

Address by
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WHERE ARE WE NOW ON PATENT SYSTEM IMPROVEMENTS AND HOW CAN WE BEST MAKE FURTHER PROGRESS?

The Patent and Trademark Office issues close to two hundred thousand patents each year, each expiring 20 years after its filing date. About one and a half million are in force. Many contain claims that may be invalid. Most, having no commercial value, will never be enforced. Several thousand per year will be, some privately and some in court. About 3,000 suits will be filed next year, as each year in this decade. Practically all those asserted patents will be challenged as invalid in court. Often the suits are resolved with summary judgments of non-infringements. When validity is adjudicated, about half of the challenged patents will be held at least partially invalid, perhaps 50 a year. A much larger number of unlitigated patents may actually be partially invalid, but cause no harm as they are either never infringed or, if infringed, never enforced.

Poor “patent quality” is the established complaint. We should ask ourselves: “What does it really mean?” You might think it means most patents are totally invalid. Actually, most patents I have seen contain narrower claims that are plainly valid, but

also broader claims that may be invalid. To say, as the FTC did in its 2003 report, that many issued patents contain some claims that are likely invalid is not news.

Similarly, to suggest that patents generally lack “quality” or that patent applications are often of “low quality” seems, to me, unhelpful in diagnosing any patent system illnesses in order to prescribe effective treatments. To say many patents are “questionable” is even less helpful. Every patent is questionable at least in the sense that every accused infringer will challenge it, often successfully.

In an ideal world, should the PTO reject more of the broader claims in patent applications? Certainly, yes. If they did, more law suits might be avoided altogether and more that are filed might be settled more quickly than now, or at least more adjudicated on summary judgment, thus saving the great expense and delay of full trial.

But can the PTO be strengthened enough to provide such needed rejections? In theory, yes of course, if only enough money is invested in hiring, training, retaining, and supervising enough well-qualified examiners. But the real question is: Would it be worth it? Two years ago a member of the Presidential transition team, Reed Hundt, wrote that the PTO budget should be tripled. First, it seems clear that won’t happen, given the national economic and fiscal crises, and second, it might not reduce patent suits appreciably, anyway. Perhaps deferred examination should be explored.

But wait: Is there truly a litigation explosion that must be curtailed? Well, the percentage of issued patents sued on has changed little in several decades, but has remained steady at about one percent. Second, the number of infringement suits filed per year has remained the same for almost a decade at just under 3,000. Most importantly, 90% are abandoned or settle. Of the 300 not voluntarily disposed of by the

private parties, two thirds never go to trial, but are adjudicated on summary judgment, usually of non-infringement. One hundred trials per year in a country of 300 million people, over one million in-force patents and what, perhaps 100,000 companies with 100 or more employees, does not seem excessive to me. Most of these judgments are affirmed on appeal. Since two-thirds were summary judgments, only about 100 per year are actually tried. Most are then appealed and about one-third of those, or about 30 per year, are reversed and remanded. They do require retrial, if not settled after remand. Many do settle.

True, trials are expensive, both for parties and taxpayers. But five to ten retrials per year is minor. That is unfortunate and inefficient. But it hardly proves that appellate reversals are causing second trials in a significant number of cases or that accused infringers are routinely being abused by the system and by unscrupulous patentees.

Are 300 trial court adjudications per year, as charged, really “excessive”? Are those adjudications, as charged, truly “wasteful”? As two-thirds are not tried, but resolved without trial, much faster and cheaper, what is the real concern behind the vociferous complaints? Besides, the 100 cases tried tend to be the close ones. They need trials despite expense, I submit, because no cheaper, better way to resolve close cases can be identified.

Besides, the cost of such litigation derives not from the substantive patent law, but mainly from the civil procedures rules which are not unique to patent cases but apply to all civil cases. Most of the cost is for discovery. America imposes far higher discovery costs than any other country in the world. If they are viewed as unacceptably

high costs (which I personally think they are), then the solution is not substantive patent law revision, but civil rules revision.

To me, the proposed alternative for weeding out bad patents is unconvincing. Can we really get a faster, better, and cheaper review of challenged patents at the PTO than in the courts? Experience with the existing PTO reexamination procedures raises doubts.

And the PTO is already overwhelmed by ex parte examinations with average pendencies of over three years, in some arts, far longer. Is it realistic to expect the PTO to be able to conduct a new form of inter partes reexamination faster and cheaper than the courts? And more accurately? Unless its new procedures, competencies, and powers can be clearly defined, how will we know what consequences would follow? How will we know this is not a mirage in the desert that looks like an oasis, but has no water?

It is blithely said that the PTO will structure a discovery system that will be fast and cheap. How can we have confidence in that promise when the Congress and the courts, also concerned about fairness, for many decades have worked this problem but failed to deliver? And, given how overburdened the PTO already is, how can we gain confidence it can take on this huge new task and perform it well enough, especially with the average examiner having less than three years experience and the average administrative patent law judge swamped with appeals.

Still, others suggest that inequitable conduct – or fraud on the patent office – should be legislatively removed from the courts and committed solely to the PTO. This, however, is the very same desperately under-resourced PTO that cannot promptly and

properly complete ex parte reexaminations and under proposed legislation would have the added burden of many new inter partes reexaminations. This is the same PTO that hires 1,000 new examiners each year but also loses 600.

As to the courts, certain complaints suggest damages are often wildly excessive. Compared to what? The examples cited merely show large dollar amounts, but in large markets that is to be expected. That hardly proves excesses or that they are common. The median damage award is about \$5 million. Only about ten per year exceed \$50 million. In addition, many large awards are promptly reduced by the trial judges on post-verdict motions. Others are overturned or reduced on appeal. The remainder may be debatable, but surely are no more than the close cases about which reasonable people will always disagree. That hardly proves that damages are often excessive, much less “exorbitant” as one recent Supreme Court footnote suggested. Yes, RIM paid \$612 million to NTP but it earned billions anyway. If the settlement was worth that to them, why do we assume it was excessive?

As to the size of pre-litigation license fees, we seem bereft of useful data. Say-so and anecdotes won't do. Perhaps the FTC process can unearth needed information.

Some suggest that, it's not the number of infringement suits filed per year, but who the plaintiffs are that indicates a crisis. Why does anyone assume that non-manufacturing patent owners should not be enforcing patents? Universities, research institutes, and small inventors innovate and patent wonderful inventions, but do not themselves make products, allowing others do so with their designs for such products. Why are these patentees seen as somehow illegitimate? A patent imparts the right to exclude others, not the obligation to manufacture yourself.

Then, some suggest that all non-practicing entities are not the problem, but just those companies that do not invent at all but merely acquire and enforce other people's patents. Calling them "trolls", a pejorative label, only blurs the reality and blinds our analysis. Since property, by definition, is sellable, patent owners may freely sell them to anyone who offers adequate value. Whether patents are acquired at auctions or other types of sales seems to me immaterial. Then, some say, well it's not just that such "enforcers" don't invent and don't manufacture; the evil is they just want to get money for allowing their patented inventions to be used by others. Here the patent enforcement company seems little different than the corporate inventor that does manufacture. It too mainly wants to get license royalties and/or injunctions. It too relies on the threat of patent infringement litigation with possible damages perhaps even tripled (though rarely) and perhaps a permanent injunction and maybe (though rarely) a preliminary injunction.

Since the FTC report in 2003, I submit most litigation problems cited there have largely been solved by courts: higher standards on obviousness, less routine injunctions, higher standards for finding willfulness, more restricted eligibility for patenting under §101. In addition, paying licensees may now challenge patent validity.

What problems then remain as our biggest challenges? I suggest they are actually at the most basic level: assuring that the system serves all types of inventors, all kinds of companies, all technologies, and at all stages of maturation in each technology. The patent system must be as efficient as practicable but also fair to all participants, not only to large manufacturing companies. It should be as predictable as

possible, yet without categorical, rigid or overly simplistic rules. In short, it must optimally balance numerous conflicting goals.

How and who can move our system closer to these objectives? I propose: those courts with the most patent experience, through careful caselaw development—more than legislation, more than deferring to the practically-dysfunctional PTO.

Consumers' wallets and open competition surely must also be protected, but innovation, job creation, societal prosperity, and wealth creation are paramount, especially for the rest of this decade. Such fine balancing, I submit, is what courts do best.

Maybe there is a strong case for fundamental changes by legislation. I have not seen it, but it may exist. At the very least, however, we reformers should all exercise great self-discipline in making our respective proposals. Recommended remedies that merely state objectives without specifically defining realistic means for achieving them do not deserve assent and adoption. Instead, all newly-recommended reforms, whether by the FTC, National Academies of Science, or this or that industrial legislative coalition, should be rejected unless the "how to" is spelled out. Similarly, their adoption should require that their downstream benefits to all clearly outweigh their harms and costs. Reformers should also admit no system can be perfect. Can it be improved at affordable costs with sufficient and widespread benefits? It is a question of affordability, feasibility and trade-offs. That should be our real focus.

If a certain brand of patent law reform might cut the value of most corporate patent portfolios in half and perhaps greatly reduce stock values, dividends and employment, is that what our country now needs? If a certain type of legislative change

would greatly help three industries while greatly harming 30 others, is that desirable? If the net impact would be to lower net investment in new technologies, it is that what America needs?

The answers lie in empirical inquiries and analysis yet to be performed. This hearing is a good start, but much remains to be done in the coming months. No one is better equipped for this work than the broadly diverse group in this room. All viewpoints should be heard. Please, everyone, stay everyone with it.

Congratulations also to the FTC for once again leading the way and starting “round two” of Patent Reform.

Thank you.