

---

## House of Representatives Passes H.R. 1908, the Patent Reform Act of 2007

2007-10-22

On September 7, 2007, the House of Representatives passed an amended version of H.R. 1908, a bill entitled the "Patent Reform Act of 2007" (H.R. 1908), by a vote of 220-175. The bill proposed sweeping changes in the US patent laws. The call for change began in 2003, in response to the Federal Trade Commission report, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy"; it was reinforced by the National Research Council of the National Academies 2004 report, "A Patent System for the 21<sup>st</sup> Century." Legislation was first proposed in April 2005, and there were additional proposals for legislation in 2005, 2006 and 2007, including a bicameral bill titled "Patent Reform Act of 2007" (H.R. 1908/S. 1145) that was introduced in both houses of Congress in April 2007. This was followed by the amended H.R. 1908, which was passed by the House.

Highlights of the bill include granting a patent to the first-to-file and, in response to calls for litigation reform, damages provisions that address the calculation of a reasonable royalty, as well as provisions dealing with willful infringement, post-grant review and inequitable conduct.

### **First-Inventor-to-File**

One aspect of the bill redefines who is entitled to a US patent--a change that has been long anticipated. Currently, a patent goes to the first-to-invent; under the bill, a patent will be granted to the first-inventor-to-file. As part of accomplishing this goal, the bill, *inter alia*, changes what constitutes prior art for purposes of anticipation and obviousness. These prior art changes, however, will only become effective 90 days after "major patenting authorities" (e.g., at least the authorities in Europe and Japan) adopt a grace period for prior inventor disclosures.

### **Reasonable Royalty**

For reasonable royalty, the bill provides that the court may determine whether apportionment, entire market value or "other factors" will be used for calculating a reasonable royalty.

If the court determines that apportionment is proper, it must conduct an analysis to ensure that the reasonable royalty is applied only to the economic value attributable to the patent's specific contribution "over the prior art." This is a change from the existing law, under which apportionment requires the infringer to prove the value of his own contributions to the infringing product or process. To use the entire market value rule, the claimant must show that the patent's specific contribution "over the prior art" is the "predominant basis for market demand" for the infringing product or

process. Under existing law, the entire market value rule permits recovery of the value of the entire product that contains several features if the patent-related feature of the product is the basis for customer demand. Current law does not require the patentee to evaluate the patent's contribution over the prior art.

With respect to the "other factors" that may be used to calculate a reasonable royalty, under the House bill, the fact finder may consider "any nonexclusive marketplace licensing of the invention" and "any other relevant factors under applicable law."

The House bill also provides a method for calculating a reasonable royalty for "combination inventions." The contribution over the prior art may include the value of the "added function resulting from the combination" and the enhanced value of "some or all of the prior art elements resulting from the combination."

### **Willfulness**

The circumstances required to find willful infringement are defined in the House bill. These provisions prevent the pleading of willfulness until after the court has determined that the patent in suit is not invalid, is enforceable and has been infringed. To find willfulness, specific written notice alleging infringement must be received prior to the alleged infringement. The bill also provides that a court cannot find willful infringement if the infringer had an "informed good faith belief" that a patent was invalid, unenforceable or would not be infringed.

### **Post-Grant Review**

The bill provides for post-grant review of a patent and enhances the current *inter partes* examination process. It also allows for a post-grant review proceeding if a petition to cancel the patent is filed within a year of the issuance or reissuance of a patent (i.e., a "first window" review) or if the patent owner consents to the proceeding. During this post-grant review, the presumption of validity of the patent does not apply and the burden of proof to be applied is the "preponderance of the evidence" standard rather than the traditional "clear and convincing evidence" standard applied by the courts. Although several interest groups supported it, the bill does not include a broad "second window" allowing a patent to be challenged at any time during the patent's term.

H.R. 1908 strengthens the current *inter partes* examination process by (1) narrowing the estoppel provisions to eliminate the "or could have raised" language in 35 U.S.C. § 315; (2) expanding the patents eligible for *inter partes* examination; (3) permitting additional responses by the third-party requestors during the examination; (4) having the examination heard by an administrative patent judge; and (5) providing for an oral hearing on request.

### **Inequitable Conduct as Defense to Infringement**

The House bill amends the law of inequitable conduct. It would require the patent challenger to prove inequitable conduct by "clear and convincing evidence" that material information was misrepresented or omitted with the intent to mislead or deceive the patent examiner. The standard for materiality largely tracks the PTO's definition of materiality under 37 C.F.R. § 1.56: information is material if (1) a reasonable examiner would have made a *prima facie* finding of unpatentability based on the information, and it is not cumulative; or (2) "information that is otherwise material" refutes or is inconsistent with a position made by the applicant in "opposing a rejection of the claim or in asserting an argument of patentability."

In addition to materiality, H.R. 1908 requires separate proof of intent. Under the House bill, the party

alleging inequitable conduct must prove "specific facts beyond" the materiality of the information misrepresented or omitted. The facts need to show "circumstances" indicating "conscious or deliberate behavior" to omit or misrepresent the information at issue. H.R. 1908 also expands the remedies a court may impose if inequitable conduct is found. Like current law, the House bill expressly permits the court to find a patent unenforceable or hold "claims of a related patent unenforceable." In addition, the court may instead deny equitable relief and limit the remedy for infringement to reasonable royalties or hold unenforceable the claims-in-suit or the claims in which inequitable conduct occurred.

Patent reform now moves to the Senate, where differences from the House version of the bill may develop. But regardless of its final form, the potential changes to the patent laws that may arise as a result of this legislation could have far-reaching effects on patent prosecution, litigation and patent portfolio management--ramifications that will need to be carefully considered when assessing future patent-related matters.

## *Authors*

---

### **James B. Lampert**

RETIRED PARTNER

✉ [james.lampert@comcast.net](mailto:james.lampert@comcast.net)

☎ +1 617 526 6000