



FENWICK & WEST LLP

# Changes in Store for “Ailing” Patent System

STUART P. MEYER

Just a few years ago, it was unusual for patents to make newspaper headlines — but times have changed. A small company is awarded half a billion dollars in damages in a patent infringement action against Microsoft. Thousands of demonstrators appear in Brussels as the European Union considers whether it should allow patents on software. Nearly every week, newspapers from Los Angeles to Louisville run patent stories — usually about how the patent system is outmoded, unfair or otherwise flawed.

Complaints about the patent system have now come to a boil, with significant congressional activity over the past month. Bills have been introduced and lobbying is intense. Why all the uproar, and what will result from all the turmoil?

The United States has a patent system very different from that used in the rest of the world. Most countries have a “first to file” system, where competing inventors race to the patent office in a technological land rush. The first person to file an application is considered the rightful inventor and patentee.

The United States, however, has a “first to invent” system that allows others to challenge the first filer. Patents can be invalidated upon proof that the patentee was not the first one to come up with the invention. One result of the American system is that patent litigation often involves detailed discovery as to relevant dates of “conception” and “reduction to practice” of the invention. Expensive “patent interference” proceedings take place to determine which of two rival inventors was first. Proof of the real invention date is often fuzzy, leading to lack of predictability in patent disputes.

Other timing differences further complicate the patent maze. For instance, most countries require a patent application to be filed before any “public divulcation” of the invention. The United States, in contrast, allows a one-year grace

period and starts the clock ticking based not on the public divulcation standard, but upon publication of the invention, commercial use of the invention or an offer to sell the invention. Thus, what might be patentable in the United States might not be patentable in another country.

Another potential area for reform concerns the strong presumption of validity given to patents under the law. A patent can be invalidated only under a “clear and convincing” evidence standard, which many argue is not warranted in light of the current patent examination process.

Perhaps the most widely criticized aspect of our current patent law is its protection of patent “trolls” who purchase patents and assert them against an industry without even attempting to produce their own products. This is allowed under current law, but many companies in a wide range of industries find the practice distasteful and complain that the availability of treble damages and attorney fees for “willful infringement” only adds fuel to the fire.

These concerns have led to calls for reform from very influential sources. For example, the head of the U.S. Patent and Trademark Office, Jon Dudas, testified in April before a Senate judiciary subcommittee that patent law should be changed to a first-to-file system and that new mechanisms for post-grant review should be enacted. The chairman of the American Bar Association’s Section on Intellectual Property Law, William LaFuze, was blunt in calling the existing patent law “unacceptably expensive, complicated and unpredictable.”

Industry groups and individual companies presented their own parades of horrors, directly to the legislators and in industry conferences. The comments of large companies are especially interesting because the companies are themselves holders of vast patent portfolios, and therefore plaintiffs as well as defendants in patent disputes.

Microsoft has been particularly vocal in its lobbying. Microsoft's general counsel, Brad Smith, has traveled extensively this year to present Microsoft's position. While Microsoft has some 4,000 patents, with 3,000 new patent applications filed in 2004 alone, it also spends something in the area of \$100 million annually defending an average of 35 to 40 patent infringement actions pending against it at any one time. Microsoft asserts that legal reforms are needed to address patent quantity and quality, excessive patent litigation, harmonization with other countries' patent systems and accessibility of the patent system for individuals and small companies.

Some of Microsoft's proposals are relatively mild, while others are more extreme. As an example of the latter, Microsoft suggests consolidating all patent infringement actions in a single U.S. District Court, in the same way that all patent appeals are currently heard in the U.S. Court of Appeals for the Federal Circuit.

The Business Software Alliance, represented by Apple's chief patent counsel, Richard Lutton, asserted in the hearings that "periodic review and recalibration of the patent law is not only a good idea, but also essential to ensuring that patents remain a vital part of technological process." The alliance proposed a post-issuance review of patents that would include two windows: one immediately after the patent issues, and another after a patent owner sends a notice of infringement. It also urged a number of litigation reforms, primarily to limit damages and injunctive relief.

Intel's David Simon testified that several aspects of current law on patent damages are prone to abuse. He observed that willfulness can be established through mere knowledge of a patent without real intent to infringe, and that there is difficulty in determining damages when a small component of a large product is found to be infringing. To drive home the point, he reiterated a concern identified by General Motors, stating, "We now have a case of someone wanting to enjoin the sale of pickup trucks because they contain a built-in beer cooler that is claimed to be infringing."

Joel Poppen of Micron Technologies decried the current practice of people "inventing patents" rather than "patenting inventions" and explained techniques such as "patent stalking" that are used to unfairly obtain patents. "The 'patent stalker' first files a broad patent application describing the expected future direction of an industry in very general terms," Poppen said. "Then, while maintaining the application in secrecy, the stalker monitors

innovative manufacturers." By amending claims to cover the developing technologies, the stalker can obtain an undeserved lever over an entire industry.

Not only corporations are advocating patent law reform. Yale University President Richard Levin, testifying on behalf of the National Research Council, agreed with many of the other witnesses in proposing use of a first-to-file system and implementation of simple post-grant review procedures.

Some representatives of small business and independent inventors worry that the reforms being proposed would harm those with modest resources. Dean Kamen of DEKA, inventor of the Segway scooter, testified that some of the proposed reforms "are not only unnecessary to address the issues that exist in our patent system today, but have the very real potential to create substantially worse problems. He stated that the weakening of injunctive relief "will have catastrophic consequences in our patent system and is particularly problematic for independent inventors.

Large companies are acknowledging the validity of such concerns. Robert Armitage presented Eli Lilly & Co.'s views with surprising candor, observing that there is "much irony in hearing from a pharmaceutical industry witness on the issue of patent reform" because the current law has served the industry so well. Even as he agreed in general with the need for reform, he suggested that Congress follow a "legislator's version of the Hippocratic Oath" and "do no harm in addressing the issue of which reforms will further encourage innovation." He urged that Congress heed proposals to include protections for independent inventors in any move to a first-to-file system. He also observed, "There are 100 ways of getting a post-grant opposition system wrong for every way forward to a fair and balanced post-grant opposition regime."

Given this environment and the uncertain form that patent law may take in the coming years, how should businesses plan for the future? To those who are experienced in intellectual property matters, this is nothing unusual. Intellectual property law is like a pendulum, periodically swinging from weak protection to strong protection and back again.

In the 1970s, before creation of the Federal Circuit, forum-shopping was all the rage and patents were almost worthless in some courts. The wax and wane of intellectual property protection is not limited to patents. It is the rule with trademarks, trade secrets and copyrights as well. A

single Supreme Court decision or legislative action can drastically change the value of an intellectual property portfolio. Astute companies anticipate that in their intellectual property strategies.

Thomas Jefferson was the first patent commissioner of the United States, and there is a quote of his on the Jefferson Memorial observing that “laws and institutions must go hand in hand with the progress of the human mind.”

Jefferson used striking imagery to explain that “as new discoveries are made [and] new truths discovered . . . institutions must advance also to keep pace with the times,” for, otherwise, “We might as well require a man to wear still the coat which fitted him when a boy.” His observations are as valid today as they were two centuries ago.