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Patent reform in Congress divides venture capital industry

NEW YORK (Dow Jones/AP) -- Venture capitalists are turning into legal experts -- and against each other -- as Congress prepares to rewrite patent legislation.

Patents are the commercial currency for inventors of the ``next big thing'' -- time and resources spent on research and development are worthless without an exclusive right to exploit an invention.

The Patent Act of 2005, introduced in the House of Representatives in June, is intended to overhaul 50-year-old legislation that has failed to keep up with fast-moving and comprehensive changes in technology, particularly in the life sciences and information technology sectors.

Companies, universities and laboratories have rushed to file every possible process, design and product they can claim is ``new'' and ``non-obvious'' -- the test for an invention to be patentable.

As a result, annual applications to the U.S. Patent and Trademark Office, or PTO, has risen to 350,000 from just 185,000 a decade ago, according to a June 2005 report from the Government Accountability Office.

The deluge of increasingly complex applications driven by the convergence in technologies means it takes an average of three years to get a patent, which even then may be of questionable quality because of a lack of expertise at the PTO.

``Patents take much too long, which is especially a problem for venture capitalists who may be in and out of a deal before a patent is issued, or have no idea of potential competitors who may also have filed,'' said Greg Blonder of Menlo Park, Calif.-based Morgenthaler Ventures, which holds 100 patents, predominantly in information technology and manufacturing.

Everyone agrees that the system needs improving, but the venture capital industry is split on how this should be done.

The division is broadly between the life science companies, which typically depend on just one patent, and IT companies, which often rely on a raft of ideas that couldn't be sufficiently covered by any single patent.

``Life science companies are unfundable without patents,'' said Mark Radcliffe, partner in the Silicon Valley office of law firm DLA Piper Rudnick Gray Cary. ``Because of the length of time it takes to develop a drug, a patent is essential for the company to be able to sell onto a pharmaceutical company.''

``IT companies have dramatically shorter timelines -- products can become outdated after as little as six months or may even extend beyond a single patent, so a patent isn't as crucial,'' Radcliffe said.

Both sides have been lobbying strongly -- the life scientists for a strong patent that would be harder to challenge and overturn and for which they are willing to pay, while the IT companies, often built on a collection of internally generated patents and patents licensed from other companies, would like a streamlined process making a challenge easier.

Because of the sharp distinction between the life science and IT sectors, the industry's trade body, the National Venture Capital Association, hasn't taken a formal position in the debate.

NVCA President Mark Heesen said he thinks it is possible to get around reform in a way that makes sense.

``Everyone agrees that there should be more certainty and that there are too many patents -- there has to be a more stringent way for giving out patents across the board,'' he said.

Heesen says that the quality of a patent is critical but has been declining while the Patent Office has been focused more

on quantity.

``More is not necessarily better, and a lot of things are getting patented today that shouldn't be," he added.

Amazon.com Inc.'s patent for ``one-click" shopping is a case in point, and has spawned years of litigation over the patenting of e-commerce systems since it was granted in 1999.

Meanwhile, any hopes of a speedy reform may be dashed by the likely introduction of a bill in the Senate.

Sen. Orrin Hatch, R-Utah, chairman of the subcommittee on intellectual property, wants to avoid disagreement within the industry and may produce an alternative bill, said John Johnson, principal in the New York office of Fish & Richardson P.C., a law firm that specializes in intellectual property.

``If Hatch's bill excludes all the controversial reform, there won't be much left -- and the uncertainty will be extended while differences get ironed out between the two competing bills in committee," he added.

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