

Software companies big winners in patent reform legislation

There will be winners and losers if the Patent Reform Act of 2007 passes, as it likely will. The bill was filed in April



PATENT POWER

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in both houses, with sponsors from both parties.

The big losers will be solo or "garage" inventors, especially in the software and electronics areas. Large software companies will benefit.

In the U.S., the first person to invent has been entitled to patent protection. Elsewhere, such as Europe and Japan, that has come to the first to apply to a patent office. The reform act proposes to conform the U.S. to the rest of the world.

There is something to be said for this, removing complications when someone files in the U.S. and then tries to get patents elsewhere. Still, only well-staffed, well-financed companies can routinely begin preparing the complex filing as soon as an invention is noted. The garage inventor needs time to gather \$5,000 or \$10,000 to pay a patent attorney or agent.

I predict solo inventors will increasingly begin filing "provisional" patents, which require much less technical paperwork, but which preserve the filing date. There will then be litigation over whether later regular applications cover the same inventions.

Presently the jury is reasonably free to decide what royalties were due the infringed inventor, as a measure of damages. That will end.

The judge, not the jury, will choose what factors are relevant to determining a reasonable royalty for past infringement. That is likely to result in something like a rule of "contribution" — that is, if your invention is one of, say, 10 that makes possible a product, then you get

one tenth of what might be reasonable in total (e.g. 10 percent of gross sales).

In the past, if your patent was the sine qua non of the product — the critical element or "but for which" — then you might get almost "full credit." No longer.

For pharmaceutical and biotechnology makers this not a change. Therapies tend to use one patent. Still, in software and electronics a product usually uses a group of inventions. It will become hardly worth it in most cases for an inventor to spend hundreds of thousands to make out a case when the stakes are 1 percent or less of gross sales, unless gross sales are in the \$1 billion range.

That will be true whether the inventor is a solo or is a medium or large company itself. Besides being a questionable raid on the constitutional right to trial by jury in a civil case (Sixth Amendment), this will thoroughly protect such well-known expropriators as Microsoft.

A defendant who was warned not to infringe a patent and went ahead anyway is liable for treble damages. No longer.

First, the warning will need to be very specific, linking a claim in the patent to a specific product. For a large defendant with many products this will burden the patent owner who may not know about all their products, past and future. It also means the cease and desist letter will need to be more customized, hence more expensive in attorney time.

Finally, a "good faith" belief of the defendant that it was not infringing, perhaps based on an attorney opinion, will prevent "increased" damages for willfulness. Such an opinion should not be hard to get.

The winners here are patent thieves, and the losers will be their victims.

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