of the world already uses filing rather than invention date to measure priority, first inventor to file will take an important step towards global harmonization, permitting U.S. inventors to more easily seek patent protection not just in the U.S. but in other countries as well.

In the past, small inventors have expressed concern that a first to file system will disadvantage them because large companies have the resources to file patents more quickly. More recent evidence demonstrates that that is not true. It is large inventors, not small inventors, who most benefit from the complex and expensive interference system that determines who was first to invent. And large inventors challenge the patents of small inventors in an interference proceeding more often than the reverse. Eliminating interferences will help, not hurt, small inventors.

Further, H.R. 2795 contains an important deviation from a pure first-to-file system: it gives inventors who sell, use or publish their invention a year to get a patent application on file. This is a reasonable grace period. A small inventor concerned about losing a race to the patent office can publish the invention on a Web site. Doing so will prevent anyone else from getting a patent, while giving the inventor a year to find a patent attorney and file a patent application. Given the existence of simple provisional applications, that is a reasonable accommodation.

C. Elimination of Subjective Elements of Patent Law (Other Than Inequitable Conduct)

Summary: H.R. 2795 needs no revision.

The National Academy of Sciences recommended the elimination of unnecessary mental states in patent law. This would simplify patent litigation, reducing its uncertainty and hopefully its cost.

The most important change in this section is the elimination of the best mode requirement. That requirement invalidates patents when the inventor has not disclosed her preferred way of implementing the invention, even if she has given enough information to enable scientists in the field to make and use the invention. The best mode requirement does serve a purpose – it prevents inventors from obtaining the benefits of a patent without giving the public the full benefit of disclosure. But on balance, the benefits of the doctrine aren't worth the costs. Because the best mode doctrine is based on the beliefs and intent of the actual inventor, the doctrine serves as a "gotcha" that can invalidate novel and nonobvious patents regardless of the good faith of the company that owns them. Indeed, the doctrine has been responsible for more than 10% of all the patents invalidated in court during the 1990s. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185 (1998). The enablement and written description requirements, properly applied, can require sufficient disclosure to benefit the public.

D. Damages

Summary: The change to the entire market value rule in reasonable royalty damages and the limitation of willfulness claims are both extremely important. The reasonable royalty portion of H.R. 2795 does not need any modification. The willfulness provision of that bill improves the current law in certain respects, but could be made better still.

The reasonable royalty provisions in the existing law create significant problems in those industries in which patented inventions relate not to an entire product, but to a small component of a larger product. Because courts have interpreted the reasonable royalty provision to require the award of royalties based on the "entire market value," juries tend to award royalty rates that don't take into account all of the other, unpatented components of the defendant's product. This in turn encourages patent trolls, who can obtain damages or settlements that far exceed the actual contribution of the patent. There are numerous cases of just this problem occurring. I am currently conducting an empirical study to determine the extent of the problem, but there is no doubt that it exists. The bill solves this problem by requiring the courts to consider the contribution of other elements of the invention.

The doctrine of willfulness is a mess. Over 90% of all patent plaintiffs assert willful infringement, even though most of the defendants in those cases developed their products independently and had never heard of the plaintiff or its patent. They are not "willful" in any ordinary meaning of the term. Rather, the way the courts have interpreted patent law has created a bizarre game. By sending a carefully crafted letter, patent owners can cause companies to have

to obtain written opinion letters and waive the attorney-client privilege, and if they don't can declare them willful infringers for continuing to sell products they designed in good faith. It is important to clean up the willfulness doctrine. [While some have proposed eliminating it altogether, I think that goes too far. Enhanced damages for willfulness serve as an important deterrent in those cases where the defendant really does steal the technology from the patent owner.]

H.R. 2795 makes two important changes that reduce the abuse of willfulness. First, it requires a letter that puts the defendant on notice of a patent to be sufficiently specific that a defendant can file a declaratory judgment action asserting its innocence. This should reduce the casual, off-hand sending of such letters. Second, by requiring the pleading and litigation of willfulness only after a defendant has been found to infringe, H.R. 2795 eliminates many of the harms associated with the court's reliance on advice of counsel, because the defendant will not have to decide whether to waive the privilege until after the primary trial has ended. Further, by requiring bifurcation of willfulness, the bill simplifies the patent litigation process by separating out discovery as to willfulness and eliminating the need for that discovery in the cases where the patent is ultimately held invalid or not infringed.

However, H.R. 2795 as currently written leaves intact the opinion letter "game" for many patent lawsuits. Because a defendant's only defense to willfulness under the statute is the existence of "an informed good faith belief" in invalidity or noninfringement, defendants are as a practical matter extremely likely to decide they have to obtain an opinion, rely on the advice of counsel, and therefore waive the attorney-client privilege. This waiver distorts legal advice in difficult ways, making settlement more difficult. *See* Mark A. Lemley & Ragesh K. Tangri, *Ending Patent Law's Willfulness Game*, **Berkeley Tech. L.J.** (2003).

This problem could largely be solved if defendants could rely on strong (though ultimately unsuccessful) arguments to avoid a finding of willfulness. To do this, section 284(b)(3) of H.R. 2795 should be modified by adding after "under paragraph (2)" the following: "if the infringer offered an objectively reasonable defense in court or". This would make either an objectively reasonable argument or a subjectively good faith belief grounds for avoiding willfulness. It makes little sense to conclude that defendants are acting willfully if the case was a close one. Adding an objective reasonableness defense would permit defendants who think they have a strong argument to rely on that argument, rather than having to waive privilege.

E. Injunctive Relief

Summary: Injunctive relief is an important part of the patent right, but it is subject to abuse by patent trolls. It is important to preserve the right of injunctive relief in the case of legitimate patent claims, while preventing those who abuse the system from using the threat of injunctive relief to extort money from legitimate innovators. H.R. 2795 no longer deals with this issue. Limiting injunctions based on patents that cover only a small part of a product would be a significant improvement, and need not raise any of the concerns that have been expressed about compulsory licensing.

The goal of any revision to the injunctive relief sections of the patent law should be to ensure that people who actually need injunctive relief to protect their markets or ensure a return on their investment can get it, but that people can't use the threat of an injunction against a complex product based on one infringing piece to hold up the defendant and extract a greater share of the value of that product than their patent warrants.

Some have suggested that any restriction on the right to injunctive relief amounts to compelling patent owners to license their competitors. That's not true. The presumptive right to injunctive relief is an important part of the patent law, and in most cases there will be no question as to the patentee's entitlement to such relief. To begin, an injunction is warranted if the patentee practices the patent. Even if they don't, if the patentee sells a competing product in the marketplace, they should be entitled to an injunction to prevent their own invention (in the hands of an infringer) from competing with themselves. Similarly, if they assign or exclusively license the patent to someone who competes in the marketplace, they should also be entitled to injunctive relief. And even if the patentee hasn't done these things in the past, if they begin to do so in the future they should have a right to injunctive relief. Patentees also ought to be entitled to an injunction in cases of willful infringement, even if they are not participating in the market and have no plans to do so. Infringers shouldn't be able to intentionally take the patented technology knowing they will only have to pay a royalty. Even if none of these things are true, some injunctions won't lead to a risk of holdup, and so even patentees who don't meet any of the criteria listed above should be entitled to an injunction in ordinary circumstances.

That said, an absolute entitlement to injunctive relief can and does permit patent trolls to "hold up" defendants by threatening to enjoin products that are predominantly noninfringing. In numerous cases, the parties settle for an amount of money that significantly exceeds what the plaintiff could have made in damages and ongoing royalties had they won. In these cases it is not the value of the patent, but the costs to the defendant of switching technologies midstream, that are driving the high price being paid. For example, on patent owner charges a 0.75% royalty for patents that don't cover industry standards, and 3.75% for patents that do cover industry standards. The technology isn't any better, but they can demand five times as much money once the industry has made irreversible investments. This is of particular concern when the patent itself covers only a small piece of the product. An Intel microprocessor may include 5,000 different inventions, some made at Intel and some licensed from outside. If Intel unknowingly infringes a patent on one of those inventions, the patent owner can threaten to stop the sale of the entire microprocessor until Intel can retool its entire fab to avoid infringement. Small wonder, then, that patentees regularly settle with companies in the information technology industries for far more money than their inventions are actually worth. The companies are paying holdup money to avoid the threat of infringement. That's not a legitimate part of the value of a patent; it is a windfall to the patent owner that comes at the expense not of unscrupulous copyists but of legitimate companies doing their own R&D.

The question is how to accommodate these competing concerns. The real problem isn't with the statute, which already provides that courts should only issue injunctions "consistent with principles of equity" and "on such terms as they deem reasonable." 35 U.S.C. § 283. Permitting courts to consider equitable principles in deciding whether to grant injunctions was what

Congress intended in writing the 1952 Patent Act; it's just that the Federal Circuit has strayed from the statutory language.

I think it preferable to try to tackle the holdup problem more directly as part of patent reform while protecting the general right to injunctive relief. Thus, I would specify a limited set of cases in which courts could – not must, but could – deny injunctive relief. A logical way to proceed would be to take the language H.R. 2795 introduces to deal with a similar problem in the context of damages, modifying it slightly to further insure that the normal right to injunctive relief is protected both in cases where the patentee is in the market and where the infringer acts willfully.

Thus, I propose that section 283 should be modified by adding the following language: “In determining the right to injunctive relief of a patent owner who does not participate in the market for a patented invention against an infringer who did not act copy the invention from the patentee or otherwise act willfully, the court shall consider, where relevant and among other factors, the portion of the defendant’s product that constitutes the inventive contribution as distinguished from other features of the product or improvements added by the infringer.”

F. Continuation Applications

Summary: Abuse of continuation practice remains a significant problem in the patent system. H.R. 2795 as currently written does not address that problem.

While there are some legitimate reasons to use patent continuation practice, there are also a number of problematic reasons to do so. I have detailed those problems elsewhere; see Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 **B.U. L. Rev.** 63 (2004).

H.R. 2795 as currently drafted does nothing to stop this abuse. Because this is such an important issue, I would prefer to see Congress act to limit abuse of patent continuations, either by restricting the total number of continuations that can be filed, or by preventing patentees from broadening their patent claims during a continuation application.

At a bare minimum, however, even if Congress does not act more directly to forbid abuse of continuations, Congress should give the PTO the power to deal with abuse of the continuation process. It should also draft the statutory provision in such a way that the PTO actually limits the abuse of continuation applications, rather than merely permitting such use so long as the applicant pays a fee.

G. Publication, Prior User Rights, and Post-Grant Opposition

Summary: Requiring publication of all patent applications, expanding prior user rights, and creating a post-grant opposition system are all important changes that will improve the patent system. The post-grant opposition proceeding in H.R. 2795, however, will prove ineffective because of the limited period during which it is available.

Section 9 of H.R. 2795 contains three important reforms that are critical to making a first-inventor-to-file system work. If the first inventor to file system is to work, it is absolutely essential that the patent system require prompt publication of *all* U.S. patent applications. The definition of who is first to file in section 102(a)(2) of H.R. 2795 treats as filings only issued patents and patents published under section 122(b). Because section 122(b) currently permits some patent applications to avoid publication, it would eliminate those applications both as prior art and for priority purposes. A small inventor who filed such an application would not have their filing date count for priority purposes if it were unpublished. Section 9 of H.R. 2795 solves this problem.

Second, the move to first inventor to file makes it important that the bill be amended to provide prior user rights for those who engage in non-public use before the patentee files his application. The bill eliminates the existing categories of non-public prior art. Doing so risks permitting more, not fewer, patents to issue to people who were not truly the first inventor. Granting prior user rights to those who were already using the invention is a reasonable counterweight, because it gives the owners of such secret prior art at least the right to continue using technology they invented. The modifications to section 273 solve this problem by expanding a limited right that has been in the law for six years without creating any problems.

Finally, post-grant oppositions are a valuable addition to the patent system with the potential to help identify and weed out bad patents without the cost and uncertainty of litigation.

Unfortunately, H.R. 2795 adds new section 323, which permits a post-grant opposition to be filed only within 9 months after a patent issues, and even then permits the patentee to terminate the opposition by suing in court. An earlier version also permitted oppositions to be filed within 6 months after the opposer is notified of infringement if that first occurred after the 9-month window. The addition of the second, 6-month window has been controversial, but it is critical to the success of the post-grant opposition procedure. Because of the long timelines associated with many patents, and the fact that patent trolls often wait for years after patents issue before asserting them, limiting opposers to a 9-month window after the patent issued would render post-grant opposition ineffective for the majority of patents. An example is pharmaceutical patents. Because of the long FDA approval process, potential generic manufacturers will likely have no idea at the time a patent issues whether the drug it covers will survive clinical trials and be approved for sale. By the time they know which patents are actually important it would be too late to oppose them. This problem may extend to other industries as well. Submarine patentees and other trolls often sit on patent rights for many years before asserting them against manufacturers. In order to take advantage of the bill's opposition procedure, those manufacturers would have to guess which of the millions of patents in force might become important a decade from now. Since only 1% of patents are ever litigated, forcing them to make such a guess would make the system worthless to most of the people who would use it.

H. Venue

Forum shopping has become a significant problem in the patent system. While the Court of Appeals for the Federal Circuit was created to bring uniformity to patent litigation, forum shopping at the district court undermines at a case-specific level the uniformity that the court has added to the law in general. In particular, because under current law patentees can sue anywhere a defendant's products have been sold, patent owners have been flocking to particular districts perceived to be favorable to them, such as the Eastern District of Texas. H.R. 2795 would restrict the ability to engage in forum shopping by limiting patent venue to places where the patentee has its principal place of business or where the defendant is incorporated or has its principal place of business. This restriction makes sense.

I. Coalition Draft

Various organizations have put together a "coalition draft" that makes certain amendments to substitute HR 2795. With two exceptions, I believe the coalition draft makes useful corrections that improve the bill. The coalition draft language is particularly important in section 102. The substitute version of HR 2795 reintroduces the concept of invention date into the determination of prior art, making the bill no longer a first-inventor-to-file bill. The coalition draft restores the original intent of the bill, which was to simplify and harmonize the determination of when an invention was new.

There are, however, two changes in the coalition draft that I think could profitably be modified. They are apportionment of damages, where I think the language of substitute HR 2795 is preferable to that in the coalition draft, and section 271(f), which I think it would be wise to amend rather than to eliminate altogether.

Apportionment of damages. There seems to be consensus that reasonable royalty damages should be limited to the share of a product's value that comes from the invention, and that patentees should not be able to capture value they did not in fact contribute. The only question is how to get there. Substitute HR 2795 does so in a straightforward way, by requiring courts to determine the value of the "inventive component" of the product. The coalition print would make a seemingly small change, from "inventive component" to "component of the claimed invention." Unfortunately, this change could have the unfortunate consequence of allowing patentees to manipulate their damages by changing the way they claim their invention. For example, the inventor of the intermittent windshield wiper could claim the wiper alone, or alternatively could choose to claim a car including an intermittent windshield wiper. The invention is the same, and the patentee shouldn't be able to capture more money by phrasing the claim in the second way than the first. But the coalition draft may produce just such an effect, since the "claimed invention" is literally the whole car and not just the windshield wiper.

Section 271(f). The coalition draft proposes eliminating section 271(f) of the patent statute altogether. Section 271(f) is designed to prevent unscrupulous infringers from avoiding U.S. patents by making parts in the United States and then shipping them abroad to be assembled into the patented device. The Supreme Court held that doing so did not infringe a U.S. patent, because the device was made abroad. Section 271(f) closed this loophole by punishing one who "supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part,

in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States.” This is a good policy.

Unfortunately, in two cases within the last year (*Eolas v. Microsoft* and *AT&T v. Microsoft*), the Federal Circuit interpreted this section to cover not just the supply of physical components that are combined abroad into a device, but the supply of a computer software master program that is then copied abroad. The effect of this ruling was to create a special rule, applicable only to software, that defendants who designed their software in the U.S. had to pay damages on all worldwide sales of that software. By contrast, anyone who designs software outside the United States, or anyone who ships a master of a non-software product abroad, would only have to pay damages for sales within the United States. The coalition draft is designed to remedy this obvious inequity.

But the cure proposed in the coalition draft goes too far. The problem is not with section 271(f) itself, but with the court decisions misreading that section in the context of software. A more measured cure would accordingly be limited to reversing those decisions, and would leave the rest of section 271(f) intact. I therefore propose adding a new section 271(f)(3), which reads as follows: “The supply of a design or product template from the United States for purposes of production abroad of a patented invention shall not be a violation of this section.” Drafting the language in this general fashion would comply with our obligations not to discriminate in technology in GATT TRIPs. The legislative history should make it clear that the intent was to reverse *Eolas v. Microsoft* and *AT&T v. Microsoft*, and to restore section 271(f) to its traditional role in policing combinations of physical components abroad.