

Patent Reform Passes Committee In Unanimous Vote

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Wednesday, Jul 18, 2007 --- A bill aiming to reform the United States' patent law cleared an important hurdle on Wednesday when it was unanimously passed by the House Judiciary Committee after a markup session.

Representative Howard Berman (D-Calif.) said that that the Patent Reform Act of 2007, the third attempt by Congress in the last three years at comprehensive patent reform, promised extensive and much-needed overhaul.

"Our patent system is badly in need of repair," said Berman. "Patents of poor quality are being granted, and rising costs and lengthy litigation are damaging to innovation and creativity. This legislation is designed to improve patent quality, deter abusive practices by patent holders, provide meaningful, low-cost alternatives to litigation for challenging the patent validity and harmonize U.S. patent law with the patent law of most other countries."

During Wednesday's markup session, the committee approved a number of amendments to the bill. These include an amendment sponsored by Berman, known as the Manager's Amendment, which clarified many of the bill's provisions.

Notably, it eliminated one of the most controversial provisions of the bill, a provision that would have made patents subject to review at any time after they were granted. It will replace the post-grant review provision with enhancements to the existing system of reexamination.

The committee also approved several smaller amendment clarifying provisions on inequitable conduct, restrictions on venue, awards of damages, and others, according to Gene Smith, a spokesperson for Berman's office.

Matt Becker, an IP lawyer at Banner & Witcoff LLP who has litigated for both plaintiffs and defendants in patent cases, said the bill would likely cut down on abusive litigation if it is passed.

He noted that it would "make patents less valuable," making it more difficult for companies, known as "patent trolls," that hold and enforce patents as a primary revenue source without selling products to operate.

The Patent Reform Act, which was introduced in both houses of Congress in April, aims to improve the quality of patents, reduce their abuse, and cut down on litigation. It follows unsuccessful bills introduced in the last two

legislative years, and shares many provisions in common with them.

The Patent Reform Act includes a wide range of provisions aimed at every part of the patent process. It would eliminate interference proceedings by instituting a simple “first to file” system, as exists in most other countries.

It also provides for a longer period of public review of an invention, by eliminating the one-year “grace period” within which an inventor need not disclose an invention in order to swear that it took place before any prior art disclosed in that year.

While these provisions aim to control the number and quality that are granted, others target excessive litigation. The bill seeks to eliminate vendor shopping by restricting the venue in which patent litigation is filed to districts in which there is a direct relationship between plaintiff and defendant.

It would limit compensatory damages in infringement suits to the infringer’s direct economic gain, rather than the current, more flexible standard of a hypothetical royalty license. Critics of the current system note that awards are often arbitrary and excessive.

Becker noted that an important provision of the bill makes clear that damages can take into account only profit made from the patented component of a product, not the entire product.

The bill would allow parties in litigation to make “interlocutory appeals”—to appeal the claims construction before completion of the trial. This is intended to avoid wasting time in district courts only to have a claims construction reversed on appeal.

The House Judiciary Committee’s Subcommittee on Courts, the Internet and Intellectual Property approved the Patent Reform Act at a markup hearing in May.

The bill has drawn criticism from businesses and several Republican lawmakers. Five Republicans in the U.S. Senate wrote a letter in late June criticizing the bill, raising issues that have plagued the bill from its inception.

The five senators said that the proposed reforms could have unintended consequences for patent holders. “Specifically, we believe that the issue of mandatory apportionment of damages, post-grant opposition, and broad rulemaking authority for the [U.S. Patent and Trademark Office] need to be more carefully examined to ensure that they do not undermine innovation, increase frivolous litigation, or undermine property rights,” they said.

Bruce Bernstein, the chief intellectual property and licensing officer of a small company who testified against the bill before the house subcommittee, summed up common worries. He told the subcommittee that by making patents less secure, the new law would make them less valuable, and that the post-grant review process could be used to harass small businesses.

Bernstein also said that the law would unfairly advantage the large companies that support it. Preliminary appeals of claims constructions, he said, could increase the costs of litigation, placing a heavy burden on companies without “deep pockets.” At the same time, he said, restrictions on damages would reduce the risk of infringing for large companies, which could easily pay the smaller awards.

Becker said that despite criticism, the prevailing climate favored the bill. He said that a need for patent reform has become more apparent to lawmakers and businesses in recent years.

“It seems that there's a lot of interest in reforming the patent bill,” Becker said.