

No Happy New Year for the Patent Bill

Add the crucial court decisions to Congress' packed agenda, and the odds on patent legislation grow long.

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Patent reform has received much attention in the press and in Congress for the last several years. Lawmakers, congressional staffers, companies, industry groups, and lawyers have all directed tremendous time and resources at this issue—an expenditure of energy that so far has not led to the passage of a big bill.

Meanwhile, over at the U.S. Court of Appeals for the Federal Circuit, Chief Judge Paul Michel has repeatedly suggested that parties seek patent change through judicial decisions rather than legislative action. He has a good point. A number of recent court decisions, including several from the Federal Circuit, have blunted any pressing need for legislative reform. Coincidentally or not, the results of these notable judicial decisions have largely tracked the proposed legislative provisions.

What does this mean for the proposed Patent Reform Act for the foreseeable future? Given the current economic climate and the relief being afforded by the judiciary, those still interested in legislative fixes may be disappointed.

CONGRESS CONSIDERED

Proposed fixes to the Patent Act include some that would drastically alter our current system at the Patent and Trademark Office and in the district courts. These proposals have often been lauded as necessary to repair a “broken” system, but have also met with significant (although less public) opposition.

Consider one of the primary reform efforts from last term: S. 1145, sponsored by Sens. Patrick Leahy (D-Vt.) and Orrin Hatch (R-Utah), among others. That bill made it out of committee in the Senate, but then ran into serious opposition, including a definitive statement from the Bush administration that it would not sign the bill if passed in its current form.

S. 1145 focused on some important sources of patent contention, including venue, damages, and willfulness.

The bill would have limited where patent infringement actions could be brought, significantly increasing the ties needed between the defendant and the jurisdiction. For example, jurisdiction would apply where the defendant “has committed substantial acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant.”

In the area of damages, the bill would have limited any recovery to that portion of the value of the infringing product that was tied to the infringed patent. In other words, a patent-holder could not claim royalties on all revenues from the product if its invention represented only one element of the product.

In a third key fix, S. 1145 proposed to bifurcate inquiries into the willfulness of infringers’ conduct, make irrelevant whether an infringer had obtained an opinion of counsel as to the legality of its product, and require written notice of infringement that names specific patents and allegedly infringing products.

THE JUDICIARY SPEAKS

Yet even as Congress debated and debated and debated these changes, the judiciary has not held its breath.

On at least two occasions in the past year, Chief Judge Michel said that many of the issues important to those pushing patent reform can, and indeed should, be addressed not by the “blunt” instrument of congressional intervention, but through the more “surgical” approach of the judicial system. Michel pushed this point in a presentation to the Association of Corporate Patent Counsel in January 2008 and in a keynote presentation to the Intellectual Property Owners organization in September.

In fact, the Supreme Court and the Federal Circuit have been busy handing down decisions on the very issues that primed the pump for patent reform. While lawyers con-

tinue to debate whether the recent decisions are sufficient to address the perceived shortcomings in patent law, the rulings have dampened the drive for reform.

Within the last month, the Federal Circuit took aim at one of the more troubling aspects of patent litigation: forum shopping by plaintiffs seeking plaintiff-friendly courts. About 25 percent of patent cases in 2007 were filed in the Eastern District of Texas and the Central District of California. As Sen. Arlen Specter (R-Pa.) noted in statements related to S. 1145, “The question of whether forum shopping of patent suits has reached alarming levels cannot be denied.”

On Dec. 29, in *In re TS Tech*, the Federal Circuit took the extraordinary step of issuing a writ of mandamus ordering the Eastern District of Texas to transfer a case to a more appropriate venue. Applying a recent 5th Circuit decision, the Federal Circuit indicated that the location of evidence—both documents and witnesses—related to the accused products took precedence over such factors as the plaintiff’s choice of forum. Notably, much of the decision tracks S. 1145, in which one of the primary venue options was where the defendant “has committed substantial acts of infringement and has a regular and established place of business”—which would likely correspond to the location of many relevant documents and witnesses.

The Supreme Court has also been chipping away at patent reformers’ main concerns.

The Court started the judicial patent reform effort by addressing the availability of injunctions for patent-holders in *eBay v. MercExchange* (2006). Before *eBay*, injunctions for patent-holders were largely automatic without much consideration of the factors that guided injunctive relief in other areas. Many parties perceived this practice as shifting too much negotiating power to patent-holders, particularly in instances where the patent-holder itself did not produce a commercial product. Several proposals tilting the balance back toward defendants were introduced in Congress.

The *eBay* Court largely pre-empted those legislative proposals by holding that factors such as public interest must be considered. As a result, district courts have started denying injunctions in some cases. Additionally, the mere possibility of no injunction has undoubtedly reduced the value of numerous settlements.

Legislative efforts have sought to cut back the number of “questionable” patents being successfully asserted. The Supreme Court addressed this issue in *KSR International v. Teleflex* (2007) by making it much easier to prove that a patent is “obvious.”

Patent reformers have attacked so-called “business methods” as improper subject matter for protection. In this area, it has been the Federal Circuit to the rescue. The court’s *en banc* decision in *In re Bilski* (2008) appears to make it more difficult to obtain and enforce business method patents, although it is too early to be sure about the effects of the *Bilski* standard.

Just last week, the Federal Circuit denied rehearing in a case that further refined its definition of nonpatentable subjects. *In re Comiskey* (Jan. 13, 2009) dealt with a patent

application for a method of doing mandatory arbitration. Those pushing patent reform will be paying attention.

The ability to seek treble damages for willful infringement is one of the patent-holder’s strongest weapons. The Federal Circuit took some of the edge off in *In re Seagate Technology* (2007). Previously, many patentees sought treble damages based upon no more proof of willfulness than the fact that they had earlier sent an oblique notice letter to the defendant, and the defendant failed to do an expensive, exhaustive analysis of the oblique letter. But *Seagate* heightened the standard for treble damages from negligent in a “duty of care” sense to “objectively reckless.”

What were lawmakers planning to do on this issue? Congress had looked at several ways to reform the willfulness standard and had essentially sought to codify the *Seagate* standard in S. 1145. In practice, application of *Seagate* has already resulted in many allegations of willfulness being dismissed or denied long before trial, thus restoring some balance to settlement negotiations.

Yet another pressing issue, apportionment of damages, is currently being framed for the Federal Circuit. The case of *Lucent Technologies v. Gateway* includes an appeal from a jury verdict against Microsoft for infringing a patent directed to touch-screen form entry systems. The jury awarded \$358 million in damages based on sales of the Microsoft Money, Microsoft Outlook, and Windows Mobile programs.

Now Microsoft contends the jury inappropriately applied the “entire market rule” in assessing damages. A number of major technology players have already filed amicus briefs in support of Microsoft’s appeal, including Apple, Oracle, and SAP. The case provides the Federal Circuit with another golden opportunity to take away one of the remaining pressing issues at the heart of patent reform.

POLITICAL REALITY TALKS

What does this all mean for the future of patent reform legislation? It’s not looking good.

These judicial decisions have likely addressed the most blaring perceived inequities in patent law, which will reduce the impetus for private business to push for legislation. At the same time, the new Congress and the new administration have many bigger priorities—the economic crisis, the various bailouts of different industries, the wars in Iraq and Afghanistan—that will likely push patent reform to the back burner.

Moreover, the anticipated increase in regulatory oversight in areas such as finance, pharmaceuticals, antitrust, and the environment is likely to have a much greater impact on the bottom line for many companies that had been pressing for patent reform. Those that previously spent resources seeking patent reform are far more likely in 2009 either to devote those resources toward shaping the new regulations or (given the recession) to spend less on lobbying of any kind. Of course, the same dynamic will also quiet certain industries that have been vocal opponents of patent reform, which could, in theory, swing the

balance in favor of passing reform legislation. But this outcome is less likely.

The decision of House Judiciary Chairman John Conyers (D-Mich.) to move the handling of intellectual property issues from a designated subcommittee to the main committee may, again especially in busy times for Congress, reduce the overall attention paid to patent reform.

The turnover of key individuals will also slow any efforts at reform. In particular, PTO Director Jon Dudas has reportedly not been asked to stay by the Obama administration, and so far no replacement has been named. Congress might well await the

views of the next PTO director before passing a major patent bill.

All of which adds up to this: The cause of patent reform legislation will face significant challenges in the upcoming year, and beyond. When coupled with the judicial branch's success in reining in some of the perceived excesses, a patent bill seems unlikely to gain traction anytime soon.

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