

Sea Changes In Our Patent System: Has The Pendulum Reversed? – Part II

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Part I of this two-part article examined several recent Supreme Court decisions that portend a less hospitable climate for patent holders by making it more difficult to obtain and to sustain the validity of patents, making injunctive relief for infringement less certain and lowering barriers for those seeking to challenge a patent by way of a declaratory judgment action. These decisions are converging with "patent reform" legislation and PTO administrative approaches that attempt to respond to complaints about the deterioration in patent quality and the degree of uncertainty in patent litigation. Together, these converging changes can be expected to trigger major changes in the practices and strategies for obtaining and enforcing patents.

H.R. 34: To Establish A Pilot Program In Certain United States District Courts To Encourage Enhancement Of Expertise In Patent Cases Among District Judges

The inherent complexity of patent cases presents unfamiliar territory for most district court judges and it is not surprising that many, most of whom are generalists, might prefer to defer a complex patent case to another judge with a greater comfort level for that subject matter. The random selection by which judges are assigned to cases does little to accommodate those preferences. H.R. 34 (Issa, R-California) offers a remedy to achieve more effective judging in patent cases.

H.R. 34 would establish a pilot project in at least five U.S. district courts to direct patent cases to judges that have the desire and aptitude to hear them. The bill preserves random assignment of cases as much as possible. A patent case randomly assigned to a judge who has opted in would remain with that judge. If the random assignment is to a judge who has not opted in to hearing patent cases, that judge may keep the case or send it to the group who have opted in. Each pilot court would be assigned a clerk with expertise in patent law. The opted-in judges would not handle patent cases exclusively. The bill, passed by the House and now with the Senate Judiciary Committee, is a response to the high reversal rate of district court decisions by the Federal Circuit Court of Appeals, considered by many to be due to judicial inexperience and misunderstanding of patent law.

S. 1145: The Patent Reform Act Of 2007 (Lahey-Hatch/Berman-Smith)

The principal provisions of this legislation would (1) change our system of awarding patents from a first-to-invent to a first-to-file system, and (2) create a post-grant review procedure by which third parties

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could challenge, in the PTO, the validity of an issued patent. Other new provisions would (3) limit the damages awards in some cases of infringement to reflect only the economic value of the patented invention, rather than the entire market value of the product incorporating the invention, (4) establish tightened statutory standards for a finding of willful infringement and (5) permit interlocutory appeals of claim interpretation orders. Changes also are proposed to expand the scope of the "prior user" defense to infringement and to limit the venues in which a suit for infringement may be brought.

Adoption Of A First-To-File System

This is, perhaps, the most significant change to the U.S. patent laws since the inception of those laws. The United States is the only country that awards a patent to the first inventor rather than to the first to file for a patent on the invention. Economic globalization has, however, increased pressure on the United States to "harmonize" its patent laws with those of other countries. If enacted into law, it seems very likely that it will result in sharp changes in practices of inventors and companies that rely on patents to protect their innovations.

A first-to-file system would create continuous pressure to prepare and file a patent application as soon as possible after the invention has been conceived and before any significant development. Patent applications have been characterized by the Supreme Court as "... one of the most difficult legal instruments to draw with accuracy." In a first-to-file system, there will be little time to reflect thoughtfully and adequately on the many things that should be considered, such as searching and evaluating the prior art and evaluation of the market context of the invention to assess its commercially important features. Careful drafting of the written description of the invention as well as drafting comprehensible, clear claims so as to enhance the ability to enforce the patent in the future necessarily takes time, not only of attorneys but also of the inventors and others who may participate in the process. During the time it takes to develop an invention into a commercial product or process, obstacles arise, lessons are learned and changes must be made. A hastily filed application will not have the benefit of the lessons of product development.

In a first-to-file system, a likely change in patenting strategy would be filing a succession of provisional (temporary) patent applications reflecting the progressive development of the invention. While a provisional application preserves a filing date, it does so only for the subject matter that it discloses. It cannot, itself, issue as a patent. A non-provisional application then must be filed within one year of the provisional in order to get the benefit of the provisional filing date. Such non-provisional applications likely would be filed based on the combined disclosures of the provisionals and may be considered to have several filing dates for different disclosures and improvements created as the invention was developed. Should questions arise as to which of the competing inventors was "first to file," the PTO will have to evaluate each of the provisional applications and determine which first pro-



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vide sufficient disclosure for the invention as claimed in the competing non-provisional applications. Thus, a first-to-file system might not be as simple to administer as might appear at first glance.

Post-Grant Review

Under current law, the validity of an issued patent can only be challenged through a reexamination proceeding in the PTO or in litigation in federal court. The reexamination procedures presently available are considered by many to be inadequate. Litigation is expensive and, at best, is uncertain.

Under the post-grant review procedure, a "petition for cancellation" could be filed in the PTO to challenge the validity of a patent on any ground that the patent laws require as a condition for patentability. The petition, however, may only be filed (1) within twelve months of the issuance of the patent, or (2) if there is a "substantial reason to believe that the continued existence of the challenged claim ... is likely to cause the petitioner significant economic harm," or (3) the petitioner has received notice of infringement from the patent holder or (4) the patent owner consents in writing. The patent owner, as part of the response to the petition for cancellation, could move to amend or cancel a challenged claim. Claims could not be broadened.

Limited discovery would be permitted for relevant "... evidence directly related to factual assertions advanced by either party to the proceeding, ..." The regulations must include sanctions for abuses and protective orders for confidential information. Appeal would be to the Federal Circuit.

There would be no presumption of validity as in infringement litigation and the challenger's burden of proof would be a less onerous preponderance of the evidence. The final decision must be issued within one year, although that can be extended for an additional six months, for good cause.

Limitations On Damages

The bill would limit the damages for infringement, in many cases, to the "... economic value properly attributable to the patent's specific contribution over the prior art." Moreover, it would require the court to conduct an analysis and identify all factors relevant to the determination to ensure proper application of this limitation. Finally, one seeking to base damages on the "entire market value" of an infringing product or process would have to demonstrate that the patent's specific contribution over the prior art is the predominant basis for market demand of the product or process.

Chief Judge Paul Michel of the Court of Appeals for the Federal Circuit expressed concern for this provision, characterizing it as "... massive undertaking for which courts are ill-equipped," suggesting that it was an exercise better "... executed by an economic institution with massive resources and unlimited time ..." than by "... already overburdened district courts."

Willful Infringement

Willfulness would be determined by the court, without a jury. It could be found only on clear and convincing evidence that (1) after receiving detailed written notice from the patent owner, infringing acts were performed, (2) the infringer copied with knowledge of the patent or (3) after having been found by the court to infringe, continued that infringement. Proof of an informed good faith belief by the infringer that the patent was invalid or unenforceable or not infringed would be a defense to willfulness. The good faith belief could be shown by

reasonable reliance on advice of counsel, or that the infringer tried to avoid infringement upon discovery of the patent or any other sufficient evidence.

Interlocutory Appeals Of District Court Claim Construction Orders

The bill provides for interlocutory appeals of district court orders that determine claim construction in a patent infringement action. The district court case would be stayed during the pendency of the appeal.

Determination of the meaning and scope of the claim language is often the most pivotal decision to be made by a U.S. district judge in a patent infringement action. Once the scope and meaning of the claim is determined, the outcome of the infringement issues may be apparent, often resulting in the grant of a summary judgment motion. In many cases, the claim construction also may inform the issues of validity.

The district courts have not fared well on construction of patent claims. The rate of reversal by the Federal Circuit on claim construction issues has been estimated variously as between 33% and 50%. Notwithstanding the obvious need for a remedy, there is serious question whether the Federal Circuit could handle, effectively, the increased workload of interlocutory appeals. Judge Michel has estimated they would double the number of filings in the court, delaying the resolution of patent cases for an additional year, and trial court delays in patent cases could be delayed for an additional two to three years.

U.S. Patent & Trademark Office Initiatives – The Peer-to-Patent Program

The PTO has initiated a pilot program to test the feasibility of an innovative idea by which PTO examiners could draw on the expertise and knowledge of the technical community for information useful in their examination of applications. Participants include outside volunteers with expertise in selected technologies and patent applicants who opt to participate by placing their applications in the program. The volunteers would review and discuss the applications, research and identify relevant prior art, cooperatively evaluate that prior art and select the "top ten" references to be forwarded to the PTO. The pilot program began operation June 15, 2007. Among the companies that have submitted patent applications to the program are GE, HP, Intel, IBM and Red Hat.

Conclusion

Only two of the proposals are directed squarely at the problem of improving patent quality. It is this writer's view that the post-grant review can be expected, at best, to weed out only a relatively few selected patents affecting particular challengers. The Peer-to-Patent project, if successful, has potential. There is little evidence that shifting to a first-to-file system will improve the quality of issued patents and some argue that it will have the opposite effect. The remaining proposals and recent Supreme Court cases present a mixed bag for reducing the uncertainties in patent litigation. H.R. 34 has promise to develop greater judicial patent expertise that, with time, could solve many problems. Interlocutory appeals, while useful in theory, don't appear to be a practical solution. The damages and willfulness proposals, if enacted, would seem to present further obstacles to patent owners and provide increased incentives to challengers. Coupled with the recent Supreme Court rulings, patent owners and patent applicants can look forward to challenging times.

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