

US INVENTOR

Innovators, Inventors, Dreamers, and Builders

U.S. Inventor Act (USIA)

The *U.S. Inventor Act* will make patents strong again by returning the patent system to what it was just 12 years ago. The USIA will thus encourage 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 10th place globally and is undermining our job growth, our technology lead, and our national security.

Europe and China are making concerted efforts to invigorate their patent systems in an effort to consciously and publicly dominate emerging technologies. These technologies are commercially important innovations such as pharmaceuticals, biotech, software, and more, but also emerging technologies critical to our infrastructure and military like artificial intelligence.

The USIA is needed now to restore American ingenuity, to move America back into the lead of global technology, and to protect our national security. Key points in the bill include the following:

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 test.
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 rebuttable default finding of willful infringement.
7. Upon a finding of infringement, establish a default damages model.
8. Establish small entity local rules intended to significantly lower the cost of litigation and bring resolution to the case within 18 months.
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. Allow similarly situated cases against similarly situated infringers to be filed as a single case.
12. Ensure issued patents have the full term of 20 years from filing or 17 years from issuance whichever is longer minus applicant delays.
13. Change the tax treatment of patents from income back to long-term capital gains.
14. Stop fee diversion from the Patent and Trademark Office to funding other government functions.

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: 1) the inventor must prove he would be irreparably harmed absent an injunction, 2) the inventor has no other adequate remedy, 3) that the inventor would suffer more hardship than the infringer absent an injunction, and 4) an injunction would be in the public interest.

Essentially the Supreme Court gutted the law with a test that forces the inventor to prove for all practical purposes, that the inventor has 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 piling on the four eBay factors that amount to 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. This valuation is typically determined by an economist hired by the infringer to calculate a theoretical royalty rate – the same way central planners determine fair market value for commodities. Of course economists and the courts are incapable of determining the fair price for the use of an invention. That price can only be found by an inventor and an infringer voluntarily agreeing in a free market, which means there is a reasonable expectation that an injunction will be granted, or the injunction is granted.

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 often the case for technology products (social media, enterprise software, artificial intelligence, etc.) and other fields that use technology to enable products (automotive, Internet of Things, 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.

The more aggressive the infringer’s behavior and protracted the litigation, the more the eBay factors tilt against the patent owner. Rather than providing an incubator to develop a competitive business, the eBay factors encourage knock-offs to smother the inventor before he/she can develop his invention into a competitive product.

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 investor has no product and never will, the eBay factors cannot be satisfied and an injunction will not be ordered by the court. Courts instead force a compulsory license at an arbitrary value with little or no relation to a free market value.

An injunction is the only way to establish a free market to value the patent so the flipside is also true: if a patent cannot be properly valued, it will not attract sufficient investment to launch a company. The more uncertainty there is about a patent's value, the lower the amount of investment that startup funders are willing to put at risk. This directly and negatively impacts company formation and the resulting job creation.

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 purported goals has 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 practical terms, PTAB procedures simply reduce the cost and burden of infringers, the parties most able to afford the cost and that in most cases absconded with the invention in the first place. Inventors face increased costs and burdens, and they're the party least able to afford them – and are of course the party that is actually aggrieved.

PTAB procedures delay adjudication of infringement cases often by five or more years when considering time lost for appeals to the Federal Circuit and potentially the Supreme Court, and when considering the time lost to serial PTAB petitions and “gang tackling.” During that time, the inventor pays the lion's 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 no comparative burden. The time lost is not added to the patent term. Since the maximum enforceable life of a patent is 17 years, this alone destroys 30% or more of the patent's value.

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 against other infringers can be initiated and move forward. There is effectively no estoppel – despite provisions in the law guaranteeing that protection – so many patents experience serial PTAB petitions from multiple filers. This is known as “gang tackling.” In the case of Zond, 125 PTAB petitions were launched against 10 patents until all of Zond's 300+ claims were invalidated. Zond has since been forced to lay off most of their employees.

The PTAB cannot be fixed. PTAB procedures are intended to destroy patents by the same agency that grants 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 the power both to issue a property right and then take that same property right away. It is a recipe for corruption and a superhighway to regulatory capture.

Some argue that the PTAB can be fixed by rewriting the framework of its 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 result in decisions on the validity of patents. The PTO Director has extensive discretion and can adjust rules within Congresses' framework 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 new president will take office and change the PTO Director who will likely change the rules to satisfy some political need or repayment.

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 without exception. There is no code of conduct for APJs, and this behavior is not prohibited. Institution decisions made by PTAB APJ's are not appealable. And APJ panels have been stacked to get the outcome desired by the PTO Director.

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 doesn't capture the full reality of its impact. PTAB death squads kill investment into startups, job creation, and US economic competitiveness. Because virtually all of our employment growth comes from startups creating new technologies, the PTAB is killing our country's very engine for future growth.

Even under the best of circumstances, patents are long-term assets. Investments in patented technologies are similarly long-term. But the direction of the Patent Office can fluctuate dramatically every four years. This mismatch prevents the kind of long-term thinking and investment activity that is critical for job growth and company formation. Questions of patent validity belong in Article III courts, whose long-term, consistent approach insulates patents from shifting political winds.

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

Congress allowed specific challenges to patent validity solely under Section 102, 103, and 112. Section 101 is not an allowed 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. These exceptions have swallowed all of patent law. For example, the Supreme Court determined an exception of patentable subject matter called the "abstract idea." They then created a two part test which in summary holds: first, somehow determine if the patent is directed to an abstract idea. If the claims are considered directed to an abstract idea, then the second part of the test looks at the claims as a whole to determine if some inventive concept has been added.

The problem with this test is simple. How do you define abstract? The Supreme Court did not define it. Furthermore, even if the Supreme Court did define it, all inventions are abstract at a certain level of analysis. Just like words themselves are abstractions of thought, claims are written in words to represent abstractions of the invention. So any evaluation of any invention can end with a logical determination that the invention is an abstract idea.

Since the Supreme Court has failed to provide guidance on how to determine if a patent is directed to an “abstract idea” or not, lower courts have been conflating the statutory requirements of patentability, Sections 102, 103 and 112, into the analysis of Section 101. This has shredded patent law, piling the fibers into illogical rubble that nobody can figure out. Worse, the Supreme Court has refused several certiorari petitions, nearly begging for clarity on this fundamental issue.

So today, 67% of all patents challenged as an abstract idea are invalidated. Since it is impossible to know how an abstract idea is defined, it is impossible know what a court will decide on any particular patent. This has caused enormous uncertainty for investors contemplating investment in early stage companies that rely on patent protection.

Congress wisely created Section 101 as a door in. Section 101 uses the word of “any” to establish an unlimited boundary of new and useful processes, machines, manufactures or compositions of matter that are eligible for patenting as long as the invention passes muster under statutory requirements of patentability outlined in Sections 102, 103 and 112. The only way to fix this errant judicially created law is to eliminate it with legislation forcing the courts to go back to the statutes as wisely constructed by Congress to perform analysis of patentability under Sections 102, 103 and 112.

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 in *TC Heartland v. Kraft Foods* clarified that residence means the state of incorporation.

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 all across the country, in multiple states where each 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 very real risks 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 a patent holder’s efforts to protect his/her rights.

Retaining (and coordinating and managing, etc.) multiple law firms dramatically increases the cost of litigation. Travel and lodging costs become prohibitively expensive as the lead law firm, the inventor(s), 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, claim construction and other similar issues. If any court makes a decision unfavorable to the patent holder, all other infringers will likely petition their court to adopt that decision thus cascading litigation across all courts. So just a single unfavorable decision may be adopted by all courts even if that particular court would not have come to the same decision.

The patent owner should have the right to file suit in the state where the patent owner resides. After all, this is where the invention was taken by the infringer in the first place.

5. Reinstate First-to-Invent.

The *America Invents Act of 2011* (AIA) changed longstanding determination of inventorship from first to invent to first to file. This has negatively impacted 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 would be capable of generating revenue and that it could be manufactured at a cost that would produce a profit – before incurring the substantial costs of filing for patent protection. Inventors do this viability testing with prototypes and manufacturers to ensure the invention can be manufactured at a cost that will bring a profit. Inventors also work with marketing professionals to determine the market 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 be commercialized at a profit and that someone would buy it, the inventor could file for patent protection.

The AIA changed first to invent to first to file. This change in determining the earliest owner is a tremendous disadvantage to small inventors vis-à-vis huge companies. A small inventor can't afford to pursue patent protection for every idea he/she ever has. Big companies can simply file immediately for patent protection on everything they do that might ultimately turn into a viable product.

For these reasons, most inventor organizations recommend the inventor apply for a provisional patent application prior to disclosing it to anyone. The filing fee for a provisional patent application for a first time inventor is only about \$65.00, but that does not include attorney preparation fees. In almost every case, the inventor is not an expert in patent law, and very few inventors have ever described an invention in writing at the level and specificity required in a patent application. Inventors who file their own provisional patent application without legal help 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 iterations 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 their invention and simply walk away.

6. Upon a finding of infringement, establish a rebuttable default finding of willful infringement.

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, the odds are they will not be enjoined.

Even if the inventor ultimately gets the patent issued, it is practically impossible to attract investment to commercialize an invention if big corporations have 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. Some companies in countries without a tradition of respecting intellectual property have essentially created a business model around this technique.

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 corporations claim to be the leader in a particular technology, and that is the reason we should buy their products over a competitor's. 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 big corporations are the leaders 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 both 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 it could be lawfully purchased and used. But if you are the company producing that router, it must be assumed that you are willfully infringing, subject to rebuttal.

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, the eBay case has practically destroyed injunctive relief. In the absence of injunctive relief and damages rules of thumb, courts now award a compulsory license at an arbitrary value.

It should not be surprising that 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 Court of Appeals for 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 resale/investment market, also known as the secondary market for patent assets

Deterring patent infringement requires a reasonable expectation that significant damages will be awarded by the court. Companies who wish to use patented technology would have a much larger incentive to negotiate a patent license agreement with the inventor if the company knew that “asking for forgiveness” would be a much more expensive option.

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 shorten the timeline of patent litigation. While the AIA may have helped infringers by pushing enormous costs and uncertainty onto small inventors, defending patents owned by small inventors is now 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 a conclusion 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. A Rule 36 opinion is a one sentence decision from the court that reads along the lines of, “The decision of the trial court is affirmed.” There is no explanation of *why* the decision is affirmed, nor is there guidance on specific arguments at trial that may or may not have been endorsed by the appeal court. Rule 36 opinions offer no guidance or explanation to trial courts attempting to understand the Supreme Court decision creating the abstract idea exception in *Alice v. CLS Bank*.

In the *Alice* case, the Supreme 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 lower courts and the USPTO to figure it out. Rule 36 affirmances leave everyone – patent examiners, lawyers, parties, and lower court judges – guessing about how to interpret what is or isn't patentable subject matter. This is not a small-scale problem. Since the *Alice* case, 67% of patents are either invalidated or not issued when challenged as abstract.

The Federal Circuit is avoiding its duty to clarify the law when it issues Rule 36 affirmances.

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*.

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 which 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.

11. Allow similarly situated cases against similarly situated infringers to be filed as a single case.

Prior to the AIA, similarly situated cases against similarly situated infringers could be filed as a single case. This created efficiency for the inventor, the court and the infringers.

The AIA changed that law to force each case to be filed separately even if all cases are filed in the same courthouse. When combined with the Supreme Court's decision in *TC Heartland v. Kraft Foods*, which forces cases to be filed where the infringer is incorporated or has a substantial business presence, cases will likely be distributed to courts in multiple states. This case distribution radically increases the risk and cost of defending patent rights often to prohibitive levels, as described in item 4.

Congress should eliminate the joinder clause passed in the AIA.

12. Ensure issued patents have the full term of 20 years from filing or 17 years from issuance whichever is longer minus applicant delays.

The USPTO is miscalculating the patent term adjustment by failing to take into account delays in which it itself caused. This means that the patent term is burned up in examination, and not added to the back end of the patent through the term adjustment, even though the delay was caused by the USPTO and is no fault of the applicant. In fact in most cases, the applicant acted timely and appropriately and still lost years of enforceable time.

Some patent term adjustments allow merely ten years or less of enforceable life, which is not enough time to develop the invention into a product or to license the patent to others. A patent is a wasting time-sensitive asset, so cutting a patent's enforceable time directly devalues the asset. In many cases, current USPTO practices cut the asset value by half or more.

Allowing patents' enforceable time to be cut by USPTO inefficiency and incompetence actually encourages the USPTO to extend examination time for the purpose of burning that enforceable time. This creates a tool for regulatory capture and opens the USPTO to corruptive behavior.

13. Change the tax treatment of patents from income back to long-term capital gains.

The Tax Cut and Jobs Act of 2017 changed longstanding treatment of the sale or exclusive licensing of patents from long-term capital gains to income. This change significantly drives down the value of patents in two ways. An inventor or startup that sells or licenses a patent pays a much higher tax rate, which reduces the net value of the patent. And the entity that purchases the patent to bundle into larger portfolios, thus creating economic efficiency, also has a higher tax rate, which lowers the profit margin and decreases the value of the patent at the time of purchase. This is a double whammy for the inventor or startup who created the property right.

This change also reflects the erroneous and damaging view on the part of Congress that patent are not property rights like other property rights. This thinking has destroyed the patent system for small entities. Changing tax status is yet further damage. It must be changed back.