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**JUDICIAL PATENT REFORM AT WORK:
LEVELING THE PLAYING FIELD BETWEEN PATENT HOLDERS AND USERS**

When patent legislation was first introduced in 2005, advocates argued that the patent system was out of balance, with lax standards that yielded weak or overly broad patents and harsh remedies that gave so-called patent speculators too much bargaining power. Since that time, a series of U.S. Supreme Court and Federal Circuit decisions have unquestionably shifted the balance of power between patent holders and users, tightening standards of patentability and narrowing patent rights and remedies. The Innovation Alliance¹ urges Congress and the Administration to consider carefully the impact of these decisions before rushing to enact patent legislation that may weaken our knowledge-based economy.

As reflected in the following summary of judicial patent decisions, it is now more difficult for innovators to obtain and enforce patent rights (particularly in the case of software and business methods), and even after winning at trial, to secure injunctive relief and enhanced damages. At the same time, recent Supreme Court and Federal Circuit decisions have considerably improved the litigation landscape for patent users. Not only is it easier for patent users to defend against infringement claims and remedies, users are better able to avoid venue in the Eastern District of Texas and other districts that lack a meaningful connection to the case.

Individually, these judicial decisions have addressed virtually all of the substantive issues that originally prompted calls for patent legislation, including injunctions, willfulness, venue and patentability standards. When viewed as a whole, they represent the most comprehensive package of court-made patent reforms in decades. These judicial reforms eliminate any need for sweeping legislative changes to damages rules or other fundamental underpinnings of the patent system.

In the wake of judicial patent reform, it would be a mistake to adopt radical changes to damages rules or create a quasi-judicial system of post-grant opposition (“PGO”). Even when first introduced in 2005, these proposals were of questionable justification and merit. Today, however, they are clearly unwarranted and, if enacted, would create a legal environment that encourages and rewards infringement.

In the midst of a severe economic crisis, American innovators can ill afford legislation that would destabilize our patent system and greatly diminish the value of U.S. patents. Damages and PGO legislation would discourage investments in innovative technologies and inflict serious collateral damage on the many thousands of legitimate patentees that drive job growth in today’s economy. Moreover, the devaluation of U.S. patents would effectively transfer vast amounts of IP-based wealth to foreign manufacturers who stand ready to exploit weaknesses in the U.S. patent

¹ The Innovation Alliance is a coalition of companies seeking to enhance America’s innovation environment by improving the quality of patents and protecting the integrity of the U.S. patent system. To learn more, visit www.innovationalliance.org.

system. Such legislation would also undermine America's ability to protect its inventions outside the United States. If the U.S. patent system ceases to serve as a "gold standard" within the global community, we will quickly lose our moral authority to fight for strong IP protection abroad, particularly in countries that are eager to minimize the "cost" of American innovation.

A strong patent system is critical to our nation's economic recovery and the continued preeminence of our most productive industries. Further changes to our patent system should preserve that core strength, while aiming to enhance the fairness, predictability and efficiency of patent rules and procedures for owners and users alike. To that end, our innovation economy would be best served by measures designed to improve the quality, efficiency and procedural predictability of USPTO examination. We encourage Congress and the Administration to shift its collective focus to constructive reforms of this type.

I. SUPREME COURT CASES

eBay v. MercExchange (2006): Injunctive Relief

The Supreme Court's decision in *eBay v. MercExchange*² marked the beginning of a period of judicial activism that has altered many of the substantive standards that underlie patent rights and remedies, in each case shifting the legal balance against patent holders. In *eBay* the Court decided that, despite the patent holder's statutory right to exclude (which derives from the U.S. Constitution), a permanent injunction should not issue as a matter of course following a final judgment of infringement. The Court held that before a patent holder can obtain a permanent injunction, it must satisfy the same four-part test for equitable relief that applies in other areas of the law. This test requires a plaintiff to demonstrate that (i) it has suffered an irreparable injury, (ii) remedies available at law are inadequate to compensate for that injury, (iii) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted, and (iv) the public interest would not be disserved by a permanent injunction.

The Supreme Court rejected the Federal Circuit's "categorical rule" favoring a grant of permanent injunctive relief following a judgment of infringement because such a rule failed to recognize the lower court's equitable discretion to deny relief on the basis of the four-part test. Notably, the Court was equally hostile to categorical rules disfavoring injunctive relief based on broad classifications, including a patent holder's decision to license its patents. Nevertheless, despite the clear admonition of the Supreme Court, some lower courts have interpreted *eBay* in a manner that arguably replaces one categorical rule, favoring the grant of permanent injunctive relief against infringers, with another, namely, one that has made it far more difficult for non-manufacturing patent holders to obtain injunctive relief of any nature.

In the process, *eBay* threatens to increase significantly the prevalence of compulsory licenses that force patent holders to permit ongoing use of an invention by a proven infringer. Because Congress and the courts have long recognized the innovation-chilling effects of compulsory licenses, our patent laws have historically disfavored market distorting measures of this type. Following *eBay*, however, courts that consistently deny permanent injunctive relief for certain categories of patent holders may be tempted to impose compulsory licenses. (Moreover,

² 547 U.S. 388 (2006).

even if a court does not affirmatively grant a compulsory license, its refusal to enjoin ongoing infringement arguably has the same effect.) Should such a trend emerge, it could diminish the value of U.S. patent rights for broad sectors of the innovation economy, particularly if court-imposed royalties undercompensate patent holders for future uses of patented inventions. This is yet another compelling reason to preserve the strength of reasonable royalty damages.

MedImmune v. Genentech (2007): Declaratory Judgment Actions by Licensees

In *MedImmune, Inc. v. Genentech, Inc.*³ the Supreme Court held that a licensed patent user's declaratory judgment action challenging the validity and enforceability of a licensed patent satisfies the "case or controversy" requirement for subject matter jurisdiction under the U.S. Constitution, even though the patent user has continued to make royalty payments. Under previous Federal Circuit precedent, the licensed patent user was required to stop royalty payments and breach the license agreement to meet the case or controversy requirement. This again is a major change in the law that tips the scale considerably in the favor of patent users. Additionally, it reduces the stability normally associated with arm's length negotiated license agreements and provides incentive to licensed patent users to litigate without risk. Uncertainty will now prevail over the life of the license agreement, and more lawsuits will be filed.

The Federal Circuit further undermined legal incentives to negotiate a voluntary license in lieu of litigation when it subsequently applied *MedImmune* to licensing negotiations. In *SanDisk Corporation v. STMicroelectronics Inc.*⁴ the court held that when a patent holder notifies a patent user that certain planned or ongoing activity will infringe the patent holder's rights absent a license, and the patent user disputes the need for a license, an actual case or controversy will arise sufficient to support a declaratory judgment action. Thus, a prospective licensee need not risk an infringement suit by engaging in the accused activity before initiating a declaratory judgment action.

KSR International v. Teleflex (2007): Non-Obviousness

In *KSR International Co. v. Teleflex Inc.*⁵ the Supreme Court altered the objective patentability test of obviousness, which had been used by the USPTO and federal courts for two decades. The test was, and is still believed by many to be, necessary to avoid the inappropriate application of "20/20" hindsight to obviate non-obvious, and otherwise patentable inventions. Prior to this decision, in order for an invention to be considered obvious over prior art documents, the so-called "teaching, suggestion, or motivation ("TSM")" test had to be met. In order to meet this test, one of the prior art documents had to expressly state or suggest that the technical content of the other documents could be combined to make the invention for which a patent was being sought.

The Supreme Court in *KSR* rejected a rigid or mandatory application of the TSM test in an obviousness inquiry and instead required a more flexible "functional approach" to obviousness. This new approach generally requires a deeper analysis of the qualifications of a person of "ordinary skill in the art", and then a more subjective inquiry as to whether such a person would consider the invention a predictable variation of the prior art solutions. Other additional and more

³ 549 U.S. 118 (2007).

⁴ 480 F.3d 1372 (Fed. Cir. 2007).

⁵ 550 U.S. 398 (2007).

subjective factors required to be considered are “effects of demands known to the design community or present in the marketplace”, and whether the combination of elements constituting the invention was “obvious to try” by such a person.

Experts have predicted that *KSR* will lead to a sharp increase in validity challenges by patent users, as well as significant uncertainty as to the fate of patents granted under the previous obviousness test.

Microsoft v. AT&T (2007): Section 271(f) of the Patent Act

In *Microsoft Corp. v. AT&T Corp.*⁶ the Supreme Court held that the exportation of a master disk with embedded software, which is subsequently copied onto computers in a foreign country, does not constitute the infringing supply of components for a patented invention, in violation of Section 271(f) of the Patent Act. Section 271(f) imposes infringement liability for supplying from the United States components of a patented invention to be assembled abroad, if such a combination in the United States would infringe the patent. The Federal Circuit had adopted an expansive view of Section 271(f), holding that the exportation of a software master disk satisfied both the “components” and “supply” prongs of the statute. The Supreme Court reversed, ruling that software *per se* cannot be considered a component. Moreover, because the copies of Windows software that were actually installed on the computers were made overseas, they were not supplied “from the United States” as required for liability under Section 271(f). Thus, Microsoft could not be held liable for damages based on the making and selling of foreign-assembled computers.

A narrow interpretation of Section 271(f) will have the greatest impact on patent holders that lack the financial resources to secure foreign patents, namely independent inventors, small firms and universities, among others. A significant foreign patent portfolio will now be required to realize full recovery of investments in innovation.

Quanta Computer v. LG Electronics (2008): Patent Exhaustion

The Court’s decision in *Quanta Computer, Inc., et al. v. LG Electronics, Inc.*⁷ is notable in two respects: (i) it extended the patent exhaustion doctrine to method patents, and (ii) it held that the authorized sale of a patented product triggers exhaustion, notwithstanding contractual provisions by sophisticated parties to the contrary, even as to patents covering the combination of that product with other components, when the authorized product substantially embodies the “essential” or “inventive” features of the patented invention. LGE had licensed several of its process patents to Intel for the purpose of making, using and selling microprocessors and chip sets. Intel subsequently sold the products to Quanta, which then combined them with non-Intel parts in order to make computers. LGE sued Quanta for patent infringement, citing a stipulation in the Intel license agreement that that no license was granted to any third party to combine non-Intel parts with Intel products made under the license.

⁶ 550 U.S. 437 (2007).

⁷ 128 S. Ct. 2109 (2008).

The Supreme Court held that because Intel was authorized to sell its products to Quanta, the doctrine of patent exhaustion prevented LGE from further asserting its patent rights with respect to the patents substantially embodied by those products. The Intel products embodied the essential features of the LGE patents because they carried out all of the inventive processes when combined, according to their design, with standard components. The Court further reversed the Federal Circuit's holding that exhaustion does not apply to method patents. The Court observed that while a patented method may not be sold in the same way as an article or device, methods nonetheless may be embodied in a product, the sale of which exhausts patent rights. Significantly, the LGE license agreement did not preclude exhaustion because it merely denied a license to third parties that combine non-Intel parts with Intel products. As a result, the stipulation did not affect the legality of Intel sales, which effectively exhausted LGE's rights to prevent downstream sales.

By expanding the patent exhaustion doctrine, *Quanta* further restricts a patent holder's ability to enforce its rights against downstream users. More broadly, *Quanta* is now being cited in some quarters as justification for amended damages rules that would value reasonable royalties according to a patent's "essential" or "inventive" features, comparable to the "prior art subtraction" test proposed in previous legislation. This argument has no merit and reflects a fundamental misunderstanding and misapplication of the *Quanta* decision. Neither *Quanta* nor the Court's discussion of a patent's essential features has any bearing on reasonable royalty valuation rules. Instead, *Quanta* addresses a completely different inquiry, namely the point at which downstream patent users should be free to engage in commercial transactions involving patented products without any liability to the patentee. The patent exhaustion doctrine ensures that once a patent holder has authorized the sale of a patented product (and presumably received a negotiated royalty), subsequent patent users in the value chain are exempt from further payment obligations. The doctrine has nothing to do with infringement remedies generally or rules for calculating damages when product sales are unauthorized and a royalty has not been paid.

II. FEDERAL CIRCUIT CASES

In re Seagate Technology (2007): Enhanced Damages for Willful Infringement

In *In re Seagate Technology*⁸ the Federal Circuit overruled its much-criticized decision in *Underwater Devices Inc. v. Morrison-Knudsen Co.*⁹, which held that an alleged patent user has an affirmative duty of care to determine whether or not he is infringing, including an obligation to obtain opinion of counsel. In lieu of this negligence-based standard, the court adopted a heightened willfulness standard based on an objective recklessness test. Under the *Seagate* standard, a patent holder must show by clear and convincing evidence that the patent user acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. The patent holder must also show that this objectively-defined risk was either known or so obvious that it should have been known to the patent user. Asserting the advice-of-counsel defense and disclosing opinions of opinion counsel do not constitute waiver of the attorney-client privilege for communications with trial counsel. Relying on opinion counsel's work product does not waive work product immunity with respect to trial counsel.

⁸ 497 F.3d 1360 (Fed. Cir. 2007).

⁹ 717 F.2d 1380 (Fed. Cir. 1983).

By significantly elevating the standard for proving willful infringement and reemphasizing that there is no affirmative obligation to obtain an opinion of counsel, *Seagate* obviates any need to legislate in this area. The decision makes it more difficult for patent holders to successfully obtain enhanced damages for willful infringement; any further restrictions could undermine the legitimate deterrent effect of the willfulness doctrine.

In re Bilski (2008): Subject Matter Eligibility

The Federal Circuit's much-anticipated decision in *In re Bilski*¹⁰ narrowed the scope of patent-eligible process claims and, in particular, the business methods that many critics view as the principal culprit behind abusive litigation practices. Although *Bilski* falls short of resurrecting a categorical exclusion for business methods and software-related inventions (as critics of the *State Street Bank* case¹¹ hoped that it would), it casts a cloud over the continued validity of issued patents of these types and erects a much higher bar for new and pending applications.

Bilski involved a claimed method for managing the consumption risk costs of a commodity sold by a commodity provider at a fixed price. The patent examiner had rejected all claims in the application as not being directed to patent-eligible subject matter under Section 101 of the Patent Act, and the Board of Patent Appeals and Interferences had sustained that rejection. In an en banc hearing, the Federal Circuit affirmed the Board's decision, holding that the claims failed to satisfy either prong of the "machine-or-transformation" test, which it deemed to be the governing test for determining patent eligibility.

The court held that a process is patent-eligible subject matter only if (i) it is tied to a particular machine or apparatus, or (ii) it transforms a particular article into a different state or thing. The "useful, concrete and tangible result" inquiry was deemed to be an inadequate test for determining eligibility. Moreover, even if a claim recites a specific machine or a particular transformation of a specific article, the recited machine or transformation must not constitute mere insignificant post-solution activity. Thus, *Bilski* throws into doubt the validity of business method and software claims that are implemented by a general purpose computer.

In re TS Tech (2008): Venue

In *In re TS Tech*¹², the patent holder Lear Corporation had filed a patent infringement suit in the Eastern District of Texas against the TS Tech entities, even though neither it nor any of the defendants were incorporated in Texas or had offices there. Nevertheless, Lear claimed venue on the grounds that the patent user's products were sold in the Eastern District of Texas. Consistent with past decisions in which product sales were deemed sufficient to honor patent holder's choice of venue in the Texas "rocket docket," the district court denied defendants' motion to transfer venue.

The Federal Circuit reversed and directed the lower court to transfer venue to Ohio, where two of the TS Tech entities were incorporated and based. The court held that the lower court had

¹⁰ 545 F.3d 943 (Fed. Cir. 2008).

¹¹ 149 F.3d 1368 (Fed. Cir. 1998).

¹² Misc. No. 888 (Fed. Cir. 2008).

erred in giving inordinate weight to the patent holder's choice of venue. Among other considerations favoring venue in Ohio, including the fact that all physical evidence was located there, the court noted that there is no relevant connection between the actions giving rise to the case and the Eastern District of Texas, except that certain accused products of the patent user were sold in the venue. The court observed that such products are sold throughout the U.S.; thus, citizens of the Eastern District of Texas have no more or less of a meaningful connection to the case than citizens of any other venue.

TS Tech establishes a more conservative approach to patent venue rules, in which less deference will be given to patent holders' venue choices when there is an absence of any meaningful connection to an infringement case. As such, the case addresses the criticism that patent venue rules fail to provide a meaningful check against forum shopping by patent holders. Of particular significance is the Federal Circuit's decision that products sales are, in the absence of other relevant connections, insufficient to support venue in the patent holder's chosen venue. Because many (if not virtually all) patent infringement cases are filed in the Eastern District of Texas on that basis alone, *TS Tech* could facilitate the transfer of actions from this controversial rocket docket and discourage new suits from being filed in the first place.

III. SHIFTING FOCUS IN THE WAKE OF JUDICIAL PATENT REFORM

It is imperative that each of these cases be further analyzed to assess its individual impact, as well as the aggregate effect when considered as a whole or in conjunction with proposed legislation. Individually, these decisions have addressed virtually all of the substantive issues that originally prompted calls for patent legislation, including injunctions, willfulness, venue, and standards relevant to the patentability of claimed inventions and the validity of issued patents. Moreover, each of these issues has been addressed in a manner that shifts the legal balance in favor of patent users to the detriment of patent holders.

As for remaining priorities, the courts are obviously not positioned to address the USPTO's resource constraints and operational deficiencies, which have diminished the overall quality, predictability and efficiency of pre-grant examination processes. These problems merit urgent attention and should be the focus of current patent reform efforts.

Critics will counter that legislation is still needed to address "inflated" damage awards and expand administrative opportunities to challenge issued patents. However, advocates of "apportionment" have yet to provide any hard evidence to justify such a radical departure from deeply rooted principles of compensatory damages, let alone the wholesale devaluation of patent rights. Similarly, proponents of a new post-grant opposition system have yet to explain how the USPTO will effectively manage a European-style system of administrative litigation on top of an already crushing backlog.

The clear intent behind these legislative proposals is to diminish further the value and enforceability of patent rights. The prospect of fundamentally weakening the U.S. patent system – formerly the envy of the world – would be problematic and unprecedented at any time in our history. However, at a time when the United States is in the grip of an ever-deepening recession, such legislation would be a disastrous blow to our innovation economy.

“Apportionment” of Reasonable Royalty Damages

The impact of *eBay* was quickly felt by non-manufacturing patent holders that concentrate on R&D and technology transfer. In the post-*eBay* world, patent holders of this type, which are among our most prolific and productive innovators, have experienced little success in securing injunctive relief. As a result, the value of their patents has already diminished, as has their ability to secure capital investments and negotiate voluntary licenses.

In a case where permanent injunctive relief is denied, reasonable royalty damages are typically the patent holder’s only viable remedy against infringement, and its only opportunity to secure downstream value in exchange for the upfront investments made by investors and inventors alike. For these and other patent holders to remain viable and competitive, it is imperative that patent damages rules aim to achieve (as they currently do) the overarching goal of compensatory damages generally, namely to make the patent holder whole based on a market valuation of its losses. Any lesser measure of damages would devalue patents and deprive patent holders (and their investors) of the incentives needed to make risky bets on innovative technologies and products.

Critics of *Georgia Pacific*¹³ (the leading case on reasonable royalty damages) are fond of suggesting that a 40 year old judicial decision must be outdated given the tremendous changes in technology that have since occurred. In reality, however, *Georgia Pacific* simply restated the basic principles and methodology that have historically guided courts in matters of patent damages. In addition, the court enumerated the types of factors that may be relevant to a patent’s market value when calculating compensatory damages, while emphasizing the non-exhaustive nature of the list and the need for judicial discretion in all cases.

At their core, the rules articulated in *Georgia Pacific* are rooted in well-established (and arguably incontrovertible) legal and economic principles of compensatory damages generally – i.e., the same principles that govern damages in other contexts. Foremost among these is to restore the injured party, as nearly as possible, to the position he or she would have enjoyed had it not been for the wrong of the other party. The injured party’s *ex ante* position is measured in terms of “market value” – i.e., the established exchange value of the property or, if no established value exists, the amount that would have been negotiated by a willing buyer and seller immediately prior to the trespass.¹⁴

Consistent with basic tenets of compensatory damages and market valuation, the court in *Georgia Pacific* cited three cornerstones of patent damages law:

1. Damages must place the patent holder in at least the same pecuniary position as it would have been in had the patent not been infringed -- i.e., the reasonable royalty that a the patent user would have paid for the use made of the invention;
2. To achieve that result, damages should reflect the royalty a willing licensor and licensee would have negotiated immediately prior to the commencement of the

¹³ 318 F. Supp. 1116 (S.D.N.Y. 1970).

¹⁴ See, e.g., *United States v. Hatahley*, 257 F.2d 920 (10th Cir. 1958), cert. denied, 358 U.S. 899 (1958).

infringement, with both parties assuming the patent to be valid, enforceable and infringed absent a license (i.e., the “willing buyer/willing seller” paradigm used to assess the market value of any asset); and

3. Given the multiplicity of factors that may be relevant to a reasonable royalty, courts and juries must be given the discretion and flexibility to consider any and all evidentiary factors that would have been deemed relevant by the parties in a hypothetical negotiation and to determine the respective weight to be given each such factor.

When taken as a whole, these principles aim to uphold the property rights embodied in a patent and to ensure that reasonable royalty damages are sufficient to safeguard those rights. These rules are not, as some would suggest, unique to patent law or easily susceptible to radical change. Indeed, the tried and true principles that underlie *Georgia Pacific* and patent damages law generally are so firmly grounded in our legal system that it would be difficult to justify any significant departure without acknowledging an effort to transform patent rights into something far different, and far less valuable, than the nation’s founders intended.

The so-called “apportionment” of damages legislation would unquestionably diminish the value of U.S. patents – indeed, reducing patent value is the principal goal of apportionment. Although there are marginal differences between the various versions of apportionment introduced in this and previous congresses, each proposal (including the House and Senate amendments introduced on March 3, 2009), has aimed to reduce reasonable royalty damages according to novel rules of patent valuation. The proposed apportionment test would assess damages according to the patent’s incremental benefit to the patent user, as measured by the invention’s “specific contribution over the prior art”. As a result, reasonable royalty damages would no longer compensate the patent holder for the full extent of its losses (as historically measured by the market value of lost royalties), let alone discourage infringement. Without the prospect of meaningful damages, a patent would confer something less than a property right and cease to function as an effective incentive to invest in and commercialize disruptive technologies.

The distinction between our system of compensatory patent damages and the proposed apportionment rule is more than theoretical. As a historical matter, apportionment of profits was a form of equitable remedy that gained acceptance in the 19th century due to the then-existing division between courts at equity and law. The concept of mandatory apportionment was abandoned by Congress in 1946 because of the gross inefficiencies and inequities that it had caused. Were mandatory apportionment to be resurrected in the form proposed in previous patent bills, the impact on patent holders and the U.S. economy would be significant and indefensible.

According to a recent study conducted by Dr. Scott Shane of Case Western Reserve University, the proposed apportionment amendment would reduce the value of U.S. patents by as much as \$85.3 billion; reduce R&D expenditures by up to \$66 billion per year; and potentially cost the U.S. economy 298,000 manufacturing jobs.¹⁵ Beyond these effects, an apportionment-based damages regime would inject tremendous uncertainty and instability into our patent system, at a time when U.S. firms can ill afford further upheaval. Uncertainty and instability are forces that

¹⁵ Scott Shane, *The Likely Adverse Effects of an Apportionment-Centric System of Patent Damages* (2009).

unquestionably discourage investments in the commercialization of new technologies, decreasing competition across new and old industries alike.

Advocates of apportionment have yet to substantiate allegations of excessive royalties or unfair damages awards. To the contrary, patent litigation studies reveal that median damages awards have, year after year, remained fairly stable.¹⁶ Although jury trials are more likely to result in large damage awards than bench trials, federal judges do not hesitate to overturn or reduce excessive jury verdicts. With few exceptions, the largest jury verdicts awarded each year are typically reduced or overturned on appeal, as in the *Alcatel-Lucent* case.¹⁷

Moreover, there is no credible evidence to suggest that existing damages rules are forcing large manufacturers to submit to the frivolous settlement demands of non-practicing entities. Patent damages rules are based on the same principles that underlie compensatory damages generally; thus, the risks of inflated settlements are no greater in patent negotiations than in the context of any other commercial dispute. Such claims seem particularly implausible in the wake of *eBay*, *KSR* and other cases that have significantly undermined the ability of non-practicing entities to enforce “trivial” or otherwise questionable process patents.

Post-Grant Opposition

KSR and *Bilski* are expected to produce a wave of validity challenges in the courts and at the USPTO. These decisions have also engendered confusion and uncertainty as to the statutory standards that govern patentability, a situation that will further increase litigation costs, whether judicial or administrative.

A post-grant opposition system would further exacerbate this upsurge in litigation, particularly when combined with an expanded inter partes reexamination process that lacks existing safeguards against abuse. As proposed under the new House and Senate patent bills, this hybrid PGO/inter partes patent review process would (i) create a system of administrative litigation with many of the costs and complexities of judicial litigation, (ii) invite serial and harassing validity challenges throughout the life of a patent, and (iii) effectively eliminate the statutory presumption of validity essential to a patent’s enforceability. Such a system, when combined with recent judicial patent decisions, would further weaken and destabilize patent rights and increase dramatically the risks and costs of patent ownership. As a practical matter, small innovators would, as a result, find it increasingly difficult to attract the capital investments necessary to fund R&D and commercialization efforts, and to bring patent users to the negotiating table.

Beyond these ill effects, PGO would further strain the resources of an already overburdened and under-funded USPTO. Until the effects of *KSR*, *Bilski* and other cases are fully known, it would be far more prudent to focus exclusively on improvements to existing inter partes reexamination procedures without creating an costly opposition system.

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¹⁶ PriceWaterhouseCoopers, *2008 Patent Litigation Study*.

¹⁷ Innovation Alliance, *Moving beyond the Rhetoric, Jury Damage Verdicts in Patent Infringement Cases (2005-2007)*.

Much has changed since patent legislation was introduced in 2005. The Supreme Court and Federal Circuit have reshaped the patent landscape in a manner that has both strengthened the bargaining position of patent users and, in the process, created a far less predictable terrain for patent holders. Beyond these legal changes, the current economic crisis has imposed an additional layer of uncertainty that threatens to chill investments in innovation. That chill will turn to a deep freeze if legislation is adopted that further devalues and destabilizes patent rights. As in other sectors of the economy, what is urgently needed is a patent stimulus plan, one that preserves the fundamental strength of patent rights and remedies while improving the predictability, fairness and efficiency of pre-grant examination processes.