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John A. Squires on

Bringing Patent Law Overhaul Back to the Future: Three Key Considerations to Avoid Downgrading Our Nation's Patent Laws

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On the surface, heady days for American innovation appear at hand. For the first time in 30 years, the U.S. Supreme Court will denote the patentable distinction between applied and abstract ideas - no trivial undertaking in our information age. And for the first time in over a half-century, Congress appears poised to pass a comprehensive patent reform bill - something it has strived to do each and every year for past seven years.

Yet on substance, the Senate Compromise bill is a step backwards from the current status quo governed by the 1952 Patent Act. It tackles none of the issues driving the need for serious reform - patent quality, predatory litigation and abuse and uneven application in differing industries - which begs the question, why this bill and why now? How ironic that the legislative framework enacted at the time of the transistor and polio vaccine better serves today's economy than a new bill drafted in the age of the internet and bioinformatics. This is not your grandfather's patent statute-in-waiting. His remains better.

While presently I am a private practitioner and a declared agnostic concerning various lobbying agendas on the compromise bill, since 2003 I have been heavily engaged in the reform debate on behalf of the financial services industry - still new to patents - and worked on each annual congressional effort, ultimately appearing before the Senate Judiciary in 2007 and testifying to the Federal Trade Commission in 2008. And while I have long advocated for meaningful modernization of our nation's patent laws - because with the right reform comes the creation of new jobs and better market transparency, clarity and predictability - none of these critical aims will be advanced by the present bill. Reform for reform's sake is no reform at all, particularly when we have had nearly 60 years to decipher what makes for a healthy patent ecosystem.

Hope floats, still, however. The House, through the amendment process, still has a last clear chance to fix the bill and achieve meaningful reform by insisting on answers to three broad questions.

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Where's the Consensus?

Any patent statute aiming to fill the big shoes of the 1952 Patent Act, should have broad industry sector backing. The compromise bill has not garnered any significant support over last April's bill, and, in fact, some stakeholders have gone missing.

Lack of consensus is likely not a result of any one particular affirmative bill provision, but rather what the bill fails to do *in toto*. On each hot button issue, ranging from damages (how much are patent rights worth), to willfulness (willful disregard of others rights, leading to enhanced, often treble damages) to venue (where defendants can be haled into court), to inequitable conduct (by what criteria must information be disclosed), no transparency exist as to what standard rationale economic actors must meet in ordering their conduct. This lack of transparency hurts the major stakeholder groups - the tech sector, industries mature to patent issues (the manufacturing and branded pharmaceutical sectors) and the independent inventor groups alike. However, understanding how each is disaffected may produce a bridge between them and allow substantive provisions to emerge to salvage a meaningful reform framework.

Tech Sector. Lack of transparency, up front, in damage award calculations and for willfulness determinations (enhanced damages) has caused the patents litigation process to divorce itself from the underlying real economy and commercial competitor considerations. In its place, a burgeoning cottage industry has exploded chasing lottery-ticket windfalls.

Predatory patent assertions abound and the tech sector is by far the single most targeted industry by patent aggregators (or so called Non-Practicing Entities "NPEs", that is funds that merely hold the patent papers, but sell or produce no goods or services). Lack of clear damages (and willfulness) rules allow large damages awards for components that patentees did not invent and allow for little or no means whereby commercial actors can either know about or value patent rights. As a result, no means for any market-based price discovery exists, and NPEs do better economically by suing going concern businesses that offer real products or services, rather than producing any commercial items themselves.

Worse, outdated venue provisions permit defendants to be hauled into court not where their offices or operations exist but anywhere user-based internet or wireless access is available. For all of tech sector's misery (let alone the unproductive use of resources), all that the compromise bill offers is to enshrine the court as a 'gate-keeper' on damage

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theories that may be allowed to presented to juries. In a world of complex value chains and ever-shrinking components and specialization, the litigation abuse cycle cannot be broken without clarity on the legal standards for patent valuation.

Independent Inventors. As to patent valuation standards, independent inventor associations rightly worry that any type of apportionment approach would erode their ability to detect and deter infringement and receive compensation for their invention at the hands of infringers. However, without any standard, and with market signals blocked by an abusive litigation process, small inventors can never be sure that they are receiving fair value if they sell their inventions early stage to NPE's. So a lack of a clear valuation standard deprives them of an important market-based yardstick.

Patent-Mature Industries. Stakeholders here, including the branded pharmaceutical sector, rightly worry that fractioning damage awards could severely disrupt their ability to recoup the enormous costs in bringing new drugs to market. But fuzzy, back-end loaded rule sets wreak havoc on their interests as well. Litigation abuse abounds over issues concerning the standard by which information relevant to patentability should have been submitted, years earlier. As a result, Monday-morning quarterbacked notions of information disclosure can render pharmaceutical patents unenforceable and worthless. Under the bill, there is an attempt to address these abuses by circumscribing the inequitable conduct defense, but an administrative process is to take its place which has an indefinite of 'new question of patentability' for invocation. So the concern is the pendulum has swung too far in the other direction.

Nevertheless, while each industry sector begins at a different starting point, all arrive at the same crossroad issue - transparency. This recognition may thus provide a bridge for which a consensus solution on appropriately factored standards can be fashioned.

But there is an addition nugget of optimism for consensus building: indeed, the major industry stakeholders already have a consensus victory under their belt. Without much fanfare, in January, the National Patent Jury Instruction Committee released a consensus benchbook, co-authored (this author included) by many of the same practitioners participating in the reform process as stakeholders on case management trial process issues concerning patent damages. While, of course, substantive issues are much thornier, there is precedent for consensus by and between many faceted views and this could form a stepping stone to fashion agreement on substantive damages reform.

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While commonality on an issue - lack of transparency as to applied legal standards, may be a driver to achieve consensus support, where would the data and analysis come from to fashion appropriate standards?

The United States Federal Trade Commission, for one. Precisely because valuation questions are hard and the variables complex, beginning in late 2008, the FTC embarked on a comprehensive set of hearings spanning six months, to analyze the evolving IP marketplace and including the economic dynamic and very litigation abuse issues across all industries surrounding patent enforcement. Indeed, a similar effort undertaken by the FTC in 2003 as to patent law and competitive (antitrust) issues still receives accolades.

The report based on the 2008-09 hearings is forthcoming. That a bill could be enacted without the benefit of the data from the report is breathtaking. Not even the NFL dared change its controversial sudden-death overtime rule without abundant supporting data on coin toss-wins, possession points and down and distance. The prospect that the compromise bill could be enacted before the FTC's report is released and studied is shocking and would be an historically missed opportunity. .

Where the Progress?

Finally drilling into the issues, the compromise bill provisions are a step back from the 1952 Act and decisional law that has developed since. Several provisions represent severe downgrades to where decisional law now stands interpreting the 1952 Act.

Willfulness. In 2007, the Federal Circuit recalibrated the standard for determining willful behavior to 'objective reckless.' The compromise bill threatens to give back these gains by failing to require concrete notice provision, allowing any and all facts in addition to knowledge of a patent to suffice as a trigger and including a 'close case' standard that will be overly porous as compared to current law.

Patent Quality. A higher threshold for after-patent-grant quality issues bars the path to invoke the patent agency as expert arbiters of quality issues versus the litigation process. Also, adoption of a race to the patent office system for applicants, while in line with other countries' processes, is negated by any corresponding upgrade in prior user rights. In turn, NPE's will emerge with new sources of patents with which to press predatory claims.

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Venue. Current law is codified, which still does not provide a standard that the proper judicial district hearing the case bear some relationship to the acts complained of in the lawsuit

Best Mode. The best mode requirement in current law relates to the key issue of transparency, and any remedy for a compliance failure is eliminated by the current bill. Based on notions of fair dealing, the best mode requirement demands an inventor disclose their preference in implementing an invention. While complaints have force that the current law remains subjective, unless full disclosure of better performing patented inventions can be compelled, transparency suffers.

Where To From Here?

The 1952 act, while creaky in places, provided a brilliant and lasting architecture for our nations patent system. This bill is no 1952 Act. However, there remains an opportunity for the House and Senate to do the hard work ahead, drive consensus, incorporate the FTC's findings and include provisions that elevate the presently anemic compromise bill. In the immortal words of former British Prime Minister Margaret Thatcher: "This is no time to go wobbly."

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