
Understanding the Implications of the Patent Reform Act of 2007

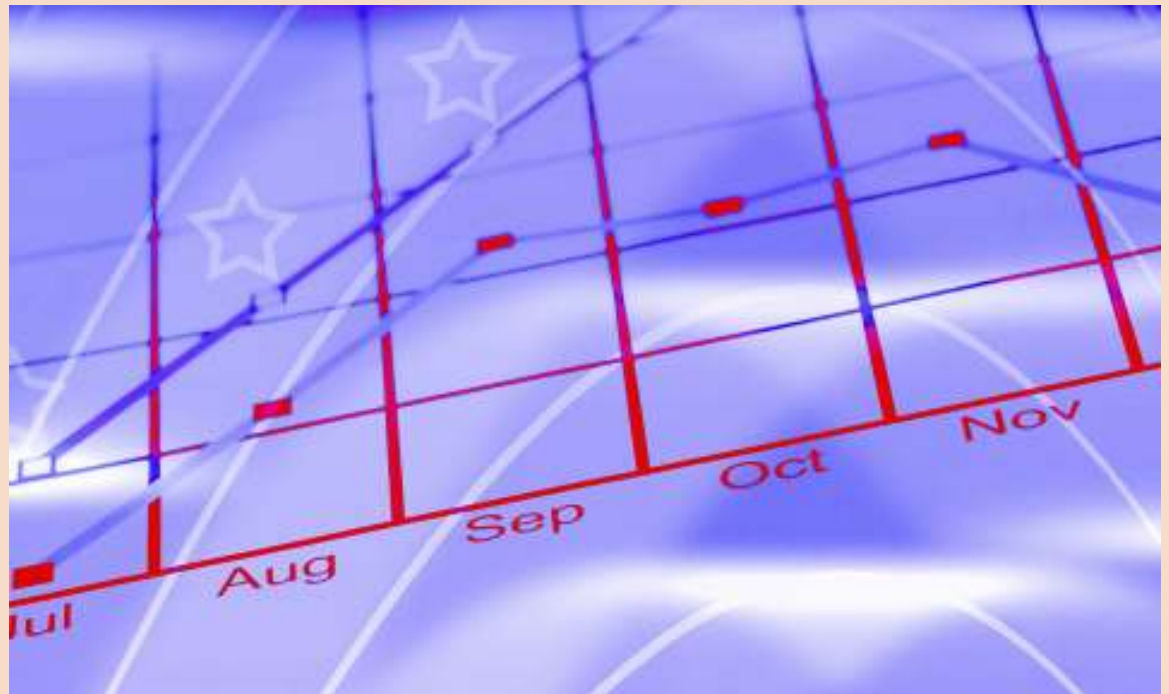
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Patent Volatility

- Patent Office
- Supreme Court
- Congress



Overview

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- I. Purpose of the Act
 - II. Status
 - III. Review of Selected Provisions of the Act and How Technology Business May Be Affected
 - 1. Priority Claim – First to File
 - 2. Damages – Reasonable Royalty Calculations
 - 3. New Test for Willful Infringement
 - 4. Post Grant Review Process
 - 5. Venue
 - 6. Claim Construction Appeal
 - 7. Search Reports in Patent Applications
 - 8. New Issues Regarding Inequitable Conduct
 - IV. Conclusion

The Goal



The Congress shall have power . . . 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. Const., Art. I, sec.8

I. Purpose of the Act



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- Fix the “broken” patent system
 - Handle declining “patent quality” issue
 - Handle “exorbitant” damage awards
 - Expensive Patent Litigation
 - Create more uniformity with foreign countries
 - Satisfy political lobbies

Status

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- Patent Reform Act of 2007
 - Version passed the House in September 2007
 - Being debated by Senate
 - Senate report in January 2008
 - Amendments in Senate in March 2008
 - Patent Reform v. Economy, War, Election

III. Selected Provisions



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1. Priority claim – first to file
 2. Damages – reasonable royalty calculations
 3. New test for willful infringement
 4. Post Grant Review Process
 5. Venue
 6. Claim construction appeal
 7. Search reports in patent applications
 8. New issues regarding inequitable conduct



1. Priority Claim – First To File

- Currently first to invent
 - Conception
 - Reduction to practice
 - Diligence

1. Priority Claim – First To File



“INTERFERENCE”





1. Priority Claim – First To File

- Problem with current law
 - Interferences are bad
 - Costly
 - Arcane rules
 - Requires more record keeping
 - Most of the world is first to file

1. Priority Claim – First To File

- Goal of Act
 - “Harmonize” with rest of world



- Get rid of expensive Interference proceedings

1. Priority Claim – First To File

- Act would
 - Do away with interference
 - Change “prior art”
- Prior art would be
 - All printed publications, evidence of public use or sale more than a year prior to the **filing date** of the application, or
 - If the actions relate to an individual other than the inventor, less than one year prior to the **filing date**
 - An inventor’s publication less than a year prior to the filing date would not be prior art

1. Priority Claim – First To File

– HOWEVER,

- If the subject matter is less than one year prior to the filing date and made by an individual other than the inventor, the subject matter is NOT considered prior art if the disclosure was "derived" from the inventor
 - e.g., publication based on inventor's publication

1. Priority Claim – First To File

- Problem with the Act:
 - By distinguishing inventor's publication, inventor has incentive to publish early
 - BUT
 - Absolute novelty (not harmonize)
 - Rush on the Patent Office
 - Less developed applications (poorer quality)
 - Small companies cannot wait for financing
 - Informal “provisional” applications
 - Derivation proceedings?



1. Priority Claim – First To File

- What to do?
 - Streamline patent application process
 - Continue to maintain invention records in case of derivation proceeding
 - File provisional (informal) applications



2. Damages – Reasonable Royalty

- Prevailing patent owner gets damages
- How to calculate?
- Current law
 - Reasonable royalty based on defendant's sales
 - *Georgia-Pacific* factors
- Problem with current law
 - Congress concerned not enough guidance and what to do with “combinations”

2. Damages – Reasonable Royalty

- *Georgia-Pacific* Factors
 - Royalties received by the patentee
 - Rates paid for comparable patents
 - Nature of the license, to be imposed
 - Whether the patentee had licensed others
 - Commercial relationship between the parties
 - The duration of the patent
 - Related sales
 - Commercial success of a product made pursuant to the patent

2. Damages – Reasonable Royalty

- *Georgia-Pacific* Factors (con't.)
 - Advantages over prior inventions
 - Nature of the invention
 - Extent the infringer used the invention
 - Portion of profit usually allotted to invention in those businesses
 - Portion of profit credited to invention
 - Opinion of an expert
 - What would a hypothetical licensee reasonably pay if the parties contracted beforehand

2. Damages – Reasonable Royalty

- Act would
 - Base royalty on any enhanced value resulting from the combination
- Problem with the Act
 - All inventions in electrical and computer science arts are combinations
 - Underlying tools needed for evolution
 - Value of invention decreased
 - Currently 15 factors, new test would create ambiguity

2. Damages – Reasonable Royalty

- What to do?
 - Characterize invention based on improvement to whole
 - e.g., new television, not just a new filter circuit



3. New Test for Willful Infringement

- Current law
 - Prevailing patentee can get enhanced damages for “willful” infringement
 - With the scope of a patent being difficult to ascertain, how does one prove, or disprove willfulness?

3. New Test for Willful Infringement

- Problem with current law
 - Need clearer standards regarding willfulness
 - Opinion from counsel may not work to rebut a claim of willfulness
 - Not clear how far the privilege is pierced
 - Claim of willfulness results in unfair bargaining power

3. New Test for Willful Infringement

- Act would
 - More stringent requirements
 - Patentee must give detailed notice
 - Advice of counsel is a defense (Now?)
 - Modification of activity to avoid infringement is a defense (Opinion? Now?)
 - Willfulness can't be requested until a ruling of infringement and validity

3. New Test for Willful Infringement

- Problem with Act
 - Almost all of the concerns are misplaced
 - *In re Seagate* clarified the scope of any waiver
 - Limited to opinion counsel
 - Willfulness is bargaining chip in every case whether at the beginning or later on
 - Detailed notice opens patentee up to declaratory judgment action

3. New Test for Willful Infringement

- What to do?
 - Patent Owners
 - Simple notice is not enough for willfulness
 - Details required which may open up to DJ
 - Defendants
 - As always, be careful about written communications with counsel

4. Post Grant Review Process

- Current law
 - Reexaminations after grant
- Problem with current law
 - Limited in invalidity theories (no best mode, statutory subject matter)
 - Other theories in district court
 - Not enough teeth

4. Post Grant Review Process

- Act would
 - Post Grant Review (PGR) may be filed within 12 months
 - No presumption of validity
 - Lower burden of proof

4. Post Grant Review Process

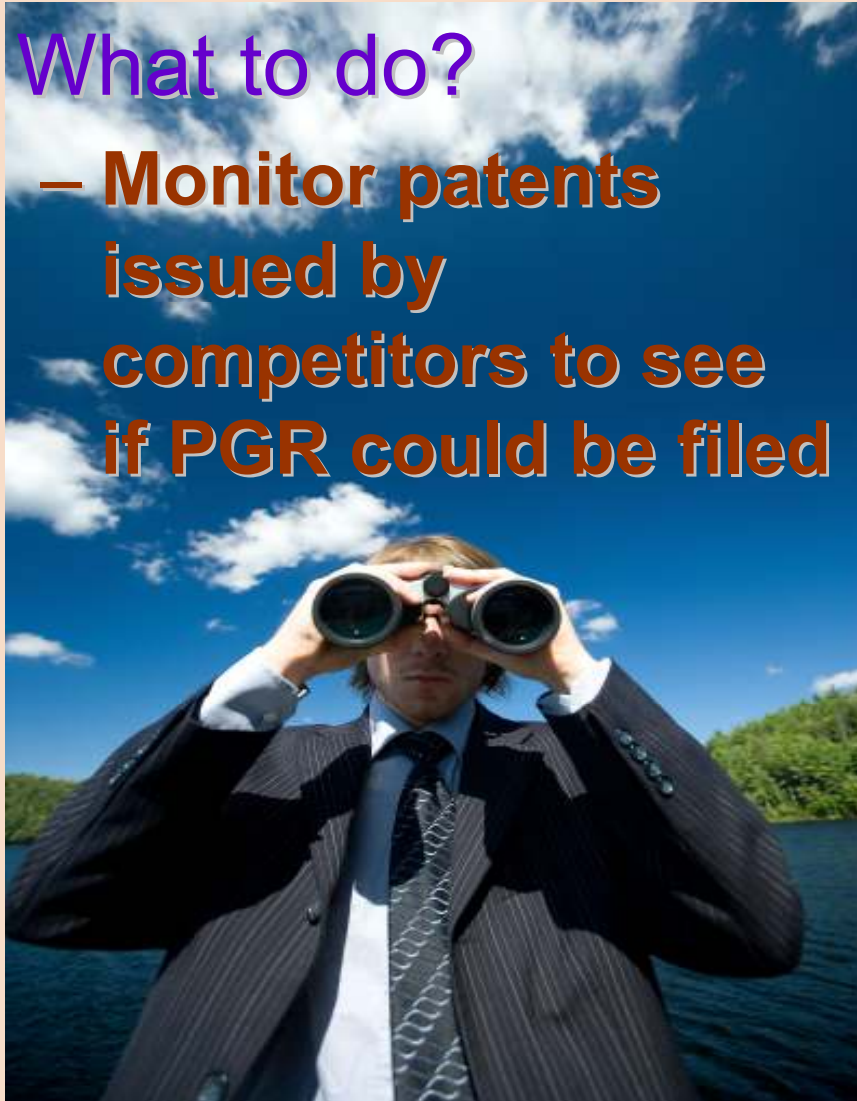
- Problem with Act
 - PGR could be used harass, especially small businesses
 - Most costly application process
 - Lower burden of proof
 - Loss of presumption makes this look like a registration system, examiners examine
 - Discovery procedures would make this expensive



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4. Post Grant Review Process

- What to do?
 - Monitor patents issued by competitors to see if PGR could be filed



5. Venue

- Current law
 - Any place where there is an act of infringement



5. Venue

- Problem with current law
 - Too broad
 - Cases mostly filed in 10 jurisdictions (E.D. Tex.) many of which have little connection to case



5. Venue

- Act would
 - Limit venue to
 - Defendants' principle place of business OR
 - Where acts of infringement occurred and defendant has an established facility

5. Venue

- Problem with the Act
 - Forum non conveniens available
 - Patents are complex, plaintiffs don't want to handicap case (E.D. Tex.)
 - Should establish patent specialty courts



5. Venue

- What to do?
 - Plaintiffs will still forum shop and seek ways to get cases in front of patent savvy judges
 - Are defendants harmed?



6. Claim Construction Appeal

- Current law
 - Patents are defined by the scope of their claims
 - Claims are defined in a *Markman* Ruling

6. Claim Construction Appeal

- Problem with current law
 - District court makes a ruling and may be years before appeal-able
 - After appealed, high percentage of *Markman* rulings are changed
 - Wasted resources because now have to re-litigate infringement, validity, etc., in light of new ruling

6. Claim Construction Appeal

- Act would
 - Interim appeals of claim construction ruling if
 - District judge court judge allows
 - Senate Amendment
 - Reasonable basis for disagreement
 - Would advance ultimate determination in the case

6. Claim Construction Appeal

- What to do?
 - Good step
 - Claim construction ruling are routinely overturned
 - Lower court judges don't have requisite experience
 - More efficient
 - Fed Cir. Judge concerned about excessive costs and time of case

7. Search Reports in Patent Applications

- Current law
 - Is the invention new to the world?
 - No requirement to do a prior art search
 - Search by examiner



7. Search Reports in Patent Applications

- Problem with current law
 - Applicants frequently do not talk about prior art
 - Others bombard the patent office with dozens of pieces of prior art with no guidance

7. Search Reports in Patent Applications

- Act would
 - All applicants (except for “micro-entities”)
must perform a prior art search
 - Explain relevance of each piece

7. Search Reports in Patent Applications

- Problem with Act
 - Much more expensive
 - Search vendor
 - Legal analysis
 - Prosecution history estoppel
 - Burden shifting
 - Patent Office tried and court recently found outside their rule making authority
 - Vague

7. Search Reports in Patent Applications

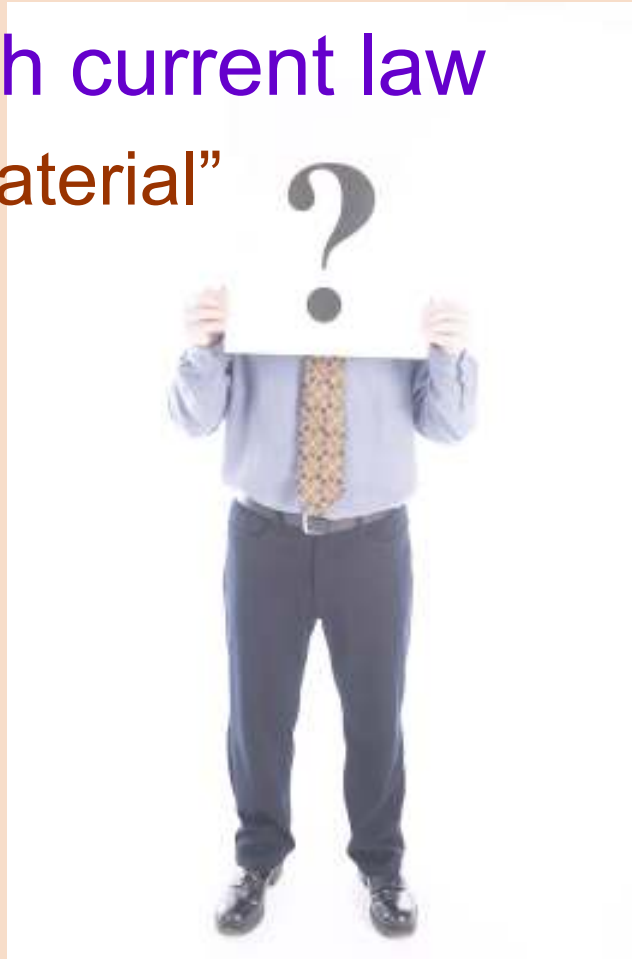
- What to do?
 - Prepare to spend more
 - Preparing a patent application
 - Enforcing a patent
 - Defending against prosecution history estoppel claims
 - Defending against claims of inequitable conduct

8. New Issues Regarding Inequitable Conduct

- Current law
 - Duty of candor is imposed on all applicants
 - “Material” information must be submitted
 - Violation, intent must be shown, patent unenforceable

8. New Issues Regarding Inequitable Conduct

- Problem with current law
 - What is “material”



8. New Issues Regarding Inequitable Conduct

- Act would
 - Senate
 - “Material” – information a reasonable examiner would have considered important in deciding whether to allow the application
 - Must prove intent to deceive

8. New Issues Regarding Inequitable Conduct

- Act would
 - House
 - “Material” – would have led to a finding of unpatentability or is inconsistent with a position taken before the Patent Office
 - Conscious or deliberate behavior must be shown
 - Court should refer matter to a disciplinary committee at the Patent Office regarding misconduct

8. New Issues Regarding Inequitable Conduct

- Problem with the Act
 - Prosecuting attorney does not litigate
 - No chance to defend himself
 - “Material” in Senate version though supported by case law is vague
 - What is “important”?
 - Who is a “reasonable examiner”?

8. New Issues Regarding Inequitable Conduct

- What to do?
 - Work with attorney to comply with duty
 - If you uncover prior art, tell your attorney



Conclusion

- Evolution is good
- Lawmakers need to be better informed before making decisions
- Near unanimous condemnation from patent community