

Merchant & Gould
An Intellectual Property Law Firm

Implications of the Proposed Patent Reform Act

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Purpose of Patent Laws

- “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”
 - U.S. Constitution, Art. I, § 8.
- First Patent Act enacted in 1790
- Numerous revisions since 1790
- Sweeping revisions proposed in 2007

Purpose of Patent Laws

- Encourage innovation without stifling competition
- “From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.”

Purpose of Patent Laws

- This balance is struck by “encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.”
- “the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure.”
- See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 147 (1989).

Effectiveness of Current Laws

- Have U.S. patent laws kept up with the changes?
 - Change in technology
 - Increase in number of applications
 - Questionable quality of issued patents
 - Growth in economy
- What recent changes in U.S. patent laws?
 - 46 changes to U.S. law since 1956 Patent Act
 - Establishment of the Federal Circuit
 - TRIPS Agreement
 - Significant decisions from Supreme Court and CAFC

Patent Reform Act of 2007

- Senate bill – S.1145
 - Reported out of committee on July 20, 2007
 - Unlikely to be acted on until early 2008
- House bill – H.R.1908
 - Reported out of committee on July 19, 2007
 - Passed September 7, 2007

First-to-Invent (Current)

- Modified First-to-Invent
- Statutory Bars of 35 U.S.C. §§ 102(b) & 102(d) create 1 year grace period
- Interference proceedings
 - Complex administrative proceeding
 - Determines first inventor
 - Expensive
 - \$650,000 (2007 AIPLA Economic Report)

First-to-File (Proposed)

- First-to-File
 - Race to the patent office
 - No grace period for activities of others (except derivation)
 - Grace period of 1 year for inventor/co-inventor
 - Eliminates interferences
- Derivation Proceeding at USPTO
 - Determine “true inventorship”
 - Derivation from another

Implication of First-to-File

- Lower quality patents?
- Enablement and written description problems?
- Potentially more litigation over written description/enablement
- Product development cycle?
- Cost of development?
- Impact on small companies/independent inventors

Challenging Issued Patents (Current)

- Re-Examination
 - Ex parte
 - Inter partes
- Bring declaratory judgment action in district court
 - Jurisdiction?
 - New cases make easier
 - Presumption of validity
 - Clear and convincing evidence
 - Expensive
 - Infringement counterclaims
- Citing prior art to USPTO

Challenging Issued Patents (Proposed)

- Post-grant review
 - Presumption of validity not always present
 - Preponderance of evidence
 - Anyone has standing
 - Two windows of time to bring challenge

Challenging Issued Patents (Proposed)

- First Window
 - Within 12 months of issue
 - No presumption of validity
 - Senate and House Bills in harmony

Challenging Issued Patents (Proposed)

- Second Window
 - House Bill
 - Patent owner must consent
 - No Presumption of validity
 - Senate Bill
 - Challenger must show
 - Likelihood of hardship, or
 - Notice of alleged infringement, or
 - Consent
 - Presumption of validity

Implication of Post-Grant Challenges

- Allows challenges to patents of dubious validity
- Lower costs?
- Provide certainty at earlier stage
- Decrease in predictability of enforcement of patents
- Diminished value of patents
- Decrease in investment in certain segments of industry

Changes to Patent Litigation

- High cost of litigation (2007 AIPLA Report)
 - \$1.6 million average through discovery
 - \$2.6 million through trial
- High damage awards
 - \$226 Million Verdict for Patentee – *J&J v. Medtronic* (D. Mass. Dec. 11, 2007)
 - \$8.5 million award of costs and fees – *Qualcom v. Broadcom* (C.D. Cal. Dec. 13, 2007)

Venue Provisions (Current)

- Venue is appropriate
 - Where defendant is subject to personal jurisdiction
 - Where defendant resides
 - Where defendant committed acts of infringement and has established place of business
- Subject to personal jurisdiction anywhere products reach through the stream of commerce
 - *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994)
- Effect for corporations with widespread customer base
 - Subject to suit in virtually any state

Venue Provisions (Proposed)

- Venue is appropriate
 - District where either party resides
 - Where defendant has committed an act of infringement and has a regular place of business
 - Prohibits “manufactur[ing] venue by assignment, incorporation, joinder or otherwise primarily to invoke the venue of a specific district court.”

Implication of Proposed Venue Provisions

- Eliminates forum and judge shopping
- Possibly decreases costs of patent litigation for defendants
- Creates lower expectation of prevailing
- Leads to lesser recovery
- Favors accused infringers over patentees

Interlocutory Appeals (current)

- “[T]o decide what the claims mean is nearly always to decide the case.” *Markman*, 52 F.3d at 989 (Fed. Cir. 1995)(Mayer, J., concurring)
- No Interlocutory appeals from Markman orders
 - *Wilson Sporting Goods Co. v. Hillerich & Bradsby Co.*, 442 F.3d 1322 (Fed. Cir. 2006) (stipulation of noninfringement)
 - *Lava Trading, Inc. v. Sonic Trading Mgmt. L.L.C.*, 445 F.3d 1348 (Fed. Cir. 2006) (appeal under Rule 54(b) even though counterclaims pending)

Interlocutory Appeals (proposed)

- Allows interlocutory appeals from Markman orders
- Narrow window in which to file appeal (10 days)
- Discretionary with district court
- Stays underlying action pending outcome of appeal

Implications of Allowing Interlocutory Appeals

- Allows immediate appeal of key issue in case
- Potentially doubles number of appeals and time to decide appeal
- Delay in deciding ultimate issues
- Raise costs of case
- Decreases likelihood of settlement
- Lack of “context” in which to decide claims
 - See *Wilson Sporting Goods Co. v. Hillerich & Bradsby Co.*, 442 F.3d 1322 (Fed. Cir. 2006)
- Disfavored by CAFC
 - *Lava Trading, Inc. v. Sonic Trading Mgmt. L.L.C.*, 445 F.3d 1348 (Fed. Cir. 2006)

Reasonable Royalty (Current)

- “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer” 35 U.S.C. § 284.
- Hypothetical negotiations between willing licensor and willing licensee
- At the time the infringement began
- Multi-factor test of *Georgia-Pacific Corp. v. U.S. Plywood Co.*, 318 F. Supp. 1116 (S.D.N.Y. 1970)

Factors for Calculating a Reasonable Royalty (Current)

- royalties received by the patentee
- rates paid by the licensee for comparable patents
- effect of sales of patented product on sale of other products
- profitability of the product
- utility and advantages of the patent property over the old modes
- extent to which infringer makes use of patented device
- portion of credited to the invention as opposed to other features of the accused device

Reasonable Royalty (Reform)

- Statute defines reasonable royalty as floor
- Apportionment
 - Reflects “the patent’s specific contribution over the prior art”
 - Exclude from the analysis:
 - the economic value properly attributable to the prior art, and
 - other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process

Willfulness and Attorneys Fees (Current)

- Attorneys' Fees in "exceptional" case
 - infringement is willful
- Infringement is willful if "the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent."
 - *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc)

Willfulness and Attorneys Fees (Proposed)

- Willful infringement requires
 - infringed after notice;
 - intentionally copied; or
 - found to infringe by court and then repeated conduct
- No finding of willful infringement during any period in which the alleged infringer had "an informed good faith believe that the patent was invalid or unenforceable or would not be infringed"
 - Advice of counsel
 - Evidence of modified conduct to avoid infringement after learning of allegations of infringement
 - Other evidence that Court finds establishes good faith belief

Potential Implications of Proposed Revisions Relating to Damages and Attorneys' Fees

- These proposed changes may --
 - Focus analysis on value of patent
 - Decrease the number of cases filed
 - Decrease damages awards
 - Increase cost and time of trying case
 - Favor accused infringers over patentees
 - Decrease value of individual patents

Thank you

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