

PATENT REEXAMINATION AND SMALL BUSINESS INNOVATION

HEARING BEFORE THE SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY OF THE COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES ONE HUNDRED SEVENTH CONGRESS SECOND SESSION

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PATENT REEXAMINATION AND SMALL BUSINESS INNOVATION

THURSDAY, JUNE 20, 2002

**HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COURTS, THE INTERNET,
AND INTELLECTUAL PROPERTY,
COMMITTEE ON THE JUDICIARY,
*Washington, DC.***

The Subcommittee met, pursuant to notice, at 2:03 p.m., in Room 2141, Rayburn House Office Building, Hon. Howard Coble [Chairman of the Subcommittee] presiding.

Mr. COBLE. Good afternoon, ladies and gentlemen. The Subcommittee will come to order.

You may be familiar with President Abraham Lincoln's observation that, "The patent system added the fuel of interest to the fire of genius." Certainly, for more than two centuries the American patent system has helped transform genius into useful and brilliant inventions. We are all beneficiaries of many inventions that may well be attributed to independent inventors.

Just as our technology has evolved over time, the patent law must evolve as well. Every generation, we must ask ourselves whether our laws allow for innovation to prosper in light of the reality and trends in research and commerce. More than 20 years ago, the Congress established a procedure permitting a second look, or the reexamination of certain patents in light of newly discovered evidence.

This system offered many advantages at the time, including ensuring patent quality. It is a continuing goal of our Subcommittee and others, such as Commerce Undersecretary and PTO Director James Rogan, to strive for the highest possible patent quality.

Several years ago, an expanded reexamination system was proposed to permit the fuller participation of third parties. Often, small businesses and independent inventors are the very entities which cannot afford expensive Federal trial litigation. Yet despite the benefits of such a system, and after much debate, a slimmed-down third-party reexamination system was enacted. This system, while attempting to balance all of the concerns of the diverse interests, lacked some basic features for its use to be acceptable. In fact, it has only been used once in the several years it has been on the books.

Last year, the Subcommittee held two hearings, and passed a modest and badly needed bill to fix that made the third-party reexamination system fair and practical. Specifically, accountability re-

quires that there is the ability to appeal the decision of the PTO to a higher authority.

Small businesses are important incubators for innovation. These entities have much at stake, as we explore ways to improve all aspects of our patent system. It is our pleasure to have this hearing to explore any remaining concerns about the modest changes to reexamination.

Now, when I say "small business," I don't mean to imply that large businesses are any less important. But the small businesses are the ones who usually are impacted most severely as a result of enormous fees.

It is my hope that the Subcommittee can continue to work with inventors from all walks, to guarantee the best patent system and highest patent quality possible for our country. And they may trust that our door remains open to one and all, as we have always done in the past.

I am now pleased to recognize the distinguished gentleman from California, the Ranking Member, Mr. Berman.

[The prepared statement of Mr. Coble follows:]

PREPARED STATEMENT OF THE HONORABLE HOWARD COBLE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NORTH CAROLINA

Good afternoon. The Subcommittee will come to order.

You may be familiar with President Abraham Lincoln's observation that "the patent system added the fuel of interest to the fire of genius." Certainly, for more than two centuries, the American patent system has helped transform genius into useful and brilliant inventions. We are all the beneficiaries of many inventions and many may be attributed to independent inventors.

Just as our technology has evolved over time, the patent law must evolve as well. Every generation, we must ask ourselves whether our laws allow for innovation to prosper in light of the reality and trends in research and commerce. More than twenty-years ago, Congress established a procedure permitting a second look, or the reexamination, of certain patents in light of newly discovered evidence.

This system offered many advantages at the time, including ensuring patent quality. It is a continuing goal of the Subcommittee and others, such as Commerce Undersecretary and PTO Director James Rogan, to strive for the highest possible patent quality.

Several years ago, an expanded reexamination system was proposed to permit the fuller participation of third parties. Often, small businesses and independent inventors are the very entities which cannot afford expensive federal trial litigation. Yet despite the benefits of such a system and after much debate, a slimmed-down third-party reexamination system was enacted. This system, while attempting to balance all of the concerns of the diverse interests, lacked some basic features for its use to be acceptable. In fact, it has only been used once in the several years it has been on the books.

Last year, the Subcommittee held two hearings and passed a modest, and badly-needed bill to fix that made the third-party reexamination system fair and practical. Specifically, accountability requires that there is the ability to appeal the decisions of the PTO to a higher authority.

Small businesses are important incubators for innovation. These entities have much at stake as we explore ways to improve all aspects of our patent system. It is our pleasure to have this hearing to explore any remaining concerns about the modest changes to reexamination.

It is my hope that the Subcommittee can continue to work with inventors from all walks to guarantee the best patent system and highest patent quality possible for our country. They may trust that our door remains open to one and all.

I now turn to the Ranking Member, Mr. Berman, for his opening statement.

Mr. BERMAN. Thank you very much, Mr. Chairman. And I'm pleased to be with you here to discuss the issue of patent reexamination.

I'm an advocate for more robust post-grant procedures for challenging patents, and I believe that such procedures can provide a low-cost and expeditious alternative to litigation. And I believe that the current ex parte and inter partes reexamination processes don't allow for effective post-grant challenges.

Two bills that Rick Boucher and I introduced at the beginning of this Congress would have created comprehensive post-grant processes for challenging patents. The processes our bills created were akin to the opposition process available in Europe. I supported the creation of an opposition-like process because the existing reexamination processes are so ineffective.

But I believe that, with significant reform, the inter partes reexamination procedure could substantially accomplish the goals of an opposition procedure. The name of the post-grant challenge doesn't matter, so long as its nature allows for effective challenges.

H.R. 1866 and 1886, both of which the House passed some months ago, constitute a good start toward reforming the inter partes reexamination process. But I don't believe that the changes that are effectuated by those bills go far enough. I believe inter partes reexamination will not be totally effective unless we expand the issues that can be addressed in such a reexamination. The PTO should be able to address the full range of novelty, non-obviousness, and specificity requirements for patentability through inter partes reexaminations.

I'm intrigued by the suggestion that reexaminations should be subject to time limits. There is some validity to the argument that a patent holder should be able to expect that a reexamination will wrap up within a finite amount of time.

And I'm intrigued by the suggestion that a request for an inter partes reexamination should have to be made within a specified time period after a patent has been granted. Persistent possibility of an inter partes reexamination that just doesn't end will negatively affect an inventor's ability to secure capital to commercialize a patented invention.

Anyway, Mr. Chairman, I look forward to the hearing and to the dialogue, and I yield back.

[The prepared statement of Mr. Berman follows:]

PREPARED STATEMENT OF THE HONORABLE HOWARD L. BERMAN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman,

I am pleased to join you today to discuss the issue of patent reexamination. I understand that our witnesses have widely divergent opinions on the merits of reexamination, and I am sure that we will profit from a spirited debate between them.

As you know, I am an advocate of more robust post-grant procedures for challenging patents. I believe that such procedures—if appropriately crafted—can provide a low-cost and expeditious alternative to litigation. Further, I believe that the current Ex Parte and Inter Partes reexamination processes do not allow for effective post-grant challenges.

Two bills that Representative Boucher and I introduced at the beginning of the 107th Congress—H.R. 1332 and 1333—would have created comprehensive post-grant processes for challenging patents. The processes our bills created were akin to the opposition process available in Europe. I supported the creation of an opposition-like process because the existing reexamination processes are so ineffective.

I now believe that with significant reform, the Inter Partes reexamination procedure could substantially accomplish the goals of an opposition procedure. The name of the post-grant challenge does not matter, so long as its nature allows for effective challenges.

I believe H.R. 1866 and H.R. 1886, both of which the House passed some months ago, constitute a good start toward reforming the Inter Partes reexamination process. The PTO Director should be able to correct examiner errors by considering anew the significance of prior art cited in a patent application. Further, a third-party requester of an Inter Partes reexamination should be able to appeal an adverse reexamination ruling to federal court, and to participate in an appeal by the patent holder.

However, I do not believe the changes effectuated by H.R. 1886 and H.R. 1866 go far enough. Inter Partes reexamination will not be an effective procedure for making a post-grant challenge unless its draconian estoppel provisions are pared back. A third-party requester of an Inter Partes reexamination should not be estopped from raising in a future court case all issues that the third-party requester "could have raised" in the reexamination. Rather, a party should only be estopped from raising those issues that were actually raised in the reexamination.

Further, I believe Inter Partes reexamination will not be totally effective unless we expand the issues that can be addressed in such a reexamination. The PTO should be able to address the full range of novelty, non-obviousness, and specificity requirements for patentability through Inter Partes reexaminations.

While I want to see the creation of an effective post-grant procedure for challenging patents, I am sensitive to concerns that such a procedure could be used to harass patent holders. Obviously, we must balance the need to ensure the high quality of patents against the need to ensure that inventors can effectively exercise their patent rights.

I am intrigued by the suggestion that reexaminations should be subject to time limits. There is some validity to the argument that a patent holder should be able to expect that a reexamination will wrap up within a finite amount of time. While the law requires that reexaminations must be concluded with "special dispatch" by the PTO, at least one of our witnesses contends that reexaminations can drag on throughout the entire patent term.

Furthermore, I am intrigued by the suggestion that a request for an Inter Partes reexamination should have to be made within a specified time period after a patent has been granted. There seems to be some merit to the argument that the persistent possibility of an Inter Partes reexamination will negatively affect an inventor's ability to secure capital to commercialize a patented invention.

Anyway, Mr. Chairman, I look forward to hearing from our witnesses. I hope the dialogue today enables us to make informed decisions as we consider further amending the laws relating to post-grant patent challenges.

I yield back the balance of my time.

Mr. COBLE. I thank the gentleman from California.

We have been joined by the gentleman from Michigan, the Ranking Member of the full House Judiciary Committee. Mr. Conyers, would you like to have an opening statement?

Mr. CONYERS. Good afternoon, Mr. Chairman and Members. As we remember, when the patent bill was passed, which preceded lots of negotiation, we felt confident that the system had been improved. Because for a long time we'd been hearing about the fact that the awarding of patents was criticized for being too broad, and sometimes undeserved. So we made it easier.

We may have left out one thing: that if the PTO reexamines a patent it issued and then rules in favor of an owner, the challenger has no recourse in the patent stance. If the PTO rules against the patent owner, the owner appeals, and we have perhaps a lopsided system. And so the Chairman and Ranking Member introduced a measure to clear that up. We now let third-party challengers appeal a decision to the Federal circuit court.

Now, here we are today. And some say that this legislation would make it easier for big companies to tie them up endlessly in court proceedings over the validity of their patents. True or false?

Would it prolong litigation? Well, the essence of it is that those who hold monopolies on inventions should hold them only if they can withstand scrutiny. And bad patents should not be upheld

merely because PTO might not have made the best call and ruled against a challenger who had a valid argument.

So I'd like to hear more about this. And I'm happy that the Chairman allowed me to make these opening remarks.

Mr. COBLE. I thank the gentleman.

The gentleman from Massachusetts, Mr. Meehan. Did you want to be recognized for an opening statement, Mr. Meehan?

Mr. MEEHAN. Yes. Thank you, Mr. Chairman. Although patent law policy may not be the most glamorous issue that we face, it is enormously important to our economy. It's important to my home State of Massachusetts.

The Federal patent laws are essential to the development of new technologies and for life-saving health care products. The reason has to do with the cost of research and development to companies. Research and development costs are extremely expensive. R-and-D costs consume an even larger portion of the budget for mid-sized and start-up companies. In order for companies to justify these R-and-D expenditures, they must be able to rely on our patent laws, to fully develop and market their intellectual property.

Federal patent laws help to ensure reasonable return on research and development costs, by granting limited, exclusive rights to the patent holder. Unfortunately, with upwards of 200,000 new patents issued every year, the potential for invalid patents being issued is very high. Invalid patents create uncertainty and anxiety for high-tech companies. Invalid patents cloud intellectual property rights. They can lead to costly disputes, as well. Unscrupulous holders of invalid patents can exploit these uncertainties, to the detriment of high-tech companies and the public generally.

Patent reexamination provides a low-cost alternative for companies that need to challenge invalid patents; and as such, I've supported efforts to strengthen the patent reexamination process. At the same time, I'm sensitive to the potential for its abuse.

I believe we can strike a reasonable balance, as we continue to strengthen patent reexamination. And I believe that H.R. 1886 helps improve our existing patent reexamination system. The bill would create a limited right for all parties to appeal the PTO's patent reexamination decisions before the U.S. Court of Appeals in Federal Circuit. I think it's a common-sense measure that provides a useful check on the decisions of the PTO. And I think we all can agree that the Federal patenting system should be reliable and consistent.

So I believe patent reexamination helps to accomplish these goals, and I look forward to improving the existing system. And I thank the Chairman, and welcome the insight of our witnesses. Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentleman.

Folks, I have been told that we will have three votes at approximately 2:30. So keep that in mind. We'll probably be breaking for those votes on or about 2:30.

Our first witness today is Mr. Peter Theis, an inventor, and president of both Theis Research and the technology company ConServIT. Mr. Theis is a constituent of the gentleman from Illinois and, without objection, I will recognize Mr. Manzullo to formally introduce Mr. Theis to us.

Mr. MANZULLO. Thank you, Mr. Chairman. First of all, I want to thank you for your graciousness in, at my request, holding this hearing. I feel really guilty, because I'm going to have to introduce Mr. Theis and then go home, pick up my son, take him on a 6-hour ride to enroll him in college tomorrow, and I can't stick around for the hearing. But I just feel bad about it.

And I want to thank you for the opportunity of having it, and the opportunity to introduce Mr. Theis. I will read all of the information, and look forward to the total transcript.

Peter Theis, as you said, Mr. Chairman, is an inventor. He's a pioneer of the automated voice processing industry. He holds over two dozen patents in voice processing, telephone switching, and other technologies. His patented inventions have made possible automated directory assistance, automated operators, natural speech technology, and voice mail.

Mr. Theis has been involved with computers and computerized technologies for over 40 years, including the introduction of early automated accounting systems and fax machines. He implemented his patent technology by founding and being president of Conversational Voice Technologies Corporation. He is also president of the licensing company he manages, Theis Research, Incorporated.

Peter holds a bachelor's degree in electrical engineering from Yale University; was awarded an honorary fellowship at the University of Stockholm in Sweden. He holds a master's in business administration from the University of Chicago, and a juris doctorate from the Illinois Institute of Technology; and is a member of the Illinois bar.

I'm honored to introduce him, Mr. Chairman. He has been a tireless advocate for the independent inventor. He's been there for me on numerous occasions, for counsel when I've had questions regarding intellectual property. This is a man of extraordinary wisdom and knowledge, and he is a true asset to the small inventors and to the spirit of ingenuity in this country.

Thank you again for the opportunity to be here.

Mr. COBLE. Thank you, Mr. Manzullo. Mr. Theis, good to have you with us. Our second witness is Mr. Paul Heckel. Mr. Heckel is founder and president of Intellectual Property Creators, IPC. In addition, Mr. Heckel is president of the Los Altos, California-based Quick View Systems, that he founded in 1982 and where he invented and marketed software products. Mr. Heckel is a graduate of MIT in electrical engineering, and has an MBA from Stanford University. He furthermore has written numerous publications in both software technology and patent areas, including the book, *The Elements of Software Design*, and the recent article, "Debunking the Software Patent Myths."

Our third witness is Ms. Nancy J. Linck, senior vice president, general counsel, and secretary of Guilford Pharmaceuticals, Incorporated, which is located in Baltimore. In her current role, she is a member of the company's executive management team responsible for the company's legal functions, including protection of the company's intellectual property, all litigation and the legal aspects.

Additionally, Dr. Linck is an adjunct professor of law, Georgetown University Law Center. Previously, she served as chief legal officer, or solicitor, at the United States Patent and Trademark Of-

fice, during the years 1994 through 1998. She served as well as a clerk to the Honorable Pauline Newman, U.S. Court of Appeals, for the Federal Circuit. Dr. Linck was also in private legal practice in Washington, D.C., in the Washington, D.C. office of Cushman, Darby, and Cushman.

Dr. Linck received her BS degree with honors in chemistry from the University of California at Berkeley, and later earned her master's and PhD in inorganic chemistry at the University of California. Finally, Dr. Linck successfully earned her law degree, magna cum laude, from the Western New England College of Law, located in Springfield, Mass. Dr. Linck is author of numerous scientific and legal publications. In addition, she is active in many IP professional and bar associations, including the American Intellectual Property Lawyers Association, AIPLA.

Our fourth and final witness is Mr. Mark H. Webbink, who serves as senior vice president and general counsel of Red Hat, Inc. And in the event that you may not be familiar with the open-source software movement, Red Hat is a premier Linux company, located in Raleigh, North Carolina.

Prior to joining Red Hat, Mr. Webbink was in private legal practice with the North Carolina-based firm of Moore and VanAllen PLLC, where his practice focused on intellectual property transactions.

Mr. Webbink has spoken on numerous occasions about the U.S. patent system and their effect upon open-source software, including presentations to the National Academies of Science, and a recent joint hearing of the Federal Trade Commission and the Department of Justice.

Mr. Webbink is a member of the Software and Information Industry Association, Licensing Executives Society, International Trade Market Association, North Carolina Electronics and Information Technology Association, and the North Carolina Bar Association.

He holds a JD degree from North Carolina Central University; an MPA from the University of North Carolina, Chapel Hill; and earned his BA degree from Purdue University.

We have written statements from the witnesses. And we are delighted to have all of you with us. And I ask unanimous consent to submit into the record your entire written statements.

As you all have been previously requested, we would like for you to confine your oral testimony to 5 minutes. When the red light illuminates in your eyes, that means we'll be coming after you if you don't wrap up very shortly. I hate to do that to you, folks, but, in the interest of time, we almost have to.

Mr. Theis, there's a vote on now, but how about you giving your statement now? Then we will break, and then come back. You are recognized for 5 minutes, and then we'll go vote.

**STATEMENT OF PETER THEIS, PRESIDENT,
THEIS RESEARCH, INC.**

Mr. THEIS: Good afternoon, Mr. Chairman, and Members of this Subcommittee.

Patentees are the guests of honor at the patent party. Independent inventors especially have created immense wealth for this

country, millions of job opportunities; and spawned entire industries. The independent inventors invent for financial and personal independence, putting at risk their own money, their family's financial security, and their time.

Yet we are being vilified and demonized, ignored, and expunged from the fabric of American society. We are being taxed for our inventions, denied a period of exclusivity, and denied justice by the courts.

I don't get it.

I know the ropes, and understand the system. In 1992, the telephone industry and their principal suppliers, employing at least 13 name law firms, ganged up and sued to either invalidate or, preferably, seize my patent portfolio. Derivative litigation continues 10 years later. I have faced the same huge cartel that has defeated the United States Government. I am seasoned as few are.

I want to share with you from my experiences what happens when the patent system fails to protect the high-technology small business. I have been responsible for the creation of immense wealth for others. The next time you want to throw your telephone through the window because of that damned "Push this and say that" machine, be aware there is a technology so sophisticated that you can't differentiate it from a live operator.

Today this natural speech technology—which I invented, and only my company has—is a trade secret. This technology is offered only as a service, because to sell equipment or software would expose our technology to theft. To survive, we have to keep a low market profile and not put major players at risk. If a truck hits me on the way out, the technology goes with me.

Trade secrets are the sole alternative to ineffective patents. The public and this Government are not aware of this technology, and others brighter than me cannot build on the disclosure of this technology, because of the failure of our patent system.

The people of this nation will likely never have the benefit of my patents for aircraft turbines without blades or technology to keep cars from going into sudden spins on wet or icy roads. There is now a disincentive to innovation and risking development. Other advances of mine will follow me to the grave.

With this insight, reflect on other independent inventors and small businesses that, like me, have given up—those few risk-takers that combine the rare and precious attributes of creative capability and follow-through. Think about how much they could have contributed to our nation's wealth and wellbeing that has now been lost. Edison and Bell are getting old as icons of American ingenuity. There is not even one contemporary patent hero to whom we can point.

This reexamination act, H.R. 1886, properly dubbed "The Infringer Protection Act," brings down the cost of defense for infringers. Reexamination, unlike litigation, eliminates all risk of loss from an adverse decision. Because industry can legally gang up against a patentee, they will succeed in defeating a patentee at a low cost, by sequentially raising one reexamination challenge after another. Since licensing fees and settlement fees generally correspond to the risks and costs of litigation to the infringer, it must

follow that the patent property owner will get substantially less in licensing fees, if anything at all.

But the worst part of the proposed "Infringers Benevolent Act" is that the Federal Circuit can review rational and studied reexamination rulings of the PTO. In the United States, we have two sets of laws: one that follows legal precedent; and a second, a much larger body of law, that does not. They are called "unpublished decisions." In true Orwellian "doublespeak," this term means these rulings cannot be cited as precedent. It has nothing to do with whether they are published.

This practice of having two standards of law is preordained to result in inequity, inconsistency, and injustice. It is a license to the judiciary for abuse, corruption, fraud, mediocrity, and incompetence. And the Federal Circuit uses that license liberally.

Mr. COBLE. Mr. Theis, if you would suspend just a moment, your 5 minutes have elapsed. Are you about ready to wrap up?

Mr. THEIS. Yes, I am.

Mr. COBLE. I'll tell you what to do. Why don't you hold that thought.

Mr. THEIS. Can I have one more minute?

Mr. COBLE. Mr. Berman and I will go vote. And then hold the thought, and we'll be back.

Mr. THEIS. Thank you very much.

[Recess.]

Mr. COBLE. I say to the panelists and to the audience, I apologize for the delay, but we have little or no control over the timing of these votes.

And I recognize in the audience the former Director of Patent and Trademark Office. Todd, good to see you.

Mr. Theis, your 5 minutes have expired, but I think you were in the process of wrapping up. So if you will?

Mr. THEIS. I was addressing the issue of the unpublished decisions, and the problems they bring.

Incredibly, the very same judges that make these decisions can plant this "unpublished" imprimatur on the decisions to avoid review en banc by a superior court or by the legal profession. An appeal has become little more than a beauty contest. A ruling by the Federal Circuit is rule by fiat.

Before the infringement promotion act should even be considered by this Committee, all decisions of the Federal Circuit must be made precedential. Under our two-sets-of-law concept, the term "justice" joins the lexicon of Orwellian "doublespeak." It hurts me to think of the innocent people in prison today because their appeal rights were based upon the secret, arbitrary so-called law. Having two sets of law in this country is a ticking time bomb that, left uncorrected, must lead eventually to loss of our liberty for all of us.

In summary, for a small business today, a patent affords no monopoly; siphons away scarce executive time and energy from the limited number of people involved in running a small business, and precious capital; with little hope of recovery.

H.R. 1886 is the final nail to seal the patent coffin. H.R. 1886 is a "win-win" for infringers, a "lose-lose" for inventors. It is a no-brainer "lose-lose" for the investment community and the American public. Thank you for your attention today.

[The prepared statement of Mr. Theis follows:]

PREPARED STATEMENT OF PETER F. THEIS

Good Afternoon. I want to thank Congressman Manzullo for the opportunity to address my concerns regarding the reexamination issue being deliberated by this Committee.

Patentees are the guests of honor at the patent party. Independent inventors, especially, have created immense wealth for this country, millions of job opportunities, and spawned entire industries. The independent inventors invent for financial and personal independence, putting at risk their own money, their family's financial security, and their time. Yet we are being vilified and demonized, ignored and expunged from the fabric of American society. We are being taxed for our inventions, denied a period of exclusivity, and denied justice by the courts. I don't get it.

I know the ropes and understand the system. In 1992, the telephone industry and their principal suppliers, employing at least 13 name law firms, ganged up and sued to either invalidate, or preferably seize my patent portfolio. Derivative litigation continues ten years later. I have faced the same huge cartel that has defeated the United States Government. I am seasoned as few are.

I want to share with you from my experiences what happens when the patent system fails to protect the high technology small business. I have been responsible for the creation of immense wealth for others. The next time you want to throw your telephone through the window because of that damned push this say that machine, be aware there is a technology so sophisticated that you can't differentiate it from a live operator. Today, this natural speech technology, which I invented, and only my company has, is a trade secrets. This technology is offered only as a service because to sell equipment or software would expose our technology to theft. To survive, we have to keep a low market profile and not put major players at risk. If a truck hits me on the way out, the technology goes with me. Trade secrets are the sole alternative to ineffective patents. The public and this government are not aware of this technology because of the failure of the patent system.

The people of this nation will likely never have the benefit of my patents for aircraft turbines without blades or technology to keep cars from going into sudden spins on wet or icy roads. There is now a disincentive to innovation and risking development. Other advances of mine will follow me to the grave.

With this insight, reflect on other independent inventors and small businesses that, like me, have given up; those few risk takers that combine the rare and precious attributes of a creative capability and follow through. Think about how much they could have contributed to our nation's wealth and well being that has been lost. There is not even one contemporary hero we can point to. Edison and Bell are getting old as icons of American ingenuity.

This reexamination act, properly dubbed The Infringer Protection Act, brings down the cost of defense for infringers. Reexamination, unlike litigation, eliminates all risk of loss from an adverse decision. Because an industry can legally gang up against a patentee, they will succeed in defeating a patentee, at a low cost, by sequentially raising one reexamination challenge after another. Since licensing fees and settlement fees generally correspond to the risks and costs of litigation to the infringer, it must follow that the patent property owner will get substantially less in license fees, if anything at all.

But the worst part of the proposed Infringers Benevolent Act is that the Federal Circuit can review rational reexamination rulings of PTO. In the United States, we have two sets of laws, one that follows legal precedent and a second, a much larger body of law that does not correlate, called "an unpublished decision." In true Orwellian Doublepeak, this term means the ruling can not be cited as precedent. It has nothing to do with whether it is published. This double standard can only lead to inequity, inconsistency and injustice. Incredibly, the very same judges that make these decisions can plant this "unpublished" imprimatur on the decision to avoid review en banc, by a superior court or by the legal profession. It is a license to the judiciary for abuse, corruption, fraud, mediocrity and incompetence—and the Federal Circuit uses that license liberally. An appeal has become little more than a beauty contest. A ruling by the Federal Circuit is rule by fiat.

Before the Infringement Promotion Act should even be considered by this Committee, all decisions of the Federal Circuit must be made precedential. Under our two sets of law concept, the term "Justice" joins the lexicon of Orwellian Doublepeak. It hurts me to think of the innocent people in prison today because their appeal rights were based on the secret, arbitrary second body of law. Having two sets of laws in this country is a ticking time bomb, that, left uncorrected, must lead, eventually, to our loss of liberty.

For a small business today, a patent affords no monopoly, siphons away scarce executive time and energy and precious capital resources with little hope of recovery. HR 1886 is the final nail to seal the coffin. 1886 is a win-win for infringers, and a lose-lose for inventors. It is a no-brainer lose-lose for the investment community and for the American public.

Mr. COBLE. Thank you, Mr. Theis.

Mr. Heckel. Mr. Heckel, pull that mike a little closer to you, and activate it, if you will.

STATEMENT OF PAUL HECKEL, INDEPENDENT INVENTOR

Mr. HECKEL. Thank you, Mr. Chairman and Members of the Committee.

My name is Paul Heckel. I am president of Intellectual Property Creators, a non-profit organization of inventors that's interested in public policy issues. I am also here as an individual who has had an reexamination, and so I can speak personally to reexamination problems.

Intellectual Property Creators has done several things, including filing some amicus briefs on patent issues with the Supreme Court. And it turns out that the subject matter of those two amicus briefs are relevant to today's issues.

In one, Zurko, the issue basically was whether or not when a patent is declared valid, or a patent is issued by the Patent Office and ruled on by the Board of Patent Appeals, whether or not the—what the standard of the Federal Circuit should be in reviewing the patent. The Federal Circuit had been reviewing it under the standard of de novo review. In other words, they would sort of look at it from scratch, reanalyzing whether or not the patent should be issued.

The argument in Zurko was that the Patent Office was an agency like all other agencies of the Federal Government and, even though it existed well before the APA Act of the late '40's, the standards of the Administrative Procedures Act should determine the basis.

And the standards of the Administration act basically are that you should ask whether or not the PTO had followed its own procedures; whether the decision was arbitrary and capricious. Now, that was the position that we argued. And it's the position that the Supreme Court supported; overturning a 12-to-zero Federal Circuit decision.

The problem we had with the way the Federal Circuit won it is it basically increased the complexity and the problems the inventor has to face, because he had to, in effect, re-litigate or re-argue the same issue multiple times. We feel that you want to have these issues argued once, if at all almost.

In that, in our amicus brief, we presented the results of a survey we did of 14 independent inventors who had sued large companies for patent infringements. And the results were rather sobering. First of all, we showed in general that independent inventors provided a disproportionate share of the major inventions. That's not part of the survey, but it was shown in the brief.

The second thing is, the vast majority of independent inventors seem to be entrepreneurs. Thirteen of the 14 cases in our study were independent inventors who basically founded their own companies and were acting in an entrepreneurial role as well as an in-

ventor's role. So quite clearly, patents are a source of new small business.

Third, we found that the courts—especially the Federal Circuit—are strongly biased against independent inventors. I realize that's a somewhat controversial finding, but I strongly believe it. Of the 14 cases in the court—all but one of which went up to the Federal Circuit—13 of the 14, the court ruled against the independent inventor. In only one did it rule for the independent inventor, and that was the case of Dr. Raymond Damadian, who invented magnetic resonance imaging, which is surely one of the more important inventions of the 20th century.

But 10 years earlier, he had sued another company on the same claims of the same patents, and he had lost. Now, what happened over those 10 years? I'll tell you what happened. He was inducted into the National Inventors Hall of Fame; he was given the National Medal of Technology by President Reagan. So basically, the first time around, he was an outsider. He wasn't recognized as part of the sort of establishment. The second time around, he clearly was. And our analysis suggests that the courts have a strong bias in favor of insiders, as opposed to outsiders.

And this is demonstrated in other areas. If you look at, for example, the area of death penalty cases, you find out that the people who are wrongly convicted of murder and other cases tend to be outsiders to the society; lower classes, and people like that. And the DNA evidence, which has freed over a hundred guilty people who were wrongly convicted, is strong evidence that the courts themselves in dealing with these issues are not very good, and are open to bias.

Now, I realize that this is something that might be controversial, but I think that the evidence is showing that. And so I call that the "insider-outsider bias."

By the way, Dr. Kary Mullis, whose inventions were critical to the forensic techniques which made DNA evidence possible, is one of the members of our organization, and he's on our advisory board. He invented the polymerase chain reaction.

Moving on, I want to present a book which might seem that it has absolutely nothing to do with patents.

Mr. COBLE. Now, Mr. Heckel, you're into your sixth minute, so if you could wrap up, I would appreciate that.

Mr. HECKEL. Oh, okay.

Mr. COBLE. In a sense of fairness, I will also give Dr. Linck and Mr. Webbink 6 minutes as well. And Mr. Theis did receive 6 minutes.

Mr. HECKEL. Okay. "The Mystery of Capital"—which has some very positive quotes by people like Margaret Thatcher, William F. Buckley, Milton Friedman—basically shows that in Third World countries that the reason that they have not been able to be effective capitalist countries is because they weren't able to capitalize things, and turn their property into pieces of paper, like titles. And that's the problem that inventors face; that when they get a patent, it's not the kind of thing that tends to get recognized by large companies, who tend to reject it.

I would like to talk about my—Well, my reexamination experience, briefly, is, it took me 10 years to get a reexamination on a

patent. And that 10 years comes out of my 17-year patent term. And how as an inventor do you face that and the uncertainties involved? It's very discouraging; especially since, when it comes out, you then look at the 13-to-one results of the survey of your chances of surviving in court.

Thank you, Mr. Chairman, and Members of the Committee.
[The prepared statement of Mr. Heckel follows:]

PREPARED STATEMENT OF PAUL HECKEL

Intro—IPC is

Zurko and Festo Briefs

Value of Techn9lty

US spends over 70 billion

Technology patents provide costs nothing to US.

Points made in our Zurko Brief

Small guys disproportionately inventive

Innovators dilemma

Inventors all did startups

Zurko Study

13 of 14 lost

14th won on second try.

Insider outsider needed to get justice

DNA evidence in capitol cases

Same insider outsiders observed in death penalty cases.

One of our signatories was Nobel Economist Franco Modigliani—issues are of economics

He Peruvian Economist Hernando de Soto

Why capitalism has not worked in third world

Jacket blurbs from

Milton Friedman,

Margaret Thatcher,

William F. Buckley

Jeanne Kirkpatrick

Javier Perez De Cuellar

Problem is Third world has Bell jar of laws works for the rich, poor faced with inability to capitalize their property in deeds.

Example: Egypt to register land takes 77 bureaucratic steps, 41 agencies, 5-14 years

Major problem is lawyers "No group—aside from terrorists—is better positioned to sabotage capitalist expansion. And unlike terrorists, the lawyers know how to do it legally."

"The difficult is that few lawyers understand the economic consequences of their work"

My experience of reexamination

Took 10 years

10 years comes out of my 17 year patent term

Difficult to pursue business, attract investors, plan without clear understanding of what patent rights are or even when will be clarified.

During 10 years, Technology and competitors advancing

Having won reexam, now faced litigation

Small inventor must almost always face the deSoto complexity of litigation

Zurko study was a real downer

Inventors Need**Certainty**

Laws often unambiguous allows bias to flood in

Expeditious

Reexamination and litigation often take forever.

Unbiased error

Zurko and DNA studies show bias against outsiders, those outside the bell jar.

Encourages settlement**Nature of federal circuit**

Economics of regulation suggest regulators protect insiders, keep out outsiders appointees likely to be industry insiders (George Stigler)

Federal Circuit is captive regulator

In Zurko held for DeSoto complexity de novo review rather than simpler APA review

In Festo held for DeSoto complexity to amend patent

Many other decisions (often unpublished) are anti outsider.

Supreme Court came down hard on Federal Circuit as It "chose to ignore earlier" in unanimous decision.

Recommendations if do something**APA Standards arbitrary and capricious**

Extend period of patent by time of appeal for both reexaminations and litigation (Drug companies get extensions for waiting for FDA approval)

Why is this not being considered by a subcommittee of Commerce or Science

Issues are those of business and economics

Cited 3 economists (De Soto, Modigliani, Stigler), 2 of whom are Nobel Laureates, no lawyers

By putting patent issues in judiciary Congress signals to industry that the issues are legal and should be left to the lawyers—the creators of DeSoto complexity. This only increases Desoto Complexity

100

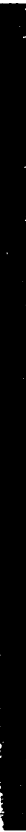


FIGURE 2.3 Procedure to gain access to desert land for construction purposes and to register these property rights in Egypt (8-14 years)

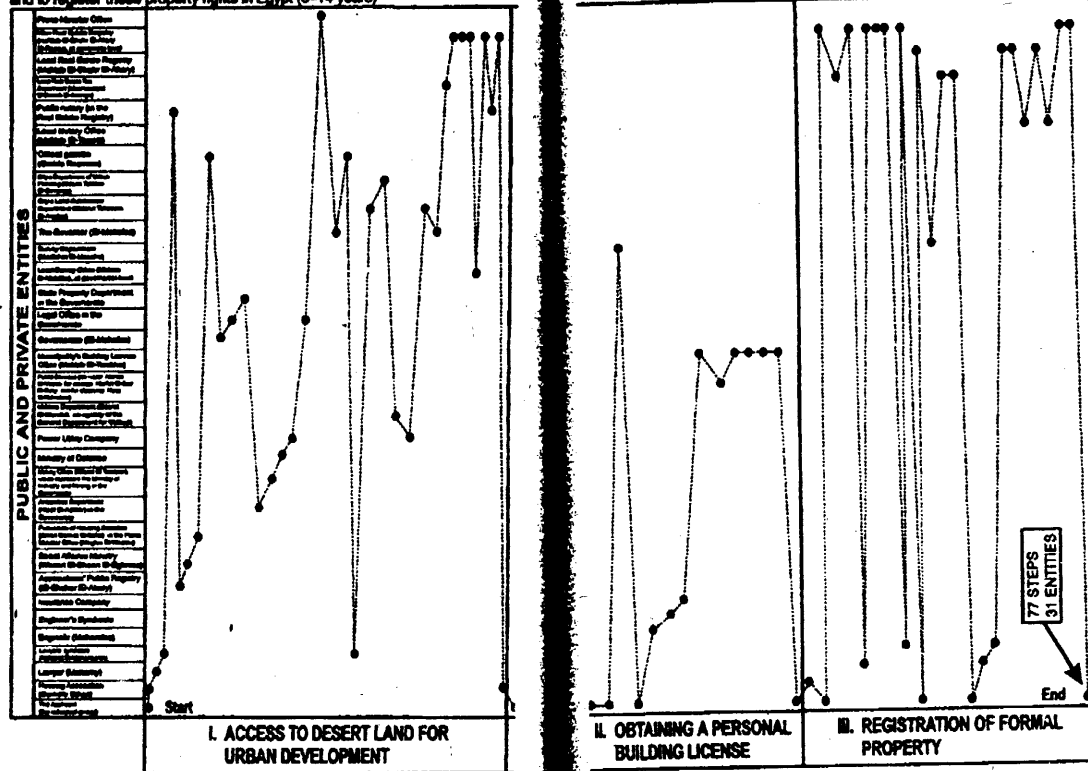
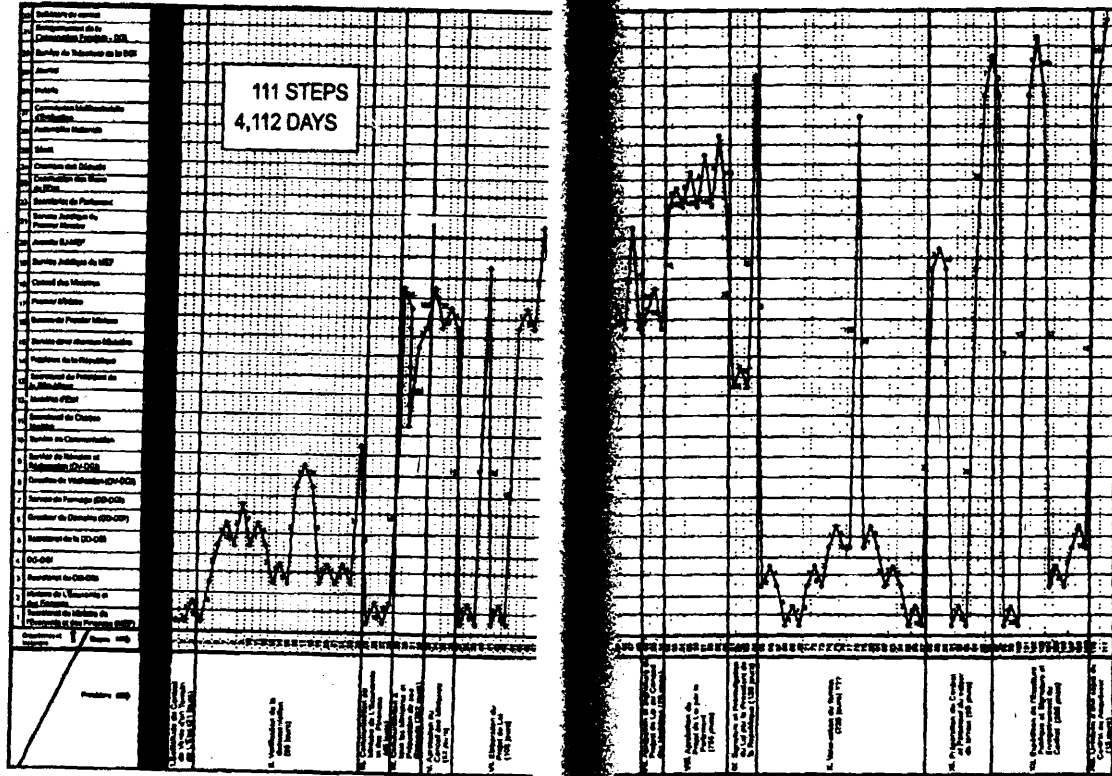


FIGURE 2.4 Procedure to obtain a sales (vente) contract following the five-year lease contract in Haiti



Mr. COBLE. Thank you.

And Dr. Linck, you are recognized for 6 minutes. Thank you, Dr. Linck.

**STATEMENT OF NANCY LINCK, SENIOR VICE PRESIDENT,
GENERAL COUNSEL & SECRETARY, GUILFORD PHARMA-
CEUTICALS, INC.**

Dr. LINCK. Thank you, Mr. Chairman. And thank you for the opportunity—

Mr. COBLE. Dr. Linck, pull that mike a little closer to you, if you will, and be sure it's activated.

Dr. LINCK. Thank you for the opportunity to testify on this important topic. I very much appreciate the Subcommittee's concern about our patent system and efforts to ensure enactment of H.R. 1886. I share your concerns, as former Solicitor of the U.S. Patent and Trademark Office, and now as Senior Vice President, General Counsel, and Secretary of Guilford Pharmaceuticals.

Guilford Pharmaceuticals is a publicly traded, proprietary drug company with 285 employees and more than 100 U.S. patents. Guilford has one commercial product, our GLIADEL Wafer, used in conjunction with surgery to treat brain cancer. We also have a number of product candidates in our pipeline, including one for Parkinson's Disease; diabetic peripheral neuropathy; and a new anesthetic, AQUAVAN Injection.

Guilford is not yet profitable. Thus, to fund R-and-D we rely on investment capital and on funds from partnering with other pharmaceutical companies. A strong patent system is critical to our success. Without valid patents, Guilford would not be able to attract investment capital or partners, and thus would not have the resources required to invent and develop new drugs.

A strong patent system requires a meaningful way to challenge invalid patents, without costly, time-consuming litigation. While the PTO is doing an outstanding job of examining patent applications, given the large number of applications and the resources they have, some patents issue that should not. These invalid patents stifle innovation; and thus hurt the public, including patent owners.

For example, from time to time, Guilford has received veiled threats of suit from companies who have obtained overly broad—and therefore, invalid—patents. In such instances, we can stop development; risk being sued for infringement; or pay for a license. Discontinuing development of a drug that ultimately might prevent or alleviate human suffering should not happen. And litigation could destroy a small company like Guilford financially, even though it might ultimately prevail. And licensing an invalid patent is usually too financially burdensome for a company like Guilford.

Theoretically, the number of invalid patents could be decreased by improving the quality of examination. However, insisting on a flawless examination of every patent application is not a realistic goal, and doesn't make economic sense. The quality we're presently getting is more than sufficient for an initial examination.

Each year approximately 200,000 patents issue; yet less than 200 patent suits are filed. Assuming these suits involve patents of com-

mercial value and questionable validity, they represent less than a tenth of a percent of the patents issuing in the same time period.

Clearly, finding a mechanism to fix this small number makes more economic sense than trying to ensure that every application is perfectly examined in the first instance. Making certain changes in our inter partes reexamination system would provide a fast, fair, and effective way to address patents of questionable validity. Most importantly, third parties must be given a right to appeal to the Federal Circuit.

Cases in which reexamination is requested are typically very important commercially. And while some of PTO's most experienced employees are on the board of appeals, they still make mistakes. Without a third party's ability to have those mistakes reviewed and corrected by a Federal court, a third party will not use the reexamination system, except in very limited circumstances.

This is particularly in view of the provisions in the present inter partes statutes estopping a third party from later raising in Federal court any issue it raised, or could have raised, in the PTO, even though the third party has no right to appeal outside the agency. Thus, if a third party chooses reexamination to attack the validity of a patent and loses, the third party would have great difficulty defending itself in a later infringement action.

Furthermore, there is a perception by third parties that because the patentee is considered to be the PTO's customer, the PTO favors the patentee. In fact, given the time, money, and manpower pressures on the PTO, it has a strong incentive to decide in the patentee's favor; thereby avoiding an appeal to the Federal Circuit and avoiding any threat of reversal. Because of these concerns, third parties will not use the 1999 inter partes reexamination system.

Permitting third parties to appeal would provide an important safeguard against potential abuse by the agency; thus encouraging third parties to challenge bad patents. It would also contribute to the fairness of the presently one-sided system. The patent system would be improved, and the public and patent owners alike would benefit.

I commend the House for passing H.R. 1886, which provides such an appeal. I have made a number of other recommendations in my written remarks, and urge this Subcommittee to consider them. Thank you.

[The prepared statement of Dr. Linck follows:]

PREPARED STATEMENT OF NANCY J. LINCK

INTRODUCTION

Thank you for the opportunity to testify on this important topic. I very much appreciate the Subcommittee's concern about our patent system and efforts to ensure enactment of H.R. 1886. I share your concerns, as former Solicitor of the U.S. Patent and Trademark Office, and now as Sr. Vice President, General Counsel and Secretary of Guilford Pharmaceuticals Inc., a small pharmaceutical company located in Baltimore, MD.

Guilford Pharmaceuticals is a publicly traded, proprietary drug company with 285 employees and more than 100 U.S. patents. Guilford has one commercial product, GLIADEL® Wafer, used in conjunction with surgery to treat brain cancer. We also have a number of product candidates in our pipeline, including ones for Parkinson's Disease, diabetic peripheral neuropathy, and a new anesthetic, AQUAVAN™ Injection.

Guilford is not yet profitable. In other words, we spend far more on R&D than we make on our single commercial product. Thus, to fund R&D, we rely on investment capital—a result of others' belief that we will someday be profitable—and on funds from partnering with other pharmaceutical companies. A strong patent system is critical to our success. Without valid patents, Guilford would not be able to attract investment capital or partners and thus would not have the resources required to invent and develop new, effective medicines.

THE CHALLENGE

The value of patents and their ability to promote innovation depends upon having a strong patent system. And a strong patent system requires a meaningful way to challenge invalid patents without prohibitively costly, time-consuming litigation. While the PTO is doing an outstanding job of examining patent applications, given the large number of applications and the resources they have, some patents issue that should not. These invalid patents stifle innovation and thus hurt the public, including patent owners.

For example, from time to time, Guilford has received veiled threats of suit from companies who have obtained overly broad, and therefore invalid, patents. In such instances, we usually have three options—stop development, risk being sued for infringement, or pay for a license. None of these alternatives is attractive. Discontinuing development of a drug that ultimately might prevent or alleviate human suffering because of such a patent should not happen, and litigation could destroy a small company like Guilford financially, even though it might ultimately prevail. And paying for a license to an invalid patent is usually too financially burdensome for a company like Guilford.

Theoretically, the number of invalid patents could be decreased by improving the quality of examination. However, insisting on a flawless examination of every patent application is not a realistic goal and doesn't make economic sense. The quality we're presently getting is more than sufficient for an initial examination. Each year, approximately 200,000 patents issue, yet less than 200 patent suits are filed. Assuming these suits involve patents of commercial value and questionable validity, they represent less than 0.1% of the patents issuing in the same time period. Clearly finding a mechanism to fix this small number makes more economic sense than trying to ensure that every application is perfectly examined.

THE SOLUTION

Making certain changes in our *inter partes* reexamination system would provide a fast, fair and effective way to address patents of questionable validity. I commend the House for taking a first step in that direction by passing H.R. 1886.

More than 20 years ago, Congress recognized the problem of invalid patents. In response, an *ex parte* reexamination was established in 1980. However, third party participation was very limited. Thus, third parties did not use *ex parte* reexamination often because it was too one-sided. The patent owner almost always prevailed and then was in a stronger position to sue the third party in federal court.

In the mid-90s, Congress introduced amendments to the reexamination statutes to provide additional third party participation, including the right to appeal to the Federal Circuit. Unfortunately, prior to its enactment, that legislation was amended in several ways that make it quite unattractive to third parties. First, and most importantly, only the patent owner can appeal to the Federal Circuit. Second, the third party requester is estopped from later raising in federal court any issue it raised or could have raised, even though it has no right to appeal to the Federal Circuit.

The solution to providing a fast, fair and effective reexamination system is not complex. Only four changes must be made in our present *inter partes* system to provide such an alternative to litigation.

Most importantly, third parties must be given a right to appeal to the Federal Circuit. Cases in which reexamination is requested are typically very important commercially. And, while some of PTO's most experienced employees are on its Board of Appeals, they still make mistakes. Without a third party's ability to have those mistakes reviewed and corrected by a federal court, a third party will not use the reexamination system, except in very limited circumstances. This is particularly true in view of the provisions in the present *inter partes* statutes estopping a third party from later raising in federal court any issue it raised or could have raised in the PTO, even though the third party has no right to appeal outside the agency. Thus, if a third party chooses reexamination to attack the validity of a patent and loses, the third party would have great difficulty defending itself in a later infringement action against a patent that has been strengthened through reexamination.

Furthermore, there is a perception by third parties that, because the patentee is considered to be the PTO's customer, the PTO favors the patentee. In fact, given the time, money and manpower pressures on the PTO, it has a strong incentive to decide in the patentee's favor, thereby avoiding an appeal to the Federal Circuit. In addition, if the PTO rules in the patentee's favor, there is no threat of reversal by the court. Because of these limitations and concerns, third parties do not and will not use the 1999 *inter partes* reexamination system. Permitting third parties to appeal to the Federal Circuit would address these limitations and concerns by providing an important safeguard against any potential abuse by the agency, thus encouraging third parties to challenge bad patents. It would also contribute to the fairness of the presently one-sided system. The patent system would be improved, and the public and patent owners alike would benefit.

Three other amendments to the present *inter partes* reexamination system should be made: First, the present estoppel provisions should be amended so that estoppel does not arise until an appeal to federal court is filed; second, *In re Portola Packaging*, 110 F.3d 786 (1997), should be legislatively overruled to permit the PTO to rely on art previously in the record; and, finally, PTO should be required to complete reexamination in an expeditious manner, for example, within 18 months of the filing of the request.

The Federal Circuit in *In re Portola Packaging*, limited the PTO's ability to consider patentability in view of the prior art. The court broadly stated that, if a reference had been cited during original examination, then it could not be considered during reexamination, either alone, or in combination with any other previously cited references. According to the court, that's because it is presumed the examiner considered all cited references in every possible combination. Given that an examiner only has a limited time to examine a given application and an application may have a large number of references cited in it, this presumption clearly has no basis in experience and makes bad law. It does not reflect the way examination is conducted.

Finally, to make reexamination a viable option to litigation, it must be concluded in a reasonably short time. At present, I am not aware of any legislation proposing such a time limitation. While the "with special dispatch" language of 35 U.S.C. 314(c) is helpful, it does not go far enough to ensure reexaminations will be sufficiently expedited.

OTHER RECOMMENDED AMENDMENTS

In addition, while not necessary to provide a fair, fast and effective alternative to litigation, including reexamination of section 112 issues, other than best mode, should be considered. The PTO has expertise in determining whether a patent teaches how to make and use an invention, whether the patent shows the inventor had possession of the invention, and whether the claims are sufficiently clear and concise. On the other hand, the PTO has difficulty in evaluating whether the best mode of practicing the invention has been disclosed. This issue brings in questions of intent to conceal—questions better addressed by the courts. Section 101 issues should not be included either. As the Supreme Court held in *Diamond v. Chakrabarty*, "anything under the sun made by man" is patentable. Thus, bringing in section 101 would unduly lengthen the procedure to address an issue that seldom should bar patentability.

COMMENTS ON OTHER PROPOSALS RELATING TO REEXAMINATION

It has been suggested that third party reexamination requests be made within a short period of time after issue, such as 9 months. Guilford opposes any such time limit. A company may not be aware of a patent within that limited time period. That's particularly true for smaller companies that do not have the resources to maintain an extensive watch for such patents. Further a company may not start working in the relevant area until years after the patent issues. Thus, such a time limitation would limit the value of reexamination, particularly for smaller companies like Guilford.

Guilford also opposes adopting an opposition system in lieu of a fast, fair and effective reexamination system. Oppositions cannot be conducted quickly and will place additional burdens on an already overburdened PTO. Pending H.R. 1333, would provide a very lengthy *inter partes* opposition, first in the PTO and then in the courts. Oppositions in Europe are not as complex as that proposed in H.R. 1333, yet still take many years to complete. Further, in order to conduct such oppositions, PTO would be required to develop additional trial court expertise. That could be difficult at a time patent lawyers with litigation skills are in great demand.

CONCLUSION

While the number of invalid patents issued is very small, such patents could block development of commercially important products, including drugs to treat diseases for which there is presently no treatment. Even though such patents may ultimately be held invalid if litigated in court, the high cost, delays and uncertainty of litigation may result in companies like Guilford foregoing certain drug development. Everyone loses in such a scenario—companies, inventors and the public. A fast, fair and effective *inter partes* reexamination—one that provides third parties with the right to appeal to the Federal Circuit—would go a long way to providing an adequate solution.

Thank you.

Mr. COBLE. Dr. Linck, my home county back in North Carolina is Guilford County. Do you all have any connection with Carolina? It's spelled the same way as the pharmaceutical company.

Dr. LINCK. I'd certainly like to say we do, but—

Mr. COBLE. So would I.

Dr. LINCK [continuing]. I really don't know.

Mr. COBLE. Well, thank you.

Mr. Webbink, good to have you with us. You are recognized for 6 minutes.

**STATEMENT OF MARK H. WEBBINK, SENIOR VICE PRESIDENT
& GENERAL COUNSEL, RED HAT, INC.**

Mr. WEBBINK. Thank you, Mr. Chairman. I'm testifying today as a representative of Red Hat, Inc., and the open source community. Red Hat is the world's premier open source software and Linux operating system provider.

From its initial public offering less than just three short years ago, Red Hat has built a successful business model around the development, aggregation, distribution, and support of open source software, especially the Red Hat Linux operating system. And we have done so without reliance on the patent system to protect our intellectual property. On the contrary, we have encouraged other parties to openly use our work to build better software and to deploy it.

For those of you not familiar with open source software, it is software that is developed utilizing the Internet and the World Wide Web as a development platform. Contributors to open source own the copyright and any patentable inventions in their creations, but they make those creations available for use by others, often without cost or any significant restriction.

Some of the most widely used software in the world is open source, including the popular "Apache" web server software, and "Sendmail," the workhorse of Internet-based e-mail traffic. In fact, many would argue that without open source software, the Internet would never have occurred.

It may then seem curious that I should come before you today to address the issue of patent reform. The open source community largely disdains patent protection of software. The community does so in part because of a strong perception that by extending patent protection to software, software developers are provided two bites at the intellectual property apple: one under copyright, and a second under patent.

The open source community also believes that patents on software have actually stifled innovation, rather than promoted it, be-

cause software development occurs at a much more rapid pace than one finds in the other patent arts.

For example, time-to-market cycles for software are often measured in months, and obsolescence in less than 10 years. By contrast, the time-to-market cycle alone for most pharmaceuticals is in excess of 10 years. It is understandable, then, that open source software developers question 20 years of protection on something that took less than 3 years to develop, and which is largely obsolete in less than half the patent term.

However, despite this proclivity toward disdaining software patents, neither Red Hat specifically, nor the open source community generally, can ignore our patent system and its progeny.

While Red Hat is a publicly traded open source company, the vast majority of open source software is developed by the collaborative efforts of individuals and small businesses. These individuals and businesses do not for the most part enjoy the same degree of capitalization or financial freedom to invest in patent protection as the large proprietary software behemoths. These small companies are at a distinct disadvantage under the law in protecting themselves from assertions of patent infringement.

As I have stated in previous testimony given before the Board of Science, Technology, and Economic Policy, of the National Academies of Science in October of 2001, and a joint hearing of the Federal Trade Commission and the Department of Justice in March 2002, we have seen an exponential increase in software and business method patents in the last decade, many of which are held by just a few companies.

There would be nothing, per se, wrong with this, if software and business method patents were subject to the same degree of prior art review as patent applications in the other arts experience. However, it is well established that the body of prior art—and hence, the adequacy of the initial examination process—for software and business method patents does not enjoy the same organization, codification, and exposure as with other areas of patent art. As a result, numerous software and business method patents have been granted which do not merit the grant.

Patent litigation is expensive. In fact, I have frequently heard the USPTO's move toward granting business method patents as the "PAFEA," the "Patent Attorneys Full Employment Act"; not only because of the volume of applications generated, but because of the litigation the resulting patents are certain to spawn.

The expense of challenging a patent, or defending a claimed infringement of such patent, is a substantial burden, especially for the small- to medium-sized business. As a result, it is imperative that the patent system, including the system for seeking reexamination of patents, be as unburdened as possible for third parties seeking to challenge such patents. Such steps ensure a level playing field, and protect the public interest. To that end, we endorse House Resolution 1886.

H.R. 1886 seeks to remedy certain fundamental flaws in the re-examination process resulting from ill-advised amendments and prior legislation. Those amendments, while well intentioned, had the effect of rendering the reexamination process of little utility to third parties seeking to defend their work or to ensure an open

platform for software development. H.R. 1886 should correct those defects.

To those who would oppose H.R. 1886 on the grounds that it exposes holders of hard-won patents to further expense and uncertainty, let us not lose sight of the fact that a patent is a Government-sanctioned monopoly. Where, as at present, we know that patents have been issued that, were there greater opportunity for public input during the examination process, should not, and would not, have been issued; then it is necessary for the Congress to step in to protect the public interest.

Assuring third parties of a fair, open, and reasonably inexpensive forum for challenging such patents is not only justified; it is imperative. H.R. 1886 is a move in the right direction. Thank you, Mr. Chairman.

[The prepared statement of Mr. Webbink follows:]

PREPARED STATEMENT OF MARK H. WEBBINK

Thank you Mr. Chairman, I am testifying today as a representative of both Red Hat, Inc. and the open source community. Red Hat is the world's premier open source software and Linux operating system provider. Headquartered in Raleigh, North Carolina, Red Hat has a market cap of approximately \$1 billion and employs over 640 individuals in offices around the world. From its initial public offering just three short years ago, Red Hat has built a successful business model around the development, aggregation, distribution, and support of open source software, especially the Red Hat Linux operating system, and we have done so without reliance on the patent system to protect our intellectual property. On the contrary, we have encouraged other parties to use our work to build better software and to deploy it.

For those of you not familiar with open source software, it is software that is developed utilizing the Internet and World Wide Web as a development platform. Contributors to open source own the copyright and any patentable inventions in their creations, but they make those creations available for use by others, often without cost or any significant restriction. The Open Source Initiative ("OSI") defines Open Source as software providing the following rights and obligations:

- No royalty or other fee imposed upon redistribution
- Availability of the source code
- Right to create modifications and derivative works
- May require modified versions to be distributed as the original version plus patches
- No discrimination against persons or groups
- No discrimination against fields of endeavor
- All rights granted must flow through to/with redistributed versions
- The license applies to the program as a whole and each of its components
- The license must not restrict other software, thus permitting the distribution of open source and closed source software together

Some of the most widely used software in the world is open source, including the popular Apache web server software and Sendmail, the workhorse of internet-based e-mail traffic. In fact, many would argue that, without open source software, the Internet would never have occurred.

It may then seem curious that I should come before you today to address the issue of patent reform. The open source community largely disdains patent protection of software. The community does so, in part, because of a strong perception that, by extending patent protection to software, software developers are provided two bites at the intellectual property apple, one under copyright and a second under patent. The open source community also believes that patents on software have actually stifled innovation, rather than promoted it, because software development occurs at a much more rapid pace than one finds in the other patent arts. For example, time to market cycles for software are often measured in months and obsolescence in less than 10 years. By contrast, the time to market cycle alone for most pharmaceuticals is in excess of 10 years. It is understandable then that open source software developers question 20 years of protection on something that took less than three years

to develop and which is largely obsolete in less than half the patent term. However, despite this proclivity toward disdaining software patents, neither Red Hat, specifically, nor the open source community, generally, can ignore our patent system and its progeny.

While Red Hat is a publicly traded open source company, the vast majority of open source software is developed by the collaborative efforts of individuals and small businesses. These individuals and businesses do not, for the most part, enjoy the same degree of capitalization or financial freedom to invest in patent protection as the large proprietary software behemoths. These small companies are at a distinct disadvantage under the law in protecting themselves from assertions of patent infringement.

As I have stated in previous testimony given before Board of Science, Technology and Economic Policy of the National Academies of Science in October 2001 and a joint hearing of the Federal Trade Commission and Department of Justice in March 2002, we have seen an exponential increase in software and business method patents in the last decade, many of which are held by just a few companies. There would be nothing per se wrong with this if software and business method patents were subject to the same degree of prior art review as patent applications in the other arts experience. However, it is well established that the body of prior art, and hence the adequacy of the initial examination process, for software and business method patents does not enjoy the same organization, codification, and exposure as with other areas of patent art. As a result, numerous software and business method patents have been granted which do not merit the grant.

Patent litigation is expensive. In fact, I have frequently heard the USPTO's move toward granting business method patents as the PAFEA, the patent attorneys full employment act, not only because of the volume of applications generated but because of the litigation the resulting patents are certain to spawn. The expense of challenging a patent, or defending a claimed infringement of such patent, is a substantial burden, especially for the small to medium sized business. As a result, it is imperative that the patent system, including the system for seeking reexamination of patents, be as unburdened as possible for third parties seeking to challenge such patents. Such steps ensure a level playing field and protect the public interest. To that end, we endorse House Resolution 1886.

HR1886 seeks to remedy certain fundamental flaws in the reexamination process resulting from ill-advised amendments in prior legislation. Those amendments, while well intentioned, had the effect of rendering the reexamination process of little utility to third parties seeking to defend their work or to ensure an open platform for software development. HR1886 should correct those defects.

To those who would oppose HR1886 on the grounds that it exposes holders of hard won patents to further expense and uncertainty, let us not lose sight of the fact that a patent is a government sanctioned monopoly. Where, as at present, we know that patents have been issued that, were there greater opportunity for public input during the examination process, should not, and would not, have been issued, then it is necessary for the Congress to step in to protect the public interest. Assuring third parties of a fair, open and reasonably inexpensive forum for challenging such patents is not only justified, it is imperative. HR 1886 is a move in the right direction.

Mr. COBLE. Thank you, Mr. Webbink. I appreciate each of you and your testimony you all have presented today.

Let me put a question to each of the four witnesses. I'll start with you, Mr. Theis. It's a three-part question: A, is it your belief that the PTO, while an outstanding agency, on occasion makes mistakes? B, is it your view that expensive, sometimes extended, Federal litigation is a fair way to resolve a PTO error or mistake? What I'm saying is, is it fair to the public or to the companies—particularly small companies, small businesses—to endure expensive or time-consuming litigation?

C, in your view, who, if anyone, should be the independent authority to oversee and correct any erroneous decisions of the PTO? And I want to make it clear, I am not alleging that the PTO is guilty of reckless abandonment and errors; but they are not fool-proof, either. So having said that, Mr. Theis, let me hear from you.

Mr. THEIS. Those are three very good questions. There can be no question, because the PTO is human, that they do occasionally make mistakes. In my experience—And that's, you know, 25 patents; and I've been through the ropes. You know, my longest patent took 13 years. They do a very good job. They really help create claims that are meaningful.

So I have a very high regard for the Patent Office, for their appellate structure. I have been through the CCPA before the Federal Circuit was established. I know the ropes in that regard. I have very high regards for them.

The danger you have here—and this is what I really want to stress in this whole discussion—is, yes, it's inevitable that sooner or later there will be a bad patent. And I don't know; there aren't many of them, in my opinion. What you've got to be very careful of, and what's happening here, is you're throwing out the baby with the bath water.

You're saying: "Okay, we want to focus in on those 2 percent or 3 percent that are really bad, or 5 percent—" or take whatever figure you want; there aren't many "—and we are going to go after those things. In the process, we're going to get rid of 50 to 75 percent, and we're going to discourage that inventor from even trying to get a good patent."

And what I'm saying, by the way, good patents, I'm separating the patent where the inventor has sought to defraud.

Mr. COBLE. Now, Mr. Theis, if you can, we're going to have another vote here before long. And I want to hear from all four witnesses, so if you'll respond to the three questions as briefly as possible?

Mr. THEIS. I think the APA is a good place to start. The Patent Office should be the source. They have the appellate structure. And if you go to the Federal Circuit, the issues are limited to abuse of discretion—There are certain standards in the APA that they are limited to. So you can't just take every decision of the Patent Office up to the Federal Circuit.

Litigation is terrible, the way it's being practiced. And my patents, I had several patents that were litigated. And they threw every possible barrier to those patents. Litigation is the worst possible way. I do have some other alternatives, but this is not the alternative.

And by the way, in my written comments I do make—I spend quite a bit of time going into alternatives to this process. So I'll refer to those. Thank you.

Mr. COBLE. Mr. Heckel?

Mr. HECKEL. Yes. The Patent Office does make errors. It seems to vary all over the place.

Mr. COBLE. Pull that mike a little closer to you, Mr. Heckel, if you will, and activate it. Yes.

Mr. HECKEL. I'm sorry. The Patent Office does make errors. I don't think it's quite as few as Peter suggests; but it's not as outrageous as other people suggest.

I do think that errors should be corrected. I think the appropriate way to correct them is through procedures in the Patent Office, under the Administrative Procedures Act; which avoids having to deal with the courts, except reviewing under the "arbitrary and

capricious" rules. It's a much more efficient way of getting results than litigation, and much less expensive.

Who should be the authority? I think I've sort of already answered the question. I think that it should be the PTO, subject to the APA standards of appeal. I think the important thing is, you want to have processes which will resolve these issues expeditiously, at a reasonable cost, and with a minimum of bias in the decision-making. That's the important thing.

If you're going to lose unfairly, at least lose unfairly, you know, over a 6-month period, rather than over a 10-year period.

Mr. COBLE. Dr. Linck, should I enumerate the questions again? Do you have the three parts?

Dr. LINCK. The three questions?

Mr. COBLE. Yes.

Dr. LINCK. Certainly. I have testified that the Patent and Trademark Office does make mistakes. That's why we need a strong re-examination system. Litigation is not a viable option for a company like mine. It's just too expensive; put us out of business.

Who should be the final authority? I think the system as it's now established, where the Federal Circuit reviews the Patent and Trademark Office decisions and then you can take that to the Supreme Court, is the appropriate means of appeal of PTO decisions.

Mr. COBLE. Thank you. Mr. Webbink?

Mr. WEBBINK. I would probably be inclined to characterize the Patent Office's actions as uninformed determinations, as opposed to mistakes. They occur more frequently within the software and business method patent arena, due to the lack of access to established prior art. Consequently, there is cause to have greater concern about the validity of those patents than with patents in the other arts.

When looking at litigation, you have to contrast the choices that a party would have: whether to face patent infringement litigation, or seek reexamination of the claimed patent. And of the two, reexamination is a far less expensive process.

Finally, I would agree with Dr. Linck, that we have a court system for a purpose, and it is to review administrative decisions. While the administrative procedure is a fine one, it should not be the exhaustion of a party's rights.

Mr. COBLE. I thank you, Mr. Webbink. Am I pronouncing your surname correctly?

Mr. WEBBINK. You're doing just fine, Congressman.

Mr. COBLE. "Webbink." Thank you.

Dr. Linck, let's focus our attention on the Federal Circuit Court of Appeals. You worked there as a clerk, and you've appeared there as a litigant in your service as Solicitor at the PTO, and perhaps in other capacities. Mr. Theis and Mr. Heckel indicate in their testimony that the Federal Circuit—a court now I think in its 20th year now—is harmful, or adverse, for inventors. What do you say to that?

Dr. LINCK. I find that very surprising, in that the Federal Circuit overall has strengthened patents, strengthened the patent system. Prior to the creation of the Federal Circuit, many of the other circuits went directions very unfavorable for the patentee. The Eighth Circuit never held a patent valid. And in fact, in the early days of

the Federal Circuit, the court was considered to be quite pro-pat-entee.

I think the pendulum is swinging a little bit, with more appointments to that court that do not have a patent background. And I think that's probably appropriate. But I think the best thing that ever happened to the patent system, or one of the best things, was the creation of the Federal Circuit. And now I speak as—You know, I represent a patent holder, not the alleged infringer.

Mr. COBLE. Mr. Theis and Mr. Heckel, do you all have evidence that would indicate that the Federal Circuit is in fact harmful or adverse to inventors? If you'd like to share it with us, if you have that?

Mr. THEIS. In my written testimony, I include two letters—one from myself, and one from another inventor-attorney in California—relating to the first Federal Circuit decision. Yes, my decisions there, in studied opinion, had nothing to do with the law. I'm saying that very strongly.

It is even more demeaning when you're issued a per curiam decision—which means nobody will stand behind it. And it's even worse when it's an up-down decision. I think if you look at the decisions in my case, you'll see that they would not withstand scrutiny if they were published decisions.

Mr. COBLE. Mr. Heckel, do you want to weigh in?

Mr. HECKEL. Yes. Yes. First of all, I will agree that the situation is better as a result of the creation of the Federal Circuit, and that it has made some important advances, especially under the first chief judge—whose name is slipping my mind—Judge Markey.

However, I have several pieces of evidence, which I put in my testimony. First of all, the study we did of 14 cases showed that 13 out of the 14 lost. And almost all of those were due to Federal Circuit decisions. And for example, the Damadian one I told you about, where basically the court ruled for him one time, and against him the other time, in the same claim of the same patent. But the difference was, in one case he was a famous inventor who was inducted into the Hall of Fame and had received the National Medal of Honor; whereas in the other case, he was a new guy who was relatively unknown.

The second example I will give is the recent Festo decision of the Supreme Court, which we filed an amicus brief on. And basically, what the Supreme Court—The issue there was whether or not the doctrine of equivalence should be invoked; and in particular, after the Supreme Court had ruled in Warner Jacobson about 5 years ago, I believe, that the doctrine of equivalence is alive and well, which lets the inventor have a wider breadth of patent coverage than the literal claims. The Supreme Court upheld it there.

But the Federal Circuit in the Festo decision basically said that if an inventor amends the claim, then the amended claim is not subject to doctrine of equivalence; which drastically reduced the scope of the patent. And we saw this as being very biased against inventors.

Not only did the Supreme Court overturn Festo, in saying that the doctrine of equivalence is alive and well; but it came down heavily on the Federal Circuit, referring to the Federal Circuit as having ignored its decision.

Mr. COBLE. Doctor, do you want to weigh in?

Mr. HECKEL. Pardon?

Mr. COBLE. I asked Dr. Linck if she wanted to add anything to this. Or Mr. Webbink?

Dr. LINCK. On the Festo case?

Mr. COBLE. Pardon?

Dr. LINCK. On the Festo case?

Mr. COBLE. Yes, or anything in response to what Mr. Heckel said.

Dr. LINCK. Well, I think the Federal Circuit made a mistake in Festo, and that's exactly the reason why we have the Supreme Court to correct errors. And certainly, the Federal Circuit will not always rule in favor of the patentee, but I believe the patentee gets fair treatment from that Court.

Mr. COBLE. Mr. Webbink, do you want to—

Mr. WEBBINK. I have nothing to add.

Mr. COBLE [continuing]. Insert your oars into these waters? [Laughter.]

Mr. COBLE. Let me ask you this, Mr. Webbink. I am told—and I think this is accurate—that the PTO receives approximately 300,000 patent applications annually. Now, let us, for the sake of discussion, assume a 99.99 percent quality rate. Then we therefore must assume that there's some defective patents fall through the cracks.

What is your advice if a small business, or anyone for that matter—I keep saying “small business,” because the little guy is the one who suffers inordinately. But what would be your advice, Mr. Webbink, to a small business, or anyone else facing this issue, who encounters a defective or otherwise over-broad patent? And is it fair to the public that an overly-broad patent is issued and remains in force?

Mr. WEBBINK. Well, if you look at that $\frac{1}{1000}$ of a percent, you can assume that, because of prior art disclosure limitations, most of the defective patents relate to software and business method patents.

And to counter, the small businesses need an easy avenue by which to challenge such patents. Any player in the software industry is used to receiving letters from counsel from software patent holders, suggesting the need for a license. These fishing expeditions are largely a joke. They involve patents which largely are overly broad, or can readily be proved to be invalid by prior art.

Without the reexamination process—a complete reexamination process—as an effective deterrent to these weak patents, businesses would likely be faced with far more patent infringement litigation. The existence of overly-broad patents does nothing but stifle and delay innovation.

Mr. COBLE. Okay. I think that about covers it. Let me think aloud. Yes, Mr. Theis?

Mr. THEIS. One of the improvements that could be made, which Mr. Webbink—if that's right—has brought up, is, if a company who has been charged with infringement says there's prior art, just like the inventor has to disclose prior art to the Patent Office, that accused infringer should say, “I have prior art,” and disclose it to the inventor. Because as an inventor, I go to you and I say, “You in-

fringe," and the infringer says, "We've got prior art, but we're not going to tell it to you, what it is, until there's litigation."

That should be a requirement of an accused infringer, that he has to immediately—If he's going to say he's got prior art that invalidates, so that the patentee can know that he's got a bum patent, that should be straight out of the box.

Mr. HECKEL. I want to speak to some of my experience there. I had a patent. I notified IBM that I thought that they infringed our patent. They told me that they had prior art on my patent. I said, "Well, can you show me the prior art, so I can evaluate it?" They said, "Sure. Sue us. Then we'll have to show it in court." Now, how does a small guy deal with that?

You know, Mister—What's your name?

Mr. WEBBINK. Webbink.

Mr. COBLE. Webbink.

Mr. HECKEL. Webbink. I understand where he's coming from. I'm an inventor in the software area who sees it from the other side, developing new technologies which we want to have patents on. We're both similarly faced with the difficulty of resolving these issues expeditiously and cleanly.

If I have a bad patent, okay, I can walk away from it. But I don't want to spend 10 years finding out I have a bad patent.

Mr. COBLE. Well, folks, I appreciate your time. And I appreciate your patience with me when we were over on the floor voting.

Now, this record will remain open for 1 week. Now, if anyone has any statistics or additional information regarding problematic nature surrounding the reexamination issue, I'm all ears. As I said, the record will be open for 1 week.

We appreciate, again, your testimony. We appreciate those in the audience. And this concludes the oversight hearing on "Patent Re-examination and Small Business Innovation." Thank you for your cooperation, and the Subcommittee stands adjourned.

[Whereupon, at 3:39 p.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE JOHN CONYERS, JR., A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MICHIGAN

When we passed the patent reform bill in 1999, after years of negotiations, we were certain we improved how patents are granted and reviewed. For years, inventors and patent owners had been telling us that the Patent and Trademark Office was awarding patents that were too broad or even undeserved.

That's why in 1999, we made it easier for people to challenge patents that already had been granted. We left out one thing, though. If the PTO reexamines a patent it issued and then rules in favor of the patent owner, the challenger has no recourse; the patent stands. But if the PTO rules against the patent owner, the patent owner can appeal to Court of Appeals for the Federal Circuit. In short, we created a lopsided system.

Chairman Coble introduced H.R. 1886 to remedy that. The bill, which already has passed the House, lets third party challengers appeal a PTO reexamination decision to the Federal Circuit.

I see from this hearing that some independent inventors—people not affiliated with a large company—who hold patents oppose the bill. They say the legislation would make it easier for big companies to tie them up in court over the validity of their patents.

I agree that the bill could prolong litigation, but the essence of it is that patent owners, independent or institutional, who hold monopolies on inventions should do so only if they can withstand the scrutiny of intense examination. Bad patents should not be upheld simply because the PTO may have made a bad call on the law and ruled against a challenger with a valid argument.

June 25, 2002

Via Email and First Class Mail

Representative Howard Coble
Chairman
Subcommittee on Courts, the Internet and Intellectual Property
2138 Rayburn House Office Building
Washington, DC 20515-6216

Re:

June 20, 2002 hearing on "Patent Reexamination and Small Business Innovation"

Dear Chairman Coble:

Please include these additional remarks with the official record of the above referenced hearing.

It was stated that the purpose of the proposed legislation is a) to cleanse the system of patents where the PTO had made clear error, and b) for an accused infringer to easily and inexpensively remedy errors of the PTO in issuing a patent.

By my calculation, based on public information of which I am aware, it seems that the proposed legislation is designed to correct about 25 patents or less litigated each year¹. I question the promulgation of the proposed Draconian measures as a remedy for these few cases. The system already incorporates more than adequate safeguards. To risk the patent system in its entirety for these few cases would be a tragic blunder.

1. There is a Better Alternative than the Draconian Legislation Proposed

Towards the end of the hearing period, I proposed a better remedy that would better serve both patentees and accused infringers expeditiously and at lower cost than the proposed legislation.

To put this proposal in perspective, a few background points are appropriate:

- a. Be assured, there is no one more interested in becoming aware of something that would potentially invalidate a patent, such as prior art, than a patentee. A patentee will not bring suit knowing a patent is invalid – the patent

¹ Assuming 50,000 patents are issued each year, and 1% of them are litigated, and of those, 5% were issued through the mistake of oversight of the PTO, 25 patents each year are what would be called "bad" patents. It is likely the number is significantly less, since, after "due diligence" required before filing suit, those bad patents would be filtered out.



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holder could then be subject to sanctions, including potentially a finding of inequitable conduct with its devastating consequences.

b. Before a patentee accuses an infringer, the patentee's attorney must perform expensive "due diligence" to ascertain the patent's validity -- which often includes a separate private prior art search -- and the legitimacy of a charge of infringement. Failure to do so can result in Rule 11 sanctions against the patent holder. The threat of sanctions is a powerful incentive for the patent holder to be sure the PTO was correct in awarding a patent.

c. Many infringers will assert that a patent is absurd, shouldn't have been issued and whatever. It is saber rattling and part of the legal defense strategy. Can you imagine an infringer saying "Wow, what a good patent that is!"? Obviously not! The volume of the outcry is not proportional to the scope of the problem.

d. The alleged infringer will often assert to the patent holder that it knows of something that will invalidate the patent being infringed, such as prior art. The infringer will tell the patent holder nothing more about the basis for the invalidation claim -- nor will the infringer inform the PTO. The defense strategy is that if the patentee is led to believe that an infringing company is aware of invalidating art, the infringer would be less likely be sued than another infringer not claiming proprietary invalidating information. Thus, it is the infringer that is imperiling both the patentee and other infringers by withholding information.

e. If an industry is faced with claims of infringement, members of an industry can legally gang up to search and locate any invalidating art and locate experts. If that information were made known to the patentee before litigation, there would be no litigation.

The system today already has more than adequate checks and balances against a patentee making unfounded charges of infringement, or using a clearly invalid patent for asserting infringement. When an infringer believes a patent was clearly issued in error, that belief is likely supported by information only the infringer knows and which it is not sharing with the patentee or other potential infringers. In other words, the infringer is creating his own problem. This legislation is totally unnecessary to resolve the expressed limitations of the existing patent system.

The alternative system improvement proposed is very simple:

A. If anyone asserts a patent is invalid for any reason, including prior art, that party must make that information available to the patentee, and disclose it immediately to the PTO. Failure to do so would bar the infringer from asserting

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the withheld information as a defense in litigation. There would not be any surprises for anyone!

B. All parties must be able to benefit from information disclosed by others in defense of a charge of infringement. If that information were made public, the due diligence performed by the patentee's attorney would be based on all information submitted by anyone, not just the patentee and the PTO. The additional cited information would then be incorporated into the patent file wrapper.

C. Before anyone were sued for patent infringement and before massive sums were spent and time wasted, all parties, including other members of the industry, should have all the information available to perform their own due diligence and act appropriately.

The PTO, under this proposal, only acts as a clearing house for the information provided by others. That information becomes part of the file history and helps the patent holder decide whether it is worth spending millions on litigation to protect his property right (or even whether to pay the renewal fees to the PTO) and the infringer to know whether to license.

If an accused infringer withholds material information regarding patent validity from the patentee and the PTO, and subsequently claims those reasons as defenses, the infringer could then be penalized with a finding of inequitable conduct, with an award of attorney fees, costs, and punitive damages to the patentee - just as a patentee is now sanctioned for failure to disclose material information to the PTO when seeking a patent.

It is just as important for an accused infringer to be forthright with the PTO regarding material information regarding a patent as it is for an inventor when seeking a patent. Both sets of information should be in the public domain and part of the file history.

2. The Federal Circuit is a Failed Adjudicator of Patent Law

At the hearing, the Chairman asked the witnesses for their comments regarding the Federal Circuit, and whether they had bad experiences. Mr. Heckel and I both referenced personal involvement in situations supporting my concerns and charges.

The issue of unpublished decisions and the Federal Circuit were made in my prepared testimony is much larger than the scope of the question asked. Even if the Courts sustained the law, the concept of the unpublished decision goes to the perception of justice being meted out by those subject to litigation. Perceptions are more important than a few individual decisions. The public can tolerate a bad decision from time, but not a perception that the system as an entity has failed or is corrupt. Private rulings that

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are different for one set of parties than for others can not be condoned in any society purported to be based on the rule of law.

The problems I addressed concerning "unpublished decisions" are well recognized. The Eighth Circuit ruled they are unconstitutional. Every Circuit seems to have different rules. In Illinois, there is growing momentum to require all rulings be precedential. Attorneys with whom I have talked to on this subject concur that the practice results in abuse, inconsistency and injustice and is inappropriate for our system of justice.

The rationale for the "unpublished" decision is to save time for the judiciary, and is only appropriate when time saving is the objective. How does this Subcommittee expect the Federal Circuit to have time to review reexaminations of the PTO as an additional burden? If they have so little time that most of their decisions are "unpublished", where do you expect them to find time for additional decisions?

A few examples from the numerous experiences I have had with the Federal Circuit will illuminate the magnitude of the problem. These examples are not peculiarities, but an ongoing string of experiences covering several years. The Federal Circuit knew how they were abusing their privilege. There is no question in my mind they elected to avoid having their decisions scrutinized by having their decisions become part of the body of precedential law. The cacophony from the legal, inventor and business community would have been deafening.

a. There are, in written materials submitted in conjunction with my testimony, two letters (Exhibits 5 & 6) relating to the perfidy of the Federal Circuit. In the decision related to those letters, one independent claim (the '436 patent, claim 10), a concept separate and distinctly different from other claims, was ruled invalid because of obviousness without ANY evidence in the record of it being obvious.

b. It is very relevant that the litigated claims of four patents of six patents litigated were found to be invalid². That inability of the patents to withstand scrutiny is not the fault of the PTO, not the fault of those patents, but of the court system and the Federal Circuit.

c. A particular example highlights how the Federal Circuit is dysfunctional. In my appeal of a summary judgment motion by the District Court of my '416 patent the Federal Circuit, their adverse decision (#99-1081) stated

² (One patent of the six was dropped from litigation before trial as a result of a summary judgment ruling on the meaning of the terms, and a second, having only one litigated claim, was found to be valid but not infringing - only two of the patents being litigated were based on a common disclosure).

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"Anticipation is a question of fact, and the district court's findings are reviewed for clear error. We cannot say that the district court committed clear error in making its finding":

Since a summary judgment motion could only be decided based on the law (facts are for a jury), Theis Research motioned that the decision be made precedential and requested a rehearing.

The Court denied both motions. However it did change the language of the decision to read:

"Anticipation is a question of fact We cannot say that the district court erred, and on the record before us we discern no genuine dispute as to the facts".

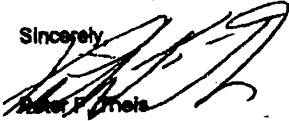
The briefs were replete with issues of fact. The decision, as amended by the court, doesn't make sense in light of the briefs filed. In particular, on a summary judgment motion, the facts presented by the non-movant are taken in their most favorable light - black letter law!

The first decision of the Federal Circuit could be blamed on mediocrity. The altered opinion is clear abuse, injustice and corruption of which the Federal Circuit panel must have been clearly aware³.

If this Subcommittee is concerned about the few patents that were issued in error, it should be much more concerned about the bulk of the decisions of the Federal Circuit that are issued in error. The flaw you are seeking to remedy is miniscule compared to the mountainous flaw controlling the entire system. The approach of HR 1886 compounds the problem exponentially.

To me, it is unconscionable that you would be turning over responsibility for oversight of a well oiled machine, the PTO, to an organization recognized for its perfidy, error, lack of technical expertise, and lack of oversight.

Sincerely,



PFTN

³ When their error was pointed out in the request for a rehearing, the Court resorted to the unusual practice of soliciting suggestions from the other side as to how their flawed decision could be remedied, and then accepted those suggestions - which was contrary to argument.

June 25, 2002

Via Email and First Class Mail

Representative Howard Coble

Chairman

Subcommittee on Courts, the Internet and Intellectual Property

2138 Rayburn House Office Building

Washington, DC 20515-6216

Re: June 20, 2002 hearing on "Patent Reexamination and Small Business Innovation"

Dear Chairman Coble:

Please include these additional remarks and exhibits with the official record of the above referenced hearing.

What I have to say here is largely in response to your questions to me at the hearing and to comment on the testimony of other witnesses particularly Dr. Linck.

The Bias of the Federal Circuit

My testimony that I felt the Federal Circuit has a bias against independent inventors was not made lightly. The Federal Circuit, which has only existed since the early 1980's, has substantially improved the situation for patentees. However, my considered opinion is that when there is a small entity inventor litigating against a large company the courts will have a substantial bias in favor of the large company. This bias is significant since, as we show in the IPC *Zurko* brief, independent inventors make a disproportionate share of inventions. I first observed the phenomena in about 1992 when I took a Professor Kayton's course entitled "Designing around Valid U.S. patents" where I observed that the two cases that narrowed the Doctrine of Equivalents were brought by independent inventors, and the one case that broadened it was owned by a Fortune 500 company. This was, of course, only anecdotal evidence but it opened my eyes.

In medicine where the evaluation of medications and treatment is usually done with double blind experiments where neither the physician nor the patient knows whether he is being treated with a drug or a placebo. This acts as an effective seal against bias and so as a result our knowledge of the efficacy of medicines is high. Our legal systems have several safeguards against bias influencing juries. However, judges are susceptible to bias because they make individual decisions and so don't have an effect of heterogeneity of views a juror or voter has. Even where they do have the input of a multiplicity of views as in appellate decisions, the views are generally homogeneous since judges tend to have similar experiences. One needs only consider the judicial decisions of the South prior to the Civil War to see how bias can infect the judiciary.

We have found evidence of such bias in patent cases. In 1998, having founded Intellectual Property Creators, we filed an amicus brief supporting the PTO in *Zurko*. We included a study of 14 inventors who had (a) sued large companies for patent infringement, and (b) had a resolution at the Federal Circuit level. As I indicated in my testimony, 13 of the 14 inventors lost. The only reasonable explanation for such one-sided results in our opinion is that the judges have an unconscious bias. We see this as a bias against outsiders (inventors who are by nature mavericks) and in favor of big companies, which are part of the establishment. It is natural that judges should have such biases; they are as establishment as you can get and so would tend to favor other establishment players. Interestingly, 6 and so would tend to favor other establishment players. Interestingly, 6 of the 14 decisions involved jury decisions and juries ruled 3 to 3 for the inventor, so juries appear to be much less biased. We would be willing to help encourages others to do larger studies to confirm this result.

The Federal Circuit is a captive of the current industry insiders

George Stigler in his Nobel Prize winning work, *The Economics Of Regulation*, showed that the nature of regulatory agencies is to protect industry insiders and keep out outsiders. We suggest that the Federal Circuit is in effect a regulatory agency regarding patent issues. As such it would favor industry insiders – generally established companies with substantial patent portfolios—over outsiders to their industries—independent inventors and their entrepreneurial enterprises.

A Source of Bias: Selection of Judges

This process of selecting judges for the Federal Circuit is a source of bias. Generally, industry insiders lobby for judges that are favorable to their point of view.

A Source Of Bias: Unpublished Decisions

We believe a major source of the Federal Circuit's bias is its use of unpublished decisions. Unpublished decisions allow the court to render a decision without having to think through how it fits into the existing jurisprudence. Removing this constraint allows judges to avoid considering the problems involved in making a decision, and prevents judges from being held accountable for their decisions. Not only does this result in bad decisions, but it causes people to lose respect for the courts.

Supreme Court Patent Decisions

The two Federal Circuit decisions for which IPC filed amicus briefs with the Supreme Court suggest its towards more complexity and the erection of de Soto obstacles which favor industry insiders who are much more sophisticated and able to deal with complexity.

- In *Zurko* the Federal Circuit held for de Soto obstacles by mandating *de novo* standard of review rather than the simpler APA "arbitrary and capricious" standard of review. While the Supreme Court overturned this decision, the Federal Circuit has failed to apply it to patent litigation in district courts.
- In *Festo*, The Federal Circuit created de Soto obstacles for inventors when amending

patent claims. Interestingly, the Supreme Court in a unanimous decision came down hard on Federal Circuit saying it chose to "ignore" the *Warner-Jenkinson* Supreme Court decision."

How To Check Out The Bias

We suggest that a study be done. This study should consist of a dozen or so cases where independent inventors sued large companies for infringement and other infringement lawsuits. Ideally, lawyers whose specialty is cognitive legal studies should conduct the study. These cases should be written up in a way to disguise the size of the companies involved. Lawyers or judges would be make decisions on these cases. It should be interesting to see if such a study would surface any biases of the Federal Circuit.

The Issue Of How Many Bad Patents Have Been Issued And The Testimony Of Dr. Linck

Chairman Coble asked whether we thought bad patents existed. Dr. Nancy Linck and Mark Webbink addressed this issue in their testimony in favor of H.R. 1886. As General Counsel for a company that face potential patent claims, it is natural that she should take the position that there are a lot of bad patents out there. Indeed, it would almost be malpractice if they didn't zealously advocate for their clients. Dr. Linck testified that there is a need for an additional reexamination to catch mistakes. We disagree and make several points.

1. The objective eliminating all bad patents is bad policy. Balance is needed. The collateral damage for such a policy is to kill or otherwise damage good patents. This stunts the growth of patent based startups. Multiple reexaminations made possible by H.R. 1886 can be used as a tool by accused infringers to delay or prevent resolution of patent conflicts. Good policy is to see that the cost of licensing fees paid for bad patents should be equal to the revenues that inventors are not able to get by asserting patents on their inventions.
2. If there is a problem with bad patents, the problem should be fixed by fixing the PTO examination processes not by adding more reviews to make a Ruben Goldberg process. There are several reasons for this:
 - a. Dr. F. Edwards Deming has been extremely influential in manufacturing quality control especially in Japan which has a Deming award in his honor. The basic premise of his work is to identify and fix problems at their source.
 - b. The Administrative Procedures Act specifies the mechanisms for review (quality control) for all government agencies except PTO decisions challenged in litigation. It allows overturning an agency decision only if it is "arbitrary or capricious". While the Supreme Court in *Zurko* has held this is the standard on direct appeals from the PTO, the Federal Circuit has refused to apply this standard to decisions of the District Courts where most such litigation originates. Congress should remove this PTO exception from the Administrative Procedures Act.
 - c. Even if bad patents are issued and infringers must license them, then we suggest with rare exceptions the inventor will normally negotiate a reasonable royalty that will enable the infringer to continue profitably in business. We find the suggestion that the licensing fees would be too burdensome and so could destroy

these companies, or that the licensing fees would be too burdensome as scare tactics. Inventors will not want to create such high licensing costs as to kill the goose that lays the golden egg. Moreover, patent jurisprudence puts a cap on reasonable royalties an inventor can collect in litigation. Cases where the patent actually wants to exclude the infringer from practicing the invention are rare.

Regarding the Testimony of Mark Webbink

Mr. Webbink is General Counsel for Red Hat Software. As such, his testimony, like that of Dr. Linck, represents the view of a lawyer defending a client against potential lawsuits. In his testimony he made two major points:

1. Small companies are at a disadvantage against large ones where patent lawsuits are involved. All of the witnesses agree on this point. The concern of Dr. Linck's and Mr. Webbink is that their companies might be accused of patent infringement by a big company with substantial financial resources. The concern Mr. Theis and I have is that if we bring valid patents to the attention of large company infringers, the large companies will stonewall us and so force us into expensive and time-consuming reexamination and litigation that we can't afford. We suggest the problem is that the legal system sets up many de Soto obstacles to the resolution of disputes in patent cases. Both Dr. Linck's company and Mr. Webbink's company have over 200 employees while both Mr. Theis and my companies have less than 10 employees.
2. Mr. Webbink spent some effort pointing out that many bad software patents were issued because of prior art problems. The reason for the prior art problems is that the established computer companies did all they could to prevent software from becoming patentable in the 1960s. And so are responsible for the mess. These same establishment companies are again attempting to pass legislation that biases the patent system against independent software inventors. Yet we software inventors are asked to pay the cost of the prior art mess by having to go through additional reexaminations. This is discussed in my paper *Debunking the Software Patent Myths* that appeared in the Communications of the ACM and is appended.

Exhibits

1. De Soto diagram. This is an example of the multiple steps one must go through to legalize property. In this case it is for a house in Peru.
2. *The Economics of Deregulation*, by George Stigler
3. IPC Zurko Amicus Brief in the Zurko case. It contains the case study of 14 independent inventors suing large companies
4. *Debunking the Software Patent Myths* from Communications of the ACM June 1992, by Paul Heckel
5. Statement of Bob Meganz, author of Technology Licensing, on big companies unwilling to even respond to patent notices.

WRITTEN TESTIMONY OF PETER F. THEIS

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES, COMMITTEE ON THE JUDICIARY, SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY

Summary of the Testimony

In preparing this written testimony, and the associated exhibits, I have described specific reasons not only why HR 1886 is bad law, but to communicate a series of ideas for the improvement of the patent system so it can do what it was designed to do centuries ago and by the Founding Fathers.

The exhibits further elaborate on specific attributes of the invention process and the role of patents in the invention process.

Exhibits

1. Hypothetical Report of the Technical Committee on Considering the Telephone as an investment (author unknown)
2. The Patent Scam, from Electronic Engineering, January 18, 1982
3. Is Corporate America Destroying Innovation? (about 1992) by Peter Theis
4. Testimony of Peter F Theis before the Public Hearings on Patent Law Harmonization, October 28, 1993
5. Letter from Sam Kassatly to Judge Paul R. Michel of the Federal Circuit, December 8, 1997
6. Letter from Peter Theis to Judge Pauline Newman of the Federal Circuit, February 25, 1998
7. Article from the Chicago Sun Times about Peter Theis and his technology, June 10, 2002

About the Invention Process

The patentee inventor comes dressed in a range of suits. They range from the wanabees, those souls with ideas that don't risk taking the big plunge, to the corporate inventors, the academic inventors, and, at the other end of the spectrum, the independent inventors. It is the latter that are known for starting the small businesses, built on the lonely confidence that their inventions have commercial value.

Few inventors fall into this latter group, but those few have been responsible for much of the world's technological advancement. These people spend their own money, risking everything they have on their ideas. Most often, I would guess, they do it alone. These endeavors are generally long term projects, not measured in a few years, but often in decades and lifetimes. They have brought incredible wealth to nations—but seldom to themselves.

An invention starts out viewed by others as something that will never work. When the inventor, through individual persistence, makes it work, the conventional wisdom is "So what? Who would ever want that thing?" (The prototype is ugly, imperfect and frequently breaks down). When the invention becomes popular and successful, rather than being praised by our society, the inventor is ridiculed for inventing the obvious. "You can't patent that—it's obvious. Besides your device never did work right."

In an organization, with its committee and management structure that must decide whether to proceed and finance development of a significant invention, the new idea doesn't stand a chance. An employee of an institutions surely wouldn't push management into a risky, long term venture, consuming institutional resources because the idea could and is likely to fail—and then what? Everyone will certainly say "I knew George's idea wouldn't work. I can't believe they let him spend all that money and time." Poor George will be out looking for a job when the first cutback comes around—a cutback occasioned by the lack of new product to market.

Disparagement of the individual inventor is a major tool of the corporate entity or the associated industry trade association in defense against infringement. The cry goes up "the inventor is a rip off," "all he/she did is. . . ." The script comes right from the book. The inventor is alone, unable to toot his/her own horn, silenced because of ongoing litigation.

This is not a new or unknown story. Look at the Wright Brothers, Bell, Carlson, Farnsworth, Otis, and Damadian to mention a few names. These stories generally follow the same pattern.

New technology has two faces in the corporate community. The corporate entity with large resources either wants a new product as soon as possible, or is concerned about an invention displacing a product line with the resulting loss of market share, compounded by write-offs of obsolete equipment. The corporate entity can't solve the invention problem by going to the personnel department and hiring a contingent of

inventors. Inventors don't come packaged that way. The large corporation will either acquire the technology, or attempt to stop the invention. Either way new technology is a threat. In the pharmaceutical industry today, this is the situation being reported!

As a result, the big corporation spends hundreds of millions of dollars on research and design. One out of a hundred patents they receive for their effort will lead to a commercially viable product, perhaps. It just makes all sorts of economic sense for Mr. or Ms. tough business executive to cherry pick, to steal someone else's technology that looks promising. And when the government fails to make patents enforceable, cherry picking is exactly what happens. It makes too much sense to do otherwise. It is easier than looting a store when there is no one around to enforce the law.

A vast network of high earning, support professionals; the attorneys, the experts, the technical people, investors, management are supported by the work product of the struggling independent inventor and small businessman. Yet corporate management won't pay a fraction of what the patented technology is worth, electing instead to go out and spend billions of dollars on corporate acquisitions, of which the vast majority fail in a short period of time leaving behind inconceivable mounds of debt.

The guest of honor in the patent world is the only one paying to attend the party. The inventor is not permitted into the main banquet hall and is given only the leftovers for food. He is lucky to escape with his wallet and health. Something is wrong with this scene.

The Patent as a Scam against Small Businesses

A scam is to sell one thing, take someone's money, and deliver nothing or something of lesser value than promised. Independent inventors/small business persons are accused of being scam artists, ripping off big, helpless corporations. But it is the inventors that are being ripped off. Patents today are a governmentally sponsored scam just as the editor of the *Engineering Times* asserted in 1982 (Exhibit 2). The inventor pays the fees for the patent, the bargain being that if the inventor discloses the invention and brings the invention to life, the government will give the inventor a period of exclusivity to develop and commercially exploit the idea.

The inventor acts based on the deal, and as part of the bargain discloses in fine detail the workings of the invention. But when the first large entity or industry steals the idea, i.e. breaks the law, where is the government? The infringer rationalizes breaking the law by decrying the inventor as a sham. And the pattern is followed just about every time. That is a scam that makes the fraudulent patent marketing firms look like saints in comparison.

There has been no consistency in patent protection. In the space of twenty years, the life of a patent, patents have gone from having no value, to being honored (as a result of change in the patent law in the early 80s), to today, where a patent killing amendment is being considered by this Committee.

In furtherance of the scam, the patent system, in the real world today, is an attack directed principally at small businesses. A knowledgeable inventor will assert infringement only against small companies that either can't afford the cost of litigation, or can't tolerate having attorneys rummaging through all their engineering drawings in the process of discovery. They are more likely to settle from a pragmatic standpoint, regardless of the justice, and get on with business.

The large corporation, with banks of attorneys and corporate minions, can withstand the assault and keep the drawbridge up for years on end, outlasting the inventor who dares to challenge.

A smaller company when faced with litigation might promptly be forced to settle for more than can be afforded. But for the larger corporation there is public outcry that the royalty is absurd. It is "absurd" because the large corporation has dragged out the litigation for so many years while freely infringing. That is not absurd. It points out the absurdity on not having a system where an injunction is a practical reality.

And the big corporation with its portfolio of junk patents also goes after the smaller company—particularly if the smaller company is pushing its way through the ranks competitively. The cost and time fighting the large corporation is overwhelming. The small business loses either way, and the large corporation knows it. Stay small and off the radar screen, unless you are big enough to have the reserves to fight.

Changing the patent laws at frequent intervals, either through the courts or the legislature, can not be condoned and compliments the scam. The inventor and small businessman have to make long term decisions. A change in the law should not change the terms of the agreement with the government. The patent game should

not be a lottery, as the courts and the legislature have made it, subject to decisions based on windows of opportunity.

So what does our government do for the inventor other than take in revenues? Does it do any checking to see how the patents issued stand up in court? No. Does it help the inventor to make sure the patent is sustained? No. Does the PTO know what percentage of its patents fail? No. The government takes no interest in the quality of their work product. The government does nothing to keep its side of the patent bargain.

Why have a Patent System at All?

If this government does not want an effective patent system, kill it. Don't pussy-foot around with a bill such as HR 1886, touted as a Reexamination Act, a thinly veiled killer amendment.

If the government wants an effective system, maintain it based on a set of laws that have evolved in this country over a two hundred year period. Start with a legitimate appeal process.

If the government wants to make patents enforceable and cut out the litigation, restore the period of time for the exclusive use of an idea by the inventor. Copy-rights are entitled to an exclusive period. Why not inventors? It is the injunction that is the ultimate enforcer of patents, not the damages.

If you want to promote technology and innovation, build the system so the inventor can continue to do what he/she does best while the dispute continues, rather than the current system where the inventor is caught in a never ending stream of litigation, with no end in sight, that threatens the bread on his/her table.

HR 1886 is fundamentally flawed.

1. HR 1886 is being promulgated to protect a company that is accused of infringement, to the disadvantage of an inventor trying to protect his property rights. The best way to help an infringer is announce that there is no patent system. Make it a public announcement rather than burying the patent system surreptitiously.
2. HR 1886 lets an infringer run the clock on the inventor's patent at low cost without any real threat of an injunction or monetary losses. That is very one-sided.
3. HR 1886 reduces the expense of defending a patent challenge. The value of a license, without the threat of an injunction, can be no more expensive than the cost of litigation. It slashes whatever reward expectation the inventor had expected.
4. HR 1886 fails to empower the PTO. If a third party selects the PTO as the forum for a reexamination, that third party should be stuck with the PTO. The PTO has its own appeal procedure. Why should the Federal Circuit, with all its recognized flaws, hear an appeal when that court has little or no knowledge of the industry, the technology, or the terminology? If the infringer does not want the PTO to make the determination, then the infringer should go right to the district court.
5. The Federal Circuit does not represent justice. They liberally rule using up/down or the unpublished, non precedential decisions. The per curiam designation is added so no one judge can be faulted for writing a lousy decision. The lack of judicial responsibility by the Federal Circuit is at the heart of our patent crisis.

Conclusion

The reason the system fails today is because of the inconsistency of its judiciary and lack of resolve to enforce the existing law that has withstood the test of time. For a district court judge, a summary judgment motion gets patent litigation off the docket—regardless of whether the decision has any legitimate basis. That decision to dismiss is supported by the Federal Circuit notwithstanding the law. Judges don't like patent cases, and the Federal Circuit doesn't like overturning the district court judge. That practice must be stopped.

This never-never land of the judiciary discourages the patent bar because there is no correlation between having the law and the facts on your side and a favorable decision.

Compounding the problem with the judiciary is the vacillating law. For example, if we knew today that the standard for the on sale bar would be the standard for the on sale bar tomorrow, and the appeals court would have to enforce that standard, the whole system would run smoothly. There would be winners and losers, but it would be predictable and everyone would know where they stood.

Chaos creates chaos. That chaos hurts everyone, the inventor, the alleged infringer, the small business, the public and the PTO. The beneficiaries are the lawyers, experts, and major infringing corporations with unlimited funding.

If the government is going to kill the patent system, kill it. The world existed a long time without a patent system right up to the end of the middle ages. We can go there again and survive. If the government is going to kill it, kill it and let the public know. Don't play word games—unlimited reexamination and never ending appeals. Be honest.

If the government believes this country is best served with a patent system, one that is equitable, make it understandable, consistent, and hold the judiciary's feet to the fire. Legislate that the PTO must keep records of how their patents fare. Authorize the PTO to report back to this committee how their patent issued perform, and why they don't perform. Accountability and feedback will solve many problems with the patent system today.

The system should be a closed loop, where there are checks and balances, and the checks I am talking about are not the tax checks written by the inventor, and the balances not the monies transferred from the PTO to the general fund. The checks and balances should hold all decision makers to public scrutiny, not just the inventor from some small town somewhere that risks everything daring to challenge the powers that be.

Exhibit 1

Date: April 1, 1877

Subject: Report of the Technical Committee on considering the Telephone as an investment.

1. The Telephone is so named by its inventor, Mr. A. G. Bell, who sees for it a vast future as a means of personal communication by voice. He believes that one day it will be installed in every residence and place of business.

2. We note that Mr. Bell's profession is that of a voice teacher, and especially a teacher of the deaf. He appears to have no direct experience with the telegraph or any other form of remote communication, electrical or otherwise. Yet he claims to have discovered an instrument of great practical value in communication, which has been overlooked by the thousands of workers who have spent years in the field.

3. Mr. Bell's proposal to place his instruments in almost every home and business house (and this is the only way in which their potential may be realized fully) is fantastic in view of the endless wires and cables that would be demanded. The central exchanges alone would represent a huge outlay in real estate and buildings, to say nothing of the electrical and mechanical equipment.

4. Mr. Bell expects that the public will use his instruments without the presence of trained operators. Any telegraph engineer will at once the fallacy here. The public simply cannot be trusted to handle technical communications equipment. In any home where there are children, to mention only one point, there would inevitably be a high rate of breakage and frivolous use of the instruments. Furthermore, when making a call, the subscriber must give the desired number verbally to a central station operator. No one on this committee would like to be that operator and have to deal with persons who may be illiterate, speak with lisps or stammers or foreign accents, or who may be sleepy or intoxicated when making the call.

5. While every telegram constitutes in itself a written record of what has been communicated, Mr. Bell's instrument uses nothing but the voice, which cannot be captured in any concrete form and, therefore, there would be no record of what was said or agreed upon. We leave it to you to judge whether any sensible man of business would transact his affairs by such a means of communications.

6. Mr. Bell expects that the subscribers to his service will pay to have the instruments installed in their premises and will thereafter pay for each call made, with a monthly minimum even if no calls are made. We feel it very unlikely that any substantial number of people will agree to any such arrangement, in view of the telegraph offices which are now giving efficient round-the-clock service in every neighborhood and in the smallest towns, and which charge only for actual messages sent, according to length.

7. In conclusion, this committee feels it must advise against any investment whatsoever in Mr. Bell's scheme. We do not doubt that the Telephone will find a few applications in special circumstances, such as between the bridge and engine rooms of a ship, but any development of the kind, and on the scale, which Mr. Bell so fondly imagines is utterly out of the question.

(author unknown)

Exhibit 2

The Patents Scam

Leaders of industry are always telling us how important it is to encourage small high-technology companies. We have to encourage these companies, we're told, because they father the daring inventions that impact society and help our industry move ahead. They're the embodiment of American ingenuity and the great American spirit.

Now that we've unfurled the old speech, let's see what really happens. Not every time, of course, but too frequently, the scenario would hardly encourage the great inventor who doesn't have an abundance of cash.

An inventor, let's call him Jack, comes up with a great idea—or maybe one that's commercially viable even if it's not so great. So he applies for and (in time) is granted a patent. Now he's protected against unscrupulous guys who might swipe his hard-won idea. Right?

So he starts manufacturing his patented thing. Or he looks for a potential manufacturer. And one day he finds that one of the nation's great corporations—one of the pillars of our industrial community—has just gone into production with his design—identical down to the last dot on his patent.

When Jack visits the infringing company, he finally gets to an executive willing to spend some of his valuable time educating him: "Well, yes, it does look a lot like your design. Yes, our boys in engineering probably did see your patent application. Yes, you probably could sue us for patent infringement. But we have dozens of attorneys with just nothing to do. And we'd like to keep them busy. If you could hold out for five or ten years, it's possible that you might win this patent-infringement suit. But what did you say was your total net worth?"

Or Jack might be more fortunate. Nobody swipes his design. But one company is really interested in his patent. Jack visits the man in charge of these things and learns that, of course, the company can't shell out hard cash for a design that may not prove to be a success. Nevertheless, in return for exclusive rights to the patent, the company is willing to grant Jack royalties on products sold using the patent for the next x years.

A terrific deal for Jack. He has invested no capital, yet, through the sheer weight of his inventive genius, he's going to get a financial return. The American dream in action. Right?

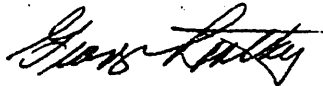
Meanwhile, the company now owns a patent for which it has paid zip. It has the financial muscle to keep other companies from using the patent. There's no urgency about using the patent, so the company can wait, if it likes, perhaps for x years—when it's entitled to free use of the patent, per agreement with Jack.

But what happened to patriotism? To the great American dream? To the American way of life? To progress? To improving the American position in world competition? To encouraging entrepreneurship and innovation?

Well, that's good for speeches, you know. (Wink, wink.) But anybody who doesn't use The Law to help him earn a buck ... he's un-American.

ELECTRONIC ENGINEERS

1/19/82



George Rostky
Editorial Director/
Associate Publisher

Exhibit 3



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IS CORPORATE AMERICA DESTROYING INNOVATION?

Our country's corporate policy on innovation is a tragedy, for which the American executive is solely responsible. Through their neglect of true innovators and through their disregard for the patent process, these executives have jeopardized any hopes that our country has for technological leadership.

Despite the seemingly constant arrival of different technologies, truly new commercially viable technologies and the people who create them are rare. With limited supply, and a universal demand, the value of new technology is extremely high. In fact, in 1987, Robert Solow won a Nobel prize for showing that technology is more important than capital for economic development.

Protected intellectual properties can be one of the largest single groups of corporate assets, yet, they are not reflected on today's corporate balance sheets. Consider the value of Chester Carlson's patents to Xerox, or the Land patents to Polaroid, the auto-focus patent for which Honeywell just received a \$96 million award, or the hundreds of millions of dollars Texas Instruments receives annually in licensing fees alone from their patent portfolio.

The pharmaceutical industry understands these truths. Their stock prices reflect the effects of enlightened management outlook. Recognizing the value of the patent, they buy licensing rights and work with small companies that have patented technologies, as well as negotiate internationally in patents. Further, this industry recognizes that all advanced technologies do not come from their own research labs, and see significant value for technologies regardless of the name of the inventor, the size of his facilities, or where he is located.

BEST AVAILABLE COPY

The patent system allows patents to be freely transferred, and consequently, patented new technologies can be like money to the owner. Unlike trade secrets, patented technologies can be brought out into the open for the whole world to build upon and improve.

In 1991 there were 96,514 U.S. patents issued, the second consecutive year that the number of patents issued decreased. Of those, only 53 percent were issued to American individuals or corporations. That includes all American industries, all universities, everyone. Further, this percentage includes the few pioneering technologies, and the myriad of small improvements.

Unfortunately, leaders of America's blue chip companies, as a whole, fail to understand and respect the role of the patent and its future value. It is easier for these companies to understand that new technologies can be stolen more easily than robbing a store. They mistakenly believe that theft is cheaper. The corporate giants take the patented idea simply by reading the patent, or by seeing, buying, or using a product utilizing the new technology. Since most patents never result in commercially viable developments, these companies can wait for the technology to have proven commercial value. This is often referred to as "cherry picking".

These giants give lip service to new technologies. On one hand they are spending billions of dollars in research and urging that everything possible resulting from the research efforts be patented. The research dollars spent per patent average in the tens to hundreds of millions of dollars. Yet, in spite of that effort and expense, the number of patents issued to U.S. companies has not increased significantly over the past few years.

The blue chip firms covet the patents issued to them, giving the employee inventors a gold watch and praise in the employee newsletter. They then aggressively address the business opportunities utilizing the technology. But when a patented new technology is presented to them from an outside source, they turn immediately to patent counsel.

If they are not already using the idea, they send a standard form letter to the inventor outlining their disinterest, hoping that will close the file. If they are already using the technology, they require that a suit be brought "to show that the inventor is serious" (how about that for logic?).

The logic is that the small business can not afford to bring suit. The independent inventor to corporate America, unlike an employee, is considered an opponent rather than a valuable resource. The corporate knee jerk preference is to pay the attorney, rather than the inventor. These corporations know the independent inventor must acquire a million dollar plus war chest to bring suit. A common practice among many patent lawyers is to deplete the inventor's funds in legal fees, causing the dispute to disappear. That, to the American executive, is the corporate American way of life.

The result, however, is that America shoots itself in the foot and kills the incentive of the small businessman and independent inventor to innovate.

Corporate America misses the point of the entire patent system. Patents are designed to encourage invention. In fact, the National Science Foundation reports that small firms produce 24 times as many innovations per research dollar as the largest firms. Ideas that the large firm could not even test market, the small firm or independent inventor will risk developing and bringing to market. When recalling the last significant invention from

AT&T's Bell Laboratories, many people often cite the transistor, invented some 40 years ago. Then consider the additional research dollars spent in the field of telecommunications by Northern Telecom, Siemens, I.T.T., Alcatel, Ericsson, or Bellcore, to mention a few names, and the recollection of their significant inventions is not much better.

Historically, virtually all pioneering developments in communications, for example, have been invented by the independent inventor and small business, including the semaphore, the telegraph, the telephone, radio, laser, and today's voice technologies. It is a sad commentary that today's American telecommunications giants fail to license or respect patented technologies they are using and that are owned by others.

This is happening in other American industries as well. Consider the following names: Kearns, the inventor of the delayed windshield wiper; Hyatt, the inventor of the microprocessor; Gould, the inventor of the laser; and Hall, the inventor of the waterbed. These small business inventors were all forced by American industry to go through lengthy grueling litigation spanning and consuming some of the inventor's potentially most productive years. What would these progressive individuals have invented if they were encouraged, rather than being discouraged by American industry's policy regarding outside innovation.

Any salesman or marketing person will contend that the customer is the fountain from which ideas for the next products come. That is why it is inevitable that people who use the telephone, some 250 million users in the United States alone, will come up with new ideas. The telephone industry, as any other industry, be it automobiles, consumer goods, computers, or whatever, should look for those new ideas from customers, and not be embarrassed because the technology was not invented by their own corporate research.

Through their adversarial legal policy, corporate giants hinder future innovation from the pioneer. They throw millions of dollars to the lawyers, as well as waste precious hours of their own executive, engineering and development time in destroying the small business inventor with unnecessary litigation. They know that time, money and business disruption for a small business to bring suit can virtually destroy that small company's ongoing business.

But as to the corporate patents, those will be enforced because they have unlimited dollars and resources. And they will be particularly aggressive and ruthless against the small company. The patent system cannot operate as a one way corporate street, or American will certainly lose out because of corporate greed.

The independent inventor typically risks several thousand dollars of his own after tax dollars to file for a patent application. He puts at risk several years, or a lifetime of activity, working under the same economic rules as the corporate executive. If he doesn't get a return, he will not reveal or develop the next device or improvement, causing all parties to lose.

Consider the foreign interest that acquires those patent rights. What if only Japanese cars had delayed windshield wipers or Minolta had acquired the xerography patents? What if Fujitsu purchased rights to the microprocessor, or if Leica had acquired the rights to the instant camera? This in fact is what is happening to today's new technologies that are leaving America.

Where would we be today if the Beatles only produced one song, if Edison had been discouraged after his first patent, if Western Union's attorneys had succeeded in having Alexander Bell's patents declared invalid?

In order to see innovation continue and succeed, licensing opportunities must be first reviewed for business development, and secondly by patent counsel. American industry must look at patent notices on products produced by small business and work with those companies, rather than seek to destroy them. Lastly, the financial market must become sophisticated enough to place a value on patents as assets.

When will American industry wake up to the value of intellectual property and outside inventors as a corporate resource? Hopefully, it will be before technology, and its associated economic development and jobs, flee America.

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This editorial was written and submitted by Peter Theis, Theis Research, Inc., Gurnee, Illinois.

A pioneer in the voice technology field since 1968, Mr. Theis holds 16 U.S. patents, of which 15 are currently in force, and 14 foreign patent all covering a broad range of commercially important technologies including voice mail, automated operator services, automated attendant, transaction processing, audiotext, speech recognition, and others.

Exhibit 4

TESTIMONY OF PETER F. THEIS

PUBLIC HEARINGS ON PATENT LAW HARMONIZATION
OCTOBER 28, 1993

Section 1

Personal Introduction

My name is Peter F. Theis and I am from McHenry, Illinois. My views are presented from the perspective of a CEO of several entrepreneurial companies, as a prolific inventor, and based on my experiences working with, licensing and litigating patents against large corporations.

I graduated from Yale University with a degree in Electrical Engineering, have a Masters Degree in Business Administration from the University of Chicago, and Doctorate in Law from the Chicago Kent College of Law, Illinois Institute of Technology. I am a member of the Illinois Bar and a non-practicing attorney.

I have well over twenty U.S. Patents issued, allowed or pending in fields such as voice processing, packaging, camping, telephone communications, turbines, and automobiles. Many of my patents have been developed into commercial products.

In 1968, after being engaged in the computer business for the first decade of the industry's infancy, my partner, Bob Morgan and I entered the telephone answering machine business. 1968 was the year the Carterfone decision enabled non-telephone company provided devices to be connected to the telephone line. In the early 1970s, I was a member of the FCC Answering Devices Subcommittee which helped pave the way for direct connection of telephone equipment to telephone lines.

Today, one of the companies I founded and of which I was President, Conversational Voice Technologies Corporation of Gurnee, Illinois, is a technological leader in voice processing services and is a licensee of my technologies.

In 1991 I founded Theis Research, Inc., also in Gurnee, Illinois, a company engaged in research, development, technology licensing, and consulting. I granted to

the company an exclusive license to fifteen patents (our attached brochure explains the patents). A significant effort was made by Theis Research to license patented technologies to the telecommunication industry leaders on a business basis.

Octel Communications Corporation sued Theis Research in April, 1992, in San Jose, California for a Declaratory Judgment to have certain of the patents declared invalid, unenforceable, and not infringed by Octel. The California suit resulted from Theis Research's charge (not suit) of willful infringement against Ameritech made in Chicago, Illinois.

The litigation initiated by Octel has now expanded to include willful infringement charges of six patents against Bell Atlantic, Pacific Telesys, Northern Telecom, Octel, Tigon Corporation, Boston Technologies, and Digital Sound Corporation. AT&T is also involved. Trial as to Octel, Northern Telecom and Boston Technologies is scheduled for January, 1994.

The attorneys fees and expenses for this litigation, I would anticipate, will be well into eight figures. Literally dozens of small businesses could have been started for the same investment. A minuscule portion of those fees would have paid for broad international protection for my patents, implemented all of them, and financed additional applications for ideas not yet disclosed.

Because of ongoing litigation, which, in one form or another, may continue the rest of my life, I must restrict my comments about the patent system lest they be mischaracterized and taken out of context by opposing litigants. I no longer have the same freedom of communications as I enjoyed prior to litigation.

Section 2

The Purpose Of The Patent System

The issue being addressed is whether to maintain the current First to Invent procedure, or adapt the First to File rule. The importance of maintaining the First to Invent concept is self-evident, and obvious if we step back and consider, in a broad context, the objectives of the patent law. Equally clear will be how destructive the alternative First to File rule would be.

My comments are founded on the objectives of the patent system. I will review the failings of the current *modus operandi*, and suggest improvements to the patent system based on my experiences. A conclusion favoring First to Invent is based on these insights.

a) Beneficiaries Of The Patent System

Many will erroneously suggest that the principal beneficiary of an effective patent system is the inventor, or the inventor's company.

Such is not the case. *The beneficiary of the patent law is the public!* The public in industrialized societies has recognized for hundreds of years that to receive the benefit of new technologies, the inventor must be motivated to perform incredible development work; to incur a high risk investment, and to spend what is often a lifetime of effort in order to bring a new idea or product to market to benefit the public.

There are not many inventor entrepreneurs. A company can't go to the employment agency to hire "an inventor" as they would an engineer or accountant. *Yet the contribution of the inventor to society and to its standard of living is extremely disproportionate to their numbers.* The very reason the public grants a patent is to motivate those limited number of inventors to pursue their inventions, regardless of the odds.

Inventorship is a very fragile career. Ordinary people who become inventors often oppose conventional wisdom. Their ideas, which have public value, can be lost to the public because of discouragement, disparagement, insecurity, finances, and disinterest, to mention just a few of the possibilities.

Changes to the law, therefore, should be made with the ultimate objective of *motivating those limited numbers of inventors to do whatever is necessary to make available to the public new and useful products or processes.* Our patent law is not a patentes benevolent law. It is a public benevolent law!

It follows that anything done to diminish that motivation, diminishes the public benefit. The proposed First to File law diminishes that motivation substantially.

b) Adversaries Of The Patent System

It must be recognized that new technology challenges and frequently destroys the status quo. It can destroy the value of an entrenched investment and power base. The telephone displaced the telegraph, airplanes displaced the trans-Atlantic passenger liners. Even today, Marconi's wireless invention is challenging the wire telephone industry. Since before the days of Galileo, (who, incidentally, also held a pat-

ent) existing powers have sought to destroy or control new technologies lest they themselves be pushed into oblivion.

Such is the nature of mankind as evidenced by history. No law will change that. The law must recognize and take this unfortunate characteristic of human nature into consideration. In considering the proposed patent law revisions, it is particularly important that it be recognized that *existing powers will seek to suppress both new technology, and the inventor* if either threatens their business interests. *Financial strength is the principal weapon of the entrenched power base.*

Prior user rights provisions such as proposed specifically benefit and protect the existing powers should alternative efforts to suppress an invention or inventor fail. The large, well funded corporation can dabble in all fields, adding little to none. By being able to claim prior user rights, the corporation can cherry pick those inventions which achieve commercial success. The large corporation can then step into the market at the time of their choosing, and introduce second generation products at lower cost than the inventor entrepreneur because it doesn't have either the original development investment, or the cost of failed attempts - the unripened cherries. *The real inventor's investment in pioneering development and bringing the invention to the public attention will be lost.* Would you, the reader, invest in a company pioneering an invention if a major corporation could scoop the company after the product became a success, claiming prior user rights? Clearly, a rational investor would not invest in a product development under such *uncertain* conditions.

Section 3

The Patent System Objectives

Does the U.S. patent system accomplish its objectives? Three questions will spotlight the unfortunate answer:

- A. Would you knowingly take cars from a dealer's showroom without payment?
- B. Would you knowingly reproduce and sell copies of a copyrighted newspaper without a license?
- C. Would you knowingly make, use, or sell a product patented by another without a license?

Most people would answer the first two questions with an unqualified NO. Appropriating property and written materials is against the law and against common morality. Just look at the notice and warning statement next time you rent a video movie!

The answer to the third question manifests the failure of the U.S. Patent system. Responses generally would include "It is all right as long as we do not get caught", "We can beat them in Court", "We'll see if they will defend their patent turf" or "We'll just ignore the inventor."

In fact, corporations take pride in litigating to show that, through litigation, "the inventor could not sustain his patent" against insurmountable legal costs and obstacles and extended years of litigation. Legal issues argued are often not whether the other party was the inventor, but whether, because of the inventor's independence, he followed legal procedures - legal procedures that are sufficiently vague and subjective that neither patent lawyers nor the courts are consistent in their opinions. Victory is dependent on the primitive concept of who has the largest army of soldiers/lawyers. Victory is dependent on whether a larger hourly fee can purchase brighter lawyers. Victory is dependent on the continued experience of the infringer beating down the inventor. The inventor has only one chance and there is no opportunity for gaining experience.

The inventor who doesn't protect his invention in court is disdained by the very industry that builds on his invention. When an inventor seeks to protect his patent rights in court, his inventions are discredited as "obvious", "primitive", "you can't patent that", "we are more sophisticated" and the inventor is publicly called a fraud, "not the real inventor" "holding up the industry" "deceiving the patent office" and generally considered a despicable character. This is the notoriety that greets an as-serve inventor.

The patent system is not working as well as it could. If changes in the patent law are being considered, they should strengthen the system, and not denigrate it as the First to File amendment would do.

One of the tragic consequences of the failings of the patent system is that no one ever recognizes what has been invented, but not pursued. Consider what the world would have lost if Edison had given up after his first patent, or if Cole Porter's first song had been taken without compensation and he had given up writing anything more. The public is consoled only by its ignorance of what it has lost.

Section 4

Costs of a Weak Patent System

The patent system was substantially strengthened in the early '80s when the CAFC was created to increase the certainty of the patent law. In some of the most successful industries, such as chemicals, pharmaceuticals, and bio-tech, it has fostered a licensing industry, where licensing agreements are negotiated by businessmen, not lawyers. It has fostered a world wide trade in technology. The industry of patent licensing is only possible where the patent laws and corporate morality give a patent a high degree of certainty of being upheld.

a) Cost: Innovation Decreases

Innovation decreases with a weak patent system. Because innovation feeds other innovation, a single invention can result in multiples of additional inventions by others. The rate of inventive loss as a patent system weakens is, therefore, geometric.

High levels of research and development are only possible where the fruits of an investment can be protected at a cost an enterprise can afford. As the cost of protecting patent rights increases, the value of developing new ideas is diminished. Development of an increasingly greater number of new ideas becomes economically unfeasible. Management makes a choice between developing a new technology on one hand and additional marketing of existing technologies on the other.

If the fruits of research and development investment can not be protected, the only logical decision is to spend available dollars on marketing existing products, and leave the research and development to the competitor. The competitor will reach the same conclusion. Everyone will wait to cherry pick the lucrative idea, but the crop of cherries will get smaller and smaller.

b) Cost: International Patent Rights Are Lost

International patent protection is not sought, or defended, because the inventor is forced to spend his funds to fight other Americans in court. Moneys used in litigation could be better used to protect domestic technology from being appropriated for the international marketplace.

For a small entrepreneurial firm, domestic survival is the highest priority. If funds can not be acquired by licensing domestically, or are spent in litigation, prosecuting international patents becomes impossible.

c) Cost: Domestic Patent Rights Are Lost

When foreign companies license American technology, those license fees fund American inventors litigation against American companies. And the American companies, when the litigation is finished, will pay higher royalties than the foreign firm did for its early voluntary license. If an American patent is defeated by an American infringer, a foreign competitor gains a royalty free license for the American turf, without incurring any expense or disruption, thanks to his American competitor funding the litigation.

d) Cost: Additional Inventions Are Lost

The inventor is the leading expert at the time of his invention. A weak patent system does not motivate him to make further inventions and to develop his ideas.

The inventor entrepreneur who lacks the necessary funds can not develop additional inventions when his past technologies are being taken without compensation. When subsequent inventions are not disclosed, the public does not benefit from the foremost expert in the field at the time, the original inventor. Additional expertise is not created by others building on the invention.

e) Cost: Inventions Become Trade Secrets

If the public patent disclosures can't be protected because of prohibitive cost, there is no logical reason to obtain a patent. Ideas will be kept as trade secrets. The public will be denied access to the know-how. The proposed revision of the patent law with its prior user rights, promotes the incentive to maintain ideas as trade secrets. *As a result, others can not independently build on those undisclosed ideas. The public has no opportunity to improve on those ideas. One of the principal patent objectives, technology disclosure, is lost.*

As Norbert Wiener said in his book, *Invention, The Care and Feeding of Ideas*, "The primitive manner of holding an invention for exploitation is for the inventor to exploit it as a secret, or to hand his secret over for a price to his master or another craftsman. The patent originally came into existence as a method of combating this secrecy." (Chapter 10, Page 127). Thus, any change that fosters trade secrets at the expense of patents is a step backward in civilized history.

f) Cost: Resources Flee The Industry And The Country

Inventors leave their field of expertise when their ideas can't be protected and they can't be compensated. They go where they will have success and be compensated. Ultimately the industry languishes.

Internationally savvy inventors do not disclose their ideas in countries where patent rights can not be protected.

Section 5

The Inventor Is Poorly Motivated

a) Motivation: Time From Invention To Reward Is Too Protracted.

The time lag between when the inventor makes his invention, receives his patent, successfully commercializes his patent, and is rewarded is too protracted if the compensation is received through litigation.

When the inventor entrepreneur finally receives a monetary award through the courts, he is too old, too discouraged, and too cynical, because of litigation, unending discovery and disparagement, to motivate him to do more. He has passed his prime. The fun of inventing does not leave of its own accord, it is beaten out of him. The monetary compensation is not received when the inventor has the enthusiasm, youth, focus, intensity, need and driving force to rapidly expand his technology base.

Voluntary licensing could decrease the time lag by years!

b) Motivation: Court Awards Do Not Flow To The Inventor

The inventor is not the principal beneficiary of court awards in most cases. Even a 40% contingent fee with the inventor paying all expenses doesn't encourage many lawyers to enter the patent litigation arena. The inventor has an almost impossible task financing a million dollar or more war chest for experts, travel, and other litigation expenses. Often the inventor gives up substantial, if not the entire equity in the patent to obtain such funds (if he can obtain the financing at all).

Who benefits from the court award? The portion the inventor gets after attorney's fees, expenses, the cost of raising capital, taxes must then must be reinvested to defend the next Declaratory Judgment Action, or protect voluntary licensees from non royalty paying competitive infringers. The inventor that has really been through it emotionally, financially, socially, and has risked everything over a lifetime, often is not the principal beneficiary of the court award. He may wind up the one person holding an empty bag.

c) Motivation: Litigation Disrupts The Inventive Process

To the inventor entrepreneur, litigation is a strange and foreign universe. The world of physical logic disappears and is replaced by esoteric hyper arguments haggling over the meaning of individual words and legal details. This is a foreign language to the inventor, particularly the inventor with an engineering or scientific background. The inventor looks to the future in a speculative framework, concentrating on perfecting an idea in a physical and commercial world. The lawyer is looking backward in time, referencing his work to a known procedure (court decisions), and practicing the non-physical art of debating why someone did or didn't do something *in years long past*.

The time requirements of litigation on an inventor are very substantial. Often the requirements are unscheduled, or the schedules are changed with little notice. The financial resources are difficult or impossible to plan. As a result, litigation disrupts and delays development of ideas already disclosed, not to mention prosecution of new inventions. Litigation is threatening to the inventor, chilling his creative abilities.

d) Motivation: Capital Flees An Inventor With A Patent

Capital does not seek out businesses with a patent portfolio. A company with a capital base of a million dollars for production, inventory, etc. (and that is a large initial capitalization for a small firm) can see this entire amount consumed with one patent suit, a suit the company may not even commence. Litigation can consume the available time of principal officers and employees of the company. A Declaratory Judgment action can be used by a larger company to drive a small company out of business because management of the smaller company doesn't have time to both manage the business and litigate.

Under the current patent law, an inventor entrepreneur with a patent portfolio is set up for disaster because he can't afford to defend it. Both the capital markets and the larger competitors know this. The public, whom the patent law is designed to benefit, will then be denied, by the infringer, the advanced technology.

e) Motivation: Federal Procurement Promotes Infringement

The Federal government fosters infringement. Our government procurement process bids patented technology without notifying bidders that the product or process being bid is patent protected. This government activity invites others to infringe. As a result, a knowledgeable inventor does not go to the government with a new idea, even if it is patented.

The government procurement process could be used to promote voluntary licensing by bidders.

f) Motivation: A Patentee Can Not Communicate His Invention

The theoretical advantage of disclosure that a patent gives to an inventor, as contrasted with maintaining a concept secret, is that the invention can be communicated freely. The inventor should have the freedom to discuss the idea with a potential licensee or place a product on the market with a degree of comfort that it is patent protected and will not be stolen. The patent should convey the necessary protection to foster communication of ideas. *Freedom of communication of ideas is a fundamental objective of the patent system.*

Unfortunately, this is not how the system works, and I know first hand. For example, visiting a company in another state to explain or develop interest in a new technology can subject the inventor to litigation in that state's jurisdiction. The company can sue for a Declaratory Judgment on its home turf, and have a substantial benefit as to costs, expenses, and the home town jury.

g) Motivation: Litigation Terminates Voluntary Licensing.

Licensing activities as to all parties are substantially terminated when one infringing party brings suit. *Subsequent licensing is based on threat of suit, rather than the transfer of technology.*

Because of litigation, the inventor can not promote his technologies as it may prejudice the court in that litigation. Anything the inventor does or says can be twisted and used against him by the infringer. The inventor has thus been barred from communicating with the outside world in his field of expertise. If his funds are limited, he is barred from even visiting a potential licensee for fear of receiving a second Declaratory Judgment suit. He could be put out of business with a second suit.

h) Motivation: A Patentee's Strategy Is Not Protected

Once litigation starts, licensing is done in a fish bowl because all licensing negotiations become discoverable in that litigation. Business plans, discussions with experts, everything effectively becomes known to the opposition, the infringers: memos, thoughts, planning, alternatives, finances. Everything! Infringers can be a licensee's major competitor and find out in discovery everything about the licensing negotiations and strategies.

Because there is so much strategy involved in effective licensing, and confidences are shared between the parties, licensing activity is substantially impeded where the patentee's and licensee's innermost negotiating considerations are subject to discovery.

i) Motivation: The Infringer Controls The Patentee

Voluntary licensing as to all potential licensees is substantially hampered, and perhaps virtually impossible, once any one single party begins litigation. It becomes difficult or impossible for the patentee to arrange strategic alliances, and to negotiate win-win licensing deals because of the inability to freely communicate with prospective licensees. A single infringer has controlling power over the inventor!

Section 6

Improving The Patent System

a) Recommendation: Increase Patent Certainty

The patent system objectives can be better met by increasing the certainty of the validity and enforceability of patents.

The alternative, increased uncertainty, is correlated with additional legal expenses, increased litigation time, and the increased risk of having a patent asset invalidated. Large corporations operating in disregard of the patent system specifically want patent uncertainty. The greater the uncertainty, the greater the probability that the inventor can be depleted of financial or emotional resources, if not the first time around, then through repeated and subsequent efforts.

Because the First to File amendment contains an exemption for prior user rights which may be unknown to the inventor, or may be conjured up as an afterthought

by the infringer, there is increased uncertainty for the patentee. *First to File goes the wrong way!*

Because the First to File amendment promotes hurried, incomplete, inadequate and multiple disclosures, there is increased uncertainty for the patentee. *First to File goes the wrong way!*

b) Recommendation: Favor Voluntary Licensing Over Litigation

The public interest is best served by bringing parties to the bargaining table as a first step. Litigation should only be a last resort. Needless to say, this is the opposite of the current system.

To encourage licensing, even after litigation against an infringer has been commenced, licensing negotiations should have privilege similar to the attorney client privilege and not be discoverable by an infringing litigant, absent a clear showing of fraud. The inventor should be able to do his own negotiations. He should be able to be his own salesperson. Once litigation has started, the inventor can know the industry, know his patents, can be the "businessman" in the equation, but the attorney, who may neither understand the industry or the patent portfolio, becomes the required licensing agent.

A legitimate licensee businessman (not the licensee's attorney) often would prefer not to deal through a third party, i.e., a lawyer. However, prudence requires that inventor's personal involvement in negotiations be avoided because of ongoing litigation. The businessman licensee, interested in technology transfer, can not relate to the constraints placed on an inventor engaged in or fearful of litigation.

c) Recommendation: Encourage the Inventor To Pursue Inventing

From the time an inventor conceives of an idea, to the time the idea is operational can span several years. An invention starts out with a lot of thought and research. The question "Why hasn't someone else thought of this if it is such a good idea?" need be answered by the inventor. All the alternatives as to why it will not work need be evaluated. Financing needs to be arranged. The first physical iteration of the idea probably will not work. There is always "one more bug". The inventor entrepreneur is working on a shoestring, possibly has another job that must be maintained, and is risking all. He will not be rushing to the Patent Office as fast as the large corporation that subsequently hears of the idea, possibly because the inventor is seeking to determine if there is commercial value to his idea, a *fact that may be already recognized by the large corporation because they are in the business.*

If the inventor is the party to be motivated, the First to File law motivates the wrong party. In fact, it benefits the copyist. First to File benefits the party with the existing lawyerly knowledge of the patent laws and overwhelming financial resources at the expense of the inventor entrepreneur.

d) Recommendation: Favor Invention Disclosure

The First to File statute, as proposed, benefits the party that maintains trade secrets, at the expense of the inventor that has made full disclosure. Others can not build additional inventions based on a trade secret because it has not been disclosed. On a patent they can.

Note: If there is a concern for the infringer who has used the invention commercially but as a trade secret prior to the patent being issued, then that could be resolved through a mandatory license for a prior user with royalty payments.

e) Recommendation: Encourage Complete Patent Applications

The patent law should not encourage the expense or the burden to the Patent Office or the inventor of applications that will not work, are incomplete, or inoperative. Nor should the patent law encourage litigation as to which disclosure does work. The First to File law has both disadvantages. The First to File is a paperwork nightmare, and a lawyer's dream come true.

Note: A possible compromise between the First to File and the First to Invent is for the inventor to have recorded with his patent filing documents showing the conception date and the circumstance of the invention. This adds certainty to any patent issued.

f) Recommendation: Establish Statutory Guidelines For Notice Letters

The specific wording of notice letters should be established by statute. My experience has been that there is uncertainty as to what is considered i) an offer to license, ii) a threat of suit for infringement, iii) the requirements needed to trigger a declaratory judgment, and iv) the requirements to stop the laches clock. The rules should be clarified by statute.

g) Recommendation: Establish Statutory Guidelines For The On Sale Bar

The statutory bar needs further definition by statute.

It needs to be recognized in interpreting the "offer for sale" language that a patent is a commercial concept. A patented idea can not be developed by the inventor entrepreneur in a commercial vacuum. A large firm can do substantial testing of an invention without ever going outside its own organization. The inventor entrepreneur must go outside his garage to find the requirements of the industry. He has to address the problems of whether there will be a market, whether it will work sufficiently well to be placed in commerce, whether the price is sufficiently low for the idea to have merit, where to obtain financing, and most important, if the invention is developed, whether a buyer can be found to enable him to continue with his endeavors.

Under the current court decisions, a patent awarded to the inventor entrepreneur would be barred because of efforts to find a partner prior to attempting to physically develop his invention. Trial balloons bar an invention unless the time from the trial balloon to filing is less than a year. Significant inventions can not be developed in a year. The On Sale Bar as to methods claims is one area where case law is particularly deficient. *The law needs to accommodate the real world.* The inventive process can not be isolated from the real, non-lawyer world of commerce and technology.

h) Recommendation: Restrict The Declaratory Judgment Act

The patentee must be encouraged to promote his invention as a matter of public policy. He must be encouraged to call, correspond, and visit facilities of potential licensees. He must be encouraged to communicate his patented ideas. This is a principal intent of the patent system, and anything that stands in the way of that objective is harmful to the public interest.

Currently, the Declaratory Judgment Act may be misused by large corporate infringers to defeat licensing efforts and destroy the inventor entrepreneur by burying him financially before he can gather financial strength through successful licensing. The inventor may not recover from the shock of being sued, much less retain appropriate counsel and build his financial resources in adequate time.

The Declaratory Judgment Act should be amended as to patents so that the inventor's licensing and development efforts can be protected against bad faith Declaratory Judgment suits. This could be accomplished by requiring that all facts supporting the Declaratory Judgment suit be submitted with the complaint. The defendant inventor can move for summary judgment on those facts alone, without discovery. Other alternatives to a mandatory counterclaim should be available.

If the inventor wins a patent infringement case against an infringer who started the litigation with a Declaratory Judgment suit, all awards to the inventor should automatically be doubled (This sanctions the infringer who fails to be very certain of his case before filing a Declaratory Judgment suit).

i) Recommendation: Let The Inventor Select The Forum And Opponent

Under current law, the preemptive strike of a Declaratory Judgment suit costs the inventor his right to select the forum court, and the litigant. That is a principal justification for why *the priority of the inventor, as a practical matter, must be to sue first, and license second.*

The Declaratory Judgment suit forces the inventor to invest in expensive due diligence analysis to support a mandatory counterclaim against a party not of his own choosing or lose his patent rights. The Declaratory Judgment plaintiff may not be the one against whom the inventor has the best case, the one that will be most determinative as to the validity of the patents, or against whom the inventor can have the largest recovery.

The inventor should be permitted to bring an infringement suit against the major beneficiary of the invention. A large corporation can be the major beneficiary of infringement, but purchase items competitively from a less lucrative manufacturer.

j) Recommendation: Ban Industry Leagues

Ganging up on a patentee should be banned. Ganging up is currently done i) through industry trade associations funding litigation, ii) having a large common supplier to an industry bringing suit, iii) consolidating litigation to include the major suppliers either through intervention or Declaratory Judgment suits thereby sharing expenses, or iv) "informal means" including sharing resources.

The ban should include situations where a larger corporation funds litigation by a small company against an inventor (particularly through a Declaratory Judgment suit). *It can test the litigation waters with its toes without getting wet.* If the inventor wins, the award received may not adequately compensate for the litigation costs and time involved. The large corporation is thus insulated from a large award.

k) Recommendation: Harmonize International Patent Fees

The trade in international technology licensing, the "knowledge" business, is growing rapidly. American inventors patent in the United States, but can't afford international patent prosecution and maintenance. This country is giving away its technology every time an invention is published in a United States Patent, and a patent is not prosecuted internationally.

On the other hand, the international firms can prosecute patents in the United States relatively inexpensively, and thereby have preferential rights in this country.

It currently costs about \$30,000 in filing fees to file a patent application in Canada, Japan, Germany and the United Kingdom. Maintenance fees are additional, and they are exorbitant - in the thousands of dollars. Further, a single invention can be divided into multiple patents, each costing \$30,000.

International patent prosecution and maintenance fees should be reciprocal. If another country charges a U.S. resident \$15,000 for an application and \$1,000 a year for maintenance, that is the fee the U.S. Patent Office should charge residents of that country for a U.S. patent.

l) Recommendation: Apply "Good Faith" Standards Consistently

There should be the same good faith standards for both the patentee and the infringer. Currently a patentee has to maintain a high standard, and the infringer a low-to-not-existent standard.

For example, for an inventor to file an infringement suit, due diligence is required that reviews the file wrapper, and analyzes the infringing equipment. There must be a good faith showing of infringement. On the other hand, an infringer can file for a Declaratory Judgment without even having to review the file wrapper or having a good faith belief based on due diligence that the charges in the complaint are true. That double standard benefits the infringer.

In another example, the patentee is required to reveal to the patent office any prior art information that would invalidate his patent. The patentee can not seek to license a patent for which he believes there is invalidating prior art. Conversely, an infringer can argue that an inventor's patent is invalid because of prior art, without disclosing the prior art either to the inventor, or to the patent office. If a party knows of invalidating prior art, he should have an affirmative duty to reveal it immediately to the patentee so that the patentee will not continue to seek licensees or litigate the patent. Failure to disclose invalidating prior art by any party, particularly before engaging in litigation, should enjoy the same level of sanctions. There should not be a different standard for the patentee than for the infringer.

Section 7

Harmonization

It should be apparent that there can never be such a thing as "harmonization" as long as codified patent laws, court decisions and practices differ from country to country. This will always be the case. This "harmonization" proposal, therefore, has nothing to do with "harmonization" but is in reality tweaking a very small element in the broad picture.

The focus of the Patent Office should not be towards a major modification of the U.S. patent system to conform to a small isolated element of patent law as practiced by other nations, but rather to address the issue of how the U.S. Patent system can be made more effective and less litigious to all parties, including the foreign inventor.

The proposed amendment to the patent law has little to do with harmonization as long as other major industrialized countries maintain preferential pricing for filing and litigating patents.

As long as the inventor entrepreneur and small business can not afford to prosecute patents internationally, while foreign firms can file in the U.S. for a minimal rate, there can be no harmonization. We are promoting the loss of our technological base internationally, while maximizing the advantage of international firms in our country.

Section 8

Summary

In the introduction, I asserted that if the reader reflected on the objective of the patent law, the decision *against a First to File law and in favor of the current First-to-Invent* would be obvious. Since the following truths are beyond controversy:

- a) The patent system is for the benefit of the public.

- b) The objective is to motivate the inventor.
- c) The inventor is best motivated if rewards are received as a direct result of his efforts (not by outside efforts, such as litigation), with a high degree of certainty to support the risk of the investment, and with financial recovery as close in time as possible to commercial exploitation.
- d) Voluntary licensing is favored over litigation.

It must follow that the First to File proposal is against public policy because:

- a) It increases the uncertainties for an inventor, the licensees and the infringer.
- b) It promotes litigation over disclosure adequacy and, in the case of multiple filing dates, which disclosure was the first operative disclosure.
- c) It encourages a race to the patent office with partial, inoperative and frivolous disclosures.
- d) It favors the procedural dogma of the race to the patent office over the substantive reality of developing something that works.
- e) It promotes keeping new inventions partially or wholly secret, and burying valuable inventions that challenge the state of the art.
- f) It discourages invention because it creates an environment that is foreign and distasteful to the inventor and the inventive process.

A much more reasonable, non-destructive alternative is available if certainty as to the date of acquiring legally protected rights is the objective. *The conception date could be disclosed at the time the application is filed.* That would resolve the interference issue without litigation and without the First to File law.

Section 9

Conclusion

The international patent situation is inherently not harmonious. A substantial change in U.S. patent system that is detrimental to the U.S. Patent system and public policy will not significantly make the system more harmonious.

It is the current litigious system in the United States that is out of harmony with the industrial world. That should be our first priority as to harmonization.

I have proposed several recommendations that provide improved definition, certainty and motivation for invention, research, development, and promotion of inventive ideas.

For the above reasons, logic and public policy demand that the First to Invent should be retained. *The First to File proposal is the wrong alternative* taking the U.S. Patent system the wrong way, and backward in time.

Exhibit 5

SAMUEL A. KASSATLY
ATTORNEYS-AT-LAW

TECHNOLOGY AND INTELLECTUAL PROPERTY MATTERS

2926 SOUTH COURT
PALO ALTO, CA 94306
TELEPHONE: (650) 323-2226
FACSIMILE: (650) 323-2220

ORBSAK@WORLDNET.ATT.NET

VIA FACSIMILE
CONFIRMATION BY EXPRESS MAIL

December 8, 1997

Honorable Judge Paul R. Michel
Circuit Judge
United States Court of Appeals
for the Federal Circuit
717 Madison Place
N.W. Washington, D.C. 20439

Your Honor,

I sincerely appreciate your kind response to my expression of concern about the loud and clear message the Peter Theis opinion¹ sends to the independent inventor and small business communities. I realize it would be inappropriate to address the details or merit of the Peter Theis case as it is under current consideration. The purpose of this letter is simply to use public information about this case to convey to you and the CAFC the devastating effect this and other similar opinions have on the American independent inventor and small business.

To start with, independent inventors, myself included, look up to the CAFC as our main champion and protector because the District Courts and juries are too diverse and thus unpredictable, and the U.S. Supreme Court is very selective in granting certiorari. The independent inventor community follows very carefully CAFC cases involving independent inventors such as Peter Theis. Only a minute portion of independent inventors having the courage to dedicate their life's work, life's savings and life's aspirations to develop and protect their creation, reach the CAFC level. Because of this, the way the CAFC handles each case has a far reaching impact on the independent inventor and small business communities.

The Peter Theis opinion, among other opinions, causes a reverberating chilling effect in the independent inventor and small business communities, as (1) it destroys the incentive to succeed in bringing an idea to the marketplace, (2) it erodes confidence in the justice system as being equitably applied to disparately financed parties, (3) it deters

¹ Octel Communications & Northern Telecom v. Theis Research & Peter Theis.

Honorable Judge Paul R. Michel
Circuit Judge

December 8, 1987
Page 2 of 3

independent inventors and small businesses from marketing and licensing their technologies, (4) it deters independent inventors and small businesses from enforcing their patents, (5) it abolishes the incentive to seek patent protection and favor of trade secrets or, alternatively, fosters abandonment of inventions altogether. The result of all this is that it destroys the inventive process encouraged and protected by the U.S. Constitution.

The chilling effect is due in part to the nonprecedential nature of the case. Regardless of the complex legal reasons for making an opinion nonprecedential, the impression of a legally lay independent inventor is that (1) an inventor who spent over 25 years² of his life developing advanced technologies under the patent system deserves having his case given proper weight and not be dismissed in a quasi-cursory fashion; (2) what happens to an independent inventor is a very significant and important event in the body of the law; (3) a perception that the Peter Theis opinion is a "private opinion" applicable only to the particular litigants in the case.

The chilling effect is due in part because the Peter Theis ruling is limited to the particular facts of the case. The harsh reality is that many inventors identify with the particular facts of the Peter Theis opinion. They work very hard at conceiving the invention; they sacrifice years, money, and effort to go through the patenting process; they spend more time, money, and effort trying to license the patents. Finally, based on the Peter Theis opinion what they can expect is to be sued by a declaratory judgment action by several well established companies with high powered law firms and in-house law departments³ to drag the inventors through the agony of a protracted litigation, ruining their lives, health and well being, their companies, destroying their hopes and dreams, and devastating their reputation. Peter Theis' case confirms that it is literally dangerous to be an inventor with a patent. The following quote by one such inventor (other than Peter Theis) who went through the patent process summarized the most likely attitude of many independent inventors: "It was my life and now it's gone".

The chilling effect is also possibly due in part to the message the Peter Theis opinion sends back to the District Court located in the midst of the inventors' capital of the U.S.A.

² Peter Theis' U.S. Patent Nos. 4,539,436 and 4,692,817 being litigated, were initially filed in the U.S. Patent and Trademark Office on February 4, 1974.

³ A list of some of the law firms that have been identified in public documents as associated in litigating against Peter Theis in this case is attached. What independent inventor or small business in its right mind would believe for a moment that it has a winning chance against such well established law firms, without the full protection of the CAFC?

Honorable Judge Paul R. Michel
Circuit Judge

December 8, 1997
Page 3 of 3

Other more qualified observers will need to comment objectively on this point, but my uneducated view is that the District Court in Silicon Valley should be encouraged to recognize that its decisions related to independent inventors and small businesses will be scrutinized by the CAFC, and a nonprecedential opinion might not send such a message.

The chilling effect is also due in part to the message the Peter Thiel opinion sends to corporate America. This opinion and other similar opinions could indirectly encourage well financed corporations to overwhelm and defeat the independent inventors and small businesses seeking compensation provided for in the U.S. Constitution. The independent inventor and small business communities look to the CAFC to promote respect for patents as a property, and voluntary licensing rather than litigation.

The purpose of the patent law is to encourage innovation. All I hope and pray to impress upon you and the CAFC is that independent inventors and small businesses need the full protection of the law to survive the competitive environment in which they operate. Such protection must be championed by the CAFC.

With sincere appreciation,

A handwritten signature in dark ink, appearing to read 'Samuel Kassatly', with a stylized flourish at the end.

Samuel Kassatly

Enclosure

LAW FIRMS ASSOCIATED
IN LITIGATION AGAINST PETER THEIS

Fish & Neave
Brumbaugh, Graves, Donohue & Raymond (Baker & Botts)
Wilson, Sonsini, Goodrich & Rosati
Cushman, Darby & Cushman
Christie, Parker & Hale
Townsend & Townsend
Staas & Halsey
Bronson, Bronson & McKinnon
Brobeck, Phleger & Harrison
Hazel & Thomas
Loydig, Voight & Mayer
Cahill, Christian & Kunkle, Ltd.
Honigman, Miller, Schwartz & Cohen

CORPORATE LAW DEPARTMENTS INVOLVED
IN LITIGATION AGAINST PETER THEIS

AT&T
Pacific Telesis Group
Otel Communications Corporation
Ameritech

Exhibit 6



Theis Research, Inc.
 4723 Grove Avenue
 Gurnee, Illinois 60031 2135
 Telephone 708-662-4863
 Fax: 708-243-7666

February 25, 1998

VIA FEDERAL EXPRESS

Honorable Judge Pauline Newman
 Court of Appeals for the Federal Circuit
 717 Madison Place N.W.
 Washington, DC 20439

Re: Your Feb. 12th request for feedback to the Court at the Pasadena meeting of the Federal Circuit Bar

Dear Honorable Judge Newman:

The President of Intellectual Property Creators, Mr. Paul Heckel, informed me about the comments you and your fellow judges made at the Pasadena meeting of the Federal Circuit Bar. He said that the Court is interested in feedback from people who are involved with the patent system.

I am writing you from the perspective of the independent inventor who received an adverse decision from the CAFC¹. My case was one of those listed by the Intellectual Property Creators in its letter of December 30, 1997 to the CAFC regarding the Court's appearance of bias against entrepreneurial inventors.

What is upsetting about that letter is that independent inventors lost 6 of the 7 cases he had been following. I have heard such disquieting results from others. I am saddened that independent inventors who have taken such big risks with their own time and money to invent, develop, and market their product; then, to assert their patent rights, must face an extremely expensive, time-consuming, disruptive and biased process with less than a 50/50 chance of having their patent rights respected. This awareness chills innovation from one of this country's most important sources, independent and entrepreneurial inventors. It runs counter to the purpose of the patent system. Namely, it discourages innovation and marketing of new products, rather than encouraging innovation. I write this letter to bear

¹ 97-1167, 1178, 1179 Octel Communications Corporation (Lucent Technologies, Inc.) and Northern Telecom Inc. and Pactal Meridian Systems, Boston Technology, Inc. and Digital Sound Corporation v. Theis Research, Inc. and Peter F. Theis.

Our New Area Code is 847.

Honorable Judge Pauline Newman
February 25, 1998
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witness to the Court and the public so as to shed some light on the what actually happens as seen from one inventor's perspective.

As background, I am an inventor and entrepreneur who has been running a small high technology company for thirty years. I have an electrical engineering degree from Yale University, an MBA from the University of Chicago, and a law degree from Chicago Kent College of Law, Illinois Institute of Technology. I never earned my living as a lawyer, but as an entrepreneur, businessman and inventor. I am listed in Marquis' Who's Who in America, Who's Who in the World and Who's Who is Science in Engineering.

As an inventor with over twenty U.S. patents, I had been tracking patent cases for over twenty years. I had no idea of the terror and horrors that I would suffer under the judicial system when I attempted to legitimately market patent licenses as a business endeavor. The CAFC's ruling in this case largely stripped me of the fruits of my 30 years of struggles and hard work to develop and bring an important technology to the marketplace. The pattern I have encountered is applicable to any and all independent, entrepreneurial inventors having a significant invention that is appropriated by any disparately large organization, except that I had benefit of multiple patents in issue, and was sufficiently well funded to survive the onslaught through to the CAFC decision.

My inventions include basic technologies involved in automated voice processing (voice mail, automatic operators, etc.). In the 1980s, because of our technology and experience, we were selected to cooperatively market with A.T. & T, Ameritech and Pacific Bell - companies with whom we are now litigating. Today, the small company I started remains one of the most advanced voice processing facilities in the world. The fundamental building blocks, we utilized and have further developed, are the '436 claims that your Court invalidated for obviousness.²

As the years went by, while we were prosecuting our patents and litigating the malpractice, other companies incorporated our patented technologies into their products without taking out a license. As a result of our successful activities, in 1992, the former Bell telephone industry, as infringers of my patents, sued me (on a declaratory judgment) alleging that my patents were invalid, not infringed, and that I had obtained my patents by fraud (inequitable conduct)³.

² To experience this technology, place a demonstration catalog order by calling 847-473-7200 (nothing will be shipped).

³ The patents ultimately involved in my case are U.S. Patents No. 4,539,436; 4,692,817; 4,439,636; 4,719,647; 4,150,255. The case involved Octel Communications Corporation (now Lucent Technologies), Northern Telecom, Inc., Boston Technology, Inc. Pactal Meridian Systems, Digital Sound Corporation, Bell Atlantic Corporation (now including NYNEX), Pacific Telesis (now incorporating Southwestern Bell as SBC Corp.), AT&T (including Lucent Technologies), Ameritech, Airtouch Cellular et. al. v. Thesis Research, Inc. and Peter F. Thesis.

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The efforts of the major telephone companies to steal my technology necessitated raising millions of dollars to defend my patents as well as my corporate and personal assets. I was personally joined as a defendant in the lawsuit along with my company, Theis Research, Inc. This litigation has already occupied six years of my life. It will occupy much of my time for years to come,-- possibly the rest of my life. It threatens my financial and intellectual property assets. The decision was so draconian that my company was ordered to pay \$385,000 to two multinational plaintiff giants, Lucent Technologies and Northern Telecom, for their court costs incurred in bringing suit against me.

My case was one of the first significant patent cases for this District Court judge, who did not have prior patent experience. I think his on-the-job training explains some of the District Court's decisions. An estimated tens of millions of dollars have been spent to date litigating this case. Over twenty law firms have been involved with the litigation. Five patents were litigated, only two of which had a common parent application. Yet the CAFC rubber stamped the District Court decision, in totality, accepting that a new judge is an instant expert in complex patent law. Isn't it important for the CAFC to review in some detail the early patent decisions of District Court judges?

As I understand it, at the Pasadena meeting of the Federal Circuit bar, you said that non-citeable cases are not citeable because they do not introduce new law. Yet my case presents several examples of new law. A few examples of my experiences with District Court and CAFC's "two sets of laws" system illustrate several ways the CAFC jurisprudence leads to a dysfunctional patent enforcement system.

1. I was forced into litigation after I began a marketing effort, which included media advertising and printed brochures, to encourage industry members to voluntarily license my technologies. Like all entrepreneurial inventors, I was at a disadvantage as I didn't have the financial resources or the available time to maintain a patent suit, especially against a big company with its army of lawyers.

After one year, I informed Ameritech in Chicago that they infringed three of my patents. I considered that, at a minimum, they would meet with me to discuss a license or explain why they didn't believe they infringed. I was prepared to risk having to defend my patents against Ameritech in Illinois where we both do business. To my surprise, Ameritech caused Octel, a California firm that didn't even make the Ameritech equipment alleged to be infringing, to sue us. We were not even aware that Octel was doing business with Ameritech.

Ambiguous Law: There is no clear way for an inventor or leading edge company to market licenses to companies that may be infringing, or may elect to infringe, without first filing a law suit to establish a jurisdictional forum. Shouldn't non-litigating licensing be promulgated, rather than discouraged?

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2. The Court, under California law, denied our petition to move the case to Illinois, where all parties (including Ameritech who instigated the lawsuit) had offices. It ruled that I defend myself in San Jose, the home office location of Ocel, the party that filed the suit. This was 2,000 miles away from my only place of earning a livelihood.

Ambiguous Law: The Patent Law distinguishes "Small Entities". This Court, rather recognizing the inequitable hardships between substantially disparate sized parties, forces a Small Entity into distant and inequitable venues, thus encouraging a race to the court house and forum shopping.

3. The opposition was permitted, over our objection, to show the jury videos which were (as we pointed out in our appeal brief) an intentional attempt to mislead the Court and the Jury. However, when we attempted, in rebuttal, to show videos of the proper operation of the infringers' equipment in the identical situations, the District Court refused our request on procedural grounds. That these misleading videos were allowed, and worse yet, that we were not allowed to rebut them with our own videos of their equipment operating in exactly the same situations, provided justification for the decisions of the jury the District Court, and the CAFC. The CAFC rubber stamped the District Court's decision.

New Law: This Court created new law by condoning the District Court decisions (and this is but one example) that precluded the jury from receiving a balanced view of the litigation. This Court then condoned the use of such abusive videos by citing those contested videos to support its own conclusions.

4. The court invalidated my '436 and '817 patents for obviousness based on the unsupported conclusory opinion of an expert referencing a cited reference reviewed by the PTO in examining the patent. My understanding of the law is that decision of the Patent Office Examiner should be given substantial weight by the Court. Without such a presumption a patent means little or nothing.

New Law: If the reviewing tribunal gives the patent office review no weight, the patent prosecution process is a useless exercise not enforced or supported by the CAFC. Presumptions are now meaningless.

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5. Octel's expert presented two conflicting definitions of "speech detector"--- a key element. One was for obviousness and one was for infringement. The law had been that the same definition had to be used both for obviousness and infringement. Yet the trial court and the CAFC cited that previously mentioned expert's unsupported opinion as its sole support of its decision on obviousness.

New Law: If an expert gives multiple definitions, or explanations, the Court can select the one best suited to its decision, rather than invalidate testimony. Statements of expert witnesses no longer need meet a minimum standard of legitimacy.

6. Twenty-three years after the patent was filed, this Court found Claim 10 of the '436 patent invalid because of obviousness, without any evidence in the record to support that conclusion. The only testimony on obviousness was a conclusory, single word "Yes" by the previously mentioned expert to a lengthy, multi-issue, leading question from their counsel. The expert gave no support for that "Yes". The one cited relevant sentence in the CAFC decision did not show any evidence that the Claim 10 limitations were found in any prior art, or combination of prior art. (The prior art referenced by the expert was a PTO cited reference for the patent).

New Law: A simple "yes, the equipment infringes" answer would not support a jury finding of infringement where the standard is only the "preponderance of the evidence". Yet it now sustains a jury find of invalidity on the grounds of obviousness where there is a much higher "clear and convincing evidence" standard and a presumption of validity.

7. The District Court ruled (and the CAFC confirmed) on a summary judgment motion, that the '255 claims in litigation were invalid because of the on sale bar. Our files contained a letter alleged to be an offer for sale of a product covered by our '255 patent. There were two issues: (a) was the letter actually sent, and (b) did the letter sufficiently describe the '255 technology to trigger the on sale bar. Both had to occur for the patent claims to be invalid under earlier law.

7a. The other side presented no evidence the letter was sent or received (other than the aforementioned copy in our engineering file). Although "all inferences in a summary judgment motion are to be decided in favor of the non-movant" the District Court ruled, and the CAFC confirmed, that there was a "clear and convincing inference" that the letter was sent.

(The letter was prepared by someone else twenty years prior to the litigation. I could only testify that I did not know whether or not it was sent. The Court placed upon me the burden of affirmatively remembering that it was not sent.)

Honorable Judge Pauline Newman
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New Law: A summary judgment ruling can now be based on a "clear and convincing inference" replacing prior law that, in summary judgment motions, "all inferences are to be decided in favor of the non-movant". The Court now expects patentees to have complete recall of incidental events for over twenty years.

7b. This Court said that we did not prove that the letter was not sent.

New Law: In summary judgments, the standard had been whether "there is a genuine issue of fact", not whether the non-movant had proven the issue. Prior law had also been that "Proof" was an issue for the jury to decide.

7c. This Court said that we did not prove that the letter was not sent.

New Law: The losing side must prove the impossible to prove. A negative can not be proven.

7d. The Court concluded that the letter was presumed to be sufficiently detailed to trigger an on-sale bar but cited no supporting evidence. There was no evidence on the record as to this issue.

New Law: Any concept letter is sufficient to trigger the on sale bar, replacing the prior Seal-Flex and UMC standard.

7e. The Court, and the District Court, ruled the letter was sufficiently material to invalidate the claims without citing evidence (There was none).

New Law: Materiality of evidence is no longer a precondition for the evidence to become invalidating as to the on-sale bar and for a finding of inequitable conduct.

7f. The District Court said that but for a showing of intent, there would have been a finding of inequitable conduct. Following the line of reasoning outlined in steps 7a through 7e, the CAFC concluded the inequitable conduct issue was a "close case".

New Law: The old concept that inequitable conduct is the bane of the patent law is now dispensed with. The CAFC now reviews inequitable conduct de novo, replacing the former abuse of discretion standard.

Honorable Judge Pauline Newman
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 Page 7

8. Two of the patents litigated and ruled "obvious" were in prosecution at the PTO for over eleven years. These decisions based on these new laws don't pass the "smell test". Both patents were reviewed by the Board of Appeals for the United States Patent and Trademark Office and the predecessor of this Court, the U.S. Court of Customs and Patent Appeals. Yet 21 years later the CAFC, which has de novo jurisdiction, has determined the litigated claims on these two patents were obvious based solely on a jury decision which was based on the previously mentioned conclusory opinion of one of the infringer's expert witnesses who referenced the same documents everyone had in the 1970s.

New Laws: a) The CAFC no longer exercises its de novo jurisdiction as to obviousness.

b) Hindsight can now be used to adjudicate obviousness, and no inventor can win. All successful patents are henceforth invalid for obviousness. The presumption is now invalidity rather than the prior presumption of validity.

My case was not citeable as precedent even though a substantial changes in the case law were required to support its outcome. How can people make reasonable decisions about what the law is if the citeable and non-citeable decisions teach fundamentally different results? This bypasses the checks and balances on the quality of the justice built into the common law case system. The problems are aggravated because the persons who decide whether the case is citeable are the same judges who make the decision. The existence of non-citeable opinions leads to decisions inconsistent with the existing jurisprudence. This can only lead to mediocrity, an abuse of power, and even corruption of the judicial process. Litigants have no effective remedy. The result is exorbitant legal expenses, lengthy litigation, and the miscarriage of justice. Already we are seeing two sets of cases: the citeable ones which describe the law that is presented to the public and the non-citeable ones which describe the actual law for the cognoscenti.

Several other strange rulings occurred besides those described here. I will be happy to detail them at your request.

We requested an en banc hearing in this case which would allow the Court to clear up the discrepancies in the law, but our request was denied, and these new laws are now embodied in non-citeable case law.

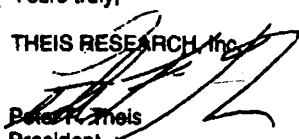
The patent system is so complicated, difficult and capricious, that even lawyers have no confidence in the law. The case is decided by the lawyer and his panoply of tricks, and hence the party with the greatest financial resources. Neither the law, nor the patent document controls. The effect of this is to increase the fuzziness and complexity of the patent law. And sadly, many inventors lose everything they have on the roll of loaded dice.

Honorable Judge Pauline Newman
February 25, 1988
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Thank you for reviewing my comments. I hope you find them useful with respect to your request for input.

Yours truly,

THEIS RESEARCH, Inc.


Peter F. Theis
President

P.S.: I have attached an article from the January 18th, 1982 Issue of Electronic Engineering entitled 'The Patent Scam' for your interest. Things have not changed.

cc: Honorable Judge H. Robert Meyer, Chief Judge,
Court of Appeals for the Federal Circuit
Paul Heckel, Intellectual Property Creators

encl.

Exhibit 7

Chicago Sun-Times

BUSINESS

Monday, June 10, 2002

Natural speech approach on the line

By HOWARD WOLESKY
PHOTO BY RICHARD J.

Back in the 1970s, the telemarketing industry told Peter Theis that the public would get used to his invention — those exasperating "interactive voice response" systems, such as voice mail and information lines from airlines, that tell callers to "speak at the beep" or "push one" or "push [whatever]."

We never did get used to them. Theis, 65, head of Gurnee-based Conversational Voice Technologies Corp., said. "My technology created that, but I opposed the direction because it's impersonal, annoying and burdensome. People don't like it. In the 1970s, I said people don't like it."

In 1998, the inventor, who holds more than 20 patents in such areas as voice mail speech recognition, automatic call distribution for call centers and automated telemarketing, introduced a kinder, friendlier

technique: natural speech technology.

Rather than pushing buttons, a user of natural speech technology hears an automated but warm voice asking open-ended questions. Speech-recognition software captures the answers, and generates further questions until the caller gets what he needs. If the computer can't handle the caller, it hands him off to a human operator or records a message.

Theis' ConServIT service can handle a request for a pamphlet to be mailed, a quotation for car insurance, applications for credit cards, reports of lost cards or conduct a market research survey.

ConServIT's customers include the American Diabetes Association, Abbott Laboratories, ING Fund and the National Coalition to Prevent Child Abuse.

Judy Kirby, director of publications and information for the National Crime Prevention Council, said the system works so well at her agency that callers might not know they are speaking to a computer rather than an operator. "It sounds like a real person on the other end," she said.

Walt Tetschner, publisher of Automatic Speech Recognition, a monthly newsletter, said, "[Theis'] systems work, and work quite well."

He said automated systems are "phenomenal from an economic



Peter F. Theis, president of ConServIT, located in Gurnee, is the inventor of interactive Voice Response and Natural Speech Technology. Basically, his inventions get machines to talk to people, and in return, people talk to machines. His latest is a kinder, friendlier technique.

point of view. You can handle calls for pennies." Theis said the cost per call averages \$7.40 for a live operator, 80 cents for natural speech and 44 cents for interactive voice response.

Theis also said that natural speech is so well accepted that a bigger percentage of calls get completed when his technology is used compared with the competition. Depending on the project, 85 percent to 95 percent of calls handled by natural speech are completed compared with 70 percent to 80 percent with operators and 25 percent to 50 percent with interactive voice response, he asserted.

Theis has battled uphill over the last decade to spread his technology. He and his one-time customers — a who's who of the telephone industry, including Ameritech and PacBell (both now part of SBC Communications), Noriel Networks and Avaya — have been engaged in a series of suits and counter-suits.

Because of the litigation and for competitive reasons, Theis declined to disclose the revenues for his privately held ConServIT.

Still, he feels momentum is building.

"With the demise of the big telephone guys and the rise of customer relationship management, we are gaining momentum. Companies are concerned more than ever about how customer calls are handled. Natural speech technology is becoming mainstream and companies are recognizing that people do not like the old routine."

'Real' voice helps elicit information

A "conversation" with a natural speech technology system can seem almost real.

The automated operator instantly engages the caller with open-ended questions. None of that "push this" or "push that."

Peter Theis, president of ConServIT, the developer of natural speech technology, said the technology doesn't actually understand specific words. Instead, it is based on a type of logic called "parsing" — the system puts the gist of callers' responses and responds accordingly with the next question.

In a marketing survey, a traditional interactive voice response system limits choices to, for instance, why a consumer uses a product to three or four choices. In contrast, Theis said natural speech, which is modeled on a conversation between a live operator and a caller, might elicit 50 or more computer-coded responses.

"Perhaps more important, natural speech technology's free-form

responses can provide unanticipated information," Theis said. This could lead companies to surprising new insights about their products.

He said an interactive voice response system might ask callers to rate a product on a scale of one to five by pushing keys on their phone pads, while natural speech asks them to state what they think of a product and then transcribes the information using speech recognition.

"Marketers should realize that callers are unresponsive not simply because it is a machine, but because of the unnatural way interactive voice response systems communicate," Theis said.

He said his voice system has been used for calls lasting more than 30 minutes and eliciting responses for more than 100 questions in a single call. ConServIT is available in more than a dozen languages, including Spanish, Dutch, French, Canadian, British English, Japanese, and Mandarin.

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