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Patent reform hinged on issues such as infringement damages

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For yet another session of the U.S. Congress, efforts are under way to reform the patent system for the first time since 1952.

But once again, legislation to accomplish that goal faces a cloudy future at the outset.

The Patent Reform Act of 2009 was introduced March 3 in both the Senate and House in a bipartisan effort. Sens. Patrick Leahy, D-Vermont, and Orrin Hatch, R-Utah, Reps. John Conyers, D-Michigan, and Lamar Smith, R-San Antonio, filed the legislation. The Senate version has Democratic and Republican co-sponsors, none of whom are from Texas.

The two pieces of legislation are roughly akin to two bills that died in the last Congress, one on the House side, one on the Senate. Whether the new bills can overcome the disagreements among interested parties that derailed the last patent-reform effort is anybody's guess.

The big issue will be damages awarded in patent-infringement suits.

"That's how discussions broke down last year," says Amy Burke, director of government relations at Dallas-based Texas Instruments Inc.

Among other things, the new legislation helps calculate a "reasonable royalty" that can be awarded to patent holders and helps define "willful" infringement of a patent, which are two key issues on the damages front.

The Coalition for 21st Century Patent Reform, a group that includes a number of large drug makers, along with TI and Irving's Exxon Mobil Corp., said in a March statement on the legislation that its methodology for calculating damages "heavily favors infringers over inventors."

One beef the coalition has with the bills is with the notion of "prior art subtraction," essentially taking out the value of previous inventions in order to help calculate damages for patent infringement. "Provisions intentionally designed to reduce damages, such as 'prior art subtraction,' should not be part of any patent reform enacted by Congress,'" the coalition announced in a recent news release.

To understand why certain major companies would oppose an overhaul of the system for awarding damages, consider TI.

Burke says the company invests about 15 percent of its revenue on research and development efforts. With 35,000 patents to its name, TI falls "into the patent holder category," she says.

"We do have entities that come after us trying to sue on our patents. But if you look at it on balance, we're more concerned about protecting our patent portfolio."

Tom Melsheimer, managing principal for Fish & Richardson PC, says there is a separation in corporate America about reforming the system for awarding damages in patent cases.

Software companies, for instance, tend to want the system changed because they are frequently defendants in patent lawsuits, while large drug companies like the system as-is because they frequently sue over generic versions of pharmaceuticals, according to Melsheimer.

"It's really divided," he says.

There are a few questions on which most parties agree, namely how the U.S. Patent and Trademark Office processes patent applications and issues patents, Melsheimer says. There are issues relating to funding for the office, the quality of the examiners who work on patent applications and retaining those examiners in a tough job market, among other things.

"The time it takes to get patents through the system is tough," Burke says.

Those matters can be handled administratively, without legislation, she adds.

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