

**INNOVATION AND ITS DISCONTENTS**  
***HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND  
PROGRESS, AND WHAT TO DO ABOUT IT***

**ADAM JAFFE AND JOSH LERNER**

Business Books that Matter...Discussion Points  
Mark Cameron White – September 2006

**ONE: ONLY IN THE U.S.A.....**

**THE “FIRST TO INVENT” POSITION...VS. “FIRST TO FILE”**

- HARD TO TRACE...AMBIGUITY BUILT IN
- HOW TO HARMONIZE WITH THE REST OF THE WORLD
- DOES THIS REALLY HELP THE SMALL INVENTOR?
- BUT...DOES AWARD INNOVATION OVER A RACE TO THE PTO...  
[INTERNATIONAL EXTORTION OF TRADEMARKS....]

**THE SMALL INVENTOR BIAS**

- MISPLACED.....PATENT TROLLS HURT INNOVATION
- MOST BAD PATENTS ARE WITH SMALL INVENTORS
- DEFINITIONAL....SMALL COMPANIES ARE NOT SMALL INVENTORS
- THE RULES SEEM BUILT AROUND THE SMALL INVENTOR
  - LOW FEES
  - ASSUMPTION OF VALIDITY AND LOW STANDARD OF ENFORCEMENT
  - JURY TRIALS AND FAVORABLE APPEAL RECORD DAUNTING TO CHALLENGERS

**LICENSING BUSINESS UNITS...**

- ENCOURAGES INNOVATION OUT OF SYNCH WITH CORPORATE PURPOSE
- HOW CAN INTEL, NEC, IBM...HAVE EXCESS PATENTS?
- UNIVERSITIES ARE THE SAME...MONEY FROM KNOWLEDGE?
- INNOVATION IS A BUSINESS IN ITSELF...A CHESS GAME TO MAKE MONEY...NO INTEREST IN REAL PRODUCTS.

**IP-FOCUSED INVESTMENT POOLS**

- PLAYERS ON BOTH SIDES – ACP AND INTELLIGENT VENTURES
- NEUTRALS THAT GAME THE SYSTEM – TYNAX?
- TOO LATE TO CHANGE THE SYSTEM? TOO ENGRAINED?
- IF THIS IS A REAL BUSINESS...WILL THIS PROMOTE GOOD INNOVATION OR BAD?

### **WINNERS AND LOSERS**

- AND THE WINNERS ARE.....LAWYERS, INVESTORS, IP SPECULATORS, NEW IP BUSINESS UNITS
- THE LOSERS...LEGITIMATE INNOVATORS, THE PUBLIC (INCREASED COSTS?)
- THE THREAT CREATES THE MARKET...
  - PRODUCTIVE = TYNAX, LICENSE OFFICES
  - UNPRODUCTIVE = LAWSUITS
- JUST FOLLOW THE RULES...THAT'S TRUE OF
  - STRICT LIABILITY ON NEW PRODUCTS
  - DEALING WITH OUTSIDE INVESTORS
  - STRATEGIC PARTNERSHIPS

### **IN A FLAT WORLD...INNOVATION IS ALL WE GOT LEFT**

- DID WE OVER-REACT TO THE JAPANESE IN THE EARLY 90S?
- THE COURT AND FEE CHANGES SEEMED INNOCENT ENOUGH...
- DOES THE U.S. SYSTEM FAVOR OUR OWN INNOVATORS?
  - 3<sup>RD</sup> DISTRICT OF TEXAS – HOME COURT
  - WE CAN GAME THE SYSTEM BETTER...ECOSYSTEM
  - GLOBAL INNOVATION WILL GO ON ANYWAY....AND THE U.S. MARKET IS TOO BIG TO IGNORE

### **THE WHOLE WORLD IS PATENTABLE**

- HUMAN GENOME ...BUSINESS METHODS ...SOFTWARE ...INTELLIGENCE
- THIS IS WHAT THE U.S. IS GOOD AT – SHOULDN'T WE PROTECT THIS?
- JAFFE/LERNER – THIS IS OK...JUST TWEAK THE SYSTEM TO PROMOTE GOOD PATENTS

### **THE UP-CYCLE IS KILLING US...**

- CYCLICAL....BUT CREATED BY STATUTE
- THE PROBLEM WILL NEVER END AND NO ONE WILL EVER BE TOTALLY HAPPY
- SO....WHY WORRY....JUST UNDERSTAND THE RULES AND USE THEM!!
- THIS IS MORE A QUESTION OF GOVERNMENT INCENTIVE AND POLICY....WHY SHOULD THE REST OF US CARE....WHAT CAN WE DO?!

## **TWO: HOW THE WORLD CHANGED IN 1982**

### **THE COURT OF APPEAL OF THE FEDERAL CIRCUIT (CAFC)**

- SCARY REMEDIES...INJUNCTION AND LOST PROFITS...NOT REASONABLE ROYALTIES
- NEW PATENTABLE MATTER
- A “CLIENT BIAS” TO THE INVENTOR
- NO ACCOUNTABILITY...AN IVORY TOWER?

### **THE CASE AGAINST THE CAFC.....**

- THE ALTERNATIVE ARE THE 9 CIRCUITS...AND THAT DIDN'T WORK
- THE AUTHORS COMPLAIN...BUT ARE OK IF WE FIX THE “PROCESS”
- BAD PATENTS ARE PURPETUATED BY THE COURTS...NOT CREATED BY THEM
- THE COURTS ARE POLITICAL...AND REACTING TO THEIR CONSTITUENCY
- NO ONE IS COMPLAINING THAT MUCH...
- **BUT...STILL STUCK WITH JURY TRIALS**....AND PROBLEMS OF SOPHISTICATION!!!!!!!
  - DECIDE CRITIAL QUESTIONS OF NOVELTY AND NON-OBVIOUSNESS!

### **PTO AS A PROFIT CENTER...FEES COVER COSTS**

- “CUSTOMER ORIENTATION” – THE INNOVATOR, NOT THE PUBLIC
- CASH COW FOR OTHER AGENCIES
- NO MONEY FOR:
  - MARKET SALARIES
  - EFFECTIVE SEARCH TOOLS FOR “PRIOR ART”
- EXAMINERS MEASURED ON VOLUME...NOT QUALITY
- FEES NOT CALIBRATED TO PATENT QUALITY
  - ENCOURAGES BAD PATENTS
  - NO PENALTY FOR SYSTEM ABUSE

### **A CLOSER LOOK AT THE PTO...**

- THE REAL ISSUE IS FEE CALIBRATION...AND PRIOR ART
- EASY FIX...AUTHORS SOLUTION:
  - HIGHER FEES FOR RE-EXAMINATION
  - PUBLIC COMMENT ON PRIOR ART
  - KEEP THE MONEY WITH THE PTO!!
- REST OF WORLD AVOIDS ISSUE WITH “FIRST TO FILE” SYSTEM

### **IS GAMING THE SYSTEM FAIR GAME?!**

- OFFENSIVE PATENTS ...BLOCKING FUTURE INNOVATION  
...SHOULD THIS BE ALLOWED IN CRITICAL TECHNOLOGIES?
  - HIV MEDICATION
  - INTELLIGENCE
- GUESSES ON THE FUTURE... THE STUDY OF MARKETS 5 YEARS FROM NOW... RATHER THAN HUMAN NEEDS NOW
- DEFENSIVE PATENTS...SEEMS MORE DEFENSIBLE
- A GAME OF CHESS AND CHANCE – RATHER THAN PROTECTION AND INCENTIVE
  - JUST HIRE THE BEST LAWYER?
  - WE REWARD STRATEGIC FORETHOUGHT RATHER THAN BRILLIANCE IN INNOVATION...

### **THREE: PATENT REQUIREMENTS AND STANDARDS**

#### **NOVELTY AND NON-OBVIOUSNESS**

- THE SEARCH FOR PRIOR ART IS KEY HERE
- WHAT ABOUT “COMPILATION” PATENTS? COMBINING STUFF IN A NEW WAY...SHOULD THAT BE PROTECTED? (IE. THE BETTER MOUSE TRAP....RECIPE)
- WHAT ABOUT “CONTINUATIONS”....THE RAMBUS LOOPHOLE
  - TWEAKS TO KEEP ORIGINAL FILING DATE
  - REALLY SUBJECTIVE...”WHAT I MEANT ON THE ORIGINAL APPLICATION....”
  - BETTER IF EACH ITERATION WAS A NEW PATENT...SO THE ORIGINAL BASE CAN BE USED AT SOME POINT?

#### **ASSUMPTION OF PATENT VALIDITY**

- JAFFE/LERNER = OK IF THE PROCESS IS FIXED
- AGREE...IF BAD PATENTS ARE WEEDED OUT

#### **PATENTEE = “PREPONDERANCE OF EVIDENCE”**

- OK IF HAVE ASSUMPTION OF VALIDITY

#### **CHALLENGER = “CLEAR AND CONVINCING EVIDENCE”**

#### **FOUR: WEIRD STUFF...**

##### **STANDARDS AND RAMBUS...AND CONTINUATIONS**

- CLASSIC ABUSE...BUT IT HAS WORKED!
- SETTING AN INDUSTRY STANDARD ON YOUR PATENTS...THEY SHOULD BE PUT IN JAIL
  - PRIVATE REMEDY...KICK RAMBUS OUT OF THE INDUSTRY TRADE ORGANIZATION
  - PRIVATE SUIT?
- \* THE CONTINUATION THING IS EXCESSIVE!

##### **NON-OBVIOUSNESS AND COMMERCIAL SUCCESS**

- EXTORT LICENSES FROM SPINELESS TARGETS = COMMERCIAL SUCCESS THAT DEMONSTRATES NON-OBVIOUSNESS
- HOW DO WE PROTECT FROM THE DREADED FORM LETTER ALLEGING INFRINGEMENT?
- SHOULD WE HAVE A GOVERNMENT RE-EXAMINATION REQUIREMENT BEFORE MASS MAILINGS GO OUT?
- PROBLEM IS KNOWLEDGE OF PRIOR ART....AND RELATIVE COSTS OF SUIT v. LICENSE...
  - SHOULD WE REGULATE LICENSE COSTS?
  - EFFECT ON INNOVATION INCENTIVE v. CONSUMER COST

##### **EXAMINER PRODUCTIVITY**

- POINTS ON APPLICATION COMPLETION INCENTS APPROVAL... AND NO PENALTIES ON RE-SUBMISSIONS... NO COSTS TO CLOGGING UP THE SYSTEM
  - AMERICAN SENSE OF FAIRNESS.....MISPLACED?
- ALTERNATIVES.....
  - REWARD GOOD PATENTS v. BAD PATENTS
  - REWARD RETENTION....COSTS OF MOVING ON
  - OR...PROTECT FROM ABUSIVE RESUBMISSIONS!

#### **FIVE: THE JEFFEE-LERNER SOLUTION**

##### **THE FORMULA**

- 1<sup>ST</sup> – INDEPENDENT EXAMINATION...
- 2<sup>ND</sup> – PUBLIC COMMENT ON PRIOR ART....
- 3<sup>RD</sup> – COMPLETE, INDEPENDENT RE-EXAMINATION PRIOR TO PATENT ISSUANCE

## **COLLATORIES**

- PRESUMPTION AND REVIEW STANDARDS REMAIN THE SAME
- THE WHOLE WORLD REMAINS PATENTABLE
- NO PENALTIES ON COMMENT-GIVERS... INCREASING COSTS OF RE-EXAMINATION TO FLUSH OUT BAD PATENTS

## **WILL THIS WORK?**

- BLOCK OUT THE SMALL INVENTOR?...NO – CAN GET FUNDING FROM OUTSIDE SOURCES
  - MUST “PROVE” WORTH LIKE ANY STARTUP!
- REVENUE NEUTRAL...LESS APPS COUNTER BY MORE FEES
- KEEPING PRESUMPTIONS..STANDARDS..PATENTABLE MATTER ASSUMES QUALITY PATENTS
  - BY BETTER PRIOR ART
  - BY ESCALATING FEES
- PROBLEMS...
  - PRIVATE OWNERSHIP OF CRITICAL TECHNOLOGIES
  - LEGACY PATENTS WON'T CHANGE
  - GLOBAL HARMONIZATION...BUT DOES THIS MATTER?
  - HOW DO YOU GET THIS PASSED?
    - ONE COURAGEOUS CONGRESSMAN?
    - THE EUROPEAN MARCH ON SOFTWARE PATENTS

## **SIX: THE MARK WHITE APPROACH...A REAL INNOVATION!**

### **SOME INNOVATION SHOULD BE CONTROLLED BY THE GOVERNMENT**

- HIV, WEATHER FORECASTING, INTELLIGENT MACHINES, AVIAN FLU VACCINATIONS
- GOVT BEST AT...
  - DISTRIBUTION...
  - QUALITY CONTROL...
  - REGULATION OF RIGHTS [FCC...]
  - EFFICIENT RESOLUTION OF DISPUTES
  - UNBLOCKING BOTTLENECKS!

**MY IDEA...**

- KEEP JAFFE/LERNER APPROACH
- LAYER ON GOVT OWNERSHIP IN CRITICAL SUBJECT AREAS
- GOVT OWNS THE ROAD-BLOCKS
- ATTRACTIVE BUT REASONABLE REWARD SYSTEM:
  - TIED TO COMMERCIAL VALUE [OBJECTIVE...]
  - CAPPED
  - SET BY REVIEW BOARD OF ECONOMISTS...LIKE THE FED! APPOINTED BY THE PRESIDENT