

Testimony of

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before the

SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY
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U.S. HOUSE OF REPRESENTATIVES

on

PATENT QUALITY IMPROVEMENT: POST-GRANT OPPOSITION
JUNE 24, 2004 OVERSIGHT HEARING

Chairman Smith, Ranking Member Berman, and Members of the Subcommittee, as Executive Director of the Public Patent Foundation (“PUBPAT”), a not-for-profit legal services organization that represents the public's interests in the patent system, I am pleased to offer the following testimony regarding Patent Quality Improvement, and particularly Post-Grant Opposition.

By way of introduction, I am a registered patent attorney with extensive experience litigating, licensing, prosecuting, and otherwise counseling clients with respect to patents. Prior to founding PUBPAT, I practiced patent law with Skadden, Arps, Slate, Meagher & Flom, LLP, Brobeck, Phleger & Harrison, LLP, and Patterson, Belknap, Webb & Tyler, LLP, all in New York, and served the Honorable Randall R. Rader, Circuit Judge for the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. I left private practice to form PUBPAT because my experiences as a patent attorney lead me to the unmistakable conclusion that many of the public's interests in the patent system are not being adequately represented, including particularly the public's interests against wrongly issued patents and unsound patent policy. PUBPAT represents those otherwise unrepresented interests.

THE PUBLIC DESERVES A VOICE IN PATENT POLICY DECISION MAKING

Despite their undeniable expertise, the other witnesses providing testimony to you

today do not adequately represent the public's interests in the patent system. Mr. Toupin represents the U.S. Patent & Trademark Office ("PTO"), which, by its own admission, is in crisis and which, according to several academic studies, is also failing to fulfill its obligations to ensure that only deserving patents are issued. Further, the PTO prohibits the public from participating in many significant aspects of the patent system that directly affect the public interest. Lastly, incentives placed on the PTO, both as an agency and on each individual examiner, strongly encourage issuance, rather than rejection, of undeserving patent applications. Therefore, the PTO cannot be seen as adequately representing the public's interests in the patent system.

Further, Mr. Kirk represents a bar association, whose members financially benefit from the existence and expansion of the patent system, and which does not in any meaningful way seek to represent the interests of those who cannot afford patent counsel. Messrs. Kushan and Sun represent specific clients who have as their primary duty returning value for shareholders, not representing the public's interests in the patent system. Market actors do not have an incentive to protect the public's interests against wrongly issued patents, as their economic preference is to either be held not to infringe a patent or to receive a license to an asserted patent, rather than prove the patent to be invalid, because doing the latter benefits all actors within the market, while doing the former generally only benefits the actor itself. As such, by proving that it does not infringe the patent or by negotiating a reasonable license, the commercial actor creates a duopoly between itself and the patent holder, allowing it to share supra-competitive profits with the patent holder. A market actor who proves a patent invalid subjects itself to a fully competitive market which it, itself, created at significant time and expense. In such markets, there will be little margin and almost no ability for the actor to recoup those expenses. As such, market actors do not adequately represent the public's interests in the patent system.

Therefore, like most patent policy making discussions, noticeably absent from the hearing is any representation of many of the public's interests in the patent system, and particularly the public's interests against the harms caused by wrongly issued patents and perverse patent policy. The public deserves to have all of its interests in the patent system represented, not just the interests of the PTO, patent practitioners, and market actors, whenever patent policy is being discussed or made. Otherwise, the patent system will continue to fail to adequately take into account those interests and continue to harm the public in ways that it should not. PUBPAT represents those otherwise unrepresented interests and would be pleased to do so before you again at any appropriate time in the future.

**A PROPERLY CRAFTED POST-GRANT OPPOSITION
PROCEDURE WOULD SERVE THE PUBLIC'S INTERESTS**

PUBPAT is pleased that the idea of a strong post-grant opposition procedure is

being discussed. In most respects, such a procedure would greatly serve the public interests by helping to ensure that wrongly issued patents are proven as such as quickly and as efficiently as possible after their issuance. Of course, it is our preference that the patent application process be improved so that no undeserving patent is ever issued. However, until such improvements are made, implementing effective mechanisms for nullifying wrongly issued patents could be of significant benefit, so long as such mechanisms are not seen as being satisfactory solutions to the problem of patent quality, as even with an effective post-grant opposition procedure, the amount of public harm caused by wrongly issued patents will still be significant.

We point out that some characteristics of a post-grant opposition proceeding that have been proposed may cause it to have a detrimental effect on the public's interests. First, any time limit on when oppositions could be filed, especially one as short as nine months to one year, would vitiate a substantial amount of the post-grant opposition procedure's ability to route out wrongly issued patents. This is because many patents do not begin to cause significant public harm until years after their issuance. For instance, pharmaceutical patents often issue years before any product covered by the patent is brought to market, because of the need to perform clinical trials to prove that the product is safe and effective. In information technology industries, many technologies covered by patents do not become sufficiently marketable for several years after their issuance because the marketability of the purported invention does not become possible until some complimentary hardware or service becomes affordable to consumers. Further, many patents are sold to new owners during their term who are often much more aggressive in asserting the patent against the public.

Thus, it is not always possible to determine within nine months to one year of a patent's issuance whether or not it would be one that should be challenged. Forcing the public to make such decisions too soon by implementing a narrow window during which opposition proceedings could be initiated would lead to substantial waste due to inefficient decisions and a crippling of the post-grant opposition procedure's ability to protect the public from the harm caused by wrongly issued patents. Further, if there was only a limited window during which opposition proceedings could be initiated, some patentees may choose to game the system by not asserting their patents until after the window for opposition had closed.

Another proposed aspect of post-grant opposition that may cause it to injure the public's interests would be if it replaced, rather than supplemented, inter partes reexamination. As discussed more fully below, inter partes reexamination is a critical tool for protecting the public's interests against wrongly issued patents. Post-grant opposition would in many cases be less preferable and less feasible for members of the public wishing to challenge wrongly issued patents than inter partes reexamination. Therefore, if inter partes reexamination was eliminated, post-grant opposition would not provide as effective a mechanism for such parties to eradicate the harm being perpetuated against them by wrongly issued patents. As such, PUBPAT strongly urges that any implementation of post-grant opposition not include an elimination of inter partes

reexamination.

**INTER PARTES REEXAMINATION IS A CRITICAL
TOOL FOR PROTECTING THE PUBLIC'S INTERESTS**

PUBPAT has already successfully taken advantage of the ex partes reexamination process to protect the public from harm being caused by wrongly issued patents, and we fully intend to use the stronger and more attractive inter partes reexamination process relatively soon. The reason why PUBPAT has not yet taken advantage of inter partes reexamination, and the reason why many other third parties have not done so either, is because of its limited availability, its infancy, and its uncertainties. With time, however, each of these issues will erode, establishing inter partes reexamination as a powerful and necessary mechanism for ensuring that harm caused to the public by wrongly issued patents can be adequately, and swiftly, remedied.

The first drawback of inter partes reexamination is that, by statute, only patents applied for after November 1999 are subject to the inter partes reexamination procedure. With average patent application pendencies ranging from 2 – 4 years, this means that only within the last few years have patents been issued that could be challenged through inter partes reexamination. For example, none of the patents on which PUBPAT has requested ex partes reexamination were eligible for inter partes reexamination. Had they been, we would have used that process, as it is very much preferable to ex partes reexamination. With time, however, the pool of patents that are eligible for inter partes reexamination will continually increase until it includes all issued patents.

Second, inter partes reexamination, in its current embodiment, which includes the very important right of third party requesters to appeal to the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”), has only been in existent for a few years. In the patent system, a few years is an extremely short period of time as many patent applications are not issued and most patent litigations are not resolved within such time frames. Therefore, we urge patience in reviewing the effectiveness of inter partes reexamination. Many of the inter partes reexaminations that have been initiated, and a significant number of those that have been initiated after the right to appeal to the Federal Circuit was added, haven't even finished yet. It would be premature to pass judgment on the procedure before the public has even been given an effective opportunity to experience and evaluate it.

The third cause for the minimal use of inter partes reexamination is because of uncertainties attendant thereto. Many parties prefer to take advantage of other mechanisms for resolving patent disputes, including ex partes reexamination or litigation, because there is a body of precedent on which to make analytical risk and reward calculations. Since so many of the inter partes reexaminations that have been initiated have not even run their course, no precedent exists upon which other potential inter partes reexamination requesters can make decisions about

whether or not to use the system for their situations. For example, the Federal Circuit has yet to hear any appeal of any inter partes reexamination. Because of this, inter partes reexamination suffers from a lack of precedent and, as such, a lack of guidance as to its interpretation, timeliness, and impact.

It is these issues, and not the inter partes reexamination procedure itself, which is causing a significant amount of the hesitancy of third parties to take advantage of it. Over time, each of these reasons why parties have, as of yet, not taken full advantage of inter partes reexamination will dissipate and eventually disappear. Therefore, PUBPAT respectfully submits that it would be improvident to undo the significant amount of work that the House and Senate undertook in 1999 and again in 2002 to create an effective inter partes reexamination mechanism, especially since not nearly enough time has passed to provide a basis to review the effectiveness and need for such a procedure.

**THE PATENT OFFICE IS NOT UNDER
RESOURCED; IT IS IMPROPERLY INCENTIVIZED**

Although funding of the PTO is not directly at issue in today's hearing, it is an ever present issue that affects all aspects of patent quality, including, in particular, a proposed procedure that would add to the PTO's responsibilities. And, although the House has already passed H.R. 1561, the U.S. Patent and Trademark Office Fee Modernization Act, the topic is most assuredly to arise again in the future. As such, further discussion of the issue, and particularly the presentation of a viewpoint contrary to the conclusions drawn by almost every other participant in the discussion, is worthwhile.

The PTO is not underfunded, understaffed, or otherwise under resourced. Rather, the failings of the PTO are caused solely by the improper incentives placed on it and its employees. Financial incentives placed on the PTO and its employees encourage the issuance of patents, specially those of questionable validity. The PTO derives its income from fees, and particularly application and maintenance fees. These fees increase in direct proportion to the number of patent applications received and the number of patents issued. As such, the more patents issued by the PTO, the more fees it receives, both directly through maintenance fees, and indirectly through the encouragement of more patent applications.

Currently, the PTO ultimately issues patents from 90% of all applications. Although many of these issued patents are deserving; many of them are not. Studies have shown that roughly half of all issued patents later challenged as invalid in court are held to have been wrongly issued. The PTO's high rate of issuing patents is directly responsible for its receiving unmanageable numbers of applications. However, that burden is not properly dealt with by increasing the PTO's funding so that it can issue more patents and thus encourage the filing of even more applications. Rather, the burden on the PTO is properly dealt with by removing the

improper incentives on it to issue patents. Under the current system, if the PTO did a better job of rejecting undeserving patent applications, so that the number of wrongly issued patents would decrease, it would suffer financially. This is unjustifiable.

Financial incentives placed on the PTO to issue patents do not stop at the agency level. Rather, they trickle down all the way to individual employees. Through what is known as the “count” system, patent examiners are given more credit, and evaluated more favorably, if they issue, rather than reject patents. An examiner who desires to reject an application faces a limitless amount of work, as patent applicants can buy an infinite number of continuation applications forcing the examiner to restate and re-argue her rejections, none of which receives any credit under the “count” system. However, if the patent examiner instead chooses to issue the patent application rather than continuing to make rejections, they will receive the same amount, and in some cases more, credit, while also saving themselves hours of work. These incentives are perverse.

In closing, PUBPAT and I thank you for the opportunity to provide this testimony and look forward to providing further testimony regarding the public's interests in the patent system in the future.