

# INTELLECTUAL PROPERTY

## Bill has issues all will debate

Scope and complexity of Patent Reform Act reach all industry sectors.

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THE PATENT REFORM Act of 2005, introduced into the House as H.R. 2795, proposes the most sweeping reforms to this country's patent laws in at least 50 years. These reforms aim to eliminate subjective, discovery-laden issues

and introduce greater certainty in the issuance of patents and their enforcement. By advancing proposals to change patent prosecution standards, patent enforcement practices, infringement remedies and damages, as well as to create an entirely new practice area, the reforms embraced by the act provide something to excite every user of the patent system.

The act also provides something for nearly every user to argue about. The complexity and the wide scope of the proposed reforms reach all industry sectors and have interest groups scrambling to understand and communicate to the drafters the potential consequences. Revisions to H.R. 2795 are likely when Congress reconvenes in September. With proposed reforms this substantial, it remains to be seen which elements will remain intact if and when the Patent Reform Act of 2005 becomes law.

Since the early 1970s, legislation regularly introduced into Congress attempted to convert the U.S. patent system from "first to invent," where the first party to invent patentable subject matter is entitled to patent that subject matter, to "first inventor to file," where the first bona fide inventive party to file its patent application is so entitled. In the early 1980s, U.S. leadership assured the G-7 nations that the United States would be a "first-to-file" country before the end of that decade, but it has not yet made first-to-file a reality.

Early attempts to legislate this change found support in major corporations, but were derailed

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by a coalition of professional inventors, universities and small businesses. Surprisingly, there is little opposition and seemingly overwhelming support for the current first-inventor-to-file legislation. The reform will simplify the process of deciding who is entitled to a patent by limiting the need for priority contests.

### PATENT

#### Changes beyond first-to-file

To implement first-to-file reform, anticipatory prior art and assignee filing changes are needed. Specific changes to 35 U.S.C. 102 would eliminate portions that are rendered moot in a first-inventor-to-file system, but would also extend beyond conformity with first-inventor-to-file. For example, a new definition of anticipatory prior art requires the cited information to be "reasonably and effectively accessible."

Eliminating the unique U.S. requirement to disclose the best mode known by the inventor for making and using the invention rids the patenting process of another subjective, hard-to-prove, discovery-intensive issue. Eliminating "best mode" and requiring 18-month publication of all U.S. patent applications would bring the U.S. patent system into greater harmony with world patent systems. The prior art and best mode reforms have not stirred great debate among interest groups, and the 18-month publication has generated only moderate resistance.

Currently, the U.S. Patent Office only requires 18-month publication of applications that are or will be filed outside the United States. The proposed reform would require publication of all U.S. patent applications at 18 months past the application's earliest priority date. This ensures timely public notice of inventions and the intent to patent, allowing competitors to avoid potential infringement. It also requires public disclosure of the invention before a patent is granted.

In effect, this reform would eliminate an opportunity for U.S. applicants to test the waters of patent protection. For example, if early prosecution suggests that a patent is unlikely due to consistent rejection by the Patent Office, the applicant can opt to abandon the patent application. Because the application was not published, the invention may still be protectable as a trade secret. In practice, however, companies

face ever greater challenges in maintaining the secrecy of their technologies in a rapidly changing workplace, thus shifting their focus away from trade secrets in favor of the notice function of patent publication.

Another key provision that would bring the U.S. patent system closer to international systems is the proposed post-grant opposition practice. Section 9 of the act would establish a post-grant patent opposition proceeding to permit any member of the public to challenge the validity of a patent for any reason of patentability. Broader than re-examination, with full inter-partes right to contest, the opposition provision is similar to opposition proceedings used in Europe, Japan and elsewhere. Like the European system, the suggested U.S. opposition procedure permits a granted patent to be challenged during a nine-month, post-grant period.

### Post-grant opposition practice is proposed.

The Patent Office has already indicated its willingness to embrace opposition practice. Amendments made to 37 C.F.R. 41 by the U.S. Patent and Trademark Office (PTO) in September 2004 included regulations designed for "contest cases" such as opposition proceedings. Opposition practice has received general approval as a means for improving and controlling patent quality. Some debate focuses on whether, and under what circumstances, an opposition should be stayed or deferred if the patent owner elects to proceed with a claim for infringement in district court.

#### Duty of candor

A series of reforms seeks to codify the duty of candor before the PTO and to severely limit pleadings of inequitable conduct in patent infringement cases. Misconduct under the codified duty of candor would be limited to instances of knowing, material omission or misrepresentation with intent to mislead the PTO. To find a patent unenforceable, the misconduct would have to be attributable to the patent owner and would have to be relied upon by the PTO to issue a claim, effectively a "fraud" on the PTO. Also, a threshold "but for" test would require a showing that at least one claim would not have issued but for the misconduct.

Responsibility for regulating misconduct would reside squarely within the PTO. The reforms would expressly require the director of the Patent

Office to impose a duty of candor and good faith on all individuals involved in the application and prosecution of a patent. Referrals from the courts regarding possible misconduct would be made to the PTO, which would investigate and apply any sanctions. As originally written, H.R. 2795 would require the PTO to establish an office to investigate violations, with detailed structure and requirements. In consideration of the large burden this may place on the PTO, various groups have suggested authorizing the PTO to promulgate rules and conduct investigations, but removing some of the requirements that might be difficult for the PTO to meet.

The duty-of-candor reforms also would include broadened opportunities for the public to submit prior art and material information to the Patent Office about a pending application. This seemingly innocent reform, generally agreed to benefit the public and patent system as a whole, must be balanced against concerns that extensive and harassing submissions could impose an extra burden on the Patent Office, and be misused by competitors to delay issuance of proper patents.

Proposed reform to continuation application practice has generated much controversy. The accepted practice of serially prosecuting applications to issued patents, maintaining at least one pending continuation application from the priority filing date through the end of the 20-year term, assures companies with long development times and regulatory hurdles that they can modify patent claims as the development and product cycle matures. As technology emerges, continuing applications may issue with claims that foreshadow a new technology. Many corporations oppose this practice as a substantial hurdle to commercial innovation, but the continuation practice is appropriate to permit a patent applicant to fully claim inventions disclosed in the originally filed application. As originally drafted, the reforms sought to severely restrict the number and timing of continuation applications. Debate over this issue suggests, as a compromise, permitting the PTO to limit continuation practice to avoid abuse of the patent system.

### Injunctive relief

The patent reforms proposed by H.R. 2795 are not confined to patent prosecution. Significant changes to patent enforcement and litigation are contemplated. One of the more controversial reforms would place limitations on injunctive relief available for patent infringement. Historically, a permanent injunction issues whenever patent infringement is found. In only a handful of cases, strong public interest prevented courts from granting a permanent injunction as a remedy. The most cited case for the public interest is *City of Milwaukee v. Activated Sludge*, 69 F.2d 577 (7th Cir. 1934), in which granting the specific injunction would have required the city of Milwaukee to dump raw sewage into Lake Michigan.

The Reform Act as originally drafted would require courts to take into consideration the "interests of the relative parties" prior to issuing a

permanent injunction. Because injunctions traditionally have been granted in accordance with provisions of equity and property law, there is significant resistance to this "reform" absent some signal from the courts or elsewhere that change is needed. So many voices have been raised on both sides of the issue that patent reform legislation may need to go forward without a decision on this issue.

Provisions that would reform inequitable conduct severely limit the circumstances when this traditional defense can be raised, and essentially remove it from the patent litigation battle. As mentioned above, current language in H.R. 2795 would not permit the pleading of an inequitable conduct defense unless and until at least one patent claim is found to be invalid (a "but for" test). Once a patent claim is determined to be invalid, the issue of misconduct would be referred by the court to the PTO for investigation.

Reform of inequitable conduct is of major importance to many companies that find this defense to be overused, discovery-heavy and one of the cost drivers in patent litigation. It is also one of the most potent weapons in defense of patent infringement. Many question whether the severely limited potential to find a patent unenforceable would provide a sufficient deterrent to misconduct. Others argue that the reforms are needed to prevent abuse of the system. This issue of inequitable conduct is another provision of the Patent Reform Act of 2005 unlikely to reach enactment unscathed.

### Monetary recovery issues

Two key provisions of the Reform Act address monetary recovery available in patent litigation. These reforms specifically target willful infringement with its associated treble damages and the "entire market value rule" for combination inventions. Assertions of willful infringement are as commonplace in patent litigation as the defense of inequitable conduct, and are as costly. The touchstone defense against a charge of willful infringement is a well-reasoned opinion of independent counsel. In *Knorr-Bremse v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004), the U.S. Court of Appeals for the Federal Circuit expressly stated that prior opinion of counsel was not required to defend against willful infringement. This court also declined to find that failure to produce an opinion at trial implied the opinion was unfavorable.

As introduced, the reforms of H.R. 2795 confine willful infringement to only those

situations when the infringer received written notice of specific patents and infringing activities, when the infringer intentionally copied from the asserted patent, or when the infringer continued to infringe after an adverse court ruling. The reforms would also preclude a finding of willful infringement when the infringer holds a good-faith belief that its conduct is not infringing. Some interest groups seek still more limits on willful infringement, for example, excluding situations when the infringer can offer an objectively reasonable defense in court.

Beyond enhancement of damages, the act seeks to control the basis for calculating damages based on combination products. In the wake of decisions by the Federal Circuit, damage calculations for infringement can be based on an entire market value rule, that is, on sales generated by the patented item in combination with other elements. H.R. 2795 seeks to codify and control the entire market value rule by requiring

the reasonable royalty calculation to emphasize the relative contribution of the patented invention to the overall revenues of the product.

For example, the royalty calculation would be based not on the total cost of an automobile when infringement lies in the use of a patented windshield, but only on the relative contribution of that windshield to the value of the car. Interest groups are lining up for and against this provision, and asking if there is need for the change. For example, the Intellectual Property Owners Association in July suggested that more study was needed to assess this provision.

The Patent Reform Act of 2005 seeks to reform a wide variety of practices cited in public complaints against the U.S. patent system. Many of the proposed reforms are overdue and generally welcomed. Bold legislation such as this must balance the competing demands of different interest groups, a challenge to H.R. 2795's sponsors. It is impossible to please all parties concerned, but the cooperation of interest groups and the ongoing debate suggest that consensus can be reached on at least the major reforms. When enacted, the Patent Reform Act of 2005 will make substantial changes to the practice of patent law, offering something for everyone to consider.

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## Bill limits claims of inequitable conduct.

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