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LEGAL AFFAIRS

The Patent Epidemic

It's wasting companies' money and slowing the development of new products

A man "has a right to use his knife to cut his meat, a fork to hold it; may a patentee take from him the right to combine their use on the same subject?" -- Thomas Jefferson

The order was potentially a big one for KSR International Co. General Motors Corp. ([GM](#)) wanted the Canadian auto parts maker to supply gas pedals for its 2003 Chevrolet and GMC light trucks and sport-utility vehicles. But not just any pedals. GM wanted adjustable ones that could move back and forth to accommodate drivers of different heights. And it wanted the pedals to send an electronic signal, rather than using a mechanical cable, to change the engine speed when a driver stepped on or off the accelerator.

Both features had been around the automobile industry for a number of years, so KSR set about designing a combination. Not so fast, warned a March, 2001, letter from Teleflex Inc. ([TEFX](#)), a Limerick (Pa.) competitor that had gotten wind of KSR's discussions with GM. Teleflex claimed its patents covered all combinations of an adjustable pedal with an electronic sensor and that anyone else making them would be infringing. If KSR wanted to proceed, the letter said, it needed to pay Teleflex a royalty. Rejecting the demand, KSR sealed the deal with GM, which it still supplies.

Teleflex sued KSR, and the companies are now locked in litigation. KSR's defense is simple: U.S. law does not allow patents for inventions that are "obvious." Nothing could be more obvious, KSR says in court filings, than a combination of "preexisting, off-the-shelf components" that each perform "exactly the same function" for which they were originally designed. In essence, KSR's argument is that Teleflex may as well have patented the combination of the refrigerator and the light bulb. [Rodger D. Young](#), Teleflex's attorney, counters: "The fact that Device A and Device B exist does not make it...obvious that they should be put together."

HIGH COURT INTEREST

KSR has asked the U.S. Supreme Court to weigh in. If it does, the gas pedal dispute will join a high court docket unusually rich in patent cases this term, with the collective potential for broadly reshaping current law. The justices have not taken such an interest in the area since 1965.

How to determine when an invention is "obvious" is one of the most critical and contentious issues in patent circles. Over the past two decades, critics say, the hurdle for passing the obviousness test has been steadily lowered, and the U.S. is now awash in a sea of junk patents. Some are just plain silly, such as a patent for "a method [of] exercising and entertaining cats" (basically teasing them with a laser pointer), or another for "an animal toy that a dog may carry in its mouth" (which not only sounds suspiciously like a stick but also looks like one in the patent drawings).

But many perceive a serious threat. A coalition of businesses, including Microsoft ([MSFT](#)), Cisco Systems ([CSCO](#)), VF, Hallmark Cards, and Fortune Brands ([FO](#)) has jointly filed its own brief in the KSR case asking the Supreme Court to take corrective action. Two dozen intellectual-property law professors have made a similar filing. Massive overpatenting, the professors say, "creates an unnecessary drag on innovation," forcing companies to redesign their products, pony up license fees for technology that should be free, and even deter some research altogether.

The tide shows no sign of turning. In 2004, the U.S. Patent & Trademark Office issued 181,000 patents, up from 99,000 in 1990. New applications, meanwhile, are being filed at a rate of about 400,000 per year. If the Patent Office closed its doors today it would need two years just to clear the backlog.

One reason for this explosion is the natural tendency of patents to track broad economic and technological trends. Just as the early 20th century saw the advent of large-scale patenting of chemicals, the past two decades have witnessed the spread of patents on computer software, business methods, and genes. Controversy often

accompanies the expansion. For example, critics say many business method patents, for processes that perform operations, are often nothing more than combinations of age-old practices with a computer or the Internet.

In an article in *The National Law Journal* last month, New York attorney Barry Schindler expressed the current patent-everything-in-sight mentality. Seizing on a recent ruling by a Patent Office administrative board that said method patents don't even need to make use of technology, he advised companies to "now seek U.S. patent rights for any unique business method covering every conceivable business operation, such as methods of billing clients, hiring employees, marketing products or service...or simply obtaining funding."

All this complicates day-to-day life for a range of businesses. Companies operating in patent-choked environments are at continual risk of tripping over someone else's intellectual property. Microsoft Corp. is now defending itself in 35 to 40 patent infringement suits simultaneously, and Cisco Systems Inc. faces seven. That in itself is a sign something is amiss, says Robert Barr, who was chief patent counsel for Cisco from January, 2000, to July, 2005.

Barr, who now teaches at the University of California at Berkeley School of Law, says it's too easy for engineers to inadvertently infringe patents just by doing their normal work. "That's not what the law is intended to do," he says. "There shouldn't be patents on things that people will just routinely invent." Barr adds that "the idea of the obviousness test is to root these things out."

Old Economy companies face similar trouble. Apparel maker VF Corp., for instance, regularly gets letters complaining it has infringed bra patents. "In the old days you would think of these things as the tinkering of a technician who knew his way around women's apparel...and wouldn't even think about getting a patent on it," says Peter Sullivan, the attorney who filed the brief in the KSR case on behalf of VF and others. "How many bra patents can you possibly have?"

Defeating even a dubious patent can take tremendous resources. After Storage Technology Corp. ([MSFT](#)) sued Cisco for patent infringement, it took Cisco six years and \$10 million to get a jury to declare last June that StorageTek's patent was invalid. (StorageTek was purchased by Sun Microsystems Inc. ([SUNW](#)) a week before the verdict.) Even before the trial, Cisco believed the disputed technology was obsolete and no longer used by its customers. But it still had its engineers remove it from its routers because of the potential for draconian damages or an injunction if Cisco had lost.

DEFENSIVE PATENTING

Those kinds of litigation-driven business decisions can waste resources and money. So can another strategy known as defensive patenting. To ward off claims of infringement from others, companies pump up their own patent portfolios. Cisco has gone from obtaining a few hundred patents annually to around 1,000. "A large part of that investment is to assure that if someone wants to assert patents against us, we will have some countervailing tools," says Cisco General Counsel Mark Chandler.

It's the patent world's equivalent of mutually assured destruction. Instead of suing, companies agree to license each other their intellectual property. "A network router, a golf club, a software program...a bra all become more expensive as more and more patent holders must be paid royalties," notes the brief filed in the KSR case by Cisco and others.

To many observers, one of the primary culprits in this situation is the evisceration of the obviousness test by the Federal Circuit Court of Appeals. That has led to a flood of low-quality patents being granted, and made it particularly difficult to challenge a patent in court on the ground of obviousness. In 2001, Microsoft settled a suit by Priceline.com ([PCLN](#)) for infringing its "name-your-price" auction patent. Yet to this day, Andy Culbert, Microsoft's top in-house patent litigation counsel, says the Priceline patent is a prime example of an obvious combination of two things that already existed: reverse auctions and the Internet.

KSR initially was able to persuade a court that Teleflex's invention was obvious. After Teleflex filed suit in federal court in Detroit, Judge Lawrence P. Zatkoff considered evidence from engineering experts on whether combining an adjustable pedal with an electronic sensor would have been obvious to someone having skill in the area. He concluded that it would and ruled on summary judgment in December, 2003, that Teleflex' patent was invalid. (Teleflex sold its pedal unit to a private-equity group last August. It now operates in Troy, Mich., under the name DriveSol Worldwide Inc.)

But in January, 2005, the Federal Circuit Court of Appeals vacated Judge Zatkoff's ruling. The court, which hears nearly all patent appeals, said the judge had not followed its rule for inventions based on a combination of existing elements. That rule says courts -- and patent examiners -- can't reject an invention as obvious unless they can point to specific references suggesting the elements could be combined. Those references are typically previous patents or technical literature.

Defenders of the rule say it prevents hindsight bias -- the natural tendency of a person to regard something as obvious once she sees it -- by requiring documented evidence that an idea was easily within grasp. KSR and others who oppose the rule say it is contrary to guidelines set by the Supreme Court, which last considered the issue 40 years ago. And they say it doesn't square with how the world works.

Microsoft attorney Culbert notes that new technology emerges all the time that isn't written about in scientific journals or other published materials, particularly in fast-developing areas such as software. Other commentators have noted that, in many fields, what gets written down is precisely what isn't obvious, guaranteeing that what the Federal Circuit Court requires won't be found. The bottom line: Rulings rejecting patents on the basis of obviousness are rare, and massive overpatenting continues to be a thriving business.

By Michael Orey

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