

## Patent Docs

May 12, 2009

### More on House Patent Reform Hearing

By Donald Zuhn --

On April 30th, the House Committee on the Judiciary heard testimony from seven witnesses (and accepted written testimony from other interested parties) regarding the House patent reform bill (H.R. 1260) (*see* "[House Judiciary Committee Holds Hearing on Patent Reform](#)"). Part I of our coverage of the hearing examined written testimony submitted by hearing witnesses Dean Kamen of DEKA Research and Development Inc., the inventor of the Segway, and Jack Lasersohn, a Partner with the Vertical Group and representative of the National Venture Capital Association (NVCA), as well as testimony submitted by the Biotechnology Industry Organization (BIO). In the second part of our coverage, we examine the written testimony submitted by Bernard Cassidy, Senior Vice President and General Counsel for Tessera Inc., and John Thomas, Professor at Georgetown University Law School.



Mr. Cassidy's written testimony, which runs just over nineteen single-spaced pages in length, provides a detailed and well-supported attack on several provisions of H.R. 1260. Mr. Cassidy also suggests that in view of recent Supreme Court and Federal Circuit decisions, Congress would be better suited to redirect its patent reform focus from a post-grant perspective (*i.e.*, patent litigation) to a pre-grant perspective (*i.e.*, application examination). Given Tessera's position in semiconductor packaging, Mr. Cassidy's position on patent reform may come as a surprise to some (and are perhaps as surprising as the position that was taken by Tessera Vice President Taraneh Maghamé at the Senate Judiciary Committee's patent reform hearing in March; *see* "[Senate Judiciary Committee Holds Hearing on Patent Reform](#)"). However, the Tessera General Counsel noted that the company's success would not have been possible without "a strong patent system to protect our inventions and reward our innovators," and he contended that "[m]aintaining a strong patent system is essential to [Tessera's] continuing success."

Stating that "[i]t is troubling to many small technology companies that, at a time of such grave economic uncertainty, Congress would seek to fundamentally alter the economic structure of our nation's patent system," Mr. Cassidy argued that "the proposed changes to the law of damages, in particular, would cause a massive and irreversible transfer of wealth from the United States to foreign manufacturers." With respect to the damages and post-grant review provisions, Mr. Cassidy noted that "other industries share Tessera's concerns," listing venture capital, agriculture, biotech, universities, domestic manufacturers, nanotechnology, and green tech amongst opponents of these provisions of H.R. 1260.

On the subject of damages, Mr. Cassidy stated that "[g]iven the public statements of most stakeholders to date -- at least with respect to the Senate gatekeeper proposal -- the Senate's work has advanced the discussion [of damages] significantly," and he encouraged the House to "take advantage of the success achieved to date in the Senate on the damages provision of the bill." Mr. Cassidy offered this encouragement despite his skepticism that a patent damages problem exists -- a skepticism rooted, at least in part, in a PriceWaterhouseCoopers 2008 study showing that patent damages awards have remained largely consistent for more than a decade, and a survey by University of Houston Law School Professor Paul Janicke showing no pattern of runaway jury verdicts in patent

cases in the past four years (the Janicke study indicates that for cases that go through trial, the median damages award is less than \$2 million). For Mr. Cassidy, " Prof. Janicke's data illustrate that despite arguments made by proponents of damages reform, there is no pattern of runaway jury verdicts and that patent damages awards are modest."

Mr. Cassidy argues that "[d]ismantling the long-established framework for calculating reasonable royalties at trial will encourage infringers, and perhaps even existing licensees, to reject negotiated, market-based royalties," and "weaken the value of patents generally and unfairly advantage large companies looking to acquire a smaller innovator's property." He contends that:

[T]he tried and true principles that underlie *Georgia Pacific* and patent damages law generally are so firmly grounded in our legal system that it would be difficult to justify any significant departure without acknowledging an effort to transform patent rights into something far different, and far less valuable, than the nation's founders intended.

And he points to that which should be plainly obvious when stating that "[p]atent damages rules are based on the same principles that underlie compensatory damages generally; thus, the risks of inflated settlements are no greater in patent negotiations than in the context of any other commercial dispute."

As for post-grant review, Mr. Cassidy argues that:

The proposed hybrid [post-grant opposition]/inter partes system would (i) unleash a wave of administrative litigation with many of the costs and complexities of judicial litigation, (ii) invite serial and harassing validity challenges throughout the life of a patent, and (iii) effectively eliminate the statutory presumption of validity essential to a patent's enforceability.

Instead of elaborating on these criticisms, however, Mr. Cassidy focuses the remainder of his testimony on a discussion of recent court decisions that "have unquestionably changed major areas of the law and shifted the balance of power between patent holders and users, tightening standards of patentability and narrowing patent rights and remedies." He "urges Congress and the Administration to allow these decisions to be implemented in the marketplace and consider carefully the impact of these decisions before enacting any legislation that will further decrease the value or enforceability of patents." Among the cases that he discusses are: *eBay Inc. v. MercExchange, L.L.C.*, *Medimmune, Inc. v. Genentech, Inc.*, *KSR Int'l Co. v. Teleflex Inc.*, *Microsoft Corp. v. AT&T Corp.*, *Quanta Computer, Inc. v. LG Electronics, Inc.*, *In re Seagate Technology, LLC*, *In re Bilski*, and *In re TS Tech USA Corp.*

With respect to *KSR*, Mr. Cassidy states that:

In *KSR International Co. v. Teleflex Inc.* the Supreme Court altered the objective patentability test of obviousness which had been used by the USPTO and federal courts for two decades. The test was, and is still believed by many to be, necessary to avoid the inappropriate application of 20/20 hindsight to obviate non-obvious, and otherwise patentable inventions.

On the *Quanta* decision, he argues that:

*Quanta* is now being cited in some quarters as justification for amended damages rules that would value reasonable royalties according to a patent's "essential" or "inventive" features, comparable to the "prior art subtraction" test proposed in previous legislation. This argument has no merit and reflects a fundamental misunderstanding and misapplication of the *Quanta* decision. Neither *Quanta* nor the Court's discussion of a patent's essential features has any bearing on reasonable royalty valuation rules. Instead, *Quanta* addresses a completely different inquiry, namely the point at which downstream patent users should be free to engage in commercial transactions involving patented products without any liability to the patentee.

While the eight cases listed above "address[] virtually all of the substantive issues that originally prompted calls

for patent legislation, including injunctions, willfulness, venue, and standards relevant to the patent-eligibility of claims and validity of issued patents," Mr. Cassidy notes that "the courts are obviously not institutionally positioned to address the USPTO's resource constraints and operational deficiencies, which have diminished the overall quality, predictability and efficiency of pre-grant patent examination processes," and concludes that "[t]hese problems merit urgent attention and should be the focus of current patent reform efforts."

In contrast with Mr. Cassidy's written testimony, Prof. John Thomas' (at right) testimony focuses on the issue of damages, and takes a decidedly different stance on that issue. Stating that "the perception is widely shared that the rules pertaining to damages are less certain than many other patent doctrines," Prof. Thomas argues for "greater precision in patent law's damages principles." He contends that "[p]revailing legal standards with respect to reasonable royalty determinations have been roundly criticized for their indeterminacy and logical shortcomings," adding that:



Experience suggests that the *Georgia-Pacific* factors are difficult to apply consistently. Although *Georgia-Pacific* provides a long list of ingredients, it offers no recipe—that is to say, no principles for deciding whether one of the seemingly randomly ordered elements should be weighed more heavily than another in a given determination. The laundry list of *Georgia Pacific* factors, many of which include several sub-components, cannot plausibly be considered to provide a "standard" for setting reasonable royalty rates at all.

And although Prof. Thomas suggests (without citation) that "[t]here seems to be widespread acceptance of th[e] basic position that damages should be based upon the incremental value of the invention" -- as called for in the House bill's damages provision, which proposes that reasonable royalties relate "only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention's specific contribution over the prior art" -- Prof. Thomas does not explain why the House provision would provide more precision or any greater certainty than the *Georgia-Pacific* factors, for which a body of case law already exists.

Prof. Thomas similarly fails to provide support for his statement that "damages rulings are widely viewed as unpredictable and difficult to review, but also as tending towards overcompensation to the patent proprietor." Absent any discussion of median damages awards (as provided in Mr. Cassidy's testimony), it is also difficult to gauge the types of awards that Prof. Thomas would consider as constituting "overcompensation."

Although the hearing was not made available for online viewing last month, a link to the hearing webcast is now available at the [Committee's website](#). Written testimony for each witness can also be found at the Committee's website. *Patent Docs* will examine written testimony provided by the remaining witnesses, as well as reaction in the patent community to the hearing, in subsequent posts.

For additional information regarding this and other related topics, please see:

- "[House Judiciary Committee Holds Hearing on Patent Reform](#)," April 30, 2009
- "[House Judiciary Committee \(Finally\) Releases Witness List for Patent Reform Hearing](#)," April 29, 2009
- "[Senate 'Patent Reform' Bill \(S. 515\) Voted out of Judiciary Committee](#)," April 2, 2009
- "[Some \(But Not All\) Amendments Introduced in 'Patent Reform' Bill](#)," April 1, 2009
- "['Progress' on Senate 'Patent Reform' Bill](#)," March 31, 2009
- "[Senate Judiciary Committee Discusses S. 515 at Executive Business Meeting; Adopts 'Technical' Amendment GRA09350](#)," March 26, 2009
- "[Senate Judiciary Committee Places Patent Reform Bill on Agenda](#)," March 15, 2009
- "[Senate Judiciary Committee Holds Hearing on Patent Reform](#)," March 10, 2009
- "[Senator Specter Seeks Resolution of Issues before Vote on Patent Reform Bill](#)," March 5, 2009

- "[Senate Judiciary Committee Releases Witness List for Patent Reform Hearing](#)," March 4, 2009
- "[Senate and House Introduce New Patent Reform Legislation](#)," March 3, 2009

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