



Spotlight on ... Intellectual Property

Patent Reform Act proposes new ways to grant and test patents

By MAYA ECKSTEIN

The 2007 Patent Reform Act is the latest in several recent attempts to reform the patent system. While previous attempts languished, the Act is a bipartisan and bicameral effort that, thus far, appears to have the best chance yet of becoming law.

Patent reform has been in the offing for a number of years, with numerous bills being proposed over the past few years. The momentum seems to be shifting in the direction of actual reform now, following the Supreme Court's 2006 decision in *eBay v. MercExchange* and its 2007 decisions in *KSR International v. Teleflex* and *AT&T v. Microsoft*. Co-sponsored by Sens. Patrick Leahy (D) and Orrin Hatch (R), and Congressmen Howard Berman (D) and Lamar Smith (R), as well as Democratic Congressman Rick Boucher of Virginia, the 2007 Act proposes a number of provisions that would dramatically change the current patent system.

First to file

Under the current system, the earliest date of conception determines which of two competing "inventors" receives full patent rights. If two or more parties file patent applications covering the same invention, the Patent and Trademark Office will invoke an interference proceeding. In an interference proceeding, the PTO seeks to determine which purported inventor first conceived of the invention. Interference pro-



ceedings are considered costly, complex, and often unpredictable.



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Nearly all foreign countries follow a first-to-file system, granting full patent rights to the first person to file a patent application for a claimed invention. The 2007 Patent Reform Act seeks to institute such a system. Proponents argue that a first-to-file system would provide more certainty as to who is entitled to patent rights in an invention.

Among other things, a move to a first-to-file system will require inventors to reconsider when to apply for patents. They likely will file patent applications earlier than under

the current system, and file more patent applications. The risk of losing patent rights to an earlier file simply would be too great.

Post-grant review

As the number of patent applications filed has exploded over the past 20 years, so too have complaints about poor quality and invalid patents. The Act proposes a new proceeding to challenge the grant of a patent. The proposed post-grant proceeding would allow anyone to petition for the cancellation of an issued patent. The new proceeding purportedly would provide a less expensive and more streamlined method of challenging patents, as compared to litigation. The proposed post-grant proceeding would be available only for patents issued after the effective date of the bill, if enacted.

Under the new proceeding, any party could petition for the cancellation of an issued patent within 12 months from its issuance. If more than 12 months has passed since issuance, the PTO will allow post-grant review of an issued patent only if the party petitioning for review establishes a "substantial reason to believe that the continued existence of the challenged [patent] claim . . . causes or is likely to cause the petitioner significant economic harm." Alternatively, the petitioner must establish that he "received notice from the patent holder alleging infringement" of the patent at issue. The bill does not define any of the critical terms, including "substantial reason," "significant economic harm," or "notice."

Importantly, the statutory presumption of validity attributed to a patent in litigation would not apply in the proposed post-grant proceeding. In litigation, a patent is statutorily presumed valid and its invalidity must be proven by clear and convincing evidence. In the proposed post-grant proceeding, patents would not enjoy the presumption of validity and their invalidity could be proven by a lower standard of preponderance of the evidence.

Additionally, the petitioner who loses a post-grant petition to cancel a patent claim would be precluded from asserting invalidity of the same patent claim in later litigation "on any ground which the cancellation petitioner raised during the post-grant review proceeding." And, a party who unsuccessfully litigated the validity of a patent claim to final decision could not later file a post-grant petition on that same patent claim.

Damages

Under current law, damages can be calculated either with respect to lost profits or a reasonable royalty. If a reasonable royalty is the measure of damages, the fact finder is required to determine damages by envisioning the result of the parties' hypothetical negotiation for a license to the claimed invention at the time infringement began.

The 2007 Act seeks to refine and narrow available damages for patent infringement. Based on the argument that many patents cover only improve-

ments on already-existing products or systems, the Act seeks to limit damages by allowing for a reasonable royalty only for "that economic value properly attributable to the patent's specific contribution over the prior art." Moreover, damages could not be based "upon the entire market value of that infringing product or process" unless the patent holder shows that his patented improvement "is the predominant basis" for the product's market demand.

These changes seek to ensure that damages are proportionate to the value of the component in question, rather than the entire product. For example, critics often point to *Alcatel-Lucent v. Microsoft*, in which a jury in February awarded \$1.52 billion against Microsoft for patent infringement. Microsoft's Windows MediaPlayer was the infringing software in question, but damages were calculated with respect to the average cost of a PC, which costs about five times as much as Windows alone. Microsoft claims the verdict was wildly out of proportion with the actual damages.

The Act also seeks to limit the trebling of damages for findings of willful infringement. A defendant could be found liable for willful infringement only if he continued his acts of infringement after receiving written notice of infringement that identified, with particularity, each patent claim allegedly infringed and each infringing product or process. A defendant also could be found liable for willful infringement if he intentionally copied the patented invention or continued to infringe after being adjudged an infringer. "Good faith" by the infringer would avoid willfulness.

Interlocutory appeal

A finding of infringement often can turn on a court's claim construction ruling. Thus, these rulings often can be the most important ruling in a case. Yet, the Federal Circuit reportedly reverses up to 50 percent of such rulings. The Act would allow for the interlocutory appeal of claim construction rulings. Proponents argue that interlocutory appeals would prevent the parties from expending substantial resources on litigation that eventually would be declared a nullity by the Federal Circuit. Opponents argue that interlocutory appeals will simply delay resolution of patent litigation.

Inter partes reexamination

Under the PTO's current post-grant review process, a third party can petition the PTO to review an issued patent's claims if a substantial question of patentability exists. In the inter partes reexamination process, the third party requestor actively participates in the PTO's review of an issued patent's claims. The inter partes reexamination process is intended to offer a low-cost alternative to litigation. However, many attorneys warn their clients against filing inter partes reexamination requests because of their litigation estoppel effect. Specifically, the filing of an inter partes reexamination request estops later validity challenges on grounds that a third party "raised or could have raised" during the reexamination process. The 2007 Patent Reform Act would limit the estoppel effect to only issues actually raised, striking the "could have raised" language.

Opposition to Act

While the 2007 Patent Reform Act appears to have a better chance of being enacted into law than any previous attempts to enact patent reform, it is not without its critics. Among others, the pharmaceutical and biotech industries strongly oppose the Act, as the relative value per patent in the pharmaceutical and biotech industries is much higher than in other sectors, including the financial and information technology sec-

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tors. Indeed, the cost to develop new a biotech product is estimated to average \$1.2 billion, according to a study by the Tufts Center for the Study of Drug Development.

Small inventors and so-called "patent trolls" also are voicing opposition. They argue that the number of patent infringement lawsuits is decreasing. A PriceWaterhouse-Coopers study shows

that the number of filed patent cases fell to 2,720 in 2005, down from 3,075 the year before. As a result, they argue that the move for patent reform is premature and being pushed by just a handful of large companies.

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