

# Patents Under Attack

By Bradley C. Wright

A U.S. patent is one of the most potent weapons that a company can wield against a competitor. In recent years, juries have awarded patent infringement damages exceeding \$1 billion against individual defendants,

and multi-million dollar infringement awards have become relatively common. Injunctions entered against infringement defendants have crippled some companies and bankrupted others. Two years ago, the well-known Blackberry mobile e-mail system was nearly shut down after it was alleged to have infringed.

Yet storms are brewing on the patent front. Over the past three years, the U.S. patent system has come under increasing attack. Recent court decisions, combined with proposed new legislation, onerous new regulations issued by the PTO, and an onslaught of negative press coverage, have combined to produce a gradual weakening of the U.S. patent system. Many of the patent-strengthening measures taken by Congress and the courts in

the 1980s are being emasculated or overturned altogether.

## GENESIS OF THE MODERN PATENT ERA

From the 1950s to the 1970s, U.S. patents were marginalized by court decisions that frequently found them to be invalid and not infringed. One regional circuit court of appeals held invalid every patent that came before it over a 20-year period. Because the jurisdiction in which a case was heard had a huge impact on the likely outcome of a case, patent owners and defendants engaged in rampant venue-shopping to bring their cases in patent-friendly or patent-averse jurisdictions.

Recognizing the importance of patents to an innovation-based economy, Congress reacted to this

state of affairs in 1982 by creating a single federal appellate court having jurisdiction over all patent appeals in the United States. The U.S. Court of Appeals for the Federal Circuit, based in Washington, D.C., acted quickly to strengthen the patent system.

Among other things, that court decreed that competitors had a duty to investigate whether they were infringing the patent rights of others. It provided for near-automatic injunctions in patent cases, it made it harder to invalidate patents, and it allowed patent owners to impose restrictions on the use of patented goods after they were sold.

At about the same time, the U.S. Supreme Court upheld patents on software and the patenting of life forms, opening

the door to new types of patents. Congress acted to further extend patent protection to cover certain activities occurring outside the United States and expanded the types of activities that constituted infringement.

Companies reacted by rapidly increasing both the number of patent filings and the number of infringement lawsuits. The advent of so-called “business method” patents helped fuel the dot-com boom of the late 1990s. It also began to overwhelm the PTO, which was ill-equipped to deal with both the number and new types of filings. Juries, acting under the pro-patent rules in place, had no difficulty awarding multi-million dollar judgments, and judges duly entered injunctions against infringers.

In short, the pendulum of the anti-patent 1950s era had swung decidedly in favor of companies that had patents. Research and development money poured into new projects that became the subject of patent protection, and companies cross-licensed entire portfolios of patents to each other.

### SEEDS OF DISCONTENT

Just as the dot-com boom of the late 1990s turned into the dot-com bust of the early 2000s, discontent over the scope and power of patents became apparent.

So-called “patent trolls” – shell companies set up for the purpose of enforcing patents without ever commercializing them – began to emerge, antagonizing large U.S. corporations with multi-million dollar judgments. The business method patent phenomenon attracted negative publicity, as questionable patents were issued by the PTO and owners of such patents sued companies doing business on the Internet. Some computer software groups decried

the effect of patents on their ability to use ideas believed to be free for the taking.

The low morale and high attrition rate of PTO employees led to questions about patent quality and contributed to an ever-increasing backlog of patents, frustrating companies trying to obtain patent protection. Some jurisdictions, most notably the Eastern District of Texas, developed a reputation as having patent-friendly juries,

## More care will be needed in the selection and partitioning of potential inventions into different patent applications

prompting patent owners to flood those jurisdictions with patent lawsuits. Companies hauled into remote and unfriendly jurisdictions began complaining.

Respected organizations including the National Academy of Sciences issued reports proposing changes to the patent system to address various perceived problems, and the PTO began to implement a second review process for certain types of patents in an attempt to quell discontent.

### THE RECENT ASSAULT ON PATENTS

The seeds of discontent planted in the early 2000s have now become a four-pronged assault on patents. The four elements of the assault are court decisions, new patent reform legislation, new regulations issued by the PTO, and a drumbeat of negative press suggesting a need for reform.

The U.S. Supreme Court, which rarely hears patent cases, has in recent years granted review in a surprising number of patent cases and has signaled its displeasure with the scope and enforcement of patents. In

one case involving eBay, the Court recently struck down the automatic injunction provisions put into place by the U.S. Court of Appeals for the Federal Circuit. In another case, it invalidated a patent on an adjustable gas pedal for automobiles, lowering the threshold for declaring an invention to be obvious.

In another case, the Court made it easier for patent challengers to bring preemptive lawsuits challenging the infringement

and validity of patents. In yet another case, involving Microsoft, the Court limited the rights of patent owners to enforce their patents based on activities occurring outside the United States.

The U.S. Court of Appeals for the Federal Circuit apparently has taken its cue from the Supreme Court, recently eliminating the “duty of due care” that it had previously imposed on accused infringers to avoid infringement of patents. The Federal Circuit also made it difficult to prove that patents are infringed by equivalence, and made it more difficult to get trebled damages in patent cases. Most recently, the Federal Circuit has agreed to reconsider whether business method patents should be granted at all.

The effect of these court decisions, which began issuing about three years ago, is rippling through the patent system.

For its part, Congress has reacted to criticisms of the patent system by holding hearings and passing – at least in the House – the first major patent reform legislation in more than 50 years. The Senate is expected to act on this legislation

by spring or summer 2008.

Among other things, the legislation would: (1) limit damages that can be obtained in patent cases, (2) limit the ability of patent owners to select the venue for suing defendants, (3) permit the PTO to impose new regulations to limit patent filings, (4) provide for expanded "second review" of issued patents, (5) change the U.S. patent system to a first-to-file system instead of a first-to-invent system, and (6) allow third parties to submit information to the PTO that could prevent issuance of a patent.

Although the Bush Administration has objected to one part of the legislation relating to damage calculations, it appears to be content with the remainder of the legislation and has suggested it would sign it.

The PTO also has taken actions that limit the ability of applicants to

obtain patents. Late last year the PTO tried to stem the flow of new patent applications by promulgating new regulations limiting how many a company may file. One day before the new regulations were scheduled to go into effect, a federal judge blocked them, finding that they exceeded the PTO's authority. Frustrated PTO officials will undoubtedly appeal the judge's final ruling on the matter.

The PTO has also proposed new rules adding impediments to patent applicants who appeal their cases, and imposing limits on the type of information that may be submitted to the PTO.

Finally, the news media have also played a role in casting doubt on the patent system. Newspaper editorials and articles highlighting large infringement awards and questionable patents have raised doubts about the ability of the PTO to care-

fully examine patents, and about the ability of small companies to compete in a marketplace where they could be sued over such questionable patents. Examples such as patents issued for a type of peanut butter and jelly sandwich – eventually invalidated in court – evoked snickers among judges and editors alike. Organizations such as the Public Patent Foundation regularly issue press releases touting their success in challenging issued patents by filing reexamination requests at the PTO.

#### **THE NEW PATENT ORDER**

To the dismay of some and the delight of others, the pendulum has begun to swing back from a position of patent dominance to one that more favorably reflects the rights of potential infringers. While only time will tell whether the pendulum has swung too far, there are some things that

companies can do to adjust to the new patent order.

First, despite the arguably diminished value of U.S. patents, a granted U.S. patent still provides the best weapon against a competitor's copying of a commercially important product or service. New start-up companies often need to rely on patents to obtain funding, and such requirements are unlikely to go away any time soon. Companies should still pursue patents for products or services that are core to their business, or that reflect the most important fruits of ongoing research and development efforts. Marginal developments in technology can be omitted from patent filings, but core technology will always need to be protected by patents.

Second, assuming that the PTO gains the authority to limit the number of patent applications that can be filed by a company, some priori-

tizing of patent filings and strategic positioning of patent applications will be necessary. More care will be needed in the selection and partitioning of potential inventions into different patent applications to comply with the new rules. A premium will be placed on skillful patent drafting to ensure that a patent of the broadest possible scope is obtained in the first instance rather than in secondary later filings.

Companies that are subjected to threats of patent infringement suits can probably breathe more easily. Injunctions against infringement have become harder to obtain, making it less likely that a judge would order the shut-down of a production line. Even if a patent owner is successful in proving validity and infringement, it will be less likely to obtain trebled damages and attorneys fees for willful infringement. And, in light

of recent court decisions, potential defendants can more easily sue preemptively in a friendly forum.

Finally, those who value or purchase companies based on the value of a company's intellectual property portfolio – including patents – may need to reevaluate the value of those portfolios in light of recent developments. No longer can a valid and infringed patent be counted on to shut down a competitor if damages would be adequate to compensate for infringement.



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