

The IPC Legal Browser



The Newsletter of the FBA's Intellectual Property and Communications Law Section

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Message From the Section Chair

By William L. Roberts

The IPC Legal Browser is back! We are very pleased to report that the FBA Intellectual Property and Communications Law Section's flagship publication is once again in circulation. This could not have happened without the tremendous energy and enthusiasm shown by our two co-editors, Jack Schecter of Boston, Mass., and Scott Moriarty of Minneapolis, Minn. Jack and Scott have put together a terrific issue focusing on patent reform. I think you'll agree with me that the articles are highly informative and useful to new and veteran lawyers alike interested in patent law and litigation.

We think of this publication largely as "by the section, for the section," in the sense that it provides a forum for section members to gain exposure through publishing their ideas, while serving section members' need to stay abreast of developments important to all IP practitioners. With a section membership of approximately 1,000 lawyers from across the country, I think you'll find it worth your time to submit articles within your areas of practice. We look forward to bringing *The IPC Legal Browser* to you on a quarterly basis. Each issue will revolve around a theme of interest to section members. Our next issue will focus on "Hot Topics in Copyright Law." If you are interested in being part of the next issue, please contact Jack, Scott, or me as soon as you can to discuss topics and/or articles. Feel free to suggest themes for

future issues as well.

In addition to this publication, we look forward to rolling out some new section-sponsored programs in the near future. At least initially, I expect that these will be presented on a regional basis. Once we get a few programs under our belt we will assess whether we can expand to national or web-based programming. Look for program announcements in your area, and please try to attend—and bring a colleague as well!

Thank you for your continued membership in the IPC Section, and enjoy this guided tour through key aspects of the patent reform legislation now pending in Congress!

Sincerely,

William L. Roberts
Faegre & Benson LLP
Minneapolis, Minn.
Chair, Intellectual Property and
Communications Section of the FBA



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The Clash on Reasonable Royalty Patent Damages: The Federal Circuit and Patent Reform

By Vickie L. Henry and Brian P. Bialas

Patent reform is a topic once again in Congress, with dueling proposals for curbing reasonable royalty damages for patent infringement currently before both the House and Senate. The House version of the Patent Reform Act of 2009 could significantly reduce royalty damages by attempting to limit what the House deems to be excessive royalty awards not restricted to the economic value of the patented invention.¹ The Senate bill as introduced included identical provisions, but the Senate Judiciary Committee has since accepted amendments and reported the bill to the full Senate, limiting its reform to make the courts “gatekeepers” of the methods and factors relevant to the determination of damages.² Given that courts already should be playing the role of gatekeepers, the Senate’s version of “reform” is very different from the House bill and, if it prevails, could be much ado about nothing.

The clash between the House and Senate proposals reflects the differing needs of two industries protected by patents. Technology companies often sell products that have multiple patented components. This industry tends to want a reduction in the number of patent litigations and the damages awarded in a given case. The pharmaceutical industry, in contrast, sells drugs that may have the protection of only one or a small number of patents. This fact, coupled with high research and development costs to bring a drug or biologic successfully to market and a low success rate in new drug development, causes the pharmaceutical industry to favor high damages and stronger intellectual property protection. These potentially irreconcilable differences ensure competing constituencies and may lead to deadlock on patent reform. Even if patent reform fails to pass again this year, however, Congress’ continued interest may sway the Federal Circuit to make reforms itself.

The House Bill: New Standards for Reasonable Royalty Damages Focused on a Patent’s Incremental Economic Value

The House bill retains the current statutory damages language: A prevailing patent holder in an infringement lawsuit is entitled to “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.”³ The House bill then adds substantive standards for calculating a reasonable royalty, creating as a general rule limits on how a royalty is calculated.⁴

A. Limits on the Entire Market Value Rule.

Under the House bill, the “entire market value” rule would be available only in those cases where the patent holder makes a threshold showing to the court that “the

claimed invention’s specific contribution over the prior art is the predominant basis for market demand for an infringing product or process.”⁵ Current law permits recovery of damages based on the value of an entire apparatus containing several features where the patent related feature is the basis for customer demand.⁶ The House bill, in contrast, requires a showing that the invention itself, not the “patent related feature,” represents the predominant basis for market demand. Absent a court finding that the patent holder has made this threshold showing, the damages award cannot be based on the entire market value of the infringing product or process.

B. Established Royalty May Be Defined By the Patented Invention or the Prior Art.

Where the patent holder cannot establish the availability of the entire market value rule, the patent holder would be limited to “an established royalty based on marketplace licensing,” if that is provable.⁷ The theory behind this provision is that the market is “the best measure of reasonable and entire compensation.”⁸

Interestingly, the established royalty may be based on the marketplace licensing for the patented invention or for sufficiently similar non-infringing alternatives. The House bill limits the licenses that can be considered to non-exclusive licenses existing prior to the filing of the case. The infringer’s use also must be substantially similar in scope, volume, and benefit as the licensed use.

The House bill does not identify who has the burden of proof on this issue. It is possible that the patent owner could attempt to prove an established license rate for the patented invention while the accused infringer attempts to prove an established license rate for a sufficiently similar non-infringing alternative. This provision also potentially sets up its own clash—between parties and third parties over subpoenas seeking to establish whether the marketplace has established a royalty, particularly for sufficiently similar non-infringing alternatives.

C. Royalty Based on Specific Contribution Over Prior Art.

If neither of the first two methods for determining a royalty are appropriate, “the court shall conduct an analysis to ensure that a reasonable royalty is applied only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention’s specific contribution over the prior art.”⁹ For inventions that combine elements known individually in the prior art, “the contribution over the prior art may include the value of the additional function resulting from the combination, as well as the enhanced value, if any, of some or all of the prior

art elements as part of such a combination.” This provision could, at least in some cases, take the value of the patent to zero. At the least, in the technology sector where an accused device or process typically has numerous features and one patented feature, it could prove very challenging for a patent holder to apportion the economic value of the infringing product or process over the prior art.

This portion of the House bill stands in marked contrast to current Federal Circuit damages law. For example, the Federal Circuit has repeatedly held that it is “wrong as a matter of law to claim that reasonable royalty damages are capped at the cost of implementing the cheapest available, acceptable, noninfringing alternative. . . . To the contrary, an infringer may be liable for damages, including reasonable royalty damages, that exceed the amount that the infringer could have paid to avoid infringement.”¹⁰ The House bill arguably limits royalty damages to the cost of the infringer’s least expensive non-infringing alternative. Certainly, the goal of the House bill is to reduce royalty

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damages awards and a licensor’s additional bargaining power in patent licensing negotiations based on larger awards.

D. Exception that could swallow the rule.

The House bill does have a catch-all provision that permits the court to consider, “or direct the jury to consider, any other relevant factors under applicable law.” The implication is that the court should make a determination on this issue for the record.

The Senate Bill: Courts are “Gatekeepers” of the Methods and Factors Used to Determine Damages

While the Senate bill started with the same language as the House bill, it is now substantially different. The Senate bill also restates 35 U.S.C. § 284 verbatim but stops at setting a procedure for determining damages in general.¹¹ Under the bill, the court may receive expert testimony and identifies the methodologies and factors relevant to the determination of damages.

A. Court as gatekeeper for methodologies and factors.

The Senate bill affirmatively obliges the court to identify “methodologies and factors that are relevant to the determination of damages” and only those methodologies and factors may be considered.

B. Disclosure of claims.

Unless the court orders otherwise, by no later than the final pretrial order, the parties are required to state with particularity in writing the methodologies and factors the parties propose for instruction to the jury as well as “the relevant underlying legal and factual bases for their assertions.”

C. Sufficiency of evidence.

Upon motion by a party or sua sponte and prior to the introduction of any evidence on damages, the court must consider whether a party’s damages contentions lack a legally sufficient evidentiary basis. The court has an affirmative obligation to “identify on the record those methodologies and factors as to which there is a legally sufficient evidentiary basis” and the introduction of evidence is limited to evidence relevant to those methodologies and factors.

D. Does the Senate Bill Significantly Change the Law?

Given the district court’s duties to serve as a gatekeeper for expert testimony and the admission of relevant evidence, the Senate bill does not appear to materially change the law. It does require district courts to affirmatively identify permissible damages methodologies and factors and to instruct the jury accordingly. While the rules governing expert disclosure should already provide for full disclosure of expert opinions, the specific requirements for disclosure

Patent Reform continued from page 3

of claims adds a risk of preclusion that might make disclosure of damages claims more detailed.

Attempts At Patent Reform May Already Influence The Federal Circuit

The Federal Circuit is certainly aware of attempts at patent reform. In a recent interview, Chief Judge Paul R. Michel of the Federal Circuit urged Congress to leave any problem to the courts.¹² Stating that courts continue to apportion damages based on proof, he reasoned that “the institution with the history and procedures should fix the problem. If it’s a big policy problem, [the] legislature needs to override it. But if what is needed is more in the nature of adjustments, most or all of that is better left at the courts.”¹³

The current docket certainly gives Chief Judge Michel the opportunity. On June 2, 2009, Chief Judge Michel, as part of a panel, heard arguments in a technology case that squarely raises the entire market value rule. In *Lucent Technologies Inc. v. Gateway Inc.*,¹⁴ the patent at issue allows Microsoft Outlook email users to access their calendars by clicking on a date to open it rather than typing in the date. The district court upheld a lump-sum reasonable royalty verdict of \$358 million against Microsoft after it instructed the jury on the entire market value rule.¹⁵ The district court ruled that the evidence supported the jury’s verdict¹⁶ and increased the award to \$511 million to account for interest. Microsoft argues that the damages were excessive because email is what drives the demand for Outlook, not the calendar function. The case certainly tees up the entire market value rule for evaluation.

Conclusion

Only time will tell who will win in this high stakes clash. The House bill’s proposed new method of calculating damages is designed to limit the value of patents, potentially making infringement cheaper and more attractive. If the balance it strikes is not “just right,” it risks undermining

the patent system and thus discouraging investment in all industries. □

Endnotes

¹See H.R. 1260, § 5.

²S. 515, § 4 (as reported to the full Senate by the Senate Judiciary Committee, with amendments, on April 2, 2009).

³35 U.S.C. § 284.

⁴See H.R. 1260, § 5.

⁵See *id.*; S. 515, § 4 (as amended and reported to the Senate on April 2, 2009).

⁶*Imonex Services Inc. v. W.H. Munzprufer Dietmar Trenner GMBH*, 408 F.3d 1374, 1379 (Fed. Cir. 2005).

⁷See H.R. 1260, § 5.

⁸*Hanson v. Alpine Valley Ski Area Inc.*, 718 F.2d 1075, 1078 (quotation omitted).

⁹H.R. 1260, § 5.

¹⁰*Mars Inc. v. Coin Acceptors Inc.*, 527 F.3d 1359, 1373 (Fed. Cir. 2008), mandate recalled and amended by 557 F.3d 1377 (Fed. Cir. 2009).

¹¹See S. 515, § 4 (as amended and reported to the Senate on April 2, 2009).

¹²Erin Coe, *Patent Damages Best Left to Courts: Chief Judge*, LAW360 (June 2, 2009), ip.law360.com/articles/102674.

¹³*Id.*

¹⁴580 F. Supp. 2d 1016 (S.D. Cal. 2008).

¹⁵*Id.* at 1042-43.

¹⁶*Id.*¹



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*More details to come. For registration information, contact:
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Where to File? How Congress is Reshaping the Decisions About Where to File Patent Litigation

By Chad Pannell

In recent years, legislation before Congress has attempted to change the geographical concerns that shape patent litigation in the United States. Congress established the Court of Appeals for the Federal Circuit in the early 1980s to centralize patent appeals in one national appellate court. Since that time, the dramatic increase in patent litigation across the country has sparked concern about not only how to handle those cases in the district courts, but where.

For the past three years, Congress has sought to pass major patent reform legislation that would change the geographical dynamic of patent law. First, the Patent Reform Act of 2009 would redefine patent venue in the district courts making it more difficult for plaintiffs to shop for what are perceived as favorable districts,¹ such as the Eastern District of Texas. Further proposed legislation would also reshape patent geography by creating a pilot program to give district judges more patent training and experience in six district courts across the country.

This article reviews the provisions and motivations behind patent venue reform and the patent pilot program.

The Venue Provisions of Patent Reform

Currently, venue for patent cases is established by 28 U.S.C. § 1400, which states that “[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” Traditionally, this clause has been interpreted to allow venue in almost any district where a defendant sells the accused product.²

The current drafts of the Patent Reform Act before the House and Senate introduce new venue provisions that would restrict where cases could be brought. Generally, these provisions attempt to focus on the most convenient forum for the defendant and require that the defendant have substantially more connection to the district where suit is brought.

The current House version of the Patent Reform Act, H.R. 1260, contains three provisions concerning venue. First, the act makes clear that a party cannot manufacture venue in a district by assignment, incorporation, or otherwise in an attempt to invoke the venue of a specific district court. Second, the act requires that a patent infringement action or declaratory judgment can only be brought in a district

1. where the defendant has its principal place of business or in the location or place in which the defendant is incorporated or formed, or, for foreign corporations with a U.S. subsidiary, where the defendant’s primary U.S. subsidiary has its principal place of business or is incorporated or formed;
2. where the defendant has committed substantial acts

of infringement and has a regular and established physical facility that the defendant controls and constitutes a substantial portion of the operations of the defendant;

3. where the primary plaintiff resides, if the primary plaintiff is
 - an institute of higher education [as defined under the Higher Education Act]; or
 - [a qualifying nonprofit organization, including patent and licensing organizations for institutions of higher education];
4. where the plaintiff resides, if the sole plaintiff in the action is an individual inventor who is a natural person and who qualifies at the time such action is filed as a micro-entity pursuant to § 123 of title 35.

Third, the House bill provides for transfer of venue where the court determines that

1. any of the parties has substantial evidence or witnesses that otherwise would represent considerable evidentiary burdens to defendant if such transfer were not granted;
2. such transfer would not cause undue hardship to the plaintiff; and
3. venue is otherwise appropriate under § 1391 of this title.

These provisions make several significant changes to the current patent venue statute. The proposed House language narrows the current statute to allow venue only where the defendant has one of two forms of substantial contact with that district.

First, a patentee can bring suit in a jurisdiction where the defendant is incorporated or has a principal place of business. This provision may decrease patent litigation in forums, such as the Eastern District of Texas, where few large defendants have their principal place of business. But it may increase patent litigation in other favored forums, such as the District of Delaware, where numerous companies are incorporated.

Second, a patentee can bring suit where there have been both “substantial acts of infringement” and the defendant has actual physical facilities that the defendant both “controls” and represents “a substantial portion” of the defendant’s operations. Thus, the proposed provisions would eliminate venue based simply on sales of the accused product in a district.

Third, the legislation offers a limited expansion of venue where the plaintiff is a university, a non-profit organization, or an individual that qualifies as a micro-entity. Aside from

these specified plaintiffs, the statute otherwise discourages non-practicing plaintiffs from manufacturing venue.³

***In re TS Tech* and the Senate Bill**

The strict venue provisions in the House legislation were intended to supersede the Federal Circuit's caselaw that allowed patent venue in any jurisdiction where a defendant's infringing products can be found.⁴ In December 2008, however, this reasoning changed with the Federal Circuit's newfound willingness to transfer cases pursuant to 28 U.S.C. § 1404(a).

In *In re TS Tech*, the Federal Circuit applied a recent decision from the Fifth Circuit that requires courts to transfer venue when "the transferee venue is 'clearly more convenient' than the venue chosen by the plaintiff."⁵ It reasoned that venue should have been transferred from Eastern District of Texas to the Southern District of Ohio, because Ohio was closer to all of the witnesses and the majority of the evidence was located there. Furthermore, the court recognized that no party had any connection to the Eastern District of Texas, except that some accused products were sold there.

Since *TS Tech*, the Federal Circuit has granted venue transfer in one other case, and denied it in two others. In those cases where transfer was denied, the court noted that, among other things, the plaintiff resided in the district, the transferee district was equally inconvenient to some witnesses, and multiple lawsuits resolving the same issues were brought in the original jurisdiction.⁶

Where transfer was granted, the Federal Circuit noted that the transferee forum does not have to be convenient to all witnesses so long as the transferee district has subpoena power over a substantial number of material witnesses, even if the significance of particular witnesses' testimony was not yet known. The court also observed that congestion and speed to trial were not persuasive factors against transfer when other factors clearly militated in favor of doing so.⁷

The original Senate bill in the current session, S. 515, had contained the same venue provisions as the House bill. Recognizing how *TS Tech* had influenced patent venue standards, the Senate then deleted the venue provisions from its version of the legislation. In their place, the Senate bill now simply states that a "district court shall transfer any [patent case] upon a showing that the transferee venue is clearly more convenient than the venue in which the civil action is pending."⁸

What qualifies as a "clearly more convenient" venue remains uncertain. Such a test focuses on what is a more convenient forum for all parties and witnesses, rather than where the defendant has substantial operations or a principal place of business. Thus, the "clearly more convenient" test will most likely not favor defendants as much as the current House bill. It remains to be seen whether the House will respond to the changes in the Senate legislation.

The Patent Pilot Program

In addition to the venue provisions of the Patent Reform Act of 2009, Congress is also considering legislation to

What qualifies as a "clearly more convenient" venue remains uncertain. Such a test focuses on what is a more convenient forum for all parties and witnesses, rather than where the defendant has substantial operations or a principal place of business. Thus, the "clearly more convenient" test will most likely not favor defendants as much as the current House bill. It remains to be seen whether the House will respond to the changes in the Senate legislation.

establish a patent pilot program in certain district courts.⁹ Unlike the venue provision, which seeks to break up heavy caseloads in plaintiff-favored districts, the pilot program attempts to create expertise among judges within particular district courts in hopes of improving the adjudication of patent disputes in those districts.

The bill was introduced by Rep. Darrell Issa (R-Calif.), an inventor himself, who believes that many judges struggle with patent cases because they do not see enough of them to gain proficiency in the area.¹⁰ The key premise to this bill is to concentrate district patent cases among a few interested judges, increasing their knowledge and effectiveness at handling the complexities of such cases. As the selected judges became more proficient, the drafters of the bill expect, the high costs and reversal rates of patent cases would go down. In addition to selecting certain judges among the pilot districts to hear patent cases, the bill would also provide \$5 million per year to hire specialized law clerks and train the selected district judges.

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Although the bill attempts to concentrate patent cases among certain judges, it does not necessitate such assignment. In the proposed bill patent cases are randomly assigned to all judges when they are originally filed. If a judge is not among the designated “patent judges” for that district, the assigned judge can accept or decline the case. If declined, it will be randomly reassigned to one of the designated patent judges. If, however, the originally assigned judge is one of the “patent judges,” he will keep the case.

The legislation requires that six district courts, within at least three different circuits, be chosen to participate. The selection would be made by the director of the administrative office of the courts. All of the courts selected would be from either (1) the 15 districts with the highest number of patent cases or (2) a district that has adopted local patent rules. Applying calendar year 2008 patent case filings, these would be the qualifying districts:¹¹

Northern District of California*†
 Central District of California*
 Southern District of California*†
 District of Delaware*
 Middle District of Florida*
 Northern District of Georgia*†
 Northern District of Illinois*
 District of Massachusetts*†
 District of Minnesota*
 District of New Jersey*†
 Southern District of New York*
 Northern District of Ohio*
 Western District of Pennsylvania†
 Eastern District of Texas*†
 Southern District of Texas†
 Eastern District of Virginia*
 Western District of Washington†

Under the House bill, all six selected districts must have at least ten active judge positions and three judges willing to participate in the pilot program. This would exclude four districts: Delaware, Minnesota, Eastern Texas, and Western Washington. In the Senate bill, however, only three districts must have ten active judge positions and three interested judges. The remaining three districts must have fewer than ten active judge positions, and at least two judges willing

to participate. Notably, this would require the director to select three of the four districts that are otherwise excluded by the House bill.

Though determining what courts qualify is not that difficult, determining what courts will receive the program, and what judges will agree to accept a heavier patent case load, will be more challenging. Furthermore, the legislation does not determine how district judges are to assign credit for handling a heavier patent caseload versus other, less time-consuming cases. All of this will have to be determined among the judges within each district.

At present, the House has passed its version of the Patent Pilot bill; however, a similar version of this bill was passed by the House in 2007 but never made it through the Senate. While the Senate has gone further in this session and voted a version of the Patent Pilot program out of committee, its provisions will likely live or die with the entire Patent Reform Act. □

Endnotes

¹H.R. Rep. No. 110-314 (2007) (reviewing substantially similar venue provisions in the proposed Patent Reform Act of 2007).

²S. Rep. No. 111-18 (2009) (citing *VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990) and *Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558 (Fed. Cir. 1994)).

³See H.R. Rep. 110-314.

⁴Cf. S. Rep. 111-18.

⁵*In re TS Tech United States Corp.*, 551 F.3d 1315, 1319 (Fed. Cir. 2008) (citing *In re Volkswagen of Am. Inc.*, 545 F.3d 304, 315 (5th Cir. 2008) (en banc)).

⁶See *In re Volkswagen of America Inc.*, 566 F.3d 1349 (Fed. Cir. 2009); *In re Telular Corp.*, No. 899, 2009 U.S. App. Lexis 7192 (Fed. Cir. Apr. 3, 2009).

⁷*In re Genentech Inc.*, 566 F.3d 1338 (Fed. Cir. 2009).

⁸S. 515, 111th Cong. § 8 (emphasis added).

⁹H.R. 628, 111th Cong.; S. 515, 111th Cong. § 15 (previously introduced as S. 209, 11th Cong.).

¹⁰Darrell Issa, *Why I'm Pushing for the Patent Pilot Program*, Law360, Jan. 25, 2007, available at www.law360.com.

¹¹See LexisNexis CourtLink, Nature of Suit Strategic Profile, Property Rights-Patent (2008), <https://litigator.lexisnexis.com>. The 15 districts with the highest number of patent cases are marked with an asterisk; those with their own patent rules are marked with a dagger.



Chad Pannell is an intellectual property attorney at the Atlanta offices of King & Spalding. Prior to joining the firm, he clerked on the United States Court of Appeals for the Federal Circuit for Judge Arthur J. Gajarsa and the United States Court of Appeals for the Eleventh Circuit for Judge Stanley F. Birch. He focuses his practice in all forms of intellectual property litigation and has represented clients in many different forums and in a variety of technology fields.

Proposed Changes to the Priority Rule Under the Patent Reform Act of 2009

By Lauren Murphy Pringle

The current draft of the Patent Reform Act of 2009 proposes various changes to the current US patent system, including one that would change the priority rule from a “first-to-invent” system to a “first-to-file” system. Although debates about first-to-file are overshadowed by the more controversial damages and willfulness provisions, the new priority rule is also a point of contention. The ideological differences generally center around three underlying issues: administrative efficiency, fairness to inventors, and the public interest.

Proponents of first-to-file claim this change will increase administrative efficiency by harmonizing the US patent system with the rest of the world, as well as by eliminating interference litigation and reducing transaction costs. Currently, the US is one of only a few countries that uses a first-to-invent system, which increases costs for inventors that face differing filing regimes in different countries. Furthermore, interference litigation costs millions of dollars and creates increased uncertainty in intellectual capital valuation. By moving to a first-to-file system and reducing these transaction costs, so the argument goes, fewer resources will be expended in resolving legal disputes, allowing more to be invested in innovation and invention.

Alternatively, opponents of the change claim that first-to-file will not reduce transaction costs, and may in fact increase such expenses. They argue that interference proceedings occur in only a fraction of patent filings, and these proceedings rarely result in transferred ownership to a junior party. Since first-to-invent already gives the senior party a presumption of priority, opponents insist that the current system—in practice—is effectively a first-to-file system. First-to-file increases transaction costs, opponents claim, because it encourages inventors to file too early, before the application can be fully and carefully drafted. In rebuttal, proponents

argue that such arguments ignore the ability of inventors to amend their applications after filing.

Opponents of the proposed change also raise the issue of fairness to inventors—small, independent inventors in particular—since in first-to-file, the first inventor to create an invention may not be granted the patent for the invention. If another person files first, the first-in-time inventor would not be able to file an interference to prove that she was the first to develop the invention. Thus some argue that the proposed system will disproportionately benefit large companies, with resources to immediately file patent applications, as soon as inventions come to light.

Perhaps because opponents contend that the existing system is effectively first-to-file, proponents of the new rule counter that it does not significantly disturb the balance of the equities. Additionally, concerns about fairness should be balanced with the public interest in the disclosure of new technologies. If an inventor is slow to file an application and thus hides her invention, it is fairer to award another inventor who promptly discloses the invention to the public.

Supporters contend that a first-to-file rule, by reducing transaction costs, will promote the early disclosure of inventions and the public disclosure of new scientific knowledge. On the other hand, supporters of first-to-invent argue that the current system works, and first-to-file will create more problems than it will solve. Perhaps 2009 will be the year in which Congress weighs in with their solution to the problem that, some argue, is no problem at all. □

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The Patent Reform Act of 2009—Re-examination and Post-Grant Review

By Micah D. Stolowitz

Apart from litigation, re-examination is essentially the only means for challenging the validity of a granted U.S. patent under current law. In its current form, the Patent Reform Act of 2009 provides for significant improvements to the existing re-examination scheme. At the same time, the proposed legislation would add a new mechanism—a post-grant cancellation proceeding—for challenging an issued patent. Together, these reforms present a valuable opportunity to establish a more efficient and less costly system for resolving patent validity issues, while decreasing the frequency with which these issues are litigated in court.

Background

In the normal course, re-examination requests are often filed before judgment in a litigation of the same patent, in the hope of invalidating the patent in suit before the PTO. This may be easier than challenging the patent in court as neither the presumption of validity nor the “clear and convincing” standard of proof applies in re-examination.

A. Ex Parte Reexamination

Ex parte re-examination, introduced in 1980, is an administrative proceeding before the PTO to reconsider a granted patent, but this re-examination is only based on patents or other printed publication prior art. Pursuant to 35 U.S.C. § 301, “any person at any time” may cite prior art to the PTO “that the person believes ha[s] a bearing on the patentability of a claim of an issued patent.” Based on the cited art, a request for re-examination will be granted if the PTO determines that “a substantial new question of patentability affecting any claim of the patent concerned is raised by the request[.]”¹

If the PTO grants a request for ex parte re-examination, the issued patent claims are examined in view of the newly cited prior art, in much the same manner as an original application is examined for patentability. Importantly, the requester of the re-examination does not participate beyond the initial request, unless the requester is the patent owner.²

Often, an infringement defendant will request re-examination of a patent during litigation. The trial court has discretion to stay the litigation pending re-examination and may do so rather than expend resources litigating a patent that may later be invalidated by the PTO.³ If the patent claims are confirmed valid in the re-examination, the requester is not precluded from asserting the same prior art in a bid to invalidate the patent in court.

In many cases, ex parte re-examination appears to have served the goal of providing an expedited, low-cost alternative to patent litigation. On the other hand, some potential challengers have regarded ex parte re-examination as

an insufficient mechanism: in part because they cannot participate further in the process after re-examination is ordered, and also because this procedure cannot be used to review or challenge other requirements of patentability, such as the on-sale bar, public use or best mode requirement. The Patent Reform Act would not substantially change the current ex parte re-examination process, but it would broaden the scope of information citable under Section 301, and thus considered by the examiners in re-examination, to include patentee positions taken in litigation, as discussed below.

B. Inter Partes Reexamination

Inter partes re-examination was introduced in 1999 and shares many characteristics with ex parte re-examination, albeit with several important differences:

- Inter partes re-examination is limited to patents issued on applications filed in the United States on or after Nov. 29, 1999.
- Unlike the ex parte procedure, the requester may not remain anonymous.
- The requester receives copies of all papers filed in the case, and may submit written comments on each document filed by the patent owner.
- The requester may participate in any appeal proceeding filed by the patent owner and may file an appeal in his own right.

The requester’s rights to comment and to participate on appeal make the requester an active participant in the process. Nevertheless, this procedure has not been as widely used as originally anticipated by the PTO. As of Mar. 31, 2009 only a total of 609 requests have been filed since the procedure’s inception on Nov. 29, 1999.⁴

The biggest deterrent to using the inter partes procedure is the estoppel effect. The current statute, 35 U.S.C. § 315(c), reads:

A third-party requester whose request for an inter partes re-examination results in an order under section 313 is estopped from asserting at a later time, in any civil action arising in whole or in part under section 1338 of title 28, the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised or could have raised during the inter partes re-examination proceedings.

(Emphasis added.) The scope of the “raised or could have

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raised” estoppel language is vague, and it justifiably concerns many litigators. Essentially, by using the PTO process the requester waives its right to litigate validity of the same patent claims in court, and the estoppel attaches without such procedural mechanisms as discovery and cross-examination—anathema to any federal court litigator.

The Patent Reform Act of 2009

Pending Senate and House bills S. 515 and H.R. 1260, respectively, affect re-examination and post-grant opposition. As of this writing, the Senate bill (as amended) has been reported favorably out of the judiciary committee. The following summary is based on the Senate bill, which would amend the patent statute as follows.

A. Expansion of Pre-Grant Citation of Prior Art

Under amended Section 122, the Act would also give interested parties an expanded opportunity to submit printed publication prior art, before a patent is granted, during examination of a pending application. It must be done before the earlier of the mailing of the Notice of Allowance; or either 6 months after publication or the first rejection on the merits, whichever occurs later. This provides a much longer window than the current two-month limit after publication of the application.

The new procedure not only permits, but requires, the submission to include “a concise description of the asserted relevance of each submitted document.” This should discourage interested parties from citing copious references to the examiner that may be less than pertinent, while helping the examiner to apply art that is pertinent.

B. Expansion of Post-Grant Citation of Prior Art

The proposed reform also amends Section 301 to allow citation, not only of patents and printed publications, as before, but also “written statements of the patent owner filed in a proceeding before a Federal court or the Patent and Trademark Office in which the patent owner takes a position on the scope of one or more patent claims.”⁵ The statements of the patent owner would not be considered for any purpose other than to determine the proper meaning of the claims that are the subject of the re-examination. This provision would bring into re-examination procedures the practical reality that patent owners already face in court; namely that they cannot take inconsistent positions on claim scope for purposes of validity as opposed to infringement.

C. Revisions of the Inter Partes Re-examination Process

Several changes are also proposed to the inter partes procedure. First, the Senate bill would remove the 1999 filing date limitation, thereby expanding significantly the universe of patents exposed to a request for re-examination. Second, as noted above, the bill would expand the scope of allowable Section 301 prior art citations. Third, the

estoppel effect of the re-examination would be limited to those invalidity issues that a third-party requester actually raised during the re-examination procedure. Finally, under the proposed reform, inter partes proceedings would be heard by administrative patent judges rather than patent examiners.

D. New Post-Grant Cancellation Proceedings

The Senate bill establishes a new administrative proceeding, called a post-grant cancellation proceeding. Cancellation proceedings would be conducted not by a patent examiner, but instead by an appeals board, composed of patent law judges in a court-like setting. The current Board of Patent Appeals and Interferences (BPAI) would be renamed as the Patent Trial and Appeal Board (PTAB). The PTAB, under the new legislation, would be charged with (1) reviewing adverse decisions of examiners on applications and re-examination proceedings, (2) conducting derivation proceedings,⁶ and (3) conducting the post-grant review proceedings.

A petition for cancellation could only be filed within 12 months after the issuance or reissuance of the patent or by consent of the patent owner. Unlike a request for inter partes re-examination, which would be limited to consideration of prior art printed publications and written statements of the patentee made in court or to the PTO, a petition for cancellation could be based on nearly any ground that could be raised in court.⁷

Faced with a petition for cancellation, the Director would determine whether the petition establishes that “a substantial question of patentability exists.” That determination would not be reviewable, and if a cancellation proceeding were ordered, it would proceed before the PTAB. Interestingly, the statute does not require a new question of patentability, which would seem to permit citation of references already in the patent file history, on the grounds that the examiner overlooked or otherwise failed to apply them properly.

In the proposed cancellation proceeding, the patentee would have the right to file a response to the cancellation petition and amend, but not enlarge, the scope of the claims. Along with its response, the patent owner would be required to file, through affidavits or declarations, any additional supporting factual evidence or expert opinions. The presumption of validity would not apply in a post-grant review proceeding, but the party advancing a proposition would have the burden of proving that proposition by a preponderance of the evidence. Though the bill authorizes oral hearings on request of either party, Congress has left details of discovery to regulations to be determined by the Director, subject to vague guidelines. Discovery may become a very important factor, in view of the “finality” provisions discussed below.

Upon entry of a final decision of the Board favorable to the patentee, the cancellation petitioner could not thereafter, “based on any ground that the cancellation peti-

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tioner raised during the post-grant review proceeding[,]" (1) request or pursue inter partes re-examination of such claim; (2) request or pursue a derivation proceeding with respect to such claim; (3) request or pursue a post-grant review of such claim; or (4) assert the invalidity of any such claim in any civil action. In other words, the conclusion of the Board would be final, subject to appeal to the Federal Circuit.⁸

With little nod to reality, the proposed reform contemplates that each cancellation proceeding would be completed within one year.⁹

Under the proposed reforms, § 317 would be amended to prohibit a request for inter partes re-examination if a district court determines that the requesting party had not sustained its burden of proving invalidity of any patent claim during litigation. This seems a logical provision to reduce determinations of validity issues both in court and in the PTO. Defendants should carefully weigh filing a request for inter partes re-examination before a district court renders a decision. Their burden of proof will be a mere preponderance of the evidence in the administrative forum.

E. Coordinating Re-examination, Cancellation Proceedings and Litigation

1. Ex parte re-examination

Only a final holding of invalidity or unenforceability, after all appeals, is controlling on the PTO. In such cases, re-examination would not be available on the same grounds. As a result, an ongoing ex parte re-examination would not preclude the filing or maintenance of an infringement suit, and thus the possibility of conflicting results under current law.¹⁰

2. Inter partes Re-examination

Inter partes re-examination proceedings may be suspended by the PTO for good cause under 35 U.S.C. § 314(c). For example, in one case, the re-examination was suspended where the claims under re-examination and the invalidity grounds were identical to those asserted in litigation, and a district court judgment finding the claims not invalid was pending on appeal to the Federal Circuit. After the appeal was decided, and the suit dismissed with prejudice, the re-examination proceeding was terminated by the PTO.¹¹

Under the proposed reforms, § 317 would be amended to prohibit a request for inter partes re-examination if a district court determines that the requesting party had not sustained its burden of proving invalidity of any patent claim during litigation. This seems a logical provision to reduce determinations of validity issues both in court and in the PTO. Defendants should carefully weigh filing a request for inter partes re-examination before a district court renders a decision. Their burden of proof will be a mere preponderance of the evidence in the administrative forum.

3. Cancellation Proceedings

With respect to the new cancellation proceedings, the Director could stay the post-grant proceeding if a pending infringement action addressed the same or substantially the same questions of patentability. On the other hand, the commencement of a post-grant review proceeding would not limit the right of the patent owner to commence an action for infringement, and the PTO proceeding "shall not be cited as evidence relating to the validity of any claim of the patent" in court proceedings.¹²

Conclusion

The Senate bill would bring marked improvement to existing re-examination proceedings while introducing a significant new post-grant cancellation proceeding. The re-examination changes have the potential to increase the utility of these procedures and the frequency of their use, which in turn may reduce the volume of validity issues litigated in court. The post-grant cancellation procedure may prove important, but the one-year restriction sharply limits its availability. Finally, the pending legislation includes steps to better coordinate between PTO and court proceedings, and thus reduce (but not eliminate)

instances of parallel proceedings leading to inconsistent results. Overall, defendants would still get two chances to invalidate a patent claim, which seems to be Congress' chosen approach to "patent quality improvement," at least for the moment. □

Endnotes

¹35 U.S.C. § 303(a). *In re Portola Packaging*, 110 F.3d 768 (Fed. Cir. 1997), held that a substantial new question of patentability (SNQ) must rely on prior art not previously cited to the PTO. In 2002, 35 U.S.C. §§ 303 and 312 were amended to overrule *Portola*, and the existence of an SNQ is no longer precluded by the fact that a patent or printed publication was previously cited.

²The requester may file a single reply if the patentee files a statement, which may include amendments, in response to the order for re-examination. See 35 U.S.C. § 304.

³If the patent is invalidated on re-examination and that ruling is affirmed on appeal, it does not matter that a district court issued a final judgment determining that the patent was valid and infringed. See *Translogic Technology Inc. v. Hitachi Ltd.*, 250 Fed. Appx. 988 (Fed. Cir. 2007) (affirming decision on re-examination that patent claims were invalid and remanding case for dismissal) (sadly, this author wrote the patent in suit).

⁴U.S. Patent & Trademark Office, Inter Partes Reexamination Filing Data (June 30, 2009), available at www.uspto.gov/web/patents/documents/inter_partes.pdf.

⁵S. 515, 111th Cong. § 5(a).

⁶"Derivation proceedings" would replace current interference practice.

⁷The defenses would include all those available under § 282, except that this section would be amended to exclude the best mode disclosure requirement, under § 112, as grounds for invalidity or cancellation of a claim. Various proposals would have expanded the proceeding to include other validity issues like the on-sale bar, but ultimately they fell away in reaching compromises on the legislation.

⁸S. 515, 111th Cong. §§ 335, 336.

⁹Proposed Section 326(b)(1) provides for the extension of this period for up to six months for good cause. This short extension would seem to be impossible in light of the multi-year backlog of cases already before the BPAI. One possibility the PTO might consider to meet this aggressive schedule would be to turn to experienced patent practitioners who might be used to assist in appropriate cases,

somewhat akin to the special master practice under the Federal Rules.

¹⁰Under 35 U.S.C. § 307, a patent is not revised by any amendment or cancellation of a claim made during a re-examination proceeding until a re-examination certificate is issued.

¹¹See Decision, Reexamination Proceeding Control Nos. 95/000,093, 95/000,094 (June 5, 2007 Central Reexamination Unit). In the *NTP v. RIM* (Blackberry® case) re-examination proceedings, the PTO noted that a Federal Circuit decision was not final because the third party requestor could seek review by the Supreme Court, and due to remand on claim construction, the trial court might allow new invalidity evidence. See Reexamination Proceeding Control No. 95/000,020.

¹²S. 515, 111th Cong. §§ 333(b), (c).



Micah Stolowitz is a founding partner at the firm, Stolowitz Ford Cowger LLP. His law practice has focused on intellectual property matters—particularly patent law—since admission to the patent bar in 1987. He has worked in both patent prosecution and litigation in the Ninth Circuit, including the roles of trial counsel, expert witness, special master, and mediator. Stolowitz has taught patent law as an adjunct professor at Lewis and Clark Law School in Portland, Ore. He has a B.S. in electrical engineering and computer science from UC-Berkeley, cum laude.

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