
CHICAGO LAWYER[®]

A PUBLICATION OF THE LAW BULLETIN

January ★ 2006

Proposed changes would overhaul field of patent law

New science, lawsuits drive first changes in 50 years

by Libby Sander

When Alexander Graham Bell raced to file his patent application for the telephone on the morning of Feb. 14, 1876, his competition was not far behind.

Just hours after Bell submitted his application, Elisha Gray, who had sketched out a similar design for the telephone, filed a preliminary document — a “caveat” — announcing his intention to apply for a patent within three months.

Bell received the patent because of subtle distinctions between his patent application and the caveat Gray filed. But the controversy over the identity of the telephone’s official inventor lingered, an example of how technicalities in the U.S. patent system affect innovation and the American economy.

Now, generations and millions of patents later, lawmakers are debating whether to make the first significant overhaul of patent law in 50 years.

“It’s a matter of the law catching up with science,” said H. Michael Hartmann, a former chemical engineer who is now a patent lawyer with Leydig, Voit & Mayer. Hartmann said the rapid growth of technology — along with its impact on certain industries that historically didn’t have much interest in patents — is one of the reasons for the current debate over reform. “What we’re seeing here is an attempt to bring patent law into line.”

The reforms, which are pending in

the U.S. House of Representatives in a bill introduced by Texas Republican Lamar Smith, come amid complaints of poor patent quality and costly patent infringement litigation. Critics of the patent system claim it is idiosyncratic and out of step with the rest of the developed world.

And most agree that the U.S. Patent and Trademark Office, the federal agency charged with examining and vetting applications, is overburdened and underfunded.

Yet while some provisions in the bill aim to change fundamental aspects of patent law, and though it has received the blessing of the American Bar Association’s section on intellectual property law, there is a sense among some patent lawyers in Chicago that reform is not nearly as urgent as the dialogue on Capitol Hill indicates.

“If you talk to most patent lawyers, we can work with the system, and we do every day,” said Meredith Martin Addy of Brinks, Hofer, Gilson & Lione. But academics and economists “are more disgruntled. So a lot of this groundswell got started because the academic community and economic community said, ‘This is out of whack.’”

Mark T. Banner, of the intellectual property law firm Banner & Witcoff, said the proposed reforms wouldn’t reduce the costly patent litigation they’re intended to fix. “I don’t really think this is going to solve much,” Banner said. “On balance, many of the [proposals] are good, but I’m not sure if they’re as good as they’re cranked up to be.”

And while Hartmann acknowledges that the system could benefit from some fine-tuning, he disputes the idea that the U.S. patent system is in shambles: “I think there are a lot of people

saying, ‘Why are we fooling with it if it ain’t broke?’”

The case for reform

Despite some patent lawyers’ reluctance to fiddle with the system, the proposals do exist and have been the subject of several Congressional hearings over the past year.

The proposals attempt, among other things, to harmonize the United States’ patent system with the rest of the world, namely those used in Europe and Japan; rein in the soaring costs of patent litigation; and develop an administrative alternative to litigation that would field objections to patents that have already been issued.

An “undercurrent of dissatisfaction” over whether the U.S. Patent and Trademark Office gives patent applications a sufficiently rigorous examination, along with a view that the federal courts are pro-patent and allow too much patent infringement litigation, have created an environment ripe for talk of reform, Addy says.

A patent grants property rights to an inventor, and gives him or her the right to exclude others from “making, using, offering for sale, or selling” the invention in the United States. Generally, patents last 20 years from the date the inventor filed the application, but courts — not the patent office — are charged with enforcing patents. It is the growth of patent infringement litigation, as much as the administrative process behind the granting of patents, that is driving the talk of reform.

The USPTO has granted more than 7 million patents since 1790. Today it is grappling with a record number of patent applications and a growing backlog: In fiscal 2005 alone, the office

received 406,302 applications. It granted 165,485 patents during that time, 48 percent of which went to foreign inventors.

"It takes forever to get a patent, and it's simply unacceptable," Banner said. "The [USPTO] has never been a sexy agency in the eyes of the public, so it's never been extraordinarily well-funded." (Banner's father, Donald W. Banner, the founder of Banner & Witcoff, is a former commissioner of the USPTO.)

Discussions of changing the patent laws began in earnest after the release of two separate reports issued by the Federal Trade Commission and the National Academies of Science in 2003 and 2004, respectively. The reports called for several changes to patent law, including the creation of an administrative procedure allowing challenges to a patent's validity, lowering the legal standard by which courts can invalidate a patent and modifying elements of patent law they felt contributed to costly litigation.

The debate that has since emerged has shown fissures among those who create, protect and use innovations. "It all depends on who's getting patents and who's getting skewered by patents," said Thomas Duston of Marshall, Gerstein & Borun. Large companies getting patents "don't want to see them subject to attack so easily," he said.

The most visible strain appears to be between individual inventors and large corporations. But even among corporate giants that have weighed in on the debate, there are subtle divisions based on the nature of the products they develop. Pharmaceutical companies, for example, have a different relationship with patent protection than software or electronics companies.

"Companies that are heavy in IP ownership are concerned about what will weaken their patents," Duston said. "Others on the receiving end of patents are saying, 'Let's water down the remedies [for infringement].'"

Timothy R. Holbrook, a professor of patent law at Chicago-Kent College of Law, has watched the patent reform debate with interest. He said he's



Meredith Martin Addy

surprised there isn't more bickering between the companies pushing for patent reform and those who oppose the changes.

"People aren't really putting their cards on the table too much. It really depends by industry," Holbrook said. And, he added, "The voice left out [of the debate], to my surprise, is the small inventor."

Stephen Wren, an independent inventor from St. Louis who testified in September 2005 at a hearing before the House Subcommittee on the Courts, Internet and Intellectual Property, said the proposed reforms would disturb a delicate balance that allows inventors like him to apply for patents alongside corporate powerhouses like Microsoft Corp.

The bill "will irreparably harm small entities dependent on strong intellectual property laws here in the U.S.," Wren told the subcommittee. "Many of these proposed changes will tip the scales of justice in favor of those with the deepest pockets and will thereby prove the undoing of small entities and independent inventors."

But for Brad Smith, Microsoft's senior vice president and general counsel, his company's concern lies not with independent inventors like Wren, but with individuals and companies whom he says take advantage of a litigation climate favorable to patent-holders.

"It is too easy for a litigant to manipulate the U.S. system and look to



Mark T. Banner

a patent lawsuit as the ultimate lottery ticket, hoping to confuse jurors with technical jargon that will yield the payment of a lifetime," Smith said in a March 2005 speech at the American Enterprise Institute, a conservative think tank in Washington, D.C. "As a result, the American system, which has historically encouraged innovation so effectively, can be used too easily to stifle the innovation of others through litigation."

A legislative fix?

Among the more significant provisions in the Patent Reform Act is one that calls for the United States to adopt a "first-to-file" policy that would require the U.S. Patent and Trademark Office to issue patents to the first inventor to file an application.

The U.S. is the only country in the world with a "first-to-invent" system, which many believe offers stronger protections to individual inventors than "first-to-file." But calls for the U.S. system — which awarded nearly half of its patents to foreign inventors in fiscal 2005 — to harmonize with the rest of the world have grown louder in recent months.

"Can the U.S. really provide leadership in enhancing intellectual property protection worldwide when its own system is so idiosyncratic?" Kenneth Dam, a professor at the University of Chicago Law School, asked at a town hall meeting on patent reform held in March 2005 in Chicago.

The complaints about the first-to-file proposal, though muted, come primarily from individual inventors and small companies concerned that companies with greater resources will be able to prepare and file a patent application more quickly, Duston said. Others are concerned that the switch would swamp a patent office already straining from a backlog of patent applications.

The first-to-invent approach evens the playing field between small outfits and large companies with sophisticated in-house patent operations, patent lawyers say.

Under the current system, independent inventors can take their time developing an invention as long as they keep it under wraps so the competition doesn't get wind of it, Hartmann said. "They can sit on it, fool with it, tweak it until they're happy," he said. "It takes smaller inventors just a little longer to work out an invention to the point where they have enough information to go to the patent office and get a patent."

Under a first-to-file system, "if a big corporation were working on the same [invention] at the same time, they are just so much better equipped to run to the patent office immediately," Hartmann said.

The patent office and independent inventors aren't the only ones who would likely feel the effects of a switch to a first-to-file system, Addy said. "If it all boils down to when you file, it's likely to put a lot of pressure on patent attorneys," she said. Under such a system, if an inventor wanted to apply for a patent on a new invention, and for various reasons someone else beat the inventor to the patent office, "Who are you mad at?" Addy asked rhetorically. "You're mad at your patent attorney. Patent attorneys will need to have procedures in place to deal with prompt filing."

Inventors concerned about the race to the patent office can file a provisional application — a "placeholder" — until the full-fledged utility application is ready, a practice Addy expects to become more common if first-to-file is adopted. But first-to-file would still be detrimental to

individual inventors, she said. "I recognize the need to harmonize with the rest of the world, but I think it's sad," Addy said. The first-to-invent policy "is something unique about our system that's valuable."

Another section of the bill would limit the type of activity the courts could consider "willful infringement," a common argument asserted in patent infringement cases. Currently, if a patent holder can prove that a defendant knew about the existence of

Dam: "Can the U.S. really provide leadership in enhancing intellectual property protection worldwide when its own system is so idiosyncratic?"

the patent but continued infringing it anyway, the patentee can sue for treble damages. The bill proposes to clarify exactly what is required to prove that a defendant knew about an existing patent, and it would limit the type of infringing activity that could be considered "willful" to deliberate copying.

A third major proposal in the bill would establish a "post-grant opposition" mechanism within the patent office that would allow parties to file objections within nine months of a patent's issue. Europe and Japan have similar procedures, and supporters of the proposal believe the option would provide an alternative to litigation.

"I think post-grant opposition is great," Addy said. "The more robust it is, the better."

Holbrook, of Chicago-Kent, said the idea of establishing an opposition procedure is the most significant of all the proposed reforms. "The biggest criticism of the patent system is that we give bad patents," Holbrook said. The opposition proceedings would be "a way to try and filter out patents that never should have been issued."

The procedure would be an

improvement over the rarely used "re-examination" process currently in place that allows limited challenges of a patent's validity, Duston said. "The thought is that now we'll have a procedure people might actually use," he said.

Banner does not support the proposal. "The patent office ought to be doing a better job in the first place rather than waiting to clean up mistakes afterward," he said. And parties who contest any patent that's worth something in the market are willing to wrestle in court — not in an administrative procedure, he added.

"A commercially significant patent is going to be litigated because it has commercial value," he said. "People are going to spend money because a lot of money is at stake."

Looking ahead

While the reform proposals linger in Congress, the U.S. Supreme Court has agreed to take up two patent cases in 2006. One will address a contentious issue untouched by the Patent Reform Act cutting to the core of costly court battles. The other will clarify "patentable" subject matter.

In *eBay Inc. v. MercExchange LLC*, the court will rule on a matter of great concern to companies that rely on patented technology. The high court will determine when it is appropriate to grant an injunction against an alleged patent infringer, and the court has indicated it will reconsider precedents on this issue dating back nearly a century.

MercExchange sought a permanent injunction against eBay for what it claims is infringement on its patented technology for an online auction system. A federal jury in Norfolk, Va., ruled in favor of eBay, but was later reversed by the Federal Circuit, which found that the case did not demonstrate any "exceptional circumstances" that would preclude a permanent injunction. (Courts are required to grant a permanent injunction in cases of infringement except for "exceptional circumstances.")

But the case — and the strain between large tech companies and the businesses they call "patent trolls"

because they don't develop products based on their patents — is not that simple, Duston pointed out.

“Research institutions, universities, hospitals — these people innovate but don't [always] have the wherewithal to commercialize,” he said. “So if you remove the prospect of permanent injunctions, you significantly change the dynamic.” Still, he acknowledged, there are many who feel that “intellectual property is property, and I ought to be able to keep them from trespassing on my property.”

In another case slated for arguments this spring, *Laboratory Corporation of America v. Metabolite Laboratories, et al.*, the court will consider the question of whether drawing a scientific correlation between phenomena is eligible for patent protection. Specifically at issue in the *Metabolite* case is whether Metabolite can patent its finding that elevated levels of certain amino acids in the body can be used to diagnose vitamin B deficiency.

Or must it develop a specific application built upon that finding before a patent may be issued?

Current law allows any person to obtain a patent who “invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” The high court has previously held that “laws of nature, natural phenomena and abstract ideas” cannot be patented.

The court's ruling in the case is expected to impact the patent eligibility of business methods, software, biotechnology and other new technologies.

“Has the science again outstripped the patent statute of 1952?” Hartmann asked of the legal question posed in the *Metabolite* case. “Do we need to make changes there to accommodate the science that has changed, the technology that is evolving so rapidly? That's where the struggle is. The Supreme Court may well shrug its

shoulders and say, ‘We don't make the law, we only interpret it. Go back to Congress.’ ”

In Congress, action on the proposed legislative reforms is unlikely to happen right away. Hurricanes, Supreme Court nominations and spending bills have since eclipsed the initial legislative buzz over patent reform. But with patent law playing an ever-greater role as the American economy shifts toward high-tech innovations and business methods — and away from the manufacturing that's being outsourced overseas — the discussion over whether and how to improve the patent system is unlikely to disappear, lawyers say.

“You can run from patent law, but you can't hide,” said the University of Chicago's Dam last March. “Whether you work in business, or serve in government, or try to govern a university, intellectual property issues will always intrude on you, and in unexpected ways.”★