

PATENT LAW

The Reform Act of 2007

By Jonathan R. Sick



IT HAS BEEN MORE THAN two years since Representative Lamar Smith, R-Texas, introduced the Patent Reform Act of 2005 in the House of Representatives.

Despite the fanfare surrounding its introduction, the bill never made it out of the House Intellectual Property Subcommittee. The Patent Reform Act of 2006, which was introduced in the Senate by Orrin Hatch, R-Utah, in August of last year, also died in subcommittee. The Democratic leadership taking control of both the House and Senate vowed to continue the push for patent reform in 2007, and, on April 18, Senator Patrick Leahy, D-Vt., and Representative Howard Berman, D-Calif., introduced the Patent Reform Act of 2007, a bill boasting bicameral and bipartisan support.

Like its predecessors, the 2007 bill is a response to building concerns about patent quality, the high cost of patent litigation and the perceived need for patent harmonization with the rest of the world. But there are deep divisions in industry over certain aspects of the bill, and objections have also been voiced by members of other branches of government. Some of these objections have become the source of conflicting amendments to the respective House and Senate versions of the bill.

Proposed change to first-to-file system is controversial

Most of the main features of the original reform bill remain in this incarnation. One of these would transition the United States to a “first-to-file” system. If two different individuals independently come up with the same invention, the

current system favors granting the patent to the individual who invented first. The bill would award the patent to the individual who was the first to file a patent application—regardless of who was the first to invent.

This reform would harmonize the U.S. patent application process with the rest of the world’s, which already operates under a first-to-file system. The change is expected to ease administrative burdens on global companies because they will no longer need to treat U.S. patent applications differently than applications filed in other countries. But it would also create an incentive to file applications as quickly as possible to reduce the likelihood that a competitor will file first. Individual inventors and universities have expressed passionate opposition to this proposal, arguing that they do not have the resources to compete with corporations in employing such aggressive filing practices.

In addition, the Commerce Department has cautioned against converting to a first-to-file system without first negotiating for certain harmonization concessions from foreign patent authorities. In response to this concern, the House version of the bill has been amended to make ac-

tivation of the first-to-file features contingent on obtaining such concessions from at least Europe and Japan. The Senate version of the bill, however, contains no such “trigger” provision.

To counterbalance the change, the bill includes a provision for “prior user rights.” This reform would establish a defense against patent infringement for an entity that independently completes an invention and takes steps toward commercializing it prior to another entity filing a patent application for that same invention. Prior user rights were written out of the Senate version on June 11, so at present Congress is divided on this reform.

Another reform that will harmonize U.S. law with the rest of the world would require the publication of all patent applications. While most U.S. applications are already published within 18 months of filing, an applicant who waives the right to file for foreign patent protection can “opt out” of the publication process and keep the application private until the patent issues. These private patent applications have led to consternation in industry because it is impossible to make meaningful business preparations for their arrival. Under the reform proposal, applicants could no longer “opt out” of publication.

One relatively new provision would allow patent litigants to seek interlocutory review of a district court’s “claim construction” ruling. Usually somewhere near the midpoint of a patent infringement lawsuit, the district court judge will construe the disputed terms in the asserted patent claims (this is often referred to as a *Markman* ruling). The claim construction ruling often dictates the outcome of the suit, but it normally cannot be appealed until after the case runs to completion by way of a full trial or dispositive motion ruling. The U.S. Court of Appeals for the Federal Circuit reverses claim construction decisions at a relatively

high rate, and these reversals often lead to a second trial that could have been avoided if the claims had been correctly construed initially. The proposed reform aims to resolve the issue by giving litigants access to the Federal Circuit before they go through the expense of a potentially unnecessary trial.

But the provision is not without its detractors, who argue that every patent infringement suit will be interrupted by an appeal taken by the party on the losing end of the claim construction ruling. Through several letters to the leading members of the Senate Judiciary Committee, the chief judge of the Federal Circuit, Paul R. Michel, suggested that an interlocutory appeal right was not necessary because, if a *Markman* ruling was indeed outcome-determinative, it would lead to a dispositive summary judgment ruling that would be appealable as a matter of right. Michel also predicted that increased appeal filings would double the pendency of the average appeal from one to two years. Responding at least in part to these concerns, the House and Senate amended the provision to give the trial judge discretion over whether an interlocutory appeal will be allowed in any given case.

Current venue provisions allow a plaintiff to bring a patent infringement suit in any district in which the defendant is subject to personal jurisdiction. The bill would significantly restrict the venue options to limit "forum shopping." Under the proposal, such a suit could be brought only in the state in which the defendant is incorporated, a district in which the defendant has its principal place of business or a district in which the defendant committed infringing acts and has a regular and established "physical facility." But the proposal is not entirely defendant-focused: It includes exceptions for certain plaintiffs (e.g., universities and "micro-entities").

Another significant reform that has persisted throughout every version is a "post-grant review" procedure—an adversary proceeding for challenging the validity of a granted patent in an administrative setting before the Patent Office. This proposed reform is intended to serve as a quality-control mechanism for granted patents and to provide a less expensive alternative to litigation. While there has been fairly widespread support for a post-grant review proceeding in general, industry is deeply divided over the detail of when a review proceeding can be instituted. The life sciences industry favors a limited window after a patent issues, while the high-tech industry

advocates an additional "second" window that could be opened at other times during the life of a patent.

Congress is divided along industry lines. Favoring the high tech industry, the Senate would permit the filing of a request for post-grant review within 12 months after the patent issues, or at a

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later time if the petitioner establishes that the challenged patent "causes or is likely to cause the petitioner significant economic harm" and the petitioner files the request not later than 12 months after receiving notice of infringement from the patent holder. The House, favoring the life sciences industry, has written the "second" window provisions out of the bill (although, by way of compromise, it has proposed enhancements to inter partes re-examination, an existing patent review proceeding).

The 2007 Reform Act leaves intact, but also further refines, several reforms dealing with damages. The first would instruct a district court judge (under certain circumstances) to ensure that "reasonable royalty" damages are awarded only for the value of the specific patented improvement in an infringing product, not for the entire market value of the product that may include contributions attributable to Another reform would limit willful infringement liability. The reform proposal would require, as a prerequisite for a willfulness charge, that the patent owner provide an alleged infringer with written notice of specific allegations of infringement. Perhaps seeing the writing on the wall, the Federal Circuit recently addressed the willful infringement issue in *In re Seagate Technology LLC*, No. M830 (Fed. Cir. Aug. 20, 2007). Although not going as

far as the proposed reform, the court placed significant restrictions on the use of a willfulness charge in litigation.

Finally, the reform legislation contains several modest provisions targeting use of the much-criticized "inequitable conduct" defense in litigation, which involves an assertion that the plaintiff intentionally withheld material information from the Patent Office during the application process that led to the patent.

Current bill has progressed further than previous ones

Congress is giving much attention to the Patent Reform Act of 2007, seemingly more than it gave the 2005 and 2006 bills. For the first time, versions of the bill have been reported out of committee for consideration by the full House and Senate.

Industry is still at odds over the bill, however, and much work remains from a nuts and bolts standpoint, as is evident from the differences between House and Senate versions of the legislation. To add to this, time is running short. The general consensus is that election-year politics will eclipse any patent reform efforts in 2008. So, if legislation is not passed soon, it may be put on hold indefinitely.

One thing is certain: There is no version of the reform legislation that will satisfy everyone. If a package is to pass, congressional leaders must face the reality that some constituents will be unhappy with the result. Will Congress be able to overcome the challenges and put something in the statute books this year? There is cause for optimism, but at this point the outcome is still uncertain. **NLJ**