



Intellectual Property Watch

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“Inside Views: Interview with Chief Judge Paul R. Michel on U.S. Patent Reform”
Written by Chief Judge Paul R. Michel (ret.)

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[Chief Judge Paul R. Michel \(Ret.\)](#), of the U.S. Court of Appeals for the Federal Circuit, saw hundreds of patent cases during his distinguished career and has a unique position from which to view and offer advice on efforts in the US Senate and House of Representatives to agree on changes to domestic patent law. Intellectual Property Watch recently had the opportunity to interview Judge Michel on prospects for substantive patent reform in the US, the effect on future cases involving domestic and foreign patents, likely constitutional challenges, and the ‘non-problem’ of non-practicing entities.

INTELLECTUAL PROPERTY WATCH (IPW): First, could we ask, do you favor the House and/ or Senate-passed versions of the patent reform bill?

CHIEF JUDGE PAUL R. MICHEL: I do not favor the House bill and would only favor the Senate bill if the special interest provisions were deleted.

The fatal flaw in the House bill is that it fails to grant access by the US Patent and Trademark Office (PTO) to all the user fees it collects. If the PTO is to examine patent applications promptly and carefully, it needs immediate and full access to all fee revenues. Adequately funding the PTO is, by far, the most important feature of patent reform.

For a decade, lack of funding caused intolerable delays that grew steadily worse. Inventors must now wait three years, on average, and often longer. Thomas Edison had to wait less than three months. In my view, eighteen months should be the longest time anyone must wait.

Fortunately, the Senate bill does guarantee automatic access to fees, assuring earlier and surer expenditures than the House bill. Congressional oversight is not diminished, including where the

money is spent and detailed reporting to relevant committees on initiatives and operational efficiencies.

Unfortunately, the Senate bill includes provisions that will unnecessarily add delays in the PTO and the courts although delay is already the greatest problem with the patent system.

In addition these same provisions serve narrow special interests of a few industries at the expense of all others. And, they do so based not on demonstrated need, but on massive lobbying power exerted primarily by a dozen big banks and investment houses on Wall Street and a dozen giant IT companies in Silicon Valley.

I cannot support the Senate bill unless and until at least the following sections are removed:

Section 18, Favoring banks with a special procedure to challenge validity of patents in the PTO, meanwhile delaying court trials.

Section 14, legislatively invalidating all "tax strategy patents" even when valid under court decisions.

Section 5, Granting overboard prior user rights to immunize big IT companies that infringe valid patents.

Section 6, as to portions shrinking the traditional and useful American grace period.

Section 6, as to portions creating a third, unnecessary procedure called Post Grant Review to challenge patents in the PTO, requiring court-like trials on all validity defenses.

All of these provisions will either add to PTO delay or slow court enforcement to benefit a few dozen large, multi-national companies, harming the vast majority of America's 30,000 companies with at least 100 employees.

Particularly disadvantaged will be smaller, newer firms relying on innovation – often called "start-ups" – which depend on patents to secure the outside financing needed to grow, hire workers and get new products to consumers. As studies show, these firms generate most new technologies, most economic growth and most new jobs in America.

IPW: Which current problems will the patent reform bill solve and how?

Judge Michel: It will change the US from a priority system called first-to-invent to one much closer to the system of virtually all our trading partners, called first-to-file. The new system, called first-inventor-to-file will eliminate interference proceedings which are viewed as too expensive, too slow and too unpredictable. However, the conversion will not be all gain, as some interference will simply be replaced by equally cumbersome derivation proceedings.

Second, the bill will make patentability and validity determinations simpler, more objective and more predictable. However, again all is not gain because of the great shrinkage of the grace period which is used extensively by many, including start-ups, universities, research institutes and individual inventors. I would retain the full grace period, even while converting to a variant of the international standard for determining priority of invention.

Many believe important benefits will flow to US companies from the conversion, but I think the benefits have been overstated. For example, US companies filing abroad, as well as here will have the convenience of following only one system, but most already act as if the US were a first-to-file country, anyway. It will, however, greatly help foreign firms filing here and they file half of the applications now. Work-sharing among major patent offices may be facilitated, but only modestly

since we will adopt only a hybrid system, not a pure first-to file one. PTO examinations will be simplified by the conversion, but only marginally.

Some proponents seem to believe our unilateral abrogation of first-to-invent will cause other nations to adopt something approaching the American grace period. I think any such expectation is very unrealistic.

Overall, the best test of the new features is how much each reduces delay or adds to it. I see a mixed bag here, fearing a new increase in delay from the proliferation of new procedures in the already-stressed PTO.

Transaction costs of the new patent law will be significant. Many of the controversial provisions contain key terms such as "disclosure" or "technological" without defining them. They do not have clear definition in judicial precedent. So, a period of years of uncertainty will follow as courts are asked to interpret the new statute.

IPW: How might the bill affect future court rulings or even existing ones?

Judge Michel: The bill alters established case law on a number of points, including assessments of willfulness (Section 17) and granting of stays in infringement cases while post-grant proceedings are being decided in the PTO (Section 18). Such legislative interventions into traditional areas of judicial supervision look as unwise to me as they look unnecessary. In addition, they tilt the scales of justice in favor of accused infringers, often large manufacturers or large banks, and against patent owners, often smaller companies or universities. Finally, the bill limits judicial discretion, which I think is inappropriate.

IPW: Is there any question about the constitutionality of the current bills?

Judge Michel: I expect constitutional challenges to be made against at least three provisions of the bills: First-inventor-to-file, prior user rights and business method patents for financial services. Even if all challenges ultimately fail, years of uncertainty will bog down the patent system while the challenges wend their way through the district courts, the courts of appeals and, likely, the Supreme Court. Two of the provisions appear vulnerable: prior user rights where the patents were found valid and infringed, except for the new defense that immunizes the infringer, and invalidation of business method patents for financial services under the new procedure, especially when their validity was previously upheld in the courts, or even in the PTO. Both might be found to be legislative Takings under the Fifth Amendment to the US Constitution, entitling the patent owner to "just compensation" at the taxpayers' expense.

IPW: Will the bill sufficiently address delay and funding shortages at the USPTO?

Judge Michel: No. Although both temporarily raise fee levels and empower the PTO to do so in the future, neither returns the \$900 million dollars in user fees that Congress diverted to other programs and agencies since 1992. In addition, as mentioned earlier, the House bill allows expenditure of any fee revenues above annual appropriation only with subsequent appropriations actions by Congress. Given past events, I cannot expect the appropriators to allow the PTO to expend all fee revenues collected because that limits the ability of appropriators to boost the budget of more favored agencies without raising the budget deficit. The PTO desperately needs thousands of additional examiners and new IT systems. Indeed, it has needed them for years. So, it needs every dollar of its fees.

IPW: Will the bill help or confuse the question of business method patents?

Judge Michel: Section 18 is not useful because Federal Circuit and Supreme Court decisions are rather clear as to the standards for determining eligibility for patenting under section 101 and unpatentability for obviousness under section 103. As mentioned above, two procedures are now

available to get questionable patents reexamined by the PTO, even while awaiting trial in Federal Court. A third procedure is not necessary and likely will add delay. Moreover, Inter Partes Review for financial business method patents has different standards than for other business method patents and all patents not expressed as a method of doing something.

This procedure is the dream relief from the perspective of Wall Street firms, giving them every advantage they could hope to get. It is the product of raw lobbying power, unmitigated by sound policy concerns or attempts at balancing competing goals.

IPW: Does the bill favor big business over small inventors?

Judge Michel: I think it favors big, multi-national manufacturing firms and banks over everyone else: Universities, university spin-offs, research institutes, start-ups, small businesses and also individual inventors. It also favors those companies that see themselves more often being sued than as enforcing patents of their own. The disadvantaged firms are those most dependent on patents, especially those that depend on patents to secure outside investment.

IPW: Will this bill really bring the United States into line with peer nations?

Judge Michel: As noted above, not completely. The bigger issue to me, however, is whether uniformity is so beneficial, especially when the US system, in many ways, has out-performed others for two centuries. Although I doubt it is so, if the price of uniformity as to priority determinations is that we have to gut the grace period and impose broad prior user rights, then maybe uniformity's benefits do not justify the price of obtaining them.

The argument can even be advanced that our trading partners should get "into line" with us on the grace period, and having few, if any, prior user rights.

But over the long term increasing global harmonization will be good for both US and foreign firms. This bill is a major step forward.

IPW: Will the bill change the way US courts view patents?

Judge Michel: I think it will induce many trial judges to halt progress in pending infringement cases while the PTO completes all reviews it undertakes on validity. Our 600 district judges are severely overburdened and backlogged. And, many consider patent cases unusually time-consuming and difficult. The likely result is that most cases will be stayed, rendering the asserted patents unenforceable as a practical matter until after all PTO review and Federal Circuit appeals are concluded. The US patent system would soon come to resemble the German system in which validity can only be challenged in the patent office, so courts decide only infringement and remedies.

But, the German patent office is well-funded, efficient and staffed with well-paid career examiners, as is the European Patent Office. By contrast, the USPTO is chronically underfunded and many examiners have only a few years' experience and depart early for other career opportunities. Therefore, even assuming the German system works well there, a variation is unlikely to work efficiently here.

Imagine the effect on patent values if infringement cases can be stalled for 3-6 years while PTO validity reviews and appeals from them continue. Consider too that getting a final infringement judgment in district court takes, on average, three years. So, where stays are granted early in the life of a case, as I would expect, the total delay could approach a decade. I fear patent values would plummet, deterring investment in research and development and commercialization and starving start-ups.

This will hurt both foreign and domestic holders of US patents.

IPW: Will the bill boost innovation or reduce it?

Judge Michel: For the reasons stated above, I expect overall innovation to slow, start-ups to stall out or expire and hiring to be suppressed. Delays will increase under the bill and delays – in the PTO and the courts – can only devalue patents. What the bill will boost is the ability of the large companies, both foreign and domestic, when sued by smaller, less well-funded entities to simply out finance and outlast the patent owners.

IPW: Finally, will the bill address the problem of non-practicing entities [so-called "patent trolls"]?

Judge Michel: No, it will not. In any event, I consider this "problem" to be greatly exaggerated. First, a patent gives the right to exclude others from practicing your invention without your permission. It does not grant a right to manufacture and, indeed, the law does not require that patent owners make a product. Second, the patent, as a form of personal property, can be sold to anyone the owner chooses. Non-practicing entities (NPEs) are as entitled as practicing entities to own and enforce patents. Neither has to be an inventor, either. All patent owners should be eligible for injunctions.

The "problem," as asserted, is that most NPE infringement suits are frivolous because the defendant plainly does not infringe or the patent is invalid. But, many of the suits result in findings of infringement of a valid patent, and hardly any result in a judicial finding of a frivolous suit. Therefore, I question how big a problem actually exists.

True, patent infringement suits are very slow and expensive, particularly because of the open-ended nature of discovery and high legal costs due to such discovery and our complex motions practice, but every other kind of lawsuit in Federal court suffers the same ills. The logical answer is to streamline all commercial lawsuits by reforming discovery and motions practices. It is not to suppress lawsuits by NPEs or automatically deny them injunctive relief when they prevail.

If NPEs are to be barred from suing, what would the rationale be: They were not the inventors? That proves too much. Most patents are owned by entities that were not the inventor. And, all companies own patents they do not practice. Does that make them "trolls"?

Venue is another issue, as many NPE suits are filed in the Eastern District of Texas, but venue abuses have been largely curbed by Federal Circuit mandamus rulings. If abuses remain, they should be addressed by courts or the Congress. It is no answer to say NPEs should not be permitted to own patents or sue to enforce them.

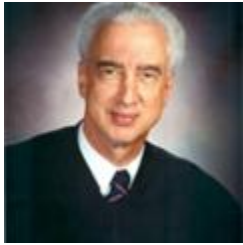
Damages amounts were also said to be excessive in such suits. Again, the Federal Circuit has vigorously intervened to the point that Congress dropped damages issues, as they also did venue issues, from the pending patent reform bills.

In any event, NPEs may add value to the patents by buying them up when manufacturers decline to do so. Inventors may have benefitted from the developing market in patent acquisition. What is so bad about that? Patents are meant to reward invention.

And, if NPE's misuse their patents the law provides a defense for misuse. If they acquire too much of a technology, the anti-trust laws can address the problem.

Finally, if Congress would fill the 100 judicial vacancies and add the 80 additional judgeships that are needed, trials would become faster and likely cheaper. Summary judgments in weak cases should also increase.

In short, as with most other courthouse issues, courts – rather than Congress – are better equipped to address any remaining NPE "problem."



Paul R. Michel, Chief Circuit Judge (Retired), was appointed to the United States Court of Appeals for the Federal Circuit in March of 1988. On December 25, 2004, he assumed the duties of Chief Judge. After his elevation to Chief Judge, he served as one of 27 judges on the Judicial Conference of the United States, the governing body of the Judicial Branch. In 2005 he was appointed by Chief Justice Rehnquist to also serve on the Judicial Conference's seven-judge Executive Committee. On May 31, 2010, Chief Judge Michel stepped down from the bench after serving more than 22 years on the court.

In his years on the bench Judge Michel judged thousands of appeals and wrote over 800 opinions, approximately one-third of which were in patent cases. Prior to his appointment to the bench, Judge Michel served in the executive and legislative branches for 22 years. Following graduation from Williams College in 1963 and the University of Virginia Law School in 1966, Michel served as Assistant District Attorney and then Deputy District Attorney for Investigations under Arlen Specter in Philadelphia; as Assistant Special Watergate Prosecutor in 1974-1975; from 1975 to 1976 he was an assistant counsel for the Senate Select Committee on Intelligence; from 1976-1978, he served as Deputy Chief of the Justice Department's Public Integrity Section, where he directed the "Koreagate" investigation; in 1978 he was appointed as an Associate Deputy Attorney General; in 1980 he served as Acting Deputy Attorney General; and from 1981 until 1988, he served on Senator Arlen Specter's staff, including as Counsel and Chief of Staff.

Judge Michel has annually been named by Managing Intellectual Property magazine as one of the 50 Most Influential People in the world in intellectual property since 2003. In 2008 Chief Judge Michel was awarded the first annual Lifetime Achievement Award by the Richard Linn American Inn of Court, the Sedona Conference Lifetime Achievement Award, the first award for "Outstanding Achievement in the Area of Intellectual Property Law" of the Philadelphia Intellectual Property Law Association, and the annual Judicial Honoree Award of the Bar Association of the District of Columbia. In 2010 he received the U.S. Patent and Trademark Offices' Federico Award for "outstanding contribution to the Patent and Trademark Systems of the United States of America"; the North American Lifetime Achievement Award by Managing Intellectual Property Magazine; the Distinguished Intellectual Property Professional Award from the Intellectual Property Owners Education Foundation; the career achievement award of the American Intellectual Property Law Association (AIPLA); and was one of five global figures inducted into Intellectual Asset Management magazine's Intellectual Property Hall of Fame. He has been a Member of Honor of FICPI since 2001.

Since retiring from the court, Judge Michel continues to share knowledge gained during his 22 years on the court by speaking out on issues related to the courts and the patent system. He also provides mediation, arbitration, and case evaluation services to private clients.

Judge Michel is also serving as an advisor to a number of organizations. In June 2010, Judge Michel was elected a member of the Board of Directors of the Intellectual Property Owners (IPO) Education Foundation and became a Distinguished Scholar in Residence there. He also serves as Special Advisor to the Patent Reform Task Force and the Council of the Section on Intellectual Property of the American Bar Association, and is a member of the AIPLA Committee on Public Appointments. Most recently he was invited to join the Advisory Committee of the World Intellectual Property Organization's Networked Innovation project and the Advisory Committee of the Manufacturing Initiative of the U.S. Council on Competitiveness.