

THE PATENT REFORM ACT OF 2007

SECTION-BY-SECTION

Sec. 1. Short Title; Table of Contents. This Act may be cited as the Patent Reform Act of 2007.

Sec. 2. Reference to Title 35, United States Code. All references to sections are to title 35, United States Code.

Sec. 3. Right of the First Inventor to File.

In general. -- The United States stands alone among Nations that grant patents in giving priority for a patent to the first inventor, as opposed to the first to file a patent application for a claimed invention. The result is a lack of international consistency, and a complex and costly system in the United States to determine inventors' rights. The United States Patent Office ("USPTO") currently uses an "interference" proceeding to determine which party was first to "invent" the claimed invention, where competing claims arise. The determination is intensely fact-specific and costly to resolve. By contrast, a first-to-file system injects needed clarity and certainty into the system.

This section converts the United States' patent system into a first-to-file system, giving priority to the earlier-filed application for a claimed invention. Interference proceedings are replaced with a "derivation" proceeding to determine whether the applicant of an earlier-filed application was the true inventor of the claimed invention. Such a proceeding will be faster and less expensive than were interference proceedings. This section also encourages the sharing of information by providing a grace period for publicly disclosing the subject matter of the claimed invention, without losing priority.

Specifically, this section makes the following amendments to implement the first-to-file system:

Subsection (a). – § 100 is amended to include definitions for terms necessary for the conversion to first-to-file.

Subsections (b) & (c). – § 102 is replaced and § 103 is amended. A patent may not issue for a claimed invention if the invention was patented, described in printed material, or in public use (1) more than a year before the filing date or (2) within a year of the filing date if not through disclosure by the inventor or joint inventor.

A patent also may not issue if the claimed invention was described in a patent or patent application by another inventor filed prior to the filing date of the claimed invention. A grace period is provided for an inventor or joint inventor that discloses the subject matter of the claimed invention.

Further, an exception is made for claiming an invention if the subject matter previously disclosed was obtained directly or indirectly from the inventor or joint invention or if the

subject matter was owned by the same person or subject to an obligation of assignment to the same person.

The CREATE Act is preserved by including an exception for subject matter of a claimed invention made by parties to a joint research agreement.

Subsections (d) & (e). – § 104 (requirements for inventions made abroad) and § 157 (statutory invention registration) are repealed, as part of the transition to first-to-file.

Subsection (f). – Amends § 120 related to filing dates to conform with the CREATE Act.

Subsection (g). – Makes various conforming amendments for first-to-file transition.

Subsections (h), (i) & (j). – Repeals the interference proceeding authorized in § 291 and creates a new “derivation proceeding” in § 135(a), designed to determine the rightful inventor on a claimed invention. An applicant requesting a derivation proceeding must set forth the basis for finding that an earlier applicant derived the claimed invention and without authorization filed an application claiming such invention. The request must be filed within 12 months of the date of first publication of an application for a claim that is substantially the same as the claimed invention. The party making the request (1) must have filed an application not later than 18 months after the effective filing date of the opposing application or patent and (2) must not have filed an application, within one year of the earliest effective filing date of the application, containing a claim that is substantially the same as the invention claimed in the earlier filing application. The Patent Trial and Appeal Board (the “Board”) shall determine the right to patent and issue a final decision thereon. Decisions of the Board, in general, may be appealed to the Federal Circuit.

Subsection (k) – contains the effective date for this provision which is tied to adoption of a grace period similar to that of the U.S. abroad.

Sec. 4. Inventor’s Oath or Declaration.

In general. -- The section streamlines the requirement that the inventor submit an oath as part of a patent application.

An applicant may submit a substitute statement in lieu of the inventor’s oath in certain circumstances, including if the inventor is unable or unwilling to make the oath. Failure to comply with the requirements of this section will not be a basis for invalidity or unenforceability of the patent if the failure is remedied by a supplemental and corrected statement.

An assignee of an invention, or a person who otherwise shows sufficient proprietary interest, may file an application for the patent.

Sec. 5. Remedies for Infringement and Affirmative Defenses Thereto.

Relationship of Damages to Improvements over the Prior Art.— As products have become more complex, often involving hundreds or even thousands of patented elements, litigation has not reliably produced damages awards in infringement cases that correspond to the value of the infringed patent. This section preserves the current rule stating that a damages award shall not be less than a “reasonable royalty” for the infringed patent, while providing much-needed guidance to courts and juries in their calculations of “reasonable royalty.”, The bill provides four alternative methods for determining reasonable royalty: 1) apportionment, 2) entire market value, 3) established royalty, and 4) other legally relevant factors. Based on the facts of the case, the court determines which method to use and which factors (such as comparable licensing fees) can be considered. The amendment further specifies how reasonable royalty is calculated if either apportionment or the entire market value rule is used. In the former case, only the economic value of the patent’s “specific contribution over the prior art”, i.e. the truly new “thing” that the patent reflects, is to be considered. The entire market value calculations can be used if the actual invention is the predominant basis for market demand.” Where a combination invention has been infringed, the plaintiff can recover not only for the novel element but also for the additional functionality and enhanced value of pre-existing elements. The third option, non-exclusive marketplace licensing of the invention, if there is such a history, remains available as a measure of damages, as currently used. Finally, the court may consider any other relevant factors in determining a reasonable royalty. This preserves the significant body of judge-made law on the damages awards in infringement cases.

Willful infringement.— A willful infringer of a patent is liable for treble damages. The current rule on willful infringement, however, perversely discourages parties from reviewing issued patents to determine whether a patent exists. This section provides that a court may only find willful infringement if the patent owner shows, by clear and convincing evidence, that (1) the infringer, after receiving written notice from the patentee, performed one of the acts of infringement, (2) the infringer intentionally copied the patented invention with knowledge that it was patented, or (3) after having been found by a court to have infringed a patent, the infringer engaged in conduct that again infringed on the same patent. Willfulness is subject to a “good faith” defense.

Prior user rights.— The defense to infringement for patents involving a “method of doing or conducting business” based on the alleged infringer’s having reduced the subject matter to practice at least one year prior to the filing date is amended to apply to all patents and to require only that the subject matter be commercially used (or substantial preparations be made for commercial use) prior to the effective filing date of the claimed invention.

Sec. 6. Post-Grant Procedures.

In general.— After a patent issues, a party seeking to challenge the validity and enforceability of the patent has two avenues under current law: by reexamination proceeding at the USPTO or by litigation in federal district court. The former is used

sparingly and is considered not very effective; the latter, district court litigation, is unwieldy and expensive. This section improves the reexamination process and creates a new, post-grant review that provides an effective and efficient system for considering challenges to the validity of patents. Addressing concerns that a post-grant review procedure could be abused by cancellation petitioners, this section requires the Director to prescribe rules for abuse of discovery or improper use of the proceeding. In addition, it bars successive petitions by **the same party on the same patent** and prohibits a party from reasserting claims in court that it raised in post-grant review.

Reexamination procedures.— Amends the reexamination procedures of § 303(a) to provide that, within three months of a request for reexamination of a patent by the patent owner, or at any time on the Director’s own initiative, the Director may determine whether a substantial new question of patentability is raised by patents discovered by him or cited by any other person. In addition, amends the inter-partes reexamination to reflect PTO recommendations, including providing additional time to respond to the Office, amending the estoppel provision, preventing institution of the proceeding after a district court decision and having administrative patent judges hear reexaminations, rather than patent examiners.

Post-grant review procedures.—

§ 321.— Permits a person who is not the patent owner to file a “petition for cancellation” before the Patent Trial and Appeal Board based on any ground of patentability that might be raised under section 282(a)(2) and (3). The Director shall establish fees to be paid by the person requesting the proceeding.

§ 322.— The petition for cancellation can only be filed within 12 months of the patent’s issue or reissue or the patent owner consents to the proceeding in writing. The option of a “second window” was removed.

§ 323.— Certain procedures are required, including setting forth the basis for the petition and supporting evidence as required by the Director.

§ 324.— Successive petitions are prohibited, unless the patent owner consents in writing.

§ 325. — The Director may not institute a post-grant review proceeding unless the Director determines that the information presented provides a substantial question of patentability. Notice must be provided to the patent owner.

§ 326.— The Director shall establish rules and standards for post-grant review, which should result in a final decision within 12 months. Rules for submissions and discovery may, and sanctions for abuse of process shall, be prescribed by the Director.

§ 327.— The patent owner has a right to file a response to the cancellation petition and may include affidavits, declarations and any additional factual evidence and expert opinions on which the patent owner relies in support of the response.

§ 328.— The presumption of patent validity does not apply in post-grant review; the burden of proof is preponderance of the evidence.

§ 329.— The patent owner may file one motion to amend the patent, or cancel or propose a substitute to any challenged patent claim, in response to a challenge, provided that the amendment does not enlarge the claim or introduce new matter.

§ 330.— The Board shall issue a final written decision if the challenge is not otherwise dismissed or settled.

§ 331.— Following a decision by the Board, the Director shall publish a certificate canceling any claim determined unpatentable, and including any new or amended claim found to be patentable.

§ 332.— The parties may agree to settle to terminate the post-grant procedure. The settlement agreements must be in writing.

§ 333.— The Director may determine rules relating to other ongoing or co-pending proceedings within the Office including to stay, transfer, consolidate or terminate. In addition the Director may stay the post-grant if a pending civil action addresses the same questions of patentability.

§ 334.— A party against whom a final judgment has been entered in a case filed under 28 U.S.C. § 1338 may not file for post-grant review based on propositions that party, or its privies, could have raised in federal court.

§ 335. – A petitioning party whose petition with respect to any original or new claim of the patent is denied may not, based on any ground which the petitioner raised, pursue reexamination of such claims, interference of such claims, post-grant review of such claims, or assert the invalidity of such claims in any civil action filed under 28 U.S.C. § 1338. A party dissatisfied with the final determination of the Director in a post-grant review may appeal the determinations to the Federal Circuit under sections 141 through 144.

Sec. 7. Definitions; Patent Trial and Appeal Board.

The Board of Patent Appeals and Interferences is replaced with the new Patent Trial and Appeal Board. The Board is charged with reviewing adverse decisions of examiners upon applications and reexamination proceedings, determining priority and patentability, and presiding over the new post-grant review proceedings.

Sec. 8. Study and Report on Reexamination Proceedings.

The Director shall, not later than 3 years after the date of enactment, conduct a study on the effectiveness of the different forms of review under title 35, and submit a report to the

House and Senate Judiciary Committees on the results of the study, along with any suggested amendments.

Sec. 9. Submissions by Third Parties and Other Quality Enhancements.

In general.— This section is designed to improve patent quality by creating a mechanism for third parties with knowledge of the subject matter of a claimed invention to submit relevant information about prior art to the USPTO.

Subsection (a). – § 122(b)(2), which exempts an application from automatic publication after 18 months, provided it is not the subject of an international or foreign filing, is repealed. As a result, all patent applications will be published 18 months after filing.

Subsection (b). – Creates a mechanism in § 122 for third parties to submit timely, pre-issuance information relevant to the examination of the application.

Sec. 10. Tax Planning Methods Not Patentable Tax strategy patents raise a broad range of issues, principally whether it is desirable for the patent law to authorize tax strategy patents and whether the government monopoly granted to a patent holder is fundamentally consistent with the policies underlying our tax system. This addresses this concern by declaring “tax planning methods” to be unpatentable subject matter. By this amendment, the United States joins Europe and many other countries that exclude tax strategy patents. The amendment would not apply to patents issued before enactment of this Act, whose validity would be determined by standards (including patentable subject matter) in effect at the time of issuance.

Sec. 11. Venue and Jurisdiction.

In general.— This section addresses two litigation issues unique to the patent world. Subsection (a) amends the patent venue statute. Subsection (b) gives the Federal Circuit jurisdiction over interlocutory appeals in what has become known as *Markman* orders

Subsection (a). – A venue section specific to patent infringement cases exists in 28 U.S.C. § 1400(b), reflecting the special demands of patent litigation. An expansion in the general venue provision, 28 U.S.C. § 1391, was later read into the patent venue provision. The result has been forum shopping, with some districts experiencing a disproportionate share of filings. The jurisdiction and venue provision for patent cases is amended to specify that venue cannot be manufactured simply to obtain a more favorable forum. Furthermore any action brought related to patents must be brought in the district where defendant has its principal place of business or where the defendant is incorporated or where defendant has committed substantial acts of infringement and has an established physical facility. Venue is also proper where plaintiff resides in particular circumstances.

Subsection (b). – Claim construction (interpretation of a patent’s scope) is a question of law, usually decided by the district court in advance of trial in what is known as a *Markman* hearing. Claim construction often has a controlling impact on ultimate resolution of a case, but these rulings have an almost 40% reversal rate. Discretionary

interlocutory appeal could promote speedy and more certain case resolution. This section gives the Federal Circuit jurisdiction over interlocutory orders involving claim construction. The district court has discretion to certify or not such an order for immediate appeal.

Sec. 12. Additional Information, Inequitable Conduct as Defense to Infringement.

Inequitable conduct -- One costly and often unnecessary part of patent litigation is the battle over “inequitable conduct” – whether the patent holder made misrepresentations or otherwise deceived the office in obtaining a patent. Courts have developed inequitable conduct as an equitable doctrine which makes the patent unenforceable. But uncertainty has developed in the standards used to find inequitable conduct. Subsection (b) codifies inequitable conduct as a defense to the infringement of a patent. It is intended to preserve the primary purpose of the defense, while also making its application more predictable and certain. Additionally, it will allay concerns patent applicants have in sharing information with the USPTO concerning the patentability of their inventions during prosecution, thereby improving quality.

Sec. 13. Best Mode Requirement.

Section 112 of the patent code imposes a duty on an inventor to disclose in the patent application her knowledge of the best way to make and use the invention. While best mode serves the salutary purpose of fully disclosing an invention to the public, it has also been used to invalidate patents during litigation. The impact of this has been to add expense and uncertainty to patent enforcement. The Committee decided the best mode requirement should remain a requirement for obtaining a patent grant, but that failure to meet that requirement should not be a condition for holding a claim or patent invalid. By retaining the requirement for disclosure in section 112, applicants are encouraged to provide a full disclosure of the invention, but non-compliance will no longer be available to infringers as a defense.

Sec. 14. Regulatory Authority.

This provision would clarify the authority of the PTO to make procedural rules where appropriate to limit abuses by applicants. Specifically, this amendment clarifies that the Office may make rules that ensure the quality and timeliness of the application process.

Sec. 15. Technical Amendments.

This section makes a number of technical changes that improve the formatting or organization of the patent statute. None of the changes in this section are intended to be new or substantive in any way.

Sec. 16. Study of Special Masters in Patent Cases. This section directs the Administrative Office of the United States Courts, in consultation with the Federal Judicial Center, to study the use of special masters in patent infringement cases. District courts have occasionally appointed special masters to assist them in claims construction and other technical matters but the use of special masters in patent litigation is “the exception and not the rule” and so occurs only under “exceptional” conditions. The limited use of special masters in patent cases has produced anecdotal information that

suggests their use may reduce the costs and length of litigation, and result in better district court decisions. This section directs a study to determine the benefits, if any, derived from the use of special masters in patent cases. The study itself will look into such factors as the costs and length of litigation when special masters are used, the role special masters are given in patent cases, the legal and technical background of special masters and other factors.

Sec. 17. Rule of Construction. This provision preserves the CREATE Act as originally codified in 35 USC § 103(c), in the new § 102(b)(3).

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