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Web Review Will Bolster Small-Business Patents, PTO Official Says

By Greg Piper

Scrutiny by outside experts will help patent applicants by inoculating them against challenges to claims' validity, a Patent & Trademark Office (PTO) official told the House Small Business Committee Thurs. The PTO Peer to Patent pilot, which starts in June (WID March 27 p4), will let hopefuls send patent applications for online review by patent experts in law, industry and academia. Comr. of Patents John Doll argued strongly for the world to come around to the unique U.S. first-to-invent system -- contrary to high-tech pressure for the U.S. to adopt first-to-file.

Witnesses on a subsequent panel, including auction giant eBay, fought for the mantle of small business champion. They argued over whether to reduce patent owner uncertainty by limiting venues to overturn a patent and thus threats to investment -- or to reduce potential infringement defendant uncertainty, by giving ample opportunity to challenge issued patents and limit damages to infringed technology, not an entire product. Microsoft's \$1.52 billion loss to Lucent over 2 patents for MP3 technology was based on entire computers, not the affected technology, Georgetown U. Law Prof. John Thomas said.

Use of the Web in patent examination "has opened up new doors to the public," Doll told Ranking Member Chabot (R-O.). People can search the PTO database for prior art and track the status of applications, he explained. The Peer to Patent project will help the PTO avoid its gravest error -- issuing patents that are ripe for legal challenge -- Doll said. Some small inventors see the pilot as "the big guy ganging up on the little guy. I don't see it that way at all," he said. Applicants will have a "much stronger feeling" about patents' validity if independent evaluators give their imprimatur, and there still will be full review by a patent examiner, he said.

Doll passed up several opportunities to opine on specific provisions in patent reform legislation. But he agreed with Chmn. Velazquez (D-N.Y.) that patent reform is needed. "Right now the [PTO] is doing very well," focusing on honing patent quality through a new 8-month training program for examiners, Doll said. "We haven't seen exactly what's in the bills" this Congress regarding post-grant opposition and a "2nd window" -- a chance to overturn a patent for an indefinite time after a post-grant review, Doll said.

Established Web and software companies, frequent targets of patent litigation, generally back the opposition provisions. Doll called post-grant opposition an "interesting option," declining to judge its merit in legislation. Speaking of bills from last Congress, Doll said: "It looked like we could make all of them work fairly." Asked about funding, Doll said "I fully support the President's budget" but admitted, provoking laughter, that if Congress appropriates more the PTO "will find very good ways to use that money." If trends hold, PTO's application backlog will exceed 100,000 this year, passing 800,000, he said.

But Doll minced no words on high-tech pressure for the U.S. to harmonize with the international first-to-file standard. "I was hoping harmonization would lean toward the U.S. system," he said: It's cheaper to get and maintain a patent in the U.S. than in main challengers Japan and Europe. First-to-file "takes care of lots of complex legal questions" but puts smaller inventors at a disadvantage. They comprise about 30% of applications and 25% of granted patents, Doll said.

E-Commerce Threatened by Patent Litigation, eBay Says

Tech companies want more than "generalities about the need for reform," said Mitchell Gross, chmn. of archiving software maker Mobius, speaking for the Information Technology Assn. of America. When sued

for infringement, Mobius and others must settle "regardless of the merits of the defense," making small business "afraid to innovate," he said. Patent law "should not just be a legalistic discussion," said Emily Ward, eBay assoc. gen. counsel- patents. Gadgets and services under recent litigation -- like the BlackBerry and eBay fixed-price auctions -- are crucial for small business, which may not be able to afford them as litigation costs are passed to customers, she said.

But others said reforms proposed last Congress would have hurt small business, especially first-to-file. "Inventors clutch their notebooks to their chest," said Bryan Lord, gen. counsel to AmberWave, which recently settled infringement litigation against Intel. First-to-file is "a race to the courthouse" big companies can best afford, he said. Patent lawyer Kevin Kirsch said setting too high a bar for injunctive relief and willfulness penalties will block small businesses from retaining good lawyers, whose fees average \$2 million for small patent cases.

Witnesses disputed the effect of post-grant opposition. It's most sought by "large companies with deep pockets," and if made law should be limited to a single window with a "short, predictable duration" such as 6 months, said National Venture Capital Assn.'s John Neis. Something like post-grant already exists, Georgetown's Thomas said: "Reissue" requests let patent owners file an amended application to "tune it up," and 3rd parties always can ask the PTO to reexamine a suspect patent. A time limit on opposition could subject companies to greater damages if a patent owner's product only becomes valuable years after issuance, he added.

"Apportionment" -- restricting damages to infringed components, not entire products -- also had a fractious effect. Such a provision would bar juries from considering the "disproportionate impact" of infringement to small business, Lord said. Calculating damages on infringed components will lead to results "equally arbitrary" as on entire products, and require patent owners to "spend their scarce resources on JDs rather than PhDs," Neis said. Thomas called the Microsoft \$1.52 billion MP3 verdict "overly generous" given the infringed patents' value, noting the thousands of patents involved in common tech products. Ward said basing damages on an entire product is like paying an engineer a percentage of every other engineer's salary. "Not all engineers are created equal," Lord retorted: "Simply doing a head count doesn't work."

Money spent in litigation won't go to R&D, Lord said, challenging Ward's claim that outlays to fight patent suits have declined since the Supreme Court eBay decision limiting injunctive relief. She said "minor adjustments" in patent law would free up even more spending on R&D.

The main problems are vague patent claims and clueless judges, Kirsch said. The reversal rate on patent claims is 40%, a problem crying out for a broader fix than that proposed in a patent-judge pilot introduced by Rep. Issa (R- Cal.) (WID May 22 p4), he said. Congress or the PTO should require applicants to define terms in their patent claims at least in an early stage of filing, and let examiners reject claims not in "plain language," Kirsch said. The U.S. needs a program to encourage patent attorneys to become federal judges and to keep juries from deciding claims, he said: "I've been in mock jury councils. They just don't work."