Patent Reform Act of 2007

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Patent Reform Act of 2007

“High patent quality is essential to continued innovation. Litigation abuses, especially ones committed by those which thrive on low quality patents, impede the promotion of the progress of science and the useful arts. Thus, we must act quickly during the 110th Congress to maintain the integrity of the patent system.”

Patent Reform Act of 2007: Bicameral and Bipartisan

- Introduced by Sens. Leahy (D)/Hatch (R) and Reps. Berman (D)/Smith (R), each with numerous original co-sponsors
- Bicameral & Bipartisan
- Includes litigation reforms, patent quality enhancements & harmonization provisions
- Many provisions from earlier bills out: inequitable conduct & best mode reforms, 271(f), injunction reform, attorneys’ fees
“This bill is not perfect….”

Its not a perfect solution. This bill is the beginning of a process. I am open to suggestions for amending the language to improve its efficacy or rectify any unintended consequences.”


“This bill is not perfect….I am hopeful that further refinements will be made to this bill during the legislative process.”

- Sen. Hatch, April 18, 2007

“The bill is a good first start…Its not the final word. Legislation and modifications will be made during the legislative process.”

Patent Reform Act of 2007: Where are we now?

In the House…
- Hearings held April 26, 2007 (House IP Subcommittee)
- Testimony from industry reps from tech, universities & Coalition for 21st Century Patent Reform (BIO/Pharma, manufacturing)
- May 16, 2007 - House Bill forwarded to full Judiciary Committee
- Sponsors working on revisions & Full Committee vote expected this summer

In the Senate…
- Hearings held June 6, 2007 (Senate Judiciary Committee)
- Testimony from PTO Director Jon Dudas and industry reps from tech, financial services, BIO & small business/inventors/licensing companies
- June 11 - several Republican Senators ask Committee for more time/hearings
- Full Committee markup/vote expected later this summer

Other branches of the government weighing in…
- Chief Judge Paul Michel (Federal Circuit) – May 3, 2007 letter to Congress
- Bush Administration (Dept. of Commerce) – May 16, 2007 letter to Congress
The History . . . 2003-2005

PTO’s “The 21st Century Strategic Plan” (Updated February 2003)
  “Today the USPTO is under siege.”

  10 recommendations focusing on questionable patents

  7 recommendations focusing on the high costs of patent litigation

Industry Groups & Organizations Actively Involved
  BSA, BIO, AIPLA, IPO
  Recommendations & draft legislation
The History... 2004-2005

- House Judiciary Committee Print (published April 14, 2005)
  - Based on revisions of Committee Print
- AIPLA Redlined Markup
- Amendment in the Nature of a Substitute to H.R. 2795 Offered by Mr. Smith of Texas (July 26, 2005) (“Smith Draft”)
  - Marked-up version of HR 2795
  - Redline of Smith Draft
  - Bio+Pharma-Generics
The History... 2006

HR5096: Patents Depend on Quality ("PDQ") Act introduced on April 5, 2006.
- Not bipartisan: Berman (D), Boucher (D)
- Many provisions from HR2795 missing → First inventor to file, best mode/inequitable conduct reform, damages apportionment, etc.

- Bipartisan: Hatch (R), Leahy (D)
- Some sections gutted/revamped → inequitable conduct, post grant opposition, best mode, prior art, willfulness, etc.
- Some new sections: interlocutory appeal, fee shifting, increased authority for the PTO to issue substantive rules to implement the Patent Act, etc.
- Some sections just discussion pieces
- Current bills based on this draft
Where are we now?

June 8, 2005
HR2795
Introduced in the House
(Bipartisan)

July 26, 2005
Smith Draft
(HR2795 Substitute)

Sept 1, 2005
“Coalition Print”
(~Bio + Pharma - Generics)

April 5, 2006
HR5096 (“PDQ Act”)
Introduced in the House
(Democratic)

Aug 3, 2006
S3818
Introduced in the Senate
(Bipartisan)

April 28, 2007
S1145; HR1908
Introduced in the Senate & House
(Bicameral & Bipartisan)

PTO and S.Ct. Act
Hot Topics in Current Bills

Reforms in Litigation
1. Damages Apportionment
2. Willfulness
3. Venue
4. Interlocutory Appeals

Reforms in the Patent Office
5. Post-Grant Opposition
7. First Inventor to File

Legend
- Pro-Plaintiff
- Pro-Defendant
- Neutral
Hot Topics in Past Bills

Reforms out, but still kicking...

8. Inequitable Conduct
9. Best Mode
10. Attorneys’ Fees

Reforms addressed by US Supreme Court

11. Injunctions
12. 271(f)

Reforms being addressed by PTO Rules

13. Continuation Practice
1. Damages Apportionment

Courts to Consider "Inventive Contribution"

Same

Courts to Consider Contribution from "Claimed Invention"

Gone; no change to Damages Apportionment

Rewritten: Courts to Consider Value Attributable to "Novel & Nonobvious Features"*

Rewritten: Courts to Consider Value Attributable to "Patent’s Specific Contribution Over the Prior Art"

* Courts to also consider terms of non-exclusive marketplace licensing of invention and other factors in applicable law.
1. Damages Apportionment, *cont.*

“The Relationship of Damages to Contributions over Prior Art — The court shall conduct an analysis to ensure that a reasonable royalty under paragraph (1) is applied only to that economic value properly attributable to the patent’s **specific contribution over the prior art**. In a reasonable royalty analysis, the court shall identify all factors relevant to the determination of a reasonable royalty under this subsection, and the court or the jury, as the case may be, shall consider only those factors in making the determination. The court shall 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.” Sec. 5
1. Damages Apportionment, *cont.*

“Entire Market Value – Unless the claimant shows that the patent’s specific contribution over the prior art is the predominant basis for market demand for an infringing product or process, damages may not be based upon the entire market value of that infringing product or process.” – Sec. 5
2. Willfulness

Heightened Std:
Copying,
Specific Written
Notice, or Not
Colorably Diff.

Same + by
Court not
Jury

Same

Same

Same*

Same*

*Good faith belief of noninfringement/invalidity/unenforceability includes not only reasonable reliance on advice of counsel but also designing around and “other evidence a court may find sufficient.”
2. Willfulness, cont.

specific written notice

- “after receiving written notice from the patentee . . . alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and . . . identifying with particularity each claim of the patent, each product or process that the patent owner alleges infringes the patent, and the relationship of such product or process to such claim . . . the infringer, after a reasonable opportunity to investigate, thereafter performed one or more of the alleged acts of infringement”

copying

- “the infringer intentionally copied the patented invention with knowledge that it was patented; or”

    or…
2. Willfulness, cont.

not colorably different

- “after having been found by a court to have infringed that patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to have infringed the patent, and which resulted in a separate finding of infringement of the same patent.” (Sec. 5.)
3. Venue

June 8, 2005 HR2795
July 26, 2005 Smith Draft
Sept 1, 2005 “Coalition Print”
April 5, 2006 HR5096
Aug 3, 2006 S3818
Apr 18, 2007 S1145; HR1908

Not Included
Includes Venue Provision
Transfer of Venue to More Appropriate Forum in Certain Instances
Same
Includes Venue Provision*
New language

*Waters down prior proposals: Can bring in judicial district where either party (not just defendant) resides. Residing includes incorporation.
3. Venue, cont.

Actions for patent infringement can only be brought:

- “(1) in the judicial district where either party resides; or”
- “(2) in the judicial district where the defendant has committed acts of infringement and has a regular and established place of business.”

A corporation resides where it has its principal place of business or where it is incorporated. – Sec. 10
4. Interlocutory Appeals

Provides for interlocutory appeals of claim constructions

- 28 USC § 1292(c)(2) amended to add at end:

  (3) of an appeal from an interlocutory order or decree determining construction of claims in a civil action for patent infringement under section 271 of title 35.

- Application for an appeal under paragraph (3) shall be made to the court within 10 days after entry of the order or decree, and proceedings in the district court under such paragraph shall be stayed during pendency of the appeal.
4. Interlocutory Appeals, cont.

Opposed by Chief Judge Michel (Federal Circuit) in May 3, 2007 Letter to Congress:

- Will double the number of appeals and cause delays at both appellate and trial courts
- Would be inefficient
  - does not focus on dispositive terms
  - does not allow court to modify/supplement constructions as additional info becomes available (e.g. on summary judgment or at trial)
  - Current practice not deficient, most decided on summary judgment based on claim construction
5. Post-Grant Opposition

First window: Patent quality; Second window: Litigation reform

*1st window expanded from 9 mos to 12 mos
5. Post-Grant Opposition, cont.

- **1st Window:** 12 mos. after grant – § 322

- **2nd Window:**
  - “the petitioner establishes a substantial reason to believe that the continued existence of the challenged claim in the petition causes or is likely to cause the petitioner significant economic harm;”
  - “the petitioner has received notice from the patent holder alleging infringement by the petitioner of the patent;” OR
  - “the patent owner consents in writing to the proceeding” – § 322
5. Post-Grant Opposition, cont.

Petitioner is **estopped** from raising (in reexam, derivation proceeding, post-grant review or civil action under 28 USC § 1338) “any ground which the cancellation petitioner raised during the post-grant review proceeding” – § 334

Petition must identify cancellation petitioner – § 323

Presumption of validity does not apply; party advancing proposition must prove proposition by preponderance of the evidence – § 328

- June 8, 2005 HR2795
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Third Party Submissions Allowed

Same

Same

Same

Same

Same

Same

“Any person may submit for consideration and inclusion in the record of a patent application, any patent, published patent application or other publication of potential relevance to the examination of the application, if such submission is made in writing before the earlier of” the date the NOA is mailed or the later of 6 mos. after publication or the date of first rejection under 132 – Sec. 9
7. First Inventor to File

- **June 8, 2005**
  - HR2795

- **July 26, 2005**
  - Smith Draft

- **Sept 1, 2005**
  - “Coalition Print”

- **April 5, 2006**
  - HR5096

- **Aug 3, 2006**
  - S3818

- **Apr 18, 2007**
  - S1145; HR1908

**US → First to File**

**Same**

**Same + First to Publish & File w/in Year → Gets patent**

**Gone**

**US → First to File**

**Same***

*Sec. 3.*
7. First Inventor to File, cont.

- Part of decades long international harmonization efforts
- Widely supported across industries, BUT…
- Not “at this time” by the PTO/Bush Administration
  - Dept. of Commerce May 16, 2007 opposes
  - USPTO Director Jon Dudas testimony June 6, 2007
- Definition of prior art – largely unchanged in current bill, except for inventor’s own work
  - original proposal would have eliminated public use/on sale in favor of new “reasonably and effectively accessible” standard
- Creates prior user rights defense
Past Reform Proposals to Watch…
### 8. Inequitable Conduct

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 8, 2005</td>
<td>HR2795</td>
<td>Drastically Changed; Higher Std; PTO Involvement</td>
</tr>
<tr>
<td>July 26, 2005</td>
<td>Smith Draft</td>
<td>Same</td>
</tr>
<tr>
<td>Sept 1, 2005</td>
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<td>Same</td>
</tr>
<tr>
<td>April 5, 2006</td>
<td>HR5096</td>
<td>Gone; Inequitable Conduct Not Changed</td>
</tr>
<tr>
<td>Aug 3, 2006</td>
<td>S3818</td>
<td>Rewritten/much cleaner*</td>
</tr>
<tr>
<td>Apr 18, 2007</td>
<td>S1145; HR1908</td>
<td>Gone; Inequitable Conduct Not Changed</td>
</tr>
</tbody>
</table>

*Note that patentee is off the hook if patentee chose counsel wisely and had no knowledge of misconduct*
9. Best Mode

June 8, 2005
HR2795

July 26, 2005
Smith Draft

Sept 1, 2005
“Coalition Print”

April 5, 2006
HR5096

Aug 3, 2006
S3818

Apr 18, 2007
S1145; HR1908

Eliminated
Same
Same
Gone; Best Mode Not Eliminated
Same
Same

P D N
10. Attorneys’ Fees

Awarded unless other side’s position substantially justified

Gone; shifting of attorneys’ fees not addressed
10. Attorneys’ Fees, cont.

Section 285 amended to read:

(a) The court shall award, to a prevailing party, fees and other expenses incurred by that party in connection with that proceeding, unless the court finds that the position of the nonprevailing party or parties was substantially justified or that special circumstances make an award unjust.
The US Supreme Court joined the party...
11. Injunctions

*Rep. Berman noted that the Supreme Court has resolved questions involving injunctive relief. See http://www.fr.com/news/articledetail.cfm?articleid=561 for recent cases
12. Repeal of 271(f)

*Rep. Berman noted in his remarks that Section 271(f) is being addressed by the Supreme Court and that if it is left unresolved, Congress may need to reevaluate whether to include it in the bill.
And the PTO is making its own rules…
13. Continuation Applications

**PTO May Issue Regulations**
- June 8, 2005 HR2795
- July 26, 2005 Smith Draft
- Sept 1, 2005 “Coalition Print”
- April 5, 2006 HR5096
- Aug 3, 2006 S3818
- Apr 18, 2007 S1145; HR1908

**Issue being separately addressed by PTO**
- Gone; no language re continuation applications
- Same
- Same
- Confers Additional Rulemaking Authority to PTO*
- Same

*Not specific to continuations.
13. Continuation Applications, cont.

USPTO Rule Proposals

- PTO actively working since 2006 to modify rules regarding continuation practice
- Proposed changes originally published January 3, 2006 & public comment invited by May 3, 2006
- Final rules estimated July-August 2007
- Rumored modifications:
  - Limit of 3 continuations
  - Limit of 25 claims, 5 independent
  - Limit divisional requirements
HR 34: District Court Pilot Program

- First introduced by Rep. Issa last year
- Passed in House on Feb. 12, 2007
- Opt-in program for D.Ct. judges to hear patent cases: random assignment + optional declination & reassignment to specialized judges
- 10 yrs; 5 courts of 15 who hear most patent cases (+ large + interest)
- $5M → Education + Clerks

1st Section
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.

IN THE HOUSE OF REPRESENTATIVES
January 4, 2007
Mr. Issa introduced the following bill, which was referred to the Committee on the Judiciary.

A BILL
To establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges.

SECTION 1. PILOT PROGRAM IN CERTAIN DISTRICT COURTS

Pro-Defendant
Appropriations & Anti-Fee Diversion Legislation

- Since 1990, more than $750 million in fees collected by PTO diverted to unrelated government programs

- Bills to permanently end fee diversion have been introduced into House (H.R. 2791) and Senate (S. 1020), but so far not enacted into law

- Temporary suspension of fee diversion & appropriations last 2 years have roughly equal to expected fee collections

- February 5, 2007 – White House budget requested permanent end to fee diversion (for 4th year in a row) & sought $1.9 billion for PTO in FY 2008 for programs to improve patent quality, hire 1200 additional examiners, expand worldwide IP protection efforts, & move toward processing all applications electronically
Parting Thoughts …

You can keep up to date on the reform by staying tuned to the F&R website:

Thank You!
About the Materials

These materials were developed by Katherine Lutton and Kelly Hunsaker, both of whom practice nationally from Fish & Richardson’s Silicon Valley office, and Mary Ann Dillahunty, Vice President, Intellectual Property for Oncolytics Biotech Inc. Lutton, Hunsaker and Dillahunty have been speaking on patent reform since the first committee print dropped on April 14, 2005. They continuously monitor the reform and confer with those in the industry regarding the effect the reform is having on various interests. The three have complementary backgrounds and offer unique perspectives on the evolving reform.
Katherine Kelly Lutton

Kathi Lutton is the head of Fish & Richardson’s National Litigation Practice which includes the firm’s patent litigation practice; complex commercial litigation practice; white collar, government and securities litigation practice; ITC litigation practice; labor and employment practice and appellate practice. As for her practice, Ms. Lutton leads high-stakes, high-tech litigation for companies ranging from Fortune 100 companies to start-ups, primarily in the electrical arts. Ms. Lutton brings to the table her Federal Circuit clerkship and knowledge of Federal Circuit law as well as her bachelors and masters in electrical engineering and industry experience. Ms. Lutton has received numerous accolades for her work, most recently being recognized as one of the Top Women Litigators in California, and winning the Women of Distinction Award for 2007, presented by the Silicon Valley/San Jose Business Journal.
Kelly Hunsaker

Kelly Hunsaker is a patent trial lawyer representing a wide range of high-technology companies, especially in the field of computer software. Ms. Hunsaker has extensive experience in all aspects of patent litigation, with a track record of reaching optimal results in a cost-effective manner. Ms. Hunsaker’s background in business and marketing, combined with her technical expertise, helps to realize clients’ business objectives throughout the litigation process. Ms. Hunsaker was recently named one of the Top 75 Women Litigators in California, one of California’s Top 100 Super Lawyers and one the nation’s Top 500 New Stars.