

Notes on a Patent Reform Conversation¹

The United States Patent and Trademark Office (PTO) faces a problem – a BIG problem – as it is currently encumbered by a backlog of over one million applications. The future looks equally daunting, with over 390, 000 new applications filed annually. The PTO does not believe it could hire enough examiners to resolve the backlog and thus proposed various changes to current filing, continuation, reexamination and divisional practices. These proposals, along with possible prior art and patent remedy reforms, were discussed at the Eighth Intellectual Property System Major Issues Conference held at Franklin Pierce Law Center, hosted in conjunction with the Kenneth J. Germshausen Center for the Law of Innovation and Entrepreneurship. During the daylong conference, members of the intellectual property community, including scholars, industry representatives, government officials and practitioners,² exchanged their thoughts on the proposed changes and discussed alternative solutions to the PTO problems. The panel first addressed continuation practice reform.³

Continuation Practice: The new rules would allow each applicant to file only one continuation as a matter of right, with additional continuations allowed by a showing of good cause. The applicants would have to explain why the proposed amendments to the

¹ The following summary was prepared by members of the Franklin Pierce Law Center Intellectual Property Amicus Clinic, including Graduate Fellows and LL.M. candidates James Scott Anderson and Mary Anne Copeland; LL.M. candidate Jennifer L. Fessler; and J.D. candidates Chuck Blazer, Sumon Dasgupta, Yelena Morozova, and Ryan P. O'Connor. This article is based on a full transcript of the Eighth Intellectual Property System Major Issues Conference held on April 1, 2006, at Franklin Pierce Law Center. *Major Issues Conference*, 47 IDEA (2006). **To obtain a copy of the full transcript of this conference or list of panelists in attendance, please contact Kathleen Hennessy of Franklin Pierce Law Center at khennessy@piercelaw.edu. Copies are limited.**

² See *Major Issues Conference* at 3-5 for a full list of participants.

³ See *Id.* at 9-41 for the complete transcript of the continuation practice discussion.

patent application could not have been made earlier. Further, filing a continuation-in-part application would require designating claims dependent on newly filed matter, as opposed to those supported by the original disclosure. Finally, the PTO proposed limiting the number of claims it would examine initially to ten representative claims. The representative claims by definition include all independent claims, with PTO examiners to decide whether claims designated by applicants as dependent are, in fact, independent. If the applicants sought examination of more than ten claims, they would be required to provide an examination support document explaining why the claims are patentable over the prior art.

John B. Pegram, an attorney with Fish and Richardson (and self-proclaimed “devil’s advocate”⁴) started the discussion by comparing the proposal to restrict continuation practice with using “a sledge hammer to swat a fly on a window.”⁵ Other panelists expressed concern that the new continuation rules would provoke an onslaught of petitions for additional continuations and subsequent appeals, thereby increasing the backlog rather than diminishing it. Instead of restricting the number of allowed continuations, the participants suggested escalated fees, moving subsequent continuations to the back of the examining line, or allowing continuation claims only within the scope of the original claim to encourage the early and complete filing of new applications.

The panelists also blamed under-qualified examiners for promulgating the backlog. They suggested increasing the salaries of experienced examiners, closer supervision and training of new examiners, and even rehiring former examiners. Further, to decrease the current backlog, Lawrence S. Pope of Mayer, Brown, Rowe and Maw

⁴ *Id.* at 12.

⁵ *Id.* at 11.

advocated separating the prior art search and examination functions between different examiners and/or outsourcing the prior art searches to private firms.

Despite heavy criticism of the PTO, some panelists suggested that practitioners themselves are responsible for creating the backlog and recommended avoiding (or at least restricting) “late claiming.” Others simply supported the proposed reforms, emphasizing concepts of responsibility borne by the applicants and an interest in preserving public policy. For example, David Simon of Intel noted that the current percentages of continuations and preference for earlier-filed applications contribute to the delay. Unlike previously mentioned panelists, he opposed hiring new examiners to reduce the backlog, fearing a decrease in examination quality. Other panelists reemphasized the abuses on the patent system that occur as the result of excessive continuations, including continuations that arise from revisions made to patent applications following problems revealed during licensing negotiations.

Prior Art Reform: After concluding the continuation practice discussion, the talks moved toward prior art definition reform.⁶ The panelists discussed proposals by Robert Armitage (not in attendance) and others to replace our current “first to invent” system with a “first inventor to file” system – akin to European patent systems – to reduce litigation, eliminate interference practice, and increase international harmonization. All the publication, on-sale, prior inventor, and other novelty requirements or statutory bars would be replaced by a standard of “reasonable accessibility,” with some rights reserved for prior inventors. Therefore, if a prior inventor secretly practices an invention, a subsequent inventor could still disclose the same invention and obtain patent protection.

⁶ See *Id.* at 42-63 for the complete transcript of the prior art definition reform discussion.

But, unlike current practice, the prior inventor would retain “prior use rights” and would be allowed to practice the invention. Further, an inventor could hold a trade secret for years before obtaining patent protection. These changes are likely to abrogate the holding of *Metallizing Engineering*,⁷ which barred this practice.

Instead of arguing about the merits of “first to file” versus “first to invent,” the panelists addressed the practical consequences of the change. Robert H. Rines briefly voiced the concerns of universities, private inventors, and ventures capitalists about the uncertainty created by allowing secret prior use. Most of the discussion, however, focused on the flexible definition of “reasonable accessibility” and the consequences of abrogating *Metallizing Engineering*.

In the information technology (IT) sector, David Kappos of IBM noted that source code might be kept private while compiled object code is made public. The question then becomes whether the source code qualifies as “reasonably accessible.” Because object code can be decompiled, Mr. Kappos noted that source code would be prior art once the object code is distributed, an opinion also held by Mr. Armitage. Likewise, a microscopic circuit “buried between ten layers of metal”⁸ in a microchip would also qualify as prior art, despite the technical difficulty of reverse engineering the individual circuit.

As for the fate of *Metallizing Engineering*, some uncertainty and disagreement existed between the panelists. Several suggested that courts might find a way to spare *Metallizing Engineering* by harmonizing the statute with the case. Most panelists,

⁷ *Metallizing Eng’g Co. v. Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (2d Cir. 1946).

⁸ *Id.* at 51-2.

however, were of the understanding that the new statute is intended to allow an inventor to hold a trade secret for years, if possible, before applying for patent protection.

Whereas, under the current system, the inventor's pre-commercialization choice is between a trade secret (with a risk of unintended disclosure and loss of exclusivity) *or* a patent (with only temporary exclusivity), the new strategic choice would be *when* to seek a patent. In certain technologies, inventors could extend exclusive rights to their inventions by delaying the patent applications, though such delays are subject to the increased risk that a subsequent inventor will secure prior use rights or (worse) file first. The statute would leave this risk calculus to inventors.⁹ Speakers supporting the measure believed that this new calculus would still encourage disclosure while reducing the cost of patent litigation – an incremental improvement of the current system.

Near the end of the discussion, Philip S. Johnson of Johnson & Johnson addressed perceived differences between pharmaceutical and electronics patent practice in this area. He refuted the misconception that cross-licensing is less important in the pharmaceutical industry and noted his support for practical, incremental improvements. The topic concluded with a reminder of the real-world effects of patent policy in action, as Mr. Johnson revealed that “patent risk” is a significant factor in the decision to develop new, potentially life-saving, drugs.

Remedies: Following the prior art discussion, the conference concluded with comments on possible patent remedy reforms.¹⁰ According to Professor Thomas G. Field of Franklin Pierce Law Center, until recently, patent studies on damages were

⁹ *Id.* at 55 (“[S]omeone practices a trade secret at their risk, and they could find themselves cut off.”) (comments of Michael K. Kirk, Executive Director of AIPLA).

¹⁰ See *Id.* at 64-87 for the complete transcript of the patent remedy reform discussion.

nonexistent. However, *Eolas v. Microsoft*,¹¹ the case in which Microsoft's potential liability was once described as exceeding its annual R&D budget, sparked numerous damages proposals.

Under current law, courts apply the fifteen *Georgia-Pacific*¹² factors to determine a reasonable royalty. The proposed legislation codifies the thirteenth factor, which directs the court to consider “the economic value that should be attributed to the novel and nonobvious feature or features of the invention, as distinguished from the economic value attributable to other features, improvements added by the infringer, and the business risks the infringer undertook in commercialization.”¹³

The proposed legislation is largely driven by concerns of the IT industry, which maintains that the current system skews damage awards by overemphasizing small components of very complex products. Mr. Simon explained that IT products have many components and are dependent on networking effects. Consequently, once a component is incorporated into a larger network, it is difficult to remove because other components will break down in its absence. As a result, IT products are subject to “royalty stacking” and/or multiple claims of patent infringement. Under current law, reasonable royalty damages are calculated at the time the infringement occurred, as opposed to when the decision is made. According to Mr. Simon, the difference in cost between these two time periods can be enormous.

Dan R. Cahoy of Smeal College of Business offered a slightly different perspective on the proposed reform. He considered the reform a result of a perception

¹¹ *Eolas Techs., Inc. v. Microsoft Corp.*, 399 F.3d 1325 (Fed. Cir. 2005).

¹² *Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Corp.*, 318 F.Supp. 1116 S.D.N.Y. 1970).

¹³ *Major Issues Conference* at 73.

that judges have no discretion with regard to injunctions but too much discretion when deciding damages. Accordingly, the goal of the proposed legislation is to assure that judges and juries recognize the appropriate scope of the patent claims and make awards based on that scope. Professor Field highlighted the apparent inability of patentees to obtain an accounting of profits or to disgorge a defendant's unjust enrichment under current laws. In contrast, these awards are explicitly recoverable for any other type of intellectual property infringement, such as copyright, trademark, or trade secret.

Despite this, he recognized that even if there is a damages problem, no quick fix exists. As Judge Markey said in *Fromson*,¹⁴ determining fair royalties calls more for the skills of conjurers than judges. Similarly, Judge Learned Hand once said that it is impossible to compute a reasonable royalty for complicated products. According to Professor Field, the *Georgia-Pacific* factors are like the § 107 fair-use factors of the Copyright Act and the likelihood of confusion factors of trademark law. He noted that "fair" is no better defined now than it was prior to the 1976 Copyright Act; therefore, there is no point in tinkering with the list in *Georgia-Pacific*. Further, according to Mr. Cahoy, it makes no sense to reiterate what the courts are already perceived to do.

Mr. Pope and Mr. Pegram agreed with Professor Field and suggested that the damages provision is of decreased importance because calculating damages is a highly factual matter. Mr. Pope noted that even if the statute or appellate court enumerate the damages calculation, district courts could still err. Mr. Pegram added that the United States' jury system injects a certain degree of uncertainty and requires properly educating the jury about calculating reasonable royalties. Along those lines, Mr. Johnson noted that

¹⁴ *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (2d. Cir. 1974)

approximately 70% of cases are tried to juries that are not particularly concerned with the wording of the proposed legislation. The jury will hear, if not the statutory language, some reasonable facsimile thereof, and during deliberations will probably use common sense to determine a fair damages award, regardless of which proposal is adopted.

Others questioned whether damages issues in need of repair exist. For example, Mr. Figg noted that the ABA IP Section believes that the courts already possess the authority and the tools to deal with any damage issues.¹⁵ He also noted that the cases take into consideration things such as royalty stacking. The various industry groups have researched reasonable royalties and have not found a case that, in their opinion, was improperly decided. Furthermore, codifying just one factor sends a signal to the courts that the codified factor is more important than others.

Along those lines, Melvin Garner of Darby and Darby suggested that the difference between what a plaintiff claims and ultimately wins should be considered. Even though much of the argument for damages reforms is, “I don’t want people asking for large sums of money,” Mr. Garner reminded the panel that plaintiffs will always ask for large sums of money and how legislation cannot prevent this. He also mentioned the importance of separating damages that result from fairness and those that result from lawyer quality, pointing out that one cannot legislate against good or bad lawyering.

Striving for Consensus: Some panelists suggested that the lack of consensus on the damages issue delays progress on other provisions for which greater consensus exists. Many expressed the view that reforms will only be passed when the IP community is aligned. According to Michael Kirk, until the two major industry groups, IT and

¹⁵ This position is described in Section 14 of the ABA IP Law Section’s White Paper, available at <http://www.abanet.org/intelprop/home/PatentReformWP.pdf>.

Biotechnology, come to an understanding, any reforms will remain stalled. Since the proposed legislation contains other important provisions, such as inequitable conduct, Mr. Pope suggested that damages be removed from the bill so that the remainder of the bill would be accepted. J. Jeffrey Hawley of Eastman Kodak supported this suggestion, emphasizing the importance of the willful infringement provision and the unfortunate loss of it that might occur because of a non-agreement on the damages provision.

The conference revealed areas in which the different panelists might build a consensus but also exposed other areas of greater conflict. It also highlighted different objectives emerging from various technological fields of endeavor, focusing on the needs peculiar to each. Though opposed viewpoints and suggestions abounded, the panelists agreed that meeting and sharing their ideas, from different perspectives and industries, was helpful and enlightening.