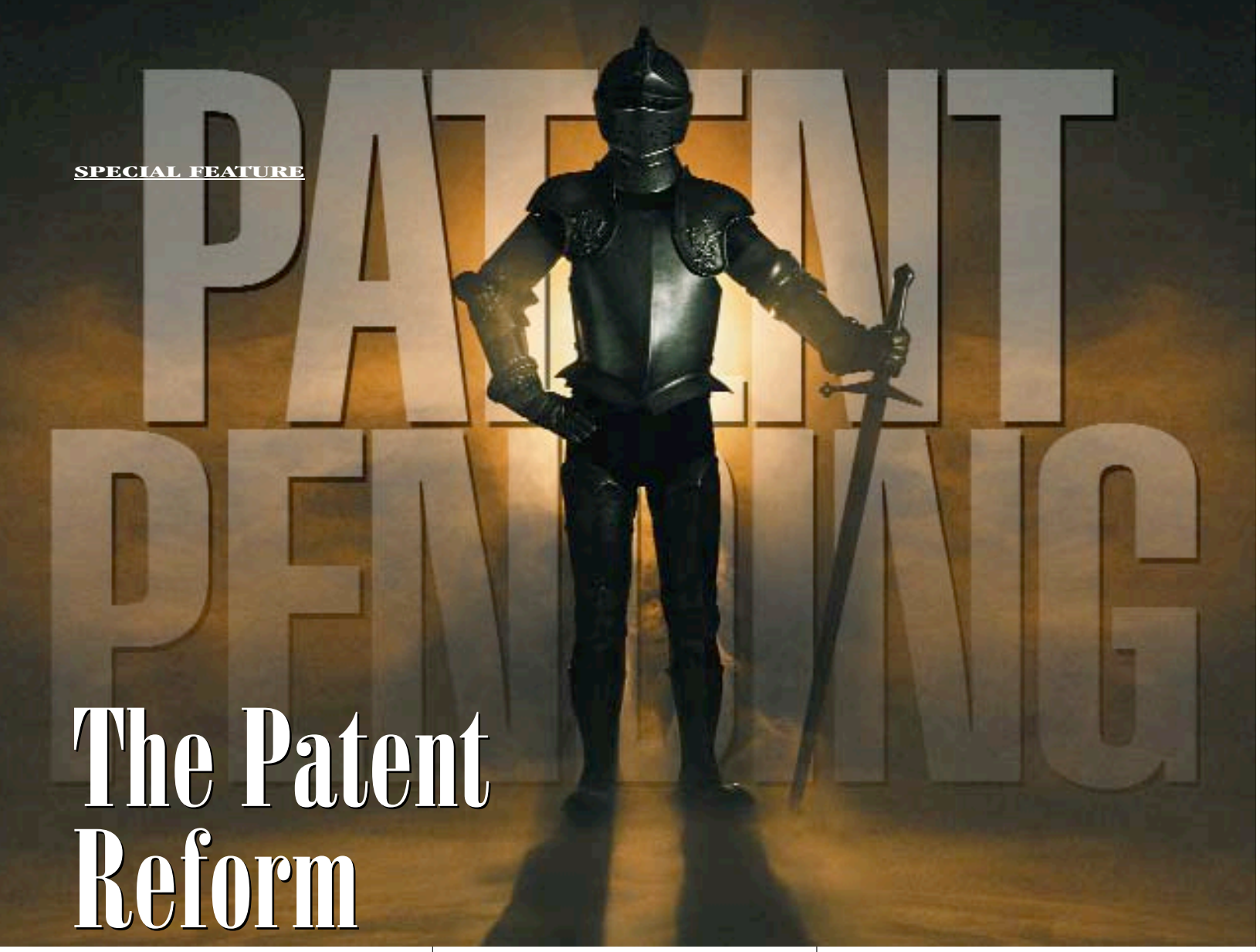

SPECIAL FEATURE

The Patent Reform Humbug

by John J. Connors

Congress is considering enacting legislation (S. 515 and H.R.1260) that would change our patent system in some very fundamental ways: (1) The first inventor to file would be granted the patent rather than the "first to invent." (2) The current "one-year grace period" would be eliminated. (3) A post patent grant "opposition" proceeding would be available for infringers and "want-a-be" infringers to challenge the patent's validity before a Patent Office tribunal rather than a jury. The proponents of this legislation say these changes are needed patent law "reform" because our current patent law, codified in 1952, is out of date and impeding "innovation". In truth, the patent system envisioned by this legislation would result in the *devaluation* of a United States patent, and restrict, or completely *eliminate*, economic opportunities for many small businesses, independent inventors and entrepreneurs. It would turn commercializing an invention into a sport of kings.

Surely our patent system must be working as intended and is a cornerstone of America's economic prosperity. After all, the United States has been the world's technological leader for well over a century and is the largest national economy, producing about 20-25% of the world's wealth annually. A United States patent is more valuable than the patents of other countries because (1) it grants *exclusivity* for the patented product in such a huge national market, and (2) it can be enforced against an infringer by filing a *single* lawsuit (in contrast to filing multiple suits as required to enforce a patent in Europe and China). Moreover, the American

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patent system is open and affordable to inventors from all walks of life. Thus it fosters the principles of freedom and equality by giving a genuine economic opportunity to anyone who makes an invention.

The proposed patent system envisioned under this legislation isn't a "reformed" system; it is a system modeled after the late 19th century German patent law. The German cartels controlling that country's economy designed a system that clearly favored monopolies and oligopolies over small businesses, independent inventors and entrepreneurs. This German patent system is the one adopted by almost all other countries. In contrast, the American patent system is constitutionally based and it is designed to "secure…to…inventors" property rights in their inventions. (Article 1, Section 8, Clause 8.) Two unique and important features of the American patent system are: the "first to invent" principle and the "one-year grace period."

Awarding the patent to the inventor who first makes the invention is crucial to the most economically efficient way to fund the development of inventions. Here in the United States an invention can be completely developed and even tested in the marketplace before filing a patent application. As long as an application is filed within the "one-year grace period" after the first offer to sell, public use or publication of the invention, a valid United States patent may be obtained. (35 U.S.C. §102(b).) Consequently, the invention can be refined before offering it for sale, the right to the patent is not lost because filing is delayed until the invention is ready for the marketplace, legal expenses associated with patenting are minimized in the early developmental stages, and premature disclosure of the invention is avoided, which is critical in getting a head start over competitors. This means the capital invested in the development of the invention is used in the most economically efficient way.

The award of the patent to the "first to invent" and the "one-year grace period" are complementary, because the "one-year grace period" will not work without the "first to invent" rule. For example, if the first inventor shows the invention at a tradeshow and then files within the "one-year grace period" and a later inventor filed a patent application before the first inventor, the first inventor will be awarded the patent by proving up his or her prior work in an interference proceeding in the Patent Office. The number of interferences has always been relatively low, only a few hundred interferences pending during any year. Thus, the "first to invent" and the "one-year grace period" provisions of our patent law do not create a burden for the Patent Office or applicants.

The proposed "reformed" patent system would have several adverse consequences:

First, it would reduce the incentive to invest in startup companies based on inventions because it shifts the procedural advantage in favor of the deep pocket patentee or alleged infringer, both in obtaining patents and defending against patent infringement claims. Such an *opposition* proceeding would be used to prevent the patent owner from obtaining a preliminary injunction and would delay the ultimate resolution of patent infringement. In an "opposition" proceeding a patent owner's victory only means the patentee's claim of infringement can now be advanced in a federal court. Imagine a global corporation being sued for infringing a patent that protects the only product a startup company sells. Today the startup company can obtain a preliminary injunction if it convinces the trial judge that it has a meritorious case, and ultimately a jury trial to determine the facts bearing on the issue of patent validity. The exclusive right to make the patented product is the only reason why the startup company can compete with the global corporation and why investors funded the startup company to make the invention, a speculation not truly an investment. Under the proposed "opposition" proceedings an infringer could present an invalidity defense in the Patent Office before bureaucrats, avoid a preliminary injunction, and delay, possibly for years, enforcement of the patent. Such drastic procedural changes in patent enforcement could impose an insurmountable barrier to raising capital for startup companies. In several situations, a patent owner with limited financial ability, such as a start up company, may not be able to pay attorney fees to defend the "opposition" or to hire a contingent-fee litigator to enforce the patent because of the threat of an "opposition".

Second, the disclosure of inventions will be suppressed because of the uncertainty and expense of enforcing a patent as discussed above. For example, independent inventors and small businesses working in the most scientifically advanced areas may choose in some cases not to disclose the invention if it can be kept secret, like the guilds of the middle ages–a period undistinguished for its scientific and technological achievement. Our current patent law is intended to encourage disclosure and discourage keeping an invention a trade secret because a later inventor may enforce his or her patent against an earlier inventor who has abandoned, suppressed, or concealed the invention. (35 U.S.C. §102(g).) This was perceived by Congress as a problem when the Court of Appeals for the Federal Circuit (CAFC) recognized "business methods" as patentable subject matter. Since some businesses were engaging for many years in secret business practices that were believed unpatentable, potentially they could now be sued by later inventors obtaining valid business method patents. So Congress created a "business method patent" defense based on prior use, 35 U.S.C. §273. The CAFC, however, recently reversed itself in *In re Bilski, (*545 F.3d 943 (2008)), and now no longer recognizes "business methods" as a special class of inventions, perhaps nullifying 35 U.S.C. §273 as a defense.

Third, the proposed patent system would diminish the output of inventions by small businesses, independent inventors and entrepreneurs due to the expense and uncertainty in obtaining and enforcing patents as discussed above. This source now produces about half the important inventions created in America, which are a major contribution to the seed corn of our economy. There is a striking difference between the inventions made by corporate inventors and inventions made by small businesses, independent inventors and entrepreneurs. In general, the inventions made by corporate inventors are within fairly well defined areas of research. They are not "outside the box." In the exceptional case when the corporate inventor makes an invention "outside the box," the value of the invention is often not appreciated by management. For example, Xerox missed the opportunity to commercialize the mouse and graphic-user interface for the personal computer, even allowing Steve Jobs, Apple Corporation's co-founder, to see what the corporate inventors were doing without the legal protection of a non-disclosure agreement.

Fourth, awarding a patent to the first inventor to file a patent application no doubt will encourage filing applications sooner rather than later. To avoid claims of malpractice, patent attorneys will be filing applications as

promptly as possible, producing a series of applications as minor improvements are made during the course of developing an invention–consequently more applications filed overall. This will have the unintended consequence of increasing the workload at the Patent Office, burdening it and applicants with the processing of applications for many unbaked, under-developed ideas.

Fifth, the proposed "opposition" proceeding calls for a patent's validity to be decided before a Patent Office tribunal subsequent to examination and patent grant. This is unconstitutional for two reasons. The patent owner is denied the right under the Seventh Amendment to have a jury decide factual disputes. Furthermore, the patent fails to "secure…to…inventors" exclusivity in their inventions as required Article 1, Section 8, Clause 8, because patent enforcement is effectively denied. Under our current patent law the applicant has the right to withhold disclosure of the invention until the patent is granted. If subsequent to the invention's disclosure by publication of the patent anyone can effectively vitiate the patent by indefinitely forestalling enforcement through "opposition" proceedings, the exclusivity promised is denied and the patent right is hollow. More so since there can be multiple "oppositions" under the proposed legislation.

The proposed "reformed" patent system would make our patent system like that of our international competitors, devaluing a United States patent. In this global economic age with product counterfeiting, copyright theft, weak patent systems like China's and India's, and very expensive patent systems like Europe's and Japan's, devaluing a United States patent when our country is in such economic distress is foolhardy. Moreover, to expand the Patent Office bureaucracy by assigning to it the task of deciding factual disputes over patent validity subsequent to examination and grant is not only unconstitutional, it is irresponsible–especially since Congress has diverted for other purposes the fees the Patent Office collects and the Patent Office has failed to do its job of examining patent applications expeditiously. The Patent Office backlog is now in excess of about 800,000 applications and growing. On average it now takes well over three years to obtain a patent. Moreover, the Patent Office seems to have altered its standards for allowing applications. Over the last couple of years only about 48 percent of the applications filed are allowed as patents, a dramatic change. For years it used to be about 70 plus percent of the applications filed resulted in patents.

The proposed legislation will increase the burden on Patent Office operations. Based on anticipated application filings in the United States and the number of "oppositions" historically filed in the European Patent Office as a guide, the United States Patent and Trademark Office should expect to be processing in a few years over 15,000 "oppositions" annually if this proposed legislation is enacted. Think of the profound negative impact this will have on investing in highly speculative, startup companies in the United States, and the resulting loss of future American jobs.

Moreover, the proposed legislation would transform in unexpected ways important legal doctrines developed over 200 years of American patent law jurisprudence and create unknown, unanticipated, and unsettling changes, leading to more expense in obtaining patents and protracted litigation that small businesses, independent inventors and entrepreneurs can ill afford.

Over the last approximately twenty years the proponents of the proposed legislation, through the relentless efforts of their lobbyists, have been advocating these fundamental changes. Presently they frame the issue in terms of "reform" necessary because of the "torrent" of "costly" patent litigation "unfairly" asserting "bad" patents, sometimes by "trolls" who bought the asserted patents. They say this results in stifling "innovation." In the early 1990's they characterized essentially the same proposed legislation as desirable "harmonization" with the laws of our international competitors, but couldn't, with this approach, convince Congress to change our patent law. So now they use the term "consistent" rather than "harmonization" and instead call for patent "reform." The lobbyists use these terms to mislead. Inventions and "innovations" are not the same. Inventions must be more than simply something new. An invention must be non-obvious. (35 U.S.C. §103(a).)

The federal courts recognize that "invalid" patents exist, and dispose of these based on the evidence–quickly sometimes by summary judgment if there is no material fact in dispute. If a patent owner knowingly attempts to enforce an invalid patent, the court will impose penalties. The courts, however, do not recognize "bad" patents, which are creations of lobbyists. Since only about 3000 patent lawsuits are filed annually (only a couple hundred or so going to trial each year), there isn't any "torrent" of patent litigation clogging the federal courts. In fact, the federal courts are constantly modifying our patent system so that it is fair to all litigants as several recent cases attest, including the 2007 Supreme Court decision making the non-obvious test more difficult to pass. (*KSR International vs. Teleflex* 550 U. S. 398.)

These same lobbyists have denigrated certain patent owners as "trolls" because they enforce their acquired patents against infringers. The lobbyists say the "trolls" – because they are not invention developers but only purchase the patents of others – are engaging in a practice that needs to be restricted because it inhibits "innovation." But global corporations have always granted licenses under a pool of patents that they own. For example, AT&T licensed satellite communication companies under hundreds of its communication and telephone patents. What difference in terms of enforceable patent rights does it make if the patent owner developed the invention itself or bought a patent protecting it from another, unless the purchaser is attempting to create an illegal monopoly?

If the proposed patent "reform" legislation becomes the law, countless future generations of Americans will be foreclosed the opportunity now available under our current patent law. Such a patent system will degrade the democratic principles upon which our country rests and further increase the concentration of wealth in the hands of the few. Consider who supports this legislation–mainly global corporations–some lobbying Congress as a combination that they have euphemistically labeled "*The Coalition for Patent Fairness*." In general, because of the market dominance of global corporations, corporate patents are not vital to their success, and in many cases it is a better business strategy to grant licenses under corporate patents rather than use the patents to maintain market exclusivity. An exception are pharmaceutical companies, which must invest billions to reap the payout of the successful drugs they develop. What global corporations don't want is (1) anyone prohibiting them from engaging in any business they choose to enter, and (2) a huge judgment for patent infringement that could have a major negative

financial impact on, or bankrupt, the corporation. So they also want a watered-down damage provision if they can get it.

Under the proposed patent system, these global corporations conceivably could fight their legal battles in the Patent Office at a lower cost. They would also have an army of lawyers subject the patent owner to interrogatories, document production requests, depositions, motions, briefs, hearings, appeals etc. Perhaps for a decade or more, they could avoid having to face up to infringement, maybe even delay until the life cycle of the patented product ended. Perhaps the patent owner after first winning the "opposition" may be able to collect some royalties after a federal court finds the patent infringed. But the patent owner's chances of successfully starting up a company based on the patented invention would be slim to none. Since most global corporations chiefly grow by acquisitions rather than creating wealth through invention, if they succeed, they are inadvertently aborting future acquisitions, and thus failing to act in the long-term best interest of their shareholders.

The proposed patent "reform" legislation is humbug!

John J. Connors is a patent attorney and the founder of Connors & Associates, a professional law corporation. His practice focuses on intellectual property and entertainment law. He serves on the board of directors of ICU Medical, Inc. (NASDAQ), is an emeritus member of the Association of Corporate Patent Counsel, and may be reached at 949.833.3622.