



## Patent Reform Act of 2007

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On July 18, 2007 and July 20, 2007, the House Judiciary Committee and the Senate Judiciary Committee, respectively, approved multiple modifications to their versions of the bills entitled the “Patent Reform Act of 2007.” Chairman Patrick Leahy (D-VT) of the Senate Judiciary Committee submitted a substitute bill to S. 1145 (the “Substitute S. 1145”), and he and other senators also submitted amendments thereto. Chairman Howard Berman (D-CA) of the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, likewise, submitted a substitute bill to H.R. 1908 (the “Substitute H.R. 1908”), and several other representatives also submitted amendments thereto. Though both bills, the H.R. 1908 and S. 1145, were essentially the same when initially introduced on April 18, 2007, some important provisions are now different. This legal update reviews these important provisions and changes.

Generally, the Substitute S. 1145 and Substitute H.R. 1908 both still retain the first-inventor-to-file and post-grant review

provisions. However, as discussed in more detail below, the Substitute H.R. 1908 no longer contains the second window proceedings, but the Substitute S. 1145 does. The Substitute H.R. 1908 has replaced the second window proceedings with modified *inter partes* reexamination proceedings. The Substitute S. 1145, on the other hand, has repealed all *inter partes* reexamination proceedings, leaving only *ex parte* reexamination proceedings unmodified; it has also revised the post-grant review invalidity presumption and the petitioner’s burden of proof. Additionally, an amendment to the Substitute H.R. 1908 removes the best mode requirement as grounds for invalidity, but the Senate never addressed best mode. Nevertheless, as compared to the original bills, both of the Substitute bills have made notable changes to their damages, willful infringement, and venue provisions. Additionally, both have added inequitable conduct provisions. Importantly, Senator Tom Coburn (R-OK) has also submitted an amendment that ends fee diversion from the USPTO, requiring the USPTO fees to be deposited in a “revolving fund”

that would be available to the USPTO and would remove the need for the USPTO to depend on appropriations for annual funding.

This legal update will review the differences between important provisions of the current Patent Act and the original S. 1145 that remain intact following the Committee's actions on July 20th. It will then discuss additional modifications that the Substitute S. 1145 bill and amendments propose. Lastly, it will review the current differences between the House's Substitute H.R. 1908 and amendments, and the Senate's Substitute S. 1145 bill and amendments.

### WHAT REMAINS OF THE ORIGINAL S. 1145 BILL

In the Original S. 1145 bill, unless otherwise noted, the following proposals remain unmodified by substitution or amendment:

- 1) First-to-file: A first-inventor-to-file system was adopted while preserving a grace period of one year for disclosures made by the inventor. For prior art, the new focus is on what is publicly known rather than what was previously done. All references to "interference" proceedings are removed, and replaced with "derivation" proceedings.
- 2) Derivation Proceedings: A second-inventor-to-file ("second filer") may

challenge the first-inventor-to-file's ("first filer") application, if the second-filer believes the first-filer "derived" the invention from the second-filer.

- 3) Willful Infringement: Willful infringement may be found only if supported by clear and convincing evidence that the patent owner gave written notice of the infringement. The written notice of infringement must:
  - a) be sufficient to give the infringer "an objectively reasonable apprehension of suit" for patent infringement, and
  - b) identify with particularity each patent claim, infringing product or process, and
  - c) identify the relationship of the product or process to the asserted claim.

If after such notice, the infringer either still intentionally copied the patented invention with knowledge that it was patented; or engaged in conduct "not colorably different from conduct previously found" by a court to have infringed the same patent, then a court may find willful infringement.

However, there can be no willful infringement for any time period during which the infringer had "an informed good faith belief" the

patent was invalid, unenforceable, or not infringed. And a good faith belief can be established (a) through reasonable reliance on advice of counsel; (b) evidence that the infringer sought to modify his/her conduct to avoid infringement after discovering the patent; or (c) other evidence found sufficient by a court to establish a good faith belief. However, an infringer's decision not to present evidence of advice of counsel "is not relevant" to a willfulness determination. In addition, a patent holder can neither plead, nor may a court find, willful infringement before a determination that the patent is valid, enforceable and infringed.

- 4) Post-Grant Review Proceedings: In an entirely new proposed chapter for the current patent statute, a petition to request institution of a post-grant review proceeding to invalidate a patent claim may be filed by an individual or entity if any of the following is true:
  - a) the post-grant review petition is filed within 12 months of a patent grant or issuance of a reissue patent ("the first window");
  - b) (i) the petition contains facts sufficient to establish a "substantial reason" to believe the challenged patent claim

causes or is likely to cause the petitioner “significant” economic harm, or(ii) the petitioner files a petition within 12 months of receiving explicit or implicit notice from the patent holder asserting infringement (“the second window”); or

- c) the patent owner consents in writing to the proceeding.

Additionally, the post-grant review provisions require the USPTO Director to draft regulations that mandate that a final determination within a year of instituting a proceeding (plus a possible 6-month extension). These regulations must also set forth standards for what is a “substantial reason to believe” and “significant economic harm,” permit discovery during a proceeding, and prescribe sanctions for abusive conduct. Other post-grant review provisions, discussed below, have been changed by the Substitute S. 1145 bill and amendments.

- 5) Venue: As discussed below, these provisions have drastically changed.<sup>1</sup>
- 6) Damages: As discussed, below, these provisions have also changed.<sup>2</sup>

#### **CHANGES MADE BY THE SUBSTITUTE S. 1145 AND AMENDMENTS**

The significant changes to the Original S. 1145 bill that were approved by the

Senate Judiciary Committee on July 20, 2007, are the following:

- 1) Damages: The Substitute S. 1145 bill, consistent with current law, states that the court shall award damages “adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interests and costs.” It also provides a “procedure” for receiving expert testimony “as an aid” to the determination of “damages or of what royalty would be reasonable.” It then provides the “standard for calculating a reasonable royalty” directing the court to determine which of three given methods should be used to calculate a reasonable royalty and to identify “the [only] factors that are relevant [and can be considered for] the determination of a reasonable royalty.” The three methods a court may use are:
- a) the “entire market value rule,” but only if the invention’s specific contribution over the prior art is the predominant basis of the infringing product’s or process’s market demand;
- b) marketplace licensing, if the invention has been nonexclusively licensed or if there are “sufficiently similar

non-infringing substitutes” in the relevant market, and the infringer’s use is substantially the same as that of the nonexclusive license or sufficiently similar non-infringing substitutes; or

- c) a reasonable royalty analysis that applies only to the portion of the infringing product’s or process’s economic value attributable to the invention’s specific contribution over the prior art, if neither (1) or (2) above can be shown by the claimant.

The court may also take into account “other relevant factors under applicable law.”

#### 2) Optional Inter Partes

Reexamination: All Patent Act statutory provisions dealing with optional inter partes reexamination procedures will be repealed.

#### 3) Post-Grant Review Proceedings:

A party seeking to file a petition for post-grant review will need to provide more detail than previously proposed in his or her post-grant review petition. The petition must include identification of “any real parties in interest,” as opposed to only the “cancellation petitioner.” The petition must also identify “in writing and with particularity” each claim challenged, the grounds therefore, and supporting evidence. The USPTO Director must also

publish the petition in the Federal Register, unless the petition is accompanied by a motion to seal. Also, a post-grant review proceeding may not be instituted during the “first window” if the petitioner or “real party in interest” has “instituted a civil action challenging the validity of a claim of the patent.” It is unclear whether this means the same claim or a different claim in the same patent.

The Substitute S. 1145 also now states that commencement of a post-grant review proceeding requires a determination by the Director that the petition raises a substantial new question of patentability for at least one of the challenged claims. The Director is to make this determination within 90 days of receipt of the petition. The modifications are silent on what happens if the Director does not make this determination within the 90-day period. Also, the Director’s decision whether to allow a post-grant review proceeding is not appealable.

Finally, Substitute S. 1145 has markedly changed the presumption of validity and modified the applicable burden for second-window post-grant review proceedings. Though the presumption of validity still will not apply to first-window post-

grant review challenges, now the presumption of validity will apply to second-window challenges. the petitioner’s burden of proof during the first window will be to establish invalidity by a preponderance of the evidence. However, during the second window, the petitioner’s burden of proof appears higher, at least with respect to supporting facts that must be pled. Petitions filed during the second window must establish “the existence, authentication, availability, and scope of any evidence offered to establish invalidity . . . by clear and convincing evidence.” Yet the amendment also states that “[i]f such predicate facts are so established” that invalidity is proven “only if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence.” This suggests that the facts supporting a second-window challenge must be stronger than the facts supporting a first-window challenge. Finally, if these provisions become law, for patents applied for between November 29, 1999 and the effective date of these provisions, post-grant review challenges may only be filed during the second window.

- 4) Venue: The Substitute S. 1145 prevents a plaintiff from “manufactur[ing] venue by

assignment, incorporation, or otherwise to invoke the venue of a specific district court.” The Substitute S. 1145 and amendments now provide that venue for patent infringement or any declaratory relief action shall be:

- a) only in a judicial district where the defendant or a U.S. subsidiary of a foreign corporation has its principal place of business, is incorporated, or was formed;
- b) where “substantial” acts of infringement have been committed, and the defendant has a “regular and established physical facility” that it controls and that constitutes a substantial portion of its operations;
- c) where the primary plaintiff resides, if
  - (i) it is a “higher education institution” (as defined in 20 U.S.C. 1001(a)); or
  - (ii) it is a nonprofit organization that qualifies under 26 U.S.C. 501(a) and (c)(3), and serves as the patent and licensing organization for a “higher education institution”; or
- d) where the primary plaintiff resides if the sole plaintiff is an individual inventor who is a

natural person that qualifies as a “micro-entity” (under the new proposed 35 U.S.C. 123) when suit is filed.

Amendments also added a provision for transfer of venue as appropriate under 28 U.S.C. 1391.

- 5) Interlocutory Appeals: Substitute S. 1145 modifies the interlocutory appeals provision by making the filing of an appeal of a claim construction order subject to the discretion of the lower court. A party must obtain permission to appeal, and if the party appeals, the district court can either stay the case pending appeal, or keep the case moving.
- 6) Inequitable Conduct: An amendment to the Substitute S. 1145 reintroduces a provision that allows invalidation of a patent for inequitable conduct. If a court finds that material information was misrepresented or withheld by a patentee or his representative, and that the patentee had an intent to deceive, then a court may hold a patent, or some of its claims, unenforceable. Alternatively, the court may disallow the patentee equitable relief. However, the definition of material information is imprecise as what is “material” depends on what a “reasonable”

patent examiner would consider important in allowing the patent application.

- 7) Micro-entities: An entirely new concept added by Substitute S. 1145 is directed to small inventors. In addition to beneficial venue provisions for “micro-entities,” a “micro-entity” need not submit search reports relevant to patentability. Non-“micro-entity” applicants will be required to submit search reports.

A “micro-entity” will be a “small entity” as defined by regulations the Director will issue. Additionally, a “micro-entity” will not have a gross income exceeding 2.5 times the Department of Labor’s average gross income, and it will not have been named on 5 or more previously filed patent applications. In addition, one will not be able to qualify for a micro-entity status if one has, or is planning to, transfer or license a patent application to an entity that has a gross income exceeding 2.5 times the Department of Labor’s average gross income.

#### **CHANGES MADE BY THE SUBSTITUTE H.R. 1908 AND AMENDMENTS**

The Substitute H.R. 1908 and amendments differ from the Senate’s Substitute S. 1145 and amendments as follows:

- 1) Derivation Proceedings: In addition to filing a derivation proceeding within 12 months after the date the patent issues, the Substitute H.R. 1908 allows a second-filer to institute a proceeding within 12 months after the date of first publication of an application containing a same or substantially same claim.
- 2) Optional Inter Partes Reexamination: The Substitute H.R. 1908 retains all optional *inter partes* reexamination provisions in the Patent Act, and adds a provision allowing any person to additionally be able to cite a patent owner’s “written statements” made before a Federal Court or the USPTO where the patent owner “takes a position on the scope of one or more patent claims.”
- 3) Damages: Though generally similar, the Substitute H.R. 1908 does not list nonexclusive marketplace licensing or “sufficiently similar non-infringing substitutes” in the relevant market as factors a court must consider in awarding damages.
- 4) Post-Grant Review Proceedings: The Substitute H.R. 1908 differs from the Senate’s amendment by keeping only the first window post-grant review proceeding, and the proceeding to which the patent owner consents. It also does not require publication of

a petition, and maintains that the presumption of validity will not apply to these proceedings. Additionally, it keeps the lower preponderance of the evidence burden of proof for the petitioner.

- 5) Venue: Both the Senate's and House's substitute bills similarly revise the current venue provisions that apply to patent infringement suits. The only differences are two: (a) the Substitute H.R. 1908 does not grant venue in the primary residence of the patent and licensing organization of a higher education institution; (b) however, the Substitute H.R. 1908 adds that it will grant venue where the plaintiff resides if it has a physical facility there dedicated to "research, development, or manufacturing" that full-time employees operate.
- 6) Inequitable Conduct: Though both the House and Senate reintroduced inequitable conduct provisions, there are some differences. Unlike the Senate's amendment, which attempts to define "materiality," the H.R. Substitute 1908 does not. Additionally, an amendment to the Substitute H.R. 1908 also punishes inequitable conduct by allowing a court to hold the claims of a "related patent unenforceable." The Substitute

H.R. 1908 additionally provides that inequitable misconduct resulting from attorney misconduct may be referred to the USPTO for disciplinary action.

- 7) Best Mode Requirement: An amendment to the Substitute H.R. 1908 added a provision that removes a failure to disclose the best mode of the invention from later becoming a ground for invalidation of a patent.

In conclusion, though there do not yet appear to be any crucial differences for which a compromise could not be reached between the House and the Senate, there may be critical differences that could not be compromised among the various entities that are lobbying for and against the first-inventor-to-file and post-grant review proceedings. These will be the most difficult provisions on which all will need to reach consensus. Therefore, stay tuned for further updates on the Patent Reform Act of 2007. ■

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<sup>1</sup> Previously, the Original S. 1145 bill adopted venue provisions for patent infringement actions (but not declaratory judgment actions) stating that they could be filed only (a) where either party resided; or (b) where the defendant committed the infringing acts and had an established place of business. Additionally, the Original S. 1145 bill provided that a corporation would be deemed to reside in the judicial district of its principal place of business or in the state where it is incorporated.

<sup>2</sup> Previously, the Original S. 1145 bill proposed to require that a court "conduct an analysis to ensure that a reasonable royalty . . . is applied only to that economic value properly attributable to the patentee's specific improvement over the prior art." The court was required to identify all relevant reasonable royalty factors, excluding any economic value that could be attributed to the prior art. And it was required to identify other features or improvements (patented or not) that contributed to the economic value of the infringing product or process. However, if the claimant could show that his/her patent's specific contribution over the prior art was the predominant basis for the market demand of the infringing product or process, then damages could be based on the entire market value of that infringing product or process. However, if the claimant could show that his/her patent's specific contribution over the prior art is the predominant basis for the market demand of the infringing product or process, then damages could be based on the entire market value of that infringing product or process.

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