



## U.S. Inventor Act (USIA)

The U.S. Inventor Act will make patents strong again thus encouraging new patented inventions capable of attracting investment necessary to commercialize new technologies, launch startups and create jobs. The USIA will restore historic American leadership in patents rights, which has dropped to 10<sup>th</sup> place globally and is undermining our job growth, our technology lead and our national security.

USIA fixes critical weaknesses that will restore the patent system, American innovation and our job creation engine. Importantly, the USIA limits the dramatic fall in American innovation at a time of rising overseas dominance over new technologies in places like Europe and China.

The USIA is needed now to restore America's greatness and to move America back into the lead of global technology.

1. Restore injunctive relief as the default remedy upon a finding of infringement.
2. Eliminate Patent Trial and Appeal Board (PTAB) authority over all issued patents.
3. Eliminate all judicially created exceptions to patentable subject matter eligibility under 35 USC 101 including the abstract idea.
4. Allow venue to be established in the state where the patent holder resides.
5. Reinstate First-to-Invent.
6. Upon a finding of infringement, establish a default finding of willful infringement rebuttable only in cases where the infringer is not an expert in that particular field of technology.
7. Upon a finding of infringement, establish a default damages model of disgorgement of profits or 25% of gross revenue where profits are negligible or not representative of the market effect of the technology.
8. Establish small entity local rules intended to significantly lower the cost of litigation and bring resolution to the case within 18 months. District courts must adopt these rules if either the plaintiff or the defendant qualifies as a small entity and requests that the small entity local rules be adopted.
9. Restrict the Federal Circuit from using Rule 36 when there is a genuine controversy between districts
10. Stabilize the determination of what is or isn't obvious by codifying the Federal Circuit's objective "teaching, suggestion or motivation" test, which was eliminated by the Supreme Court in *KSR v. Teleflex*.
11. Stop fee diversion

**1. Restore injunctive relief as the default remedy upon a finding of infringement.**

A Supreme Court case called *eBay v. MercExchange* in 2006 created an impossibly difficult four prong test that must be satisfied before a district court can award injunctive relief upon a finding of infringement. This test effectively forces the inventor to prove it is in the public interest to award injunctive relief. For all practical purposes, the test requires that an inventor have a product on the market and the capacity to produce that product at the level that the infringer is producing it.

There are several negative effects of denying injunctive relief. The plain language of Article 1, Section 8, Clause 8, of the U.S. Constitution constructs a patent as nothing but an “exclusive Right”, which is the very essence of a property right. The core of property rights is the premise that the public does not have rights in someone else’s property. By establishing a public interest test to enjoin an infringer, *eBay* clearly violates the plain language of the U.S. Constitution and the foundation of American property rights.

As a practical matter, the *eBay* public interest test stifles investment in early stage startups commercializing new technologies. At the earliest stages of commercialization, an inventor most often has nothing but a patent to collateralize for investment. Venture capitalists are experts in projecting the potential value of a market for an invention. Once the market is estimated, injunctive relief enables the investor to establish a value for the patent within that market. With no injunctive relief, no realistic value can be attributed to the patent. Instead, the investor must take a guess on what a future court may award in the form of a compulsory license.

Injunctive relief is particularly important in fields where incumbents are large corporations and the innovation is relatively easy and inexpensive to copy and massively commercialize. This is the generally case technology is the product (social media, enterprise software, artificial intelligence, etc.) and other fields that use technology enables the product (automotive, IoT, consumer products, robotics, etc.). In these industries, large incumbents can steal patented technologies, upgrade their current products and flood the market, which in many cases will run the startup out of business.

When a startup goes out of business, investors take control of the patent. The investor has no product on the market and must sue those large infringers to recoup losses. But because the public interest test cannot be satisfied, there is no way to map the value of the patent to the value of the market. An injunction is the only way to establish a free market to value the patent. Courts instead force a compulsory license at an arbitrary value with little or no relation to a free market value.

If a patent cannot be properly valued, it will not attract sufficient investment to launch a company.

**2. Eliminate Patent Trial and Appeal Board (PTAB) authority over all issued patents.**

PTAB procedures were sold as a way to reduce the cost of litigation and speed the time to final adjudication. Neither of these laudable goals have been met.

The PTAB is a rogue administrative tribunal invalidating, neutering or forcing zero value licenses in over 90% of the cases it institutes. Only 8% of all patents leave the PTAB unscathed. This tremendous damage has knocked the bottom out of investment markets for startups that rely on patent protection.

In fact, PTAB procedures simply reduce the cost and burden of infringers, the parties most able to afford the cost and who in most cases absconded with the invention in the first place, and increase the cost and burden on the inventor, the party least able to afford the costs and the party that is actually aggrieved.

PTAB procedures delay adjudication of infringement cases often by five or more years. During that time, the inventor pays the lions share of costs and carries the huge burden to revalidate the patent. Conversely, the PTAB acts in place of the infringer so the infringer pays virtually nothing and carries almost no burden in comparison.

Once a PTAB procedure is instituted, the patent is effectively invalidated during the pendency of the PTAB procedure and the resulting appeals. In most cases the district court will stay the infringement case and no further cases can be initiated and move forward. The time lost in the PTAB, which can often exceed five years, is not added back to the term of the patent. Since the maximum enforceable life of a patent is 17 years, this alone destroys 30% or more of the patent's value.

There is no estoppel so many patents experience serial PTAB procedures from multiple filers. This is known as gang tackling. In the case of Zond, 125 PTAB procedures were launched against 10 patents until all of the 300 plus claims were invalidated. Zond has since been forced to lay off most of their employees.

The PTAB is cannot be fixed. PTAB procedures are intended to destroy patents by the same agency that creates the patent in the first place. This is a third world dictatorial power over one of the most important property rights in America. One person, the PTO Director, has power to both issue a property right and then take that same property right away. It is a recipe for corruption and regulatory capture.

Some argue that it can be fixed by rewriting the framework of PTAB rules to be more like an Article III court. But the PTAB has systemic problems at its foundation and cannot be fixed by rewriting the rules. It is impossible for Congress to write all of the rules that craft decisions on

the validity of patents. The PTO Director can adjust rules within the framework that Congress sets up to increase or decrease findings of invalidity.

The fault of the PTAB's construction is that it is an administrative court. It is under the power of the President. Presidents are elected every four years and with each new President, will come a new PTO Director. It is impossible for congress to write every rule and every four years there is a likelihood that a president will take office and change the PTO director. This is a recipe for regulatory capture and corruption.

Corruption is already evident as PTAB administrative law judges (APJ) leave big corporations to work as a PTAB APJ, hear cases where their former employer is a party, and then find in favor of their former employer almost unanimously. There is no code of conduct for APJs and this behavior is not prohibited. Many decisions made by PTAB APJ's are not appealable.

The PTAB is, in fact, a death squad killing property rights as a former Chief Judge of the Federal Circuit put it in 2013. But that sterile description is not an effective way to look at it. PTAB death squads kill investment into startups and thus they kill startups. Because virtually all of our job growth comes from startups creating new technologies, the PTAB is killing our country's job creation engine.

**3. Eliminate all judicially created exceptions to patentable subject matter under 35 USC 101.**

Congress set out specific challenges to patent validity under Section 101 is not a statutory challenge to validity, yet the courts regularly accept challenges to patent validity under Section 101.

Several Supreme Court cases have created exceptions to 35 USC 101, patentable subject matter.

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**4. Allow venue to be established in the state where the patent holder resides.**

Under current law, establishing venue for patent infringement cases must meet one of two requirements: 1) “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides,” or 2) “where the defendant has committed acts of infringement and has a regular and established place of business.” The Supreme Court clarified that residence means the State of incorporation.

Importantly, there is no provision for the patent holder to sue where they reside.

In most patent infringement cases, multiple corporations infringe on the same patent and not all of these infringers have a substantial business presence or are incorporated in the same state. For all practical purposes, this means that inventors must file cases where the infringer is incorporated or has a substantial business presence.

Distributing cases to multiple courts where there are similar patents infringed in a similar way by multiple infringers is inefficient for the courts and creates a very real risk for the patent holder.

First there is an obvious inequity in that a patent holder cannot sue infringers where the technology was stolen. But more importantly, distribution of patent infringement cases to multiple courts can be fatal to patent litigation on the side of the patent holder.

Each court requires local counsel, which means that the patent holder must not only hire the law firm managing the overall patent litigations, but must also hire law firms in the locality of each courthouse. This radically increases the cost of litigation because multiple law firms must be retained. Also, travel and lodging costs become prohibitively expensive as the lead law firm, the inventor(s), expert damages and technical experts and other witnesses are required to travel multiple times to multiple courts to testify on the same overlapping facts and issues. Multiple judges hear the same facts and multiple juries must be drawn and set.

Distribution of similarly situated cases radically increases the risk that the patent will be invalidated or damaged in some other way. Each court will make independent decisions on the same issues of patent validity and claim construction and other similar issues. If any court makes a decision unfavorable to the patent holder, all other infringers will petition their court to adopt that decision thus cascading litigation across all courts. This radically increases the risk that an unfavorable decision will be adopted by all courts even if that particular court would not have come to the same decision.

The patent infringement venue statute must be amended to allow patent holders file suits in their place of residence.

## **5. Reinstate First-to-Invent.**

The America Invents Act of 2011 changed longstanding determination of inventorship from first to invent to first to file. This has negatively changed how inventors work at the earliest stages of invention.

Under first to invent when an inventor had an idea they thought could be commercialized, that idea was protected until the inventor could be reasonably sure the invention is capable of generating revenue and that it can be manufactured at a cost that produces a profit without filing for patent protection. To accomplish that inventors work with prototypers and manufacturers to ensure the invention can be manufactured at a cost that will bring a profit. Inventors also work with marketing folks to determine the demand and price points.

To secure patent rights prior to the AIA, an inventor was required to keep accurate records of the invention and its reduction to practice. Once the inventor determined the idea could become be commercialized at a profit, the inventor could file for patent protection.

Under first to file, at minimum a provisional patent application must be filed before the inventor can discuss the invention with marketing folks, prototypers and manufacturers. This is because first to file opens a very real possibility that anyone can file for patent protection ahead of the inventors and have the legal ownership of the invention. Also disclosing the invention to others could actually create a situation where your disclosure becomes prior art to the same invention making the invention unpatentable.

For these reasons, most inventor organizations recommend the inventor apply for a provisional patent application prior to disclosing it to anyone.

While filing a provisional patent application for a first time inventor is only about \$65.00, that does not include preparation by an attorney. In almost every case, the inventor is not an expert in patent law, and very few have ever described an invention in writing at the level and specificity required in a patent application. This means that if an inventor files their own provisional patent application without legal help, they risk creating an inadequate disclosure that will not stand up to legal scrutiny.

Hiring an attorney to write a provisional patent application costs thousands of dollars. Reducing an idea into an invention that can be practiced often takes multiple reiterations and improvements. Each time the idea is improved another provisional patent application must be filed costing thousands of additional dollars.

This huge financial hurdle is often not surmountable by independent inventors especially those with no experience inventing and bringing a product to market, so most abandon the invention and walk away.



**6. Upon a finding of infringement, establish a default finding of willful infringement rebuttable only in cases where the infringer is not an expert in that particular field of technology.**

The American Inventor's Protection Act of 1999 (AIPA) requires the USPTO to publish patent applications 18 months after the inventor files the application. Once published, any potential infringer can search the USPTO website to find inventions that apply to their business, pick off the good ones, and commercialize them long before the inventor has patent protection. As previously discussed under item 1, a case called *eBay v. MercExchange* effectively eliminated injunctive relief, so when an infringer steals an invention odds are they will not be enjoined.

When the inventor finally gets the patent granted, it is practically impossible to attract investment to commercialize an invention if big corporations has already saturated the market with infringing products. Investors will uniformly explain to inventors that the odds of competing with infringers in a saturated market post-eBay is effectively zero. The reality created by eBay in light of the AIPA is simple: If you scrape an invention off the USPTO website and massively commercialize it, you get to keep it.

Big corporations say they would never scrape the USPTO for inventions to steal. But the job of a big corporation is to commercialize technology, to maximize profits, and to protect their business and profits. Scraping the USPTO website aids in all of these business goals. Very big corporation claims to be the expert of a particular technology and that is the reason we should buy their products over a competitor's products. The claim of being the leading company necessarily means that they know what technology is coming down the pike.

The USPTO website is the one place on earth where almost all new and emerging technologies are openly published in English. Because they are the experts in a particular field, either these companies know what technologies are available on the USPTO website, or they should know. That means infringement on a published patent is either intentional or reckless, and either should be characterized as willful patent infringement.

Consider the inequity of the inverse. Inventors are required to know what is published on the USPTO website and even documents written in different languages and stored on paper in places like Belarus or Zimbabwe. Failure to identify all of the prior art will likely invalidate the patent. Requiring inventors to have knowledge of everything in every language ever spoken but not to require infringers to have knowledge of what is carefully indexed, in English and published and searchable for free is unfair.

Of course, not all infringers should be liable for willful patent infringement. Some infringers are not the experts in the field. Some are users of technology produced by the experts. If you are a small coffee shop and you purchase a router, you are not an expert and you are not willfully infringing. You just bought a product that some infringer sold you and you reasonably believed

could be lawfully purchased and used. But if you are the company producing that router, it must be assumed that you are willfully infringing.

- 7. Upon a finding of infringement, establish a default damages model of disgorgement of all profits or 25% of gross revenue where profits are negligible or not representative of the market effect of the technology.**

The courts have removed all damages rules of thumb in recent years. As discussed under item 1, eBay has practically destroyed injunctive relief. If there is no injunctive relief, courts award a compulsory license at an arbitrary value.

Damages awards have been steadily eroding. In most cases, damages awarded by a jury are retracted by the trial judge and then reduced by the Federal Circuit on appeal. This erosion of damages in conjunction with eBay has devalued patents both at an early stage when inventors seek damages and also on the market.

The cost of infringing on a patent is a strong deterrent and must be known at the onset of infringement in order to incent a would be infringer to negotiate a license with an inventor.

8. Establish universal small entity local rules that must be adopted by the district court if either the plaintiff or the defendant qualifies as a small entity, and either makes a request that the small entity local rules be adopted. These rules are intended to significantly lower the cost of litigation and bring resolution to the case within 18 months.

Recently the Eastern District of Texas has been attacked by infringers as a haven for patent infringement filings. There are many reasons that patent holders prefer this district. The top reason is that patent cases move through to closure at a predictable and fast pace.

A major reason for passing the America Invents Act was to reduce the cost and sped the time of patent litigation. While the AIA may have helped small infringers by pushing enormous cost and uncertainty on small inventors, patent litigation for small inventors is both more expensive and often takes years longer than pre-AIA patent litigation. This is a major reason that funding of startups is decreasing.

Both a small defendant and a small plaintiff need to reduce costs and speed litigation. Congress should outline the goals of local rules that district courts must use upon request by a small entity that both reduce costs and move the litigation to close within 18 months.

**9. Restrict the Federal Circuit from using Rule 36 when there is a genuine controversy between districts.**

Recently, particularly in patentable subject matter decisions where there is a genuine controversy between district courts as to what is or is not an “abstract idea” exception to patentable subject matter, the Federal Circuit has responded with a Rule 36 affirmation in most cases. This response offers no help to trial courts attempting to understand the Supreme Court decision creating the abstract idea exception in *Alice v. CLS Bank*.

In that decision the court set up a two prong test to determine if an invention is abstract but failed to define the terms of the test. This left the courts and the USPTO to figure it out. Since then 67% of patents are either invalidated or not issued when challenged as abstract.

The Federal Circuit is avoiding its duty to clear up the law with Rule 36 affirmances.

**10. Stabilize the determination of what is or isn't obvious but codifying the Federal Circuit's objective "teaching, suggestion or motivation" test, which was eliminated by the Supreme Court in KSR v. Teleflex.**

All inventions are obvious in hindsight, so hindsight bias is very difficult to avoid in an obviousness determination. The Federal Circuit's "teaching, suggestion or motivation" (TSM) test worked to reduce hindsight bias by requiring objective proof of teaching, suggestion or motivation to combine elements existed in the prior art.

In a Supreme Court case called KSR v. Teleflex, the court eliminated the TSM test. Whether or not any particular invention is obvious is not subjective and in the eyes of the beholder.