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## LAW

# Patent overhaul: Congress, courts revamp rules for intellectual property

By **MICHELLE CATER RASH** THE BUSINESS JOURNAL

Patent reform is getting a lot of attention these days as court decisions, Congressional bills and the Bush administration all weigh in on fixing a system that many believe has gotten out of control.

But while some areas of the reform are getting a lot of buzz — like the switch to a system where a patent is granted to the first person to file an application rather than the first person to invent — there are other areas that are just as important that are receiving less attention.

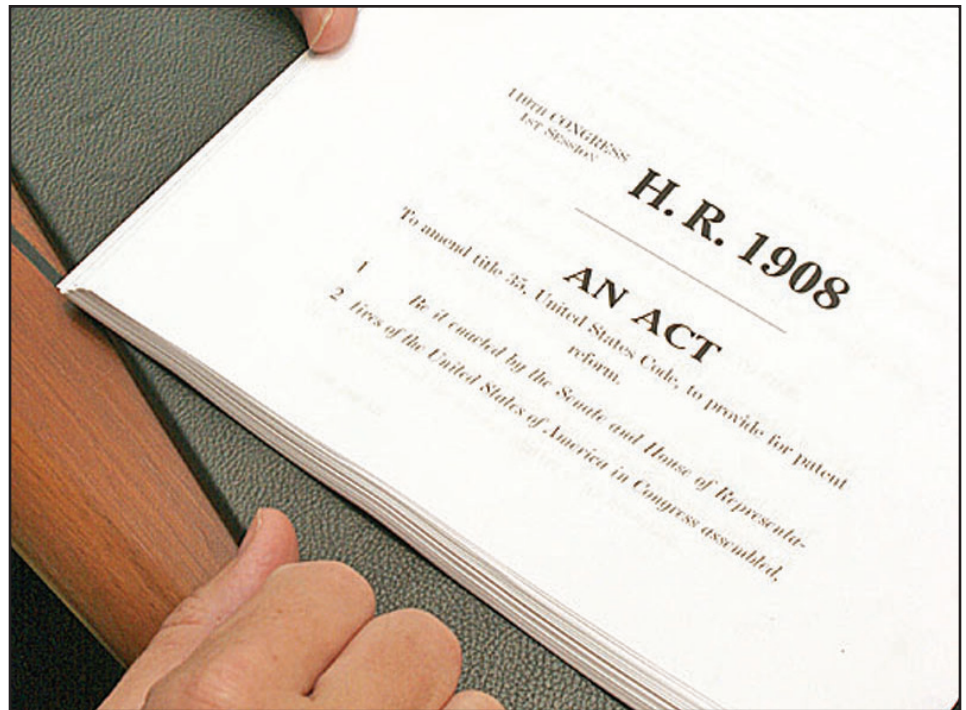
A reform bill passed the House of Representatives Sept. 7, and a similar bill that was approved by the Senate Judiciary Committee in July now awaits action in the full Senate.

There are a number of differences between the bills to be hammered out, but, in the meantime, here are a few of the areas of patent law that are likely to change.

Under existing law, if the courts find that someone willfully infringed on a patent, the plaintiff in the case could be awarded triple the amount of royalties due, plus legal fees for both parties, as a punitive measure. This has led to many verdicts with awards in the hundreds of millions of dollars.

To rein in the frequency of such massive verdicts, legislators are aiming to tighten the criteria for proving willful infringement. However, a recent court decision has already raised the bar and may negate the need for the legislation, attorneys say.

Until August, to prove willful infringement, a plaintiff had to prove that the defendant knew about the patent and continued to use the item or idea without paying royalties.



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**Patent reform has recently become a hot-button issue, but there are several changes that are getting less attention. One such adjustment will make it harder for a patent-holder to prove willful infringement.**

A defendant could generally argue there was not willful infringement if, after learning about possible infringement, it had sought the opinion of a competent attorney who said the product did not infringe upon the patent for one of three reasons. Those reasons are:

- Because it did not meet the same description as the patented device in question;
- Because the attorney finds the original patent to be invalid and so it cannot be infringed upon; or
- Because the patent isn't enforceable.

But in a decision issued in August by the Federal Circuit Court of Appeals, the court did away with the old standards for defending against willful infringement and instead created a two-part test:

The patent holder must show that the infringer acted despite the high likelihood that its actions were infringement and that the infringer knew or should have known it was infringing on an existing patent.

Gero McClellan, an intellectual property lawyer in the Summerfield office of Paterson & Sheridan, says that under the new

## **CHANGES:** *Proposed legislation would crack down on venue shopping, limit where lawsuits could be filed*

standards, it will likely be much harder to prove willful infringement.

"This is clearly raising the bar from the perspective of the patent holder," he says. "This is a more difficult test to pass."

The House and Senate proposals each lay out specific provisions that raise the standard of what's considered willful infringement. The changes would limit charges of willful infringement to specific circumstances, like that the infringer receives written notice that it may be infringing but continues regardless.

But, McClellan says, Congress could decide the standards set forth in the recent court case are tough enough and not make any more changes. Any legislative changes made by Congress would trump the action taken by the courts.

### **Venue shopping**

Another focal point of the pending patent reform is venue shopping, or plaintiffs filing lawsuits in a district they think will be favorable to them.

Under current rules, a lawsuit can be filed in any district that would have jurisdiction over the defendant. So, if a company does business in all 50 states, a patent suit could be filed against it in any state and not just in the state where the headquarters is located.

For example, if a company is based in Greensboro but has clients in Seattle, a suit could potentially be brought against the company in Seattle.

"If you're a large company doing business across the United States, you could basically be sued anywhere," says Walter Boyd, an attorney with Smith Moore in Greensboro.

This can give plaintiffs a big advantage because they can choose a jurisdiction that has a reputation for being plaintiff-friendly.

Defendants could also face much greater legal costs for transporting witnesses and potentially hundreds of thousands of pages of documents to the site of the trial.

Defendants would also need to hire counsel in the state in which the suit is filed. With even simple patent lawsuits costing between \$1 million and \$2 million in legal fees, having a case tried far away could have a huge impact, Boyd says.

Under pending patent reform, plaintiffs would be limited on where a lawsuit could be filed.

While there are a few exceptions, the bills say that a patent suit can only be filed in three potential locations: where the defendant has its main office; where the company is incorporated; or where a significant portion of the acts of infringement took place, as long as the defendant has a physical office in that location

"It's more than just shipping products to a location and saying they do business there," says Jason Link, an attorney with Kilpatrick Stockton in Winston-Salem.

Link says an exception is made in the legislation for colleges and universities, nonprofit organizations or groups that do research but do not actually manufacture anything; these organizations can file suits for patent infringement where they are based and not where the defendant is based.

### **Mandatory search reports**

Another recent change that could be solidified under the proposed bills requires patent applicants to do more work upfront to prove their concept is unique.

Under guidelines issued by the Patent and Trademark Office in August, potential patent applicants are required to search old patents, technologies and other applications to verify patentability. The guidelines also limit the number of claims applicants can make about their inventions.

Attorneys estimate these searches will cost at least \$15,000 in legal fees, which could hinder individuals and small firms especially.

But some have questioned whether the patent office has the authority to issue such guidelines.

Under the House legislation, the patent office would be specifically given the autonomy to make these kinds of rules. The Senate bill would mandate such rules.

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