

**FTC/DOJ HEARINGS: COMPETITION AND
INTELLECTUAL PROPERTY LAW AND POLICY
IN THE KNOWLEDGE-BASED ECONOMY**

**ROUNDTABLE DISCUSSION
DIVERSE PERSPECTIVES ON PATENTS**

*Room For Improvement In The Patent System:
Enhancing Both Innovation And Competition*

By

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Thank you for inviting me to participate in these hearings. Since time is limited, let me just note that I believe the Federal Trade Commission and the Justice Department are performing a very valuable public service by conducting these sessions. I am honored to be in the company of the outstanding group of people who are participating throughout these proceedings.

I bring to the discussion over forty years of experience starting with the time when I went to law school while serving simultaneously as a patent examiner in the Patent Office in order to finance my education. To be quite candid, my experiences as a patent examiner helped drive me to the Antitrust Division because, to paraphrase, I felt that those who have an interest in either patents or sausage should not watch either being made. Those were the days of yesteryear, these are now. This sausage consumer of old is now eating filet mignon.

What have I observed?

I proceed here mindful, very mindful, of the complexity of the issues involved in the patent-antitrust interface and the delicate balance required to properly spur invention as mandated by our Constitution while at the same time accommodating our national inheritance which so values strong competition as a charter of the economic freedom embodied in our antitrust laws. Let me assure you that I am not a patent busting radical who believes that the antitrust laws should trump patents nor am I one who believes that patents should in significant measure displace or be immune from the antitrust laws. I come today hoping to make some small contribution to this weighty discussion with some thoughts on improving the system so that it rewards true “invention” better than it now honors the Constitutional commandment while serving the public interest which is at the root of the patent grant. I am one who believes that our patent system can be more efficient than it now is and can more effectively serve and reward individual inventors and innovating companies. We should take steps to avoid what is a rapidly growing zero sum game involving billions of dollars, annually being used not to reward worthy invention and inventors but to clog commerce by subsidizing routine research and development and indeed more often mere investment. We can and should do better. Truly innovative companies and inventors and our overall economy will be enhanced by a robust and more selective patent system.

I believe that most (but not all) of the problem areas needing improvement I here address do not involve illegality under current antitrust law standards but rather are imperfections and/or anticompetitive through lawful flaws in the system which most companies legally take advantage of. A set of patent rules which didn't work very well in the latter part of the last century certainly will not do us credit in this century. We are facing a "tragedy of the commons" in patent law. Improvements can come from FTC/DOJ legislative advocacy function, court intervention, rule changes, law enforcement and constructive dialogue.

Let me note in passing that I speak today for myself. I do not represent the views of my law firm. I am not here as an agent for any client or any group of clients. I am solely an advocate – right or wrong -- for my own opinion and perceptions. Indeed, it is not in my self-interest to be here as I have made a comfortable living walking clients through both the patent mine fields and the patent antitrust interface holding their hands, be they patent owners, licensors, licensees or accused infringers. The current system serves well the lawyers representing patent applicants, licensors and litigants and also supports the armies of consultants that we employ. I have, for example, watched as one lonely inventor armed with a very skilled lawyer reap more than a billion and one-half dollars in royalties using dozens of "paper patents" while, in my view, he never created a job or a product. I have seen companies finishing in the top ten in the number

of U.S. patents issued annually who do not significantly benefit financially from that lofty position. How can we improve things?

I have attached to my remarks today a list of a number of specific areas where I believe improvement can come while benefiting innovative companies, individual inventors, the U.S. economy and, above all, in the end, the American public whose members are the intended ultimate beneficiaries of the patent clause for whom our Constitutional fathers chose to provide a reward to inventors. If invited to do so, I will later supplement these remarks over the next month or two with an amplified written statement. I have, however, in the interest of the time available, here listed the matters that I feel deserve the attention by The Patent Office, the Federal Trade Commission, the Department of Justice, our Congress and, indeed, if I may be so bold, our esteemed Court of Appeals for the Federal Circuit and its bar.

I here focus on two of what I believe are the most significant problems. The first has been discussed by many and is the subject of considerable public interest, namely, the implications of the increasing number and type of patents flowing through our Patent Office. I hope to at least add some helpful gloss. The second problem is a less discussed but nonetheless important and relates to the enormous burdens faced by litigants, particularly those accused of infringement when they are in good faith confident that they are innocent of infringement and/or

have valid defenses which are now so often made so difficult to establish.

The Current Issuance Practices Of The PTO: Is the nation being served? I will not burden you with well known patent growth statistics you already have except to note that not only are we increasing the number of patents that issue and the ease with which they are obtained (to a point that some commentators suggest that we seriously consider a registration system rather than an examination system), but focus on the type, vagueness and complexity of those patents which are so often baffling. A patent has been often likened to either a deed to a piece of real property or statute designed to either forewarn trespassers or tortfeasors away from prohibited conduct. It is supposed to give the general public clear notice of its scope so that those who wish to abide by the law may do so and not be inappropriately frightened off. It is a limited time exclusivity grant for making a significant contribution to the public good later passing into the public domain.

What is now pouring out of the Patent Office are patents that are so vaguely and broadly worded containing so many claims that they more often than not create uncertainty, confusion, risk and often a negative incentive for competitors to innovate and compete. Patents with broad claims that allow you to use a baby's bottom to apply paint pictures (6,022,219 with 17 claims) or control the right to schedule bathroom visits (6,329,919 with 64 claims) tend to dishonor the

Patent Office. These may be humorous examples. When they involve microprocessors or pharmaceuticals, it is not humorous. It is an increasingly rare case now when a high technology company goes into court to enforce a single patent or (a single claim) because they now often come in clusters each with numerous claims. Patents can now form seemingly endless linked claims of “improvements” creating barriers to entry. Buy any experienced patent lawyer a double martini and he or she will tell you that, on the patent prosecution side, it is almost malpractice not to get a patent if you just stick with it long enough and file enough continuations until the Patent Office simply gives in. Ask lawyers engaged in licensing their experiences and they all know that “one lousy patent is a lousy patent but five lousy patents are a profitable licensing program.” One manufacturer whose principle business is to manufacture off-the-shelf orthotic shoe inserts used for walking and athletics proudly proclaims that it is protected by thirty-eight patents. One can only question whether a Steve Jobs or a Bill Gates could today start an Apple Computer or a Microsoft in the face of what has occurred in the last twenty years as computer and software patents now flood our system and present enormous barriers to entry and financial risks to anyone new who dares to consider venturing in.

Yes, I acknowledge that even under the current flawed system (so in need of improvement in my view) there are numerous shining and good examples and some worthy

companies which are occasionally able to gain a foothold and carve out a spot in the marketplace (sometimes not long before they are acquired or sell off their portfolios). Whether this is incentivizing for individuals who invent as opposed to assignees who employ them is a question that I leave to those who are experts at studying individual motivation when it comes to innovation. I note here parenthetically that the term “invention” has been largely replaced in the economic and legal literature by “innovation” and whether this is a difference without meaning, significant or legal legerdemain is open to conjecture.

Pick up any recent patent involving a complex technology. Hand it to an intelligent college graduate with a science degree and somewhat familiar with the subject matter and ask what those fifteen or twenty or fifty claims mean and why there are so many and what the patent really protects. The silence is usually deafening. There are many million dollar and a few billion dollar catastrophes along the roulette road of patent litigation such as the now well-documented and often discussed Polaroid litigation against Kodak. He who is well intentioned and law abiding and ventures into the thicket often goes into it not well enough armed for the thistles and barbs that come as a rude surprise.

Let me make a few points about infringement litigation with a slight lead in. Generally speaking, the concept behind well examined and earned patents issued on true inventions are of

great public benefit. When I was in the Patent Office, we referred to those who filed applications as “petitioners” or “applicants.” Why the current touchy-feely term promoted by the PTO is “customer” is troubling. I’m reminded that when I was a child my mother shopped at Gimbel’s Department Store because their motto was “the customer is always right.” Such seems to be the approach now taken by the Patent Office, which internally on a revenue analysis is apparently a rare self-sufficient federal agency’s moneymaker to such an extent that – in the view of many -- it financially insensitizes examiners to do less than their best work. It promotes their taking the easier way out rather than vigorously defending the public’s right to having only good inventions pass through. If the issuance standards applied by the Patent Office today were the standards applied by either the Treasury Department or the Food and Drug Administration, one would have to seriously wonder what could happen to our national economy and our individual health.

The Falsely or Incorrectly Accused Infringer: Let me now move on to the often daunting task faced by a typical alleged infringer which genuinely believes, based upon sound legal and technical advice, that it has been unfairly or incorrectly accused of infringing one or more patents that are invalid and/or not infringed and/or not enforceable. Proving any one of those defenses today is a task which has been made enormously expensive, complicated and difficult. These “costs” alone are often barriers to legitimate and fair competition. A patent owner can, at least in

theory, put on a *prima facie* case of infringement liability in about an hour if it chooses to do so.

The accused's defense task at trial is usually a week or several weeks' long effort preceded by a year or two of defense preparation. As I mentioned earlier, often there is not a single patent in issue but a multi-directional thrust seeking the pot of gold at the end of the patent rainbow with almost every filed case automatically alleging willful infringement (irrespective of the command of Rule 11 of the FRCP) and in turn generating knee jerk legal opinions of non-infringement from defense counsel to hopefully forestall a finding of willfulness and possible treble damages.

The accused is normally faced with one or more patents containing a multitude of claims in language often so vague that the courts were forced to adopt an expensive Markman hearing in most cases so as to educate a federal district judge into making a finding as to what the patent "really means" after months of work and preparation by lawyers and experts. The court then makes a considered judgment, sometimes after also obtaining a technology "tutorial." A decision is then made by the trial court on claim construction which is almost as often overturned on a *de novo* standard by the Court of Appeals as it is affirmed. In other cases where federal judges tutored, educated and lectured by lawyers and experts through lengthy proceedings bench try a case, they bat about 50%. And this is an infringement standard which is supposed to be clear to the general public on the face of the patent and which brands as a wrongdoing tortfeasor infringer everyone who makes, uses, sells, imports, offers for sale the patented product down to

the point of making individual retailers and ultimate users and consumers wrongdoers! Is this any way to run a patent system?

Let us move on to the task of establishing invalidity. Without the benefit of legislation, the Court of Appeals for the Federal Circuit in its earliest years (and to be fair, probably without knowledge at that point of what was really going on in the Patent Office in terms of its being outgunned by attorneys and experts and having examiners incentivized to sometimes take the easy way out), chose to increase the defendant's burden by creating a "clear and convincing" standard of proof to overcome the existing statutory presumption of validity. One would think that the statutory presumption and a preponderance standard would have been enough but the Court of Appeals felt that it was important to presume that the Patent Office was almost always correct. Not only that, but the Court of Appeals by also adding the so-called "secondary factors" tests to find validity where the patent might not otherwise pass the *Graham v. John Deere* obviousness test, added considerations such as commercial success which considerations are not within the normal knowledge base of the Patent Office. In other words, validity is sometimes now determined in the courts on evidence that was not before the Patent Office when it issued the patent which patent carries this now heightened presumption of validity. Can this be so? Should it continue?

Look at the risks an accused infringer, liable or not liable, faces in this somewhat random process: Up to Treble damages and attorneys' fees if found by a jury to be willful. A damage analysis that is often not limited to a reasonable royalty at minimum but sometimes includes a reasonable royalty plus lost profits and sometimes lost profits on related but unpatented products. Most significant and what frequently forces settlements ending and/or preventing the litigation (and the corresponding adjudication of invalid patents) is the risk of a draconian injunction closing down one's product line, perhaps one's factory and, indeed, sometimes one's entire business and livelihood. This is the civil economic equivalent of the death penalty. Injunctions are essentially automatic as of right in virtually every infringement case at the whim of the patent holder (and I here deliberately use the word "patents" as opposed to "patent", since so frequently, it is a collection of related patents that is thrown up to create this impenetrable or indefensible web of complexity). The end result is often to entrench the established fading or inefficient competitor at the expense of the newcomer innovator. The costs also sometimes discourage worthy individual patent owners or their employees from trying to enforce their own valid and earned patents because of the expense which typically range into the millions merely to get through a Markman hearing and to a trial and a battle of experts. The counterclaims in many cases can often overwhelm the good. When not speaking on the record, many patent lawyers often privately criticize this system while claiming its rewards. Through it also has its many

defenders, they are often ones who, like me, profit from this complexity and uncertainty which the law is supposed to abhor.

I'll not dwell here on the numerous decisions of the CAFC which have cut so deeply into establishing what used to be thought of as the defenses of misuse, fraud on the Patent Office (inequitable conduct) and/or the ability to establish an antitrust violation in the abuse of patents. Suffice it to say the decline of these defenses is an additional judicial means which serves to strengthen what I believe to be the unwarranted strong presumptions afforded largely not inventors, but assignee employees who can thereby use R&D and investment as barriers to entry and to ward off other innovators.

A somewhat arcane but important subject which has obtained inadequate attention is the increasing practice of patent applicants to "wash" prior art through the Patent Office during the application process in order to take advantage of the Patent Office's limited resources and create an aura that is used to later argue that a often overwhelmed patent examiner, with usually over a hundred cases on his or her docket, has read the fifty or sixty or one hundred and fifty patents and publications referenced in the application in the few hours allotted to examination of that application. This helps ward off later challenges to validity as the patent owner argues that the PTO considered all the prior art cited. While this arguably unethical anti-competitive and

inappropriate conduct may be technically lawful (unless the Court occasionally invokes the hand of equity), it is designed to hide the pertinent real prior art buried in the list of art that a patent applicant is duty bound to give to the Patent Office.

Again, lest my concerns cause me to be called a patent basher, let me say that this system in my view does not serve well the many truly creative individual inventors and companies that employ such inventors who want good and earned patents but that are forced to amass large portfolios of paper patents having questionable value in order to meet the new technology/legal arms race commanded by the current practice of mutually assured infringement. Some patent conscious forward thinking companies are hopefully now increasingly willing to speak out because they are wastefully pouring millions of dollars and huge amounts of human resources into generating paper patents, hiring lawyers and experts and trying to keep up with, through their “lawful behavior,” the exclusionary behavior of their competitors. Some companies increasingly now believe: One good patent is excellent, several good ones are even better.

If I can invite your attention to the list of issues I have provided, I believe that they suggest some possible areas requiring a remedy which can help bring greater rationality to the system.

Yes, there are, despite these flaws and imperfections, numerous merits success cases,

triumphs and also some mere roulette winners. Juries will sometimes decide as between conflicting experts whether an accused company or its division lives or dies or whether its product will enter the marketplace to compete. Interrogate jurors after a trial and all too often you'll find that they've done the best they can and they are often in the business of either punishing the unappealing expert, splitting the baby or just deciding a case so they can get home before the weekend or before their employers' indulgence and salary subsidy runs out.

Let us work together to improve the system so that the Patent Office can afford to hire and train even more qualified people with more time to consider these valuable properties which grant at least initially 20 years of exclusivity at the expense of the public. Let the Federal Trade Commission and Justice Department not only engage in their statutory law enforcement functions rooting out unlawful anticompetitive conduct (which statutes are often ill suited to curing some of these problems), but also act in their advocacy roles in promoting sound rule making and legislation. We should act not to hobble the patent system, nor to tilt it in favor of the antitrust laws but to make it work better for competition, true inventors and the public. Let inventors and/or an employer hiring them hold their head high and know that when it receives a patent it isn't just for its routine investment seeking a public subsidy in the form of these grants, but for contributing to the long term of public welfare so that at the end of the 20 years, it isn't

holding a new batch of a dozen or two dozen patents covering essentially minor improvements on the same initial invention. Let us really consider whether or not it is truly more important to reward “one click” versus two clicks as distinguished from rewarding a teacher in an elementary school who comes up with a better method of teaching English or mathematics or a nurse who figures out how to better put on a cast so a patient is in less pain, or award a theoretical mathematician or a physicist, (such as Einstein) who gave little if any thought to seeking patent protection). Indeed, if you would take a look at the list of the great mathematicians working in this country today and run their names against the PTO inventor data base, you will find very few, if any, mathematicians seeking a monopoly on what is essentially an idea, a basic principal of science or something which occurs in nature or a method of employing such science.

Regrettably, I personally have only small expectations that most or even a significant number of the problems I listed in my appendix will be remedied in the short term unless and until we have a political furor over AIDS drugs, patenting the human genome, or interfering with some other aspect of our humanity. I do, however, carry optimism that we will repair some and that in the longer term that we will improve the patent system so it is more in harmony with our valued free enterprise system. We need to get back to invention and relegate greed or pure self interest to their proper places in the patent framework. If that is patent bashing, so be it. If it is

viewed by some as a suggestion for common sense to improve this system, I'll accept the slings and arrows flung by those who revere the current system.