Patent Systems: More Easily Faulted Than Fixed

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The US patent system has been the subject of three recent, generally critical studies. One, particularly uncomplimentary, primarily faults a changed source of funds for patent examination and creation of a court that, aside from the Supreme Court, has exclusive jurisdiction to consider patent appeals, both administrative and judicial. This paper explains why neither criticism is well taken. It also analyses reactions of the US Congress and Supreme Court to allegedly new problems caused by so-called patent thickets and patent trolls.

Keywords: Innovation, patent critics, patent reform, invalid patents, patent examination cost, patent litigation cost, patent courts, comparative roles of judge and juror, patent infringement, patent remedies, patent thicket, patent troll, doctrine of equivalents, obviousness

Fritz Machlup’s 1958 economic study of patents took the long view, beginning with a Venetian grant in 1474. Ultimately agnostic, it concluded that critical information necessary to assess the patent system was lacking. Two decades later, Frank Press strongly disagreed, saying: For twenty-five years the question of innovation and Americans’ ability to innovate has been… studied to death.

Not necessarily disagreeing with either Machlup or Press, in 1997, a letter signed by twenty-six Nobel Laureates opposed legislative proposals requisite to harmonization. It argued that the United States would be foolish to change a system said to work well. To the extent that assessment is accurate, such views have much to commend them.

A decade later, minor steps such as implementing limited pre-issue publication have been taken, but key proposals related to harmonization have yet to be adopted. Meanwhile, as discussed below, many question whether the current system works well; until such doubts are better resolved, debate is more likely to focus on domestic issues.

The Federal Trade Commission (FTC) and the Board on Science, Technology and Economic Policy of the National Research Council (STEP) discuss current problems facing the US patent in two recent reports. Those are joined by a third essentially coterminous account written by Adam B Jaffe & Josh Lerner (Discontents). No specific event seems to have sparked these efforts, but interest in patents (and other forms of intellectual property) seems to grow in parallel with the importance of intellectual property in domestic and global economies.

Those aware of prior, comprehensive US patent studies should recognize that such review is not for the faint of heart. STEP apparently did not; its report begins by noting that the project was a much more ambitious undertaking than we anticipated at the outset.

Given the scope of each, one would hope that authors of the other reports felt the same. Perhaps because of that, only STEP features harmonization, flagging a need to reduce redundancies and inconsistencies among national patent systems.

Because of its flamboyant title, if not authorial persistence, Discontents may have at least as much influence as the other essentially coterminous studies. Indeed, its subtitle inspires the thesis of this paper — that the patent system is more easily faulted than fixed. Moreover, it inspires a manageable framework for supporting that thesis.

In Discontents, Jaffe and Lerner note that patents have often been poorly regarded. Claiming not to hold that view, they regard the system as once working well and recently broken. They fault two seemingly mundane procedural changes [that], taken together, have resulted in the most profound changes in US patent law and practice since 1838. These are: (1) a shift in US Patent and Trademark Office (USPTO) funding from taxes to user fees and

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Both propositions warrant rebuttal. Part II briefly discusses PTO funding and related issues. Then, noting that criticism within Discontents is not unique, Part III offers a more favourable assessment of the Federal Circuit. Continuing that theme, Part IV considers various measures taken by the Supreme Court of the United States (Supreme Court) and by the US Congress to rectify alleged failure of the Federal Circuit to contain so-called patent trolls.

Changes in USPTO Funding

Boon: The Effect on Trivial Patent Frequency

In Discontents and elsewhere, Jaffe and Lerner feature three patents. One covers wristwatches for dogs; the others cover the processes of swinging sideways and exercising cats with laser pointers. Those patents catch attention, but do they furnish good evidence of a malfunctioning, or recently broken, US patent system?

For such patents to support the claim that changes in USPTO funding have been harmful, two conditions must be satisfied — harm and subsequently increased frequency. The latter is easily dismissed: Nothing suggests that such patents issue more frequently than they did a century ago. As the STEP report observes: ‘[W]hether [such] examples are aberrant or typical, or, for that matter, increasing or declining in frequency is impossible to determine on the basis of a few handpicked examples…. ’

On that basis alone, the claim could be dismissed, but it is useful to look deeper. Harm surely flows from use of such patents to ridicule the USPTO, but, standing alone, such patents hardly evidence a broken system. It is a stretch, indeed, to regard patents for pet jewellery as threatening innovation and progress — even if erroneously issued and enforced.

The other two patents pose less threat. Invalidation aside, the owners, if so inclined, would be hard pressed to enforce them. Were hapless individual infringers somehow located, what of damage? With reasonable royalties unlikely to support litigation costs, it would be expensive to enjoin infringers one-by-one.

Positioning such patents as nevertheless harmful, what of cures? Only one of Discontents’ patent medicines — pre-grant opposition — might reduce their frequency. Yet, who other than the terminally humorless would oppose? How much time and money might they spend? Such considerations are especially compelling when silly patents are inoperative.

Moreover, should such patents be harmful, it is difficult to think of a more potent cure than the only possible cause cited by Discontents, shift in the source of USPTO funding — or rather associated fee increases. Filing and issue fees alone would surely deter all but the most hearty jokesters or individuals dazzled by unrealistic market prospects.

Based on no more than congressional diversion of fees, however, Jaffe and Lerner characterize the USPTO as an institution that benefits when people apply for dubious patents. That conclusion is neither novel nor correct. Nearly forty years ago, the author of another study wrote: The Patent Office is likely to identify its success with the number of patents issued. If no patents were issued, after all, there would be no Patent Office.

Despite the superficial appeal of those propositions, most examiners, not to mention supervisors, would take exception. As observed in the STEP report: ‘[A] nontrivial number of errors… are inevitable in a system whose output by 3000 individual examiners is 167,000 patents annually.’

No thoughtful critic would ascribe errors to pro-applicant bias.

Moreover, patents seen as erroneously issued often have not been examined. Skeptical examiners may issue patents when, for example, prior art is not available or easily accessed. They may also do so when little would be gained from investing time for miniscule returns.

Bane: The Effect on Small Firms and Independent Inventors

Despite scorn for silly patents, Jaffe and Lerner eventually note:

If careful examination is expensive, and the vast majority of patents will never matter to anyone, then it would be inefficient to expend society’s resources on careful examination of all patent applications.

Hence, they suggest that a carefully calibrated sequence of escalating review procedures will alleviate most problems faced by the USPTO and result in better quality patents.

Echoing the title of this paper, that is more easily said than done. It has long been a common goal to reduce as much as possible, through pre- and post-issue scrutiny within the USPTO, the high cost of resolving validity disputes in litigation. Failure to
adopt more extensive measures along those lines cannot be attributed to lack of awareness or experience.

Consider, for example, Pasquale Federico’s paper *Opinion and Revocation Proceedings in Patent Cases.* After describing similar systems in England, Germany and elsewhere, as well as analogous US trademark prosecution, it turns to US patent proposals. One made in 1935 was eventually rejected by the American Bar Association (ABA) for fear of increased costs. At one point, the ABA patent committee recommended, instead, substantially more patent examiners, but that seems to have been rejected at that time. Later proposals, including one drafted for the Patent Act of 1952, suffered the same fate.

In 1980, however, *ex parte* reexamination, based solely on documentary evidence, was introduced. Since 1999, third party participation has also been allowed. A bill introduced in 2005 proposes further changes and would permit third parties to submit documentary prior art within six months of publication or the first rejection, whichever occurs later. It would not, however, provide for pre-issue inter parties proceedings.

Particularly with newly emerging technologies, it may be impossible to assess inventions’ value and concomitantly warranted protection. A major downside to ever-increasing USPTO fees is that inventors may forego patent protection. Without that, they have less chance of interesting potential licensees or of attracting risk capital needed to exploit their inventions.

Should they pursue patents, inventors strapped for resources are more likely to accept narrow claims than to spend money on affidavits and appeals. Other consequences are less apparent. For example, much, if not most, of what points to an important invention may have been published. Applicants, as much as anyone, benefit from full awareness. Omitting or scripom on searches means that prior art will be inadequately distinguished. Later, previously undiscovered art may, viewed through the lens of hindsight, seem more relevant than it is. Worse, patentees may be estopped to distinguish it.

Should the proposal to formalize third party submissions be adopted, applicants’ costs may increase and results be less than dramatic. Third parties will not submit prior art unless the stakes are apparent. Also, third parties may be reluctant to risk facing stronger patents. The current proposal is silent about whether third parties can be identified; if so, that too could deter submissions.

Furthermore, as everyone seems to appreciate, early publication and enhanced opportunities for opposition cannot eliminate invalid or unenforceable patents. Still, critics who regard the burden of proof to favour owners seem not to appreciate that, in key respects, the odds are inherently stacked against them.

Prior art cannot be distinguished after their patents issue. It is never too late, however, for others to decide whether, for example, to take licenses, challenge validity, or possibly both. Challengers can also invest whatever the market then justifies — and prevail if, for example, invalidating publications are found any place, in any language.

Once successful innovations are implemented, they may seem obvious (or trivial despite novelty) and therefore unpatentable. What of an invention with thirteen, well known, components? If many alternative components were tried with less success, is that relevant? If inventions that could be made by anyone willing to spend the time and invest substantial resources are unpatentable, who will make them?

How much sympathy is deserved by parties who copy every detail instead of avoiding infringement by replacing one ‘obvious’ component with another? Such questions cannot be answered in the abstract, but solutions such as lesser patents could reduce pressure on examiners.

**The Federal Circuit**

**Virtual Fences**

As mentioned initially, Jaffe and Lerner claim that creation of the Federal Circuit in 1982 is a second major contributor to a broken patent system. They see it as ‘pro-patent’ — or as a metaphorical fox set to watch the hen house. Some, otherwise skeptical of patents, nevertheless recommended such a Court long before.

Critics who regard the Federal Circuit as pro-patent are likely to view the world with patent owners on one side of a fence and the rest of us on the other. Those who hold that view most intensely view patents as anticompetitive and owners as monopolists. Those who reject it most intensely see innovations as improving the lot of mankind and patents as critical to enabling them to recoup research, development and marketing costs.
Yet, the patent system with its institutions and rules is a tool akin to hammers. Those who have seen hammers used only to commit mayhem will be hostile. Those who have seen hammers applied only to beneficial ends will regard them highly. To this day, more judges are in the first set than the second.

Likewise, few people understand that many entities reside on both sides of most virtual fences between owners and infringers. Even universities that patent and license the fruits of academic labour may also need to license others’ patents. This is good. It takes time to resolve tensions best described as between owner-users and user-owners, but such tensions keep the system in balance. From that perspective, the Federal Circuit is an excellent idea. As explained below, its judges, more than most, appreciate the positive and negative effects of resolving typical patent issues.

Unseen Benefits; Hidden Costs

Before 1982, a jurisdictional fence separated most appellate judges. The largest group sat on numbered circuits. They saw patents, if rarely, only in the context of infringement or antitrust suits; some were skeptical if not hostile. The smallest group sat on the US Court of Customs and Patent Appeals (CCPA). Having major responsibility for direct agency review, they, and perhaps most attorneys who practiced before them, saw patents frequently but never in the context of infringement, much less antitrust, disputes. Supreme Court justices and judges on the US Court of Appeals for the DC Circuit (DC Circuit) could review Patent Office decisions both directly and collaterally, as well as assess the role of patents in antitrust disputes, but they did so infrequently.

The major, if not sole, reason given for creation of the Federal Circuit was diversity of views among judges on the regional circuits. They saw patents, if rarely, only in the context of infringement or antitrust suits; some were skeptical if not hostile. The smallest group sat on the US Court of Customs and Patent Appeals (CCPA). Having major responsibility for direct agency review, they, and perhaps most attorneys who practiced before them, saw patents frequently but never in the context of infringement, much less antitrust, disputes. Supreme Court justices and judges on the US Court of Appeals for the DC Circuit (DC Circuit) could review Patent Office decisions both directly and collaterally, as well as assess the role of patents in antitrust disputes, but they did so infrequently.

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The Federal Circuit’s exclusive appellate jurisdiction for both collateral and direct review of patent grants, however, is even better. Process aside, rules adopted on direct review should generally have consequences to be faced later. That offers an advantage over review by a Court that saw few infringement cases, but a substantial price had to be paid.

Immediately after its creation, the Circuit held that opinions of predecessor Courts would be precedential — and by implication, the Supreme Court aside, that others would not be. Thus, the Court began with few precedents governing infringement litigation. The Supreme Court recently demonstrated that other circuits’ opinions cannot be ignored, but conflicts would need to be solved, and new rules created.

Yet, one must wonder: Who among those responsible for creating the Federal Circuit fully appreciated the uncertainty that would ensue? Who among its current critics appreciate the continuing need to craft a substantial body of law, having begun with so few binding cases?

Further Examples of Unwarranted Criticism

Some fault Federal Circuit opinions as less consistent than those of other circuits, but that would be difficult to document. Comparisons aside, inconsistency is still difficult to demonstrate when the facts and legal posture of cases vary. Schools prepare lawyers for common law practice by devoting much time to analysis of precedential reach. Patent lawyers should be especially adept, given parallel practice in addressing claim scope. Dearth of binding precedent also makes it easier to distinguish current cases from those that came before.

Yet, consider criticism of the burden of proof required to invalidate patents on collateral review. The statute is silent, and no precedential Court seems to have addressed it. If more than a preponderance of evidence was already well established, however, it would have been unfair to change it.

The Circuit is also faulted for not making patent litigation easier to conduct. Yet, one major step towards that goal was its holding that claim scope is a question of law, i.e., one for judges, not juries (and freely reviewable on appeal). Given the Supreme Court’s lead in other cases, juries might also be excluded from validity determinations. Despite that, any party, as discussed below, has a statutory right to jury determinations of damages and may have a
constitutional right to jury determinations of infringement.

The scope of constitutional rights is within the province of the Supreme Court, not Congress or the Circuit, but technical complexity alone furnishes scant basis for denying jury participation. Moreover, in at least two instances, Supreme Court interpretations of the patent statute hamper Circuit efforts to simplify. One receives extended treatment below, but the other also warrants mention.

The latter permits Courts to find infringement outside the literal scope of claims. The so-called doctrine of equivalents, however, cannot be used if claims were narrowed during prosecution to avoid prior art. Because determining a party’s reasoning is difficult, the Circuit eventually adopted a rigid rule: Any narrowing of claims — regardless of purpose — would estop an owner from seeking coverage under the doctrine of equivalents.

The Supreme Court acknowledged that the Circuit intended to reduce uncertainty and burdens on legitimate innovation. Yet, it imposed a more flexible rule, partly based on its own precedent and partly because: “Congress can legislate the doctrine of equivalents out of existence anytime it chooses.” It could likewise reinstate the Circuit’s rule — as well as solve many other problems for which the Circuit is faulted. Yet, legislation is not readily changed. Meanwhile, the Circuit must cope as best it can.

Remedies: An Intractable Virtual Fence?

Thicket Dwellers and Trolls

Owners who both prosecute and defend patent infringement suits straddle many issues. That some prosecute but do not defend, however, has sparked major tensions between clusters of owners diversely affected. Some favour the status quo; others in computer and Internet technologies, finding themselves in a ‘thicket of overlapping patent rights,’ seek change.

Thicket dwellers solve many problems by patenting defensively and cross licensing when accused of infringement. When so-called ‘non-practicing entities’ (NPEs) claim infringement, however, that is impossible. Under such circumstances, NPEs able to demand royalties higher than they might otherwise be referred to as ‘trolls.’

The STEP report calls for licenses on reasonable terms but notes that: “[T]echnology must be created for access to be an issue. Thus access must be balanced against the incentive to invent and disseminate technology.” Willful infringement aside, however, that and other recent studies offer little by way of resolving such tension.

Some debate whether patents are property. The statute says they are, but were it silent, they would still represent divisible, alienable and legally protected interests. Acquisition aside, key issues have proven to be owners’ obligations and available remedies.

Remedies are considered below, but, first, consider a partial description of obligations:

Counsel seem to argue that [a patent owner] occupies, as it were, the position of a quasi trustee for the public…. We dissent entirely from the thought thus urged. The inventor is one who has discovered something of value. It is his absolute property. He may withhold the knowledge of it from the public, and he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention.

An Overview of the Remedies Debate

Those obligations were restated with regard to NPEs in Paper Bag. When a defendant, on the basis of patentee’s non-use, sought a compulsory license, the Court found no general obligation to use. Further, finding nothing to make non-use unreasonable, it said:

[I]t is certainly disputable that the non-use was unreasonable, or that the rights of the public were involved. [C]an it be said, as a matter of law, that a non-use was unreasonable which had for its motive the saving of the expense that would have been involved by changing the equipment of a factory from one set of machines to another? And even if the old machines could have been altered, the expense would have been considerable. As to the suggestion that competitors were excluded…, we answer that such exclusion may be said to have been of the very essence of the right conferred…. as it is the privilege of any owner of property to use or not use it, without question of motive.”

Paper Bag concludes with recognition that “a Court of equity might be justified in withholding relief by injunction” but does not elaborate. Since then, Courts have refused to enforce otherwise valid
rights for lack of candor during prosecution\textsuperscript{104} or for misuse.\textsuperscript{105} Owners may also be required to license as necessary to rectify antitrust violations,\textsuperscript{106} but statutory compulsory patent licenses\textsuperscript{107} are very rare.\textsuperscript{108}

Patents are subject to federal inverse condemnation\textsuperscript{109} but that, too, is unlikely. For example, when the Bush Administration threatened to compromise exclusivity of a drug seen as helpful to address an anthrax scare,\textsuperscript{110} other countries previously lobbied to reduce or eliminate compulsory licensing claimed hypocrisy. The threat was not pursued.\textsuperscript{111} Nor has the Administration, despite considerable recent pressure, tried to require licensing of Tamiflu.\textsuperscript{112}

The reason, of course, is counter pressure from domestic firms hostile to compulsory licensing. Some may wonder why patent owners assured of reasonable terms\textsuperscript{113} would object. But what is reasonable? One study offered four factors to consider, none easily assessed: (1) the value of inventions to would-be users, (2) owners’ costs, (3) owners’ loss of income to competition, and (4) prevailing market rates.\textsuperscript{114}

An oft-cited opinion\textsuperscript{115} expands the list to fifteen factors for use in assessing infringement damages.\textsuperscript{116} Yet, it does not mention, for example, that infringers bear the risk of error.\textsuperscript{117} As stated in another opinion: “Determining a fair and reasonable royalty is often…a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge.”\textsuperscript{118} If juries are demanded, the task is for them, not judge.\textsuperscript{119} — and certainly no easier.

Fair royalties, based on events yet to occur pose even more difficulty. The need to assess them is avoided when injunctions issue, but that seems to have had little bearing on whether injunctions issue.\textsuperscript{120} The latter is said to rest within the sound discretion of trial judges as guided by four factors discussed below.

Firms in so-called patent thickets\textsuperscript{122} have been unhappy about both threats of injunction and determinations of damages. With problems highlighted, but recommended solutions not forthcoming in recent studies, they turned to Congress. A reform bill introduced in 2005 proposed changes in current remedies.\textsuperscript{123} A proposal concerning injunctions,\textsuperscript{124} was soon dropped\textsuperscript{125} and debate has shifted to the Courts.

eBay

Thus far, debate about injunctions has focused on the eBay case in which the trial judge affirmed a jury award of $35 million for willful infringement.\textsuperscript{126} Although patent infringers are ordinarily enjoined, the Court said, the decision to grant or deny injunctive relief remains within the discretion of the trial judge.\textsuperscript{127} Finding three of four guiding factors\textsuperscript{128} to favour defendants and the fourth to be neutral, an injunction was refused.

The first two factors — whether plaintiff otherwise faces irreparable injury, and whether damages are adequate — were found not to favour a plaintiff [who] does not practice its inventions and exists merely to license its patented technology to others.\textsuperscript{129} The last numbered factor — balance of hardships — was similarly viewed because: Any harm suffered by… the defendants’ infringement of the patents, can be recovered by way of damages.\textsuperscript{130}

Thus, as to NPEs, the 1st, 2nd and 4th factors apparently collapse into one. With regard to each, the Court stressed a Second Circuit opinion that concludes: To grant [patentee] a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair.\textsuperscript{131} Neither that opinion nor the trial Court’s in eBay, however, cites, much less distinguishes, Paper Bag.\textsuperscript{132}

As to the final factor — the public interest — the judge in eBay wrote:

In sum, the Court believes the public interest factor equally supports granting an injunction to protect the plaintiff’s patent rights, and denying an injunction to protect the public’s interest in using a patented business-method that the patent holder declines to practice.\textsuperscript{133}

The Federal Circuit reversed: [T]he district Court did not provide any persuasive reason… to justify denial of a permanent injunction.\textsuperscript{134} It therefore saw no reason to depart from the general rule that Courts will issue permanent injunctions against patent infringement absent exceptional circumstances.\textsuperscript{134}

Influenced by concerns about NPEs and perhaps also the number of amici supporting eBay’s petition, the Supreme Court granted certiorari. In doing so, it flagged both the Circuit’s general rule and the continuing viability of Paper Bag.\textsuperscript{135} Having done so, it offers little: Because we conclude that neither Court below correctly applied the traditional four-factor
framework that governs the award of injunctive relief, we vacate....  

None of three opinions, totaling slightly more than four pages, refers to the pointed refusal in Paper Bag,\textsuperscript{101} as well as in another patent case,\textsuperscript{137} to compel licenses absent congressional directives. Rather, the majority cites dicta in three copyright cases that alludes to withholding injunctions in light of traditional equitable considerations.\textsuperscript{138}

Moving on to patents, the majority describes Paper Bag as rejecting the contention that a Court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent.\textsuperscript{139} Yet, because nothing was found to support the allegation in Paper Bag that patentee’s refusal to use was unreasonable, what ‘unreasonable’ might mean was essentially unframed. Also, the eBay majority offers nothing to amplify its suggestion that MercExchange’s behaviour was somehow unreasonable.

Three justices joined a two-paragraph concurring opinion; it cites the Circuit’s prior resort to equitable principles\textsuperscript{140} and chides that Court for suggesting that patentees are entitled as a general rule to an injunction.\textsuperscript{141}

Four justices concurred in a slightly longer opinion echoing the FTC report that: An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees. For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees.\textsuperscript{142}

Despite anxiety about fees in the latter concurrence and chiding in the other,\textsuperscript{141} no opinion suggests a presumption against injunctions — even as to all NPEs. Moreover, it is unfortunate that no opinion notes a stark difference between the circumstances in Paper Bag, on one hand, and those reported by the FTC or allegedly present in eBay, on the other. The Paper Bag patent owner was literally an NPE, but an injunction was sought not as a bargaining tool to charge exorbitant fees.\textsuperscript{142} Rather, it was sought to preserve an investment in its patent and existing plant,\textsuperscript{143} the owner apparently having no interest in licensing at any price. Thus, whether owners are literal NPEs seems irrelevant.

Indeed, the majority states:

[S]ome patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than... bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so.\textsuperscript{144}

That seems particularly apt in situations where patents are substantially less valuable absent exclusivity. The frequency of such situations appears, for example, to have prompted the Bayh-Dole Act about twenty-five years ago.\textsuperscript{145} It enabled the transfer of exclusive rights in inventions made with federal funds to firms otherwise uninterested.\textsuperscript{146} Moreover, should such inventions fall within a so-called patent thicket, user-owners would presumably be as amenable to cross licensing as other firms attempting to cope.\textsuperscript{147}

Prior to eBay, once validity and infringement had been established, a general rule favoured permanent injunctions. Barring unlikely congressional intervention, that rule will be challenged more frequently and aggressively. The Federal Circuit in the first instance must identify circumstances where injunctions are no longer warranted and craft means to determine the ‘reasonable’ royalties that will instead be warranted.

Conclusion

Many examples support the thesis of this paper, but none better than eBay\textsuperscript{148} demonstrates that important patent system problems are more easily found than solved. Difficulties confronted there are not new.\textsuperscript{149} Had the FTC seen ways to resolve tensions between thicket dwellers and trolls — as well as among others drawn into the fray — they surely would have been recommended. But recommendations are more apt to have been directed to Congress then to Courts.\textsuperscript{150}

In an opinion dwarfed by party briefs, not to mention a host of amicus briefs,\textsuperscript{151} the Supreme Court nevertheless addresses a problem Congress has so far side stepped.\textsuperscript{152} With little guidance, the Federal Circuit is now obligated to resolve a major conflict within the patent community — presumably so as to avoid global claims of hypocrisy.\textsuperscript{154}

Skepticism that the latter can be accomplished may account in part for the US government’s amicus brief favouring MercExchange.\textsuperscript{154} It is sure to account for such support from entities\textsuperscript{155} and organizations of entities\textsuperscript{156} that often prefer not to license at all — much less for exorbitant fees.\textsuperscript{142}
Self interest is also apt to account in part for the position of the federal government — itself more likely to be an NPE than not.\(^\text{145,146}\) It more surely accounts for the support of others who fear being denied injunctions. These include, besides independent inventors and their associations,\(^\text{157}\) research and educational entities\(^\text{158}\) largely dependent on federal funds,\(^\text{143, 144, 145}\) and associations to which they belong.\(^\text{159}\)

Several bar associations took neutral positions,\(^\text{160}\) but two did not. The ABA favoured MercExchange; the Bar of the City of New York, eBay. Those, as well as opposing briefs filed by professors,\(^\text{161}\) demonstrate the difficulty of the problem. With Congress apparently reluctant to join the fray,\(^\text{124, 125}\) it may, like many others, be unresolved for years to come.

References
5 35 USC § 122(b), 122(b)(2)(B) (exception for applications not filed abroad). Statutory references in notes that follow, unless otherwise indicated, are also to title 35 of the United States Code.
6 Board on Science, Technology and Economic Policy of the National Research Council of the National Academies, A Patent System for the 21st Century (2004) (STEP report), http://darwin.nap.edu/books/0309089107/html (3 July 2006). It urges, for example, \(\text{id}\), at 8, 124, that the United States grant patents to the first-to-file instead of the first-to-invent. Some, however, would condition that on others liberalizing absolute novelty requirements. \(\text{id}\) at 127; \(\text{cf.} \) § 102(b) (permits a 1-year grace period following publication).
9 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents).
10 Greenspan Alan, Market Economies and Rule of Law, remarks presented at a Financial Markets Conference, 4 April 2003, http://www.federalreserve.gov/BoardDocs/Speeches/2003/20030404/default.htm (3 July 2006): Over the past half century, the increase in the value of raw materials has accounted for only a fraction of the overall growth of US gross domestic product. The rest of that growth reflects the embodiment of ideas in products and services that consumer’s value. This shift of emphasis from physical materials to ideas as the core of value creation appears to have accelerated in recent decades.
11 Machlup’s study, supra note 1, is but one of thirty commissioned by the Senate and published between 1956 and 1963, several cited \(\text{infra} \text{ Supra} \) note 3.
13 STEP report, supra note 6 at ix.
14 Besides the issues mentioned supra note 6, STEP also calls for the elimination of the § 112 requirement that inventors disclose the best-mode for practicing their inventions; \(\text{id}\) at 8, 120 and 127.
17 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 78.
18 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 2.
20 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 2, 98-126.
21 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 34.
22 Several web sites feature such inventions; http://totallyabsurd.com/index.htm. One notable example, both silly and deadly, is a 1879 fire escape comprising a parachute hat and shoes with thick foam soles, http://totallyabsurd.com/chutenshoes.htm (3 July 2006). But
anyone who used it would die immediately from a broken neck!

23 Supra note 6 at 48; further examples are listed, id. at 147.

24 Part of the Discontents subtitle, supra note 9.


26 § 284 (owners who suffer no loss may recover reasonable royalties).

27 § 271(b) (induced infringement is actionable).

28 Its authors apparently unaware of the idiomatic use of ‘patent medicine’ to denote worthless nostrums, use this heading to introduce their proposed reforms, supra note 9 at 18.

29 Its authors apparently unaware of the idiomatic use of ‘patent medicine’ to denote worthless nostrums, use this heading to introduce their proposed reforms, supra note 9 at 178.

30 The fire escape patent, § 284 (owners who suffer no loss may recover reasonable royalties).


32 In re Cortright, 65 F3d 1353 (FedCir1999) — describing a patent that would be, if valid, at least as difficult to enforce as the two discussed supra notes 29-31.

33 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 130 (Fig. 5.1). Others have been equally distressed.

34 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 11.

35 Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L 93-596.

36 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 137 (citing a few supporting anecdotes), Blacklight Power Inc v Rogan, 295 F 3d 1269 (Fed Cir 2002) (unsuccessfully challenging withdrawal of a patent from issue).

37 Supra note 6 at 48. Blacklight, supra note 36.

38 Lyon v Boh, 1 F 2d 48, 50 (S D N Y 1924) (Courts have descended upon the abuse again and again, but the antlike persistency of [patent] solicitors has overcome, and I suppose will continue to overcome, the patience of examiners, and there is apparently always but one outcome).


40 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 22.


43 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 15.

44 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 16.

45 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 17-18, Shapiro, supra note 35 at 192 (Pre-grant inter partes proceedings “would endlessly delay the granting of applications, thus markedly reducing whatever incentive the patent system presently provides”).

46 § 301 (any person may cite patents or printed publications).

47 Susan Perng Pan, Considerations for Modifying Inter-Parties Reexam and Implementing Other Post-Grant Review, 45 IDEA 1 (2004).


50 If so, as discussed in Part III.B, infra, protection under the doctrine of equivalents is forfeited.


52 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 23.

53 It may only be evaded by narrowing claims under § 251.

54 Lear Inc v Adkins, 395 US 653 (1969) (breaching licensees are not estopped to challenge validity); Medimmune Inc v Genentech Inc, 126 S Ct 1329 (2006) (granting certiorari to consider, e.g., whether licensees may challenge without breaching).
55 Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L 192 (“Since finding a prior invention is the surest way of winning his case, the infringer is likely to do a good job.”)

56 § 103.

57 Sakraida v Ag Pro Inc, 425 US 273, 275 (1976) (a water system to flush manure from dairy barn floors was found obvious in light of Heracles’ method of cleansing the stables of Augeas).

58 The STEP report, supra note 6 at 87-95, thoughtfully addresses some of those issues.


60 By the Federal Courts Improvement Act, Pub L No. 97-164, 96 Stat 25 (2 Apr 1982). Such a Court had been long and often urged; Senator Joseph C O’Mahoney, Foreword, in Margaret M. Conway, Single Court of Patent Appeals — A Legislative History, at iii, Study No. 20, Sub-commission Patents, Trademarks and Copyrights of the US Senate Judiciary Commission (1959) (briefly describing the reasons).

61 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at e.g., 2.

62 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at e.g., 101.

63 Temporary National Economic Committee, Final Report, 37 (1941) (TNEC report), unanimously recommending a ‘single Court of patent appeals’ to ‘replace the present 11 different and independent jurisdictions’ — for events leading to that recommendation, see Conway, supra note 67 at 36-38.

64 Special Equipment Co v Coe, 324 US 370, 382-83 (1945) (Douglas dissenting) (refers to the TNEC report, supra note 70, to support a grim view of patents and patentees).


66 Field, supra note 12 at 57-58 (noting the small number of IP courses offered and the small number of law students who elected them).


68 Lyon v Boh, quoted (Courts have descanted upon the abuse again and again, but the antlike persistency of [patent] solicitors has overcome, and I suppose will continue to overcome, the patience of examiners, and there is apparently always but one outcome).

69 Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L at 181-82.

70 The Patent Office did not become the PTO until 1975; Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L 93-596.

71 Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L at 164-65 (regarding the Supreme Court) and Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 100 (regarding the DC Circuit — absolute numbers are not provided, but Fig 4.1 indicates that it saw some infringement cases).

72 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at 100. Fig. 4.1, Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L at 179.

73 The President’s Commission on the Patent System, To Promote the Progress of... Useful Arts’ in an Age of Exploding Technology (1966).

74 The President’s Commission on the Patent System, To Promote the Progress of... Useful Arts’ in an Age of Exploding Technology (1966) at 25.

75 The President’s Commission on the Patent System, To Promote the Progress of... Useful Arts’ in an Age of Exploding Technology (1966) at 29. Not until later was that issue partially resolved in Dickinson v Zurko, 527 US 150 (1999); Field Thomas G Jr, Zurko, Gartside and Lec: How might they affect patent prosecution?, 44 IDEA 221 (2004).

76 Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L at 181-182. He regarded (the DC District Court as also more favourable to applicants than most circuit Courts. If so, that would have also been true of the DC Circuit.

77 President’s Commission, supra note 73 at 30. Indeed, not until that year did Brenner v Manson, 383 US 519, 527 (1966), establish that the Office could seek certiorari to review CCPA decisions.


79 Shapiro Martin, The Supreme Court and the Patent Office, in The Supreme Court and Administrative Agencies, 143, 194 (Free Press 1968). Not until 1975 was ‘Trademark’ added to the name by Pub L at 164-65 (regarding infringement cases in the DC Circuit).
FIELD: PATENT SYSTEMS: MORE EASILY FAULTED THAN FIXED

80 South Corp v US, 690 F 2d 1368, 1369: The Court sits in banc to consider what case law, if any, may appropriately serve as established precedent. We hold that the holdings of our predecessor Courts, the US Court of Claims and the US Court of Customs and Patent Appeals... shall be binding as precedent in this Court. The former Court saw few infringement cases, and, as previously mentioned, the latter, none.


82 Applying other circuits’ law in some instances has alleviated the need, Midwest Industries Inc v Karavan Trailers Inc, 175 F 3d 1356, 1359 (Fed Cir 1999) (To the extent that [two prior cases], hold that we are required to apply regional circuit law to conflicts between patent law and other legal rights, we therefore overrule those decisions.) (en banc as to that aspect of the case).


84 Field Thomas G, Jr, Chevron, Deference to the USPTO at the Federal Circuit, 11 F CIR B J at 773.

85 Innovation and its Discontents: How our broken patent system is endangering innovation and progress and what to do about it (Princeton University Press) 2004, (Discontents) at e.g., 108.

86 Hollywood-Maxwell Co v Street’s of Tulsa, 183 F 2d 261, 263 (10th Cir 1950) (citing even earlier cases from the 3rd and 5th Circuits), supra note 82.


89 Graham v John Deere Co, 383 US 1, 17-18 (1966) (While the ultimate question of patent validity is one of law…the § 103 condition… lends itself to several basic factual inquiries).


91 STEP report, supra note 6 at 7 (calling for minimal subjectivity in litigation).


94 535 US at 737.

95 FTC report, supra note 8, Executive Summary at 6 and Ch 3 at 38.

96 Ch 2 at 31, n 220. Lisa Lerner, Quick Draw, IP Law & Business, July 2006, at 30 (an extended profile of Raymond Niro, said to be the first patent troll).

97 Supra note 6 at 42 (Fifth criterion).

98 Supra note 6 at 118 or FTC report, supra note 8, Executive Summary at 16, Recommendation 9.

99 eBay Inc v Mercexchange, LLC, 126 SCt 1837, 1840 (2006).

100 35 USC § 261.


104 McPherson’s Ltd v Never Dull, Inc, 960 F 2d 156 (Table), 1992 WL 52140 (Fed Cir 1992).


109 28 USCA § 1498(a) (Supp. 2005) (relief against the federal government is limited to damages).


113 42 USCA § 1498(a) provides for reasonable compensation.


116 35 USC § 284 (“in no event less than a reasonable royalty”).
117 Gyromat Corp v Champion Spark Plug Co 735 F 2d 549, 554-55 (Fed Cir 1984).
118 Fromson v Western Litho Plate and Supply Co, 853 F2d 1568, 1574 (Fed Cir 1988) (also noting, id., “Historically, the [typical royalty-setting] methodology has been problematic as a mechanism for doing justice to individual, non-manufacturing patentees. Because Courts routinely denied injunctions to such patentees, infringers could perceive nothing to fear but the possibility of a compulsory license at a reasonable royalty...”). Maxwell v J Baker, Inc, 86 F3d 1098, 1109-10 (Fed Cir 1996) (concerning adjustments that may be warranted when plaintiffs are NPEs).
119 35 USC § 284.
120 35 USC § 283 (providing for issuance “in accordance with the principles of equity” and “on such terms as the Court deems reasonable”).
121 Infra notes 141-46.
122 FTC report, supra note 8, Ch 2 at 32 and Ch 3 at 38.
123 Hearing Supra note 7; for a critical assessment of proposed changes in patent damages, see also, Major Issues Conference, supra note 128, at 65 (Field).
124 Section 7 of H R 2795, introduced on June 8, would have added two sentences at the end of § 293. Neither seems particularly remarkable; the first, for example, said: “In determining equity, the Court shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention”
126 MercExchange, LLC v eBay Inc, 275 F Supp 2d 695, 698 (ED Va 2003).
127 275 F Supp 2d at 711.
128 275 F Supp 2d at 711 (listing factors).
129 275 F Supp 2d at 712 (the usual definition of an NPE — supra note 106).
130 275 F Supp 2d at 714 Moreover, after speculating that defendants would be unable to design around the patents, the judge foresaw “contempt hearing after contempt hearing,” resulting “in extraordinary costs to the parties, as well as considerable judicial resources.”
131 Foster v American Machine & Fouldry Co 492 F2d 1317, 1324 (2d Cir 1974). The Federal Circuit may have had this case in mind when it said in Fromson, supra note 131, that NPEs historically are denied injunctions, but no authority was cited.
132 United States v American Bell Telephone Co, 167 US 249, 250 at 112.
133 United States v American Bell Telephone Co, 167 US 249, 250 at 714.
135 eBay Inc v Mercexchange, LLC, 126 S Ct 1837 (2006).
136 126 S Ct at 1841.
137 Dawson Chemical Co v Rohm and Haas Co, 448 US 176, 215 n.21 (1980) (“Compulsory licensing of patents often has been proposed, but it has never been enacted on a broad scale. Although compulsory licensing provisions were considered for possible incorporation into the 1952 revision of the patent laws, they were dropped before the final bill was circulated.”). Corry Catherine S, Compulsory Licensing of Patents — A Legislative History, Study No. 12, Sub-commission Patents, Trademarks and Copyrights of the US Senate Judiciary Commission (1958).
138 126 S Ct at 1840.
139 126 S Ct at 1840-41.
140 126 S Ct at 1841 (citing Roche Products, Inc v Bolar Pharmaceutical C Inc, 733 F2d 858, 867 (Fed Cir 1984)).
141 126 S Ct at 1841 (citing Roche Products, Inc v Bolar Pharmaceutical C Inc, 733 F2d 858, 867 (Fed Cir 1984)) (emphasis in opinion); cf., supra at note 148.
142 126 S Ct at 1842 (citing the FTC report, supra note 8 at Ch 3, 38-39).
144 126 S Ct at 1840.
146 HREP 109-409, at 2 (2006) (“Before Bayh-Dole was enacted, the Federal Government permitted the private sector to commercialize fewer than five percent of the Government’s patent portfolio”).
147 HREP 109-409, at 2 (2006) (“Before Bayh-Dole was enacted, the Federal Government permitted the private sector to commercialize fewer than five percent of the Government’s patent portfolio”). Ch 2, 33-34.
148 Supra Part IV C.
149 Machulp, supra note 1, at 51 (discussing patents obtained “merely for satisfying a dog-in-the-manger ambition.”) id. at 75 (referring to reciprocal licenses sometimes being compelled).
150 Many of its ten recommendations explicitly call for legislation; others, such as the call for adequate PTO funding, do so implicitly; FTC report supra note 8, Executive Summary, at 7-17.
151 Links to an impressive list of briefs appear after the eBay opinions on Westlaw.
152 Supra notes 123-124.
153 This is best indicated by amici supporting one side or another in eBay, supra note 151.
154 Supra notes 109-111.
156 The Biotechnology Industry Organization and Pharmaceutical Research and Manufacturing of America.
157 For example, the United Inventor’s Association.

158 For example, the Wisconsin Alumni Research Foundation, the University of Virginia Patent Foundation and the Washington Research Foundation. Some universities are likely to have been, at least indirectly, on both sides because library associations supported eBay; cf., supra note 138.

159 For example, the Association of American Universities, the National Association of State Universities and Land-Grant Colleges, the American Council on Education, and the Association of University Technology Managers.


161 One favouring Merc Exchange was written by the author of this paper and signed by three colleagues.