

Intellectual Property/Legislative **ADVISORY**

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Patent Reform Act of 2009 Introduced in Senate and House; Senate Judiciary Committee Holds First Hearing

On March 3, 2009, the U.S. Senate and House of Representatives renewed their efforts to achieve in the 111th Congress the most sweeping patent reform legislation since 1952. In the Senate, Senators Patrick Leahy (D-VT) and Orrin Hatch (R-UT) introduced S. 515, while, in the House, Reps. John Conyers, Jr. (D-MI) and Lamar Smith (R-TX) simultaneously introduced a companion bill, H.R. 1260, with both bills bearing the title "Patent Reform Act of 2009." The two principal sponsors of the legislation, Sen. Leahy and Rep. Conyers, currently serve as the respective Chairmen of the Senate and House Judiciary Committees, which have jurisdiction over patent and other intellectual property law issues. This effort comes on the heels of failed attempts at similar reform in the past two Congresses, but there is renewed optimism this year that patent reform legislation may finally pass Congress after resolution is found to several remaining areas of dispute.

Background

In 2007, the House was successful in passing its patent reform bill, H.R. 1908. However, several contentious elements of the Senate's version, S. 1145, drew enough fire that, while the Senate Judiciary Committee approved the bill, it never made it to the floor of the Senate for a full vote. In the spring of 2008, Chairmen Leahy and the committee's ranking Republican member, Senator Arlen Specter (R-PA), failed to reach agreement on provisions relating to calculation of damages and the effort to move the bill forward was put off during the remainder of the presidential election year. Later in 2008, Sen. Jon Kyl (R-AZ) proposed an alternative Senate version, S. 3600, as an effort to lay down an early marker for the debate to come in the next Congress, and the 110th Congress adjourned as expected without ultimately approving any version of a patent reform bill.

Some of the hot-button issues in the previous Senate bill that were central to the patent reform debate, and led to protracted negotiations over its text, included limitations the bill would have put on damage awards in patent infringement litigation and a prolonged opportunity for patent challengers to seek cancellation of patents by the Patent Office after a patent issues. Under the House bill which had passed, the primary method for calculating patent infringement damages focused on the economic value attributable to a patent's specific contribution over the prior art. Thus, if an invention were directed to a minor component of a product or process, an infringement damages calculation would be based on just that portion, rather than the value of the entire process or product.

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The Senate bill called for damages to be calculated based primarily on the so-called “entire market value” rule, which includes valuation of the entire process or product.

With regard to post-grant review of patent validity, both the House and Senate bills in 2007 included a provision by which a challenger could seek to have the Patent Office cancel a patent for a limited period of time after the patent issued. However, the Senate bill also included a so-called “second window” of review, by which a challenger could seek review by the Patent Office even after that first period of time expired if the patent owner explicitly or implicitly asserted infringement of the patent.

Several industry associations and coalitions (including those made up of companies in the software and information technology fields), believing patent infringement litigation and damage awards have gotten out of control, strongly backed the apportionment of damages provision in the House bill. These groups also insisted that they would not back any bill that did not include the “second window” of post-grant review. By contrast, other influential trade associations and coalitions, such as those representing pharmaceutical manufacturers, biotech firms and manufacturing companies, insisted that apportionment of damages and the “second window” of review be removed from the bills.

Senate Judiciary Committee Hearing

Although it can be expected that those same battle lines will be drawn yet again in this year’s effort to enact reform, particularly on provisions regarding damages, there appears presently to be renewed attempts at finding sufficient consensus in order to move the legislation through the Senate. This was evident during the Senate Judiciary Committee’s patent reform hearing held on Thursday, March 12, during which several Senators aggressively questioned the positions of the industry and academic witnesses testifying before them to find some common ground. The industry witnesses, representing an array of companies and industries actively engaged in the development of the legislation, included Micron Technology, Johnson & Johnson, IBM and Tessera. Also testifying were Herbert Wamsley, Executive Director of the Intellectual Property Owners Association, and Professor Mark Lemley of Stanford Law School.

During the hearing, Sen. Specter identified the damages issue as the one area that he believed needed to be resolved in order for the Senate bill to progress. He and other Senators, including Sen. Dianne Feinstein (D-CA), asked the witnesses to provide them with specific language on the damages provisions that the committee could consider in an attempt to find a compromise. The discussion largely centered on two issues, with Sen. Specter asking witnesses to offer specific statutory language on which damages calculations should be based, and Sen. Feinstein asking witnesses if they would support a “gatekeeper” role for the courts, whereby judges would determine which of the *Georgia-Pacific* factors used for determining reasonable royalties could be presented to the jury.¹

¹ *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970)

Revealing little consensus, the witnesses offered a variety of responses to Sen. Specter's question in search of specific statutory language, proposing that damages calculations be based on the "value actually contributed" by an infringed patent to the defendant's product (whether that is called "apportionment" or not); the added value to an invention compared to its closest non-infringing substitute; and a value based on an invention's "essential features" (a term used in the Supreme Court's recent *Quanta* decision in a patent exhaustion case).² By contrast, there was general support for Sen. Feinstein's suggestion to have the court play a gatekeeper role and to codify at least some of the *Georgia-Pacific* factors, with some witnesses favoring it more than others and some offering additional suggestions that factors be presented only where a judge determines there has been "substantial evidence" in the case to support giving a particular factor to the jury.

While nothing was expected to be resolved at the hearing, it was helpful in clarifying the lines of the debate moving forward in this Congress, and confirmed that the largest focus of attention would still be on finding a resolution to the damages provision. Additionally, there appeared to be greater optimism from Chairman Leahy that a bill would move this year, despite having failed in previous years. Notably, Chairman Leahy's opening statement tied the importance of passing patent reform legislation this year to the other economic recovery legislation passing Congress. "Industries that rely on intellectual property protection accounted for roughly half of all U.S. exports and represented an estimated 40 percent of U.S. economic growth in 2006, the last year in which our economy grew in all four quarters. Many of the jobs and expansion that can help us begin to recover from the costly economic recession will have their origin in our patent and copyright based industries."

The industry witnesses offered mixed opinions on whether patent reform legislation would help or hurt the economy based on where their companies and industries stood on the bill. Information technology companies concerned with excessive patent litigation said that failure to enact damages reform will mean increased defense costs harmful to such companies at a time they can least afford it. By contrast, those representing industries concerned with maintaining the enforceability of patents said that the current bill's language would be harmful to patent owners as foreign competitors would be emboldened to infringe U.S. patents at a greater rate, thereby harming the American economy. Regardless of where industry sectors stand, it is clear that, similar to most issues in this new Congress, both sides of this debate will attempt to tie patent reform legislation to the broader economic concerns as a means to advocate their position on the legislation going forward.

Summary of Key Provisions in Patent Reform Act of 2009

This summary of the Senate and House bills is based on the text of S. 515 and H.R. 1260, as introduced in the Senate and House, respectively, on March 3, 2009:

Damages. Both of the newly introduced House and Senate bills call for application of the entire market value rule upon a showing to the court that the invention's contribution over the prior art is the "predominant basis for market demand." Alternatively, if such a showing is not made, the

² *Quanta Computer Inc. v. LG Electronics Inc.*, 128 S. Ct. 2109 (2008)

damages can be based on a showing of prior non-exclusive licenses under the patent. If neither of those showings is made, then damages would be based on only that portion of the economic value of the product or process that is attributable to the invention. The bills also provide that the court shall identify the factors that are relevant to determining a reasonable royalty, and only those factors may be considered by the court or jury in assessing reasonable royalty damages. As noted above, however, we expect this damages provision to be further debated and amended as the bill proceeds through both chambers, and it may ultimately include some codification of the *Georgia-Pacific* factors.

Post-Grant Review. With regard to the post-grant review of patents by the Patent Office, the Senate version now mirrors the House's version, and both bills offer a single one-year period during which a challenger can request review of the patent's validity by the Patent Office. Neither bill presently includes the "second window" of review.

First-to-File. Both bills would convert the present "first person to invent" system to a system in which the first inventor to file a patent application on the invention would prevail. Such a provision has in the past been met with opposition by groups of solo inventors and other smaller inventive entities.

Venue. Both new bills include provisions restricting the venue in which patent infringement suits could be brought, thus curtailing the practice of bringing actions in venues that are known to be particularly patentee-friendly. There was some discussion at the Senate hearing that recent court decisions regarding venue may obviate the need for the venue provisions in the bill, which followed witness testimony and statements from Senators that oppose these provisions being in the bill. It remains to be seen if this language will be further modified or removed from future versions of the legislation in Congress.

Claims Construction. Both bills address the relatively high rate of reversal by the Court of Appeals for the Federal Circuit on claims construction issues, and the resulting inefficiency of reversing claims construction after trial. Both bills provide the district courts with discretion to grant immediate interlocutory appeals to the Federal Circuit of claims construction rulings.

Willful Infringement. Both bills also greatly limit the ability of patentees to assert willful infringement of their patents. While codifying the Federal Circuit's recent requirement in the *In re Seagate* case of "objective recklessness" by an accused infringer, both bills also prevent patentees from asserting willfulness until after the patent has been found to be not invalid, enforceable and infringed.³

³ *In re Seagate Tech., LLC*, 497 F. 3d 1360 (Fed. Cir. 2007)

Congressional Outlook

While some compromise appears to have been reached since last year over several of the provisions of patent reform legislation that were contentious during the previous Congresses, it appears there is still much work to be done in this 111th Congress before enactment of patent reform becomes a reality. In addition to finding a resolution to damages, post-grant review, venue and other provisions, Chairman Leahy also intends to include additional language on the “inequitable conduct” doctrine that was omitted in the bill as introduced.

Furthermore, the tone was set for a carefully negotiated path forward in the Senate shortly after introduction of the bills, led by Sen. Specter’s call to postpone the committee’s mark up of S. 515 until late May due to a pending case in the Federal Circuit expected to address the “entire market value” standard. Other Senate Judiciary Committee members also voiced concerns over the newly introduced legislation, which is most supported by information technology companies. It is anticipated that Sen. Kyl and other Senators may also introduce patent reform bills offering alternative language to some of the more contested provisions of S. 515 for their colleague’s consideration prior to a committee executive session to consider amendments and vote on reporting the legislation to the Senate Floor.

While the House Judiciary Committee has not yet announced a hearing date on the Patent Reform Act, we expect that it too will hold a hearing on the legislation in the coming months. Sen. Leahy also believes that the Obama administration would support the passage of patent reform legislation this year, but until the White House officially weighs in on the debate, it is unclear what effect it may have on congressional passage of a bill. Businesses interested in patent litigation and the enforceability of patent rights will no doubt want to analyze the newly introduced reform legislation and closely monitor the ensuing developments in Congress, as it appears more likely this year than in previous years that patent reform legislation may pass, albeit only after much further debate and negotiation over the proposed statutory language of a few key provisions that could have a profound impact on the value of U.S. patents and the enforceability of patent rights.

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