

Introduction: The Future of Patent Reform

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In 2003, the Federal Trade Commission issued a report on the patent system that was as surprising as it was sobering.¹ Rare is it to find a federal agency that publicly critiques—and criticizes—the performance of another federal agency in the area of its own specialty, not to mention the decisions of an Article III, federal appellate court. The FTC report, titled “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy,” did just that—with remarkable acuity.

In its 315-page report, the FTC raised serious questions about the patent system as overseen by the Patent and Trademark Office (“PTO”), which reviews all patent applications, and by the United States Court of Appeals for the Federal Circuit (“CAFC”), which has near² exclusive appellate jurisdiction over all patent cases. While concluding that “[t]he patent system does, for the most part, achieve a proper balance with competition policy,”³ the FTC identified—based on criticisms by industry groups—specific deficiencies suggesting that the patent system was saddled with questionable patents on

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¹ FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003), <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> [herein after FTC Report].

² The one exception is a case in which the complaint did not allege a patent claim, but the answer contained a patent-law counterclaim. In such cases, the Federal Circuit does not have exclusive appellate jurisdiction. See *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 834 (2002).

³ FTC Report, *supra* note 1, at 4.

undeserving inventions, as well as with doctrines and procedures that “may have anticompetitive effects.”⁴

The FTC report, although diplomatic in its criticisms of the PTO and CAFC, intimated that neither institution was necessarily in step with the need to foster innovation in our information economy. The FTC report proposed specific reforms to the patent system, including a post-grant opposition procedure for third parties to challenge the validity of a patent.⁵ The report even suggested an overruling of the Federal Circuit’s “teaching, suggestion, motivation-to-combine” test for nonobviousness. The test had been applied so restrictively by the Federal Circuit that it left the Patent Office with very little room to deny any patent on obviousness grounds unless the PTO could somehow “point to particular items of prior art that concretely suggest how to *combine* all of the features of a claimed invention.”⁶ The FTC report also recognized criticisms of the Federal Circuit’s expansive approach in allowing business method and software patents and suggested that patentable subject matter under the Patent Code should be interpreted in light of the Patent Clause’s intent to “promote the Progress of Science and useful Arts.”⁷

If patent reform needed a tipping point, the FTC report surely provided it. The FTC report was a clarion call to the federal government and to the public that our very own patent system may be stifling innovation and competition. Because the report came from a disinterested government agency, it was too hard to ignore. After the report, both Congress and the United States Supreme Court suddenly turned their attention to patent law reform. For the first time in over a half century, Congress began entertaining bills to provide a major overhaul to our patent system, including the adoption of a post-grant opposition procedure (now common in Europe and recommended in the FTC report) and, even more radical, abandoning the U.S. first-to-invent system for inventorship and replacing it with a first-to-file system, consistent with the rest of the world.⁸ Representative Howard Berman, one of the sponsors of the House bill, specifically cited the

⁴ *Id.* at 5.

⁵ *Id.* at 7.

⁶ *Id.* at 11–12.

⁷ *Id.* at 15.

⁸ S. 1145, 110th Cong. (2007); H.R. 1908, 110th Cong. (2007) (proposed Patent Reform Act of 2007).

FTC report in support of his conclusion that “the current patent system is flawed.”⁹ Even though patent reform has received much momentum in Congress, in April 2008 a bill had yet to be passed. Whether Congress will pass patent reform legislation remains uncertain.

Patent reform, nevertheless, proceeded on another front, most notably in the Supreme Court. In 2006 and 2007, the Supreme Court decided four major patent cases—reversing the Federal Circuit in every single case, two of them unanimously.¹⁰ At least two of the cases were effectively “reform” cases, which rejected the patent doctrines of the Federal Circuit as inconsistent with Supreme Court precedent. In *eBay, Inc. v. MercExchange, L.L.C.*, the Supreme Court held that the Federal Circuit’s “general rule” requiring a district court to issue a permanent injunction in every case of patent infringement, absent exceptional circumstances, was an erroneous departure from the long history of equity practice in awarding injunctions.¹¹ The trial court’s decision to grant a permanent injunction must be guided by the traditional principles of equity, without any presumption or near-automatic rule in favor of injunctions, the Supreme Court ruled.¹² This more flexible approach gives district courts considerable freedom to authorize the award of damages in patent infringement cases, without ordering an injunction against the infringing technology itself. Under this flexible approach, the district court on remand in *eBay* (again) declined to order an injunction after weighing the principles of equity.¹³ Since the *eBay* case, other courts have exercised greater discretion in denying injunctions in patent cases as well.¹⁴

The Supreme Court applied a similar, flexible approach in the other key reform case, *KSR International v. Teleflex Inc.* There, the

⁹ 151 Cong. Rec. E1160 (June 8, 2005) (statement of Rep. Berman).

¹⁰ See *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); *KSR Int’l v. Teleflex Inc.*, 127 S. Ct. 1727 (2007); *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007); *Medimmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

¹¹ *eBay, Inc.*, 547 U.S. at 393.

¹² *Id.*

¹³ *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 590–91 (2007).

¹⁴ See, e.g., *Paice L.L.C. v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007) (discussing the denial of a permanent injunction, but remanding for an explanation of the royalty rate); *Novartis Pharms. Corp. v. Teva Pharms. U.S.A., Inc.*, No. 05-CV-1887, 2007 WL 2669338, at *15–16 (D.N.J. Sept. 6, 2007).

Court rejected the Federal Circuit's requirement of a specific teaching, suggestion, or motivation to combine prior art references, in order for the Patent Office to make a finding that an invention was obvious.¹⁵ Although the Court did not cite the FTC's recommendation, the Court agreed with the FTC's criticism of the Federal Circuit. In the Court's view, the Federal Circuit's approach was too "rigid" and inconsistent with prior Supreme Court case law, particularly the Court's decision in *Graham v. John Deere*.¹⁶ Writing for the unanimous Court, Justice Kennedy explained:

The obviousness analysis cannot be confined by a formalistic conception of the words teaching, suggestion, and motivation, or by overemphasis on the importance of published articles and the explicit content of issued patents. The diversity of inventive pursuits and of modern technology counsels against limiting the analysis in this way. In many fields it may be that there is little discussion of obvious techniques or combinations, and it often may be the case that market demand, rather than scientific literature, will drive design trends. Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress and may, in the case of patents combining previously known elements, deprive prior inventions of their value or utility.¹⁷

Thus, regardless of whether Congress enacts major reforms to the Patent Code, patent reform is already upon us. The Supreme Court has effectuated key reforms of substantive patent law. And perhaps more importantly, the heightened public scrutiny of the patent system over the past five years has signaled a cautionary message about the need for improving the patent system.

Already it appears that the Federal Circuit has gotten the message. Within a matter of only five months since *KSR* was decided, the Federal Circuit found inventions in four different cases to be obvious and thus not patentable.¹⁸ Even more significantly, the Federal Circuit

¹⁵ *KSR Int'l*, 127 S. Ct. at 1739.

¹⁶ *Id.* at 1734–35, 1739–41 (discussing *Graham v. John Deere Co.*, 383 U.S. 1 (1966)).

¹⁷ *Id.* at 1741.

¹⁸ See *Daiichi Sankyo Co., Ltd. v. Apotex, Inc.*, 501 F.3d 1254, 1259 (Fed. Cir. 2007); *Aventis Pharma Deutschland GmbH v. Lupin, Ltd.*, 499 F.3d 1293, 1303 (Fed. Cir. 2007); *In re ICON Health and Fitness, Inc.*, 496 F.3d 1374, 1380 (Fed. Cir. 2007); *Leapfrog Enters., Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157, 1161 (Fed. Cir. 2007).

began reexamining other areas of patent law not reviewed by the Supreme Court, but for which the Federal Circuit has been roundly criticized—most notably, its expansive approach in allowing business method patents.¹⁹

In *In re Comiskey*, the Federal Circuit scaled back its expansive approach by holding that business methods are unpatentable subject matter if they “depend entirely on the use of mental processes” divorced from any apparatus, machine, or software.²⁰ Often perceived as a “patent friendly” forum,²¹ the Federal Circuit appears to be taking a more exacting eye to devising patent doctrines that do not inadvertently lend themselves to the granting of undeserved patents that retard innovation. That concern was manifest in the Federal Circuit’s (uncharacteristic) exegesis of the constitutional limits on the patent power in *Comiskey*, in a passage that is worth quoting at length:

The very constitutional provision that authorized Congress to create a patent system, Article I, § 8, also limited the subject matter eligible for patent protection to the “useful arts.” According to the Supreme Court, this constitutional limitation on patentability “was written against the backdrop of the [English] practices—eventually curtailed by the Statute of Monopolies—of the Crown in granting monopolies to court favorites in goods or businesses which had long before been enjoyed by the public.” In the 16th and 17th centuries, the English Crown granted monopolies over entire types of business to specific individuals, for example the grant by James I to Darcy in 1600 of the exclusive right to manufacture or sell playing cards or the exclusive right to the printing business held by the London guild of booksellers and printers. The purpose of such monopolies “was to enrich the King . . . as well as the grantee, at the expense of the community.” With this background in mind, the framers consciously acted to bar Congress from granting letters patent in particular types of business. The Constitution

¹⁹ See *State St. Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

²⁰ *In re Comiskey*, 499 F.3d 1365, 1378 (Fed. Cir. 2007).

²¹ See Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 26–27 (1989).

explicitly limited patentability to “the national purpose of advancing the useful arts—the process today called technological innovation.”²²

In re Comiskey may well be only a precursor to the Federal Circuit’s reform of its own case law. On February 15, 2008, it agreed to hear *en banc* the case of *In re Bilski*,²³ to reconsider its prior (controversial) decisions allowing business method patents in *State Street Bank*²⁴ and patents for software-related inventions involving mathematical algorithms in *AT&T Corp. v. Excel Communications, Inc.*²⁵ An overruling of *State Street Bank* or *AT&T* would have a profound effect on patent law.

The Federal Circuit’s recent cases confirm that patent reform is already afoot. But the work of patent reform is not finished. Congress, the courts, and the Patent Office must stay vigilant to ensure that the patent system remains responsive to the incredible demands and challenges posed by the ever-changing technologies in our digital age and global economy. No patent system in the world can be perfect, but every patent system certainly can stand for improvement.

Identifying which areas of our patent system need reform—and which do not—is no easy task, however. “Reform” can encompass *institutional* changes, such as increased training and funding for patent examiners; *substantive law* changes, such as the switch to a first-to-file system or the modification of the nonobviousness standard; and *procedural* changes, such as the adoption of an opposition procedure. The instruments of reform can come from Congress, the courts, the Patent Office, and even, as we shall see, non-governmental organizations.

In this Symposium on “The Future of Patent Reform,” we considered several key aspects of the patent reform debate, from several different perspectives. The collection of essays shows the complexity of issues that patent reformers face today. Patent reform is not a purely legal issue; it also is an economic, business, administrative, and institutional issue, requiring decisionmakers to

²² *In re Comiskey*, 499 F.3d at 1374–75 (internal citations omitted).

²³ 2008 WL 417680, at *1 (Fed. Cir. Feb. 15, 2008) (Question 5).

²⁴ 149 F.3d at 1375–76.

²⁵ 172 F.3d 1352, 1358 (Fed. Cir. 1999).

think well beyond just the four corners of a patent doctrine or textual provision.

In “Patent Reform: No Time Like the Present,” Professor Adam Jaffe, an economist, provides an excellent synopsis of the main arguments why many, including Jaffe, believe patent reform is necessary today. Jaffe argues that too many patents are being granted for undeserving inventions. The ease of obtaining patents and the overall growth in their number may dampen innovation by making it riskier for developers to invent in areas where they would face a possibility of later being sued for patent infringement. Jaffe concludes with several specific reform proposals of his own.

Of course, it is open to debate what aspects of the patent system need reform. Spencer Hosie, an attorney experienced in patent litigation involving high technology companies, examines the controversy surrounding the “patent troll,” the term that signifies non-practicing entities that mainly license their patented know-how or exact such licenses through litigation, instead of utilizing know-how themselves. In “Patent Trolls and the New Tort Reform: A Practitioner’s Perspective,” Hosie challenges the conventional perception in the popular media that patent trolls are ruining the patent system. Analyzing specific patent cases and the economics of litigating a patent infringement suit, Hosie attempts to show how the so-called patent trolls are engaged in legitimate activities that other patent holders, such as IBM, Microsoft, and Texas Instruments, themselves undertake. In Hosie’s view, all of the popular criticisms of patent trolls are nothing more than myths.

In the next essay, “Claims to Information *Qua* Information and a Structural Theory of Section 101,” Professor Kevin Collins examines an important issue for our information economy: whether information *qua* information can be considered patentable subject matter under § 101 of the Patent Code. Adopting what he calls a structural reading of § 101, based on the dual functions of a patent to claim rights for the inventor and to disclose know-how to the public, Collins attempts to outline a viable theory—with an administrable limiting principle—that can explain why information itself should not be patentable at all.

Finally, in “Community Service: Adapting Peer Review to the Patenting Process,” Christopher Wong, the project manager for the Peer-to-Patent project at New York Law School, explains an exciting new reform effort in the Patent Office. The Peer-to-Patent project is an initiative started by Professor Beth Noveck at New York Law School that attempts to solicit community or peer involvement in finding relevant prior art that may disqualify an invention under review for a patent. In other words, ordinary members of the public can help the Patent Office find relevant prior art and conduct a better,

more informed review of a patent application. The Patent Office agreed to launch the Peer-to-Patent examination for a select number of applications in computer architecture, software, and information security. Although the project is experimental, a number of prominent businesses have already voiced their support for the initiative.

The essays in this Symposium, although written on a range of topics, all suggest at least one common point of contention: the future of patent reform is now. Innovation, competition, and our nation's economy will suffer if we fail to review the decisions, operation, and institutional design of the Patent Office and the Federal Circuit on a regular basis, particularly given the incredible advances in technology witnessed in the past decade. It should not take an *ad hoc* report of the Federal Trade Commission to signal the need for such ongoing review as a critical part of our patent system. The essays in this Symposium make a valuable contribution to that process of review. But, ultimately, it is up to Congress and the Supreme Court to provide the necessary oversight that our patent system demands.