

Patent Reform and Small Business Challenges

The Importance of Patent Rights and Commercial Competition

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The importance of inventions and patents and the significant role that they have played in our national well being has been recognized since the founding of our nation. Clearly the U.S. Constitution's provision of a patent system reflects this idea. Our founding fathers were reminded of the significance of this system and the profound potential impact that it would have on our domestic welfare. In his first address to Congress, President Washington made note of how new inventions would affect the national well being of the United States when he shared, "I cannot forbear intimating to you the expediency of giving effectual encouragement, as well to the introduction of new and useful inventions from abroad as to the exertion of skill and genius at home" (with "at home" referring to the United States). Subsequently, Congress passed patent legislation in 1790 and 1793.¹

It is a popular premise that the patent system is geared toward rewarding inventors by allowing them to reap the commercial profits from their ingenuity. Specifically, the patent system rewards an inventor who shares an invention with the country by giving the right to exclude others from manufacturing or commercializing the invention. A major way that small businesses reap the rewards of the invention is through the ability to attract capital for business development. Small businesses often must raise their capital through leveraging assets. In the case of small and start up technology firms, often the only asset may be the value of a patent.

Major questions concerning national competitiveness develop when considering the impact Congress' proposed 2009 patent reforms have on small business. The most challenging issue is whether the 2009 patent reform efforts will stifle small business patent development, business growth, and capacity to compete in the creation of new industries. Here, a comprehensive review of small business competitiveness and patent reform will not be attempted; rather, key points surrounding issues with regards to patent reform arising from language passed out of the Senate judiciary committee will be addressed.

When we consider issues of global competitiveness we must consider the impact that these changes in the patent system will bear on small business. The impact of patent reform on small business is critical when we consider studies that validate small businesses creating a high proportion of national invention and innovation. Studies suggest that small business innovation promotes product diversity and rapid response to market opportunities.² One government report presented the view that small firms are as much as six times as efficient as large firms in using research and development dollars in the ultimate creation of new products.³

The impact of the proposed 2009 patent reforms on small business will hinge upon how a few critical questions are addressed.

**"The patent system adds the fuel of interest to the fire of genius."
Abraham Lincoln**

¹ Jason O. Watson, "A history of the United States patent Office," April 17, 2001, Commonwealth of Virginia Historical Markers website, <http://www.historicla-markers.org/usptohistory.cgi> citing "George Washington, First Annual Message to Congress New York City, Federal Hall, 1790"

² National Academy of Engineering, Risk & Innovation: The Role and Importance of Small High Tech Companies in the U.S. Economy (Washington national Press, 19950, 37.)

³ National Science Board, Science and Engineering Indicators, 1993, (Dec. 8, 1993), 185

First, will small firms, independent inventors and universities be able to efficiently establish patent rights?

Current policy places a priority on the participation of independent inventors, small businesses and universities in pursuing patents. This preference is expressed in many ways. One example is the statutory requirement that each of these entities receive a 50 percent discount on many of the fees charged by the United States Patent and Trade Office.⁴ Another reflection of the significance of small business technology commercialization is the funding and support of the Small Business Innovation and Research (SBIR) grant program. Government reports have validated the premise that the SBIR grant program is particularly important because it places a premium on moving invention along the pipeline of commercialization.⁵

Will we hold onto the recognition that small businesses and inventors are a significant source of technology commercialization?

We must remember that our national competitiveness is based on invention and commercialization of invention. Commercialization may mean the exploitation of patent rights through licensing without manufacture. In the last twenty years we have seen increasing investment in technology licensing by universities.⁶ These universities have not been the manufacturers of the product but they have invented and then commercialized the technology. This situation is the result of laws that provide for universities to hold the patent title to technology that is subsidized by federal funding. Subsequently universities have placed emphasis on creating technology licensing offices and receiving significant royalties from these efforts.⁷ The importance of this point lies in whether final reform language places any undue burden upon non-manufacturing inventors' ability to enjoin in-

fringers, and prosecute for the protection of patent rights. The priority of universities and many small businesses is relegated to licensing and commercialization, not manufacturing. A notable example of this phenomenon is the instance of the development of QUALCOMM, Inc.

QUALCOMM, Inc. is a technology company focused on digital and wireless innovation. In his speech before The Progress and Freedom Foundation's 2006 Aspen Summit, Co-founder Irwin Mark Jacobs outlined QUALCOMM's business development strategy. QUALCOMM's strategy was not to manufacture patents which it held. The strategy is to design, sell, and support chips and supply software, but not own or operate manufacturing foundries.⁸ Using a licensing based model QUALCOMM has grown from a 7-person firm in 1985 to an 11,000 employee company today. In addition, the company owns 4,800 issued and pending patents in the U.S. and roughly 25,000 across the globe. These patents are licensed to over 130 companies. The important fact is that this company focuses on patent licensing and produces one-third of over \$7 billion in annual revenue and 60 percent of net profit through licensing.⁹ Clearly businesses which patent with the sole intention for licensing should not be categorized as unproductive, or penalized for utilizing an innovative business model.

In short, individual inventors, small businesses and universities cannot be relegated to lesser status because of a lack of immediate designs for the manufacture of patents that they hold.

Will reforms such as new mandates for calculation of damages consider market place realities?

Damages awards must be tied to market-place realities. Regardless of the formula, the guiding principles that determine inventor dam-

⁴ 35 U.S.C. sec. 41(g)

⁵ CRS Report RL30216, Small, High Tech Companies and Their Role in the Economy: Issues in the Reauthorization of the Small Business Innovation (SBIR) Program, by Wendy H. Schacht.

⁶ Josh Lerner, "Patent Policy Innovations: a Clinical Examination," 53 Vanderbilt Law Review (2000), 1841

⁷ See Arti K. Rai & Rebecca S. Eisenberg, "Bayh-Dole Reform and the Progress of Biomedicine," 66 Law and Contemporary Problems (Winter/spring 2003), 289.

⁸ Irwin Mark Jacobs, "Promoting competition and Protecting Incentives for Innovation" The Progress & Freedom Foundation – Progress on Point Policy Commentary, page 4, Release 13.22 September 2006

⁹ Ibid

ages gained from infringers promote two goals. First, damages should be a genuine discouragement for infringers to avoid infringement. A legitimate argument suggests that limiting damages to the value of the invention above the prior art could result in nominal damages awarded to patent owners. Damages that are based upon entire products and not just the "inventor's contribution" will be more likely to represent costs large enough to discourage infringers from infringing on patent rights and calculating the damages as merely overhead for conducting business.

This is a time when we can return to fundamental principles. A fundamental premise of patent ownership is that the owner has the exclusive right to exploit the commercial value of the invention. Damages which closely approximate the market value of an invention best reflect the essential tradeoff between inventor and the patent filing system. In addition, we can consider the flexibility given to judges as "gate keepers." Allowing the judiciary to direct juries on damages parameters allows them to consider the market place realities of disparate industries and market conditions. As proposed, the language in the bill places the responsibility on the parties to present criteria to create parameters for determining damages at the outset of a trial.

A significant perspective has been brought to the forefront by the Institute of Electrical and Electronic Engineers (IEEE-USA) regarding damages and protection. The IEEE-USA Board of directors has recognized the potential need to treat fast moving technologies differently. They suggest providing a shorter duration of protection for technologies which have short periods of commercial viability.

Will patent rights based upon first-to-file recognition provide greater certainty and therefore promote access to investment capital.

Certainty in the future validity of patent rights is attractive to investors. Certainty pro-

vides for investment, and in turn, investment provides for business development. The change to a first-to-file system has definable benefits for small business financially. Eliminating the first-to-invent standard places a burden on inventors to, at the least, expeditiously file provisional patents. This places an administrative burden on inventors. Certainty for small businesses is then traded for administrative burden. Large companies are likely better positioned to manage the documentation necessary to take advantage of a first-to-file system. However, the trade off occurs when small businesses are able to leverage resources more efficiently after they have established being first-to-file. This change will eliminate potential litigation costs associated with challenges from claims of those first-to-invent. This provision will also reconcile our system with international patent protection norms and provide greater certainty to investors. ¹¹

Conclusion

The proposed 2009 patent reform provisions hold substantive opportunity to increase U.S. competitiveness for small businesses globally. However, it will be critical for Congress to remember the needs of non-manufacturing patent holders. Congress must also provide for recognition that patent rights without paths to commercialization are of compromised value and have marginal benefit to global competitiveness. Congress must furthermore recognize that damages should always constitute sufficient substance to discourage infringement and reward the basic investment of inventor resources. Finally, Congress must continue to promote language and provisions that produce certainty which attracts investment.

¹⁰ Testimony, John R. Thomas, Professor of Law, Georgetown University, "The Importance of patent Reform to Small Businesses Before the U.S. House of Representatives Committee on Small Business, March 29, 2007