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## *Conferences/Patent Reform*

### **Rush to Pass Patent Reform This Year Questioned When PTO Reform Missing**

**W**ith more questions about what has been eliminated from the patent reform bills than about the heavily negotiated provisions that remain, participants at a June 15 conference in Washington, D.C., wondered whether a better course of action would be to revisit the initiative in the next congressional session, and to focus then primarily on fixing the Patent and Trademark Office's problems.

The conference, moderated by the recently retired chief judge of the U.S. Court of Appeals for the Federal Circuit, Paul R. Michel, was titled "Patent Reform 2010: What Shape Will It Finally Take?" It was hosted by the Analysis Group Inc., Georgetown University's Center for Business and Public Policy, and the law firm, McKool Smith.

Not participating in the discussion were the original proponents of patent reform—the nation's largest information technology companies—who, the organizers' said, declined an invitation to attend. Their absence may have reflected their lack of support for the recent "compromise" bill that is most likely to be pushed forward.

**The Houses Are Split.** The history of patent reform since 1992 was recounted by three panelists, Rep. Dana Rohrabacher (R-Calif.), Douglas Cawley of McKool Smith, Dallas, and Hans Sauer, deputy general counsel for intellectual property at the Biotechnology Industry Organization.

Rohrabacher—a member of the House since 1989 and known opponent of the recent bills—recalled the IT community's initial efforts at reform in 1992 as an attempt to make substantive changes to patent law when the only goal of Congress was to pass legislation to implement the General Agreement on Tariffs and Trade.

After seven years of debate and compromise, he noted, Congress passed "a great bill," the American Inventors Protection Act (59 PTCJ 146, 11/24/99). But the IT industry began the current reform efforts in 2005, Rohrabacher said, to try to get back the concessions it made in the AIPA.

Cawley, however, faulted what he called 15 "mega IT firms" for themselves creating the need for additional

patent reform. By abandoning the patent clearance procedures used by traditional manufacturers and instead telling IT developers to forgo such patent searches, those companies were seeking to "get to market fastest with the mostest," he said. But by 2005 they realized that they had to go to Congress again "to relieve them of the consequences of their own business decisions," Cawley said.

The bills have been modified somewhat since those early efforts. In the 111th Congress, two nearly identical bicameral bills, S. 515 and H.R. 1260, were introduced March 3, 2009 (77 PTCJ 438, 3/6/09).

The pharmaceutical and biotechnology industries were initially opposed to the patent reform efforts and fought for changes in the newly-introduced bills as well, BIO's Sauer noted.

Those two bills stalled until behind the scenes negotiation in the Senate produced a substitute manager's amendment to S. 515 in March (79 PTCJ 560, 3/12/10). Referring to that proposal as "the grand compromise," particularly for its elimination of earlier provisions on patent infringement damages, Sauer said that the amended S. 515 is at best a "high watermark" in the reform drafting efforts, and at worst is benign.

Despite this progress in the Senate, the prospects for movement of the reform legislation in the House seem to have dimmed again, however. House Judiciary Committee Chairman John Conyers Jr. (D-Mich.) had already indicated that no one should expect his committee to rubber stamp S. 515. Indeed, at his committee's May 5 Patent and Trademark Office oversight hearing, the schism between the houses became apparent (80 PTCJ 5, 5/7/10).

Then, when on May 18 Conyers and ranking member Rep. Lamar S. Smith (R-Texas) introduced the Patent and Trademark Office Funding Stabilization Act of 2010 (H.R. 5322) to address PTO funding concerns only (80 PTCJ 79, 5/21/10)—a small subset of overall patent reform—many questioned whether the House was effectively ending hopes for a larger bill.

Back in the Senate, S. 515 has been subject to "holds" by senators from California and Utah, according to Joseph D. Matal, Republican general counsel for the Senate Judiciary Committee. The big IT companies active in patent reform—companies such as Cisco Corp. and Intel Corp.—are heavy employers in those two states. Since the compromise on damages was first announced, those companies, and the Coalition for Patent Fairness to which they belong, have been noticeably quiet publicly, but it was widely assumed they were re-

sponsible for the legislative stall, effectively confirmed by Matal's comment.

The only member of the high technology industry represented at the conference was Tessera Technologies Inc. of San Jose, Calif.

Bernard J. Cassidy, Tessera's general counsel, cautioned the audience that the small group of "mega firms" who may support the compromise legislation now do not represent the interests of the industry as a whole. Notably, however, companies like Tessera—"non-practicing entities" that license patents but do not market a patented invention—were the principal targets of initial reform efforts, especially the patent damages provisions in those bills that have been dropped from S. 515.

**The PTO Needs the Help.** Michel has been outspoken about the need to focus patent reform on the "chronic underfunding of America's innovation infrastructure," as he described in a recent interview with BNA (80 PTCJ 145, 6/4/10). He echoed this concern at the conference, calling on Congress to fill the 100 vacancies in the federal courts and add 100 judgeships to deal with the increased caseload in recent years.

Michel has also pushed Congress to provide additional resources for the PTO, a position that won support from several other participants at the conference. Economist and author Pat Choate—a member of the board of directors of the American Innovators for Patent Reform, an organization that represents inventors and that has been consistently against the current efforts—listed nine PTO needs that "the proposed legislation does nothing to address":

- retaining personnel in the examiner corps, given its 30 percent turnover and a two-year training requirement;
- reducing the workload per examiner;
- getting more space to house examiners;
- reducing pendency and backlog, rather than increasing filings as, he said, would happen if the new first-inventor-to-file provision is passed;
- allowing the PTO to implement security orders on patents directed to national economic security, instead of defense only;
- upgrading its antiquated IT infrastructure and equipment;
- ending the diversion of fees collected by the PTO;
- stopping the abuse of reexamination as a litigation tactic; and
- understanding the unintended consequences.

One such "unintended consequence," according to Choate, is that patents granted to individual inventors have dropped by 50 percent since enactment of the AIPA—a measure that was aimed at helping the small inventor.

Matal countered that most of the items on Choate's list are under the control of the PTO and its new director, David J. Kappos. He lauded Kappos's efforts to upgrade the "energy and efficiency" of the agency. However, he acknowledged that several of the revisions in the compromise S. 515 came in response to the PTO's concerns. For example, the revised bill raises the threshold for inter partes reexamination challenges, Matal noted, and that was "the PTO's number one request."

**Litigation Changes Not Worth It.** Perhaps the most debated patent reform proposal in the conference was the provision to change from a first-to-invent system to a first-inventor-to-file, or FITF, system—a switch that small companies and individual inventors fear will leave them behind in the race to the patent office.

Cheryl Miller, deputy staff director for technology and innovation for the Senate's Committee on Small Business and Entrepreneurship, argued in favor of S. 3089, introduced March 11 by committee chairwoman Sen. Mary Landrieu (D-La.). That bill would require the Small Business Administration to conduct a study of the effects that FITF might have on small businesses if the change is made (79 PTCJ 582, 3/19/10).

But the change to an FITF system was strongly defended by Philip Johnson, chief intellectual property counsel for Johnson & Johnson, New Brunswick, N.J. Johnson represented the pharma-centric 21st Century Coalition for Patent Reform at the Senate's hearing on S. 515 (77 PTCJ 484, 3/13/09). The current first-to-invent system, he said at the conference, creates uncertainties for companies that must decide whether to invest in a patented technology without knowing if an earlier inventor will later challenge the patent. The threat of such inventorship contests reduces the value of an invention to investors, he said.

Changing to an FITF system would also result in a "modest savings in time and money" in litigation, according to Brian Riopelle of McGuireWoods, Richmond, Va. Specifically, it would eliminate the discovery costs for determining inventorship in patent interference proceedings before the PTO and in inventorship challenges in court.

Riopelle identified three other provisions in the pending S. 515 that could produce similarly "modest" improvements to patent law:

- The elimination of false marking suits by qui tam plaintiffs would help address what some perceive as an increased threat of such litigation, he said. However, the Federal Circuit may recently have reduced the threat of such lawsuits by holding that the plaintiff in such an action must prove the patent owner intended to deceive the public. *Pequignot v. Solo Cup Co.*, No. 2009-1547 (Fed. Cir. June 10, 2010) (see related story elsewhere in this issue).
- To rein in excessive willful infringement charges, Riopelle said, the bill would slightly enhance the Federal Circuit's decision in *In re Seagate Technology LLC*, 497 F.3d 1360, 83 USPQ2d 1865 (Fed. Cir. 2007) (en banc) (74 PTCJ 491, 8/24/07), by requiring specific pleading so that the issue may never come to trial, he noted.

■ The bill's proposed "early administrative validity" challenges—pre-grant entry of prior art and post-grant patent review—will weed out some questionable court challenges that would otherwise be litigated, he argued, and its enhanced estoppel provisions will further reduce the likelihood of success of some defenses in court and thus discourage litigation.

But the compromise bill's revised damages provisions and a new provision on "sequencing" or bifurcating trials will have a countervailing cost to the patent system, Riopelle said. The former would introduce a new motion practice and procedures early in the trial to determine the "methodologies and factors" that matter in the case, and the latter will extend trials if the same jury is held over. Sequencing will also infuriate district

court judges—such as in the U.S. District Court for the Eastern District of Virginia—who have opposed bifurcating the liability and damages portions of trials, he said.

**What Will Happen?** The current Senate holds on S. 515, together with the House bill's focus on a less comprehensive approach to PTO funding, could present formidable hurdles to floor action on the patent reform legislation this year.

Matal said that if S. 515 were amended to incorporate the needs of the high technology factions, however, he would expect “a dozen legislative holds from the other side,” referring to the pharma and biotech interests. One somewhat unattractive option, Matal suggested, is to forge a compromise with the House and then work through the Appropriations Committee to bypass the holds.

Rohrabacher predicted that any attempt to move the bill forward will fail this year. He recommended trying again next year with a bill more focused on fixing the PTO's problems—“aimed at the [list of changes] Pat Choate was talking about.” He responded positively to an audience member's suggestion that next year's measure include a provision allowing the PTO to open regional offices to take advantage of engineering talent throughout the country. Matal noted that the Senate Judiciary Committee staff is already working on such a proposal.

Matal told BNA that he is aware of fears in the patent community, and of comments by S. 515 sponsor Sen. Patrick J. Leahy (D-Vt.), that if patent reform does not

pass this year, the chances it will be revived in the next Congress are low. But he contended that the current Senate schedule, including a long period that will be lost as many lawmakers seek reelection from August through November, will make it difficult to get on the schedule this year, and floor time is usually much easier to get after the first of the year.

But Matal also noted that, if more Republicans are elected in the fall, there could be calls to add new provisions to the bill, most notably changes to the standards for raising the defense of inequitable conduct in patent infringement cases. He acknowledged that the Federal Circuit will address the inequitable conduct doctrine en banc in *Therasense Inc. v. Beckton, Dickinson & Co.*, No. 2008-1511 (Fed. Cir., *en banc rehearing granted* April 26, 2010) (79 PTCJ 820, 4/30/10). But Matal said that the committee could not count on the appellate court's decision to resolve the concern of many committee members as to the overuse of the defense.

John Jarosz, managing principal at the Washington, D.C., office of the Analysis Group, an economic, financial, and business strategy consulting firm to law firms, corporations, and government agencies, and John Mayo, professor of economics, business, and public policy at Georgetown University, Washington, D.C., also spoke in representing the two co-hosts at the conference.

BY TONY DUTRA

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*A July 2009 floor speech by Rohrabacher opposing patent reform is at <http://rohrabacher.house.gov/News/DocumentSingle.aspx?DocumentID=137305>*