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NOW THAT THE COURTS HAVE BEATEN CONGRESS TO THE PUNCH, WHY IS CONGRESS STILL PUNCHING THE PATENT SYSTEM?

Robert A. Armitage †*

INTRODUCTION

The U.S. House of Representatives began September by passing the Patent Reform Act of 2007. This bill, if enacted, would make major changes to U.S. patent law. Given the universally recognized need for improvements to the U.S. patent system, passing a patent reform bill in the House should have been easy. It was not. The Patent Reform Act of 2007 made it through the House only after a spirited debate. There were a host of complaints by House members that the bill was not ready for floor action. In the end, it passed the House by a relatively narrow margin, 220 members voting for the bill and 175 members voting against.

What made for such tough congressional sledding?

I. DUELING AGENDAS FOR PATENT REFORM

The bill is controversial because it mostly reflects the wish list of a single-minded coalition of interests. The bill's supporters allege that the enforcement of many U.S. patents is no less than lawsuit abuse. The core supporters of the House bill responded to these allegations with provisions to limit the damages available to patent owners, to restrict the judicial venues available for patent enforcement actions, and to provide additional non-judicial forums for deciding patent validity. In other words, the House saw the case for patent reform as largely one for tried and true *tort reform*. Understandably, many patent owners do not see the House action as a reform of the patent system at all, but rather as a concerted effort to diminish it.

The contrary views of what is and is not needed patent reform come from a diverse set of constituencies. Those opposed to the path taken in the House bill range from bar associations (the Intellectual Property Law Section of the American Bar Association and the American Intellectual Property Law Association) to trade associations (the National Association of Manufacturers and the Biotechnology Industry Association). Those leading the

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opposition to the House bill are among the strongest supporters of an alternative set of patent reform measures—the April 2004 recommendations of the National Academy of Sciences.

The National Academy, after an intensive, four-year study of the U.S. patent system, recommended patent reforms that would remove highly subjective elements from the U.S. patent law—*and the expense, unpredictability, and uncertainty that those elements inject into the patent system*. Other National Academy reform recommendations would permit a patent's validity to be readily determined from publicly accessible information—*again eliminating more of the expense, unpredictability and uncertainty that uniquely plague U.S. patent law*. By any reckoning, the National Academy recommendations—although they would substantially rework fundamental aspects of the operation of U.S. patent law—struck a careful balance between the interests of those seeking to enforce valid patents and those seeking to challenge questionable ones.

Supporters of the National Academy recommendations accepted the Academy's core findings. The Academy found that the effectiveness of the U.S. patent system is impaired in large measure because quirks of our domestic patent system make it uniquely costly and complicated to use; it also found that it is time to jettison antiquated patent law principles that are in use here but nowhere else in the world. These supporters, thus, see comprehensive patent reforms as having the potential to greatly improve the quality of issued patents and the ease of assessing a patent's validity. The reforms may also ensure that enforcing a patent in court could never be credibly termed an act of lawsuit abuse.

The House bill, however, simply bypassed the National Academy's recommendations for a more transparent and objective U.S. patent law. The House punted on the core recommendation of the National Academy to place U.S. patent law principles in greater harmony with concepts present in *every other country around the world*. It postponed implementation of the most important of these harmonizing measures: introduction of the first-inventor-to-file principle. In the fine print in the transition provisions of the bill, the implementation of this principle was put off to the distant date when European countries have ratified a new version of the European Patent Convention containing a so-called "grace period"!

The National Academy's recommendation to remove all of the highly subjective factors from U.S. patent law was also left unrealized. The House declined to take steps needed to limit the most important of these subjective elements, the defense to the enforceability of a patent based upon allegations of so-called "inequitable conduct." This defense in recent years has denied patent owners the right to enforce otherwise valid and infringed patents because of little more than "technical fouls" committed during patent procurement. The bad conduct that can trigger loss of enforceability can be nothing more than a misstatement or incomplete statement made to the United States Patent and Trademark Office in a patent application, even if this conduct made no difference to the decision to grant the patent.

As the bill reached the floor, the House approved an amendment that essentially rejected the National Academy's recommendation to eliminate the "inequitable conduct" defense. The current bill codifies a broad reach for the "inequitable conduct" doctrine—one that would render the U.S. patent statute unique in the world in affording a defense of this type to infringers of valid patents.

On the "inequitable conduct" issue alone, the House bill sets a precedent that could have dire international consequences for U.S. interests. Should other countries incorporate a similar provision into their patent laws, this could subject foreign patents of U.S. inventors to all manner of new unenforceability assertions. This is an especially troublesome prospect for U.S. interests in countries that stand to benefit more by inexpensively copying U.S. technology than by respecting and protecting U.S.-origin intellectual property rights.

II. "TROLLS" VERSUS "ANTI-TROLLS": THE LAWSUIT ABUSE AGENDA EXAMINED

What led the U.S. House of Representatives to ignore broadly supported calls for needed reforms to U.S. patent law that were laid out by the National Academy in a set of compelling, well-reasoned recommendations? Are the aforementioned "lawsuit abuse" allegations so persuasive that they justify Congress enacting legislation that many believe represents a devastating retreat from decades of consistent U.S. support for strong and effective patent laws—and may have highly undesirable consequences for U.S. innovators seeking to profit from their innovations in markets outside the United States?

One answer is that supporters of the House-passed bill have thus far successfully advanced the case that something must be done about "trolls" who own patents and the patent plaintiffs' bar willing to take trolls' cases into court. Trolls are patent owners whose business is based at least in part on acquiring patents from others to generate licensing income or, failing that, to collect damages based upon infringement of the acquired patents. Even though trolls may merely be exercising a right to compensation for infringement of valid patents, an anti-troll constituency argues that the troll business model is viable in part because patent litigation unfairly disadvantages accused patent infringers and unfairly advantages patent owners. These disadvantages arise in large measure, so they assert, because the federal courts' patent jurisprudence excessively rewards inventors and makes it too difficult to invalidate questionable patents.

Starting soon after the Federal Circuit was created in 1982, a number of specific contentions have provided grist for these anti-troll gripes. For example, looking back to the 1980s and 1990s, anti-patent forces asserted that juries had too much leeway in deciding what a patent covers. Every patent includes one or more "claims" that must lay out with definiteness and particularity what subject matter is legally protectable and what is not. When deciding what a patent covers, anti-patent forces contended that juries were

too easily swayed in their determination of what a patent claim means and they routinely gave patent owners the benefit of the doubt.

The anti-patent constituency throughout the 1990s also asserted that inventors could too easily expand the reach of patents to include all manner of “equivalents” to what the patent actually discloses and claims as the invention. Patent owners, these anti-patent forces contended, could readily and unfairly extend the reach of their patents beyond anything the patent laid out as the true invention because the courts sanctioned a far too liberal application of the “doctrine of equivalents.”

By the start of the current decade, anti-troll forces were focused on optimizing their leverage against patent owners in order to force them to settle patent infringement claims on favorable terms. They began the cry that patent owners had undue leverage in such settlement discussions on account of the threat of injunctions that could shut down an accused infringer’s business. According to anti-trolls, the injunctive threat existed even in cases where the equities favor the accused infringer and counsel for denying the patent owner this extraordinary relief. The courts, they asserted, simply failed to undertake the type of equitable inquiry that should balance, among other equitable factors, the hardships between property owners and infringers.

Additionally, anti-trolls have long argued that patents are far too easy to get. The United States Patent and Trademark Office does not—under the anti-troll view of the world—adequately prevent the patenting of obvious discoveries. Anti-trolls have stated that courts also sustain too many patents that provide no more than trivial advances in technology. Anti-trolls believe that the “non-obviousness” requirement put into the patent statute in 1952 effectively has been read out of the statute (or at least marginalized) by the arbitrary judicial requirements that patents must be sustained unless there is a specific teaching, suggestion, or motivation that would have inevitably led skilled persons to the invention.

Another unfair leverage point for patent owners that has appeared in the anti-trolls’ litany is the alleged ease of pursuing punitive damage claims by asserting that the infringement of the patent was willful. Anti-trolls have argued that the “duty of due care” imposed by the courts on accused infringers has placed enormous obligations on them to avoid being tarred as willful. Anti-trolls have asserted that in many situations this can require the infringer to obtain an exculpatory opinion from patent counsel before commencing any allegedly infringing activity.

The anti-trolls additionally complain that compensatory damages in many patent cases are often vastly more than merely compensatory. Under the anti-troll worldview, compensatory damages have been based upon the entire value of an infringing product even if the value attributable to the invention relates only to a single aspect or component of the product. This means, again under the anti-troll worldview, that infringers have been forced to pay grossly excessive damages. The threat of runaway damages, the anti-trolls believe, has forced extravagant settlements of patent lawsuits (Research in Motion, over \$612 million in 2006 to settle BlackBerry

infringement claims) and has produced huge jury awards (Microsoft, \$1.5 billion verdict in 2007 on MP3-related patents incorporated into its Windows OS).

III. THE COURTS HAVE BEATEN CONGRESS TO THE PUNCH IN ADDRESSING THE ANTI-TROLLS' ANTI-PATENT AGENDA

While the foregoing indictment of the work of the courts in patent cases could hardly be more pervasive, do these allegations justify the House bill's reworking the patent statute to the benefit of the anti-trolls? The answer to this question is, of course, a resounding "no." The *courts* have done—or are ably doing—everything that needs to be done to address the foregoing allegations of a runaway, pro-troll U.S. patent law.

What has happened over the past decade with respect to allegedly unfair treatment of patent infringers? Quite simply, the two courts with the greatest influence on the interpretation of U.S. patent law, the Federal Circuit and the Supreme Court—with help from clear-thinking district court judges—have squarely addressed and redressed each allegation of tilting towards trolls. More remarkably, the courts have done so *promptly and decisively*. The federal courts, when presented with a cogent allegation of an unfair pro-troll tilt, have found appropriate judicial vehicles to redress the concern. The record of the past decade speaks for itself.

In the 1996 case *Markman v. Westview Instruments Inc.*, the Supreme Court affirmed an opinion of the Federal Circuit that the construction of claims in a patent case is not an issue that can go to the jury, but rather is reserved for the judges before whom the patent case is heard. This brought a categorical end to any concern that juries might be favoring patent owners and incorrectly crediting patent owners' errant contentions about the full reach of the patent's claims.

The Supreme Court's 2002 opinion in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.* laid down stringent rules for the application of the "doctrine of equivalents" in patent cases. In the years since *Festo*, the concern that patent owners could benefit from an elastic reading of their claims that routinely extended to cover alleged "equivalents" has disappeared in its entirety.

In 2006, in *eBay Inc. v. MercExchange LLC*, the Supreme Court took on the contention that the threat of injunctive relief was driving unreasonable and unwarranted settlements in patent cases. It reiterated that injunctions could issue only when equity required that such extraordinary relief be granted, casting aside the supposed Federal Circuit's rule in patent cases that, absent exceptional circumstances, injunctions should issue once infringement of a valid patent has been established.

In April 2007, the Supreme Court bolstered the standards for application of the non-obviousness requirement in *KSR International Co. v. Teleflex Inc.* The Court cast aside any mechanical application of a much-maligned "teaching-suggestion-motivation" threshold test for assessing non-obviousness. It then provided an analytical framework for non-obviousness

determinations designed to assure that patents will not be sustained on trivial differences from existing technology. Thus, when a patent is found valid today, an infringer can quibble little with the conclusion that it misappropriated a truly non-obvious discovery of the inventor.

In an August 2007 decision in *In re Seagate Technology, LLC*, the en banc Federal Circuit removed the specter that the threat of punitive damages could force accused infringers into unfair settlements of patent infringement allegations. It eliminated the longstanding “duty of due care” to avoid the knowing infringement of valid patents. Rejecting any inquiry into the subjective beliefs of the infringer, the court sharply limited any future findings of willful infringement (and enhanced damages based thereon) absent clear and convincing evidence that the infringer’s actions were objectively unreasonable.

Finally, and most significantly, the baseless nature of the concern that trolls somehow take home unwarranted damages in patent cases is best exemplified by Judge Rudi M. Brewster’s decisive action in *Lucent Technologies Inc. v. Gateway Inc.*, a case in the Southern District of California. Following a May 2007 jury verdict in favor of the patent owner Lucent, Judge Brewster initially ordered the infringers to pay \$1.53 billion in damages for infringement of two patents. However, merely three months later, Judge Brewster vacated the verdict after finding the jury lacked sufficient evidence to award damages based upon the entire market value of the infringing product. The anti-troll constituency pressed its case in Congress for amendments to the patent statute restricting compensatory damages—even though Judge Brewster was able to apply existing law, *without any congressional intervention*, to address oversized damages through a routine post-trial motion.

This remarkable string of judicial decisions over the past decade leads to an inescapable conclusion: time after time, the alleged abuses or excesses cited by the anti-trolls have not required a congressional fix. The consistent, winning formula for the anti-trolls has been to take a meritorious case into court and win on the merits—*under the existing patent statute*.

IV. THE EASY CHOICE IS THE RIGHT CHOICE FOR CONGRESS

What are the issues that the 110th Congress should tackle if its objective is true reform of U.S. patent law? Given the long history of judicial responsiveness on each of the above “lawsuit abuse” allegations, Congress should have an easy choice.

On one hand, Congress could kowtow to the anti-troll constituency that incorrectly sees today’s patent law as being tilted to favor owners of patents. It could attempt to rewrite patent law to favor infringers, notwithstanding what the courts have done magnificently over the past decade to fairly and decisively address allegations of overreaching by patent owners and lax application of existing standards for patenting.

Alternatively, Congress can do what the National Academy of Sciences and many other important constituencies have recommended—advance

much needed reforms that will produce greater harmony and objectivity in the patent law. Specifically, Congress could enact broadly supported measures that would provide patent owners and patent challengers alike the benefits of the best ideas from the best patent systems in operation around the world.

CONCLUSION

Since U.S. global competitiveness depends on international respect for IP rights of U.S.-based inventors, Congress should be given every encouragement to make the right choice, especially given that the right choice would appear to be such an easy one.