

Side-by-Side: Patent Reform Act of 2007

KEY ISSUES

S. 1145 | H.R. 1908

| ISSUE | S. 1145 | H.R. 1908 |
|------------------------------------|--|--|
| RECENT LEGISLATIVE ACTIVITY | <p>The Senate Judiciary Committee completed markup of S. 1145 and reported the bill favorably to the Senate by a vote of 13-5 on Thursday, July 19, 2007. Chairman Leahy's substitute amendment was accepted as well as amendments by Senators Coburn, Kennedy, Sessions, and Specter. The full Senate is expected to consider the bill in the next couple of weeks.</p> | <p>The House voted on H.R. 1908 on Friday, September 7, 2007, passing the bill, as amended, by a final vote of 220-175 with 37 members not voting. Five amendments, including a manager's amendment, two amendments by Representative Issa, and amendments by Representatives Jackson-Lee and Pence were adopted.</p> |
| TITLE | <p>SEC. 1. SHORT TITLE; TABLE OF CONTENTS</p> <p>Patent Reform Act of 2007</p> | <p>SEC. 1. SHORT TITLE; TABLE OF CONTENTS</p> <p>Patent Reform Act of 2007</p> |
| FIRST TO FILE | <p>SEC. 2. RIGHT OF THE FIRST INVENTOR TO FILE</p> <p>Adopts a first inventor to file system.</p> <ul style="list-style-type: none"> ▪ Replaces the current "Interference" procedure with a new "Derivation" procedure to determine which applicant is the patent owner when multiple inventors have claimed to be first inventors. | <p>SEC. 3. RIGHT OF THE FIRST INVENTOR TO FILE (AS AMENDED BY THE MANAGER'S AMENDMENT ON THE HOUSE FLOOR)</p> <p>Substantially the same provisions except the section would not take effect until 90 days after the President indicates to Congress that "major patenting authorities" (defined as "at least Japan and Europe") have adopted a one year grace period "having substantially the same effect" as that in the U.S. (allowing an inventor one year to file for a patent after invention is first disclosed in a public forum).</p> |

| ISSUE | S. 1145 | H.R. 1908 |
|----------------|---|--|
| | <ul style="list-style-type: none"> ▪ A second inventor may challenge a patent application through the Derivation proceedings under certain circumstances, <i>i.e.</i> when the first inventor derived the claimed invention from the second inventor and filed for a patent without authorization. ▪ Such a challenge must be made within 12 months after the date of first publication of an application containing a claim that is the “same or substantially the same” as the claimed invention; must be made under oath; and must be supported by substantial evidence. ▪ Allows for deferral of Derivation proceedings until 3 months after first-filed patent has issued. ▪ Maintains a one year grace period for an inventor to file for a patent after invention is first disclosed in a public forum. | <ul style="list-style-type: none"> ▪ Parties to a derivation proceeding may terminate proceedings by filing a settlement agreement. The Patent Trial and Appeal Board must take action consistent with the agreement unless it finds the agreement inconsistent with the evidence of record. Such settlements may, at the request of a party to the proceeding, be kept confidential and separate from the patent file. ▪ Parties to a derivation proceeding may submit the matter to binding arbitration. |
| DAMAGES | <p>SEC. 4. RIGHT OF FIRST INVENTOR TO OBTAIN DAMAGES</p> <ul style="list-style-type: none"> ▪ Modifies 35 U.S.C. § 284 with respect to reasonable royalty damages. The modification does not apply to other forms of damages awards, such as lost profits. | <p>SEC. 5. RIGHT OF THE INVENTOR TO OBTAIN DAMAGES (AS AMENDED BY JOHNSON-FEENEY AMENDMENT IN COMMITTEE AND BY THE MANAGER’S AMENDMENT ON THE HOUSE FLOOR)</p> <ul style="list-style-type: none"> ▪ Provisions with respect to reasonable royalty damages are substantially similar to Senate version. |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|--|-----------|
| | <ul style="list-style-type: none"> ▪ Directs court to determine which of three alternative methodologies shall be used to calculate “reasonable royalty” damages: <ul style="list-style-type: none"> ○ (a) if there is a showing that the claimed invention’s specific contribution over the prior art is the predominant basis for market demand of the infringing product or process, the royalty base may be the entire market value of the infringing product or process; ○ (b) if there is a showing that the claimed invention or sufficiently similar non-infringing substitutes have been the subject of non-exclusive licenses in similar circumstances, and there is general marketplace recognition of the reasonableness of the licensing terms, the royalty may be determined based upon such licenses; ○ If neither (a) nor (b), the court <i>shall</i> ensure that the reasonable royalty is applied “only to the portion of the economic value of the infringing product or process properly attributable to the claimed invention’s specific contribution over the prior art.” ▪ Notes that the court may also consider “other relevant factors” when making a reasonable royalty determination. | |

| ISSUE | S. 1145 | H.R. 1908 |
|-------------------------------------|--|---|
| | <ul style="list-style-type: none"> ▪ Clarifies that an invention combining elements individually present in the prior art could have a higher value than its contribution to the prior art simply by virtue of the combination. ▪ Limits “willful” infringement (and therefore right to receive treble damages awards) to situations where alleged infringer had written notice of patent and infringement allegations (2) intentional copying or (3) continued conduct after finding of infringement. Willfulness is determined by judge, not jury, and may not be pleaded or tried until after liability finding. ▪ “Prior user” defense slightly expanded to include affiliated entities. Maintains application to “business method” patents only. | <ul style="list-style-type: none"> ▪ Same as the Senate version with respect to “willfulness standard.” ▪ No expansion of “prior user” rights. Under current law, one who reduced to practice a patented business method at least one year before the effective filing date of the patent application and commercially used the method before the filing of the application is exempt from infringement. |
| <p>POST-GRANT PROCEDURES</p> | <p>SEC. 5. POST-GRANT PROCEDURES AND OTHER QUALITY ENHANCEMENTS (AS AMENDED BY LEAHY AMENDMENT IN COMMITTEE)</p> <p>Amends 35 U.S.C. § 303 to modify provisions related to reexamination of patents by the Director of the PTO and to repeal <i>inter partes</i> reexamination procedures (except for those requests filed on or before the date the Act takes effect).</p> | <p>SEC. 6. POST-GRANT PROCEDURES AND OTHER QUALITY ENHANCEMENTS (AS AMENDED BY PENCE AMENDMENT ON HOUSE FLOOR)</p> <p>Amends 35 U.S.C. § 303 to modify provisions related to reexamination of patents by the Director of the PTO and to modify the <i>inter partes</i> reexamination procedure.</p> |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|---|---|
| | <p>Amends Title 35 of the U.S.C. to add a new Chapter 32, Post-Grant Review Procedures, which:</p> <ul style="list-style-type: none"> ▪ Establishes a new post-grant review procedure enabling any person who is not the patent owner to file a petition challenging a patent. ▪ Requires a post-grant challenge petition to be filed within 12 months of when the patent was granted or reissued. <ul style="list-style-type: none"> ○ Eliminates the presumption that a patent is valid in the new post-grant review proceedings and states that petitioner bears the burden of proving that the patent is invalid by a “preponderance of the evidence” (a lower standard than the “clear and convincing” standard in litigation). | <ul style="list-style-type: none"> ▪ Most significantly the phrase “or could have raised” is eliminated, softening estoppel provisions in current law which prevent a person from challenging the validity of a patent in court “on any ground which the third party requester raised or could have raised” during an <i>inter partes</i> reexamination procedure if such a procedure was undertaken. ▪ Also prohibits reexamination after a district court decision is entered and allows requests for reexamination based on written statements by a patent holder in court or in a PTO proceeding, as well as based on prior art. <p>Amends Title 35 of the U.S.C. to add a new Chapter 32, Post-Grant Review Procedures, which is similar to the Senate post-grant review procedure, except:</p> <ul style="list-style-type: none"> ▪ There is no second window permitting review of a patent after notification of infringement; and ▪ The post-grant provisions take effect one year after enactment of the Act and apply to all patents issued on or after that date. ▪ Post-grant petition cannot be based upon “best mode” requirement. |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|--|-----------|
| | <ul style="list-style-type: none"> ▪ Also allows a “second window” for post-grant challenges: (1) at any time with the patent owner’s written consent; or (2) within 12 months after the petitioner receives notice, “explicitly or implicitly,” that the patent holder alleges infringement if the petitioner establishes within the petition “a substantial reason to believe” that the patent causes or would cause “significant economic harm.” <ul style="list-style-type: none"> ○ For petitions filed in the “second window” there is a presumption of patent validity. To overcome the presumption, the petitioner must establish predicate facts by “clear and convincing evidence.” Petitioner can then prove invalidity “if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence.” ▪ Prohibits a petition from being filed if the petitioner has instituted a civil action against the patent holder challenging the validity of the patent or if a previous petition by and against the same parties regarding the same patent has already been filed. ▪ Prohibits the PTO from authorizing a post-grant review proceeding unless the information presented in the petition “raises a substantial new question of patentability” for at least one of the challenged claims. | |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|--|-----------|
| | <ul style="list-style-type: none"> <li data-bbox="619 284 1228 430">▪ Requires final determination of post-grant review proceeding not later than 1 year after institution of proceeding, except that for good cause shown, 6 month extension may be granted by PTO. <li data-bbox="619 462 1228 609">▪ Allows “discovery” upon order of the PTO “as required in the interests of justice” during the new post-grant review proceeding and provides for sanctions for abuse of the discovery process. <li data-bbox="619 641 1228 852">▪ Allows the patent holder to amend the patent claims once during the post-grant review proceedings; allows written settlement of such proceedings if the PTO has not issued a decision on the proceeding; and allows appeal of the PTO post-grant review decision to Patent Trial and Appeal Board. <li data-bbox="619 885 1228 1015">▪ If decision favors patentability, petitioner is estopped from asserting invalidity in court proceeding based on any ground argued in post-grant review proceeding. <li data-bbox="619 1047 1228 1323">▪ Indicates that the new post-grant review procedures would be effective one year after enactment of the Patent Reform Act and would apply to all patents issued on or after that date, except that for patents issued on or after Nov 29, 1999, a petitioner may file a challenge to the patent under the new post-grant review proceedings only if the applicant agrees or under a “second window” challenge. | |

| ISSUE | S. 1145 | H.R. 1908 |
|---------------------------------------|--|--|
| <p>THIRD PARTY SUBMISSIONS</p> | <p>SEC. 7. SUBMISSIONS BY THIRD PARTIES AND OTHER QUALITY ENHANCEMENTS</p> <p>Amends 35 U.S.C. § 122 to allow third parties to submit prior art to the PTO if such submission is:</p> <ul style="list-style-type: none"> ▪ in writing; ▪ made before the earlier of: (i) a notice of allowance; (ii) 6 months after the date on which the application for patent is published; or (iii) the PTO’s first office action; and ▪ is accompanied by a fee, a certification and a description of the prior art’s relevance. | <p>SEC. 9. SUBMISSIONS BY THIRD PARTIES AND OTHER QUALITY ENHANCEMENTS (AS AMENDED BY ISSA AMENDMENT ON HOUSE FLOOR)</p> <p>Same as the Senate version, except it provides that the section will not take effect until one year after enactment of the Patent Reform Act.</p> |
| <p>VENUE AND JURISDICTION</p> | <p>SEC. 8. VENUE AND JURISDICTION</p> <ul style="list-style-type: none"> ▪ Limits where infringement suits and declaratory judgment actions may be filed to judicial districts: <ul style="list-style-type: none"> ○ Where defendant has principal place of business or is incorporated or, for foreign corporations, where primary U.S. subsidiary has principal place of business or is incorporated; ○ Where “defendant has committed substantial acts of infringement” and has “an established physical facility . . . that constitutes a substantial portion” of defendant’s operations; | <p>SEC. 11. VENUE AND JURISDICTION (AS AMENDED BY LOFGREN AMENDMENT IN COMMITTEE AND MANAGER’S AMENDMENT ON HOUSE FLOOR)</p> <ul style="list-style-type: none"> ▪ Similar to Senate version except that it also allows for jurisdiction <ul style="list-style-type: none"> ○ “where the plaintiff or a subsidiary has a place of business that is engaged in substantial—(A) research and development, (B) manufacturing activities, or (C) management of research and development or manufacturing activities related to the patent in dispute.” ○ where plaintiff resides if plaintiff is an individual named as an inventor who has not conveyed, and has no obligation to convey, any rights in the patent or to enforcement of the patent. |

| ISSUE | S. 1145 | H.R. 1908 |
|---------------------------------|--|---|
| | <ul style="list-style-type: none"> ○ Where “primary plaintiff” resides if primary plaintiff is an institution of higher education, a non-profit, or a patent and licensing organization for an institution of higher learning; or ○ Where plaintiff resides if sole plaintiff is an individual inventor qualified as micro-entity. ▪ Provides for transfer of DJ or infringement action by defendant to avoid evidentiary burden. | <ul style="list-style-type: none"> ○ where any of the defendants has substantial evidence and witnesses if there is no other district in which the action may be brought under this section. |
| PTO REGULATORY AUTHORITY | <p>SEC. 9. PATENT AND TRADEMARK OFFICE REGULATORY AUTHORITY</p> <p>No significant changes to current law.</p> | <p>SEC. 14. REGULATORY AUTHORITY (AS AMENDED BY ISSA AMENDMENT ON THE HOUSE FLOOR)</p> <p>Permits the PTO director to “promulgate regulations to ensure the quality and timeliness of applications and their examination,” including rules concerning continuation and claim limitations. If a joint resolution of disapproval is enacted by both Houses of Congress and signed into law, the regulation shall not become effective.</p> |
| INEQUITABLE CONDUCT | <p>SEC. 11. APPLICANT QUALITY SUBMISSIONS (AS AMENDED BY SPECTER AND LEAHY AMENDMENTS IN COMMITTEE)</p> <p>Amends chapter 11 of 35 U.S.C. to add a new section 123, Additional Information; Micro-entity Exception, which would require applicants to submit a prior art search and analysis of the prior art’s relevance to patentability. Exempts micro-entities from the prior art search requirement.</p> | <p>SEC. 12. ADDITIONAL INFORMATION; INEQUITABLE CONDUCT AS DEFENSE TO INFRINGEMENT (AS AMENDED BY THE MANAGER’S AMENDMENT ON THE HOUSE FLOOR)</p> <p>Similar requirements as the Senate version with regard to prior art searches, except the Director of the PTO “<i>may</i>” (not “shall”) require by regulation applicants to submit a prior art search and analysis.</p> |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|--|--|
| | <p>SEC. 12. INEQUITABLE CONDUCT</p> <p>Amends chapter 29 of 35 U.S.C. to add a new section 298, Inequitable Conduct, which:</p> <ul style="list-style-type: none"> ▪ Requires a party alleging inequitable conduct to “prove independently by clear and convincing evidence” that “material information” was “misrepresented or omitted” from the patent application with the “intention of deceiving” the PTO. Material information is defined as non-cumulative information “a reasonable patent examiner would consider...important in deciding whether to allow the patent application.” Intent may be inferred, but “inference may not be based solely on the gross negligence of the patent owner or its representatives, or on the materiality of the information misrepresented or not disclosed.” ▪ Permits the Court, if it finds inequitable conduct, to implement one or more of the following remedies: <ul style="list-style-type: none"> ○ Hold the patent or one or more claims of the patent unenforceable; ○ Order that the patentee is not entitled to equitable relief and that the sole remedy for infringement is reasonable royalty. | <p>Amends 35 U.S.C. 282 (defenses) to add inequitable conduct:</p> <ul style="list-style-type: none"> ▪ Allows a patent to be held unenforceable for inequitable conduct if it is shown by “clear and convincing evidence” that a person with a duty of disclosure to the Office misrepresented or failed to disclose “material information” with the “intent to mislead or deceive” the PTO. “Material information” is defined such that (i) a reasonable examiner would have made a “prima facie finding of unpatentability” and the information is “not cumulative” or (ii) the information is inconsistent with a position taken by the applicant. ▪ To prove “intent to mislead or deceive,” “specific facts beyond materiality of the information” misrepresented must be proven that establish intent to mislead or deceive. Facts support an intent to mislead or deceive “if they show circumstances that indicate conscious or deliberate behavior” on the part of the person to not disclose or to disclose false material information. ▪ Permits the Court, if it finds inequitable conduct, to implement one or more of the following remedies: <ul style="list-style-type: none"> ○ Deny equitable relief to the patent holder and limit the remedy for infringement to reasonable royalties; |

| ISSUE | S. 1145 | H.R. 1908 |
|-----------------------------|--|---|
| | | <ul style="list-style-type: none"> ○ Hold the patent, the claims in suit or the claims for which inequitable conduct occurred unenforceable. ○ Hold a related patent unenforceable. |
| BEST MODE | <i>No similar provision</i> | <p>PENCE AMENDMENT (IN COMMITTEE) TO SECTION 13. BEST MODE REQUIREMENT.</p> <p>Would eliminate patent applicant’s failure to disclose its “best mode” of practicing the invention as a challenge to the patent’s validity.</p> |
| PTO FUNDING | <p>SEC. 15. PATENT AND TRADEMARK OFFICE FUNDING (COBURN AMENDMENT IN COMMITTEE)</p> <p>Would allow the PTO to keep all fees collected without fiscal year limitation by establishing a “revolving fund” into which any unexpended PTO funds would be transferred at the end of the fiscal year.</p> | <i>No similar provision</i> |
| RULE OF CONSTRUCTION | <p>SEC. 17. EFFECTIVE DATE; RULE OF CONSTRUCTION</p> <ul style="list-style-type: none"> ▪ Provides that the Act will take effect 12 months after enactment of the Act, except where otherwise noted. ▪ Implements a rule of construction stating that the PTO should implement 35 U.S.C. § 102(b)(3) “in a manner consistent with the legislative history of the CREATE Act,” Public Law 108-453. | <p>SEC. 17. RULE OF CONSTRUCTION</p> <p>Same rule of construction as in Senate bill.</p> |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|--|---|
| OTHER | <p>SEC. 3. INVENTORS OATH OR DECLARATION</p> <ul style="list-style-type: none"> ▪ Requires an oath or substitute statement by any applicant who files a patent application stating the person believes him/herself to be the original inventor or original joint inventor of the claimed invention. <p>SEC. 6. DEFINITIONS; PATENT TRIAL AND APPEAL BOARD</p> <ul style="list-style-type: none"> ▪ Modifies certain definitions and establishes within the PTO a Patent Trial and Appeal Board. <p>SEC. 10. RESIDENCY OF FEDERAL CIRCUIT JUDGES</p> <ul style="list-style-type: none"> ▪ Eliminates the residency requirement for judges on the Federal Circuit. <p>SEC. 13. AUTHORITY OF DIRECTOR OF THE PTO TO ACCEPT LATE FILINGS (KENNEDY AMENDMENT IN COMMITTEE)</p> <ul style="list-style-type: none"> ▪ Amends 35 U.S.C. § 2 to allow the PTO, at its discretion, to accept late filings in certain cases of unintentional delay. | <p>SEC. 4. INVENTORS OATH AND DECLARATION</p> <ul style="list-style-type: none"> ▪ Substantially the same as Sec. 3 of the Senate bill. <p>SEC. 7. DEFINITIONS; PATENT TRIAL AND APPEAL BOARD</p> <ul style="list-style-type: none"> ▪ Substantially the same as Sec. 6 of the Senate bill. <p><i>No similar provision</i></p> <p><i>No similar provision</i></p> |

| ISSUE | S. 1145 | H.R. 1908 |
|-------|--|--|
| | <p>SEC. 14. LIMITATION ON DAMAGES AND OTHER REMEDIES WITH RESPECT TO PATENTS FOR METHODS IN COMPLIANCE WITH CHECK IMAGING METHODS (SESSIONS AMENDMENT IN COMMITTEE)</p> <ul style="list-style-type: none"> ▪ Amends 35 U.S.C. § 287 to limit damages and other remedies with respect to patents for check collection systems. <p>SEC. 16. TECHNICAL AMENDMENTS</p> <p><i>No similar provision</i></p> <p><i>No similar provision</i></p> <p><i>No similar provision</i></p> | <p><i>No similar provision</i></p> <p>SEC. 15. TECHNICAL AMENDMENTS</p> <p>SEC. 16. STUDY OF SPECIAL MASTERS IN PATENT CASES</p> <ul style="list-style-type: none"> ▪ Requires, within one year after the date of enactment of this Act, a study and report to Congress by the Directors of the Administration Office of the U.S. Courts on the use of special masters and whether they are beneficial. <p>SEC. 10. TAX PLANNING METHODS NOT PATENTABLE (BOUCHER AMENDMENT INCOMMITTEE)</p> <ul style="list-style-type: none"> ▪ Prohibits patenting of tax planning methods. <p>SEC. 18. STUDY ON PATENT DAMAGES (JACKSON-LEE AMENDMENT ON HOUSE FLOOR)</p> <p>Requires a study and report to Congress by the Under Secretary of Commerce for Intellectual Property and Director of the PTO not later than 1 year after enactment of the Patent Reform Act on patent damage awards in cases where the awards are based on a reasonable royalty under 35 U.S.C. § 284.</p> |

If you have questions relating to the Patent Reform Act of 2007, or would like additional information on this topic, please contact Don Ware at dware@foleyhoag.com or Barbara Fiacco at bfiacco@foleyhoag.com of [Foley Hoag LLP's Intellectual Property Group](#), or contact your lawyer at Foley Hoag LLP.