



Antoinette M. Tease, P.L.L.C.

**TESTIMONY OF ANTOINETTE M. TEASE  
U.S. SENATE COMMITTEE ON FINANCE  
Hearing on Customs Reauthorization: U.S. Security and  
Economic Interests Through Trade Enforcement  
March 13, 2008**

**I. INTRODUCTION**

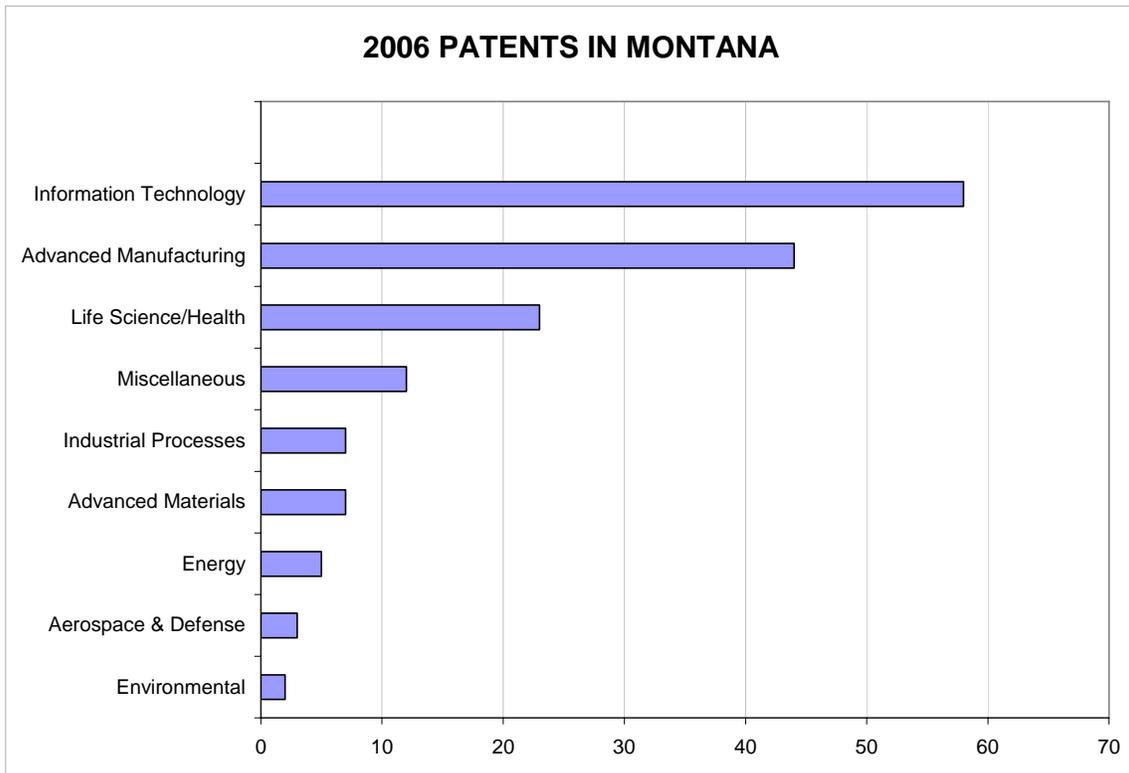
Thank you, Chairman Baucus, Ranking Member Grassley, and members of the Committee, for the opportunity to testify on the topic of intellectual property rights (IPR) enforcement. I am a patent, trademark and copyright attorney and a solo practitioner in Billings, Montana. I represent individuals, start-up companies, small businesses, universities and investors. Almost all of my clients meet the definition of a small business concern under the Small Business Act or are independent inventors or nonprofit organizations. My clients are located primarily in Montana and Wyoming, but I also represent clients in several other states and foreign countries.

From my office in Billings, Montana, I practice international patent, trademark and copyright law. My clients have protected their inventions and trademarks all over the world. In deciding whether to seek patent or trademark protection in a foreign country, the issue of whether and to what extent that country enforces intellectual property rights is a major factor. My clients also face enforcement issues. I have been involved in patent and trademark enforcement actions on behalf of Montana clients in Canada, Australia, New Zealand, Germany, Italy, Norway, Sweden, Korea, Japan and China. Thus, the protection of IP rights across borders is an important issue to Montanans.

Montana's unique character as a frontier state is reflected in its entrepreneurial spirit. Montana was ranked #1 on the Kauffman Index of Entrepreneurial Activity by

State (2006) with 600 entrepreneurs per 100,000 people. Bozeman has a thriving high-tech and software community, and inventors come to me from all parts of the state—from the Hutterite colonies in the north to the oil rigs in the east. The inventions I see range from hunting and fishing gear to agricultural equipment to software and biotech. Manufacturing still plays a role in Montana’s economy; I am proud to say that I represent the only fishing wader manufacturer in the United States and the only pet toy manufacturer in the United States (both located in Bozeman, Montana). All other manufacturers in those two industries have moved their manufacturing operations overseas.

Intellectual property protection is an important part of Montana companies’ ability to compete in the global economy. Between 10 and 20 patents issue to Montana inventors every month. In 2006, 162 patents issued to Montana inventors.<sup>1</sup> Approximately 36% of those patents were in the information technology field, 27% in manufacturing, and 14% in life sciences/health.



<sup>1</sup> As of the date of this testimony, the 2007 statistics are not yet available.

Technology transfer from the universities to Montana-based businesses supports the entrepreneurial climate that Montana has fostered and continues to foster. Data through 2005 indicates that out of 197 patents issued to the Montana University system, 55% of those patents were licensed to Montana companies. It is anticipated that licenses of Montana University system patents will generate over \$4MM for the period 2006-2010.

| <b>Technology Transfer Activities,<br/>Montana University System</b> |                            |                           |
|--|----------------------------|---------------------------|
|  | <b>Total<br/>2000-2005</b> | <b>Goal<br/>2006-2010</b> |
| <b>Patents Issued</b>  | <b>197</b>                 | <b>240</b>                |
| <b>Total Active Licenses</b>   | <b>150</b>                 | <b>180</b>                |
| <b>Active Licenses, MT Companies</b>                                 | <b>83</b>                  | <b>110</b>                |
| <b>Percent of Licenses with MT Companies</b>                         | <b>55%</b>                 | <b>59%</b>                |
| <b>License/Patent Revenues</b>                                       | <b>\$527,484</b>           | <b>\$1,900,000</b>        |
| <b>Reimbursed Patent Costs from Licenses</b>                         | <b>\$731,595</b>           | <b>\$2,000,000</b>        |
| <b>Source: Montana University System Institutional Reports</b>       |                            |                           |

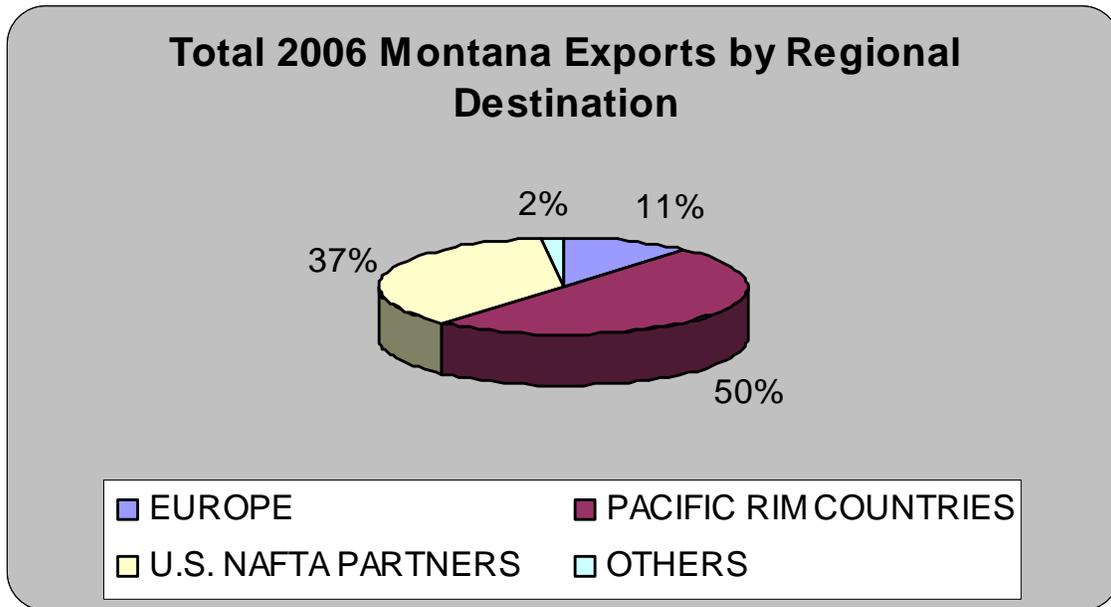
In addition to investing in intellectual property protection, Montana businesses are heavily engaged in exporting their products to other parts of the world. As of 2005, export-supported jobs linked to manufacturing accounted for an estimated 1.3 percent of Montana's total private-sector employment, and over one-twelfth (8.8 percent) of all manufacturing workers in Montana depended on exports for their jobs.<sup>2</sup> A total of 600 companies exported goods from Montana locations in 2005. Of those companies, 515 (86 percent) were small and medium-sized enterprises (SMEs) with fewer than 500 employees.<sup>3</sup>

In 2006, Montana's export shipments of merchandise totaled \$887 million, and Montana's exports increased by 130 percent over 2002 levels—the third largest percentage increase among the 50 states. Montana exported to 109 foreign destinations

<sup>2</sup> Source: State Export-Related Employment Project, International Trade Administration and Bureau of the Census. Information compiled by and reproduced with the permission of the Office of Trade and Industry Information, International Trade Administration, U.S. Department of Commerce.

<sup>3</sup> Source: International Trade Administration and Bureau of the Census, Foreign Trade Division: Exporter Database. Information compiled by and reproduced with the permission of the Office of Trade and Industry Information, International Trade Administration, U.S. Department of Commerce.

in 2006. The state’s largest market in 2006 was Canada, which received goods exports of \$434 million (49% of Montana's total exports that year), followed by Japan (\$85 million) and Germany (\$55 million). Other top markets included Mexico and Taiwan. The chart below illustrates the break-down of 2006 Montana exports by region.<sup>4</sup>



Montana's leading manufactured export category in 2006 was chemical manufactures, which alone accounted for \$210 million, or 24 percent, of Montana's total export shipments. Other top manufactured exports included machinery manufactures (\$190 million), primary metal manufactures (\$65 million), and transportation equipment (\$63 million).<sup>5</sup>

In light of the importance of both global trade and the protection of intellectual property rights to Montana companies, I would like to focus the remainder of my testimony on four areas in which I believe intellectual property rights enforcement can be strengthened. These four areas are: the recordation of trademark and copyright rights with U.S. Customs and Border Protection (“CBP”) and the reporting of violative imports; the coordination of U.S. intellectual property rights enforcement efforts; the enactment of meaningful patent law reform; and collaboration with foreign governments with respect to intellectual property law reform and enforcement.

<sup>4</sup> Chart prepared by the Montana Department of Commerce and reproduced with permission.

<sup>5</sup>Source: Original of Movement State Export Series, Bureau of the Census, Foreign Trade Division. Information compiled by and reproduced with the permission of the Office of Trade and Industry Information, International Trade Administration, U.S. Department of Commerce.

## **II. FACILITATE THE RECORDATION OF TRADEMARK AND COPYRIGHT RIGHTS WITH U.S. CUSTOMS AND THE REPORTING OF VIOLATIVE IMPORTS**

### *A. Integrate the CBP Recordation Process With the Trademark and Copyright Registration Process.*

Owners of trademarks and copyrights may record their marks with CBP, thereby facilitating the ability of CBP to prevent and detect illegal imports. First, I would like to applaud CBP for implementing an electronic recordation system. This has greatly simplified the application process and made it more user-friendly. However, the CBP recordation process could be streamlined even further by integrating it with the registration process at the U.S. Patent and Trademark Office (“USPTO”) and the U.S. Copyright Office. For example, during the process of applying for a trademark or copyright registration, the applicant should have the option of electing to record the mark with CBP for an extra fee.<sup>6</sup> If and when the trademark or copyright registration issues, this information should be transmitted to CBP and the trademark or copyrighted work automatically recorded with CBP.<sup>7</sup>

Many of my clients would choose to record their marks and/or copyrighted works with CBP if it did not entail a separate recordation process (it is not so much the fee as the fact that a separate recordation process is entailed that deters many of my clients from registering their marks or works with CBP). As a practical matter, although CBP is technically authorized to enforce non-recorded trademark and copyright rights, their enforcement efforts are focused on those rights that have been recorded with the CBP.<sup>8</sup>

### *B. Integrate the Renewal Periods for CBP Recordations with Trademark Registration Renewal Periods.*

Under current CBP regulations, a CBP trademark recordation “shall remain in force concurrently with the 20-year current registration period<sup>9</sup> or last renewal thereof in the [USPTO].”<sup>10</sup> A CBP copyright recordation “shall remain in effect for 20 years unless

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<sup>6</sup> Currently, the U.S. Patent and Trademark Office sends out a one-page flyer with all Certificates of Registration informing the registrant of the availability of recordation with CBP, but there is no automated process tying registration of a trademark with the USPTO to recordation of the mark with CBP.

<sup>7</sup> This same recommendation has been made by the U.S. Chamber of Commerce in their Draft Finance/Ways & Means Legislation (dated Oct. 22, 2007), Section 205(b).

<sup>8</sup> See, e.g., “Trademark and Tradename Protection,” Customs Directive No. 2310-008A (April 7, 2000), Section 4.1 (“Unrecorded trademarks which have been registered with the USPTO on the Principal Register, while not a priority, may be enforced, if and when possible, and in such a manner as in the sound administration of the Customs laws shall not be compromised.”).

<sup>9</sup> The reference to the “20-year current registration period” is based on old law. Registrations granted prior to November 16, 1989 had a 20-year term, and renewals granted prior to November 16, 1989 also had a 20-year term. Registrations and renewals granted on or after November 16, 1989 have a 10-year term.

<sup>10</sup> 19 C.F.R. 133.4(b).

the copyright ownership of the recordant expires before that time.” At the USPTO, trademark registrations must be renewed between the ninth and tenth years after registration, and every ten years thereafter. Copyright registrations with the U.S. Copyright Office need not be renewed.<sup>11</sup>

If CBP recordation is integrated with the USPTO registration process for trademarks, then CBP trademark recordations should be automatically renewed—upon payment of a CBP renewal fee—at the same time that the trademark registration is renewed with the USPTO. Because copyright renewals are no longer required for most works, requiring CBP recordations to be renewed every 20 years is reasonable. In the absence of a CBP-enforced renewal period for copyrighted works, copyright recordations would remain in the CBP records indefinitely, and CBP would not know when those copyright terms expire (because the expiration date depends upon when the author dies or, for works made for hire, when those works are created or published). As a practical matter, the copyright holder may not know, at the time of recordation with CBP, the date on which the copyright will expire (either because the author is still living or because the work made for hire has not yet been published); therefore, this information may not be available at the time of CBP recordation.

C. *Allow CBP Recordation Applicants to Opt Out of Providing Confidential or Trade Secret Information.*

The current application form for CBP recordation of a trademark requires the applicant to disclose (i) the names of all parties authorized to apply the trademark and the nature of the relationship to the owner (*e.g.*, licensee, subsidiary, manufacturer, etc.), (ii) the names of any persons or business entities, foreign or domestic, who use the trademark and a description as to those uses(s). Similarly, the application form for CBP recordation of a copyright requires the applicant to disclose the names of all parties authorized to use or reproduce the copyrighted work and the nature of the relationship to the owner (*e.g.*, licensee, subsidiary, manufacturer, etc.).

For many clients, the type of information required on the CBP trademark and copyright application forms may be considered proprietary and confidential and/or a trade secret. Even if CBP purports to keep this information confidential,<sup>12</sup> some clients will still be deterred from recording their marks and/or copyrighted works with CBP because they are uncomfortable disclosing this information to a governmental entity.

CBP should allow recordation applicants to opt out of providing information that they consider confidential and proprietary and/or a trade secret. Without this

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<sup>11</sup> Works created on or after January 1, 1978, are not subject to renewal registration.

<sup>12</sup> There is nothing in the applicable regulations that addresses the confidentiality of information provided to CBP in connection with the recordation process. *See* 19 CFR 133.1 *et seq.*(trademarks) and 19 CFR 133.31 *et seq.* (copyrights).

information, CBP may not be able to determine whether a shipment contains violative imports; therefore, in exchange for exercising the right not to provide information on authorized dealers, distributors, etc., the recordant should be required to call to the attention of CBP any shipments containing violative imports of which the recordant is aware (with particulars provided by the recordant in writing) so that CBP can intervene.<sup>13</sup>

*D. Provide an Automated Process for Reporting Violative Imports.*

According to CBP, the Customs IPR enforcement regime “offers rights holders a two-tiered enforcement option....” The first tier is the recordation process, and the second tier is the “application process.”<sup>14</sup> The “application process” refers to the process by which rights holders provide CBP with information relative to the importation of violative imports so that Customs can prevent such importation.<sup>15</sup> The main page for CBP IPR<sup>16</sup> contains information on IPR recordation, IPR searches, and IPR enforcement. For IPR enforcement, links are provided to certain directives (on Trademark and Tradename Protection, Exclusion Orders, and the Personal Use Exemption for Trademarks), but none of these directives addresses *how to report* a violative import to CBP. In fact, under the “Enforcement” heading, the CBR IPR main page says:

The first step in obtaining IPR protection by CBP is to ‘record’ validly registered trademarks and copyrights with CBP. Detailed information and electronic forms is [sic] available at the links above.

Detailed information *is* provided about *recording* a trademark or copyright with CBP, but very little information is provided about *how to report a violation* to CBP. In addition to providing such information on the CBP website, it would also be helpful to provide an automated process for reporting violations to CBP.

The CBP website includes a page entitled “How to get IPR Border Enforcement Assistance,”<sup>17</sup> which tells visitors to email or call the IPR Branch for “legal or policy-related questions about CBP’s IPR enforcement.” This page also includes contact information for the Los Angeles Targeting Analysis Group (“TAG”) IPR Help Desk and suggests that TAG be contacted for “general IPR information or assistance.” It is not at all clear from this page how a rights holder would go about reporting a violation to CBP.

In order for CBP and rights holders to work together effectively, the process of reporting violations to CBP should be easy, and the website should include a clear

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<sup>13</sup> As a practical matter, most CBP seizures are the result of the recordant calling such shipments to the attention of CBP.

<sup>14</sup> “Trademark and Tradename Protection,” *supra* n. 8, Section 2.

<sup>15</sup> *Id.*

<sup>16</sup> [http://www.cbp.gov/xp/cgov/import/commercial\\_enforcement/ipr/](http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/).

<sup>17</sup> [http://www.cbp.gov/xp/cgov/import/commercial\\_enforcement/ipr/ipr\\_enforcement\\_assistance.xml](http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/ipr_enforcement_assistance.xml).

explanation of that process. Preferably, a link would be included on the IPR main page to a form whereby rights holders can report violations and receive an immediate email acknowledgment (as with trademark applications and Trademark Trial and Appeal Board proceedings). Subsequent information from CBP regarding the status of the investigation could also be provided to the rights holder by email.<sup>18</sup>

*E. Update the Customs Enforcement of Intellectual Property Rights Informed Compliance Publication.*

The CBP issues Informed Compliance Publications on various topics of interest, ranging from the NAFTA country of origin rules to the foreign assembly of U.S. components. These Informed Compliance Publications are posted on the CBP website.<sup>19</sup> Only one of these publications, however, deals with intellectual property rights. It is entitled “Customs Enforcement of Intellectual Property Rights” and dated March 8, 2006. This publication, however, is not currently posted. Instead, the page for this publication<sup>20</sup> contains the following notice:

Due to several recent changes made to CBP’s IPR border enforcement program and procedures, CBP has determined to remove the informed publication covering IPR from this site until further notice. It is our intention to significantly revise the publication, which was last revised in August 2001, and repost it on this website again in the *Spring of 2006*. In the meantime, updated and correct information covering many of the same topics can still be found at the IPR pages located at [www.cbp.gov](http://www.cbp.gov). We regret any inconvenience this may cause.

(Emphasis added.) This publication needs to be updated and re-posted in order to facilitate access to and understanding concerning the CBP IPR enforcement program.

### **III. ACHIEVE BETTER COORDINATION OF U.S. IPR ENFORCEMENT EFFORTS**

The National Intellectual Property Law Enforcement Coordinating Council (“NIPLECC”) was created by Congress in 1999 to coordinate U.S. activities to protect and enforce IPR domestically and abroad. The NIPLECC is headed by the U.S. Coordinator for International Intellectual Property Enforcement, who reports to the

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<sup>18</sup> The type of information that is currently disclosed to trademark rights holders is set forth in Section 5.1 and 5.2 of the “Trademark and Tradename Protection” Customs Directive (*see supra*, n. 7). The issue of disclosure of information to copyright and trademark owners is also addressed in the U.S. Chamber of Commerce’s Draft Finance/Ways & Means Legislation, *supra* n. 8, Section 204.

<sup>19</sup> [http://www.cbp.gov/xp/cgov/toolbox/legal/informed\\_compliance\\_pubs/](http://www.cbp.gov/xp/cgov/toolbox/legal/informed_compliance_pubs/).

<sup>20</sup> [http://www.cbp.gov/xp/cgov/toolbox/legal/informed\\_compliance\\_pubs/customs\\_enforce.xml](http://www.cbp.gov/xp/cgov/toolbox/legal/informed_compliance_pubs/customs_enforce.xml).

Commerce Secretary. NIPLECC was provided \$900,000 in dedicated funding for the fiscal year 2007.<sup>21</sup>

Despite the best of intentions, NIPLECC has been widely viewed as ineffective. According to the U.S. Government Accountability Office (“GAO”), the NIPLECC “has struggled to define its purpose, retains an image of inactivity within the private sector, and continues to have leadership problems....”<sup>22</sup> In the first session of the 110<sup>th</sup> Congress, legislation was introduced in both the Senate (S. 522 (Bayh)) and the House (H.R. 3578 (Sherman)) that would eliminate the NIPLECC and instead establish an Intellectual Property Enforcement Network (“IPEN”). Under this bill, entitled the “Intellectual Property Rights Enforcement Act,” the head of IPEN would come from the Office of Management and Budget (“OMB”).

Also introduced in the first session of the 110<sup>th</sup> Congress, H.R. 4279 (Conyers), the “Prioritizing Resources and Organization for Intellectual Property Act of 2007,” would create an Office of the U.S. Intellectual Property Enforcement Representative (“IPER”), which would take the lead in coordinating U.S. government agency IPR enforcement activities and assist the U.S. Trade Representative (“USTR”) in conducting trade negotiations relating to IPR enforcement. This bill would also eliminate the NIPLECC.

The draft legislation proposed by the U.S. Chamber of Commerce proposes appointment of a Director of Intellectual Property Rights Enforcement within the Department of Homeland Security. This individual would be charged with coordinating the enforcement activities of the CBP and Immigration and Customs Enforcement (“ICE”).<sup>23</sup>

Regardless of which avenue is taken, I believe that greater emphasis needs to be placed on coordinating the IPR enforcement efforts of various governmental agencies. Intellectual property rights have taken on such a degree of importance in our present economy that enhanced governmental action to preserve and enforce these rights is essential.

#### **IV. ENACT MEANINGFUL PATENT LAW REFORM IN THE U.S.**

No discussion of IPR enforcement would be complete without mentioning the need for patent law reform here at home. I realize that patent law reform is not the topic of today’s hearing; however, I firmly believe that if we are to take a leadership position in the world with respect to intellectual property rights, we need to hold ourselves to the

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<sup>21</sup> “Intellectual Property Rights and International Trade,” CRS Report for Congress (Dec. 20, 2007) at 43.

<sup>22</sup> “Intellectual Property Risk and Enforcement Challenges,” GAO Testimony Before the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property (Oct. 18, 2007).

<sup>23</sup> U.S. Chamber of Commerce’s Draft Finance/Ways & Means Legislation, *supra* n. 8, Section 101.

highest standards and deal with the difficult issues involved in the current debate over patent law reform. In that regard, I have attached as Exhibit A to my testimony a letter that I recently submitted to Senator Jon Tester concerning S. 1145, the “Patent Reform Act of 2007.”

For the reasons stated in my letter to Senator Tester, I believe that S. 1145 would do more harm than good. This does not obviate, however, the need to implement balanced and well-reasoned patent law reform. If we wish our foreign trade partners to recognize the value of a stable patent system and the benefits that can be realized from fostering a climate of innovation, then we need to lead by example—and that entails maintaining a constant vigilance over our patent system to ensure that it is achieving the fundamental goal of fostering innovation without stifling competition.<sup>24</sup>

## **V. SEIZE OPPORTUNITIES TO COLLABORATE WITH FOREIGN GOVERNMENTS REGARDING IPR**

Finally, in order to be effective, our IPR enforcement efforts must not stop at our borders but must encompass working with foreign governments to emphasize the importance of intellectual property laws and the enforcement of property rights created by those laws. It is one thing to stop counterfeit goods from entering our country, but it is another to effectuate the cultural and economic changes that are required to stop piracy at its source. Some of those efforts can be undertaken by the federal government, but some of those efforts can also be undertaken by private organizations such as the American Bar Association (“ABA”) and the U.S. Chamber of Commerce.

By way of example, H.R. 4279 (mentioned above) would establish ten “intellectual property attachés” in the Department of Commerce. These individuals would serve in U.S. embassies or other diplomatic missions with the purpose of encouraging cooperation with foreign governments in enforcement of IPR laws and facilitating training and technical assistance programs targeted toward improving foreign enforcement of IPR laws.<sup>25</sup> This is one example of how the government could work directly with foreign governments to improve their IPR systems.

In a related vein, representatives of the USPTO and the USTR recently met with representatives of the Intellectual Property Office of the Philippines to share information pertaining to IPR in relation to strengthening bilateral cooperation on trade and investment. These and similar efforts to work directly with the intellectual property offices of foreign countries are a necessary part of any IPR enforcement initiative.

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<sup>24</sup> As some have noted, patent law reform in the U.S. may have implications as far as our Free Trade Agreements (FTAs) are concerned. See “Intellectual Property and the Free Trade Agreements: Innovation Policy Issues,” CRS Report for Congress (Jan. 17, 2007), at 8-20.

<sup>25</sup> “Intellectual Property Rights and International Trade,” *supra* n. 21, at 47-48.

Similar efforts have been and continue to be undertaken by private organizations like the ABA and the U.S. Chamber of Commerce. I had the privilege of serving on an American Bar Association Task Force made up of individuals from the ABA-IPL Section, the Section of International Law, and the Section of Science & Technology Law that prepared and presented comments to the State Intellectual Property Office (“SIPO”) of China in connection with that country’s recent efforts at patent law reform. The U.S. Chamber of Commerce, in conjunction with the American Chamber of Commerce-China and the American Chamber of Commerce-Shanghai, also submitted comments to SIPO in connection with the proposed amendments to the Chinese patent laws.

In sum, CBP IPR enforcement must go hand-in-hand with a strategy to work with our international trading partners—both on a public and on a private level—to share knowledge and instill a recognition that the protection of intellectual property rights is mutually beneficial. Not all foreign countries will embrace our values, but hopefully they will recognize the importance of intellectual property rights to a healthy economy. In this regard, the United States should take a vigorous and engaged role in encouraging other nations to develop reciprocal methods of IPR enforcement.



Antoinette M. Tease, P.L.L.C.

February 19, 2008

The Honorable Jon Tester  
United States Senate  
Granite Tower  
222 N. 32<sup>nd</sup> St., Suite 102  
Billings, MT 59101

**RE: Patent Law Reform – S. 1145**

Dear Senator Tester:

Thank you for the opportunity to visit with you about S. 1145 and how it might impact Montana businesses, inventors and investors. I represent a lot of farmers and ranchers in addition to business people and entrepreneurs, and I believe that S. 1145 would hurt small inventors by reducing the value of their patents and making them more difficult to enforce.

As you know, I am a registered patent attorney practicing in Billings, Montana. Approximately two-thirds of my clientele is located in Montana and Wyoming. The remaining one-third is scattered throughout the rest of the United States and half a dozen foreign countries. In terms of my Montana clients, about one-third of them are start-up businesses, one-third are individual inventors, and one-third are established companies. In addition to representing patent owners, I also represent Montana-based investors seeking to invest in, or acquire, companies based in and outside of Montana.

To give you an idea as to the volume of patent activity in Montana, I have filed and prosecuted hundreds of patent applications. On average, I have filed four patent applications a month for the past several years. Based on information I provide to the *Billings Business* magazine on a monthly basis, I can say that between ten and 20 patents are issued to Montana inventors each month.

There are many reasons why Montana businesses (and individual inventors) pursue patent protection for their inventions. These reasons include preventing competitors from selling a particular product or service (*i.e.*, gaining a competitive advantage); assuring the company a certain freedom to operate (by preventing others from patenting certain inventions); treating the issued patent or patent application as a corporate asset (in terms of company valuations); and attracting investor funding. Individual inventors may be interested in licensing their patent rights and collecting

royalties or in building a business around the patented product or service (and bringing jobs to Montana).

I have the privilege of serving on the American Bar Association Section of Intellectual Property Law (ABA-IPL) Council, which is the governing body of the Section. In that respect, and also by virtue of the fact that I have served on the ABA-IPL Section Patent Law Reform Task Force, I am familiar with the issues presented in S. 1145.

I have brought with me today copies of the ABA-IPL Section *White Paper* on patent law reform, as well as a September 20, 2007 letter from Pamela Banner Krupka, Chair of the ABA-IPL Section, to Senators Leahy and Specter, expressing the Section's opposition to S. 1145. I am not here today to reiterate the arguments made in the white paper or the ABA-IPL letter. Rather, I am here today to express my own views on certain provisions of S. 1145 in light of their impact on Montana companies.

1. Applicant Search Requirements.

S. 1145 would require that patent applicants conduct a patent search prior to filing a patent application *and* that they submit an analysis of the search results in connection with the application. Under current law, patent applicants are not under any obligation to conduct a search, although my clients do. The problem with S. 1145 is not that it would require applicants to conduct patent searches, but that it would require applicants to analyze and explain the search results to the examiner. This requirement would significantly increase the cost of filing a patent application (by potentially thousands of dollars, depending on the scope of the search results) and would cause many individual inventors and start-ups to decide not to file at all.

In addition, searches are necessarily imperfect (primarily because they involve judgment on the part of the individual conducting the search but also because the patent office—not infrequently—misclassifies patent applications), and it would be unfair to hold the applicant responsible for omissions in the search results and/or analysis. The applicant is already under a duty to bring to the attention of the patent office all prior art of which the applicant is aware, and that requirement strikes an appropriate balance between requiring candor and placing an inordinate burden on the applicant.

2. Inequitable Conduct.

Inequitable conduct is a defense raised in patent infringement litigation. According to the ABA-IPL Section, “the standard for what might constitute inequitable conduct is vague and indefinite in its application.” The ABA-IPL Section has advocated for reform of the law relating to inequitable conduct so that a patent would be held unenforceable only when fraud resulted in issuance of an invalid patent claim. Although

S. 1145 would impose on applicants the search requirements discussed above, it does not include any meaningful reform of the law surrounding inequitable conduct.

If the goal is to encourage open and candid communication between the applicant and the examiner, then the penalty for intentionally misleading the patent office should be not only clear but also commensurate with the scope of the misrepresentation. Adoption of a “but for” standard (*e.g.*, a valid and infringed claim would be unenforceable only if the examiner relied on the misrepresentation in allowing the claim) would provide a disincentive for applicants who might otherwise be inclined to commit fraud on the patent office without imposing an unduly harsh penalty—unenforceability of the entire patent—that might not be commensurate with the applicant’s misrepresentation or omission. It would also provide some clarity to the law, which might encourage some practitioners and their clients to be more forthcoming with the patent office when dealing with prior art.

### 3. Post-Grant Opposition.

S. 1145 would repeal the *inter partes* reexamination procedures, which have not been widely used but which provide a mechanism for challenging a patent in an administrative forum and which allow the challenger to take an active role in the reexamination proceeding (as opposed to *ex parte* reexamination proceeding, where the challenger’s role is limited). Under current law, reexamination proceedings (whether *inter partes* or *ex parte*) can be based only on certain type of prior art (namely, patents and publications).

Under S. 1145, within 12 months after issuance of a patent, a third party could request that the patent office conduct a post-grant review to challenge the validity of the patent (this is called the “first window”). S. 1145 would also provide a “second window” of review, which could occur any time during the life of the patent, if the petitioner files the petition within 12 months after receiving an explicit or implicit notice of infringement and can demonstrate significant economic harm based on the challenged claim. Both windows would open patents up to scrutiny based on all kinds of prior art (*e.g.*, prior use, prior sale or offer for sale, etc.)—not just the limited prior art at issue in a reexamination proceeding.

The open-ended “second window” is problematic because it may have a chilling effect on patent holders in terms of enforcement of their patents. For instance, a patent holder may decide not to send a cease and desist letter for fear that it might trigger a “second window” petition for review. The “second window” would also impose a more lenient standard for invalidation of a patent (“preponderance of the evidence” rather than the “clear and convincing evidence” standard that applies in court challenges), thus eroding the certainty associated with patent ownership.

With the “second window,” there is little incentive for an interested party with a potential basis for invalidating a patent to bring a challenge during the first window. Certainty is good for business, and to that extent I believe that a first window in which all types prior art can be brought to the attention of the examiner, together with a more limited mechanism for review thereafter (preferably in the form of enhanced *inter partes* reexamination procedures), makes sense.

4. Venue.

With certain limited exceptions, S. 1145 would require that an action for patent infringement be brought in the judicial district (Montana only has one judicial district) in which the infringer is incorporated or has a principal place of business or in a judicial district where the infringer committed a substantial portion of the infringing acts *and* has a regular and established physical facility that constitutes a substantial portion of the infringer’s operations. Under current law, a patent holder can file suit in any judicial district in which a substantial part of the events or omissions giving rise to the claim occurred or any judicial district in which the defendant is doing business. Although current law does require a nexus between the case (or the defendant) and the judicial district in which suit is brought, the venue provisions of S. 1145 would severely restrict a patent holder’s choices in terms of where to file suit. In my opinion, the more restrictive venue provisions of S. 1145 would have a disproportionate impact on Montana patent holders because most infringers will be located out of state, and the costs of pursuing an out-of-state infringement action may be double or even triple what it would cost to bring suit in Montana. These venue provisions may make it impractical for Montana patent holders to enforce their patents in court for cost reasons.

5. Interlocutory Appeals.

Since the U.S. Supreme Court handed down its decision in *Markman v. Westview Instruments, Inc.*<sup>1</sup> in 1996, U.S. District Courts handling patent cases have handled so-called “*Markman*” hearings in which the terms used in patent claims are construed (interpreted) by the trial court. To date, the U.S. Courts of Appeals for the Federal Circuit has taken the position that appeals from *Markman* hearings are not an appropriate subject for an interlocutory appeal (an interlocutory appeal is an appeal taken up while the underlying case is still pending and prior to a final judgment). As a practical matter, if the trial court construes a claim a certain way and then grants summary judgment for one party or the other based on that claim construction, the matter could be taken up on appeal because summary judgment is a final judgment. If, however, the claim construction does not result in summary judgment being granted, typically an appeal would not be allowable at that time.

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<sup>1</sup> 517 U.S. 370, 38 U.S.P.Q.2d 1461 (1996).

S. 1145 would allow a party to appeal a trial judge's claim construction ruling to the Federal Circuit for immediate resolution (this is called an "interlocutory appeal"). According to the Honorable Paul R. Michel<sup>2</sup>, Chief Judge for the Federal Circuit, between 70 and 80 percent of the cases heard by the Federal Circuit are from summary judgments. Allowing litigants to appeal claim constructions rulings will delay resolution of patent cases at the trial level and significantly increase the workload of an already overburdened Federal Circuit. To the extent that certainty is good for business, I do not believe that prolonging resolution of patent cases<sup>3</sup> and increasing costs will be advantageous to patent holders or accused infringers.

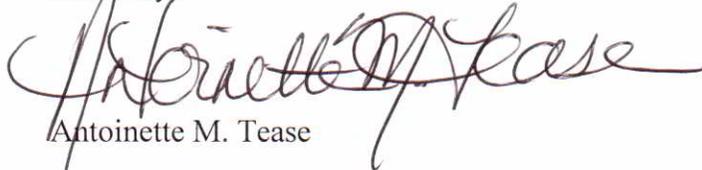
6. Damages.

The damages provisions of S. 1145 are highly controversial because they would require a trial judge to make a factual determination as to the portion of the total economic value of the invention that is attributable to the patent holder's specific contribution over prior art—and then award damages based on that determination. This is not only a very difficult determination to make, but one that will (in the words of Judge Michel) essentially require a "second trial" after infringement has been found. Requiring such an apportionment of damages would not only further delay the resolution of patent cases, but it will also diminish the value of patents generally.

\* \* \*

I recognize that patent law reform is needed, and I understand that many of the issues surrounding patent law reform are difficult to resolve. But I believe that on balance, S. 1145 would do more harm than good. I appreciate your consideration of these issues and would be happy to answer any questions you may have. Thank you.

Sincerely,



Antoinette M. Tease

cc: The Honorable Max Baucus

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<sup>2</sup> Association for Corporate Patent Counsel, Address by Hon. Paul R. Michel, Chief Judge, U.S. Court of Appeals for the Federal Circuit (Jan. 28, 2008) at 11.

<sup>3</sup> Judge Michel estimates that on average, the pendency time of appeals to the Federal Circuit is 11.5 months. *Id.* at 1.