

TESTIMONY OF CECIL D. QUILLEN, JR.

Presented at the Public Hearing on the Standard of Nonobviousness
at the United States Patent and Trademark Office on July 20, 1994

Mr. Commissioner. Members of the Panel. My name is Cecil Quillen. I am Senior Advisor with Putnam, Hayes & Bartlett, an economic and management consulting firm. Before that I was General Counsel of Eastman Kodak Company, where I was a Senior Vice President and a member of the Board of Directors. The views I express are my own, formed over thirty years of law practice, most of which directly involved patents.

I focus on two related problems with the U.S. patent system, the lowered and less certain nonobviousness standard that now exists in our courts, and the disparity between the application of the standard in the courts and by the PTO.

Much of what I will say is drawn from two earlier papers, *Innovation and the United States Patent System Today*, presented at an ABA Continuing Legal Education Institute in 1992, and a paper entitled *Proposal for the Simplification and Reform of the United States Patent System*, published in the fall 1993 issue of the AIPLA Quarterly Journal. Both are submitted for the record and I refer you to them for a detailed statement of the problems and solutions, as well as for citations to authorities for the points I make.

Although the statutory nonobviousness standard has been unchanged since its enactment in 1952 the application of that standard by the courts has

undergone drastic change in the past decade. Those who report statistics tell us that something like 2/3 of patents litigated in prior decades were found invalid while currently only about 1/3 are so found. This is not because of higher PTO standards -- Judge Ellis of the Eastern District of Virginia recently observed that "the PTO's filter is becoming more porous" -- but rather because of lowered standards in the courts, including a lowered nonobviousness standard.

The lowered nonobviousness standard results from two concurrent changes in the application of Sec. 103 from that articulated by the Supreme Court in Graham v. John Deere, U.S. v. Adams and other Supreme Court cases.

The first involves the "person of ordinary skill in the art." In the Supreme Court cases that person was someone of intelligence and imagination who kept himself or herself informed of developments in the arts pertinent to his or her work. The Supreme Court said in Graham that "[T]he ambit of applicable art in given fields of science has widened by disciplines unheard of half a century ago. It is but an evenhanded application to require that those persons granted the benefit of a patent monopoly be charged with an awareness of those changed conditions."

This is to be contrasted with today's person of ordinary skill who is said to be "[O]ne who thinks along the line of conventional wisdom . . . and is not one who undertakes to innovate." He (or she) is a literalist, without imagination or creativity, uninterested in developments pertinent to his or her work; one who is incapable of considering collectively the combined

teachings of relevant prior art references unless "motivated" to do so by explicit directions in the references themselves. This requirement for "motivation" is absent from the Supreme Court cases which assumed that the person of ordinary skill had sufficient imagination to consider collectively the teachings of relevant art, even if the references did not themselves suggest that they be considered together.

This change has lowered the standard by narrowing the scope of prior art which is considered in the statutory three-step analysis prescribed by Graham, and has rendered patentable inventions that once could not have been the subject of a valid patent. More than one commentator has suggested that the result is to have read Sec. 103 out of the statute and to make patentable all inventions that are not "identically described or disclosed" in a single reference.

The second of the changes is the elevation of nonstatutory factors, the so-called "secondary considerations," from their position of conditional relevance under the Supreme Court cases -- where they were considered only if doubt remained after the three-step statutory test -- to primary factors which must always be considered and which, if sufficiently present, can even render patentable inventions that do not pass the three-step statutory test. This has not only lowered the standard but has injected uncertainty into the evaluation of inventions and patents because the only prescribed analysis is to consider the evidence, including the nonstatutory factors, "collectively," without any guidance as to how to weigh one against the other. Thus one cannot know in the absence of litigation whether a patent that is prima facie obvious is

nonetheless valid because of the presence of some undefined quantum of nonstatutory factors.

The Notice for this Hearing identified "unexpected results" as one of the "secondary considerations." This is incorrect. The presence or absence of "unexpected results" is part of ascertaining the differences between the prior art and the claimed invention, the second step of the Graham three-step analysis, and was the decisive factor in sustaining the patent in U.S. v. Adams.

The important question is whether the lowered standard and increased uncertainty have been good or bad for innovation in the United States and for our international competitiveness. I have argued in my two papers that the lowered standard and increased uncertainty diminish innovation. They have also diminished our international competitiveness.

The reasons are simple. The lowered standard necessarily means that innovators in the United States -- those who create new products and new processes -- face higher costs than they would if we had a higher standard. To preserve the opportunity to use their own work they must file more patent applications and obtain more patents than they otherwise would. To do so they must employ and pay more attorneys and divert valuable time of their R & D staffs to assist in obtaining and evaluating patents rather than creating new products and new processes. Obtaining more patents however affords no advantage over competitors who are faced with the same necessity. Everyone has been forced to obtain more patents, and thus incur higher costs, but no one has obtained an advantage. Innovators must deal with more patents

owned by others. They must take more licenses, and pay higher license fees, and employ more licensing representatives. They face more litigation and pay more outside counsel fees. And the increased uncertainty raises the cost of capital for their innovation investments. Innovators, including patentees, thus face significantly higher costs because of the lowered standard and increased uncertainty. The laws of economics translate those higher costs and greater uncertainty into less innovation that is more costly.

The lowered standard also erases the difference between inventions that are truly ingenious and those which are merely routine. The economic power to exclude is the same for patents which cover either. A lowered standard favors the less creative and is therefore an appropriate strategy for a nation whose inventors, on balance, are less ingenious than those of competitor nations. It is not an appropriate strategy for a nation that believes its scientists and engineers to be more clever and creative than those of competitor nations. In fact, for such a nation, it is a self-defeating strategy which affords its less clever competitors the opportunity to "catch up" by obtaining on their less clever inventions patents that have the same economic power as those for more clever inventions.

Thus it seems clear that it is in our national interest to have a higher rather than a lower standard. Such a change would result in lower innovation costs with the result that we will get more innovation and it will cost us less, and we will no longer provide our less clever international competitors the "catch up" opportunity that is the consequence of our lowered standards.

The question then becomes how do we achieve a higher and more certain standard. The answer is simple. We return to the Supreme Court standard. We resurrect the "person of ordinary skill" of the Supreme Court cases. He (or she) was charged with knowledge of the prior art pertinent to his or her work and did not require specific directions to consider all of the relevant prior art. This would eliminate the requirement for "motivation" and instead would substitute the simpler Supreme Court test of whether the prior art was relevant to the problem claimed to have been solved.

The nonstatutory factors should be relegated to their former status of conditional relevance, or, even better, abolished entirely as indicators of nonobviousness. Several commentators have suggested exactly that. This would have the additional virtue of minimizing the uncertainty from "considering the evidence collectively" and, by enabling patentees and innovators to make better judgments about patent validity, should avoid or minimize patent litigation, and simplify that which does occur.

Changes to the standard, along with other changes thought desirable, should be implemented by legislation rather than awaiting judicial development or intervention by the Supreme Court. Judicial development, if it occurs at all, will involve a period of uncertainty. Supreme Court intervention is equally uncertain because of the necessity for appropriate cases and interest on the part of the Court.

The second topic is the continuing disparity between the standards applied in the PTO and those followed by the courts. This disparity is undesirable for both patentees and innovators.

Patentees have the right to expect their patents, which are granted after examination by an expert government agency, to be more than mere licenses to bring lawsuits. The PTO should apply the same standard followed in the courts so that patentees receive a patent that is worthy of respect rather than merely an invitation to the roulette wheel of litigation. The PTO however has no ability to evaluate the nonstatutory factors. Thus it will be necessary for the nonstatutory factors to be abolished, or at least returned to their former status of conditional relevance, if the PTO is to have any hope of achieving this goal.

Innovators too would be well served by congruence between the PTO standard and the court standard. The granting of questionable patents presents for the innovator a serious dilemma: do I respect a patent which perhaps should never have issued, or do I go ahead with my new product or process and run the risk through uncertain litigation of discovering that I lost the spin of the wheel and forfeited my investment. This problem is especially acute when the patent is *prima facie* obvious, but there is some quantum of nonstatutory factors and thus is subject to the uncertainty of "considering the evidence collectively." The situation was concisely summarized by Judge Ellis who stated that trivializing nonobviousness and overemphasis on commercial success and other secondary factors, together with the high cost of litigation, have discouraged challenges to improvidently issued patents.

Conforming the PTO nonobviousness standard to that of the courts is the most critical management issue for the PTO. I wish I could offer a quick solution. But, like Judge Ellis, I have no panacea. I do know that such a

happy state of affairs will not come about unless it is made the principal objective of the PTO. All the other desirable things the PTO might do, including dealing with its backlog, will have to be subordinated to the one single goal of uniformly applying a consistently high standard.

Adoption of a higher standard should however aid the PTO in its efforts to conform. The higher standard will over time result in fewer application filings. This in turn will enable the PTO to do more thorough examinations. Other legislative changes, e.g., abolition of continuing applications, etc., would eliminate duplicative work and further aid the PTO in freeing up resources for its principal work -- examination of patent applications.

In summary, the current nonobviousness standard has been diminished from that prescribed by the Supreme Court. This imposes additional costs on innovators and injects unnecessary uncertainty into evaluating inventions and patents and the outcome of patent litigation. It is a deterrent to innovation in the United States and diminishes our international competitiveness. The standard should be made more rigorous and certain, and that can be done by restoring the standard articulated in Graham, Adams and other Supreme Court cases. The restoration of the more rigorous and certain Supreme Court standard and its uniform and consistent application by the courts and the PTO would enhance the climate for innovation in the United States and assist in the preservation of our international competitiveness.