

When Politics Drives the Patent Law, Bad Things Happen

How the U.S. Patent Office Became The Place
Where Patents Go to Die

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The America Invents Act (the “AIA”) is a Classic Example of Politically Driven Legislation

- In 2011, Congress was routinely criticized for doing nothing to improve a weak economy and high unemployment and for Congressional gridlock.
- At the same time, large Silicon Valley companies were demanding relief from suits brought by patent trolls, and conducting a major PR campaign to demonize trolls.
- Their anti-troll rhetoric evolved into an attack on the patent system.

In the Past, America's Famous Inventors Vigorously Employed their Patents to Support Their Business Interests

- The United States Supreme Court Reports for 1878 is filled with opinions about patent infringement suits brought by Alexander Graham Bell.
- Thomas Edison was both a prolific inventor and a prodigious patent plaintiff
- Both Bell and Edison made great sums of money licensing their patents.
- Edwin Land famously stated that the "the only thing that is keeping us alive is our brilliance. The only way to protect our brilliance is patents."

The Innovators of Silicon Valley Had a Different View

- Many great companies were founded in garages and dorm rooms.
- These companies include Apple, Google, Dell and Hewlett Packard.

These Innovators Have Business Models Different From those of Bell, Edison and Land

- All of this early work in garages and dorm rooms demonstrate that the technologies at least some of them work with do not require substantial investments in brick and mortar when compared to the “old economy”. Their capital is knowledge capital.
- To the extent that these companies innovate in software, the ability of patents to protect software has had a rocky history.

As a Result, These Innovators Have Different Views About Patents

- Apple, Dell, HP and Google have plenty of patents, including patents purchased from others.
- Apple asserts its patents all of the time. Google does not assert its patents.

But These Innovators Do Agree on One Thing: The Patent Trolls Are Bad

- Google, the leader of the anti-troll forces, plainly made a business decision that reducing its defense patent litigation costs was more important than curbing its ability to assert its own patents.
- Google, Dell and Hewlett-Packard have all been part of the Coalition for Patent Fairness, the chief industry advocate lobbying Congress for reforms, including giving the patent office wide latitude to conduct administrative invalidity proceedings.
- Their message was simple: bad patents are bad for the economy.

Washington Listened to Silicon Valley And Positioned Patent Litigation as a Cause of the Nation's Economic Distress

- Congress and the White House typically view patent legislation as arcane, and not important to voters.
- By contrast the health of the economy and job creation is top of mind for the electorate for both parties.
- Patent reform did not push any of the “hot buttons” that had led to Congressional gridlock in the past.
- The Republican party is particularly receptive to curbing plaintiff's litigation against big business.
- The AIA became the vehicle for Congress and the White House to proclaim a bi-partisan victory for American workers.

The White House and Congress Were Effusive In Praising The Economic Benefits of Patent Reform

- The White House, in announcing the signing of the AIA by President Obama stated: “The legislation signed by President Obama today will help companies and inventors avoid costly delays and unnecessary litigation, and let them focus instead on innovation and job creation.” (White House Blog 9/16/2011).
- The White House, in referring to a part of the AIA providing resources for faster patent prosecution, stated that “....reducing the backlog [of patent applications] will help get more ideas turned into companies and jobs.” (White House Blog 9/16/2011).

The Operating Premises Behind the AIA Were At Odds with the Fundamentals of the Patent System.

- While the lobbyists for both pro and anti-patent industrial groups were visiting Congress in full force, experienced patent lawyers must have stayed home when Congress voted in favor of these procedures.

Creating Jobs is Not The Purpose of the Patent System

- The purpose of the patent system as set forth in the Constitution is to promote the “Progress of Science and useful Arts”, not to create jobs.
- Innovation can result in fewer jobs. You need only visit your local grocery store or pharmacy to see six computerized check out lanes supervised by only one human clerk. At best this can be a zero sum game. More jobs at the manufacturer of the machines, fewer jobs in the supermarket.

The Worth of a Patent Cannot be Judged Simply By Who Owns It or How The Patent Was Obtained.

- Another major premise of the AIA is that all patent trolls assert “bad” patents. The unstated related premise is that the patents of operating companies are all “good” patents. But this cannot be the case. Patents vary in quality, and their validity is determined by factors that do not include the identity of their owners.
- The sophistry of the position that all patents asserted by trolls are “bad” is illustrated by the fact that the so-called trolls have become sophisticated investors in patents, which they frequently buy from operating companies. Obviously, the sale of a patent does not change its quality.

Selling and Buying Patents is Legal. Operating Companies Regularly Buy and Sell Patents

- A related flawed premise is that there is something wrong with buying patents and then suing on them. But buying patents is perfectly legal and many operating companies, including Google, buy patents.
- Many operating companies regularly sell their patents
- If there is a problem with the business model of some patent owners, that can be corrected by targeting legislation at the business model and not the patent system or patent litigation.

Companies Do Not Have to Use Their Patents to Sue On Them

- Technology companies regularly sued by trolls argue that a patent owner who does not make products should not be able to sue companies that do make products.
- But patents confer the right to exclude others from using the patented invention. 35 U.S.C. §154.
- In *eBay Inc. v. MercExchange, LLC.*, 547 U.S. 388 (2006) the Supreme Court held that while the right to exclude did not dictate an automatic right to the remedy of an injunction, companies who chose to license instead of using their patents could obtain injunctions. *Id.* at 393.

Unfortunately, These Flawed Arguments Were Accepted By Congress When It Created A New Set of Post Grant Proceedings in the USPTO

- Based upon the patent business model of but one subset of American industry, and concerns about patents owned by one subset of patent owners, Congress enacted procedures that applied to all American industry and all patent owners.
- This legislation, together with patent office rule making has resulted in a procedure with a deadly impact on issued patents of all companies.

The Focus on “Bad” Patents Has Led The USPTO To Routinely Invalidate Patents in IPR Proceedings

- Eliminating bad patents sounds like a good idea until you learn that the results show that the USPTO considers more than 80 percent of the patent claims it issues to be “bad.”
- “Since the inception of IPR, patent challengers have have filed over 3400 petitions, and nearly 85% of the IPR proceedings to date have resulted in the cancellation of some or all claims in the patent under review.” Petition for a Writ of Certiorari filed by Cuozzo Speed Technologies LLC, October 6, 2015, p. (I).

Inter Partes Reexamination Was Far More Patent Friendly

- Far fewer patent claims were invalidated. Many times claims issued in amended form to overcome the cited prior art.
- USPTO Statistics for the period from 11/29/99 to 9/16/2012 show:

Number of requests filed	1919
Number known to be in litigation	76 percent
Average reexam pendency	36.9 months
Median reexam pendency	32.7 months
Reexam certificates issued	964
Certificates with all claims confirmed	7 percent
Certificates with all claims cancelled or disclaimed	31 percent
Certificates with claims changes	62 percent

Petitions Seeking IPR Review Can Be Granted On The Same Grounds And The Same Art As Those Already Considered In Original Prosecution

- Petitioners seeking IPR review must show “a reasonable likelihood of success”. But in practice, this has been a remarkably easy standard to meet.
- But the different standard for review is outweighed by the fact that unlike reexaminations, a petitioner in an IPR does not need to raise a new question of patentability not previously considered by the USPTO in the initial re-examination. While the office has some discretion here, an IPR can be a complete ‘do-over’ of the original prosecution without regard for the basis for original issuance.
- There is no appeal from the PTAB’s decision whether or not to institute an IPR. So the PTAB can do what ever it wants at this stage without any oversight.

Whether Intended or Not, the Statutory Framework for IPR's Eviscerated the Statutory Presumption of Validity.

- In *Microsoft v. I4I Limited Partnership*, 564 U.S. ___, 131 S.Ct. 2238 (2011), a case where Microsoft unsuccessfully challenged the presumption of 35 U.S.C. §282(a), the Court observed that while Congress had often amended section 282, but “not once, so far as we (and Microsoft) are aware, has it even considered a proposal to lower the standard of proof.” *Id.*
- The statutory presumption of validity was incorporated into the patent statutes in 1952 to make clear the impact of administrative regularity flowing from the examination system in the United States Patent Office provided for in the Patent Act of 1836.
- When Congress provided that IPR proceedings could revisit the same grounds and same prior art previously considered by the USPTO under a “preponderance of the evidence standard”, it effectively ended the protection of section 282 for any patent unlucky enough to find its way into an IPR.

Patent Owners Were Further Disadvantaged by USPTO Rule Making

- Congress put strict time limits on the length of IPR's (12-18 Months) and gave the USPTO wide rule making authority and discretion concerning how it would meet these time limits.
- The USPTO has justified many of its rules by emphasizing the need for efficient proceedings in order to meet the deadlines imposed by Congress. Unfortunately, many of these efficiencies come at the patent owners expense.
- A petitioner can submit an expert declaration with its petition for review. But the patent owner cannot cross examine the petitioner's expert at this stage or submit its own expert declaration in its response. Given the high correlation between the decision to grant review and the ultimate determination of invalidity, the PTAB effectively makes up its mind after a one-sided presentation by petitioner.

The USPTO's Claim Construction Standard Is Another Major Problem for Patent Owners.

- Congress created a hybrid procedure. An IPR is part prosecution and part substitution for district court litigation. The USPTO decided to follow the broadest reasonable interpretation (“BRI”) claim construction standard traditionally used in prosecution and re-examination for all claims.
- Patent owners want the USPTO to apply the “*Phillips*- type” claim construction standard used in litigation to all claims. This issue is now before the Supreme Court.

The Problem with The Claim Construction Standard is Exacerbated By The Practical Inability to Amend Claims

- In IPR procedures, the patent owner is limited to one motion to amend its claims. In practice, these motions are almost always denied.
- The result is the BRI claim construction used in prosecution is applied when no prosecution is taking place.
- The adjudicatory nature of IPR proceedings is further demonstrated by the PTAB judges hearing and deciding IPR's. They are not patent examiners. The typical PTAB judge is an experienced patent litigator.

Current IPR Procedures Harm Patent Holders

- The time and money they spent in the examination process in reliance on the statutory presumption of validity has been wasted. The presumption of validity is now illusory.
- The supposed benefits of the speedy prosecution of the AIA means only that patents now hasten to their death.
- In litigation, alleged infringers can argue a narrow claim construction to the district court deciding on infringement, and a broad claim construction to PTAB deciding validity.

Current IPR Procedures Harm Operating Companies

- What is good for Google is bad for operating companies protecting their investment with their patents.
- That includes big-pharma, life sciences, medical products and almost all technology companies who sell products.
- Operating companies who use their patents to protect their investments and their products now need to give serious thought to instituting litigation against competitors and risk the invalidation of their patents.

Current IPR Procedures Harm Start-Ups

- Start-ups depend upon access to investor money in order to grow.
- The review of a young company's patent portfolio is standard operating procedure during due diligence by investors.
- Investors do not like risk. Eviscerating the presumption of validity has created risk and diminished the availability of investor money.

Current IPR Procedures Do Not Improve Patent Quality

- Patent quality initiatives have to focus on the corps of patent examiners.
- The IPR procedures provide no instruction to examiners or to patent owners
- PTAB judges do not review the file history. Therefore no explanation is provided about what went wrong at the examination stage.
- PTAB judges can give cursory reasons for their decisions.
- Every IPR is treated as a separate proceeding, with decisions not binding on other PTAB judges.

The Current Combination of A Large Corps of Patent Examiners and the PTAB Is A Prime Example of Government Inefficiency

- In FY 2015, the annual operating budget of the USPTO was \$3.46 billion funded by fees paid to the USPTO largely by patent applicants and owners.
- At the end of FY 2015 there were 9,161 patent examiners and 235 Administrative Patent Judges.
- The small number of patent judges routinely decide that the work of 9,000 patent examiners in the same agency has resulted in “bad patents”.
- It is not good government to have an agency which collects fees from applicants and puts them through a process which initially gives them a patent grant and then routinely revokes it.

Lessons Learned

- It is impossible to enact laws about patent litigation procedures that apply only to one class of patent holders. The interests of all patent holders will be affected.
- The patent laws should be agnostic to the patent policies of individual companies. The primary focus should be a healthy patent system accessible to all.
- Congress should not legislate patent law without a patent policy driven look at the impact on the patent system as whole. There are other ways to deal with abusive litigation and the business models of patent owners.
- Patent protection provides a private right in exchange for public disclosure of the invention. Do we really want to encourage secrecy? Innovation thrives in the free exchange of ideas.

Going Forward

- The Courts can provide some improvement, but it will be limited due to the statutory framework.
- It is understandable that a few years after sweeping legislation, further amendments are necessary.
- Unfortunately, the conflict between pro and anti-patent forces have produced gridlock on amendments.

Going Forward- Primary Areas for Near Term Legislation

- Require that IPR review be granted only where a ground for invalidity not previously considered by the USPTO is present.
- Permit more frequent claim amendments.
- Apply the BRI claim construction standard only to claims being amended.
- If necessary expand the time frame for IPR's by a few months to give the USPTO time to deal with amendments.

THANK YOU

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