

Client Advisory | March 2009

The Patent Reform Act of 2009

Senators Leahy (D-VT) and Hatch (R-UT) recently introduced the Patent Reform Act of 2009 in the United States Senate. Representative Conyers (D-Mich) has introduced nearly identical legislation in the United States House of Representatives. The Patent Reform Act, if passed and signed by President Obama, would substantially change both patent infringement litigation and the patent application process.

This is the third go-round for substantial patent reform legislation, and the present versions are very similar to the 2007 bill that died last year. While it is too early to predict whether these bills will become law and whether they will be substantially amended, here are the major issues addressed by the Patent Reform Act:

Litigation-Related Issues

Issue: Patent Infringement Damages

Perceived Problem: Unreasonably high damages awards for patent infringement

Patent Reform Act Summary: Standards that courts are to apply when awarding damages would be significantly tightened. The Patent Reform Act attempts to force courts to award damages in proportion to the contribution that an infringed invention has to the value of the overall product or service.

The “entire market value” of the product could only be used as the damages base where there is a specific finding that the infringed invention is the “predominant basis for market demand for an infringing product.” Alternatively, before one or more existing licenses to a patented product or service could be used to set a reasonable royalty damages figure, the Patent Reform Act would require the court to find that the infringer’s use of the invention is “substantially similar” to the use contemplated by the existing licenses. If neither of those two measurements is appropriate, the

Act would require the court to assign a damages royalty based on its own allocation of the value of the patented invention as compared to the value of the prior art product.

Issue: Willful Infringement

Perceived Problems: Unreasonable number of awards for enhanced damages for willful patent infringement; a need to codify recent court rulings concerning the relevance to willful infringement of whether a defendant secured a legal opinion on infringement or validity.

Patent Reform Act Summary: Before asking the court to find that a defendant’s infringement was “willful,” patent owners would have to provide the alleged infringer with written notice identifying in specific detail each claim that the patent owner alleges is infringed and tying each allegedly-infringed claim to a specific product or process of the infringer. The willfulness issue would no longer be considered by the jury: willful infringement could not be alleged in a pleading until after the court rules that the patent “is not invalid, is enforceable, and has been infringed.” The judge, and not the jury, would rule on the willfulness claim and would set the amount of any enhanced damages. Whether the infringer introduced evidence that it had secured a non-infringement or invalidity opinion from counsel would not be relevant to determining willful infringement; this change is meant to codify recent case law to that same effect.

Issue: Venue for patent lawsuits

Perceived Problem: Patent owners have too much leeway to select “plaintiff-friendly” judicial venues for patent infringement lawsuits, such as the Eastern District of Texas or Western District of Wisconsin.

Patent Reform Act Summary: Patent infringement venue determinations would become much more defendant-focused, generally requiring suits to be filed where the defendant has its principal place of business or substantial business operations. Exceptions would be granted for plaintiffs that are educational institutions, nonprofit organizations, or individual inventors.

Non-Litigation Related Issues

Issue: When to file patent applications

Perceived Problem: The United States has yet to adopt the “first to file” system for patent applications that exists in the majority of the rest of the world. A patent applicant currently has one year from the date of public disclosure of the invention to file a patent application, although if the applicant intends to secure foreign patent rights that application needs to be on file before the public disclosure.

Patent Reform Act Summary: The Act would conform the practice in the United States to most of the rest of the world, creating a “race to the patent office” for applicants. This change would cause several other things to

happen as well. First, a Patent Trial and Appeal Board would be created, to take the place of the Board of Patent Appeals and Interferences. Second, patent interference actions -- where two inventors resolve disputes about which was the first to invent a particular invention -- would no longer be required and would be replaced by a “derivation proceeding” that would determine whether the first-filing inventor was the proper applicant. There would be a one-year grace period, for inventors only, to file an application after initial public disclosure of the invention. In another world-conforming change, patent assignees would be allowed to file in their own name the patent applications that had been assigned to them, or to which they have substantial rights.

Issue: Improving patent quality

Perceived Problem: Third parties need more effective procedures either to intervene in ongoing patent applications or to challenge patents that have already issued.

Patent Reform Act Summary: The Act would modify both pre-issuance and post-issuance procedures.

Pre-Issuance: Third parties would be able to submit potentially-relevant

material at some points before the issuance of a patent that would be made part of the patent file. They would be required to provide a “concise description of the asserted relevance of each submitted document.”

Post-Grant: In support of a request for reexamination of an issued patent, a third party could submit statements made by the patent owner about the scope of an issued patent’s claims that had been filed by the patent owner in court or before the Patent and Trademark Office (in addition to submitting relevant prior art). The Patent Office could initiate a reexamination proceeding on its own, or a third party could request an inter-parties reexamination proceeding. This proceeding offers third parties more opportunity to participate in the proceedings, such as by responding to the patent owner’s submissions.

A new post-grant procedure called the “Petition for post-grant review” would be introduced. These “reviews” would be in the nature of cancellation proceedings and time-limited to the year following the issuance of the patent, unless the patent owner otherwise consents. The third party and patent owner could “settle” a cancellation proceeding, which means that some of the post-grant review proceedings could end

without a clear resolution of the underlying issues raised by the petitioner.

Recent Hearings

A first round of hearings was held by the Senate Judiciary Committee on March 10. The strongest disagreements related to the Patent Reform Act’s proposed changes to the standards for awarding damages. While some of the witnesses favored an approach that would use existing guidelines, others contended that this would leave too much room for variation, and that the stricter guidelines would be appropriate. With damages an early sticking point, it would not be surprising to see some compromise language proposed in the near future. It is likely that Congress will hold additional hearings on this important bill, and that a wider range of views will be aired.

Important Links

- Both versions of the Patent Reform Act may be tracked through the Library of Congress’s [“Thomas” website](#). The Senate version is S. 515, and the House version is H.R. 1260.
- Intellectual Property Owners Association’s [Legislative Action Center](#).
- American Intellectual Property Law Association’s [Legislation page](#).

BOSTON MA | FT. LAUDERDALE FL | HARTFORD CT | MADISON NJ | NEW YORK NY | PROVIDENCE RI | STAMFORD CT
WASHINGTON DC | WEST PALM BEACH FL | WILMINGTON DE | LONDON UK | HONG KONG (ASSOCIATED OFFICE)

This advisory is for guidance only and is not intended to be a substitute for specific legal advice. If you would like further information, please contact the Edwards Angell Palmer & Dodge LLP attorney responsible for your matters or one of the attorneys listed below:

Kelly D. Talcott, Partner
Joseph E. Czerniawski, Associate

212.912.2810
212.912.2839

ktalcott@eapdlaw.com
jczerniawski@eapdlaw.com

This advisory is published by Edwards Angell Palmer & Dodge for the benefit of clients, friends and fellow professionals on matters of interest. The information contained herein is not to be construed as legal advice or opinion. We provide such advice or opinion only after being engaged to do so with respect to particular facts and circumstances. The firm is not authorized under the U.K. Financial Services and Markets Act 2000 to offer UK investment services to clients. In certain circumstances, as members of the U.K. Law Society, we are able to provide these investment services if they are an incidental part of the professional services we have been engaged to provide.

Please note that your contact details, which may have been used to provide this bulletin to you, will be used for communications with you only. If you would prefer to discontinue receiving information from the firm, or wish that we not contact you for any purpose other than to receive future issues of this bulletin, please contact us at contactus@eapdlaw.com.

© 2009 Edwards Angell Palmer & Dodge LLP a Delaware limited liability partnership including professional corporations and Edwards Angell Palmer & Dodge UK LLP a limited liability partnership registered in England (registered number OC333092) and regulated by the Solicitors Regulation Authority.

Disclosure required under U.S. Circular 230: Edwards Angell Palmer & Dodge LLP informs you that any tax advice contained in this communication, including any attachments, was not intended or written to be used, and cannot be used, for the purpose of avoiding federal tax related penalties, or promoting, marketing or recommending to another party any transaction or matter addressed herein.

ATTORNEY ADVERTISING: This publication may be considered “advertising material” under the rules of professional conduct governing attorneys in some states. The hiring of an attorney is an important decision that should not be based solely on advertisements. Prior results do not guarantee similar outcomes.

**EDWARDS
ANGELL
PALMER &
DODGE**

111 Huntington Avenue
Boston, MA 02199
Tel 617.239.0100
Fax 617.227.4420
eapdlaw.com