No. 11-982

In the Supreme Court of the United States

ALREADY, LLC d/b/a YUMS,
Petitioner,

v.

NIKE, INC.,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF PUBLIC PATENT FOUNDATION AS *AMICI CURIAE* IN SUPPORT OF PETITIONER

Daniel B. Ravicher
Counsel of Record
PUBLIC PATENT FOUNDATION, INC.
BENJAMIN N. CARDOZO SCHOOL OF LAW
55 Fifth Avenue
New York, NY 10003
(212) 790-0442

Counsel for Amicus Curiae

*Gibson*Moore Appellate Services, LLC ♦ 421 East Franklin Street, Suite 230
Richmond, VA 23219 ♦ 804-249-7770 ♦ www.gibsonmoore.net

TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Page(s)

Cases:

Statutes

Rule:

Other Authorities:

INTEREST OF THE *AMICUS CURIAE*[1]

The Public Patent Foundation ("PUBPAT") is a not-for-profit legal services organization affiliated with the Benjamin N. Cardozo School of Law. PUBPAT's mission is to protect freedom in patent system. PUBPAT represents the public interest against undeserved patents and unsound patent policy. PUBPAT has argued for sound patent policy before this Court, various Courts of Appeals and District Courts, Congress, the U.S. Patent & Trademark Office (PTO), and many other national and international bodies. PUBPAT has also successfully challenged specific undeserved patents causing significant harm to the public through both Declaratory Judgment litigation and administrative proceedings. *See*, *e.g.*, *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 132 S. Ct. 1794 (2012). PUBPAT is a leading provider of public service patent legal services and one of the loudest voices advocating for comprehensive patent reform.

PUBPAT has an interest in this matter because the decision of this Court will have a significant effect on the public interest represented by PUBPAT. More specifically, PUBPAT represents the public interest in ensuring that only valid patents remain in force. The interpretations of Article III jurisdiction by various Courts of Appeals, including

---

[1] In accordance with Supreme Court Rule 37.6, *Amicus Curiae* states that: (1) no counsel to a party authored this brief, in whole or in part; and (2) no person or entity, other than amicus, their members and counsel have made a monetary contribution to the preparation or submission of this brief. Copies of consents from the parties to file this brief have been provided to the Clerk.

the Federal Circuit, which hears all appeals in patent cases, unduly limit review of invalid patents. Our patent system is flawed in its mass production of low-quality patents, and the Circuits' decisions to prevent parties whose activity is restrained by the owners of potentially invalid intellectual property from confronting the parties causing that harm are contrary to this Court's precedents.

PUBPAT believes this brief, authored by a registered patent attorney and professor of patent law, provides the Court with relevant legal and factual information that may not otherwise be brought to its attention. This is especially true since PUBPAT has particular experience with issues relating to patent quality and use of the Declaratory Judgment Act to challenge invalid patents causing significant public harm.

SUMMARY OF ARGUMENT

Quality is the single most important issue in our intellectual property systems, because without it, they risk losing all credibility and the support of the American people. For example, we must, above all other goals, ensure only deserving patents are issued and maintained, otherwise the public will become rightfully skeptical of the merits of any patent and the patent system as a whole. Denying access to the courts to challenge undeserved intellectual property rights harms the public by shielding undeserved patents from scrutiny. The Court of Appeals' decision to offer safe harbor to a bogus trademark so that its owner could self-select when to assert it against the defendant, or others, in the future, betrays common sense, sound public policy, and, most importantly, the clear law of this Court.

ARGUMENT

I. COURT CHALLENGES TO INTELLECTUAL PROPERTY ARE A NEEDED CHECK ON THE GOVERNMENT'S RUBBER STAMPING OF INVALID CLAIMS TO PUBLIC PROPERTY

A. Patent Quality In The United States Today Is Extremely Poor

The current level of quality for U.S. patents is extremely poor. There are several independent sources, including the Patent Office's own data, that prove this to be true

For one, an ongoing project of the University of Houston Law School, known for having one of the most reputable patent departments in the country, tracks the results of patent litigation and empirically categorizes those results according to the specific issues involved with each case. Patstats, available at http://www.patstats.org/. Their data shows that approximately 30% of all issued patents reviewed by courts in recent years were found to have been identical to what was already in the prior art, meaning they contained no originality whatsoever. Further, another 40% of the remaining patents reviewed by courts were found to be merely obvious over the prior art. *See* Univ. of Houston Law Ctr. Inst. for Intellectual Prop. & Info. Law, Full Calendar Year 2010 Report, http://www.patstats.org/2010_full_year.rev5.htm; Univ. of Houston Law Ctr. Inst. for Intellectual Prop. & Info. Law, Full Calendar Year 2011 Report, http://www.patstats.org/2011_Full_Year_Report.html.

Although the cited Patstats data is limited to a only the very small portion of issued patents that are litigated to a judgment, litigated patents tend to have a much greater significance to the public, on average, than non-litigated patents. John R. Allison, Mark A. Lemley, Kimberly A. Moore & R. Derek Trunkey, *Valuable Patents*, 92 Georgetown Law Journal 435 (2004). The technology related to litigated patents is by definition valuable to a certain extent, as it at least merits the related cost of patent litigation, which prevents the litigation of worthless patents. Thus, any mistakes regarding the validity of litigated patents causes meaningful public harm by denying the public access to the covered technology during the period between the patent's wrongful issuance by the Patent Office and its invalidation by the courts.

The PTO's own statistics show that more than 90% of all the patents that it granted that it is later asked to review (through a procedure called reexamination) have at least one "substantial question of patentability." *Inter Partes Reexamination Filing Data - June 30, 2012*, USPTO, http://www.uspto.gov/patents/stats//IP_quarterly_report_June_30_2012.pdf ("*Inter Partes* Report") (94% of all requests for *inter partes* reexamination granted); *Ex Parte Reexamination Filing Data - June 30, 2012*, USPTO, http://www.uspto.gov/patents/stats/EP_quarterly_report_June_30_2012.pdf ("*Ex Parte* Report") (92% of all requests for *ex parte* reexamination granted); 35 U.S.C. § 312.

Looking deeper, the PTO's data shows that 89% of patents challenged through the *inter partes* reexamination process, which allows for ongoing participation by the challenger, are canceled or changed, while more than 78% of patents challenged through the *ex parte* reexamination process, which does not allow the challenger to participate after submitting the initial request, have their claims canceled or changed. *Inter Partes Report* (all claims canceled 42% of the time, claims changed 47% of the time); *Ex Parte Report* (all claims canceled 11% of the time, claims changed 67% of the time).

One way to confirm how grim the state of affairs is for U.S. patent quality is to compare our system's patent application outcomes to those of other well respected patent offices. Firstly, the USPTO ultimately grants patents from 78% of all original applications, while that rate is only 61% in Japan and 55% in the European Union. Cecil D. Quillen, Ogden D. Webster, and Richard Eichman, *Continuing Patent Applications and Performance at the U. S. Patent and Trademark Office-One More Time*, 18 Fed. Cir. B.J. 379 (2009) (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1429809).

An even better comparative picture is drawn by a study of roughly 70,000 issued U.S. patents and their corresponding foreign applications, which found that counterparts to patent applications issued in the U.S. were only issued by (i) the European Patent Office 72.5% of the time, (ii) the Japanese Patent Office only 44.5% of the time, and (iii) both the EPO and JPO only 37.7% of the time.

Paul H. Jensen, Alfons Palangkaraya & Elizabeth Webster, *Disharmony in International Patent Office Decisions*, 16 Fed. Cir. B.J. 679 (2006). This evidence shows that the U.S. Patent Office is indeed granting a very disproportionally high number of patents relative to the rest of the world.

In short, it is not unfair to accuse the U.S. Patent and Trademark Office of being a rubber stamp, approving virtually any private claim over intellectual property made to it, regardless of whether that intellectual property is in the public domain. The overarching cause of poor patent quality is not, however, incompetence at the USPTO, but rather perverse incentives on it and other actors within the patent system that reward the worsening of patent quality.

For example, the Patent Office receives ten times as much money from issuing a patent than it does from denying a patent. This is because the Patent Office charges an "Issuance Fee" to issue a patent after the application has been approved and then also "Maintenance Fees" every four years of a patent's life in order to keep it enforceable. *See*, *e.g.*, United States Patent and Trademark Office Fee Schedule, http://www.uspto.gov/about/offices/cfo/finance/fees.jsp (effective September 26, 2011) (charging $380 for basic filing fee, $620 for search fee, and $250 for examination fee, each of which are required to apply for a patent, but then $1,740 for issue fee and $1,130 for 3.5 years maintenance fee, $2,850 for 7.5 years maintenance fee, and $4,730 for 11.5 years maintenance fee). Thus, the USPTO is financially incentivized to grant rather than deny patents, as it is a fee-funded agency. Michael Frakes and Melissa

F. Wasserman, *Does Agency Funding Affect Decisionmaking?: An Empirical Assessment of the PTO's Granting Patterns,* 66 Vanderbilt L.R. 2013 (2012) (http://ssrn.com/abstract=1986542).

An arms race amongst patent holders encourages the acquisition of as many patents as possible, regardless of validity, to be used as threats against or bargaining chips with others. Even examiners themselves are encouraged to issue bad patent under the "count" quota system that measures their performance, because issuing a patent takes a simple signature, while denying a patent requires countless hours of writing to continue making and supporting rejections. *Recently Announced Changes to USPTO's Examiner Count System Go Into Effect*, USPTO (2010) (http://www.uspto.gov/news/pr/2010/10_08.jsp) ("The revised count system that is now in effect is designed to: ... Encourage examiners to identify allowable subject matter earlier in the examination process."). In short, very few actors have any incentive to purge the patent system of the hundreds, if not thousands, of counterfeits issued by the Patent Office every week.

B. Undeserved Patents Cause Substantial Public Harm

Patents that are undeserved can cause substantial harm to the American public, because an issued patent – regardless of its true legitimacy – can be used to threaten and impede otherwise permissible, socially desirable, conduct. The threat of having to incur the costs and potential liability of a patent lawsuit is one that few individuals or small businesses can withstand, even if the patent is of

doubtful validity. This chilling effect, when caused by a patent that would be ruled invalid if challenged, provides no social benefit to the American people, because the patent contains nothing new; its invalidity means that whatever it claims or describes was either already known or was obvious in light of what was already known. Thus, poor patent quality can be devastating to the American people.

For example, there have been several patents that were used to preclude competition in markets worth billions of dollars that were later proven to be undeserved. *See*, *e.g.*, *Bristol-Myers Squibb Co. v. Ben Venue Labs., Inc.*, 246 F.3d 1368 (Fed. Cir. 2001) (patent preventing competition to $1.6B per year cancer treatment, Taxol, proven invalid); *Eli Lilly & Co. v. Barr Labs.*, 251 F.3d 955 (Fed. Cir. 2001) (patent barring alternatives to $2.9B per year antidepressant medication, Prozac, proven invalid). Poor patent quality is also partially to blame for the intensive increase in patent litigation, the dramatically higher cost of patent litigation, and the rapid rise of patent speculators – mostly contingency fee patent litigators – who are more than willing to assert questionable patents against large and small commercial actors for the opportunity to collect nuisance settlements or chance of reaping windfall judgments.

Further, the over-patenting that results from low patent quality leads to thickets of patents that choke first inventors with countless small improvement patents claimed by others. Patent inflation caused by granting too many people too many patents deprives those inventors who legitimately did invent wonderful new technology of

the credit they deserve because of all the other undeserved patents issued in the related field. This actually results in less incentive for the truest of innovators amongst us and instead encourages investments in making minor improvements to the inventions of others.

These are, unfortunately, but a few of the many harmful effects that poor patent quality is having on the American public today. Bad patents also thwart research, as there is no research exception to patent infringement outside the pharmaceutical clinical trial setting, and chill civil liberties, which increasingly rely on technology to be exercised. Some have estimated the cost to America of the grant of substandard patents to be over $25 billion. T. Randolph Beard, *et al.*, *Quantifying the Cost of Substandard Patents: Some Preliminary Evidence*, 12 Yale J.L. & Tech. 240 (2010).

C. Court Challenges Can Alleviate The Harms Caused By Invalid Patents

Given the low standard for obtaining intellectual property in our country, it is no wonder that patent and trademark owners seek to avoid any challenges made to the legitimacy of their claimed rights, even after they brandished those rights to restrict beneficial public activity, namely competition. It is in the owners' interest to preserve the apparent legitimacy of bogus patents and trademarks so that they can wave them around again when any other entity expresses competitive desire.

Courts can enable the public to quash this anti-competitive behavior by allowing full adjudication of a validity challenge to any intellectual property, especially IP held by a party that has accused the challenger or others of infringement, and despite whether the IP owner has covenanted not to sue the challenger in the future. Such challenges will help purge meritless intellectual property and discourage owners of such bogus IP from asserting it in the first place. The Court's precedents adopt such a sensible standard.

II. THE GOVERNMENT'S ISSUANCE OF A PATENT OR REGISTRATION OF A TRADEMARK IS SUFFICIENT TO CONFER STANDING ON THE PUBLIC TO CHALLENGE THOSE ACTS

Like statutes, patent issuance and trademark registration are aggressive government acts that restrain public activity. What's worse, is that unlike with statutes where opponents have an opportunity to speak to their elected officials before the statute becomes law, Issued patents and registered trademarks take away the rights of Americans without giving them any meaningful opportunity whatsoever to object. For example, third parties have generally been barred from in any way submitting objection to the patent office before it issues a patent.

The Court has repeatedly found a justiciable Article III case or controversy where parties challenged criminal statutes before they were ever enforced at all, much less against the challenging party. *See Holder v. Humanitarian Law Project*, 130 S. Ct. 2705, 2717 (2010) (citing *Medimmune, Inc. v.*

Genentech, Inc., 549 U.S. 118 (2007) in finding that plaintiffs faced a credible threat of prosecution and should not be required to await and undergo a criminal prosecution as the sole means of seeking relief); *Virginia v. Am. Booksellers Ass'n*, 484 U.S. 383, 392 (1988) (holding that plaintiffs had standing to challenge a statute that posed an alleged danger of self-censorship even though the Court had no reason to assume the law would be enforced); *Doe v. Bolton*, 410 U.S. 179, 188 (1973) (finding that physicians had standing to challenge an abortion statute despite the absence from the record of evidence that any of them had been threatened with prosecution because the statute operated against the physicians in qualifying events).

These findings demonstrate that a government act of issuing a statute can create a justiciable controversy even when the statute's enforcement is not imminent or even expected. Similarly, the government's issuance of a patent or registration of a trademark also can restrain desirable public activity and, thus, the public deserves the right to challenge the validity of those government acts in court. This is true even of parties who are not currently threatened with infringement accusations.

CONCLUSION

For the foregoing reasons, this Court should reverse the Court of Appeals decision below and hold that the public has standing to challenge the validity of any issued patent or registered trademark in court.

Respectfully submitted,

/s/ Daniel B. Ravicher
Daniel B. Ravicher
Counsel of Record
Public Patent Foundation, Inc.
Benjamin N. Cardozo School of Law
55 Fifth Avenue
New York, New York 10003
(212) 790-0442

Counsel for *Amicus Curiae*