

EDITOR'S NOTE

We appreciate your comments as to how we can make our legal alerts more useful to you. If you would like to see articles on additional topics or would prefer to have our legal alerts sent as a Word or PDF attachment, please contact us at LegalAlerts@rbh.com.

Blackberry Case High-lights Flaws in Patent System

Author: Robert M. Bryan and John M. Conley

Patent law has historically been viewed as an overly complex and arcane body of law that was best left to the experts. But a recent high profile dispute relating to the right to use the Blackberry portable e-mail device has thrust patent law into the spotlight and highlighted some of the problems with the current system and their impact on the day-to-day conduct of business. Many are now claiming that the U.S. system of patent law is “broken” and must be fixed, and a bill pending in Congress (the Patent Act of 2005) would make significant changes in the current system. This article will provide the background necessary to understand the current controversy.

Research in Motion (RIM), the Canadian maker of the Blackberry portable e-mail device, recently agreed to pay over \$600 million to settle a patent infringement suit brought by Arlington, VA-based NTP, Inc. The payment will resolve all past claims and procure a paid-up license that will allow RIM to sell its products -- and its customers to use them -- free of any claims by NTP. The agreement came after a jury verdict of infringement was largely upheld by the U.S. Court of Appeals for the Federal Circuit and the Supreme Court declined further review. Just before the settlement, the federal trial judge in Virginia who had jurisdiction of the case had threatened to issue an injunction prohibiting further use of the current Blackberry system by RIM and its customers.

While the settlement allowed the tens of thousands of businesses that have come to depend on Blackberry to breathe a sigh of relief, it also raised a number of fundamental and troubling questions about the state of the U.S. patent system:

- *Does the U.S. grant too many “bad” patents?*

Critics have charged that the current system unreasonably inhibits commerce by granting too many patents covering trivial or obvious inventions. Most critics are not proposing that we change the underlying legal requirements for obtaining a patent. Rather, they are proposing that we change the patent application process in ways that would better ensure that the requirements are more rigorously applied.

One of the most disturbing aspects of the Blackberry case is that, at the time the trial judge threatened RIM with the “\$600 million injunction,” many of the NTP patent claims were on thin ice in the United States Patent and Trademark Office. In a seldom-used process, the USPTO was “re-examining” the patents at issue, and reports indicated that all of them would have been rejected. Nonetheless, the trial judge refused to delay taking action on the injunction, in part because the USPTO’s action would probably have been the subject of years of appeals.

As the U.S. patent system is presently structured, an applicant deals directly and, for the most part, non-publicly with the USPTO in seeking a patent. While the applicant has a “duty of candor” that is supposed to ensure that all relevant prior art is presented to and considered by the USPTO, third parties have only a very limited right to raise objections during the application process or to provide arguments about why the patent should not be issued. As a result, an overworked USPTO often only hears one side of the argument and gives the benefit of the doubt to dubious applications, relying on the courts to throw out improperly granted patents during infringement suits.

The Patent Act of 2005 would mitigate the bad patent problem by making it easier for competitors to demand and participate in the re-examination of previously issued patents. Under the existing opposition procedure, the opposing party has limited opportunity to participate and risks the loss of defenses it might raise in a subsequent infringement suit. As a result, the existing procedure is seldom used. Under the proposed procedure, the opposing party could initiate a re-examination procedure within nine months of the patent being issued, or within six months of receiving a notice of infringement. The matter is supposed to be resolved within 12 months. The opposing party could demand a hearing and appear and cross-examine witnesses, and the risk of forfeiture of defenses would be reduced. In addition, the bill would make it somewhat more difficult for patent holders to obtain triple damages for willful infringement. It should be emphasized, however, that this is merely proposed legislation that, for the moment, is stalled in a Congress preoccupied with other things.

- *Should a patent holder be able to enjoin others from using the patent?*

Critics of the current patent system have claimed that it is unbalanced and that the right to obtain an injunction allows patent holders to extort unreasonable payments from unintentional infringers. Supporters of the current system argue that the threat of an injunction is the only effective means of forcing infringers to deal with the patent holder. The settlement in the Blackberry case provides a dramatic illustration of just how powerful patents can be. A patent gives the holder the right to exclude competitors from making, using, or selling the patented invention. The injunction threatened by the Virginia federal judge would have had precisely this effect on RIM and its customers.

Under current law, a patent holder that proves infringement is presumed to be entitled to such an injunction, without having to prove any actual harm. The Supreme Court has recently decided to reconsider this rule in another case, and the pending Patent Act of 2005 would require the court to consider the “fairness of an injunction in light of all the facts and the relevant interests of the parties” -- a so-called “balancing of the equities.” However, unless and until either the Supreme Court or Congress acts, the draconian injunction will

continue to be the rule in infringement cases, and many companies will continue to pay large settlements to avoid the risk of having their business disrupted.

- ***Should “patent trolling” be banned?***

There is no requirement under our current patent system that the patent holder actually use the patented invention in its business. This encourages companies to view patents as a separate asset that can be licensed to generate royalties or used to defend against the patent claims of others. Most people view these business strategies as legitimate uses of a patent.

Unfortunately, the system also promotes the practice of “patent trolling,” in which holding companies acquire portfolios of suspect patents and then sue potential infringers, assuming -- usually correctly -- that the defendants will settle the questionable claims to avoid the huge costs of patent litigation. While the press and the public have attacked this practice, there is no indication that Congress is likely to change the system to require that patents be used by the patent holder. Any solution to this problem is likely to be indirect, by increasing the ability of third parties to have patents reexamined and limiting the threat of an injunction.

- ***Should the U.S. abandon the “first to invent” standard for granting patents?***

At present, U.S. law awards the patent to the person who was first to invent. The USPTO and the courts are required to apply a complex set of rules to decide who wins a “priority contest.” The factors include who first “conceived,” or thought of, the invention, who first “reduced it to practice,” or built it, and whether the respective competitors exercised “due diligence” during the development stage. These rules are difficult for even patent lawyers to understand, and equally hard for judges to apply. In addition, many of the facts required to make this determination are not public, which adds an element of uncertainty to the process. Since defendants can challenge any aspect of patent validity in infringement litigation, one consequence of the first-to-invent system is an additional and significant element of expense and unpredictability in many cases.

An even bigger problem with this system, however, is that it is almost unique in the world. Virtually every other country (the Philippines being the principal exception) awards priority to the claimant who is first to file a patent application. As patent holders increasingly seek worldwide protection, this discrepancy means that priority might be determined differently in the United States and the rest of the world. The Patent Act of 2005 would switch the U.S. to a first-to-file system. The obvious benefits are consistency with the international standard, more predictable outcomes, and a reduction in the complexity and expense of infringement litigation.

Two possible negatives have been identified, however. The first is that the emphasis on prompt filing would favor big companies over small ones. The proposed system would encourage the filing of an initial application on a basic invention at the earliest possible stage of research and development, and the filing of additional applications as improvements are made. This is, of course, far easier for large, well-financed companies than for individuals and small companies. Under the current system, under-financed inventors can move at a

slower pace, taking some security from the knowledge that, since they were first to invent, no later claimant can displace them in the patent race (unless they did something to forfeit their rights). Under a first-to-file system, that security would disappear. As a practical matter, the substantial cost of early patent applications would close the process to many individual inventors. A second possible problem is that first-to-file might be unconstitutional. The argument is that because the Constitution allows the grant of patents only to “inventors,” it prohibits a first-to-file system under which a late-comer -- a non-inventor, in other words -- might get a patent. It is impossible to predict how this would play out.

Robinson, Bradshaw & Hinson, P.A. is a full-service law firm that serves as counsel to public and closely held corporations operating in domestic and foreign markets; limited liability companies; limited and general partnerships; individuals; municipal; county and state agencies; public utilities; health care institutions; financial institutions; and tax-exempt organizations. For more information on Robinson, Bradshaw & Hinson, please visit our website at www.rbh.com.