



Real or Hype? The Business and Litigation Impact of Patent Reform

Courtenay C. Brinckerhoff

Ever since the FCC released a report in 2003 raising the need for patent reform, Congress has been considering how to address perceived problems with the patent system, such as the apparent ease of obtaining invalid patents and the difficulty of challenging such patents once they are granted. Still, there are strong differences of opinion among industry leaders and the patent bar as to both the need for patent reform and what patent reform should look like.

Patent reform was placed on the front burner again when, on April 18, 2007, Senator Leahy and Representative Berman introduced bipartisan, bicameral patent reform legislation that would dramatically change U.S. patent law. The changes made by the proposed legislation include (1) moving the U.S. toward a first-to-file system, (2) limiting patent damages, (3) restricting the definition of willful infringement, (4) providing a new mechanism for post-grant review, and (5) permitting interlocutory appeal of claim construction decisions. But will these changes give businesses the reform they have been hoping for, or will they prove to be more hype (or headache) than reality?

First-to-File: The proposed legislation would change the critical date for patentability from the date of invention to the “effective filing date” of the claimed subject matter. The only “grace period” would be a one-year period for publications authored by, or derived from, the inventor, persons obligated to assign their work to the same entity as the inventor, or persons working under a joint research agreement.



Reality. This change will harmonize the U.S. patent system with other countries that have a “first-to-file” system, and eliminate patent interference practice that is unique to the U.S.

Headache: As currently written, the new law would apply “to any patent issued on or after” the effective date, which will be 12 months from the date of enactment. This means that an application could be filed, examined, and allowed under the current law, but evaluated post-grant under the new law. Other problems will arise if an application is filed under the current law, with an expectation of being able to establish an earlier date of invention, but limited to its “effective filing date” under the new law. Hopefully Congress will avoid these problems by keying the effective date of the patentability provisions to an application’s filing date.

Damages: The proposed legislation would codify a new “entire market value” rule that would require patent damages to be based on “the economic value properly attributable to the patentee’s specific contribution over the prior art.” The legislation also includes procedural provisions that may require pre-trial, *in limine* hearings to decide the factors that can be presented to the jury on the issue of damages.

Headache: The legislation does not include any guidance for determining the economic value of an invention. The new requirement in effect imposes an apportionment requirement, which used to arise when damages could be based on an infringer’s profits. Back then, apportionment often was criticized as being an unworkable approach, and nothing in the proposed legislation resolves any of the problems that were encountered previously.



Willfulness: The proposed legislation would restrict willful infringement to three specified circumstances: (1) where the patentee had provided specific, written notice alleging infringement; (2) where the infringer intentionally copied the patented invention; or (3) where the infringer previously had been found by a court to infringe. The legislation also would essentially codify existing law on “informed good faith belief” defenses and the elimination of an adverse inference from failure to produce opinion of counsel. Significantly, the proposed legislation would require willfulness to be plead and resolved in a separate phase of litigation, and be resolved by the court, not a jury.

Reality. This legislation should significantly reduce charges of willfulness, and will further limit the jury’s role in patent cases.

Headache: It is not clear that taking the willfulness issue away from the jury will pass Constitutional muster. The Supreme Court may have to decide whether there is a Seventh Amendment right to a jury trial on that issue.

Venue: The proposed legislation would essentially make 28 U.S.C. § 1400 the exclusive basis for determining venue, effectively overruling a 1990 Federal Circuit decision that liberalized venue.

Hype?: As currently written, venue would be appropriate in the judicial district where the plaintiff resides. Thus, forum-shopping plaintiffs could continue to bring suit in patent-friendly courts by locating their companies in desirable forums.

Markman Appeals: The proposed legislation would provide for interlocutory appeal of Markman (claim construction) decisions.



Reality. Interlocutory review of Markman hearings may prove to be very popular, with parties seeking to finally resolve claim construction issues early in a proceeding.

Headache: The use of interlocutory appeals may increase the costs and duration of patent cases, particularly if it creates a backlog at the Federal Circuit.

Post-Grant Review: The proposed legislation would create new post-grant review procedures within the Patent Office that could be brought by third-parties seeking “cancellation” of a patent claim. A cancellation petition could be filed under one of two “windows:” (1) within 12 months of the patent’s issue or (2) under one of three specified circumstances, including a showing of “significant economic harm” caused by the continued existence of the patent claim, a notice alleging infringement, or the patentee’s consent.

Reality. There has been a vocal push for post-grant review, and Congress is likely to enact some provisions to appease its proponents.

Hype: The proposed cancellation proceedings would be handled within the Patent Office, which already is overburdened and underfunded, and would be put in the uncomfortable position of second-guessing the work of its own examining corps.

Headache: Industry groups are split on the desirability of the two windows for post-grant review. While many insist that the second window is essential to meaningful patent reform, others (including pharmaceutical and biotechnology groups) are strongly opposed to the uncertainty that would attach to a patent that could be challenged at any time.

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Congress is not likely to hear from any sector that fully supports all of the proposed reforms. However, because Congress is eager to proceed with patent reform, unless industry groups work together to present a satisfactory compromise, they are likely to find themselves adapting to these provisions, or something similar.

For further insight on the current bill, please go to http://www.foley.com/news/event_detail.aspx?eventid=1593 to view a web conference on proposed patent reform legislation conducted by the Intellectual Property Department at Foley & Lardner LLP. Sharon Barner explained the historical and practical context of the legislation, George Best outlined key provisions of the legislation and discussed the possibility of reform through judicial action, David Melton reviewed the litigation-focused changes, and Hal Wegner proposed alternatives to the post-grant review provisions. This article summarizes some of the issues discussed during the conference.