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The Proposed Patent Reform Act of 2007— How Might It Affect Your Business?

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Although the final bill has not yet emerged from the Senate, the Patent Reform Act of 2007 could signal the most significant changes to U.S. patent law since the original 1952 Act that created our modern patent system. For any enterprise that may have to protect or defend against patent rights, it is essential to understand and anticipate the most impactful of these changes.

1. Patent Rights Vest with the "First to File"

The United States patent system is presently based on the concept that patent rights vest with the first to create an invention. By contrast, the rest of the developed world follows the "first to file" rule, whereby the first person to file a patent application for an invention is entitled to the patent rights, even if someone else invented first. The Patent Reform Act of 2007 would transform the United States into a "first to file" country. While a "first to file" system is much easier to administer because factual disputes over who invented first (called "interference proceedings" under the current system) are eliminated, inventors will have to be much more diligent about filing patent applications as soon as possible. This change would burden independent inventors and small companies much more than it would large, well-heeled corporations.

2. Increased Patent Application Costs

A patent application typically costs between \$10,000-\$20,000. That cost likely would double (at least) under a new provision allowing the Patent Office to require applicants to prepare and submit, along with their patent application, a prior art search report and patentability analysis. The new submission would require the applicant to conduct a search to identify the prior art references most closely related to the

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claimed invention, and then provide an explanation for why the application presents a patentable invention when compared to the prior art. Because such a submission is essentially a “patentability opinion,” which typically costs \$10,000-\$20,000 alone, the new rule would at least double the cost of patent applications.

3. Additional Procedure to Challenge Patent Validity

A new procedure would allow a challenge to the validity of a newly issued patent without the burden and expense of federal court litigation. Within 12 months of a patent’s issuance, any party may petition the Patent Office to invalidate a patent that “causes or is likely to cause” the petitioner “significant economic harm,” as long as the petition raises “significant grounds” to believe the challenged patent is invalid. A newly created “Patent Trial and Appeal Board” then would have 12 months to consider the petition—under a “preponderance of the evidence” standard—and reach a final determination. Because the Board would ignore the statutory presumption of validity of an issued patent, the new post-grant procedure would make it less difficult to ferret out defective patents that should never have been issued.

4. Restrictions on Venue for Patent Litigation

In recent years, patent holders—especially those whose primary business is licensing their patents via litigation—have been able to sue in “patent-friendly” districts such as the Eastern District of Texas. The new Act would make such a strategy more difficult to implement by requiring a patent holder to bring suit only in a district where it resides, rather than anywhere the defendant may be found.

5. Limitations on Large Damages Awards

The damages analysis for patent infringement would be made much more robust because of a new mandate for “apportionment,” which allows a patent holder only to recover damages specifically attributable to the value of the particular patented invention, rather than based on the “entire market value” of the defendant’s accused infringing product or system. As one supporter characterized the problem the Act seeks to remedy, “a windshield wiper found to infringe a patent should not spur a damage award based on the value of the entire car.”

As mentioned, the new Act has not yet emerged from the Senate. As sponsor Senator Patrick Leahy acknowledged in mid-February 2008, the bill likely will not be voted on until after the Senate’s two-week March recess.

The bill has, however, attracted substantial opposition from a wide variety of industries and interest groups. Lobbies representing smaller technology companies and universities have complained about the anticipated increase in the cost of obtaining a patent, and the pharmaceutical industry generally opposes limiting the large damages awards often sought by their constituents. Even the Chief Judge of the Court of Appeals for the Federal Circuit, which handles all appeals in patent cases, has cast doubt on the supposed justification underlying some of the reforms by noting that “only certain voices are being heard” because Congress ignored the input of many “broad-based groups of knowledgeable lawyers.” The Business Software Alliance, on the other hand, which represents large software publishers such as Microsoft and Apple, has cheered the new law as a step in the right direction of fixing what it calls a “broken” patent system.

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Stephen M. Lobbin Mr. Lobbin’s practice focuses on all aspects of intellectual property counseling and litigation, including cases involving patents, trademarks, copyrights, trade secrets, entertainment, and publicity rights. His litigation experience has involved many different technologies and industries, including computer hardware, software and peripherals, electronics, radiological equipment, medical and safety products, tires and automotive aftermarket products, toys, fashion and clothing, and various other consumer products and services.