

Overhauling the US patent system

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US patent law is about to undergo a major change with a raft of reforms set to be implemented. These changes are the most comprehensive since Congress passed the 1952 Patent Act. But the path has not been smooth, with voices of dissent materializing as the government carves out its plans. **MIP** and **Oblon, Spivak, McClelland, Maier & Neustadt** jointly hosted a roundtable discussion - at a real roundtable - in Washington DC in late summer, to discuss some of those concerns and what needs to be done

Participants:

Robert Armitage, senior vice president and general counsel, Eli Lilly (BA)

John Doll, commissioner of patents, USPTO (JD)

Chuck Fish, vice president and chief patent counsel, Time Warner (CF)

Mike Kirk, executive director, American Intellectual Property Law Association (MK)

Brad Lytle, partner, Oblon, Spivak, McClelland, Maier & Neustadt (BL)

Morgan Reed, executive director, Association for Competitive Technology (MR)

Herb Wamsley, executive director, Intellectual Property Owners Association (HW)

Shahnaz Mahmud, Americas editor, MIP (SM)



SM: I'd like to start the discussion off with a quote. Thomas Jefferson once said: "Patents should draw a line between the things which are worth to the public the embarrassment of an exclusive patent - and those which are not." I find this appropriate - given today's environment - as a great criticism of our patent system is that it has faltered in ensuring that those worthy of a patent receives one. How does this find meaning in the USPTO's efforts toward reform?

JD: You've opened by saying that it's our responsibility to give applicants an exclusive right when they deserve it. That's what I think they do the vast majority of the

time. They are very conscientious. They care - they try very hard to make that right decision. I think what we need is some help from the outside to make sure that the best prior art gets in front of the examiner so that the examiner can make that right decision. And that goes back to our NPR [notice for proposal] on the Information Disclosure Proposal we set forth in July of this year that will require patent applicants to explain the relevance of documents cited in an IDS [if the IDS contains more than 20 documents or if any document is over 25 pages long]. I truly believe that we do a very good job and I think the examiners do a great job of issuing patents correctly when they have the right information in front of them. So, we have been working on several fronts, as you know, particularly to try and improve the quality of the information that gets in front of the examiner.

SM: I'd like to ask to you what it has been like in working with the USPTO regarding these reforms, in the way of suggestions.

BL: Well, we work closely with the USPTO. When new provisions, proposals and new rule changes come up, we study them carefully and try to identify not only what is good for the patent system, but what is also good for patentees. And we are many among the thousands offering suggestions and feedback to the proposed rule changes. The PTO has been very accommodating in talking with us – we met with Under Secretary Dudas a few months ago, as an example, offering suggestions.

But the PTO has had to balance a number of considerations. One is the huge volume of patent applications and how to process so many applications. And then there's how to deal with the amount of prior art submitted. Our system in the US is different from foreign patent systems in that we do have a duty of disclosure requirement and that patent applicants and attorneys have a requirement laid out by Congress to provide to the examiners what is material prior art so that the examiner has the best references they are aware of at the time of the examination. However, there are also inequitable conduct consequences where a patent becomes invalid if an applicant fails to fully disclose the information required. In our experience, working from the side of obtaining patents for a company that wants to have a large portfolio, there's a two-prong dilemma. On the one hand, you must disclose all of the prior art you are aware of that is material. On the other hand [under the proposed rules], you have to disclose the prior art that is material as long as it's not more than 20 references. If it is more than 20,



Robert Armitage



John Doll

the burden seems to be shifting from the USPTO to the application to do the examination by the applicant.

One of the proposed suggestions to the rule changes is if you submit more than 20 references, or have 25 pages in a reference you must provide an explanation of the references with respect to the claims. That may make perfect sense to the USPTO – from their perspective – that the examiners are given a limited amount of time to analyze the cases, that they have the best prior art the applicant is aware of, plus the benefit of the applicant's understanding of how that prior art compares to the claims. There's a huge practical aspect of submitting an explanation of your prior art. The consequences to the patent applicant for having to comply with assisting the PTO in doing the examination don't seem to be reconciled well with case law, what the courts are telling us and the practical aspects of enforcing the patent. Money is going to end up being a huge issue, by the way.

MK: Well, I think to their credit, somewhat belatedly, but to their credit, the PTO has held focus sessions on inequitable conduct. The very problems that Brad's talking about come front and centre. Within several of the pending bills – not all of them – there are provisions addressing this issue of inequitable conduct. Brad notes anything that you say to the office “can and will be used against you in a court of law” (as they say on television) – to charge that you have withheld or mis-characterized something. The defendant would point to this alleged misconduct and your patent could be held unenforceable. The pending legislation addresses this by saying that the only time this issue would come up is if the patent is

found to have one invalid claim, which claim was found to be invalid on the basis of information that the applicant intentionally withheld or that the applicant intentionally mis-represented. That means that the boilerplate allegation of inequitable conduct is going to go away.

With this but/for approach, you're going to free up the applicant to talk to the Patent Office. Today, applicants are scared to death to do this. That's one of the fears of accelerated examination. Another concern is with the proposal that, when you submit more than 20 references, you have to explain each one and differentiate the claims in your patent from them. If you have a good treatment of inequitable conduct that takes the fear away from cooperating with the PTO and having discussions with the PTO – this sets up the foundation of what John wants – more applicant openness and participation. Something has to be done about inequitable conduct, if you want to get better cooperation from applicants.

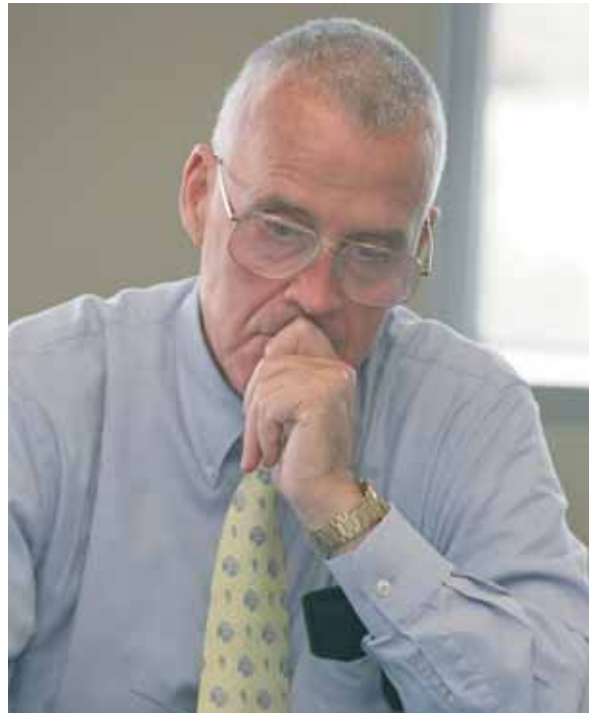
BL: It seems we've got one foot on the gas pedal and one on the brake and it would be nice to get some pressure relief from one side.

JD: In the vast majority of applications, there are always fewer than 12 or 14 references cited. So, setting a rule of 20 references that needs to be submitted before you even have to get to the examiners supporting documents claims only applies to a limited number of applications of 20 or 25 references being submitted.

BL: That may be the case now, and we're collecting statistics as well, but one of the major issues is what the courts are imposing on applicants as well. For example,



Chuck Fish



Mike Kirk

one of the new rules will be to identify related cases – as in the *Dayco Products* case indicating you have to not only disclose to the PTO related cases but also possibly the cross-filing of references that may be material. So, for a large applicant to already have three to four related cases and now to have to cross-file references – boom, you're already up to past 20 easily. Looking at the past rules, you didn't have statistics and maybe 20 is a good number. But, I worry about the implications of *Dayco* and the more prominent use of filing related case statements.

BA: What Brad has said and what Mike has echoed – and what anyone who procures patents would say – is that the doctrine of inequitable conduct is fine. The unenforceability defence in patent litigation is not. This defence has to be somehow excised from the patent system. The ultimate reason for this is not only because it will be necessary to do so in order to have a reformed patent examination paradigm based on increased applicant responsibility, but also because it becomes almost superfluous in an objective patent system where publicly accessible information largely determines a patent's validity and, most importantly, one in which the public will have an effective role in the patenting process from the time the patent application first publishes until the time it expires. Interestingly, each reform bill that has surfaced has said that the public should have a role in the patenting process from the time it is published to the time it expires. When you layer that enhanced role for

the public into the patenting process, there is a compelling rationale for removing the unenforceability defence based upon inequitable conduct and a similarly compelling rationale for what the PTO is asking for in the way of greater applicant responsibility.

HW: I think it's clear from this discussion that we have to have legislation to define inequitable conduct. The PTO first undertook to define the duty of candour, materiality and intent in the 1970s, by regulation, to define it in the 1990s. To their credit, the PTO is still struggling with this and is trying to create a safe harbour in one of the new federal register notices. I think because of the inconsistencies in the court cases and the fact that the federal circuit doesn't consider itself to be bound by any particular statement of materiality and intent, I think the but/for test is a sound test. I don't think it will deter people from citing art to the PTO. Hopefully what we'll achieve in the next Congress is the formation of statutory language that will include the but/for tests.

SM: With all of these pending changes, do you think it will affect the number of applications that will be granted a patent? Do you think there will be fewer or more?

HW: There's a massive backlog that goes back to at least 1992. I think we'll come to this in the legislation: there are a lot of things directed at patent quality. But, with the number of applications, we're not trying to regulate the number of applications, but get control of the backlog. Whether the new legislation will increase or decrease the number of applications it's impossible to say without knowing the overall package of reforms. But, in



Brad Lytle

reforming the system, we're not necessarily trying to affect the number of applications either way. We're trying to improve the quality and in fact the perception of quality of the applications that are granted patents.

BL: I agree with Herb that it's too difficult to tell at this point if the patent reform legislation will affect the number of applications. But, I feel fully confident that the patent rule changes will have a lowering effect on a number of patent applications not just because of limits on continuations, but also imposing the IDS requirements for providing full explanation and having attorneys who sign off on that is a very expensive endeavour. As a consequence, applicants with a fixed budget are just not going to have as much money to file as many applications.

SM: Do you think that this move from first to invent to first to file will pass in Congress? There are opposing views on this in the industry.

MR: I actually think most small companies support that. We have 3,000 members and we polled them and got good response. Most small businesses that gave input are in support of the move to first to file with the understanding of the value behind it. Some of these guys have gone to Europe and seen someone else using their patents with their attorneys saying "tough luck", so this is a great opportunity for them. I know there's a small community that opposes it on the basis of constitutional rights, but we've seen a welcome move towards it.

JD: Morgan, can you provide reasons? I would think



Morgan Reed

On the agenda

SM: What's the latest with the USPTO and patent reform?

JD: The Patent Office is doing quite a bit. We've put out a notice of proposed rule to limit the number of claims that would give the examiners time to pursue the work allotted. We're also going to publish another NPR to limit the number of continuations that should be filed as a matter of right. Also, we would allow applicants to file as many continuations as they would need and could be justified. We are also publishing an NPR on information disclosure statements (IDS) to try to control the amount of information that is being dumped on the Patent Office so the examiners have a reasonable opportunity to go through the art and evaluate exactly what's being filed. We have several other advanced notices of proposed rule makings and other notices of proposed rule making that we're getting ready to publish.

We have one that we're working on right now on Markush claims and anybody who works in pharmaceuticals knows that the problems have gotten out of hand with the number of species being accomplished in generic claims or in Markush-type claims. We're also working on a patent-only report, which in my opinion has probably the greatest benefit to the Patent Office. I think when you look back at the litigation that has been pending or is pending, the examiners make the right decision the vast majority of the times when he's given the best prior art and understands exactly what's being claimed. We're also working to try to help law firms. So, when you get references dumped on you, you can actually return them to the person that gave those references to you. If you are involved in litigation and someone gives you boxes and boxes of information, you have the right to give that information back to them and give them the right to submit it to the Office so you wouldn't have to go through and analyze which references are appropriate and which ones are not.

SM: What are some of the most significant initiatives you are undertaking?

JD: We're working with the open source software community to try to have a peer-review programme to open up some of the databases that are out there that we have the opportunity to get that information in front of the examiner with some level of certainty as to exactly why the information is pertinent, what it has to do

with these claims and why these claims might be patentable over these statistical pieces of prior art.

We're also working on a suite of patent products. This is something we would really like to work on with the community as to what would work for the stakeholders. We've implemented part of this through accelerated examination where we published a rules change that should go into effect as of August 25, which will give somebody the opportunity, if they like, to move to the front of the line. There's a large backlog of pendency that goes back as far as seven years. If you can comply with the certain set of guidelines we published, we would move you to the front of the line and guarantee you a full determination in 12 months. It wouldn't grant you a patent, but it would tell you if your invention is patentable and why and we would get to you the full disposition, notice of allotment or get to the abandonment or get you an RCE. This, I think, works for a lot of the companies that would like to move an application to the front of the line in fast-moving technology or are in the drugs area where they have a particular drug they are working on and would like to get it on the market and get the protection.

Another feature of the patent suite of products could be collaborative examination, which would give you a higher degree of certainty on the presumption of validity on your patent. What we would like to propose is much like how work in re-examination today where you'd present your claims with a team of patent examiners working together. You'd probably have a legal expert, a technical expert and a procedural expert and they'd work on a case not for a set of hours like we have now, where they are working about 22 to 23 hours per application. They'd spend a period of weeks working on that application and give you a much higher degree of certainty of presumption of validity. It takes away a lot of the post-grant opposition. I think it would reduce a lot of the litigation because the patents, then, would be a lot stronger. I think Under Secretary Dudas is working hard to improve the quality of patents that we issue, which I think is very important to everyone sitting at this roundtable. And he's also trying to reduce the backlog and, with accelerated examination, give those who need a quick determination the opportunity to get it.

that most small businesses would oppose this just on the basis that they don't have the money to run to the USPTO as quickly as the large corporations can.

MR: It's a global world and small, entrepreneurial businesses understand that, just as foreigners in the US are some of the best at understanding the international

markets. They get that it's a global economy. So, for them, the idea of getting protection from first to file gives them more certainty. They can go to the venture capitalists, show them the date of the application and say "give me money". It also provides the benefit of harmonization, which is one of the key elements.

CF: I think you're right. Now that the small innovators – you know six guys in a garage who wrote a cool new piece of software – understand that they need a patent and the venture capital point is a very important one. The question for them is: “Do I spend the \$20,000 or \$30,000 under the current system or the new one?” The new one sounds simpler and more certain to them. And we're finding that to be the case. I think it's an inside the beltway fallacy argument that first to file hurts the small inventor or that it's more expensive or it's bad for him. It might be harder on his attorney because he can't goof off since he's a small client and he can't hit him over the head the way a big client can. But, in terms of cost, I think it's the same – I don't think it hurts him.

MK: To the extent that there are any inventors out there saying: “I've got first to invent to protect me so I can sit back and relax and take my time”, there goes their rights in Europe.

BA: The real issue is what does this do to prior art?

MR: We've been going around the country doing meetings with small businesses on “how do you document prior art?”. The rolling of eyes and the gnashing of teeth that comes with the concept of “you've got to get your programmers to document all of this on the front-side” when we talk to some of these guys in the software field and they realize they won't have to document prior art in the same manner under first to file, it's a real relief for them to look forward to. It makes them very happy.

SM: How good a job have we actually done in working with our international counterparts and what kind of coordination efforts has the USPTO been working on with the EPO and JPO?

JD: We have trilateral discussions with both all the time discussing many different, pertinent issues.

MK: The fundamental problem internationally is that the current system for harmonizing IP laws is broken. WIPO and the World Trade Organization are both mired in this North- South debate with a number of countries like Brazil, India and Argentina over their “development agenda”. They are frustrating anything productive happening in the world of international IP organizations. The Doha Round just went bust. So if there's any hope of international work, it has to come from the Trilateral – the USPTO, the EPO and the JPO. But, there are problems here as well. Europeans are loath to work outside WIPO. On the one hand, they don't want to seek progress outside WIPO, and on the other hand they're acknowledging that nothing is going to happen in WIPO. The USPTO folks are trying to accomplish things, but they cannot do this alone. It's a real mess.

BL: One thing I thought was a clever use of work was done in Japan, the patent prosecution highway, which is a part of accelerated examination, which I think will be a real benefit in the future.

HW: First inventor to file in the pending legislation should be enacted on merits because first inventor to file is the best process. It clears away a roadblock to allow developing countries to get together on patent law harmonization to move ahead.

CF: Some of the most interesting harmonization to me would actually revolve around litigation, in recognition that the US has gone way too far and we're out of balance with just about everybody else in terms of the way these rights get enforced. And so when you're talking about extraterritorial applications of US law under Section 271F and multiply damages in a ludicrous fashion that is contrary to the policy the United States has been pushing in terms of harmonization. Or you talk about the abuses in the jury system and that claim construction has gotten a little lax. If we can pull enforcement in these rights so they are back in line with some of the international norms, I think it would look a lot different. And it's one of the reasons, from my perspective, that we should do it. Because if you grant people an important property right – and I think this is where Jefferson is usually only half-right (he's an interesting man that way) – where he talks about the embarrassment of an exclusive patent. He changed his mind over time. But, leaving that aside, he's only half-right. He couldn't see – or at least couldn't communicate this to us in a reliable fashion – that we've got a totally different system now.

BA: It's absolutely clear that the patent system needs a balance between the invention you make and the sort of protection you get. If you don't have the rigorous requirements for patentability, such as those the court imposed in the *UC v Lilly* proinsulin case, you get that system totally out of balance. And it can also get out of balance if your litigation system doesn't work right. I think no matter what side of the patent dispute you're on, the problem with patent litigation today is it has too much uncertainty and unpredictability. Whether the patent is good, better or best or broad, broader or broadest is less important than knowing how the litigation is going to come out. It seems to me that the most important achievement of this round of patent reform must be to attack unpredictability and uncertainty on as many fronts as possible: the PTO front, the substantive patent law front and the litigation front, all of which would work together to go directly after things that make litigation unpredictable as to the ultimate outcome. I hearken back to the National Academies report that basically says this is a three-front war and we have to be aggressive in seeking reforms on all three fronts.

HW: I wonder whether the problem with litigation is over-enforcement of the rights or just litigation abuses. We've heard a lot about trolls who are quick to enforce their rights. I think unquestionably you have situations today where patent owners are bringing suits that

shouldn't be brought. A recent reported case at the Federal Circuit cited that a university filed a suit against 47 customers. They didn't file a suit against the suppliers of the products. I wonder if someone should catalogue these kinds of abuses and develop some code of conduct that people should be following in bringing lawsuits.

SM: Does the reform address what corporations are looking for?

CF: The short answer is yes and no. Overall it presumes that corporations, individually and collectively, know what they want and we're in the process of working that issue out, quite frankly. But, yes, I think if we focus on the Hatch-Leahy Bill, from my perspective, there are some very important things. Dealing with the venue issue so that patent litigation is actually called fraud in some sort of meaningful connection to the dispute in court. Dealing with abuse in flexibility in patent damages so that not every case turns into a sort of "Annie Get Your Gun" situation. I keep thinking about damages, again, in the sense of wilfulness. Does the system work the way it's intended to or does it have perverse consequences?

HW: The companies that are members of the IPO, the majority of them support that bill. But, to move forward, with regards to patent quality once again, there are some interesting supervisions within the Hatch-Leahy Bill that will be analyzed and discussed over the next year, one of which is this idea that the loser pays the winner's attorneys fees. I would guess this will gain support from many companies and bar associations. So, next year there are a lot of things to be worked out. Hopefully, the Bill will urge people to reach their objectives and policies.

BA: We now have two separate coalitions that are saying the patent system needs to be fixed. While they are different, they are both supporting reforms that are largely co-extensive. Chuck mentioned a few – venue, compensatory damages, multiple damages for wilful offshore infringement – but he didn't mention post-grant opposition. Both coalitions are putting together a package with these elements among others. So, it's difficult to see, even in Washington DC, how this much alignment and frankly this much highly motivated interest in changing the patent system doesn't eventually result in convergence. Notwithstanding what's happened over the past year, where unfortunately I think the process has focused on divergence rather than convergence, we have a three-front war in which each front needs to be addressed.

SM: What do we need to do to get innovation back on track? I think some of the criticism is innovation has been hindered a bit by some of these issues.

MR: I would take umbrage with that in the sense that I can't imagine anyone thinking that things aren't



Herb Wamsley

moving at a pace that generally most of the public can't even handle. I think if you look at the speed of innovation in the medical sciences with nanotechnology and the software industry with the internet, I'm not sure we could handle faster and more innovation at this point in time. It's already at a breakneck pace.

HW: Well, we can always use more innovation. I think the question that I often hear come up is: "Is the patent system currently doing as much as it can to support innovation?" Some would say the patent system, or some areas of it, are getting in the way of it. I think a lot of what is on their minds is they may object to what's being discussed in the way of legislative reform, administrative reform and the Patent and Trademark Office – and how they can make the patent system work with an effectiveness to help innovation.

CF: I think I would agree. I think you can at least hypothesize that there are some drags on litigation and some impediments to innovation which are either now having an effect on innovation – or could – if they're not dealt with. The first one that I would say is a rampant enemy is patent litigation. It's a tax that not only directly hits people – Bob has a list of cases that he doesn't like the outcome of and I have a list of cases that I don't like the outcome of – but everybody has to agree the list of cases is growing: where you really question is the law functioning in a way that really promotes innovation? So, issues include the transfer of resources from someone



who shouldn't have been allowed to infringe or someone who has to bear the cost of the infringement to somebody else. It functions as an indirect tax. You have defensive patenting, this building up of thickets only because you're afraid of what might happen to you. No one can deny that and that's part of the burden on the PTO right now. So, it's a direct and indirect tax.

The other one I would raise is a little more long term and I think some people might disagree with me on this. I'm concerned with the change in university culture, which I think is uniformly bad and will affect a company. As universities become more and more funded by the royalties from the inventions they have licensed and exploited, there is added incentive to become more like a troll – whatever a troll is. Universities could become speculators in litigation and for them to engage in litigation, that's commerce. That's a fundamental difference from the university system that we've had for, what, 1700 years in western Europe, I believe about 200 to 300 years in the US. The university has a place outside of commerce. It's a much different thing when the university's technical management becomes a big law firm

whose job it is to make sure that they can meet payroll. And that bothers me. I think long-term for the country, we should worry about the kind of innovation we've experienced, which didn't only happen in the private sector but also happened in the public sector that won't be available as these people get these types of incentives.

MK: As Morgan said, I don't accept the premise that innovation is in any way lagging. But, to pick up and follow-on from Chuck's point about tax: nobody would support abusive litigation tactics and abusive litigation, and to the extent that it exists and occurs, that could be considered a "tax" and should be stopped. But what some people might call a tax is justified litigation. The public should respect valid patents and pay for their use. This is the incentive necessary for creating innovations that benefit society, for stimulating companies to invest R&D. So, there's a balancing. It's not one-sided. And even going to the university community when you look at the past 20 or 25 years, you get what – a \$40 billion contribution to the economy – coming from universities patenting and licensing their technologies and creating spin-offs.