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Reformers Tackle Licensing, Litigation Abuse

Companies doing business in the U.S. are all too familiar with this scenario: Over a long, well-publicized period involving informal and often formal processes, an industry selects and begins using a standardized technology in its products.

Before making the selection, industry participants carefully search existing patents to ensure the proposed standard will not infringe known patents.

Years later, the owner of a patent of dubious validity suddenly emerges from the shadows and asserts the standard infringes its patent.

Even though the patent had not been identified by the industry as being applicable to the standard, and therefore most companies using the standard never even knew about the patent, the owner asserts each of those companies has "knowingly and willfully" infringed the patent. The owner demands that each company pay a hefty license fee or, instead, spend far more money defending an infringement lawsuit in which the owner threatens to obtain an injunction halting the sale of all products that use the standard and to seek multiple damages for "willful" infringement.

As these scenarios proliferate, patent law reformers, who consider these licensing and litigation scenarios to be nothing more than anti-competitive abuses of the current U.S. patent system, are fighting



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back. Their efforts have culminated in the Patent Reform Act of 2005 ("Reform Act"), which was introduced in Congress in June.

Many of the Reform Act's provisions are intended to reduce abusive licensing and litigation schemes by enhancing the quality of patents issued by the U.S. Patent and Trademark Office (PTO).

One such reform would require that *all* U.S. patent applications be published 18 months after the earliest filing date. This would eliminate patent applicants' existing rights to keep an invention secret until a patent covering the invention is granted.

A second related reform would

make it far more difficult for questionable patents to be granted by allowing third parties to submit prior art within six months after an application is published.

At present, in deciding whether an invention is patentable in light of the prior art, patent examiners must rely solely on their own prior art searches and prior art submitted by the inventor. Under the Reform Act, anyone who pays a fee could submit relevant prior art references to the PTO.

Yet another proposed reform would authorize the PTO to issue regulations limiting the circumstances in which patent applicants may file a continuation application and still be entitled to the priority date of the parent application.

This reform reportedly is directed at inventors who file continuations to keep an older application pending and then revise the application's claims to cover successful products subsequently developed by others.

The last of the major reforms to the patent examination system itself would make it easier and cheaper to challenge bad patents once they have been granted by creating a new post-grant opposition system within the PTO.

This procedure would allow competitors and third parties to challenge a patent's validity in an adversarial proceeding with limited discovery before a panel of three administrative judges in the PTO,

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instead of through litigation.

Any challenger could request a review during the first nine months after a patent is granted. An alleged infringer who receives notice of infringement from a patent owner could request a review within six months after that notice.

The Reform Act also takes aim at perceived abuses in patent infringement litigation itself. Among other things, the Reform Act proposes significant new limitations on a patent owner's damages for infringement. In this regard, many products consist of numerous component parts.

The existing "reasonable royalty" damages provisions frequently result in damages being awarded on the total value of all the component parts of a product, including the value contributed by all non-infringing component parts, instead of just the value added by the infringing component.

The Reform Act would require that courts determine a reasonable royalty by considering only the portion of the realizable profit that should be credited to the invention itself as distinguished from all other features and components of the product.

The second significant damages reform would make it harder for patent owners to allege and prove "willful infringer" damages.

Among other things, a patent owner would need to give an alleged infringer far more detailed and particularized notice of the alleged infringement. Such an

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infringer would be protected from increased "willful infringer" damages if it had an informed good faith belief that its conduct was not infringing.

In a related vein, the Reform Act would constrain judicial discretion to issue injunctions to patent owners by requiring that courts 1) consider all facts and interests of all associated parties and 2) under certain conditions, stay an injunction pending an appeal.

In other areas, the Reform Act seeks to eliminate whole issues commonly litigated in patent disputes.

For one thing, by replacing the current "first to invent" system with the "first to file" system of awarding patents, the act would eliminate litigation to determine whether a

patent owner was the first to invent a claimed invention.

Currently, the U.S. awards a patent to the first inventor to file an application that adequately discloses the invention. This rule often results in complex and costly litigation to determine whether a particular applicant is, in fact, the first to invent the claimed invention.

The "first to file" system eliminates the need to litigate that question by making the test a simple race to the patent office.

Similarly, the Reform Act would effectively eliminate the inequitable conduct defense in infringement actions and transfer to the PTO responsibility for investigating inequitable conduct in connection with patent proceedings before the PTO.

The lead sponsor of the Reform Act states these reforms will enhance the quality of U.S. patents and "eliminate legal gamesmanship from the current system that rewards lawsuit abuses over creativity" and "disrupt[s] the operations of high tech companies and other businesses."

Whether these reforms, if enacted, will achieve those benefits remains to be seen.

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