

REFORMING THE PATENT SYSTEM: A CLOSER LOOK AT PROPOSED LEGISLATION

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I. Introduction

The U.S. Constitution authorizes Congress "To promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."¹ In accord with the Constitution, Congress has passed legislation to provide conditions for patentability. These conditions must be broad enough to encompass new technology but narrow enough to ensure that the exclusive monopoly awarded with a patent does not inhibit further innovation.

Frustration over the U.S. patent system has been increasing in recent years. Many companies that rely on patent protection argue that reform is needed to address rising costs, the issuance of questionable patents, and uncertainty in litigation that inhibit their ability to innovate and compete. While these problems are not new, reform has been slow due to the various interests that the patent system affects. Recently, Congressman Lamar Smith of Texas introduced the Patent Reform Act of 2005 to amend title 35 of the United States Code. This relates to the procurement, enforcement, and validity of patents.²

This paper examines the purpose of the proposed reforms and their potential effect on the patent system. Part II discusses whether the U.S. should adopt a first to file system. Part III looks at the passage of questionable patents and the proposed post-grant review process. Part IV examines whether prior art should be limited to information that

¹ U.S. CONST. art. I, § 8, cl. 8.

² See Patent Reform Act of 2005, H.R. 2795, 109th Cong. (2005).

is "reasonably and effectively accessible"³. Part V addresses the duty of good faith and candor, and Part VI examines willful infringement and treble damages in patent litigation.

II. First to Invent or First to File?

Unlike the rest of the world, the U.S. issues patents to the first to invent an invention rather than the first to file a patent application.⁴ Because no other country uses the first to invent system, foreign countries view the U.S. changing to a first to file system as fundamental to creating international harmonization within the patent system.⁵ This harmonization is necessary because innovation and commercialization is often an international process, and harmonization would allow various patent offices to share the work of examining patent applications.⁶

The Patent Reform Act of 2005 proposes to change U.S. patent law to make the effective filing date of a claimed invention the actual filing date of the patent application.⁷ This proposal would align the U.S. with World Intellectual Property Organization⁸ member countries and eliminate costly interference proceedings.

Under current U.S. patent law, when two inventors file applications for the same invention, the PTO initiates an interference proceeding to determine which inventor was the first to invent.⁹ Invention requires conception, which is having a definite mental understanding of a device, method, composition of matter, or product as it is to be made

³ *Id.* § 3.

⁴ Fed. Trade Comm'n, A Summary Report of Discussions at Town Meetings on Patent Reform (2005), available at <http://www.ftc.gov/opp/intellect/050601summarytownmtg.pdf> (last visited Oct. 23, 2005) [hereinafter Town Meeting].

⁵ *Id.*

⁶ *Id.*

⁷ H.R. 2795 § 3.

⁸ See About WIPO, <http://www.wipo.int/about-wipo/en/> (last visited Oct. 23, 2005). The World Intellectual Property Organization (WIPO) is a specialized agency of the United Nations that administers 23 international treaties concerning intellectual property protection. *Id.*

⁹ See 35 U.S.C. § 135 (2000 & Supp. III 2003).

or used. Invention also requires reduction to practice via a prototype or filing a patent application.¹⁰ Conception and reduction to practice are subjective elements that increase the cost and uncertainty of interference practice. Due to these high costs, interference proceedings are most often used by large entities rather than by small entities.¹¹ In addition, these proceedings rarely change the outcome, with only one in four cases won by the second party to file.¹²

Harmonization also has its drawbacks. Adopting a first to file system may adversely impact small entities that have limited resources to prepare patent applications, making a larger entity more likely to win the race to file. Another concern is that the written description requirement.¹³ The written description requirement requires patents with broad biotech claims to contain substantial data and description and increases the time required to file an application.¹⁴ In the race to file, this increased time could have an adverse impact on smaller entities.

III. Grant Rates and Post Grant Opposition

There has been much debate concerning the volume of patent applications and the resulting patent grant rates in the United States. The rates of patent grants in the U.S. have been calculated at between 74-85%.¹⁵ Such high acceptance rates compared to other industrialized countries provide reason to question the quality of the U.S. examination process.¹⁶ For example, the USPTO recently issued a patent for an improved version of a

¹⁰ See *Cooper v. Goldfarb*, 154 F.3d 1321, 1327 (Fed. Cir. 1998).

¹¹ *Town Meeting*, *supra* note 4, at 8.

¹² *Id.* at 7.

¹³ 35 U.S.C. § 112 (2000).

¹⁴ *Town Meeting*, *supra* note 4, at 10.

¹⁵ See Lawrence B. Ebert, *Patent Grant Rates at the United States Patent and Trademark Office*, 4 CHI.-KENT J. INTELL. PROP. 108, 115 (2004).

¹⁶ *Id.* at 108.

peanut butter and jelly sandwich.¹⁷ With so much prior art available it is difficult to see how such a patent could issue.

This poor quality of examination is dependent on several factors including a lack of funding for the USPTO. Funding for the USPTO is generated in part by fees it collects from applicants. This may make the USPTO more likely to issue questionable patents because the USPTO may come to serve the interests of those it regulates instead of the broader public interest it was intended to protect.¹⁸ The limited grant of a patent monopoly is not something that should be given for any invention, but only those that meet the statutory requirements.

Congress has been redirecting fees away from the USPTO in recent years and into other areas. However, President Bush recently proposed to provide \$ 1.703 billion in his 2006 budget to operate the Patent and Trademark Office.¹⁹ Increased funding, while needed, raises the question of whether the focus should be on improving the existing examination process for all patents, or only on those that are economically important as identified through a post grant proceeding. Because not all patents are enforced or commercially important it would seem reasonable for the USPTO to focus on the latter.

The existing administrative procedure for challenging questionable patents is inter partes re-examination, which is seldom used and largely ineffective.²⁰ The reason it has not been widely used is that inter partes re-examination provides for limited issues to be raised, contains a broad estoppel provision and is conducted by an examiner who may or

¹⁷ Donald S. Chisum, *Reforming Patent Law Reform*, 4 J. MARSHALL REV. INTELL. PROP. L. 336, 339 (2005).

¹⁸ Carl Shapiro, Symposium: *Ideas Into Action: Implementing Reform of the Patent System: Patent System Reform: Economic Analysis and Critique*, 19 BERKELEY TECH L.J. 1017, 1022-23 (2004).

¹⁹ Michael S. Mireles, Jr., *The United States Patent Reform Quagmire: A Balanced Proposal*, 6 MINN. J.L. SCI. & TECH. 709 (2005) (book review).

²⁰ Town Meeting, *supra* note 4, at 14.

may not be trained in the law.²¹ These shortcomings create no incentive for use, making litigation the only viable method to invalidate questionable patents. Litigation is expensive, and enables patent trolls to prey on legitimate patent enforcers.

Patent trolls are groups that obtain patents not with the intent of commercializing the technology, but with the intent of hiding until a company produces and markets the technology.²² Once a company has a successful product on the market the trolls come forward and demand substantial licensing fees.²³ Patent holders of these questionable patents are more likely to bring an infringement suit because of the presumption of validity that attaches after a patent issues, the prospect of huge damage awards, and sweeping injunctive relief that leads to increased pressure on parties to settle.²⁴ Recently, for example, Research in Motion (the company that produces the "Blackberry") was sued for infringement.²⁵ The threat of an injunction that would close down the entire Blackberry system was severe enough for them to settle for \$450 million.²⁶

The Patent Reform Act of 2005 proposes a post-grant opposition proceeding where third parties can challenge the validity of issued patents through an administrative proceeding in the USPTO before a panel of three administrative law judges.²⁷ The purpose of a post-grant opposition system would be to improve the quality of issued patents by providing an inexpensive method for invalidating patents that should not have been issued. The post-grant opposition offers a balance between competing interests of

²¹ *Id.*

²² David G. Barker, *Troll or No Troll? Policing Patent Usage with an Open Post-Grant Review*, DUKE L. & TECH. REV. 9, (2005).

²³ Chisum, *supra* note 17, at 340.

²⁴ Mireles, *supra* note 19.

²⁵ See *NTP, Inc. v. Research in Motion, Ltd.*, 392 F. 3d 1336 (Fed. Cir. 2004).

²⁶ Chisum, *supra* note 17, at 338.

²⁷ H.R. 2795 § 9.

patent owners who wish to avoid harassment, and their competitors who need adequate incentives to use an administrative proceeding as an alternative to litigation.²⁸ The Act also limits the post grant opposition to specific times so as not to reduce the value or reliability of issued patents. "A person may not make an opposition request . . . later than 9 months after the grant of the patent or issuance of a reissue patent, or later than 6 months after receiving notice from the patent holder alleging infringement" unless the patent owner consents in writing.²⁹ The addition of a second window period has been hotly debated, some arguing that it will decrease venture capital in high risk areas such as biotechnology and information technology, while others see it as a necessary component to limit patent trolls.

The Act further provides that "An opposition request must identify with particularity the claims that are alleged to be invalid and, as to each claim, one or more issues of invalidity on which the opposition is based."³⁰ This provision has the effect of mitigating "fishing expeditions", and should provide some additional stability for issued patents. The Act also expands the scope of issues that can be raised compared to the current inter partes re-examination proceeding. "The issues of invalidity that may be considered during the opposition proceeding are double patenting and any of the requirements for patentability set forth in sections 101, 102, 103, 112, and 251(d)."³¹ This ensures that any relevant issues will be brought up during the proceeding.

²⁸ Town Meeting, *supra* note 4, at 14.

²⁹ H.R. 2795 § 9.

³⁰ *Id.*

³¹ *Id.*

The burden of proof required to invalidate a patent would be by a preponderance of the evidence.³² This lowered standard creates an incentive to use the proceeding, because litigation requires the higher burden of clear and convincing evidence. The Act also provides for limited discovery in an attempt to reduce costs and prevent broad access to company information.³³ The Act also bars by estoppel the same party from asserting the same issues of invalidity in court that were raised in the post grant proceeding.³⁴ This provides finality and certainty needed for the proceeding to be a useful alternative to litigation. The Act would apply to applications for patents, and any patents issued thereon, that contain a claim to a claimed invention that has an effective filing date that is one year or more after the date of enactment.³⁵

IV. Prior Art

The Patent Reform Act of 2005 proposes to limit prior art to subject matter that is publicly known. Subject matter is publicly known only when it becomes reasonably and effectively accessible through its use, sale, or disclosure.³⁶ The Act defines reasonably and effectively accessible as subject matter that a person of ordinary skill in the art can gain access to and comprehend without resorting to undue efforts.³⁷ Because secret prior art is difficult for examiners to find, eliminating categories of secret prior art would provide more certainty to the examination process and any resulting litigation. However, by limiting prior art to subject matter that is publicly known, the purpose of rewarding

³² *Id.*

³³ *Id.*

³⁴ *Id.*

³⁵ *Id.* § 11.

³⁶ *Id.* § 3.

³⁷ *Id.*

only new innovation may be undermined. Also, this provision may create new grounds for litigation over the definition of "undue efforts".

V. Inequitable Conduct

The doctrine of inequitable conduct determines whether an inventor or his attorney intentionally misled the USPTO by withholding or misrepresenting material information during prosecution.³⁸ Because issues involving inequitable conduct focus on subjective elements of the inventor's intent or his attorney's intent, hearing these issues during litigation increases costs and uncertainty.³⁹ A finding of inequitable conduct may make the patent unenforceable.⁴⁰ Because of this effect it is often used as a defense in litigation even though it is rarely successful.⁴¹ But defending such a charge can create a dilemma, forcing patentees to consider waiving the attorney-client privilege surrounding prosecution of the patent or risk the patent becoming unenforceable.⁴²

The Patent Reform Act of 2005 imposes a duty of candor and good faith on individuals associated with the filing and prosecution of an application.⁴³ The Act makes violations of this duty reviewable by the USPTO rather than the courts, limiting its use as a defense tactic in litigation.⁴⁴ A patent would be unenforceable only if a claim invalidated by the court would not have issued but for the misconduct.⁴⁵ This proposal keeps the deterrent effect of unenforceability for violations, but separates it from

³⁸ Town Meeting, *supra* note 4, at 25.

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

⁴³ H.R. 2795 § 5.

⁴⁴ *Id.*

⁴⁵ *Id.*

litigation, making it more likely that allegations of misconduct will be brought for the right reason.

VI. Willful Infringement

The goal of the willful infringement doctrine was to deter purposeful infringement by providing treble damages. A finding of willful infringement may be predicated on acts of deliberate copying, but knowledge of a patent along with failure to exercise due care to avoid infringement may also result in liability.⁴⁶ Because willful has been interpreted broadly, to include any knowledge about the patent from any source, the deterrent benefits have not been realized.⁴⁷ What has resulted is an anti-disclosure environment and disproportionate judgments. The willfulness doctrine also raises costs through the need to obtain an exculpatory legal opinion as evidence of due care.⁴⁸ But an accused infringer's failure to obtain such opinion should not result in a negative inference of willfulness.⁴⁹

The Patent Reform Act of 2005 would limit willful infringement in situations where there was an informed good faith belief that the patent was invalid, unenforceable, or would not be infringed by the conduct later shown to constitute infringement.⁵⁰ The purpose of this change would be to provide more of a bright line rule for companies to know when treble damages may be warranted. This proposal should provide more of a deterrent to willful infringement without severely punishing those who innocently infringed.

⁴⁶ *Id.*

⁴⁷ Town Meeting, *supra* note 4, at 24.

⁴⁸ *Id.* at 22.

⁴⁹ Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F. 3d 1337 (Fed. Cir. 2004). The court held that an accused infringer was allowed to withhold advice received from counsel without a negative inference of willfulness being attached. *Id.*

⁵⁰ H.R. 2795 § 6.

VII. Conclusion

While it is clear that the patent system needs reform, it is unclear whether or not the Patent Reform Act of 2005 will attract enough support to be enacted. Nevertheless, the Act serves to highlight some of the current problems with the U.S. patent system. Reform is needed to address rising costs and uncertainty of litigation and the issuance of questionable patents that inhibit innovation. To fully and efficiently promote innovation, these issues need to be resolved so inventors and companies can effectively compete in an increasingly global economy.