

A Modest Proposal

After six years of the status quo, software companies urge Congress to revamp the patent system

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Last year, the giants in the software industry got together to find a cure for one of their biggest headaches: costly patent litigation.

The Business Software Alliance -- made up of in-house counsel from Apple Computer, Intel, Microsoft, Hewlett-Packard and other technology companies -- spent months drawing up a list of legislative proposals to rein in what they regard as frivolous lawsuits.

The BSA sent its suggestions to Rep. Lamar Smith, R-Texas, who folded them into a draft bill with the goal of overhauling the patent system. Smith, the chairman of the House intellectual property subcommittee, is expected to introduce the legislation in Congress within the next few weeks; already, the text of the proposal is creating a stir in the patent community.

While many of the provisions have been raised repeatedly over the years -- such as developing a procedure for reviewing patents after they've been granted -- others are raising the hackles of inventors and patent attorneys.

The most contentious proposal -- intended to undercut the power of patent-holding companies -- would limit the ability of a patentee to get an injunction against an alleged infringer. Courts would have to consider whether the patentee is likely to suffer irreparable harm in deciding whether to grant an injunction. Specifically, courts would look at whether the patent holder is commercializing his or her invention.

It's unclear whether the software industry will prevail: While the BSA sees the reform as needed to decrease the amount and cost of patent litigation, those opposed say the legislation would, in effect, impose compulsory licensing on inventors.

"This is a critical reform for us," said David Simon, Intel Corp.'s chief patent counsel. "Unfortunately there's been a growing business model of [these entities] buying patents from distressed companies and suing people."

Simon said Intel is facing seven suits from patent-holding companies. They are able to use the threat of

an injunction, he said, to push big companies into a settlement.

"If someone buys a patent for 50,000 bucks and their business model is suing people, should they be able to get an injunction?" he asked.

That's the situation Intel faced several years ago when TechSearch, a patent-holding company in Northbrook, Ill., acquired a patent for \$50,000 and then sued Intel, demanding \$5 billion to settle the case. Simon cited this case in testimony before an April 21 Senate hearing on patent reform. While Intel had won summary judgment in that case, Simon testified that there are many district courts where judges are less likely to grant summary judgment. He cited one forum, which he didn't identify, where all the verdicts issued over an eight-year period were in favor of the plaintiffs.

But many other groups are opposed to limiting the ability to obtain an injunction. The American Intellectual Property Law Association, Eli Lilly Co. and Dean Kaman, the inventor of the Segway scooter and head of DEKA Research & Development Corp., testified against the provision at the same hearing in front of Sen. Orrin Hatch.

"This would essentially destroy the exclusivity that a patent grants," AIPLA President William Rooklidge said in an interview. "It's telling patentees, 'If you don't commercialize an invention ... we'll allow others to come in and do so.'"

LONG WAIT

Smith's draft bill is the first time in six years that Congress has undertaken a major overhaul of the patent system. In 1999 it passed the American Inventors Protection Act after a lengthy battle. In the wake of critical reports on the patent system issued last year by the Federal Trade Commission and National Academy of Sciences, Congress decided to delve into the issue again.

Legislators were also spurred into action by a book -- "Innovation and Its Discontents: How Our Broken Patent System is Endangering Innovation and Progress, and What to Do About It" -- published last year by business professors Adam Jaffe and Josh Lerner.

Stephen Fox, Hewlett-Packard's deputy general counsel of IP, noted at a conference in San Francisco on Wednesday that members of Congress have been reading it and even marking particular pages.

"They're using it to get a perspective into the patent system," Fox said. It's given them "an aha moment -- that's what it's all about."

Smith, who heads the House Judiciary Committee's Subcommittee on Courts, the Internet and Intellectual Property, held two hearings on the topic last month and Sen. Hatch, chairman of the newly formed Senate IP subcommittee, held a similar hearing.

While the BSA has long been involved in helping to craft patent legislation, its members have become more outspoken of late. One, Microsoft, has even taken its ideas to the public. In March, Microsoft ran full-page ads in *The Washington Post* and *The New York Times* calling for Congress to enact reforms, saying the number of patent suits filed annually in the United States has risen from less than 1,000 in the early 1980s to more than 2,500 last year.

"Knowing that these are among the most technically complex cases that go before judges and juries, some litigants exploit the system as a lottery that can yield big jackpots," the ads say.

While the various constituencies -- inventors, patent attorneys and corporations -- agree that the system needs to be reformed, they disagree on what changes to make.

The proposals put forth by the AIPLA, which were also incorporated into Lamar's bill, appear to be widely accepted. They include changing the rules to award a patent to the first inventor to file an application rather than the first to invent and instituting a post-grant review system.

Smith's draft bill would make it more difficult to file "continuation" applications, which build on an initial application for the same invention. At the Senate hearing, Jon Dudas, director of the U.S. Patent and Trademark Office, advocated placing restrictions on these applications. He said more than one-third of the 355,000 applications filed with the PTO last year were continuation applications, which he called a "form of rework."

Other provisions would restrict the award of treble damages for willful infringement and allow companies to make "non-tangible" elements of an invention overseas.

The latter provision was crafted by the BSA with Microsoft in mind. It would overturn the Federal Circuit U.S. Court of Appeals' March 2 ruling against the software company in *Eolas Technologies v. Microsoft*, 04-1234. The court found Microsoft was

liable for damages on foreign sales of its Windows and Internet Explorer products even though it had only shipped a master disk of software code abroad, not the software itself.

Congress amended the patent statute in 1984 to prevent companies from making parts of an infringing product overseas to avoid infringement claims. BSA, AIPLA and others argue that this law has encouraged companies to move their manufacturing facilities outside the United States since a product made entirely abroad isn't covered by U.S. patent law.

"*Eolas* triggered our concern," said BSA in-house counsel Emery Simon. But the court ruling "could apply to any information transferable by e-mail or the Internet."

PESKY PATENT TROLLS

While Smith's draft offers a cornucopia of reforms, the one limiting injunctions is evoking the most passion. Hanging over the discussion is the shadow of the "patent troll."

The term was coined several years ago by Peter Detkin, then assistant general counsel at Intel Corp., to describe people who try to make a lot of money off a patent they aren't using and have no intention of using. Detkin left Intel in 2002 to join Intellectual Ventures, a company that helps inventors enforce their patents.

But Intellectual Ventures -- founded by Microsoft's former chief technology officer Nathan Myhrvold -- has been secretive about what it actually does. Patent attorneys knowledgeable about the company say it has been buying patents and encouraging companies to license rights to them.

Myhrvold testified at a House hearing last month that his company provides financing to inventors and helps them get a share of the profits from their inventions.

Simon, who said he regards Intellectual Ventures as a patent troll, acknowledged that Intel has had discussions with the company, but declined to say what they entailed.

Detkin has created a new definition for patent trolls, possibly in light of his recent affiliation with Intellectual Ventures. He now says a patent troll must own no more than a few patents of questionable merit and is not in any business related to the patents.

With that definition, Detkin argues that Intellectual Ventures doesn't qualify. For one, he argues, the company has a broad patent portfolio. He declined to

say how many patents the company owns, but a *Newsweek* article last year said it had bought about 1,000.

He has also been lobbying the software industry to stop pushing for limitations on injunctions. He spoke at a BSA meeting of general counsel last month defending independent companies in the business of asserting patents.

"They claim litigation by non-product companies is out of control," Detkin said. "The facts don't support that."

He contends that only 2 percent of patent cases filed in the past five years were filed by entities that don't sell any products, and half of those were filed by one company, Acacia Technologies Group, which licenses rights to patents in a variety of industries.

But Intel's Simon doesn't buy that. He did his own analysis of U.S. patent suits and found that in most cases *Fortune* 500 companies were being sued by entities he had never heard of.

While the software industry has won Smith over, it's unclear whether the injunction provision will remain in any final bill.

Chicago patent attorney Dennis Crouch says the injunction provision has been far from popular among companies he works with.

"I showed it to a couple of clients who started yelling and screaming," Crouch, the author of the Patently O blog, said. "Anyone who's a plaintiff will be upset."