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Focus

Patent-Reform Bill Promises Changes to Transform Law

By Darren Franklin

Patent attorneys often hear about goofy patents that people can't believe were issued by the U.S. Patent and Trademark Office. There's a patent on a "method of exercising a cat" by shining a laser beam on a wall (U.S. Patent 5,443,036, issued in 1995). There's also a patent on a "method of swinging on a swing" by pulling alternately on one chain and then the other (U.S. Patent 6,368,227, issued in 2002).

My personal favorite is a "user-operated amusement apparatus for kicking the user's buttocks" (U.S. Patent 6,293,874, issued in 2001), no further explanation needed.

But increasingly, people say there is something more seriously wrong with the U.S. patent system. How did Amazon.com get its patent on "one-click" online Internet ordering? How did Acacia Media Technologies get its patents on transmitting compressed video and music over the Internet?

Why was Apple denied a patent on the iPod's user-interface software, but J.M. Smucker Co. granted a patent on a crustless peanut-butter-and-jelly sandwich?

Partly to end the perceived misuse of the U.S. patent system and, in the words of its sponsor, to "eliminate legal gamesmanship from the current system that rewards lawsuit abuses over creativity," lawmakers in Congress recently introduced HR2795, the Patent Reform Act of 2005.

The bill is sponsored by Rep. Lamar Smith, R-Tex., and signed on by several California representatives, including Howard Berman, D-North Hollywood, Zoe Lofgren, D-San Jose, Adam Schiff, D-Burbank and Darrell Issa, R-Vista. Smith introduced the Patent Reform Act in the House of Representatives June 8.

He calls the Patent Reform Act "without question, the most comprehensive change to U.S. patent law since Congress passed the 1952 Patent Act."

If it passes, the act would transform patent law, ending priority contests between inventors and making it harder for patent owners to get injunctions against patent infringers. The bill is being considered by the House Committee on the Judiciary, Subcommittee on Courts, the Internet, and Intellectual Property.

The Patent Reform Act would make at least three big changes to the patent statute. First, it would end the present first-to-invent system, which gives priority to the first person to conceive of the invention to be patented. In its place, the act would institute a first-to-file system, which would give priority to the first person to file his or her patent application, even if that person did not conceive of the invention first.

A first-to-file system has some big advantages. Most other countries have a first-to-file patent system, so the change would harmonize the U.S. patent system with the rest of the world. The change also would end costly priority disputes between people claiming the same invention. Instead of having to submit proof of exactly when an invention was conceived, an inventor could just rely on his or her patent application filing date.

On the other hand, the change might place pressure on patent drafters to file their patent applications as quickly as possible. Commentators have expressed fear that patent drafters will file sloppy applications in their hurry to get the earliest filing date.

Concern also has been voiced that the change would boost the number of frivolous patent applications, as people rush barely complete inventions to the U.S. Patent and Trademark Office. Still, the rest of the world uses the first-to-file scheme, so the change likely would not doom the U.S. system.

From a litigation standpoint, the change to a first-to-file system also would increase the range of "prior art" that an accused patent infringer could use to invalidate an issued patent. Prior art is a

patent law term for knowledge that is available, including what would be obvious from that knowledge, to a person of ordinary skill in the art to which the patent pertains.

Prior art includes that which is "known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent." 35 U.S.C. Section 102(a). Among other things, the Patent Reform Act would expand the range of prior art to include subject matter that is patented, described in a printed publication or otherwise publicly known before the effective filing date of the patent.

This change would benefit accused infringers. It also would keep inventors from raising an issue of fact about the date that the inventor conceived of his or her invention and thereby raising an issue of fact about whether a particular patent or publication counts as prior art.

As a corollary of replacing the first-to-invent system with a first-to-file system, the Patent Reform Act would purge from the patent statute what is known as the "best mode" requirement. The patent statute states that a patent "shall set forth the best mode contemplated by the inventor of carrying out his invention." 35 U.S.C. Section 112.

Under this requirement, an inventor must disclose in a patent the "preferred ways of carrying out [the] invention," even if the patent covers more than just those preferred ways. *Bayer AG v. Schein Pharmaceuticals Inc.*, 301 F.3d 1306 (Fed. Cir. 2002). Many practitioners have found the best mode requirement to be confusing at best, and even the Federal Circuit has stated that, "[i]n the history of this court and our predecessor courts, we have held claims invalid for failure to satisfy the best mode requirement on only seven occasions." *Bayer AG*.

The world's other patent systems lack a best-mode requirement, and removing the best-mode requirement would harmonize the United States

with other countries.

The second big change that the Patent Reform Act would make to the patent statute is to create a new procedure for challenging issued patents in the U.S. Patent and Trademark Office. Such procedures are common in Europe. If passed, the Patent Reform Act would permit people in the United States to contest issued patents without having to go to court.

Under the new plan, anybody could voice concerns in the U.S. Patent & Trademark Office within nine months after a patent issues. A second window of six months would open if a person got a notice from a patent owner claiming infringement. These two opposition windows would establish an alternative to litigation for contesting the validity of an issued patent.

A patent challenger may bring what is known as an inter partes re-examination proceeding before the Patent and Trademark Office. But in filing a request for inter partes re-examination, a challenger opens himself or herself to "inter partes re-examination estoppel." If the re-examination proceeds and the Patent and Trademark Office finds in the patent owner's favor, then the challenger is estopped from asserting contentions that "could have been raised" in the re-examination.

Inter partes re-examination estoppel is a big disincentive for challengers to request re-examination. Although it might be cheaper than litigation, it jeopardizes a challenger's arguments for the invalidity of the patent in court, should the patent owner later sue the challenger for patent infringement. Also, during re-examination, a patent owner may amend his or her patent claims and thus fix the patent so as to avoid the prior art that the challenger found. A challenger may be better off taking his or her chances before a judge or jury.

The Patent Reform Act guts inter partes re-examination estoppel. Proposed Section 9(d) strikes the phrase "or could have raised" from 35 U.S.C. Section 315(c), so that a patent challenger is estopped only as to the contentions raised before the Patent and Trademark Office.

Many people hope the proposed new post-grant opposition procedures will eradicate frivolous patents that the Patent and Trademark Office should never have issued and will discourage "patent trolls," who buy patents solely to sue others on them. On the other hand, some small inventors believe the plan will just make it easier for big companies to keep out new players.

The Professional Inventors Alliance, for instance, states that "the provision would significantly increase the fees and costs faced by inventors in procuring their patents, and would in effect unfairly shift the costs of challenging a patent to the inventor." A secondary concern is whether the Patent and Trademark Office would need additional resources to handle the new patent challenges.

The third big change in the Patent Reform Act is the possible abolition of automatic injunctions on a finding of infringement of a valid patent. If the judge or jury finds a patent both valid and infringed, then there is a presumption of irreparable harm, leading to the grant of an injunction. The Patent Reform Act arguably would end such automatic injunctions by amending 35 U.S.C. Section 283 to add the following: "In determining equity, the court shall consider the fairness of the remedy in light of all the facts and the relevant interests of the parties associated with the invention. ... [A] court shall stay the injunction pending an appeal upon an affirmative showing that the stay would not result in irreparable harm to the owner of the patent and that the balance of hardships from the stay does

not favor the owner of the patent."

The original Committee Print of the bill expressly provided, among other things, that a "court shall not grant an injunction ... unless it finds that the patentee is likely to suffer irreparable harm that cannot be remedied by the payment of money damages." This more-controversial language was removed in favor of the more-watered-down version above.

Restricting injunctive relief would help companies who believe they are being targeted by patent trolls and would harm small inventors who are not making or using the products they invented. Thus, organizations representing independent inventors are up in arms over provisions that would limit injunctions. So are some biotech companies, which like automatic injunctions because an injunction for a drug patent can stop an infringer in its tracks.

But ending automatic injunctions for patent infringement is persuasive to some. Patent owners with a "paper patent" (an invention that has never been commercialized and exists only on paper) gain significant leverage through the threat of an automatic injunction and have little to lose by filing suit, save for attorney fees.

On the other hand, U.S. law accepts patents as a type of property. Just as the owner of a prime plot of land can let it sit fallow and keep out trespassers, a patent owner has the right to keep others from using his or her invention.

As the Patent Reform Act moves through Congress, its provisions will change. What remains to be seen is whether it will meet Smith's goal to "enhance the quality of patents and increase public confidence in their legal integrity."

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