AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

Calendar No. 563

110TH CONGRESS, 2d Session | SENATE | REPORT 110–259

THE PATENT REFORM ACT OF 2007

JANUARY 24, 2008.—Ordered to be printed

Mr. LEAHY, from the Committee on the Judiciary, submitted the following

R E P O R T

together with

ADDITIONAL AND MINORITY VIEWS

[To accompany S. 1145]

The Committee on the Judiciary, to which was referred the bill (S. 1145), to amend title 35, United States Code, to provide for patent reform, having considered the same, reports favorably thereon with an amendment and recommends that the bill (as amended) do pass.

CONTENTS

		Page
I.	Background and Purpose of S. 1145, the Patent Reform Act of 2007	1
II.	History of the Bill and Committee Consideration	35
III.	Section-by-Section Summary of the Bill	41
IV.	Congressional Budget Office Cost Estimate	52
V.	Regulatory Impact Evaluation	52
VI.	Conclusion	52
VII.	Additional and Minority Views	53
VIII.	Changes to Existing Law Made by the Bill, as Reported	78

I. BACKGROUND AND PURPOSE OF THE PATENT REFORM ACT OF 2007

PURPOSE AND SUMMARY OF LEGISLATION

Purpose

The Constitution explicitly grants Congress the power to "promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . .

69–010

discoveries."[1] Congress has responded by authorizing patents to issue to inventors of new and useful inventions or improvements on inventions.[2] The patent law thus accomplishes two objectives, consistent with the authorization granted by the Constitution: first, it encourages inventors by granting them limited, but exclusive rights to their inventions; second, in exchange for the grant of those exclusive rights, the patent law requires disclosure of the invention and terminates the monopoly after a period of years.[3] This disclosure and limited time benefits both society and future inventors by making the details of the invention available to the public immediately, and the right to work that invention available to the public after the expiration of 20 years from the date the patent application was filed.

Congress has not enacted comprehensive patent law reform in more than 50 years.[4] The object of the patent law today must remain true to the constitutional command, but its form needs to change, both to correct flaws in the system that have become unbearable, and to accommodate changes in the economy and the litigation practices in the patent realm. The need to update our patent laws has been meticulously documented in six hearings before the Senate Judiciary Committee, in addition to reports written by the Federal Trade Commission and the National Academy of Sciences,[5] hearings before the House of Representatives Judiciary Committee's Subcommittee on the Internet, Intellectual Property, and the Courts, and a plethora of academic commentary.[6]

The growing impetus towards modernizing and improving the patent system has found expression not only in Congress, but in the other branches of government as well, with the Supreme Court taking up an ever-increasing number of patent cases,[7] and the

---

[1] U.S. CONST. art. 1, § 8.

[2] *See* 35 U.S.C. § 101.

[3] *See Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 68–97 (2006) (statement of Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 112–114 (2005) (statement of Dean Kamen, President, DEKA Research and Development Corp.).

[4] The last major revision of the patent laws was the Patent Act of 1952, P.L. 82–593.

[5] The National Academy of Science (NAS) and the Federal Trade Commission (FTC) conducted multi-year studies on the patent system and its need for reform. *See* Committee on Intellectual Prop. Rights, National Research Council, *A Patent System for the 21st Century* (2004) (hereinafter *"NAS Report"*); and Federal Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) (hereinafter "FTC Report").

[6] *See, e.g.,* Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking,* 85 Tex. L. Rev. 1991 (2007); Donald S. Chisum, *Reforming Patent Law Reform,* 4 J. Marshall Rev. Intell. Prop. L. 336 (2005); Gerald J. Mossinghoff, *The First-to-Invent Rule in the U.S. Patent System Has Provided No Advantage to Small Entities,* 87 JPTOS 514 (2005); Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help,* 19 Berkeley Tech. L.J. 943, 958 (2004); *see also* Adam B. Jaffe & Josh Lerner, *Innovation and Its Discontents: How Our Broken Patent System is Endangering Innovation and Progress, and What to Do About It* (2004); Kevin G. Rivette & David Kline, *Rembrandts in the Attic, Unlocking the Hidden Value of Patents* (2000).

[7] *See Microsoft Corp. v. AT&T Corp.,* 127 S. Ct. 1746 (2007) (holding copying computer software overseas does not constitute infringement under 35 U.S.C. § 271(f)); *KSR Int'l Co. v. Teleflex, Inc.,* 127 S. Ct. 1727 (2007) (rejecting the United States Court of Appeals for the Federal Circuit's "teaching-suggestion-motivation" test for obviousness, and reaffirming that the four factor inquiry set forth in *Graham v. John Deere* applied); *eBay, Inc. v. MercExchange, L.L.C.,* 126 S. Ct. 1837 (2006) (rejecting the Federal Circuit's test for determining permanent injunctions in patent cases, and explaining the traditional four part equitable test applied). In each of these cases, the Supreme Court reversed the Federal Circuit and changed the legal standard that the Federal Circuit had been applying. In addition, while the Committee Report was being prepared, the Federal Circuit decided two cases rejecting claims as unpatentable under § 101 of title 35. *See In re Comiskey,* 499 F.3d 1365 (Fed. Cir. 2007) and *In re Nuijten,* 500 F.3d 1346 (Fed. Cir. 2007). In *Comiskey,* the Federal Circuit significantly restricted the pat-

United States Patent and Trademark Office (USPTO) addressing itself to regulatory changes through rulemaking.[8] The voices heard in this debate are too numerous to list, but include representatives from all those who use, administer, study, teach, benefit from, report on, or are affected by the patent system: small inventors, academics, universities, government agencies, corporations, non-profit organizations, industry organizations, bar associations, and members of the general public. The proposed changes have been far-reaching and hardly uniform, but they have focused Congressional attention on three major areas of concern: (i) appropriate procedures for prosecuting, and standards for allowing, patents; (ii) increasing rates, costs, and uncertainty in patent litigation,[9] and (iii) inconsistencies between the U.S. patent system and the other major patent systems throughout the industrialized world which disadvantage U.S. patent holders.

First, questions have been raised regarding whether the current scope of what is patentable is too broad, and whether the current standard for obtaining a patent is too low in practice. Many have questioned whether the current USPTO patent examination system is capable of handling the growing number,[10] and increased complexity, of patent applications. In particular, questions have been repeatedly raised about how—and how much—the USPTO is funded, and about whether patent fees reflect the work necessary to ensure the issuance of high quality patents. A related concern focuses on whether patent applicants are bearing their burden of responsibility in searching the current state of the art and preparing and filing high quality applications.

Second, in recent years the cost and uncertainty of patent litigation has escalated, leading many to believe that it is an unbearable drag on the innovation that the patent system is supposed to foster. Patent holders can often sue an alleged infringer anywhere they wish in the United States. They may allege damages that are not always commensurate with the value of their inventions, and then often argue that these sums should be tripled based on alleged acts of willful infringement by the accused infringer. There are also troubling, plaintiff-focused litigation concerns, including that the doctrine of inequitable conduct needs improvements and codification.[11] Patent litigations typically take several years to com-

---

entability of business methods, severely narrowing the Federal Circuit's controversial 1998 decision in *State Street Bank*. *See State Street Bank & Trust Co. v. Signature Fin. Group, Inc.,* 149 F.3d 1368 (Fed. Cir. 1998), *cert denied,* 525 U.S. 1093 (1999).

[8] Changes to Practice for Continuing Applications, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications; Final Rule, 72 Fed. Reg. 46716 (Aug. 21, 2007).

[9] The NAS reported that the number of patent litigations doubled between 1988 and 2001, from 1200 to nearly 2400. *See NAS Report* at 32. *See also PricewaterhouseCoopers, 2006 Patent and Trademark Damages Study (2006) at 3 ("[I]n the past 15 years, the number of patent infringement cases filed increased every year, from 1,171 in 1991 to 3,075 in 2004.")*

[10] USPTO annual reports indicate that in fiscal year 1952 (when the current patent statute was enacted), the USPTO received approximately 60,000 patent applications. In stark contrast, last year (FY 2006) the USPTO received over 440,000 applications, more than seven times the number in 1952. In addition, the 2006 filings increased 8% from the prior year. Although these numbers are a testament to the tremendous innovation in our country, they also raise the question of whether the USPTO is equipped to handle such large numbers of applications.

[11] *See, e.g., Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 63 (2006) (statement of Philip S. Johnson, Chief Patent Counsel, Johnson & Johnson); *Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 30 (2005) (statement of David Beier, Senior Vice President of Global Government Affairs, Amgen); *Perspectives on*

Continued

plete, if appealed may be remanded more than once, and can cost several million dollars.[12] In addition, litigation concerns can encourage unreasonable posturing during licensing negotiations, as well as premature settlements simply to avoid the high cost and uncertainty of patent litigation. Moreover, currently, there is no viable, inexpensive, quick administrative alternative for resolving patent validity issues.

Third, because business and competition are increasingly global, many patent applicants filing in the United States often seek patents in other countries for their inventions as well. Yet the United States' patent system differs from every other patent system in the world in one major respect—it awards patents to the "first to invent," while every other patent system uses a "first to file" rule.[13] As a result, U.S. patent applicants who also file abroad are forced to navigate through two different patent filing systems, adding cost and uncertainty to their package of patent rights.

The purpose of the Patent Reform Act of 2007, as reported by the Senate Judiciary Committee, is to ensure that the patent system in the 21st century accurately reflects the 18th century Constitutional imperative while ensuring that it does not unduly hinder innovation. Congress must promote innovation through the enticement to inventors of temporally limited monopolies on their inventions, and it must do so for the ultimate benefit of the public. The legislation is designed to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. If the United States is to maintain its competitive edge in the global economy, it needs a system that will support and reward all innovators with high quality patents. The time has come for Congress to reconsider the 50 year old patent statute and how it is currently being applied. The Committee has heard from numerous interested parties and, given the complex nature of patent law as well as the often conflicting interests involved, has tried to consider all of those concerns and produce a balanced set of changes that will move the patent system into the 21st century. Moreover, and in response to various concerns raised before the Committee, the bill as originally introduced has been significantly modified to reflect a more balanced, modest approach.

Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary, 109th Cong. 45–71 (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 137–145 (2005) (statement of Richard C. Levin, President, Yale University). However, the testimony was not uniform as to whether inequitable conduct needed to be reformed, and if so how to do so. *See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 86–102 (2005) (statement of Christine Siwik, Partner, Rakoczy Molino Mazzochi Siwik LLP, on behalf of Barr Laboratories, Inc.); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary,* 109th Cong. 157–170 (2005) (statement of Mark Lemley, Professor, Stanford Law School).

[12] Where more than $25 million is at stake, the median litigation cost is $4 million for each party. *See NAS Report* at 38 (citing American Intellectual Property Law Association survey results). *See also* AIPLA Report of the Economic Survey 2007 at 25–26 (noting that the figure is now $5 million for such cases).

[13] *See* R. Carl Moy, *2 Moy's Walker on Patents* § 8:36 (4th ed. 2007); Gerald J. Mossinghoff, *The U.S. First-to-Invent System Has Provided No Advantages to Small Entities,* 84 JPTOS 425 (2002).

Summary of Changes

The Patent Reform Act of 2007 has three primary goals: (i) to improve patent quality and the patent application process; (ii) to improve and clarify several aspects of patent litigation, including the creation of a less expensive, more expeditious administrative alternative to litigating patent validity issues; and (iii) to make the United States' patent system, where it is useful to do so, more consistent with patent systems throughout the rest of the industrialized world.

In general, the numbered sections of the Act do the following:

(1) title the Act the Patent Reform Act of 2007;

(2) change the system to a "first-inventor-to-file" system;

(3) make it simpler for patent applicants to file and prosecute their applications;

(4) codify and clarify the standard for calculating reasonable royalty damage awards, as well as awards for willful infringement;

(5) create a relatively efficient and inexpensive administrative system for resolution of patent validity issues before the USPTO;

(6) establish the Patent Trial and Appeal Board;

(7) provide for eventual publication of all applications and enhance the utility of third parties' submissions of relevant information regarding filed applications;

(8) improve venue in patent cases and provide for appeals of claim construction orders when warranted;

(9) give the USPTO the ability to set its fees;

(10) remove the residency restriction for judges on the United States Court of Appeals for the Federal Circuit;

(11) authorize USPTO to require patent searches with explanations when a patent application is filed;

(12) codify and improve the doctrine of inequitable conduct;

(13) give the Director of the USPTO discretion to accept late filings in certain instances;

(14) limit patent liability for institutions implementing the "Check 21" program;

(15) end USPTO "fee diversion";

(16) make necessary technical amendments; and

(17) set the effective date of the Act.

SECTION 1: SHORT TITLE; TABLE OF CONTENTS

This section provides that the Act may be cited as the "Patent Reform Act of 2007." It also provides a table of contents for the Act.

SECTION 2: RIGHT OF THE FIRST INVENTOR TO FILE

First inventor to file; grace period; and prior art

Background

Every industrialized nation other than the United States uses a patent priority system commonly referred to as "first-to-file." In a first-to-file system, when more than one application claiming the same invention is filed, the priority of a right to a patent is given to the earlier-filed application. The United States, by contrast, currently uses a "first-to-invent" system, in which priority is established through a proceeding to determine which applicant actually invented the claimed invention first. Differences between the two

systems arise in large part from the date that is most relevant to each respective system. In a first-to-file system, the filing date of the application is most relevant;[14] the filing date of an application is an objective date, simple to determine, for it is listed on the face of the patent. In contrast, in a first-to-invent system, the date the invention claimed in the application was actually invented is the determinative date. Unlike the objective date of filing, the date someone invents something is often uncertain, and, when disputed, typically requires corroborating evidence as part of an adjudication.

There are three significant, practical differences between the two systems. The first concerns the rare instance in which two different people file patent applications for the same invention. In a first-to-file system, the application with the earlier filing date prevails and will be awarded the patent, if one issues. In the first-to-invent system, a lengthy, complex and costly administrative proceeding (called an "interference proceeding") must be conducted to determine who actually invented first.[15] Interference proceedings can take years to complete (even if there is no appeal to the United States Court of Appeals for the Federal Circuit), cost hundreds of thousands of dollars, and require extensive discovery.[16] In addition, since it is always possible an applicant could be involved in an interference proceeding, U.S. patent holders must maintain extensive recording and document retention systems in case they are later required to prove the very day they invented the claimed invention.

The second difference involves prior art. A patent will not issue if the invention is not new,[17] or if it would have been obvious to someone in the relevant area of technology (commonly referred to as "a person of ordinary skill in the art").[18] A patent issuing office will examine all prior art—that is, all relevant information that existed before the patented invention—to determine whether an invention is indeed new and not obvious. Traditionally, the most common form of prior art has been other patents and printed publications. In the first-to-file system, prior art includes all art that exists prior to the filing date—again, an objective inquiry. In contrast, in a first-to-invent system, prior art is measured from the more uncertain date of invention.[19]

Third, in some first-to-file systems, prior art can include the inventor's own disclosure of his invention prior to the filing date of his application. Such systems typically do not provide the inventor any grace period during which time he is allowed to publish his invention without fear of it later being used against him as prior art. That is, if an inventor publishes the invention in an academic journal, that publication may act as prior art and bar the inventor's own later-filed application. Thus, inventors in first-to-file systems must generally keep their inventions secret prior to filing applications for them, thereby sacrificing a significant part of one of the

[14] Wherever the term "filing date" is used herein, it is meant to also include, where appropriate, the effective filing date, i.e., the earliest date the claim in an application claims priority.

[15] *See* 35 U.S.C. § 135.

[16] *See, e.g.,* Robert W. Pritchard, *The Future is Now—The Case for Patent Harmonization,* 20 N.C. J. Int'l L. & Com. Reg. 291, 313 (1995).

[17] 35 U.S.C. § 102.

[18] 35 U.S.C. § 103.

[19] Even in the first-to-invent system, the filing date is significant. *See, e.g.,* 35 U.S.C. § 102(b). In addition, the filing date is often the date used until it becomes necessary to prove an earlier date of invention. However, in a first-to-invent system, the date of invention may ultimately be relied on by the patentee in his attempt to prove he is entitled to a patent. *See, e.g.,* 35 U.S.C. § 102 (a) and (g).

benefits of the patent system—disclosure of inventions. Although some first-to-file systems do provide the inventor some sort of grace period, others do not.[20] In contrast, the United States' first-to-invent system provides the inventor a grace period of one year, during which an inventor's prior disclosure of the invention cannot be used as prior art against the inventor's application.[21]

The Committee heard from universities and small inventors, in particular, about the importance of maintaining that grace period in our system.[22] They argued that the grace period affords the necessary time to prepare and file applications, and in some instances, to obtain the necessary funding that enables the inventor to prepare adequately the application. In addition, the grace period benefits the public by encouraging early disclosure of new inventions, regardless of whether an application may later be filed for a patent on it.

The first-to-file system is used in every patent system, other than the United States,[23] because it has the advantages of simplicity, efficiency and predictability. A first-to-file system avoids costly interference proceedings, provides better notice to the public, simplifies the prior art scheme that may preclude a patent from issuing, and provides more certainty to the patent system. In addition, a first-to-file system encourages the prompt filing of patent applications.

Numerous organizations, institutions, and companies have advocated the U.S. adopt a first-to-file system similar to those used in the rest of the world.[24] The NAS made a similar recommendation

---

[20] Countries with first-to-file systems that also provide for some form of grace period include Japan (6 months), Canada (1 year) and Australia (1 year). In contrast, the European Patent Office (EPO) has a first-to-file system with no grace period (sometimes referred to as an "absolute novelty" requirement). *See* John A. O'Brien & Carl B. Wischhusen, *Fundamentals of Patent Prosecution 2007: A Boot Camp for Claim Drafting & Amendment Writing, Taking Invention Disclosures,* 906 PLI/Pat 9, 37 (2007); Michael S. Mireles, Jr., *States As Innovation System Laboratories: California, Patents, And Stem Cell Technology,* 28 Cardozo L. Rev. 1133, 1174 (2006).

[21] *See* 35 U.S.C. 102(b); *see also* R. Carl Moy, *2 Moy's Walker on Patents* § 8:199 (4th ed. 2007).

[22] *See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary,* 109th Cong. 74–75 (2005) (statement of Charles E. Phelps, Provost, University of Rochester, on behalf of the Association of American Universities); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary,* 109th Cong. 89–105 (2005) (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF)); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary,* 109th Cong. 146–155 (2005) (statement of William Parker, Diffraction, Ltd.).

[23] The Philippines, which was the only other country in the world to have a first-to-invent system, switched to a first-to-file system almost ten years ago. *See* Gerald J. Mossinghoff, *The U.S. First-to-Invent System Has Provided No Advantages to Small Entities,* 84 JPTOS 425 n.1 (2002).

[24] *See, e.g., Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 64 (2005) (statement of Gerald J. Mossinghoff, Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks); *Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 45–47 (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 132–153 (2005) (statement of Jeffrey P. Kushan, Partner, Sidley Austin Brown & Wood, LLP); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 157–170 (2005) (statement of Mark A. Lemley, Professor, Stanford Law School); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 45–71 (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 115–134 (2005) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

after an extensive study of the patent system.[25] When the United States' patent system was first adopted, inventors did not typically file in other countries. It is now common for inventors and companies to file for protection in several countries at the same time.[26] Thus United States applicants, who also want to file abroad, are forced to follow and comply with two different filing systems. Maintaining a filing system so different from the rest of the world disadvantages United States' applicants, the majority of which also file in other countries.[27] A change is long overdue.[28]

Discussion of changes

Section 2 of the Patent Reform Act of 2007, drawing on the best aspects of the two existing systems, creates a new "first-inventor-to-file" system. This new system provides patent applicants in the United States the efficiency benefits of the first-to-file systems used in the rest of the world. The new system continues, however, to provide inventors the benefit of the one-year grace period. As part of the transition to a simpler, more efficient first-inventor-to-file system, this section eliminates costly, complex interference proceedings, because priority will be based on the first application. A new administrative proceeding—called a "derivation" proceeding—is created to ensure that the first person to file the application is actually a true inventor. Section 2 also simplifies how prior art is determined, provides more certainty, and reduces the cost associated with filing and litigating patents.

More specifically, Section 2 makes the following improvements. First, Section 2 moves the U.S. system much closer to a first-to-file system by making the filing date that which is most relevant in determining whether an application is patentable. In addition, Section 2 eliminates costly, complex interference proceedings since priority fights—who invented first—are no longer relevant. However, the new USPTO derivation proceeding is created to ensure that the first person to file the application is also actually a true inventor; someone who has not invented something will not be able to file a patent for the invention. If a dispute arises as to which of two applicants is a true inventor (as opposed to who invented it first), it will be resolved through an administrative proceeding by the Patent Board.

Second, Section 2 maintains a one-year grace period for U.S. applicants. Applicants' own publication or disclosure that occurs within one year prior to filing will not act as prior art against their applications. Similarly, disclosure by others during that time based on information obtained (directly or indirectly) from the inventor

[25] *See NAS Report* at 124; *see also Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 137–145 (2005) (statement of Richard C. Levin, President, Yale University).

[26] *See Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 61 (2005) (statement of Gerald J. Monssinghoff, Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks).

[27] *See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 137–145 (2005) (statement of Richard C. Levin, President, Yale University, and Mark B. Meyers, Visiting Executive Professor, Management Department at the Wharton Business School), estimating that it costs as much as $750,000 to $1 million to obtain worldwide patent protection on an important invention, and that the lack of harmonization regarding filing systems adds unnecessary cost and delay.

[28] The NAS recommended changing the U.S. to a first-to-file system, while maintaining a grace period. *See NAS Report* at 124–27.

will not constitute prior art. This one-year grace period should continue to give U.S. applicants the time they need to prepare and file their applications.

Third, this section also, and necessarily, modifies the prior art sections of the patent law. Prior art will be measured from the filing date of the application and will typically include all art that publicly exists prior to the filing date, other than disclosures by the inventor within one year of filing. Prior art also will no longer have any geographic limitations; thus in section 102 the "in this country" limitation as applied to "public use" and "on sale" is removed, and the phrase "available to the public" is added to clarify the broad scope of relevant prior art, as well as to emphasize the fact that it must be publicly available. Prior art based on earlier-filed United States applications is maintained.[29]

Sections (and subsections) of the existing statute are renumbered, modified, or deleted consistent with converting to a first-inventor-to-file system. Finally, the intent behind the CREATE Act[30] to promote joint research activities is preserved by including a prior art exception for subject matter invented by parties to a joint research agreement.

SECTION 3: INVENTOR'S OATH OR DECLARATION

Background

The U.S. patent system, when first adopted in 1790, contemplated that individual inventors would file their own patent applications, or would have a patent practitioner do so on their own behalf. It has become increasingly common for patent applications to be assigned to corporate entities, most commonly the employer of the inventor.[31] In fact, many employment contracts require employees to assign their inventions to their employer.[32]

Current law still reflects the antiquated notion that it is the inventor who files the application, not the company-assignee. For example, every inventor must sign an oath as part of the patent application stating that the inventor believes he or she is the true inventor of the invention claimed in the application.[33] By the time an application is eventually filed, however, the applicant filing as an assignee may have difficulty locating and obtaining every inventor's signature for the statutorily required oath. Although the USPTO has adopted certain regulations to allow filing of an application when the inventor's signature is unobtainable,[34] many have

[29] *Compare* current 35 U.S.C. § 102(e) with new 35 U.S.C. § 102(a)(2).

[30] The CREATE Act refers to the Cooperative Research and Technology Enhancement Act of 2004 (P.L. 108–453), passed by the 108th Congress. The relevant section is moved from § 103 to § 102 of title 35 and shall be administered in a manner consistent with the CREATE Act.

[31] *See* John R. Allison & Mark A. Lemley, *The Growing Complexity of the United States Patent System*, 82 B.U.L. Rev. 77, 97 (2002) (study showing that approximately 85% of the patents issued between 1996–98 were assigned by inventors to corporations, an increase from 79% during the period between 1976–78).

[32] *See* Jerry C. Liu, *Overview of Patent Ownership Considerations in Joint Technology Development*, 2005 Syracuse Sci. & Tech. L. Rep. 1 (2005).

[33] 35 U.S.C. § 115.

[34] *See* 37 C.F.R. § 1.47 (permits an applicant to petition the Director of the USPTO to have the application accepted without every inventor's signature in limited circumstances, e.g., where the inventor cannot be found or refuses to participate in the application).

advocated that the statute be modernized to facilitate the filing of applications by assignees.[35]

Discussion of changes

Section 3 of the Act updates the patent system by facilitating the process by which an assignee may file and prosecute patent applications. It provides similar flexibility for a person to whom the inventor is obligated to assign, but has not assigned, rights to the invention (the "obligated assignee").

Section 115 of title 35 is amended to allow a substitute statement to be submitted in lieu of an inventor's oath where either the inventor is (i) unable to do so, or (ii) is both unwilling to do so and under an obligation to assign the invention. If an error is discovered, the statement may be later corrected. A savings clause is included to prevent an invalidity or unenforceability challenge to the patent based on failure to comply with these requirements, provided any error has been remedied. Willful false statements may be punishable, however, under federal criminal laws.[36]

Section 118 is also amended to make it easier for an assignee to file a patent application. The amendment now allows obligated assignees—entities to which the inventor is obligated to assign the application—to file applications as well. It also allows a person who has a sufficient proprietary interest in the invention to file an application to preserve the person's rights and those of the inventor.

SECTION. 4: RIGHT OF THE INVENTOR TO OBTAIN DAMAGES

Reasonable Royalty

Background

Patent holders are granted the right to exclude others from making, using, selling and importing their patented inventions.[37] When another party, without the inventor's permission, commits one of these acts, or actively induces such act, that party infringes the patent.[38] The remedies for infringement include an injunction[39] and damages. Damages are intended to compensate the patent holder for the infringement of patent rights; absent some egregious circumstances, damages are not meant to be punitive or excessive in nature.[40]

The measure for damages for infringement can be either (i) profits lost by the patent holder because of the infringement ("lost profits"), or (ii) "not less than a reasonable royalty."[41] Patent holders typically opt for a "lost profits" award when the infringers are sell-

---

[35] *See Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 31 (2005) (statement of David Beier, Senior Vice President of Global Government Affairs, Amgen).

[36] *See* 18 U.S.C. § 1001.

[37] 35 U.S.C. § 271(a) provides: "Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefore, infringes the patent."

[38] *See* 35 U.S.C. § 271.

[39] While this legislation was pending, the Supreme Court addressed the proper standard to be applied in determining whether an injunction should issue when patent infringement is found. *eBay, Inc.* v. *MercExchange, L.L.C.,* 126 S. Ct. 1837 (2006). Therefore, the Committee refrained from addressing this issue in this Act at this time.

[40] *See* Donald S. Chisum, *Chisum on Patents* § 20.01, at 20–7 (2002); *Aro Mfg. Co.* v. *Convertible Top Co.,* 377 U.S. 476, 507 (1963); *Riles* v. *Shell Exploration and Prod. Co.,* 298 F.3d 1302, 1312–13 (Fed. Cir. 2002).

[41] *See Rite-Hite Corp.* v. *Kelley Co.,* 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc).

ing competing products, so that sales of infringing products result in fewer sales of the patent holder's competing product, and hence lost profits on those lost sales. The Committee has heard no concerns expressed with current determinations of lost profits, and therefore the Act does not alter the relevant law.

Historically, the considerable majority of infringement cases were lost profits cases.[42] However, in recent years it has become more common that the patent holder does not produce a competing product, either because the patent holder is focused on research and development rather than production (which is the case for many small inventors and universities), or because the patent at issue had been purchased, not for the purpose of manufacture, but for the purpose of licensing (or litigation),[43] or because the infringed patent is so new to the marketplace that there has yet to be any real competition to it.[44] Thus, an increasing number of cases require the calculation of an appropriate reasonable royalty.[45]

Juries are given little useful guidance in calculating that reasonable royalty, which provides the floor for a damages award; often, the jurors are presented with the fifteen "Georgia-Pacific" factors[46] and some version of the "entire market value" rule, and then left

---

[42] A recent study has shown that reasonable royalties have overtaken lost profits as a measure of damages in patent cases. "Since 2000, reasonable royalties have overtaken lost profits as the most frequent basis of damage awards in patent cases . . . Since 2000, 65 percent of awarded damages have been based on reasonable royalties and 32 percent have reflected lost profits. This is quite different than in the 1990s, when 24 percent of damage awards were based on reasonable royalties and 73 percent were based on lost profits." See PricewaterhouseCoopers, 2007 Patent and Trademark Damages Study (2007) at 22.

[43] *See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 156–166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

[44] *See* PricewaterhouseCoopers, 2007 Patent and Trademark Damages Study (2007) at 24 (explaining that the one reason royalty awards have overtaken lost profits as a measure of damages is because more patent suits are being brought by entities that own patent rights but that do not have any manufacturing or distribution capabilities).

[45] Although damage awards based on a reasonable royalty are requested more often, the total number of such awards is still fairly low in number. A recent study found that there were only 58 reported cases over a 20 year period (1984–2005) where the decision clearly reflected an award based on a reasonable royalty. See Mark A. Lemley and Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 2031 (2007).

[46] *George-Pacific* was a 1970 district court case, decided by a judge rather than a jury, which was reversed on appeal. The 15 *Georgia-Pacific* "factors" are: 1. Royalties received by patentee for the licensing of patent in suit, proving or tending to prove an established royalty; 2. Rates paid by licensee for use of other patents comparable to patent in suit; 3. Nature and scope of license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom manufactured product may be sold; 4. Licensor's established policy and marketing program to maintain patent monopoly by not licensing others to use invention or by granting licenses under special conditions designed to preserve monopoly; 5. Commercial relationship between licensor and licensee, such as, whether they compete in same territory in same line of business; or whether they are inventor and promoter; 6. Effect of selling patented specialty in promoting sales of other products of licensee; existing value of invention to licensor as generator of sales of non-patented items; and extent of such derivative or convoyed sales; 7. Duration of patent and term of license; 8. Established profitability of product made under patent; its commercial success; and its current popularity; 9. Utility and advantages of patent property over old modes or devices, if any, that had been used for working out similar results; 10. Nature of patented invention; character of commercial embodiment of it as owned and produced by licensor; and benefits to those who have used invention; 11. Extent to which infringer has made use of invention; and any evidence probative of value of that use; 12. Portion of profit or of selling price that may be customary in particular business or in comparable businesses to allow for use of invention or analogous invention; 13. Portion of realized profit that should be credited to invention as distinguished from non-patented elements, manufacturing process, business risks, or significant features or improvements added by infringer; 14. Opinion testimony of qualified experts; and 15. Amount that a licensor (such as patentee) and a licensee (such as infringer) would have agreed upon (at time infringement began) if both had been reasonably and voluntarily trying to reach agreement. *See Georgia-Pacific Corp.* v. *U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

to divine an appropriate award.[47] The Committee has no intention to degrade the utility of these factors when they are applied appropriately, but they do not represent the entire universe of useful instructions, nor have they been presented to juries with sufficient guidance to ensure appropriate damages awards. Juries (and perhaps judges) that lack adequate legal guidance to assess the harm to the patent holder caused by patent infringement are the focus of the problem the Committee seeks to address.

No doubt several alarming cases, which have captured the attention of the public and the Congress, represent the tip of the iceberg; these, not surprisingly, involve out-sized damages awards.[48] Leaving aside the ultimate, and appropriate, results in these cases, the purpose of this legislation is not to rectify judicial errors, nor is it to alter dramatically the substance of the standards by which a reasonable royalty may be calculated, but rather to bring clarity and guidance to the application of the law of damages.

Long past is the day in which the typical invention is a sui generis creation; today's patents are often combinations, and many products comprise dozens, if not hundreds or even thousands of patents, and the infringed patent may well be one smaller part of a much larger whole. Once infringement is proven, the patent holder is entitled to compensation for the use of the invention.[49] But if juries award damages based on the value of the entire product, and not simply on the infringement—a danger exacerbated in some cases by overly expansive claim drafting—then damages awards will be disproportionate to the harm.

The current damage statute is vague and provides little guidance to judges or juries determining the proper damage award, particularly when the award is based on the reasonable royalty standard.[50] Given that damages are typically just one of many issues in a patent trial, and given that the jury typically has 15 different factors to consider just to determine a reasonable royalty, commentators have correctly questioned whether juries are being properly advised on the evidence and factors to consider when determining damages.[51] The time has come to give judges, and juries, better guidance on the proper way to calculate a reasonable royalty.

---

[47] A recent study has shown that, since 1980, there has been a steady shift from bench trials to jury trials in patent cases, and that juries typically award more than five times the damages awarded in bench trials. *See* PricewaterhouseCoopers, 2007 Patent and Trademark Damages Study (2007) at 14.

[48] *See The Patent Reform Act of 2007: Hearing Before the Subcomm. on the Courts, the Internet, and Intellectual Prop. of the House Comm. on the Judiciary*, 110th Cong. (2007) (statement of John R. Thomas, Professor, Georgetown University Law Center).

[49] *See* 35 U.S.C. § 284.

[50] 35 U.S.C. § 284 provides in full:

Upon finding for the claimant the court shall award the claimant 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 interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

[51] Given the significant reliance by litigants and courts on the 15 *Georgia-Pacific* factors, several points are worth noting. First, it is difficult for the Committee (let along a lay juror) to recite all 15 of the factors without reading them in print. Second, although there are 15 factors, they tend to fall into only three categories: (i) the royalty rates people have been wiling to pay for this or other similar inventions in the industry; (ii) the significance of the patented invention to the product and to market demand; and (iii) expert testimony as to the value of the patent. *See Patent Holdup*, 85 Tex. L. Rev. at 2018–19. Third, the district court in *Georgia-Pacific* explained that the 15 factors were meant to be non-exclusive, and were set out because they were

Discussion of changes

This section codifies the analysis the judge and jury should perform in determining an appropriate reasonable royalty. The judge is required to determine, from the liability phase of the trial and from any additional necessary hearings, whether the case is one that falls within the "entire market value" domain, the "marketplace licensing" domain, or outside both those realms. The judge must also identify for the jury all, and only, the relevant factors in determining a reasonable royalty. The Committee envisions a more active, and better documented, role for district courts (with the aid of the parties) in giving their juries guidance on the appropriate law for calculating reasonable royalties.

In new subparagraph (c)(1)(A) of section 284, the entire market value rule may be applied if the patented invention's contribution over the prior art is the predominant basis, and not just one of several bases, for the market demand of the infringing product or process. The Committee intends this section to be a codification of the existing law regarding the entire market value rule.[52]

New subparagraph (c)(1)(B) provides that the royalty may be based on other comparable, nonexclusive licenses of the patented invention if there has been a sufficient number of licenses to indicate a general marketplace recognition of the reasonableness of the licensing terms. The Committee heard that in many instances existing licenses of the patent can be one of the better indicators in determining an appropriate royalty to compensate for infringement.[53]

New subparagraph (c)(1)(C) requires that if neither (A) nor (B) is applicable, the trier of fact ensures that the damages award accurately reflects the harm caused by the infringement; no methodology is prescribed for this determination, but the jury is simply admonished to apply the reasonable royalty calculation 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. The Committee intends "specific contribution over the prior art" to mean the reason the patent was allowed in view of the existing information at the time of the invention.[54] The Committee also intends that the damages be calculated in the

---

relevant to the facts of that case. Fourth, the damage award in *Georgia-Pacific* was decided by a judge as part of a bench trial in a lengthy opinion, not by a jury. And finally, despite the valiant (and what appeared to be thorough) analysis by the district court judge, his royalty determination using these factors was reduced on appeal by approximately 30% (i.e., from $50 to $36.65 per thousand square feet of wood). See *Georgia-Pacific Corp.* v. *U.S. Plywood Corp*, 446 F.2d at 298–300.

[52] *See Rite-Hite Corp.* v. *Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995) (en banc).

[53] *See, e.g., Nickson Industries, Inc.* v. *Rol Mfg. Co.,* 847 F.2d 795, 798 (Fed. Cir. 1988).

[54] Concerns expressed about the introduced bill's mandate of "apportionment" (closely associated with the 13th Georgia-Pacific factor) inspired an amendment in the Committee mark-up process to remove the mandate of apportionment (or any other methodology): "[t]he court shall exclude from the analysis the economic value properly attributable to the prior art, and other features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process." The term "specific contribution over the prior art" is meant simply to capture what has been variously described as "the actual invention," "the gist of the patent," "the reason a patent issued"—there is a certain "I know it when I see it" (*Jacobellis* v. *Ohio*, 378 U.S. 184, 197 (1964) (Steward J. concurring)) quality to the concept, but it is indisputable that a valid patent would not have issued if the inventor had not brought something novel and non-obvious to the world. The Committee recognizes the likelihood that calming fears in some of the patent-using communities requires amendment of this language yet again, but without compromising the basic principle that the damages awarded for an infringement must reflect the harm from the infringement, and that it is infringement of the actual invention upon which the jury should focus.

context of the infringement. In the case of a combination invention whose elements are present individually in the prior art, the contribution over the prior art may include the value of the additional function and enhanced value resulting from the combination, if any, if the patent holder demonstrates that value.

New paragraph (c)(2) preserves the court's authority to consider, or direct a jury to consider, other relevant factors in calculating the reasonable royalty, no matter which subparagraph is otherwise applicable. These include consideration of any of the 15 Georgia-Pacific factors that may be relevant to a given damage calculation, as well as any other factors courts determine relevant.

Subsection (d) clarifies that these changes have no effect on damage awards not based on reasonable royalty calculations. The Committee intends that this subsection will ensure the changes made to section 284 of title 35 will not have any effect on damage calculations when, for example, the lost profit calculation is the appropriate damage remedy.

Willfulness

Background

Current law allows for up to the trebling of damages when it is determined the infringement was "willful."[55] The statute, however, provides no guidance regarding what activities constitute willful infringement. The Committee has heard that this lack of clarity has resulted in excessive pleading,[56] and inappropriate findings, of willfulness which, in turn, have inflated litigation and transaction costs as well as damage awards.

Lacking statutory guidance, courts have established the principle that an infringement will not be found willful unless the infringer was put on notice that it was infringing; unfortunately, courts have set that notice threshold quite low. The patent holder may simply send a conclusory letter suggesting the alleged infringer may be infringing one or more of its patents, without providing any specifics stating which activities allegedly infringe which patents.[57] Companies can receive several such letters a week, potentially making them liable for treble damages based on willfulness if they are later found to have infringed a patent that was asserted in the conclusory letter.[58]

Courts have held that companies can also put themselves on sufficient notice by becoming aware of the patent by a means other than notice from the patentee.[59] As a result, some companies in-

[55] *See Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1342 (Fed. Cir. 2004) (en banc).

[56] *See* Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227, 232 (2004) (reporting that willful infringement is pled in over 90% of all patent cases).

[57] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 251–252 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); *Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 293 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 156–166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

[58] *See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 156–166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

[59] *See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 167–179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

struct their employees not to conduct patent searches out of fear their actions may later be used against them in a patentee's attempt to prove willful infringement.[60]

Notice may be easy to provide in the willfulness context, but defense against such an allegation is difficult. The question of whether a patent is valid or infringed can often be a close question with colorable arguments on both sides. This is especially true given the Federal Circuit precedent that claim construction is a question of law, which they review de novo.[61] Despite this uncertainty, a good faith belief by a party that a patent is invalid or that it is not infringing, based on advice of counsel, may still not be sufficient to defend against a charge of willful infringement.[62] In addition, simply pleading willfulness[63] can gain the patent holder significant litigation advantages, including breaching the attorney client privilege, necessitating different trial counsel, and resulting in costly additional discovery.[64] Excessive royalty awards, combined with the possibility that they will be trebled due to willfulness, can lead to unreasonable posturing during licensing and settlement negotiations that is not reflective of the compensation owed the patentee due to the alleged infringement.[65]

Discussion of changes

Section 4 improves the doctrine of willful infringement in both procedural and substantive respects. These changes should greatly

---

[60] *See FTC Report* at 28–31; *see also Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 262 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); *Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 294 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 167–179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation). If the doctrine of willful infringement as currently applied discourages companies from searching relevant patents, this is clearly an unintended, and harmful, consequence of this doctrine. The patent system should encourage the discovery and sharing of information, not discourage it as the current system may be doing.

[61] Various commentators have discussed the unpredictability and high reversal rate of the Federal Circuit when it comes to deciding patent issues, and in particular those involving claim construction. See, e.g., Paul M. Schoenhard, *Reversing the Reversal Rate: Using Real Property Principles to Guide Federal Circuit Patent Jurisprudence*, 17 Fordham Intel. Prop. Media & Ent. L.J. 299, 301–304 (2007); Paul M. Janicke, *On the Causes of Unpredictability of Federal Circuit Decisions in Patent Cases*, 3 Nw. J. of Tech. & Intell. Prop. 93 at 93–94 (2004); R. Polk Wagner & Lee Petherbridge, *Is the Federal Circuit Succeeding? An Empirical Assessment of Judicial Performance*, 152 U. Pa. L. Rev. 1105 (2004). Without endorsing these studies, at a minimum they illustrate that there can be genuine and colorable disagreements regarding the scope and validity of a patent not just between the parties, but between judges as well.

[62] *See Comark Communications, Inc. v. Harris Corp.*, 156 F.3d 1182, 1191 (Fed. Cir. 1998).

[63] A recent empirical study showed that willfulness was alleged in over 92% of patent cases. *See Empirical Statistics on Willful Patent Infringement*, 15 Fed. Cir. B. J. 227 (2004); *see also Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 115–134 (2005) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

[64] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 262 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 79–88 (2005) (statement of Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 68–78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable).

[65] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 262–263 (2007) (statement of Mary E. Doyle, Senior Vice President and General Counsel, Palm, Inc.); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 79–88 (2005) (statement of Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 156–166 (2005) (statement of Joel Poppen, Deputy General Counsel, Micron Technologies, Inc.).

reduce unwarranted allegations of willfulness, as well as unnecessary costly discovery.

Unlike the current practice, where willfulness can be pleaded at the outset and is decided by a jury, willfulness will now be decided by the judge and only after finding that the patent was valid and infringed. Pursuant to new paragraph (e)(2) of section 284, willfulness must also be demonstrated by clear and convincing evidence. Moreover, conclusory allegations no longer suffice for notice of infringement; under subparagraph (e)(2)(A), the patent holder must allege acts of infringement sufficient to give the alleged infringer an objectively reasonable apprehension of suit, and the patent holder must also plead with particularity which products or processes allegedly infringe which claims of the patent, as well as the basis for such a belief. Subparagraph (e)(2)(B) permits a finding of willfulness if the infringer intentionally copied the patented invention with knowledge it was patented. Subparagraph (e)(2)(C) permits such a finding if the infringer continued to engage in infringing conduct after a court already found the party to be infringing the patent.

Paragraph (e)(3) provides a meaningful good faith defense to willfulness. An infringer can establish a good faith defense through reasonable reliance on the advice of counsel; evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or other evidence a court may find sufficient. The decision of the alleged infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement.[66]

Prior User Rights

Background

Under current law, "prior user rights" may offer a defense to patent infringement in certain limited circumstances, including when the patent in question is a "business method patent"[67] and its inventor uses the invention, but never files a patent application for it.[68] If the same invention is later patented by another party, the prior user may not be liable for infringement to the new patent holder, although all others will be.

Discussion of Changes

The bill, as introduced, would have extended prior user rights to all kinds of patents—not just business method patents—but the persuasive outcry from university and tech transfer advocates[69] limited the amendment of the prior user right defense to one that simply alters paragraph (b)(6) of section 273 to clarify that "affili-

[66] After this bill emerged from Committee, the Federal Circuit raised the standard for willful infringement in *In re Seagate Technology*, 497 F.3d 1360 (in banc) (Fed. Cir. 2007), overruling its prior duty of care standard, see *id.* at 1371, reversing *Underwater Devices v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983) ("[W]illful infringement permitting enhanced damages requires at least a showing of objective recklessness" by the infringer.).

[67] 35 U.S.C. § 273(a)(3) states: "The term 'method' means a method of doing or conducting business."

[68] *See* 35 USC § 273.

[69] *See, e.g., Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Property of the Senate Comm. on the Judiciary*, 109th Cong. 89–105 (2005) (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF)).

ates" of the user may also assert the defense.[70] Affiliates include those who caused or controlled the acts that were performed that give rise to the defense. Additionally, Section 4 of the Act instructs the Director of the USPTO to conduct, and provide to Congress, a study with recommendations on prior user rights (both in the United States and abroad) within two years of enactment of the Act, in order to determine whether further Congressional attention is warranted.

Notice and marking

Background

In general, for patented "articles," a patent holder must give an alleged infringer notice of the claimed infringement, and the infringer must continue to infringe, before the patent holder may succeed in a suit for damages.[71] Actual notice requires the affirmative communication of infringement to the defendant, which may include the filing of a lawsuit. Constructive notice is possible by "marking" any patented article that the patent holder (or its licensee) makes, uses, sells or imports.[72] Failure to appropriately mark an article can preclude the recovery of damages until notice is effective.

However, neither marking nor actual notice is required to begin the accrual of damages if the patented invention is not made or sold by the patentee or someone acting under its authority.[73] In addition, the courts have determined that patents on methods or processes[74]—which are not "articles" and cannot be marked—are exempt from these notice and marking requirements.[75] Thus, business methods patents are exempt. A patent holder of such a patent may recover up to six years[76] of past damages if infringement is proven for that period, despite the lack of notice to the alleged infringer. This creates a disparity in potential damage awards between different types of patents, and between patent holders that make and sell patented articles and those that do not. Neither disparity seems justified, and certainly poses a danger to the unknowing—and un-notified—infringer of an unmarkable patent.

The Committee agrees that, after adequate notice is given, damages should begin to accrue if conduct continues that is later found to infringe, but was concerned that an infringer, who has not received notice and is genuinely unaware of the infringement, should

---

[70] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 292 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.).

[71] *See* 35 U.S.C. §287.

[72] *See id.*

[73] *See Texas Digital Sys., Inc. v. Telegenix, Inc.*, 308 F.3d 1193 at 1219 (Fed. Cir. 2002), citing *Wine Railway Appliance Co. v. Enterprise Railway Equipment Co.*, 297 U.S. 387 (1936).

[74] Section 100(b) of title 35 defines "process" as "process, art, or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material."

[75] *See American Medical Sys. Inc. v. Medical Eng'g Corp.*, 6 F.3d 1523, 1538 (Fed. Cir. 1993) ("The law is clear that the notice provisions of section 287 do not apply where the patent is directed to a process or method.); *Bandag, Inc. v. Gerrard Tire Co.*, 704 F.2d 1578, 1581 (Fed. Cir. 1983) ("In addition to the clear language of the statute, it is * * * also settled in the case law that the notice requirement of this statute does not apply where the patent is directed to a process or method.").

[76] The maximum recovery for past infringement of any patent is six years. *See* 35 U.S.C. §286 ("Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.").

not be treated identically with someone who was notified, or aware, or both.

Discussion of changes

The Committee considered extreme recommendations to improve this disparity, including eliminating the current marking statute and requiring actual notice before damages could begin to accrue for all patents, or requiring actual notice before damages could accrue for patents that cannot be marked. The Committee chose a more modest approach, however, and the changes in Section 4 only apply to patents that are not covered by the marking requirements of section 287(a). The change reduces the maximum period for which damages can be recovered for infringing such patents from 6 years to 2 years from the date of actual notice, if infringement is proven during that period.

Effective Date

The amendments in Section 4 of the Act shall apply to any civil action commenced on or after the date of enactment of the Act.

SECTION 5: POST-GRANT PROCEDURES AND OTHER QUALITY ENHANCEMENTS

Background

More than 25 years ago, Congress created the administrative "reexamination" process, through which the USPTO could review the validity of already-issued patents on the request of either the patent holder or a third party,[77] in the expectation that it would serve as an effective and efficient alternative to often costly and protracted district court litigation.[78] Reexamination requires the USPTO to review the patent in light of a substantial new question of patentability not presented during the original examination.[79] The initial reexamination statute had several limitations that later proved to make it a less viable alternative to litigation for evaluating patent validity than Congress intended. First, a reexamination request can only be based on documentary prior art, and cannot be based on prior use or prior sales. Moreover, the requestor may not raise any challenge based on § 101 (utility, eligibility), § 112 (indefiniteness, enablement, written description, best mode) or inequitable conduct. A third party alleging a patent is invalid, therefore, has fewer challenges it can raise in the proceeding and therefore may instead opt to risk infringement and litigate the validity of the patent in court. Second, in the original reexamination system, the third party challenger had no role once the proceeding was initiated while the patent holder had significant input throughout the entire process. Third, a challenger that lost at the

[77] *See* 35 U.S.C. §§ 301–307. A patent holder will typically request reexamination to bolster the patent in view of new prior art. A third party may request reexamination to challenge, and ultimately invalidate, the patent.

[78] "Reexamination will permit efficient resolution of questions about the validity of issued patents without recourse to expensive and lengthy infringement litigation . . . . The reexamination of issued patents could be conducted with a fraction of the time and cost of formal legal proceedings and would help restore confidence in the effectiveness of our patent system . . .. It is anticipated that these measures provide a useful and necessary alternative for challengers and for patent owners to test the validity of United States patents in an efficient and relatively inexpensive manner." *See* H.R. Rep. No. 96–1307(I) at 3 (1980), reprinted in 1980 U.S.C.C.A.N. 6460, 6462–63.

[79] *See* 35 U.S.C. § 303.

USPTO under reexamination had no right to appeal an examiner's, or the Patent Board's, decision either administratively or in court. Restrictions such as these made reexamination a much less favored avenue to challenge questionable patents than litigation. Reexamination proceedings are also often costly, take several years to complete,[80] and are first conducted by examiners, and if the patent is rejected, then by Patent Board Judges. Thus many patents must go through two rounds of administrative review (one by the examiner, and a second by the Patent Board) adding to the length of the proceeding.[81]

Congress has responded several times to criticisms of the reexamination system by making amendments to the process.[82] In 1999, Congress created a second reexamination procedure—called inter partes reexamination—that gave third party challengers greater input throughout the proceeding by permitting them to respond to every pleading submitted by the patent holder.[83] At the same time, Congress imposed severe estoppel provisions that preclude a later court challenge based on issues not even raised during an inter partes reexamination proceeding.[84] Congress also eventually gave third party challengers the right to appeal adverse decisions.[85]

Despite Congress's attempts to improve the reexamination system, it remains troublesomely inefficient and ineffective as a truly viable alternative for resolving questions of patent validity.[86] The inefficiency is due, in part, to a reexamination first being conducted by a patent examiner (which can take two years or more); then, if the patent is rejected, there will have to be an appeal to the Patent Board (which can take another year or more to complete).[87] Inter partes reexamination has also proven ineffective because a challenger may still only raise a limited number of basis to challenge the patent, and may not assert all of the challenges available under the patent statute. As a result, patents that should not have issued

---

[80] *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 93–105 (2005) (statement of Jon W. Dudas, Undersecretary of Commerce for Intellectual Property, Director of the U.S. Patent and Trademark Office), explaining that "a large number of reexamination proceedings have been pending before the USPTO for more than four years", and questioning whether this amount of time is consistent with the statutory requirement that "[a]ll reexamination proceedings * * * will be conducted with special dispatch within the Office." See 35 U.S.C. § 305.

[81] For several years, the standard practice at the USPTO was to assign the reexamination to the patent examiner who had originally examined that patent. In addition, the same third party requester could file multiple, serial, reexaminations, based on the same "substantial new question of patentability," so long as the initial reexamination was not completed. More recently, the USPTO ended some of these procedures, and now reexaminations are handled by a Central Reexamination Unit (CRU), and subsequent serial reexamination, based on the same "substantial new question of patentability," are no longer permitted. *See*, *e.g.*, Manual of Patent Examining Procedure (MPEP) § § 2236 and 2240 (August 2006).

[82] *See, e.g.*, 21st Century Dep't of Justice Appropriations Authorization Act, Pub. L. No. 107-273, § § 13105–06, 13202, 116 Stat. 1758, 1761 (2002) (effective Nov. 2, 2002); American Inventors Protection Act, Pub.L. 106–113, 113 Stat. 1536, 1501A et seq. (1999) (creating inter partes reexamination) (hereafter referred to as the "AIPA").

[83] *See* 35 U.S.C. § § 311-318.

[84] *See* 35 U.S.C. § 317(b).

[85] *See* 35 U.S.C. § 315(b)

[86] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 288 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.), characterizing reexamination as ineffective and not widely used, and inter partes reexamination as a failure.

[87] Reexaminations of patents that are simultaneously involved in district court litigation can take even longer, and as much as seven or eight years to complete measured from the petition to final resolution by the Federal Circuit. *See, e.g.*, *In re Translogic Tech., Inc.*, 504 F.3d 1249 (Fed. Cir. 2007) (over eight years); *In re Trans Texas Holdings Corp.*, 498 F.3d 1290 (Fed. Cir. 2007) (approximately seven years); *In re Curtis*, 354 F.3d 1347 (Fed. Cir. 2004) (approximately eight years); *In re Inland Steel*, 265 F.3d 1354 (Fed. Cir. 2001) (approximately eight years).

must often be challenged in district court after the challenger has taken the risk of infringement, defeating the efficiency purpose of reexamination.

Given the numerous problems and limitations with the reexamination system, and the chorus of concerns heard by the Committee about that process,[88] the Committee determined not to try to adopt another, and necessarily massive, set of amendments to the current system.[89] Rather, the Committee determined that it would be simpler, and ultimately better, to make a clean start. The time has come to eliminate the inter partes reexamination system and replace it with a new post-grant review system at the USPTO that will give third parties a quick, inexpensive, and reliable alternative to district court litigation to resolve questions of patent validity.

Discussion of changes

Section 5 of the Act creates a new post-grant review (PGR) system for United States patents, replacing and eliminating inter partes reexamination, in a new chapter 32 in title 35.[90]

There are three ways to initiate a PGR proceeding.[91] They are often referred to as "windows" (first window and second window) in which a third party petitions the Director of the USPTO to initiate a PGR proceeding.[92] These windows differ procedurally and substantively, as described below. The third means of initiating a PGR proceeding is based on the patentee's consent.[93]

In a first window PGR, the petition must be filed within 12 months of the patent's issuing. The presumption of validity for the patent does not apply, but the petitioner has the burden of proving invalidity by a preponderance of the evidence. This window is designed as an extension of the examination process. The expectation is that those who are interested in certain technology fields—or in certain patent holders—will assiduously follow the issuance of the patents that interest them, and be ready to bring to the USPTO's attention any immediate concerns.

---

[88] *See, e.g.*, *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 44 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 132–153 (2005) (statement of Jeffrey P. Kushan, Partner, Sidley Austin Brown & Wood, LLP); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 111–131 (2005) (statement of J. Jeffrey Hawley, President, Intellectual Property Owners Association, Legal Division Vice President, Eastman Kodak Co.).

[89] The NAS came to a similar conclusion after its thorough study of the issue. *See NAS Report* at 96.

[90] Ex-parte reexamination, based on a request by the patentee, is retained. *See* new Section 303(a) of the Act. However, third parties may no longer request an ex-parte reexamination. Thus, third parties wishing to challenge the patent will use the new post grant review system; patentees wishing to have additional art considered will use the old ex-parte reexamination system.

[91] *See* new § 322 as added by S. 1145.

[92] *See* new § 322(1) and (2) as added by S. 1145.

[93] The post grant review system created by this Section adopts several of the recommendations, in whole or in part, made by the *NAS Report. See NAS Report* at 95–103. In addition, the post grant review system adopted by the Committee is similar in several respects to the post grant review system proposed by the USPTO. *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 273 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO). Moreover, changes were made by the Committee in direct response to concerns raised by the USPTO, including (i) raising the standing requirement for post grant review second window, and (ii) reducing the number of existing patents eligible for second window post grant review.

But not all issues of validity are obvious immediately upon issuance,[94] and indeed the Committee assumes that the patents issued by the USPTO will generally lack any such blatant flaws. The Committee is aware, however, that patents may be asserted as covering uses and products that were not originally envisioned, or that an alleged infringer may well not have imagined possible, simply from the reading of the patent claims.[95] With calculated infringement at one end of the spectrum, and devious claiming at the other end, the possibilities for mischief and disagreement are considerable.[96] Especially given that the current inter partes reexamination process already permits a challenge to a patent's validity throughout the life of the patent,[97] the Committee has retained that time frame for second window challenges. No patent holder has a right to an invalid patent, however long that patent holder may have enjoyed that right inappropriately. At the same time, the values of certainty (and the consequent business decisions based on that certainty) are not insubstantial, and the Committee is not willing to assume that a patent is invalid simply because a third party has filed an administrative action to endeavor to prove invalidity. The provisions that now form this section of the Act underwent substantial change in the process of the Committee mark-up, and all those changes were in the direction of limiting the use and scope of the post-grant review process. Having begun with a significantly broader process, the Committee is confident that these changes have addressed the concerns in a prudent and balanced manner.

As a result, in the second window, significant limitations are placed on such challenges, while preserving the core intent of the old reexamination process: creating an efficient and effective process for challenging the validity of a patent.[98] A PGR petition may

---

[94] *See Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 68–78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable), explaining that without a 2nd window, post grant review would be "seldom used" in his industry.

[95] *See Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 45 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 33 (2006) (statement of Andrew Cadel, Managing Director and Chief Intellectual Property Counsel, JP Morgan Chase); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 167–179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

[96] *See Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 45 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 167–179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

[97] *See* 35 U.S.C. § 311 ("Any third party at any time may file a request for inter partes reexamination by the Office * * *").

[98] The Committee heard from a number of witnesses that the second window of post grant review was vital to patent reform, and that merely having the first window alone would be insufficient. They explained that given (i) the large number of potentially patented components that could make up any one product (e.g., a computer), (ii) the cost required to challenge every one, and (iii) the uncertainty as to what any one patent may cover (due to the uncertain doctrine of claim construction), it would be impractical or impossible to challenge every questionable patent within the 1-year first window time frame. The witnesses explained that they typically only learn of such allegations by way of a threat letter from, or lawsuit by, the patentee. *See, e.g., Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 288–289 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co); *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of*

Continued

be filed throughout the life of the patent in this second window, but only if (i) the continued existence of the challenged patent claim is likely to cause the petitioner significant economic harm, and (ii) the petitioner files the petition within 12 months after receiving notice of infringement.[99] Thus, only a PGR petitioner who has a good deal at stake may bring such a challenge, and may do so only if the patent holder has already, on its own volition, placed the issue in play.

The presumption of validity for the patent does apply in the second window.[100] The petitioner may challenge a patent based on any defense the challenger could raise in district court litigation, but the existence, authentication, availability, and scope of any evidence offered to establish invalidity must be established by clear and convincing evidence. If such predicate facts are established, invalidity shall be proven only if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence. The PGR petition must specify in detail the claims of the patent being challenged and the basis for the challenge, with any necessary supporting documentation. PGR proceedings are open to the public unless determined otherwise by the Patent Board.

After a PGR proceeding is initiated, the patent holder will have an opportunity to file a response. During the proceeding, the patent holder has one opportunity as a matter of right to amend the claims, and may only amend the claims subsequently on motion and a showing of good cause. No amendment during a PGR proceeding may enlarge the scope of a claim or add new matter.

Various safeguards and estoppels have also been included to prevent the use of PGR for harassment. Every petition to institute a PGR must raise a substantial new question of patentability[101]; this standard was elevated at mark-up to encourage only the most meaningful challenges.[102] In addition, the same party who has once filed a PGR petition, whether in the first or the second window, regarding any claim in a patent, may not file another PGR on the same patent, regardless of the issues raised in the first PGR.[103] This "one bite at the apple" provision was included in Committee to quell concerns that a party bent on harassing a patent holder might file serial PGR petitions.[104] Moreover, once a petitioner has challenged the validity of a patent through a PGR, that party may not challenge validity in a court proceeding based on any ground it raised during the PGR.[105] Additionally, a party who has challenged the validity of a patent in court may not file a PGR petition on any grounds they raised, or could have raised, in the district

---

the Senate Comm. on the Judiciary, 109th Cong. 45 (2006) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 167–179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

[99] *See* new § 322(2) as added by S. 1145.

[100] *See* new § 331(a) as added by S. 1145.

[101] New § 329 as added by S. 1145 states that the Director shall prescribe regulations regarding PGR, including the standard necessary to show that a "substantial new question of patentability" exists to initiate a PGR. The "substantial new question of patentability" standard to initiate a PGR is the same standard required to initiate a reexamination proceeding under current law. *See* 35 U.S.C. § 303(a).

[102] *See* Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 4 (June 21, 2007).

[103] *See* new § 325(a) as added by S. 1145.

[104] *See* Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 4 (June 21, 2007).

[105] *See* new § 338(a)(2) as added by S. 1145.

court.[106] Because the district court action allows the challenger the full panoply of discovery (unlike the restricted discovery appropriate to the more limited PGR proceeding), the Committee believes that it is only reasonable to apply estoppel to claims the challenger was, or should have been, in a position to raise, whether or not it did so.

The USPTO must complete its work on a PGR within one year in most cases, and 18 months in only those cases where the additional time is justified. The PGR proceedings are conducted in the first instance by three Patent Board judges, and not first by an examiner, thus reducing the pendency compared to reexamination proceedings. Any party dissatisfied with a Board PGR decision, may appeal to the Federal Circuit, and all parties to the PGR proceeding may participate in such an appeal.

The Director is instructed to issue regulations that will more fully develop the rules and procedures governing PGR proceedings.[107] The Committee intends that such rules will provide an efficient, streamlined, transparent proceeding that is trusted by the public. The goal is to encourage PGR challenges when warranted, not discourage them in view of complicated, expensive, and arcane procedures. The Director is admonished, among other regulatory tasks, to ensure that regulations forbidding and penalizing harassment are enacted and enforced.

The PGR process shall take effect on the date that is one year after the date of the enactment of the Act. After that time, first window PGR petitions may be filed against any patent, so long as the other provisions of the Act are satisfied. Second window PGR petitions (as well as consented petitions), however, may only be filed on patents that issue based on applications filed after November 29, 1999. That date was chosen by the Committee because it is the date used to determine whether a patent could be eligible for inter partes reexaminations (which are eliminated under the Act). Thus, patents that were eligible for inter partes reexamination, are now eligible for second window PGRs.[108]

SECTION 6: DEFINITIONS; PATENT TRIAL AND APPEAL BOARD

This Section renames the Patent Board as the "Patent Trial and Appeal Board" and sets forth its duties, which are expanded to include jurisdiction over the new post grant review and derivation proceedings. This section strikes references to proceedings eliminated by the Act, including interference proceedings and review of inter partes decisions.

SECTION 7: SUBMISSIONS BY THIRD PARTIES AND OTHER QUALITY ENHANCEMENTS

18 month publication

Background

Most countries publish all patent applications filed in their jurisdictions within 18 months after filing. In 1999, Congress mandated this publication for most, but not all applications filed with the

[106] *See* new § 337 as added by S. 1145.
[107] *See* § 329 as added by S. 1145.
[108] The initial legislation contemplated that all patents in existence would be eligible for PGR second window. *See* § 321 as proposed to be added by S. 1145 as introduced.

USPTO.[109] Applications that contain certifications stating a related application has not been and will not be filed in a foreign country are exempt from this publication.[110]

Discussion of changes

The publication of patent applications is beneficial to both the patent community and the general public, since it promotes the disclosure benefit of the patent system[111] and allows the public (including competitors) to learn for which inventions patents are being sought.[112] Therefore, Section 7 of the Act eliminates the previous exemptions. All applications filed at the USPTO will be published within 18 months of filing.[113]

Third party submissions

Background

After an application is published, members of the public—most likely, a competitor or someone else familiar with the patented invention's field—may realize they have information relevant to a pending application. The relevant information may include prior art that would prohibit the pending application from issuing as a patent. Current USPTO rules permit the submission of such prior art by third parties only if it is in the form of a patent or publication,[114] and the submitter is precluded from explaining why the prior art was submitted or what its relevancy to the application might be.[115] Such restrictions decrease the value of the information to the examiner and may, as a result, deter such submissions.[116]

Discussion of changes

Section 7 of the Act improves the process by which third parties submit relevant information to the USPTO by permitting those third parties to make statements concerning the relevance of the

---

[109] *See* 35 U.S.C. § 122.

[110] *See* 35 U.S.C. § 122(b)(2)(B).

[111] *See Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 30 (2005) (statement of David Beier, Senior Vice President of Global Government Affairs, Amgen).

[112] Prior to requiring the publication of applications, the public would not learn of a patent until after it issued, which is often several years after the application was filed. Some patentees took advantage of this practice to the extreme (with "submarine" patents), and intentionally delayed their patents issuance, and thus publication, of the patent for several years to allow potentially infringing industries to develop and expand, having no way to learn of the pending application. *See* Mark A. Lemley and Kimberly A. Moore, *Ending Abuse Of Patent Continuations*, 84 B.U. L. *Rev*. 63, 79–81 (2004). In contrast, publication of the application allows for the earlier dissemination of the information contained therein, as well as allowing competitors to make decisions based on what is attempting to be patented.

[113] Both the NAS and the FTC advocated for the publication of all applications and the elimination of the exception. *See NAS Report* at 128 (explaining that publication of all applications would promote the disclosure purpose of the patent system and minimize the uncertainty associated with submarine patents); *FTC Report* at 15–16 "Recommendation 7: Enact Legislation to Require Publication of All Patent Applications 18 Months After Filing," (explaining that publication of domestically filed applications will increase business certainty, promote rational planning, and reduce the problem of unanticipated "submarine patents" used to hold up competitors for unanticipated royalties); *see also Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 137–145 (2005) (statement of Richard C. Levin, President, Yale University).

[114] *See* 35 C.F.R. § 1.99.

[115] *See* 35 C.F.R. § 1.99(d) ("A submission under this section shall not include any explanation of the patents or publications, or any other information.").

[116] *See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 167–179 (2005) (statement of David Simon, Chief Patent Counsel, Intel Corporation).

patents, patent applications, and other printed publications they bring to the USPTO's attention.

SECTION 8: VENUE AND JURISDICTION

Venue

Background

Venue statutes generally place restrictions on where a plaintiff may sue a defendant. A specific venue provision has existed for patent cases since 1897.[117] Yet, Federal Circuit decisions have virtually eliminated any meaningful distinction between the patent venue provision and general venue.[118] In VE Holding, the Federal Circuit held that despite the specific patent venue statute, the expanded jurisdiction under the general venue statute also applied to corporate defendants in patent infringement cases.[119] As a result, the Federal Circuit held that venue for a corporate defendant in a patent infringement case was proper wherever personal jurisdiction existed. Four years later, in Beverly Hills Fan Co., the Federal Circuit held that personal jurisdiction for a patent defendant essentially exists wherever an infringing product is made, used or sold.[120] The effect of these decisions is that venue for a patent infringement defendant is proper wherever an alleged infringing product can be found. To compound matters, the Federal Circuit applied a different set of standards in patent cases that were brought pursuant to the declaratory judgment act.[121]

Since most patented products are sold nationally, a patent holder can often bring a patent infringement action in any one of the 94 judicial districts in the United States. The judicial weakening of the patent venue statute has reportedly led to forum shopping in patent infringement suits. A comprehensive study revealed that approximately half of the patent infringement cases are filed in only 10 of the districts, many of which have no significant relation to either the plaintiff or the defendant.[122] A report issued last year indicates this pattern has continued and may even become more concentrated.[123]

Venue exists to ensure the case is brought where the defendant has more than minimum contacts in the forum the plaintiff has chosen.[124] Moreover, judicial resources are best spent in locations where the evidence and witnesses are located. If a venue is chosen that has little or no relation to the defendant's business, it can cause significant hardship to the defendant and increase already expensive litigation costs. In addition, court dockets can become backlogged where a disproportionate number of patent cases are brought in a small number of districts.[125]

---

[117] 28 U.S.C. § 1400.

[118] *See, e.g., VE Holding Corp. v. Johnson Gas Appliance Co.*, 917 F.2d 1574 (Fed. Cir. 1990).

[119] *See VE Holding*, 917 F.2d at 1580.

[120] *See Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1566 (Fed. Cir. 1994).

[121] *See VE Holding*, 917 F.2d at 1583.

[122] *See* Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889 (2001).

[123] *See* Roderick R. McKelvie, *Forum Selection In Patent Litigation: A Traffic Report*, 19 NO. 8 Intell. Prop. & Tech. L.J. 1, 1 (2007).

[124] *See* 17 Moore's Federal Practice § 110.01[5][a] (3d ed. 1997).

[125] *See* McKelvie, Forum Selection In Patent Litigation: A Traffic Report, 19 NO. 8 Intell. Prop. & Tech. L.J. at 3.

Discussion of changes

As with other provisions in the Act, the venue language was changed considerably during the Committee process. The initial language worked a modest change to the venue statute in that patent infringement suits could be brought only in the judicial district where (i) either party resided (which for a corporation is its principal place of business or its state of incorporation), or (ii) where the defendant had committed acts of infringement and had a regular and established place of business.

Amendments during the mark-ups made significant revisions.[126] Section 8 of the Committee-passed bill limits the plaintiff-based venue available to certain plaintiffs in patent cases, namely individual inventors, institutions of higher education, and technology-transfer non-profit organizations affiliated with such institutions. The Committee also determined that the same venue rules shall apply for both patent declaratory judgment cases and patent infringement cases.

Also, under the changes worked in the Act, parties will not be permitted to manufacture venue. Thus, for example, a company cannot establish venue in a given State simply by incorporating there. Section 1400 of title 28 is amended to provide that defendants in patent cases may be sued where the defendant has its principal place of business, or where it is incorporated or formed. They may also be sued where substantial acts of infringement occur, but only if the defendant also has a regular and established, substantial physical facility in that district, which the defendant controls, and which constitutes a substantial portion of the defendant's overall operations in the district. A foreign defendant that has a U.S subsidiary may only be sued where its primary U.S. subsidiary is located, or its principal place of business in the U.S. is incorporated or formed.[127]

The Committee is sensitive to the unique position of universities, non-profit organizations and truly small inventors, for which certain venue restrictions could prove burdensome. Revised section 1400 therefore creates an exception, permitting these parties to file their patent infringement or declaratory judgment actions in the district where they reside.

Section 1400 also provides for limited requests for transfer of venue where the court deems it appropriate.

Interlocutory appeals of claim construction orders

Background

In many patent infringement cases, the proper meaning of a patent claim (referred to as "claim construction") is a vital, threshold determination. A finding of patent infringement will often turn on the proper interpretation of the patent claims, which may also de-

[126] *See* Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 4 (June 21, 2007); Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 5–7, 14–17, 19–20, 51–63 (July 12, 2007); Transcript of Proceedings of Business Meeting of the Senate Committee on the Judiciary, 110th Cong., 1st Sess. 2, 12 (July 19, 2007).

[127] 28 U.S.C. § 1391(d) shall continue to determine venue for a foreign defendant that does not have a subsidiary in the United States.

termine the patent's validity.[128] A decade ago, the Supreme Court held in Markman v. Westview Instruments, Inc.,[129] that district court judges, not juries, should determine the proper meaning of a patent claim. Shortly thereafter, the Federal Circuit in Cybor Corp. v. FAS Technologies, Inc.,[130] held that the standard of review of claim construction decisions by the district court was de novo, giving no deference to the district court judges that made those determinations. Determining the proper meaning of the claims is vital to the outcome of most patent cases, and should occur early in the litigation to avoid unnecessary costs.[131] Moreover, since the Federal Circuit would review such decisions without giving deference to the district court, its view of the proper claim construction is paramount.[132]

Following these decisions, many district courts began holding separate claim construction hearings, which became known as "Markman" hearings. District courts often then issue Markman claim construction decisions.[133] In certain cases, parties requested, and district judges certified, Markman decisions for interlocutory appeal to the Federal Circuit. The parties, and the district courts, understood the importance of having a claim construction decision early in the process and, because of de novo review, that the Federal Circuit would have to rule on construction before the parties could accurately assess their liabilities. The Federal Circuit, however, refused to take most such requests.[134] As a result, full trials often had to be held before an appeal could be taken of the claim construction issue.[135]

Numerous studies have shown that the Federal Circuit's reversal rate of district court claim construction decisions is unusually

---

[128] *See, e.g., Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 457 F.3d 1293 (Fed. Cir. 2006) (reversing the district court's claim construction and remanding for a second time for the district court to determine whether the newly construed claim was anticipated by the prior art).

[129] 517 U.S. 370 (1996).

[130] 138 F.3d 1448 (Fed. Cir. 1998) (en banc).

[131] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 289–291 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.); *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 34 (2006) (statement of Andrew Cadel, Managing Director and Chief Intellectual Property Counsel, JP Morgan Chase); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 68–78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable); *see also Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1475–77 (Fed. Cir. 1998) (en banc) (dissenting opinion of Rader, J.).

[132] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 289–290 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. 68–78 (2005) (statement of Jonathan Band, Counsel, on behalf of Visa and the Financial Services Roundtable).

[133] *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1479 (Fed. Cir. 1998) (en banc) ("Although the district courts have extended themselves, and so-called 'Markman hearings' are common, this has not been accompanied by interlocutory review of the trial judge's claim interpretation. The Federal Circuit has thus far declined all such certified questions.").

[134] *See* V. Ajay Singh, *Interlocutory Appeals In Patent Cases Under 28 U.S.C. § 1292(C)(2): Are They Still Justified And Are They Implemented Correctly?*, Duke L.J. Vol. 55, 179, 196 (2005) ("the Federal Circuit has thus far refused to hear permissive appeals related to claim construction").

[135] Unfortunately, there are also examples where the Federal Circuit has had to hear multiple district court claim construction related appeals, and has remanded the case back to the district court several times based on new claim construction theories. *See, e.g., Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 457 F.3d 1293 (Fed. Cir. 2006) (a 10-year litigation that has to date already had two appeals, and the case is remanded back for a likely third district court decision, and possible third appeal).

high.[136] District court decisions may place several claim terms in dispute, and reversal by the Federal Circuit as to the meaning of just one claim term may require that the case be remanded to the district court for further proceedings.[137] The Committee heard that the manner claim construction determinations are currently reviewed increases litigation costs, decreases certainty and predictability, and can prolong settlement discussions.[138]

Discussion of changes

Section 8 of the Act amends subsection (c)(2) of section 1292 of title 28, giving district court judges discretion to certify Markman claim construction orders for interlocutory review. When such orders are certified, the Federal Circuit must decide the appeal.

The Committee intends to transfer the discretion from the Federal Circuit to the district court judge as to whether—and when—a claim construction order should be decided on appeal. The district court judges are in the best position to know when the evidence adduced, and the arguments marshaled by the litigants, have brought the case to a point at which a decision by the appellate court on claim construction could best promote resolution of the case. As a case management tool, the Committee is confident that the interlocutory appeal of a Markman decision could be both useful and effective. The district court also has the discretion to stay the case pending the appeal.

Venue for the USPTO

Background

In 1999, as part of the American Inventors Protection Act (AIPA), Congress established that as a general matter the venue of the USPTO is the district where it resides.[139] The USPTO currently resides in the Eastern District of Virginia. However, Congress inadvertently failed to make this change uniform throughout the entire patent statute, so that certain sections of the patent statute (and one section of the trademark statute) continue to allow challenge of USPTO decisions to be brought in the District of Columbia, where the USPTO has not resided for decades.

---

[136] *See, e.g.*, Paul M. Schoenhard, *Reversing the Reversal Rate: Using Real Property Principles to Guide Federal Circuit Patent Jurisdiction*, 17 Fordham Intel. Prop. Media & Ent. L.J. 299, 303 (2007) (citing several studies of Federal Circuit reversal rates of claim construction decisions, ranging from 33% to over 50%). Although the exact number is subject to debate, it is safe to say the number is relatively high, especially as compared to traditional reversal rates. This is not entirely surprising since current Federal Circuit precedent encourages the parties to contest the meaning of several different claim terms both before the district court and the Federal Circuit. For example, it is not uncommon for a party to appeal (or cross appeal) the meaning of several terms, and if the Federal Circuit disagrees as to just one, it is likely the case will need to be remanded to the district court.

[137] *See Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1474 n. 2 (Fed. Cir. 1998) (opinion by Rader, J. dissenting, "In the words of United States District Court Judge Roderick McKelvie: '[I]n spite of a trial judge's ruling on the meaning of disputed words in a claim, should a three-judge panel of the Federal Circuit disagree, the entire case could be remanded for retrial on [a] different [claim interpretation]'", *citing Elf Atochem North Am., Inc. v. Libbey-Owens-Ford Co.*, 894 F.Supp. 844, 857, 37 USPQ2d 1065, 1075 (D. Del. 1995)).

[138] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary*, 110th Cong. 289–291 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.).

[139] *See* 35 U.S.C. § 1(b).

Discussion of changes

Since the USPTO no longer resides in the District of Columbia, the sections that authorized venue for litigation against the USPTO are changed to reflect the venue where the USPTO currently resides.

SECTION 9: PATENT AND TRADEMARK OFFICE REGULATORY AUTHORITY

Background

Although the USPTO has had the ability to set certain fees by regulation, most fees (e.g., filing fee, issuance fee, maintenance fees) are set by Congress.[140] History has shown that such a scheme does not allow the USPTO to respond promptly to challenges facing it. The USPTO has argued for years that it must have fee setting authority to administer properly the agency and its growing workload.

Discussion of changes

Section 9 of the Act allows the USPTO to set or adjust all of its fees, including those related to patents and trademarks, so long as they do no more than reasonably compensate the USPTO for the services performed. Prior to setting such fees, the Director must give notice to, and receive input from, the Patent or Trademark Public Advisory Committee (PPAC or TPAC). The Director may also reduce fees for any given fiscal year, but only after consultation with the PPAC or TPAC. Section 9 details the procedures for how the Director shall consult with the PPAC and TPAC, including providing for public hearings and the dissemination to the public of any recommendations made by either Committee. Fees shall be prescribed by rule. Any proposed fee change shall be published in the Federal Register and include the specific rationale and purpose for the proposed change. The Director must seek public comments for no less than 45 days. The Director must also notify, through the Chair and Ranking Member of the Senate and House Judiciary Committees, the Congress of any final decision regarding proposed fees. Congress shall have no more than 45 days to consider and comment on any proposed fee, but no proposed fee shall be effective prior to the expiration of this 45-day period.

SECTION 10: RESIDENCY OF FEDERAL CIRCUIT JUDGES.

Background

Federal appellate judges in all of the regional circuits must reside within the geographic region of the relevant circuit's jurisdiction. A judge on the First Circuit, for example, must reside in Massachusetts, Rhode Island, Maine, New Hampshire or Puerto Rico. Judges on the District of Columbia Circuit have no residency restrictions because it is not a regional circuit. By contrast, since its creation in 1982, the Federal Circuit has had an arbitrary restriction that all active judges reside within 50 miles of the District of Columbia.

Without casting any aspersions on the current occupants of the Federal Circuit bench, the Committee believes that having an entire nation of talent to draw upon in selecting these judges could

[140] *See,* e.g., 35 U.S.C. § 41.

only be a benefit. The duty stations of the Federal Circuit judges will, of course, remain in the District of Columbia. Judges in regional circuits often travel considerable distances for court sessions within the circuit, far from their homes and chambers, and there is no practical reason why Federal Circuit judges could not do so as well.

Discussion of changes

Section 10 of the Act eliminates the residency restriction for Federal Circuit judges by repealing the relevant portion of subsection 44(c) of title 28.

SECTION 11: APPLICANT QUALITY SUBMISSIONS

Search reports and explanations of submitted references

Background

In fiscal year 2006, the USPTO received over 440,000 patent applications, representing an 8 percent increase from the previous fiscal year. This rate of increase is expected to continue, a testament to U.S. inventiveness and a growing burden on the USPTO.

Patent examiners at the USPTO are responsible for determining whether the inventions claimed in patent applications meet the statutory requirements of novelty and non-obviousness.[141] Unfortunately, approximately 25% of the applications filed at the USPTO do not discuss or disclose any prior art.[142] Many applicants do not search for prior art before filing their application.[143] An examiner has only a limited amount of time to search for prior art, and the applicant is often in the best position to know the invention and the relevant art that may apply. At the other extreme, approximately 25% of the applications cite twenty or more references, typically with little or no explanation as to how the prior art is relevant, which is equally unhelpful to the examiner.[144] Although patent examiners have excellent electronic search tools, and are well trained in the art of searching, added assistance from applicants citing relevant prior art and explaining how it applies to their applications will improve the quality of issued patents. In addition, requiring applicants to do their own initial research and disclosure will improve the quality of the application.

---

[141] 35 U.S.C. § 131 provides: "The Director shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Commissioner shall issue a patent therefore." In practice, the Director empowers a "patent examiner" to examine the application and determine whether it meets the statutory requirements and USPTO guidelines for receiving a patent grant. *See* Christopher T. Kent, *Reducing The Scope Of Patent Protection And Incentives For Innovation Through Unfair Application Of Prosecution History Estoppel And The Recapture,* 10 Geo. Mason L. Rev. 595, 596 n.7 (2002).

[142] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary,* 110th Cong. 10–11 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

[143] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary,* 110th Cong. 267 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

[144] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary,* 110th Cong. 10–11 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

Discussion of changes [145]

Section 11 of the Act gives the Director express authority to require by regulation the submission of search reports and other relevant information as the Director determines. Failure to comply with such requirements shall constitute abandonment of the applications.

The Act exempts the truly small inventor (defined in the Act as a "micro-entity") from regulations prescribed pursuant to this authority.

Micro-entity

Background

As part of the on-going effort to nurture U.S. innovation, Congress has long recognized that certain groups, including independent inventors, small business concerns, and non-profit organizations (collectively referred to as "small business entities") should not bear the same financial burden for filing patent applications as larger corporate interests. The current statute provides for a significant reduction in certain fees for small business entities.[146] The Committee was made aware, however, that there is likely a benefit to describing—and then accommodating—a group of inventors who are even smaller, in order to be sure that the USPTO can tailor its requirements, and its assistance, to the people with very little capital, and just a few inventions, as they are starting out.

Discussion of changes

This section of the Act defines an even smaller group—the micro-entity—which comprises only true, independent inventors. This section exempts micro-entities from the requirement of submitting the search reports and other information that the Director may require under Section 11 of the Act. The Committee expects that the USPTO will make further accommodations under its authority in recognition of the special status of micro-entities.

SECTION 12: INEQUITABLE CONDUCT

Background

Candor and truthfulness are essential to the functioning of the patent application system. The application process is conducted ex parte; only the patent applicant participates in the patent prosecution proceeding before the USPTO. The agency's rules require applicants to be honest and forthcoming and to disclose fully all relevant information to the USPTO during that proceeding.[147] The judicially-created "inequitable conduct" doctrine is designed to enforce those requirements by permitting a judge to render a patent unenforceable, even if it is valid and infringed, if the patent was obtained by misleading statements or omissions of material infor-

[145] The USPTO strongly advocated for inclusion of "applicant quality submissions" provision in the bill, stating it was one of its highest priorities in order to improve the patent examination process and the quality of issued patents. *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary,* 110th Cong. 265–267 (2007) (statement of Jon W. Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO).

[146] *See* 35 U.S.C. § 41(h).

[147] *See* 37 C.F.R. § 1.56.

mation which were intended to deceive the USPTO.[148] Courts have developed a two-part test in which inequitable conduct is found when (i) the undisclosed or misrepresented information was "material," and (ii) it was not disclosed or was misrepresented with an "intent to deceive" the USPTO.[149]

The Act did not address inequitable conduct upon introduction, but during the Committee process the Committee heard several concerns about the doctrine as it has developed in the Federal Circuit.[150] First, the Federal Circuit has failed to establish one clear standard of materiality for inequitable conduct purposes.[151] Having multiple materiality standards is hardly helpful to the district courts that are charged with making inequitable conduct determinations in the first instance, and patent holders are left with less than clear guidance about what they should disclose to the USPTO.[152] Second, direct evidence of an intent to deceive is uncommon, so some courts collapse the issue of intent into the issue of materiality, so that intent to deceive is often inferred from materiality.[153] Third, if inequitable conduct is found, judges have no discretion as to the remedy—no claim of the patent can ever be enforced against anyone.[154]

Discussion of changes

Section 12 of the Act inserts a new section 298 of title 35 that codifies and improves the doctrine of inequitable conduct. Subsection (a) of section 298 requires a party advancing an inequitable conduct argument to prove that claim by clear and convincing evidence. Subsection (b) provides that information is "material" if a reasonable examiner would consider the non-cumulative information important in deciding whether to allow the patent applica-

---

[148] *See Dippin' Dots, Inc. v. Mosey,* 476 F.3d 1337, 1345 (Fed. Cir. 2007) ("a patent may be rendered unenforceable for inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution") (citations omitted).

[149] *See J.P. Stevens & Co., Inc., v. Lex Tex Ltd., Inc.,* 747 F.2d 1553, 1560 (Fed. Cir. 1984), cert. denied, 474 U.S. 822 (1985).

[150] *See Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 45–71 (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company).

[151] *See Digital Control v. Charles Machine Works,* 437 F.3d 1309 (Fed. Cir. 2006), where the Federal Circuit held there is no single standard to define "materiality" for inequitable conduct. In fact, the Federal Circuit has discussed five different standards for materiality, stating that there is "no reason to be bound by any single standard": (1) the objective "but for" standard, where the misrepresentation was so material that the patent should not have issued; (2) the subjective "but for" test, where the misrepresentation actually caused the examiner to approve the patent application when he would not otherwise have done so; (3) the "but it may have" standard, where the misrepresentation may have influenced the parent examiner in the course of prosecution; (4) the old Rule 56 standard where it is likely a reasonable examiner would have considered the information important in deciding whether to issue of the patent; and (5) the new Rule 56 standard where the information is not cumulative and (i) establishes a prima facie case of unpatentability (either alone or in combination with other references), or (ii) refutes or is inconsistent with a position the applicant has taken (the new Rule 56 standard). *See Digital Control at 1314–16; see also American Hoist & Derrick Co. v. Sowa & Sons, Inc.,* 725 F.2d 1350, 1362 (Fed. Cir. 1984).

[152] As a practical matter, this has led to two types of conduct that frequently occur during patent prosecution. Either patent holders (i) "dump" everything they have on the USPTO (sometimes many boxes of printed documents), or (ii) do not search the prior art, and thus in turn have little or nothing to give the USPTO. Neither approach is helpful to the patent examiner or the patent system in general.

[153] *See In re Metoprolol Succinate Patent Litigation,* 494 F.3d 1011, 1019 (Fed. Cir. 2007) ("We have stated that intent need not, and rarely can, be proven by direct evidence. Rather, intent to deceive is generally inferred from the facts and circumstances surrounding the applicant's overall conduct.") (citations and quotations omitted).

[154] *See Impax Laboratories, Inc. v. Aventis Pharmaceuticals Inc.,* 468 F.3d 1366, 1375 (Fed. Cir. 2006) (*citing Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.,* 863 F.2d 867, 877 (Fed. Cir. 1988) (en banc)).

tion.[155] Subsection (c) permits an intent to deceive the USPTO to be inferred, but it cannot be inferred solely on the basis of gross negligence of the applicant (or its representative), or on the materiality of the information misrepresented or not disclosed. Subsection (d) requires the party asserting the defense or claim to plead with particularity in accordance with Rule 9(b) of the Federal Rules of Civil Procedure.[156]

Finally, subsection (e) grants the court discretion to fashion the appropriate remedy if it finds inequitable conduct, which can include holding one, more than one, or all of the claims unenforceable, and/or that the patent holder is not entitled to the equitable relief of an injunction.

The Committee views it as axiomatic that applicants should be honest and forthcoming in their dealings with the USPTO. The rules governing such conduct, however, should not chill meaningful disclosures with the Office for fear of a future allegation. New section 298 is intended to balance these interests.

SECTION 13: AUTHORITY OF THE DIRECTOR OF THE PATENT AND TRADEMARK OFFICE TO ACCEPT LATE FILINGS

Background

There are numerous deadlines a patent applicant must comply with during prosecution and subsequent to the patent's issuance. The Director has the authority to accept late filings (including payment of fees) in only a limited number of situations.[157]

Discussion of changes

Section 13 of the Act expands the Director's authority to accept any late-filed applications or other filings, if the filer satisfies the Director that the delay was unintentional. Any request by an applicant for the Director to accept a late-filed application under this section must be filed within 30 days of the missed deadline and must demonstrate that the delay was unintentional. The Director has the discretion to decide whether to grant such requests and the Director's decision is not appealable.

SECTION 14: LIMITATION ON DAMAGES AND OTHER REMEDIES WITH RESPECT TO PATENTS FOR METHODS IN COMPLIANCE WITH CHECK IMAGING METHODS

Background

In 1994, the Federal Reserve proposed the idea of an electronic check image processing, archival, and retrieval system. In 1996,

---

[155] The Committee noted that certain court decisions appear to emphasize improperly the first part of this definition (reasonably important to an examiner) without giving necessary consideration to the latter part of the definition (in deciding whether to allow the patent). *See, e.g., Nilssen v. Osram Sylvania, Inc.,* 504 F.3d 1223 (Fed. Cir. 2007); *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.,* 487 F.3d 897 (Fed. Cir. 2007); *Ferring v. Barr Labs,* 437 F.3d 1309 (Fed. Cir. 2006). As a result, when improperly applied, the materiality standard becomes essentially a relevancy standard. The codification of the definition makes clear the entire definition must be satisfied.

[156] The Committee heard some concerns that inequitable conduct is "over plead" and a tool of harassment. Presumably the requirements of pleading with particularity and clear and convincing evidence should help ameliorate any such concerns.

[157] *See, e.g.,* 35 U.S.C. §§41(a)(7) (revival of an application for unintentional delay); 41(c)(1) (reinstatement of a patent for unintentional delay); 111(a)(4) (revival for unintentional or unavoidable delay in submitting the filing fee or inventor's oath); 133 (revival if failure to prosecute was unavoidable).

the American National Standard for Financial Image Interchange issued its architecture and design specification for such a system. The Federal Reserve implemented this technology in a check truncation pilot in 1999. Years later, this evolving technology became standard practice in the banking industry, and its importance became particularly noted in the days after September 11, 2001, when transporting paper checks by airplane was impossible for several days.[158] In 1999 and 2000, several inventors sought a series of patents relating to a system/process for imaging and storing documents, building their technology around what the government was already doing. The patent claims relate to a three-tiered system for imaging, transferring, and storing (archiving) paper checks tendered for processing via the electronic payment system.

The 108th Congress enacted the Check 21 Act of 2003, P.L. 108–100,[159] which allowed the recipient of a paper check to create a digital version to store and transfer (referred to as a "substitute check"),[160] thereby eliminating the need for further handling of the physical document.[161] The Check 21 Act requires all banks to recognize and accept the digital images of checks it receives from other banks.[162] The financial services industry (including banks) and their technology providers must be able to implement the Check 21 Act, which permits electronic check transfer based on technology developed by the federal government.[163]

Discussion of changes

Because Congress has mandated implementation of the Check 21 Act, the Committee accepted an amendment during the mark-up of the bill that declares practicing of the Check 21 industry standard should not constitute patent infringement. Section 14 of the Act amends section 287 of title 35 to limit the remedies available against a financial institution with respect to a check imaging and archival method or system that is called for under the Check 21 Act, but not for any other uses of those methods or systems. This amendment shall apply to any civil action for patent infringement pending or filed on or after the date of enactment of this Act.

SECTION 15: PATENT AND TRADEMARK OFFICE FUNDING.

The USPTO collects user fees, but it does not retain and spend those fees. Instead, the fees are deposited in the Treasury and the USPTO is funded by annual Congressional appropriations. Although Congress has fully funded the user fees to USPTO for the last several years, it has not always done so—resulting in what is commonly termed "fee diversion." This lack of connection between the monies flowing into the agency and those available for expenditure has, according to the USPTO, contributed to (i) the growing

[158] *See* Mark Hargrave, *Check 21: A Year in the Life,* 38 UCC L.J. 3 Art. 3 (2006).

[159] The Check Clearing for the 21st Century Act (Check 21 Act), P.L. 108–100, 117 Stat. 1177 (2003) (codified at 12 U.S.C. §§ 5001–5018) (2000).

[160] *See* Jeffrey Barry, *The Check Clearing For The 21st Century Act ("Check 21"),* 24 Ann. Rev. Banking & Fin. L. 130, 132 (2005).

[161] For a thorough discussion of the Check 21 Act, see H.R. Rep. 108–132 (2003) and H.R. Rep. 108–291 (2003).

[162] *See* Mark Hargrave, *Check 21: A Year in the Life,* 38 UCC L.J. 3 Art. 3 (2006).

[163] *See Patent Reform: The Future of American Innovation: Hearing on S. 1145 Before the Senate Comm. on the Judiciary,* 110th Cong. 291 (2007) (statement of John A. Squires, Esq., Chief Intellectual Property Counsel, Goldman, Sachs & Co.), explaining that the manner in which commercial banks currently process checks is effectively prescribed by the Check 21 Act.

number of unexamined patent applications ("backlog"), and (ii) the increased time it takes to have a patent application examined ("pendency").[164] The current backlog of unexamined applications is approximately 730,000;[165] average pendency to have a patent examined is over 31 months.[166] The USPTO has explained that the uncertainty of the annual funding process and the recurring possibility of fee diversion severely restricts its ability to plan strategically for long-term personnel and technology needs and to implement procedures to ensure that only high quality patents are awarded. In addition, the Committee heard that many patent users would be willing to pay increased fees for better examination, but only on the condition that all of those fees go to the USPTO, and that none be diverted.[167]

Discussion of changes

Section 15 of the Act establishes a revolving fund that permits the USPTO to retain the fees it collects without relying on annual appropriations. Reporting, notification, and auditing requirements are put in place to assure fiscal discipline, responsibility and accountability.

SECTION 16: TECHNICAL AMENDMENTS

Section 16 of the Act contains technical amendments consistent with the Act to improve the organization of the patent statute.

SECTION 17: EFFECTIVE DATE; RULE OF CONSTRUCTION

Section 17 of the Act provides that, unless otherwise provided, the Act takes effect 12 months after the date of enactment and applies to any patent issued on or after that effective date. It also provides that the enactment of section 102(b)(3) of title 35, under section (2)(b) of the Act is done with the same intent to promote joint research activities that was expressed in the Cooperative Research and Technology Enhancement Act of 2004 (Public Law 108–453) and shall be administered in a manner consistent with such.

II. History of the Bill and Committee Consideration

A. INTRODUCTION OF THE BILL

On August 3, 2006, in the 109th Congress, Senator Hatch introduced the Patent Reform Act of 2006 (S. 3818) with Senator Leahy. It was referred to the Committee on the Judiciary, where it stayed until the end of the session.

---

[164] *See Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 45–47 (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office).

[165] *See* GAO 07–1102, *Hiring Efforts Are Not Sufficient to Reduce the Patent Application Backlog,* 1 (September, 2007). The GAO Report explains that since fiscal year 2002 alone, the backlog has increased by nearly 73%. Moreover, the USPTO predicts the backlog could approach 1.4 million by 2012 unless something is done. *See* USPTO Strategic Plan, 2007–2112 at 11, available at http://www.uspto.gov/web/offices/com/strat2007/stratplan2007-2012.pdf.

[166] *See* USPTO Strategic Plan, 2007–2112 at 6, *available at* http://www.uspto.gov/web/offices/com/strat2007/stratplan2007-2012.pdf.

[167] *See Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary,* 109th Cong. 45–47 (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office).

On April 18, 2007, in the 110th Congress, Senator Leahy, along with Senator Hatch, introduced the Patent Reform Act of 2007. Senator Schumer, Senator Whitehouse, and Senator Cornyn were original cosponsors of the bill; Senator Craig, Senator Crapo, Senator Bennett, Senator Salazar, and Senator Smith later joined as cosponsors. The bill was referred to the Committee on the Judiciary, and was first placed on the Committee's agenda on June 14, 2007.

B. HEARINGS

The Senate Committee on the Judiciary held six hearings on patent reform from 2005 through 2007.

On April 25, 2005, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Perspectives on Patents." This first hearing was attended by Chairman Hatch, Ranking Member Leahy, Senator Cornyn, and Senator Feinstein. Testifying on Panel I was the Honorable Jon W. Dudas, Under Secretary of Commerce for Intellectual Property, and Director, U.S. Patent and Trademark Office. Testifying on Panel II were Richard C. Levin, President, Yale University, and Co-Chair, Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, National Research Council; and Mark B. Myers, Visiting Executive Professor, Management Department, Wharton Business School, University of Pennsylvania, and Co-Chair, Committee on Intellectual Property Rights in the Knowledge-Based Economy, Board on Science, Technology, and Economic Policy, National Research Council. Testifying on Panel III were William Parker, Chief Executive Office and Director of Research, Diffraction, Ltd.; Joel L. Poppen, Deputy General Counsel, Micron Technology, Inc.; David Simon, Chief Patent Counsel, Intel Corporation; Dean Kamen, President, DEKA Research and Development Corp.; Robert A. Armitage, Senior Vice President and General Counsel, Eli Lilly and Company; and Michael K. Kirk, Executive Director, American Intellectual Property Law Association (AIPLA). The following materials were submitted for the record: Comments of the National Association of Patent Practitioners on the Proposed Patent Act of 2005, submitted by Tony Venturino, President, on May 6, 2005; prepared statement of Jon W. Dudas; prepared statement of Richard C. Levin; prepared statement of Mark B. Myers; prepared statement of William Parker; prepared statement of Joel L. Poppen; prepared statement of David Simon; prepared statement of Dean Kamen; prepared statement of Robert A. Armitage; and prepared statement of Michael K. Kirk.

On June 14, 2005, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Patent Law Reform: Injunctions and Damages." This second hearing was attended by Chairman Hatch, Ranking Member Leahy, and Senator Kennedy. The following witnesses testified: Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF); Jonathan Band, Counsel on behalf of Visa and the Financial Services Roundtable; Mark A. Lemley, Professor of Law, Stanford Law School; Jeffrey P. Kushan, Sidley Austin Brown and Wood, LLP; Chuck Fish, Vice President and Chief Patent Counsel, Time Warner, Inc.; and J. Jeffrey Hawley, President, Intellectual

Property Owners Association, and Vice President and Director, Patent Legal Staff, Eastman Kodak Company. The following materials were submitted for the record: prepared statement of Carl Gulbrandsen; the prepared statement of Jonathan Band; the prepared statement of Mark A. Lemley; the prepared statement of Jeffrey P. Kushan; the prepared statement of Chuck Fish; and the prepared statement of J. Jeffrey Hawley.

On July 26, 2005, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Perspectives on Patents: Harmonization and Other Matters." Chairman Hatch attended this hearing and Ranking Member Leahy submitted a statement for the record. The following witnesses testified: The Honorable Gerald J. Mossinghoff, former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, and Senior Counsel, Oblon, Spivak, McClelland, Maier & Neustadt; The Honorable Q. Todd Dickinson, former Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office, and Vice President and Chief Intellectual Property Counsel, General Electric Company; Marshall C. Phelps, Corporate Vice President and Deputy General Counsel for Intellectual Property, Microsoft Corporation; Christine Siwik, Partner, Rakoczy Molino Mazzochi Siwik, LLP; Charles E. Phelps, Provost, University of Rochester, on behalf of the Association of American Universities, American Council on Education, Association of American Medical Colleges and Council on Governmental Relations; and David Beier, Senior Vice President for Global Government Affairs, Amgen. The following materials were submitted for the record: prepared statement of David Beier; article, Bureau of National Affairs, Inc., Patent, Trademark & Copyright Journal, C. Boyden Gray, former White House Counsel and Partner, Wilmer Cutler Pickering Hale and Dorr; prepared statement of Q. Todd Dickinson; prepared statement of Gerald J. Mossinghoff; prepared statement of Charles E. Phelps; prepared statement of Marshall C. Phelps; prepared statement of Christine J. Siwik; and prepared statement of Teva North America, Steven J. Lee, Partner, Kenyon & Kenyon, Thomas L. Creel, Partner, Goodwin Procter LLP, Outside Patent Counsel.

On May 23, 2006, the Senate Committee on the Judiciary Subcommittee on Intellectual Property held a hearing on "Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms." Chairman Hatch and Ranking Member Leahy attended, and the following witnesses testified: Mark Chandler, Senior Vice President and General Counsel, Cisco Systems, Inc.; Philip S. Johnson, Chief Patent Counsel, Johnson & Johnson; Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures; John R. Thomas, Professor of Law, Georgetown University Law Center; and Andrew Cadel, Managing Director, Associate General Counsel, and Chief Intellectual Property Counsel, JP Morgan Chase. The following materials were submitted for the record: prepared statement of Andrew Cadel; prepared statement of Mark Chandler; prepared statement of Jack Haken, Vice President, Intellectual Property & Standards, U.S. Phillips Corporation; prepared statement of Philip S. Johnson; prepared statement of Nathan P. Myhrvold; and prepared statement of John R. Thomas.

On May 1, 2007, the Senate Committee on the Judiciary held a hearing on "Process Patents." This hearing was attended by Chair-

man Leahy, Ranking Member Specter, Senator Cardin, Senator Whitehouse, Senator Graham, and Senator Coburn. Senator Feinstein submitted a statement for the record. The following witnesses testified: Wayne Herrington, Assistant General Counsel, United States International Trade Commission; John R. Thomas, Professor of Law, Georgetown University Law Center; Mike Kirk, Executive Director, American Intellectual Property Law Association; and Christopher A. Cotropia, Professor of Law, Richmond School of Law. The following materials were submitted for the record: prepared statement of Wayne Herrington; prepared statement of John R. Thomas; prepared statement of Mike Kirk; prepared statement of Christopher A. Cotropia; letter from the United Steel Workers to Senator Leahy and Senator Specter dated February 6, 2007; letter from the AFL-CIO to Senator Leahy and Senator Specter dated February 21, 2007; and an article by Mickey Kantor and Theodore B. Olsen titled "Pet Food and Pool Cues," published May 13, 2006.

On June 6, 2007, the Senate Committee on the Judiciary held its sixth and final hearing on patent reform, entitled "Patent Reform: The Future of American Innovation." Senator Leahy, Senator Specter, Senator Cardin, Senator Whitehouse, Senator Hatch, and Senator Coburn attended the hearing. Testifying on Panel I was the Honorable Jon W. Dudas, Undersecretary of Commerce for Intellectual Property, Director of the U.S. Patent and Trademark Office. Testifying on Panel II were Bruce G. Bernstein, Chief Intellectual Property and Licensing Officer, InterDigital Communications Corporation; Mary Doyle, Senior Vice President, General Counsel and Secretary, Palm, Inc.; John A. Squires, Chief Intellectual Property Counsel, Goldman, Sachs & Co.; and Kathryn L. Biberstein, Senior Vice President, General Counsel and Secretary, and Chief Compliance Officer, Alkermes, Inc. The following materials were submitted for the record: letter from the Department of Commerce to Senator Leahy and Senator Specter dated May 18, 2007; letter from BIO to Senator Leahy and Senator Specter dated May 29, 2007; letter from Chief Judge Paul R. Michel of the Federal Circuit to Congressman Conyers dated May 21, 2007; letter from the National Association of Manufacturers to Congressman Conyers and Congressman Smith dated May 18, 2007; letter from Chief Judge Paul R. Michel of the Federal Circuit to Senator Leahy and Senator Specter dated May 3, 2007; the prepared statement of Jon W. Dudas; the prepared statement of Bruce G. Bernstein; prepared statement of Mary Doyle; prepared statement of John A. Squires; and prepared statement of Kathryn L. Biberstein.

C. LEGISLATIVE HISTORY

On June 21, 2007, the Senate Judiciary Committee first considered S. 1145. Senator Leahy offered a Manager's Amendment, which was adopted by unanimous consent. This Manager's Amendment made several changes including eliminating inter partes reexamination; making denials of PGR petitions discretionary and not reviewable; raising the standard for initiating PGR to requiring both a showing of likely economic harm and notice of infringement; making technical changes regarding USPTO venue from the District of Columbia to the Eastern District of Virginia; limiting the venue choices against foreign defendants; clarifying that the apportionment language does not apply to lost profits calculations; pro-

viding that false substitute statements in 115 are subject to the same criminal penalties as false inventor oaths; eliminating the requirement that to request a derivation proceeding, the inventor had to have filed a patent application prior to the publication of the allegedly derived application; clarifying the one a year grace period set forth in 102; eliminating the DC-area residency requirement for Federal Circuit judges; establishing a new "micro-entity" status for truly small inventors; eliminating the provision in the Act that would have expanded the prior user rights defense to apply to all patents; and providing that a report on prior user rights be provided to Congress.

On July 12, 2007, the Senate Judiciary Committee considered S. 1145 as previously amended on June 21, 2007. The Committee accepted Senator Leahy's Second Manager's Amendment by unanimous consent. This Manager's Amendment made several changes to post-grant review, including for both 1st and 2nd window raising the standard to initiate a PGR to "substantial new question of patentability"; for both windows prohibiting the filing of a PGR petition by a party that has instituted a district court action challenging the validity of the same patent; for both windows providing for settlement; for 2nd window, providing that the challenged patent has a presumption of validity; and for 2nd window requiring that a PGR petition be filed within 12 months of receiving notice of infringement. This Manager's Amendment also made changes to venue including clarifying that the new section would apply to declaratory judgment actions, as well as making changes regarding venue for foreign defendants. This Manager's Amendment also expanded who has standing to assert the prior user rights defense to include affiliates of the person who performed the acts that constitute the defense. This Manager's Amendment also eliminated the provision requesting a reexamination study; gave the USPTO fee setting authority; reduced the maximum number of years (from 6 to 2) of past damages that a patentee could recover where the patent was not subject to the marking requirements of 287(a). This Manager's Amendment also added the phrase "otherwise available to the public" to 102 to make clear that secret collaborative agreements, which are not available to the public, are not prior art. This Amendment added the applicant quality submission (AQS) provision to the Act; clarified the damage language regarding apportionment and the entire market value rule; and gave district court judges discretion as to when to certify claim construction decisions for interlocutory appeal, and when to stay the underlying case pending such appeal. Finally, this Manager's Amendment eliminated the provision in the Act giving the USPTO substantive rulemaking authority.

Senator Specter offered an amendment that changed the venue provision for civil actions relating to patents in several respects. The amendment prohibits a party from manufacturing venue by assignment, incorporation or otherwise. The amendment limits venue in patent infringement and declaratory judgment actions to the district in which (1) the defendant has its principal place of business or is incorporated, or, for a foreign defendant, where its primary United States subsidiary is located; (2) the defendant has committed substantial acts of infringement if the defendant has a regular and established physical facility in that district that con-

stitutes a substantial portion of the defendant's operations, or (3) the primary plaintiff resides if the plaintiff is a university or an individual inventor that qualifies as a micro-entity. The Specter venue amendment also provided for transfer of cases in limited situations where appropriate.

The Committee concluded consideration of S. 1145 at a business meeting on July 19, 2007, at which 10 amendments were considered.

Senator Leahy and Senator Hatch offered a Third Managers' Amendment adopted by unanimous consent that made changes including clarifying that the venue provision applied to non-incorporated businesses; restoring the willfulness section of the bill that was inadvertently struck in the Second Managers' Amendment due to a clerical error; narrowing the patents subject to 2nd window post-grant review to those that issue after the effective date of that section of the Act, as well as those that would have been subject to inter partes reexamination; making clear that PGR Board decisions were only appealable to the Federal Circuit and not to a federal district court; clarifying the burden of proof required to invalidate a patent under PGR 2nd window; and making a technical change to the conforming amendment in Section 9 regarding USPTO regulatory authority.

Senator Specter offered an amendment that would have eliminated best mode as grounds for invalidating a patent. This amendment was rejected on a roll call vote. The vote record is as follows:

YEAS (9)—Brownback (Kan.), Coburn (Okla.), Cornyn (Texas), Feinstein (Calif.), Graham (S.C.), Hatch (Utah), Kyl (Ariz.), Sessions, J. (Ala.), Specter (Pa.).

NAYS (10)—Biden (Del.), Cardin (Md.), Durbin (Ill.), Feingold (Wis.), Grassley (Iowa), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.), Whitehouse (R.I.).

Senator Kennedy offered an amendment that would give the Director of the United States Patent and Trademark Office the discretion to accept late filings in limited circumstances when the delay is unintentional. The amendment was agreed to by unanimous consent; Senator Grassley and Senator Sessions later changed their votes to no votes, which did not affect the outcome of the vote.

Senator Sessions offered an amendment that would limit liability for certain check imaging patents against certain potential defendants. The amendment was agreed to by unanimous consent.

Senator Coburn offered an amendment that would eliminate fee diversion at the United States Patent and Trademark Office. The amendment was agreed to by a voice vote.

Senator Hatch offered an amendment that would codify and raise the standard to prove inequitable conduct, including defining materiality as information that is considered would render a claim of the patent invalid. Senator Leahy then offered a second degree amendment that instead would define materiality as information that a patent examiner would consider important in deciding whether to allow the patent. The second degree amendment was accepted on a roll call vote. The vote record is as follows:

YEAS (10)—Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feingold (Wis.), Graham (S.C.), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.), Whitehouse (R.I.).

NAYS (9)—Biden (Del.), Brownback (Kan.), Coburn (Okla.), Feinstein (Calif.), Grassley (Iowa), Hatch (Utah), Kyl (Ariz.), Sessions (Ala.), Specter (Pa.).

Senator Kyl offered an amendment that would have modified the bill's damages language by defining how a reasonable royalty should be calculated as what a willing licensor/licensee would have voluntarily negotiated at the time of the infringement. This amendment was rejected on a roll call vote, with 2 not voting. The vote record was as follows:

YEAS (7)—Brownback (Kan.), Coburn (Okla.), Feingold (Wis.), Grassley (Iowa), Kennedy (Mass.), Kyl (Ariz.), Specter (Pa.).

NAYS (10)—Biden (Del.), Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Hatch (Utah), Kohl (Wis.), Leahy (Vt.), Sessions (Ala.), Schumer (N.Y.), Whitehouse (R.I.).

Senator Kyl offered an amendment that would strike Section 4 (damages) from the bill. This amendment was rejected on a roll call vote, with 1 not voting. The vote record is as follows:

YEAS (7)—Biden (Del.), Brownback (Kan.), Coburn (Okla.), Feingold (Wis.), Grassley (Iowa), Kyl (Ariz.), Specter (Pa.).

NAYS (11)—Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feinstein (Calif.), Hatch (Utah), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.), Sessions (Ala.), Whitehouse (R.I.).

Senator Coburn offered an amendment that would strike Section 5 (post-grant review) from the bill, and would require the USPTO and the Department of Justice conduct a 6-month study of post-grant review systems used by foreign countries. This amendment was rejected by a roll call vote, with 1 not voting. The vote record is as follows:

YEAS (5)—Brownback (Kan.), Coburn (Okla.), Feingold (Wis.)*, Grassley (Iowa), Kyl (Ariz.).

NAYS (13)—Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feinstein (Calif.), Graham (S.C.), Hatch (Utah), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.)*, Sessions, J. (Ala.), Specter (Pa.), Whitehouse (R.I.).

The Committee voted the Patent Reform Act of 2007 as amended to be reported favorably by a roll call vote of 13 yeas to 5 nays, with 1 not voting.

YEAS (13)—Cardin (Md.), Cornyn (Texas), Durbin (Ill.), Feinstein (Calif.), Graham (S.C.), Hatch (Utah), Kennedy (Mass.), Kohl (Wis.), Leahy (Vt.), Schumer (N.Y.)*, Sessions, J. (Ala.), Specter (Pa.), Whitehouse (R.I.).

NAYS (5)—Brownback (Kan.), Coburn (Okla.), Feingold (Wis.)*, Grassley (Iowa), Kyl (Ariz.).

III. Section-by-Section Summary of the Bill

Sec. 1. Short title; table of contents

This Act may be cited as the Patent Reform Act of 2007.

Sec. 2. Right of the first inventor to file

This section, inter alia, converts the United States' patent system into a first-inventor-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 proper applicant

for the claimed invention. This section also provides for a grace period for publicly disclosing the subject matter of the claimed invention, without losing priority.

Specifically, this section makes the following amendments:

Subsection (a)—§ 100 is amended to include definitions for additional terms.

Subsection (b)—§ 102 is amended as follows:

(a)(1) A patent shall not issue for a claimed invention if the invention was patented, described in a printed publication, or in public use, on sale or otherwise available to the public (A) more than a year before the filing date, or (B) anytime prior to the filing date if not through disclosure by the inventor or joint inventor, or by others who obtained the subject matter, directly or indirectly, from the inventor or joint inventor. A one-year grace period is provided for an inventor or joint inventor that discloses the subject matter of the claimed invention.

(2) A patent also may not be issued 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.

(b) Exceptions:

Subject matter that would otherwise qualify as prior art under (a)(1)(B) shall not be prior art if the subject matter had, before such disclosure, been publicly disclosed by the inventor, joint inventor, or others who obtained the subject matter from the inventor/joint inventor. Subject matter that would otherwise qualify as prior art under (a)(2) shall not be prior art if (A) the subject matter was obtained directly or indirectly from the inventor or joint inventor, (B) the subject matter had been previously disclosed by the inventor or a joint inventor or others who obtained the subject matter, directly or indirectly, from the inventor or a joint inventor, or (C) prior to the effective filing date, the subject matter and the claimed invention 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.

The requirements for an effective filing date are set forth.

Subsection (c)—§ 103 is amended consistent with moving to a first-inventor-to-file system. Existing subsection (a) is amended slightly; subsection (b) is deleted because it is no longer needed; subsection (c), which is the CREATE Act, has been moved, and slightly changed, to § 102.

Subsection (d)—Repeals § 104 (Inventions Made Abroad).

Subsection (e)—Repeals § 157 (Statutory Invention Registration).

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

Subsection (g)—Makes various conforming amendments.

Subsections (h), (i) & (j)—Repeals interference proceeding and repeals § 291. Amends § 135(a) and provides for a "derivation proceeding," designed to determine the inventor with the right to file an application 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 Patent Trial and Appeal Board (the "Board") shall determine the right to patent and issue a final decision thereon. Decisions of the Board may be appealed to the Federal Circuit, or to district court pursuant to § 146.

Sec. 3. Inventor's oath or declaration

The section streamlines the requirement that the inventor submit an oath as part of a patent application, and makes it easier for patent owners to file applications.

Subsection (a)—Section 115 is amended to permit an applicant to submit a substitute statement in lieu of the inventor's oath or declaration in certain circumstances, including if the inventor is (i) unable to do so, or (ii) unwilling to do so and is under an obligation to assign the invention. A savings clause provides that 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. False substitute statements are subject to the same penalties as false oaths and declarations.

Subsection (b)—Amends section 118 to allow the person to whom the inventor has assigned (or is under an obligation to assign) the invention to file a patent application. A person who otherwise shows sufficient proprietary interest in the invention may file a patent application as an agent of the inventor to preserve the rights of the parties.

Sec. 4. Right of the inventor to obtain damages

Subsection (a)—§ 284, the patent damage statute, is amended as follows:

The court shall award the claimant damages adequate to compensate for the infringement but not less than a reasonable royalty, together with interest and costs. The court may receive expert testimony to assist it in determining damages.

In determining a reasonable royalty, the court shall determine which of the following methods should be used, and should identify the factors that are relevant thereto:

(A) Entire market value—the royalty may be based upon the entire market value of the larger apparatus/process, that incorporates the infringing product/process, if the claimed invention's specific contribution over the prior art is the predominant basis for the market demand of the larger apparatus/process;

(B) Established royalty based on marketplace licensing—the royalty may be based on other nonexclusive licenses of the patented invention if the claimed invention has been the subject of a nonexclusive license to a number of persons sufficient to indicate a general marketplace recognition of the reasonableness of the licensing terms, if the license was secured prior to the filing of the case, and if the infringer's use is of substantially the same scope, volume and benefit of the rights granted under such license.

(C) If showings under (A) and (B) have not been made, the court shall conduct an analysis to ensure that a 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. In the case of a combination

invention whose elements are present individually in the prior art, the contribution over the prior art may include the value of the additional function resulting from the combination, as well as the enhanced value, if any, of some or all of the prior art elements as part of the combination, if the patentee demonstrates that value.

In determining a reasonable royalty, where appropriate, the court may also consider (or direct the jury to consider) any other relevant factors under applicable law.

The methods set forth in this subsection shall only apply to calculation of damages based on a reasonable royalty.

Willful infringement—§ 284 is amended by adding subsection (e) to codify, and change, the doctrine of willful infringement.

A court may increase damages by up to three times based on a finding of willful infringement. A determination of willful infringement shall be made without a jury. To prove willful infringement, a patentee must prove by clear and convincing evidence that:

(A) the infringer received written notice from the patentee (i) alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and (ii) identifying with particularity each claim of the patent, each allegedly infringing product or process, and the relationship of such product or process to such claim, the infringer, after a reasonable opportunity to investigate, thereafter performed one or more acts of infringement;

(B) after receiving such notice and after a reasonable opportunity to investigate, the infringer intentionally copied the patented invention with knowledge that it was patented; or

(C) after having been found by a court to infringe a patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to have infringed the patent, and which resulted in a separate finding of infringement of the same patent.

The doctrine of willful infringement has the following limitations:

(i) "Good faith"—A court may not find that an infringer has willfully infringed a patent for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed. An informed good faith belief may be established by (a) reasonable reliance on advice of counsel; (b) evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or (c) other evidence a court may find sufficient to establish good faith. The decision of the infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement.

(ii) Pleadings—A patentee may not plead (and a court may not determine) willful infringement before the date on which a court determines that the patent in suit is not invalid, is enforceable, and has been infringed by the infringer.

Subsection (b)—Prior user rights study—Within 2 years from the date of enactment, the Director shall report to Congress his findings and recommendations regarding the operation of "prior user rights" in selected countries as compared to the United States.

Subsection (c)—Marking and notice—Subsection (a) of § 287 is renumbered as (a)(1). Subsection (a)(2), which is added, provides that for patented inventions not covered under subsection (a)(1), past damages shall be limited to 2 years prior to the filing of a com-

plaint (or counterclaim) except upon proof that the infringer was notified of infringement by the patentee. In no case shall liability for past damages exceed 6 years.

Subsection (d)—Subsection (b)(6) of § 273 is amended to also allow "affiliates" of the person who performed the necessary prior user rights acts to assert the defense.

Subsection (e)—The amendments made by this section shall apply to any civil action commenced on or after the date of enactment of this Act.

Sec. 5. Post-grant procedures and other quality enhancements

This section creates a new post-grant review proceeding that allows third parties to petition the USPTO to review patents that may be invalid. There are two different "windows" for the filing of such petitions: 1st window petitions must be filed within 1 year of the patent issuing; 2nd window petitions may be filed at anytime after the patent issues.

The procedures and standards for each window differ when expressly specified in the statute.

In view of the creation of this new PGR system, § 303(a) is amended and inter partes reexamination is repealed.

Subsection (a)—Amends § 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 the Director or cited by any other person.

Subsection (b)—Repeals inter partes reexamination.

Subsection (c)—Sets forth post-grant opposition procedures. The specific statutory sections are as follows:

§ 321—Petition for post-grant review

Permits a 3rd party to file a PGR petition with the PTO to cancel a claim as invalid based on any ground that might be raised under § 282(b)(2) and (3). The Director shall establish fees to be paid by the person requesting the proceeding.

§ 322—Timing and basis of petition

A PGR petition may be filed in any one of three circumstances:

(1) The petition is filed within 12 months of the patent's issuance or reissuance (referred to as "1st window");

(2)(i) There is substantial reason to believe that the continued existence of the challenged claim is likely to cause the petitioner significant economic harm, and (ii) the petitioner files the petition within 12 months after receiving notice (explicitly or implicitly) of infringement; or

(3) The patent owner consents ((2) and (3) are referred to as "2nd window").

§ 323—Requirements of petition

A petition must, inter alia, include the necessary fee, identify the real parties in interest, specifically identify each claim challenged, the grounds for challenging it, and the evidence that supports each challenge, including, where applicable, copies of relevant patents and printed publications, or supporting affidavits or declarations. The Director may, by regulation, require additional information. The petitioner must provide a copy of the petition with supporting documents to the patent owner or his designated representative.

§ 324—Publication and public availability of petition

The Director shall publish the petition in the Federal Register and make that petition available on the USPTO website. Any PGR file shall be made available to the public unless a petition or document is accompanied with a motion to seal. Such petition or document shall be treated as sealed, pending the outcome of the ruling on the motion. Failure to file a motion to seal will result in the pleading being placed in the public record.

§ 325—Prohibited filings

Successive petitions under any subsection of § 322, filed by the same party on the same patent, are prohibited. A PGR proceeding may not be instituted or maintained under paragraph (1) or (2) of § 322 if the petitioner or real party in interest has instituted a civil action challenging the validity of a claim of the patent.

§ 326—Submission of additional information

A petitioner shall file such additional information as the Director may require by regulation.

§ 327—Institution of post-grant review proceedings

The Director may not authorize a post-grant review proceeding to commence unless the Director determines that the information presented in the petition raises a substantial new question of patentability for at least 1 of the challenged claims. The Director shall decide a petition within 90 days of its receipt, shall notify the petitioner and patent owner of the Director's decision, and if granted shall publish each notice of PGR institution in the Federal Register and on the USPTO website, including the date the PGR proceeding shall commence. The determination by the Director whether to authorize a PGR proceeding is not appealable. The Director shall assign a PGR proceeding to a panel of 3 Board judges.

§ 328—Consolidation of proceedings and joinder

If more than 1 petition is submitted under § 322(1) against the same patent and each raises a substantial new question of patentability warranting commencement, the Director may consolidate such proceedings. If the Director commences a PGR proceeding on the basis of a petition filed under § 322(2), any person who files in compliance with section 322(2)(A) a petition that the Director finds sufficient to proceed under § 327 may be joined at the discretion of the Director, and such person shall participate in such PGR proceeding.

§ 329—Conduct of post-grant review proceedings

The Director shall prescribe regulations establishing and governing PGR proceedings under this chapter and their relationship to other proceedings under this title. The regulations shall set forth the standards for showings of substantial reason to believe and significant economic harm under § 322(2) and substantial new question of patentability under § 327(a). The regulations shall (i) provide for the publication in the Federal Register all requests for the institution of PGR, (ii) establish procedures for the submission of supplemental information after the petition is filed, and (iii) set forth procedures for discovery of relevant evidence. The regulations shall require that the final determination in a PGR proceeding issue not later than 1 year after the date on which the Director notices its institution, except that, for good cause shown, the Director may extend the 1-year period by not more than 6 months. The regulations shall (i) provide for discovery upon order of the Director,

as required in the interests of justice, (ii) prescribe sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, (iii) provide for protective orders governing the exchange and submission of confidential information; and (iv) ensure that any information submitted by the patent owner in support of any amendment entered under § 332 is made available to the public as part of the prosecution history of the patent.

In prescribing regulations, the Director shall consider the effect on the economy, the integrity of the patent system, and the efficient administration of the Office. The Patent Trial and Appeal Board shall conduct each proceeding authorized by the Director.

§ 330—Patent owner response

After a post-grant review proceeding has been instituted, the patent owner shall have the right to file a timely response, which may include affidavits, declarations and any additional factual evidence and expert opinions on which the patent owner relies in support of the response.

§ 331—Proof and evidentiary standards

The presumption of validity set forth in § 282 of this title shall not apply to challenges brought under § 322(1) but shall apply in a challenge brought under paragraph (2) or (3) of § 322 to any patent claim under this chapter. The petitioner under § 322(1) shall have the burden of proving a proposition of invalidity by a preponderance of the evidence. For petitions filed under paragraphs (2) or (3) of § 322, the existence, authentication, availability, and scope of any evidence offered to establish invalidity shall be established by clear and convincing evidence. If such predicate facts are so established, invalidity shall be proven only if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence.

§ 332—Amendment of the patent

During a post-grant review proceeding, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways: (1) cancel any challenged patent claim; (2) for each challenged claim, propose a substitute claim; or (3) amend the patent drawings or otherwise amend the patent other than the claims. Additional motions to amend may be permitted only for good cause shown. An amendment under this section may not enlarge the scope of the claims of the patent or introduce new matter.

§ 333—Settlement

A PGR proceeding shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Office has decided the matter before the request for termination is filed. If the PGR proceeding is terminated with respect to a petitioner under this section, no estoppel under this chapter shall apply to that petitioner. If no petitioner remains in the PGR proceeding, the Office shall terminate the PGR proceeding. Any agreement or understanding between the patent owner and a petitioner to terminate the proceeding, including any collateral agreements referred to therein, shall be in writing and a true copy shall be filed in the USPTO before the termination of the post-grant review proceeding. If any party filing such agreement or understanding so requests, the copy shall be kept separate from the file of the PGR proceeding, and made available only to

Federal Government agencies upon written request, or to any other person on a showing of good cause.

§ 334—Decision of the board

If the proceeding is not otherwise dismissed, the Patent Board shall issue a final written decision with respect to the patentability of any patent claim challenged and any new claim added.

§ 335—Effect of decision

If a final decision of the Board that is not timely appealed, or if that appeal is terminated, the Director shall publish a certificate canceling any claim determined unpatentable, and shall incorporate in the patent any new claim determined to be patentable.

§ 336—Relationship to other pending proceedings

The Director may determine rules relating to other ongoing proceedings.

§ 337—Effect of decisions rendered in civil action on future post-grant review proceedings

If a final decision has been entered against a party in a civil action arising under section 1338 of title 28 establishing that the party has not sustained its burden of proving the invalidity of any patent claim, that party to the civil action may not subsequently request a PGR proceeding on that patent claim on the basis of any grounds under § 322. In addition, the Director may not subsequently maintain a PGR proceeding previously requested by that party.

§ 338—Effect of final decision on future proceedings

If a final decision under § 334 is favorable to the patentability of any original or new claim of the patent challenged by the petitioner, the petitioner may not thereafter, based on any ground which the petitioner raised during the PGR proceeding (1) request or pursue a derivation proceeding with respect to such claim; or (2) assert the invalidity of any such claim in any civil action arising in whole or in part under section 1338 of title 28. If the final decision is the result of a petition filed on the basis of § 322(2), the prohibition under this section shall extend to any ground which the petitioner raised during the PGR proceeding.

§ 339—Appeal

A party dissatisfied with the final determination of the Board in a PGR proceeding may appeal the determinations under §§ 141 through 144. Any party to the PGR proceeding shall have the right to be a party to the appeal.

Subsection (d)—Sets forth technical and conforming amendments.

Subsection (e)—Within 1 year after the enactment of this Act, the Director shall issue regulations to implement PGR, as added by this section.

PGR shall take effect on the date that is 1 year after the date of the enactment of this Act and shall apply to patents issued on, or after that date, except that, in the case of a patent issued before the effective date of this Act on an application filed between November 29, 1999 and the effective date of this Act, a petition for post-grant review may only be filed under subsections (2) or (3) of § 322. The Director shall determine the procedures under which interferences commenced before the effective date of this Section are to proceed and issue appropriate regulations.

Sec. 6. Definitions; patent trial and appeal board

The Board of Patent Appeals and Interferences is replaced with the new Patent Trial and Appeal Board ("Board"). The Board is charged with (i) reviewing adverse decisions of examiners on applications and reexamination proceedings, (ii) conducting derivation proceedings, and (iii) conducting the post-grant review proceedings.

Sec. 7. Submissions by third parties and other quality enhancements

Subsection (a)—§ 122(b)(2), which provides an exception to the 18-month publication requirement for an applicant who is not filing in another country, is repealed.

Subsection (b)—Creates a mechanism in § 122 for third parties to submit timely pre-issuance information relevant to the examination of the application, including a concise statement of the relevance of the submission.

Sec. 8. Venue and jurisdiction

Subsection (a)—The venue provision for patent cases, section 1400 of title 28, is amended as follows:

Civil actions for patent infringement, including declaratory judgment actions, may only be brought in a judicial district (1) where the defendant has its principal place of business or is incorporated or formed, or, for a foreign corporation with a U.S. subsidiary, where its primary United States subsidiary has its principal place of business or is incorporated or formed; (2) where the defendant has committed substantial acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant; (3) where the primary plaintiff resides, if the primary plaintiff in the action is an institution of higher education or a nonprofit patent and licensing organization (as those terms are defined in this section); (4) where the plaintiff resides, if the sole plaintiff in the action is an individual inventor who qualifies as a "micro-entity" pursuant to section 123 of title 35. A defendant may request the case be transferred where (1) any of the parties has substantial evidence or witnesses that otherwise would present considerable evidentiary burdens to the defendant if such transfer were not granted, (2) transfer would not cause undue hardship to the plaintiff, and (3) venue would be otherwise appropriate under section 1391 of title 28.

Subsection (b)—Interlocutory Appeals—Subsection (c)(2) of section 1292 of title 28, is amended to require the Federal Circuit to accept all interlocutory appeals of claim construction orders when certified by the district court. A party wishing to appeal such an order shall file a motion with the district court within 10 days after entry of the order. The district court shall have discretion whether to certify such appeals, and if so, whether to stay the district court proceedings during such appeal.

Subsection (c)—Technical Amendments Relating to USPTO Venue—The venue for certain district court challenges of USPTO decisions is changed from the District of Columbia to the Eastern District of Virginia, the district where the USPTO resides.

Sec. 9. Patent and Trademark Office regulatory authority

This section gives the director rulemaking authority to set or adjust any fee under §§ 41 and 376, and section 1113 of title 15, provided that such fee amounts are set to reasonably compensate the USPTO for the services performed. The Director may also reduce such fees. The Director shall consult with the patent and trademark advisory committees as provided for in this section. Any proposal for a change in fees (including the rationale, purpose, and possible expectations or benefits that will result) shall be published in the Federal Register and shall seek public comment for a period of not less than 45 days. The Director shall notify Congress of any final proposed fee change and Congress shall have up to 45 days to consider and comment before any proposed fee change becomes effective.

Rules of construction are provided.

Sec. 10. Residency of Federal Circuit judges

The District of Columbia area residency requirement for Federal Circuit judges in section 44(c) of title 28 is repealed.

Sec. 11. Applicant quality submissions

§ 123 is added to provide the Director authority to promulgate rules that require a patent applicant to submit a search report and analysis relevant to patentability and other relevant information as determined by the Director. Failure to comply with such requirements shall result in abandonment of the application. A "micro-entity", as defined in this section, is exempt from this requirement.

§ 124 is added to define the qualifications for "micro-entity" status.

Sec. 12. Inequitable conduct

§ 298 is added to improve and codify the doctrine of "inequitable conduct".

A party advancing the proposition that a patent should be cancelled or held unenforceable due to inequitable conduct shall prove independently, by clear and convincing evidence, that material information was misrepresented, or omitted, from the patent application with the intention of deceiving the USPTO. Information is material if a reasonable examiner would consider such information important in deciding whether to allow the patent application; any such information is not cumulative. Although intent to deceive the USPTO may be inferred, it may not be done so based solely on the gross negligence of the patent owner or its representative, or on the materiality of the information misrepresented or not disclosed. The party asserting the defense or claim shall comply with the pleading requirements set forth under Federal Rules of Civil Procedure 9(b). If the court finds inequitable conduct, the court has discretion to (1) hold the entire patent unenforceable, (2) hold 1 or more claims unenforceable, or (3) hold that patentee is not entitled an injunction.

Sec.13. Authority of the Director of the Patent and Trademark Office to accept late filings

Subsection (e) is added to § 2 to give the Director discretion to accept late filings in certain cases of unintentional delay. Specifi-

cally the Director may accept a late filing if the applicant or owner of a patent or trademark (i) files a petition within 30 days after the missed deadline, and (ii) demonstrates to the satisfaction of the director the delay was unintentional. The petition shall be deemed denied if the Director has not made a determination within 60 days after the date of its filing. Director's decisions on such petitions shall not be subject to judicial review. This subsection shall not apply to any other provision of the patent or trademark laws that allow the Director to accept late filings, or to statutory deadlines required by treaty.

This amendment shall apply to any application or other filing that (i) is filed on or after the date of the enactment of this Act; or (ii) on such date of enactment, is pending before the Director or is subject to judicial review, and for such cases in (ii), the 30-day period shall begin on the date of the enactment of this Act.

Sec. 14. Limitation on damages and other remedies with respect to patents for methods in compliance with check imaging methods

§ 287 is amended by adding subsection (d)(1), which provides that use by a financial institution of a check collection system that constitutes an infringement under subsection (a) or (b) of section 271, the provisions of sections 281, 283, 284, and 285 shall not apply against the financial institution. Definitions are provided for various terms including "check," "check collection system," "financial institution," "substitute check," and "truncate." This amendment shall apply to any civil action for patent infringement pending or filed on or after the date of enactment of this Act.

Sec. 15. Patent and Trademark Office funding

This section terminates appropriation of USPTO fees and shall take effect on October 1, 2008. All fees collected by the Director shall be available until expended. The provisions of any prior appropriation Act that makes amounts available pursuant to 42(c), and are in effect on the effective date set forth in subparagraph (A) shall cease to be effective on that effective date, and any unexpended amounts made available pursuant to such section shall be transferred in accordance with subsection (c)(5). A revolving fund is established in the Treasury of the United States and any amounts in the fund shall be available for use by the Director without fiscal year limitation. Any fees collected under sections 41, 42, and 376 of title 35, and section 1113 of title 15, shall be deposited in the fund. Amounts deposited into the fund shall be available to the Director without fiscal year limitation. Any unexpended balances in any accounts held on behalf of the Director, or the Office, shall be transferred to the fund and shall remain available until expended. The Director shall submit an annual report to Congress within 60 days after the end of each fiscal year.

Within 30 days after the beginning of each fiscal year, the Director shall notify Congress the Office's annual spending plan.

The Director shall, on an annual basis, provide for an independent audit of the financial statements of the Office. Such audit shall be conducted in accordance with generally acceptable accounting procedures.

In accordance with section 9301 of title 31, United States Code, the fund shall prepare and submit each year to the President a

business-type budget in such manner, and before such date, as the President prescribes by regulation for the budget program.

Sec. 16. Technical amendments

This section sets forth technical amendments consistent with this Act.

Sec. 17. Effective date; rule of construction

Except as otherwise provided, this Act takes effect 12 months after the date of enactment and applies to any patent issued on or after that effective date.

The enactment of § 102(b)(3), under section (2)(b) of this Act, is done with the same intent to promote joint research activities that was expressed in the CREATE Act (Cooperative Research and Technology Enhancement Act of 2004 (Public Law 108–453; the "CREATE Act")), and shall be administered by the in the manner consistent with such.

IV. Congressional Budget Office Cost Estimate

The cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974 was not available for inclusion in this report. The estimate will be printed in either a supplemental report or the Congressional Record when it is available.

V. Regulatory Impact Evaluation

In compliance with rule XXVI of the Standing Rules of the Senate, the Committee finds that no significant regulatory impact will result from the enactment of S. 1145.

VI. Conclusion

The Patent Reform Act of 2007, S. 1145, will establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. By ensuring the patent system in the 21st century accurately reflects the constitutional mandate to "promote the progress of science and useful arts", the Patent Reform Act will help ensure that the United States maintains its competitive edge in the global economy.

VII. Additional and Minority Views

ADDITIONAL VIEWS FROM SENATOR SPECTER ON CHANGES TO THE VENUE STATUTE

As the majority notes, current case law on the venue statute governing patent cases (28 U.S.C. aA1400(b)) permits a patent holder to "bring a patent infringement action in any one of the 94 judicial districts in the United States"[1] as long as the district court has personal jurisdiction over the defendant.[2] This case law is contrary to the plain language of the patent venue statute as well as the intent behind the provision. More troubling, though, is the practical effect this interpretation has had on the patent litigation system by permitting plaintiffs to engage in "forum shopping," resulting in patent infringement cases being brought in judicial districts that have little or no connection to the alleged infringement.

While some of these districts may facilitate swifter resolution of patent cases with their "rocket dockets," most cases are filed there because of the view that they are "plaintiff-friendly" locales. This has led to the perception that justice in patent cases can he "gamed." This does not serve the interests of justice, or the patent system as a whole. Section 8(a) of S. 1145, the Patent Reform Act of 2007, seeks to remedy this by establishing that venue in patent infringement cases, and declaratory judgment actions related to patents, should only be properly found in those jurisdictions that have a direct relationship to the underlying patent question.

HISTORY OF THE VENUE STATUTE

Since 1800, the federal district courts have had original and exclusive jurisdiction "of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks."[3] Recognizing the unique nature of patent infringement suits, Congress first enacted a special patent venue statute in 1897. The statute provided for venue "in the district of which the defendant is an inhabitant, or in any district in which the defendant, whether a person, partnership, or corporation, shall have committed acts of infringement and have a regular and established place of business."[4] Similar language is now codified as 28 U.S.C. 1400(b).

Section 1400(b) currently provides that venue is proper in the judicial district: (1) "where the defendant resides," or (2) "where the defendant has committed acts of infringement and has a regular

---

[1] S. Rep. No. 110–__, at 25 (2008).
[2] See *VE Holding Corp.* v. *Johnson Gas Appliance Co.,* 917 F.2d 1574, 1580 (Fed. Cir. 1990).
[3] 28 U.S.C. 1338(a) (2000).
[4] 29 Stat. 695, ch. 395 (1895).

and established place of business." This venue provision was designed to serve as a counterpoint to other procedural requirements controlled by the plaintiff. For instance, the plaintiff generally determines when and where to file their case, so long as they establish personal jurisdiction over the defendant. For most patent defendants, this minimal test will be met in virtually all districts. The venue requirement is thus the protection provided to the defendant by ensuring that patent infringement suits are brought only in those locations "reasonably convenient to the defendant."[5] In reviewing the provision, the Supreme Court has held that section 1400(b) exclusively governs venue in patent infringement suits.[6] The Supreme Court reinforced its position when it held that section 28 U.S.C. 1391, which generally governs proper venue in other types of federal cases, cannot be used as the basis for venue in infringement suits.[7]

In 1988, Congress expanded the general venue statute (28 U.S.C. 1391(c)) to provide: "For the purposes of venue under this chapter, a corporation that is a defendant shall be deemed to reside in any judicial district in which it is subject to personal jurisdiction at the time the action is commenced." Despite significant Supreme Court precedent to the contrary, in 1990, the Federal Circuit held in VE Holding Corp. v. Johnson Gas Appliance Co. that the amendments made to the general venue statute also apply to the patent venue statute (28 U.S.C. 1400(b)).[8] This ruling undermined the original purposes of 28 U.S.C. 1400(b)—which recognized the unique and complex nature of patent cases, deserving of a narrower venue statute. S. 1145 seeks to ensure that these cases are once again brought in more appropriate fora.

THE NEED FOR CHANGE

After the Federal Circuit's decision in VE Holding, plaintiffs no longer have to establish both personal jurisdiction over the defendant and proper venue for the case to proceed. It has effectively become a one step process—if the plaintiff establishes personal jurisdiction over a corporate defendant (a fairly low threshold), then the case may be brought in that district, even if the defendant has no significant ties or business operations in that location.

This change in the law has brought with it significant changes in litigation tactics. Plaintiffs no longer have to bring patent suits in judicial districts that bear a direct relationship to the defendant, their business operations, or where a substantial share of the acts of infringement occurred. They can file patent suits in any district in which they establish some presence of the defendant, regardless of whether it is minimal in nature and without the actual knowledge of the defendant. While this has allowed some plaintiffs to file in districts with faster dockets, it has also opened the door to abusive forum shopping.

Forum shopping is problematic not only for the defendants in these cases, but also for the U.S. judicial system for several reasons. First, Congress created the Federal Circuit to develop a uni-

[5] See *Bradford Novelty Co.* v. *Manheim,* 156 F.Supp. 489 (SDNY 1957).
[6] See *Fourco Class Co.* v. *Transmirra Products Corp.,* 353 U.S. 222 (1957).
[7] See *Schnell* v. *Peter Eckrich & Sons, Inc.,* 365 U.S. 260 (1961).
[8] 917 F.2d 1575 (Fed.Cir. 1990).

form national body of patent law to override the confusing, conflicting law of the different regional circuits.[9] Yet, forum shopping that favors select district courts results in the development of localized bodies of law, thereby frustrating the national patent system, undermining the role of the Federal Circuit, and defeating the intent of Congress. Second, the ability to require a defendant to litigate in certain districts can inappropriately pressure defendants (or potential defendants) into settlement without regard to the underlying merits of the case. Third, forum shopping raises the cost of litigation by moving the court action away from the key witnesses and documents.

Independent studies have also confirmed that, if permitted, plaintiffs file patent suits in the district court where they have the greatest likelihood of success rather than in districts that have some connection to the underlying patent question or relevant evidence. One commentator made just this point when he noted that patent "cases have traditionally moved from district to district as courts show themselves more or less efficient in processing these enormously complex cases."[10] Further, a 2007 study conducted by PriceWaterhouseCoopers of 1,367 patent suits brought between 1995–2006 found that plaintiffs filed in the five districts where they had significantly higher success rates, especially at trial.[11]

The gravity of the problem is underscored by the growing number of patent suits filed each year. In 1990, in the twenty busiest patent jurisdictions in the country there were only 626 patent cases filed nationwide against 1,085 defendants. By 2007, that number has grown exponentially in those same jurisdictions to 2,082 patent cases filed nationwide against 5,672 defendants. In other words, the number of patent suits filed has more than tripled since 1990. While the increasing number of patents issued by the Patent and Trademark Office accounts for some of these increases, many believe that the emergence of "plaintiff friendly" courts account for the bulk of the increase. For example, in 1990, only one patent suit was filed in the Eastern District of Texas. By 2007, this number had grown to 367, or approximately one-eighth of all of the patent suits brought nationwide. The Central District of California is another example. In 1990, there were only 30 patent suits filed in the district. By 2007, that number had jumped to 320. The question of whether forum shopping of patent suits has reached alarming levels cannot be denied when one considers that in 2007 two districts handled approximately one-quarter of the patent suits filed in the country.

Some have argued that the emergence of one or two "magnet" jurisdictions does not warrant a wholesale change to the patent venue statute. However, the problem of forum shopping is not limited to the Eastern District of Texas or the Central District of Cali-

[9] The Federal Courts Improvement Act of 1982, 96 Stat. 25, 37–38.

[10] Michael C. Smith, "Rocket Docket: Marshall Court Leads Nation in Hearing Patent Cases," 69 Tex. B.J. 1045 (2006).

[11] 2007 Patent and Trademark Damages Study 20, 29 (Pricewaterhoue Coopers). The top districts were: Western District of Wisconsin with an overall plaintiff success rate of 63% and trial success rate of 91%; Eastern District of Texas with an overall plaintiff success rate of 60% and a trial success rate of 83%; Eastern District of Virginia with an overall plaintiff success rate of 47% and trial success rate of 78%; Central District of California with an overall plaintiff success rate of 44% and a trial success rate of 74%; and District of Delaware with an overall plaintiff success rate of 42% and a trial success rate of 58%. Id.

fornia. Indeed, Congress has received evidence that a disproportionate number of patent suits are also being filed in the Western District of Wisconsin, and a few other jurisdictions.

As the jurisdictions that attract plaintiffs change, so do the techniques for establishing venue. No case demonstrates the growing problem of forum shopping better than those involving the conglomeration of patent licensing companies known as "The Zodiac."

Named for the constellations, the ten related entities that comprise the Zodiac have asserted fifteen patents in 43 patent infringement suits against 488 defendants since August 2004. Although most of these suits were originally brought in the Eastern District of Texas, these licensing "corporations" later filed articles of incorporation for related entities in the Western District of Wisconsin, allowing them to sue in Madison. By establishing personal jurisdiction and meeting the current venue requirements merely by incorporating a new entity where they are likely to recover, the Zodiac has successfully forced numerous defendants to settle. It would seem only a matter of time before other companies follow suit.

INTENT OF THE AMENDMENTS

The purpose of the amendments to the current patent venue statute (28 U.S.C. § 1400(b)) is not to penalize or demonize those districts with a growing patent docket and that have gained significant expertise in patent law. These districts are to be commended for taking on a formidable area of the law and other districts should be encouraged to do the same. Rather, the amendments will ensure that the patent venue statute operates as originally intended. Given the complexity of the issues involved in patent disputes, venue for patent cases warrants different treatment than general litigation. The proposed language attempts to balance the rights of patent holders with the need to ensure patent cases are brought where there is a true connection to the underlying dispute.

Section 8(a) modifies 28 U.S.C. § 1400 by adding a new paragraph that explicitly states that: "a party shall not manufacture venue by assignment, incorporation, or otherwise to invoke the venue of a specific district court." [12] This provision is intended to curb the growing trend of establishing venue in districts where venue would not otherwise be proper by incorporating there, transferring assets to that location, suing local defendants, or assigning assets to entities in those preferred districts.[13] Such gamesmanship undermines the clear history of the patent venue provision which is "to protect the defendant where the defendant has no more than minimum contacts in the forum the plaintiff has chosen." [14]

The amendments provide that venue is proper, among other places, "where the defendant has its principal place of business or in the location or place in which the defendant is incorporated or formed." [15] Further, the amendments also provide that venue for foreign corporations is proper where "defendant's primary United

[12] *See* proposed 28 U.S.C. § 1400(b), as modified by S. 1145.

[13] This provision is not intended to supersede the court's ability to transfer or dismiss cases for lack of proper venue under 28 U.S.C. Sections 1404, 1406 or other relevant provisions.

[14] S. REP. No. 110–__, at 25 (2008) (citing 17 Moore's Federal Practice § 110.01[5][a] (3d ed. 1997)).

[15] *See* proposed 28 U.S.C. § 1400(c), as modified by S. 1145.

States subsidiary has its principal place of business or is incorporated or formed."[16] Current law, which subjects alien defendants to venue anywhere in the U.S., would continue to apply to foreign corporations that lack U.S. based operations.[17]

The amendments to the venue provision also protect plaintiffs' access to justice by providing that, under certain circumstances, venue will lie where the plaintiff resides. Thus, if the primary plaintiff is an institution of higher education, a non-profit technology transfer entity that serves as the licensing organization for an institution of higher education, or an individual inventor, then the plaintiff can claim venue where that entity resides, so long as it meets the other requirements under the Act.

The amendments also address a significant ambiguity in the patent venue language. Under the second prong of the current patent venue test, cases can be heard "where the defendant has committed acts of infringement and has a regular and established place of business."[18] The amendments specify that venue is only proper where "substantial acts of infringement" have occurred and where the defendant, "has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant."[19]

Some courts have interpreted the existing "acts of infringement" language very broadly. For example, in 1990, the Northern District of Illinois held that the continuous solicitation of sales combined with an activity such as the maintenance of a sales office and service center satisfies the "acts of infringement" test.[20] This has enabled plaintiffs to establish venue in districts that have no real connection to the defendant other than the fact that a national retail store sells its product there. In other words, under the current interpretation of the "acts of infringement test," a plaintiff can establish venue in any district where the defendant's product happens to flow in the stream of commerce.

Proper venue should not be determined by downstream decisions of third parties. As such, the amendments to the venue provision provide that the defendant must have "committed substantial acts of infringement" in that district before a case may be heard there. This language seeks to prevent venue from being based solely on isolated or insubstantial acts of infringement by the defendant, such as the sale of a few allegedly infringing computers, medical devices, or farm equipment in that district, especially if these items are routinely sold throughout the U.S.

In addition, some courts have also failed to apply the "regular and established place of business" test with appropriate rigor. Many courts have made clear that in order to satisfy the "regular and established place of business" requirement, "[a] defendant must be regularly engaged in carrying on a *substantial part* of its ordinary business on a permanent basis in a physical location with-

---

[16] *See* proposed 28 U.S.C. § 1400(c), as modified by S. 1145.
[17] 28 U.S.C. § 1391(d) (2000).
[18] 28 U.S.C. § 1400(b) (2000).
[19] *See* proposed 28 U.S.C. § 1400(c), as modified by S. 1145.
[20] *See Union Asbestos* v. *Evans*, 328 F.2d 949, 953 (7th Cir. 1964); *see also Hako Minuteman, Inc.* v. *Advance Machine Company*, 729 F. Supp. 65, 67 (N.D. Ill. 1990) (determining that a continuous solicitation of sales combined with an activity such as the maintenance of a sales office and service center satisfies the "act of infringement" test).

in the district over which it exercises some measure of control."[21] However, other courts have found the requirement satisfied where a defendant simply does business through employees located in the district[22] or leases office space in the district.[23] The amendments clarify that the requirement is satisfied only if the defendant "has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant." For example, a few sales kiosks, one small office or some minor telecommunications infrastructure should not be sufficient to meet this test, especially if the defendant operates similar facilities throughout the U.S. This change will ensure that patent infringement cases are heard in appropriate forums.

CONCLUSION

Although forum shopping is not unique to patent law, it has proven especially pernicious in patent litigation and is a practice that Congress has repeatedly addressed.[24] Unfortunately, it is not a problem that will correct itself with time but is one that will continue to grow unless Congress intervenes. The proposed changes to the patent venue statute will restore balance to the patent system, by ensuring that these complex cases are heard in the most appropriate district.

ARLEN SPECTER.

---

[21] *Kinetic Instruments* v. *Lares*, 802 F. Supp. 976, 987 (S.D.N.Y. 1992) (emphasis added; internal quotation marks and citations omitted).

[22] *See, e.g., In re Cordis Corp.*, 769 F.2d 733 (Fed. Cit. 1985), *cert. denied*, 474 U.S. 851 (1985); *Brunswick* v. *Suzuki Motor Co.*, 575 F. Supp. 1412, 1424 (E.D. Wisc. 1983).

[23] *See Hako*, 729 F. Supp. at 67.

[24] *See generally* the Class Action Fairness Act of 2005, Pub. L. 109–2, 119 Stat. 4, the Securities Litigation Reform Act of 1998, Pub. L. 105–353, 112 Stat. 3227 (legislation where Congress also sought to address forum shopping concerns).

ADDITIONAL VIEWS OF SENATORS ARLEN SPECTER AND ORRIN HATCH ON THE INEQUITABLE CONDUCT DEFENSE, S. 1145

As the Committee Report on S. 1145 notes, "candor and truthfulness are essential to the functioning of the patent examination process."[1] Despite the importance of this fundamental principle, Congress has never addressed the matter legislatively. Rather, it has left the matter for the United States Patent and Trademark Office (USPTO) to infer and for the courts to interpret. The result has been, as the Committee Report notes,[2] shifting standards that encourage improper challenges to patents based on assertions of inequitable conduct. Such challenges give rise to significant litigation costs and uncertainty about patent rights. They also chill communications between inventors and patent examiners during the patent examination process. Given this current state of affairs, it is imperative that Congress take steps to ensure that the inequitable conduct doctrine is applied in a manner consistent with its original purpose: to sanction true misconduct and to do so in a proportional and fair manner.

HISTORY OF THE INEQUITABLE CONDUCT DEFENSE

The Supreme Court arguably first recognized the doctrine of inequitable conduct in the 1933 decision, *Keystone Driller Co.* v. *Gen. Excavator Co.*[3] In that case, the Court noted, "It is one of the fundamental principles upon which equity jurisprudence is founded that, before a complainant can have a standing in court, he must first show that not only has he a good and meritorious cause of action, but he must come into court with clean hands."[4] In so doing, the Court recognized that a patent could be rendered unenforceable when the patent holder engages in less than honest conduct.

The most notable development following *Keystone Driller* occurred when the USPTO imposed a duty of candor.[5] 37 Code of Federal Regulations (C.F.R.) 1.56 (commonly referred to as "Rule 56") states that "Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability * * * ."[6] When applying Rule 56, lower courts have refused to enforce patents whenever material information is withheld from, or misrepresented to, the USPTO. However, as the

[1] S. REP. NO. 110–__, at 31 (2008).
[2] *Id.* at 32.
[3] *Keystone Driller Co.* v. *Gen. Excavator Co.*, 290 U.S. 240, 244 (1933).
[4] *Id.* (citing Joseph Story, Story's Equity Jurisprudence § 98 (14th ed. 1918)).
[5] 37 C.F.R. § 1.56 (2007).
[6] *Id.*

Committee Report notes, the type of information that is material to the patentability of an invention is far from clear.[7]

THE NEED FOR REFORM

We believe the inequitable conduct doctrine needs to be reformed because the modern examination environment is no longer confidential or closed to the public. Instead, the entire contents of applications, and their up-to-date status, are made available to the public in real-time by the USPTO. Moreover, additional provisions of S. 1145 advance greater participation by the public in the examination process and create a new administrative procedure to allow the public to challenge patent validity.

As originally articulated by courts, the inequitable conduct doctrine required clear and convincing evidence that a person with a duty of disclosure to the USPTO concealed or misrepresented material information during examination of a patent application, and did so with the specific intent of misleading the Office into issuing the patent. Unfortunately, the law governing inequitable conduct today is far removed from its original legal foundations. The inequitable conduct defense today has become a convenient and frequently raised litigation tactic that is overpled and a quick route to taking down otherwise valid and commercially valuable patents. It has become, in the words of the Federal Circuit, a "plague" on the patent system.[8]

Reforms to several aspects of the law governing inequitable conduct doctrine are needed to correct the problems with current law. These reforms are needed to not only align the doctrine with its public policy justifications, but also to make the doctrine useful to the USPTO. It is timely for us to reform the inequitable conduct doctrine as part of S. 1145.

Today, virtually any information can be characterized as "material" to the examination of a patent application. For example, courts have found the fact that an applicant paid the incorrect patent maintenance fee or failed to update the USPTO regarding the status of other pending applications to be "material" even though such information is unrelated to whether the invention at issue can be patented or is readily available and known to the USPTO.[9] In other cases, courts have found an applicant's failure to adequately disclose its relationship with an expert to be material even though the expert's views were accurate and true.[10] Given these cases, Congress must bring the doctrine of inequitable conduct back in line with its original purpose by limiting the standard for materiality to information that affects the patentability of an invention.

We do not support the ambiguous language reported by the Committee defining material information as that which a "reasonable patent examiner would consider such information important." This standard does not improve current law. Instead, it codifies current law, which will preclude any beneficial judicial developments that

[7] S. Rep. No. 110–__, at 32 (2008).

[8] *See Burlington Industries, Inc.* v. *Dayco Corp.*, 849 F.2d 1418 at 1422 (Fed. Cir. 1988) ("the habit of charging inequitable conduct in almost every major patent case has become an absolute plague.").

[9] *See Nilssen* v. *Osram Sylvania, Inc.*, 504 F.3d 1223 (Fed. Cir. 2007); *McKesson Info. Solutions, Inc. v. Bridge Med., Inc.*, 487 F.3d 897 (Fed. Cit. 2007).

[10] *See Ferring B.V.* v. *Barr Labs., Inc.*, 437 F.3d 1181 (Fed. Cir. 2006).

might occur in the future.[11] We consider this an unworkable solution. The language will make the problem worse for both the USPTO and for patent owners by allowing defendants to characterize irrelevant information as material. Under current law, patent applicants are compelled to provide too much information, much of it irrelevant, to the USPTO during examination. This state of affairs only leads to an inefficient patent examination process. A more appropriate standard will encourage applicants to provide only the most pertinent information to the Office, which will enable the USPTO to focus on truly material prior art and information that can affect the validity of a patent claim.

Further, as the Committee Report states, courts often ignore the requirement of proving that the person accused of inequitable conduct specifically intended to deceive the USPTO so that it would grant the patent.[12] Courts have done this by inferring the intent to deceive from the "materiality" of the information at issue. In order to have a viable fraud standard, we believe intent must be proven with independent evidence separate from and unrelated to the materiality of the information at issue.

Additionally, holding an entire patent unenforceable is an excessive sanction and needs to be changed. This sanction, which provides a windfall to private litigants, is inconsistent with the nature of equitable remedies. The law should impose a sanction that is appropriate to the circumstances of each case. In this respect, we do not support the Committee-passed language, which simply lists possible sanctions that can be imposed by a court. Giving courts—and defendants—unfettered discretion to impose any of the enumerated sanctions, rather than providing guidance in the law as to when to impose more severe or less severe penalties, will do little to address the problems in the current law. Indeed, it can fairly be asked whether expanding the range of available sanctions for inequitable conduct in the absence of other meaningful changes to the doctrine will encourage more, not less, inequitable conduct litigation.

We also believe the law needs to set an objective threshold showing regarding the significance of the information withheld or misrepresented to the USPTO before courts are authorized to impose the most severe sanction of unenforceability. With respect to remedies that limit damages, the standard should give the court the discretion to limit a damages award as it sees fit, rather than to require the court to simply impose a "reasonable royalty."[13] These

[11] Indeed, the Bill language codifies the materiality standard in precisely the way in which it has been explicated by the courts for decades. *See*, e.g. *Nilssen* v. *Osram Sylvania, Inc.* 504 F.3d 1223, 1235 (Fed. Cir. 2007) ("Information is material if there is a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to allow the application to issue as a patent."); *Honeywell Intern. Inc.* v. *Universal Avionics Systems Corp.,* 488 F.3d 982, 1000 (Fed. Cir. 2007) (same); *Halliburton Co.* v. *Schlumberger Tech. Corp.*, 925 F.2d 1435, 1440 (Fed. Cir. 1991) (same); *McKesson Information Solutions, Inc.* v. *Bridge Medical, Inc.*, 487 F.3d 897, 913 (Fed. Cir. 2007) (Materiality of information withheld during prosecution may be judged by "reasonable examiner" standard, in determining whether a patent is rendered unenforceable for inequitable conduct; that is, materiality embraces any information that a reasonable rexaminer would substantially likely consider important in deciding whether to allow an application to issue as a patent); *Akron Polymer Container Corp.* v. Exxel Container, Inc., 148 F.3d 1380, 1382 (Fed. Cir. 1998) (same).

[12] S. Rep. No. 110–__, at 32 (2008).

[13] Concerns about this language are further compounded by the fact that at the time that the Committee Report on S. 1145 is filed, it is unclear what the standard for a "reasonable royalty"

Continued

reforms to the sanctioning authority need to be sufficient to eliminate the strong incentive that exists under current law for defendants to assert inequitable conduct, regardless of the facts of the case.

Finally, given that inequitable conduct contributes significantly to the complexity and cost of litigation, measures are needed to eliminate the use of this defense as a litigation tactic. Inserting an objective test for the relationship of any asserted misconduct to the patent claims being asserted is necessary, as are measures that will ensure that the defense is raised only in appropriate cases. In this context, it is important to remember that the doctrine must operate to serve the public interest as well as the interests of individual litigants. The public interest includes an interest in candid and truthful disclosures during the patent application process, but it also includes an interest in preserving commercial decisions which were correctly made in reliance on valid patents. Reformed standards for inequitable conduct must fairly balance these interests.

CONCLUSION

Under current inequitable conduct law, every claim in a valid United States patent will be held to be unenforceable if "inequitable conduct" is established. This is true regardless of the merits of the invention, or the connection (if any) between the misconduct or information at issue and the claims of the patent. The defense has proven to be irresistible for litigants—if proven, it allows an infringer to escape any liability for infringing a valid patent. This powerful incentive leads defendants to raise even the most questionable inequitable conduct challenges on the remote chance that they will prevail.

Reforms to several aspects of the law governing inequitable conduct doctrine are needed to correct the problems with current law. These reforms are needed to not only align the doctrine with its public policy justifications, but also to make the doctrine useful to the USPTO. It is timely for us to reform the inequitable conduct doctrine as part of S. 1145.

The development of a more objective and clearer inequitable conduct standard will remove the uncertainty and confusion that defines current patent litigation. The Committee-passed language is consistent with existing law, and essentially maintains the status quo, rather than making meaningful reforms that address the abuses associated with the current inequitable conduct doctrine and that foster a strong and vibrant environment for innovators.

ARLEN SPECTER.
ORRIN HATCH.

---

will be under the bill, in light of the Committee Report's note that the standard will have to be changed "yet again." *Id.* at 13 n. 51.

ADDITIONAL VIEWS OF SENATOR KYL

A few words about business-method patents: the justification for granting patents—and 20-year monopolies—to inventors is that the costs of innovation and development are so high in many fields that only the prospect of a limited monopoly is sufficient to persuade inventors to devote the time and money that is required for a socially beneficial level of innovation. The classic example is new drugs. It may easily cost $100 million to develop and win approval of a new drug. If a company could not get a limited monopoly on the drug once it is approved—if anyone could immediately start copying the drug—no one would develop the drug in the first place.

This economic reality generally holds true throughout the hard sciences. It is generally true for mechanical inventions, new chemical compounds, and new computer hardware products.

It is not true for business methods. Methods of conducting business have obviously been around since the first patent law was enacted in this country in 1790, but there had long been an understanding that methods of doing business are not patentable. It may take a lot of money and effort to develop a new mousetrap, but it does not require expensive R&D to think up new ways to market that new mousetrap.[1] The PTO began to slip somewhat from this longtime recognition of a "business-methods exception" to patentability in the 1980s, and the Federal Circuit radically accelerated this shift when it eliminated the business-methods exception in its 1998 State Street decision.

Though a three judge panel of the Federal Circuit recently took a big step back from *State Street*, that decision remains on the books—as it must, since only an *en banc* panel could overrule it. Congress should act to restore the generally recognized limits on patentability that prevailed throughout the first 200 years of the history of patent law in this country. The costs of giving a monopoly to persons who think up new business methods are greater than the benefits derived from the resulting increase in invention of "business methods." Business methods are not expensive to invent, and since, by definition, business is already engaged in business, there is little or no inherent barrier to commercialization of these methods. Business methods should not be patentable.

JON KYL.

[1] For a thorough defense of this viewpoint, *see* Jay Dratler, "Does Lord Darcy Yet Live? The Case Against Software and Business-method Patents," 43 Santa Clara L. Rev. 823 (2003).

ADDITIONAL VIEWS OF SENATOR SPECTER JOINED WITH MINORITY VIEWS OF SENATORS KYL, GRASSLEY, COBURN, AND BROWNBACK

Discussions over this bill, and our own understanding of patent law, evolved considerably over the course of 2007, and they continue to evolve. And as the committee notes in footnote 51 of the draft report—a footnote that undoubtedly will be carefully parsed by many sets of eyes—"calming fears" of the many patent holders who are deeply concerned about the bill's damages provision "requires amendment of this language yet again." Thus the bill remains a work in progress, and there is no cause for belaboring in this statement any particular legislative language, as neither the bill text nor our own position on these issues is yet final. Nevertheless, the many parties whose livelihoods are affected by this legislation are entitled to know where things stand at the moment. With such limited objectives in mind, we present these minority views on the current legislative landscape.

Earlier in the course of the consideration of this bill, there was much legislative head scratching over the phrase in the bill's damages provision "specific contribution over the prior art." Many of the principal parties advocating for this bill made clear early and consistently that this language was of central importance to them, but it remained unclear what the language means. Even the advocates for the language adhered to sharply different interpretations of what this phrase requires, which were of varying degrees of unacceptability.

What this phrase means is very important. Although limited exceptions were created in the committee markup to the "specific contribution" test, the vast bulk of reasonable-royalty cases would still need to be litigated under that standard under the committee reported bill. The new exceptions to the "specific contribution" test—in subsection (c)(1)(B) of proposed section 284 of the reported bill—are for damages that are established either by way of established royalties or through the prices paid for noninfringing substitutes. Established royalties are rare in the world of patent litigation. To constitute "established royalties," historical royalties paid for a patent must be for the very patent at issue, they must have been agreed to outside of the context of litigation, they must be non-exclusive, and there must be enough of them to demonstrate a market value for the patented invention. Few holders of even useful and valuable patents can make such a showing. Non-infringing substitutes are rare too. After all, the more that a patented invention is truly revolutionary and essential to a product's market success, the less likely it will be that non-infringing substitutes are available.

The bill's reformulation of the entire-market value test, in subparagraph (A) of proposed section 284(c)(1), compounds these prob-

lems. Under current law, "entire market value" is generally understood to mean the rule for expanding the damages base *beyond* the infringing product to also include other products sold with or in relation to the infringing product. Subparagraph (A) narrows this rule so that it limits when the infringing product itself may serve as the damages base, in effect repealing current law's presumption that the infringing product is the damages base. Moreover, the bill predicates application of this new "entire market value" rule, which will now govern when the infringing product may serve as the damages base, to situations where demand for the infringing product is driven by those magic words, "specific contribution over the prior art."

Consider for a moment what this would do to the already quite limited exceptions to the "specific contribution" test that are enumerated in subparagraph (B). Suppose that a plaintiff is able to demonstrate the existence of an established royalty for his patent, thus entitling him to an exception to the "specific contribution" test. But now further suppose that this established royalty is expressed as a small percentage of the total price of the infringing product. Though the royalty is based on established royalties, and is thus freed from the "specific contribution" test by subparagraph (B), the royalty itself uses the infringing product as the damages base, and thus comes within the scope of subparagraph (A)'s "entire market value" rule, which bars use of the price of the infringing product as the damages base unless sales of the infringing product are driven by the patent's "specific contribution over the prior art." So which would control in this hypothetical situation, subparagraph (A) or (B)? Do the damages need to be proven under the "specific contribution" test or don't they?

This hypothetical scenario would not be a minor matter. A number of experienced patent litigators have affirmed to us that the net sales price of the infringing product tends to be the most commonly employed damages base when royalties are negotiated at arm's length. (This apparently stems from the fact that the net sales price usually is an easily and objectively verifiable datum. It is used as the damages base even when the value added by the patented invention to the product is minor. In such circumstances, the low significance of the invention is reflected in a royalty that is a very low percentage of the net sales price.) So this question could be expected to arise frequently under the proposed legislative text when damages are sought to be proven by way of established royalties.

Most problematic of all, however, is what the phrase "specific contribution over the prior art" appears to be intended to mean. In recent weeks, it has become apparent to us that this language is designed to allow *de facto* relitigation of claim construction and validity issues during the damages phase of a lawsuit. This interpretation is confirmed by the committee report. Footnote 51 of the report and its accompanying text state that "specific contribution over the prior art" means "the reason why the patent was allowed in view of the existing information at the time of the invention;" that it is meant to capture "the actual invention," "the gist of the patent," "the reason a patent issued," or even—in a nod to the crystalline clarity of obscenity jurisprudence—"I know it when I see it;"

and finally, that it describes what is "novel and nonobvious" in the patent.

All of these issues are validity issues. "Why the patent was allowed," as well as novelty and nonobviousness, are issues that are properly raised as validity issues and, in a bifurcated trial, are resolved long before the jury begins to consider damages. To allow these issues to again be litigated as damages questions is to overlay a second (and presumably different) set of validity standards over current law at the damages phase of the trial. Allowing such relitigation immediately raises the question of what was the point of the earlier phase of the litigation where prior art, novelty, and obviousness were litigated in the first instance. To the extent that these legal tests need to be modified, this bill should amend sections 102, 103, and 112, not section 284.

Nor is it apparent that the changes to validity standards that would be prescribed by the phrase "specific contribution over the prior art" are beneficial. "Gist of the patent," for example, is a test that was used in the past under the doctrine of equivalents and that was discarded many years ago, because it tended to have the effect of unduly *broadening* the scope of the patent. Patent plaintiffs arguing doctrine of equivalents would reduce their patent claims to a back-of-the-envelope "gist" or "nub" of the patent, and then argue that the defendant's product fell within that "gist," the actual claims of the patent be damned. This test effectively allowed a plaintiff to broaden his patent and claim things that were not even the equivalent of what was described in the patent's claims. If there is one thing on which we are certain that the advocates for this bill would agree, it is that they do not want to *expand* the reach of valid patents that are claimed to have been infringed.

We remain open to exploring changes to damages law. Representatives of many manufacturers have complained to us about excessive awards of damages made for valid and infringed but relatively trivial patents. It is clear that these firms' concerns about this matter are genuine and deep. That alone entitles this matter to our serious consideration. One proposal recently made to us that may have merit is that, at least in high-value cases, the law should favor estimates of damages that are based on economic analysis, rather than the usual shorthand of total product value multiplied by an expert's unverifiable assertions about what constitutes a reasonable royalty. Such economic analyses are expensive. But especially when tens of millions of dollars are at stake, it is appropriate to favor the best available evidence of what a patent is worth.

A few words about second window: opening up a second window for administrative challenges to a patent only makes sense if defending a patent in such proceedings is not unduly expensive, and if such proceedings substitute for a phase of district-court litigation. If second-window proceedings are expensive to participate in, a large manufacturer might abuse this system by forcing small holders of important patents into such proceedings and waiting until they run out of money. Defending oneself in these proceedings requires retention of patent lawyers who often charge $600 an hour, quickly exceeding the means of a brilliant inventor operating out of his garage—or even of a university or small research firm.

Second, if estoppel rules are unduly liberalized, second-window proceedings could easily be used as a delaying tactic. If estoppel is limited only to issues actually raised by the defendant, for example, a defendant with four possible prior art challenges to a patent might initiate second window proceedings with regard to only two of those pieces of prior art. The initiation of the proceedings is likely to lead to a stay in the litigation, which likely will remain in place through the appeal of the PTO's second-window decision. Once those challenges are rejected, the defendant could then raise the two remaining prior-art challenges in the district court, starting the litigation again at the exact same place where it was stopped years earlier. If second window proceedings are to be permitted, they should generally serve as a complete substitute for at least some phase of the litigation.

If a second-window provision is to be enacted into law, an appropriate solution to these dilemmas might be to limit second window proceedings to those types of issues that require very little discovery (and to only allow limited discovery), and to make estoppel rules more certain than the current "could have raised" test but to still require that defendants raise in the second window all of the claims of a particular type that are available to them. Perhaps, for example, a defendant who chooses to address prior-art issues in the second window might be required to raise all prior art identified to him as a result of a reasonable search request submitted to a commercial search firm.

A very few words about interlocutory appeals: the committee has gone a long way toward addressing our concerns about these appeals. It has added language to the bill allowing such appeals only if the district court finds both that there is a sufficient evidentiary record to allow an appeal, and that such an appeal would save judicial resources. Advocates of allowing such appeals contend that if the Federal Circuit is allowed discretion to refuse such appeals, it will do so wantonly. Be that as it may, we nevertheless believe that the Federal Circuit should have some limited discretion to refuse an interlocutory appeal. Though some patent litigants criticize the inclinations of the Federal Circuit, a number of others have noted to us that some district judges do not enjoy patent litigation and will bend the rules to rid themselves of such cases. We cannot assume that every district judge will only certify an interlocutory appeal when the evidentiary record before him is in fact sufficient. If a district judge were to send up an appeal on a manifestly inadequate record, and the Federal Circuit were given no recourse, that appellate court would be forced to issue a "final" claim construction ruling—which would serve as the law of the case for the remainder of the litigation—without having enough information before the court to allow it to be certain that it had correctly construed the patent. The Federal Circuit should be permitted to reject the district court's predicate interlocutory-appeal findings, and to refuse an interlocutory appeal, when those findings are clearly erroneous.

Patent law is a matter whose importance to the American economy is matched only by its complexity. This bill would work major changes to this area of the law—the biggest changes in at least half a century. We look forward to continuing to work carefully with Chairman Leahy on this important legislation.

ARLEN SPECTER.
JON KYL.
CHUCK GRASSLEY.
TOM COBURN.
SAM BROWNBACK.

MINORITY VIEWS OF SENATORS FEINGOLD AND COBURN

This legislation fails to strike a fair balance between patent holders and patent infringement defendants. In our view, it remains far too lenient on infringement. In its current form, it could potentially undermine one of the most important engines of American innovation.

The Constitution gives Congress the power to "promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." The Framers understood that granting exclusive rights to license an invention was the key to spurring technological development. Just as your home is not worth much if neighbors are constantly entering, eating your food, and sleeping in your bed, so the value of intellectual property rights depends on their security.

No system is immune from abuse, of course, and the more than five decades since the last major reform of the patent system have demonstrated some need for revisiting and reforming the law to deter strategic litigation and gamesmanship that little benefits the American people. We recognize that the Chairman has made an effort to bring competing interests to the table, soliciting the proposals of all groups, private and public, and presenting compromises that strive for a workable and just balance.

Nonetheless, the two central provisions of the bill, in our view, are not balanced. S. 1145 still includes an unlimited opportunity to challenge a patent's validity throughout its twenty-year life, the so-called "second window." One could be forgiven for wondering what kind of window opens, but does not shut. Though shoddy patents do exist and must be addressed, after careful consideration, I decided that defending a patent's validity throughout its life will be so burdensome that only patent owners with deep pockets could consider this a viable and attractive option. Moreover, since a patent will no longer be a presumptively valid seal of approval, but a mere opportunity to defend a claimed invention's novelty over its entire life, patentees will find it much more difficult to secure the investment necessary to bring a novel idea to market. Patents will be devalued and many inventors will opt for trade secrecy instead, undermining the Framers' intent to promote disclosure and public benefit through a strong patent system. S. 1145 borrowed its first-to-file system from other nations, but refuses to heed the experience of nations that experimented with second window review.

Unfortunately, the bill put far less energy into crafting proposals for more rigorous *pre*-grant examination of prior art and novelty. That is a way to deal with the problem of so-called "junk patents" without threatening the value of legitimate patents. There are already some innovative programs operating on the front end to make the PTO's application review more informed, accurate and ef-

ficient. Moving forward, I hope that Congress abandons "second window" reexamination and that fresh thinking on improving application examination will be forthcoming.

Two other provisions in S. 1145 are very troubling: the mandatory apportionment of damages and the restriction of plaintiffs' ability to sue infringers in their home venue. The law governing damages in patent infringement cases goes to the very core of the patent system. Shifting to mandatory apportionment will create a system of de facto compulsory licensing that will neither adequately compensate the patent holder nor adequately deter future infringers. Paying a royalty down the road will simply become the cost of doing business, unless the patented component part meets the high threshold of a "predominant basis" for market demand.

The truth is that, with the exception of a few possibly excessive awards, current law on damages is working. The fifteen *Georgia-Pacific* factors, which the courts have adopted, preserve flexibility for jury calculations by covering a wide range of real business circumstances. The royalty base may exclude the value added by an infringer and include the full value of products and services in demand principally due to the patented invention. By contrast, S. 1145's "prior art subtraction" method is unworkable given the complexity of modern products and straitjackets deliberations that already struggle to accurately capture the harm of infringement. Though our preference was to strike the damages section altogether, we did support the defeated Kyl amendment, which largely preserves current law, and Senator Grassley's proposal to codify all 15 of the *Georgia-Pacific* factors, which was not offered. We would even have considered a form of enhanced inter partes reexamination, which the House Judiciary Committee adopted, but two-window, post-grant review unfortunately carried the day.

Similarly, as reported, the bill's venue provision is skewed heavily in favor of infringer-defendants. It may be true that forum-shopping is a problem in patent litigation, but this provision sweeps too broadly. Notwithstanding the carve-out for universities and nonprofit patent licensing institutions, we think S. 1145 unduly restricts plaintiffs' choice of forum and will deter the filing of legitimate infringement suits.

We want this legislation to succeed, but it is crucial that it not undermine the stability of the patent system that has put America at the cutting edge of innovation worldwide. We look forward to voting for patent reform that adequately and fairly addresses these problems.

RUSS FEINGOLD.
TOM COBURN.

MINORITY VIEWS ON POST GRANT REVIEW BY SENATORS COBURN, GRASSLEY, KYL AND BROWNBACK

As one way to improve patent quality, the Committee is considering modification to the post grant review process, such as creating a brand new administrative system to review patents after their issuance or revising the current system. Such a process should serve to either solidify the patent's validity or to catch a patent that should have been rejected during the initial examination. The process should be timely and streamlined and should take issues off the table that cannot be resurrected in subsequent litigation, providing a cost effective alternative to litigation. To protect patent holders from harassment and abuse by a competitor or infringer, the system must be narrowly crafted with appropriate safeguards.

Additional consideration should be given to creating a system that is workable and manageable for the U.S. Patent and Trademark Office so that USPTO will not be overwhelmed with post grant challenges. If the system is too broad, USPTO resources will be stretched and will likely siphon resources away from the examination process. This would be a doubly destructive result.

Whatever post grant system is ultimately devised, at some point the patent should be final and the inventor should enjoy the benefit of their invention without a cloud of uncertainty lingering over it during the full life of the patent. Although the Committee markup process incorporated some safeguards into the original broad and unfettered proposal, and because the "2nd window" is uncharted territory that provides the opportunity for abuse, more effort needs to be made to provide a tighter second window or none at all.

The Committee Report at page 21 asserts that the changes that occurred during the Committee process "have addressed the concerns of the many interested aspects of the patent community." This is simply not the case.

Numerous inventor companies, industry organizations, patent attorney organizations, patent practitioner organizations, research universities, and life science industries continue to express deep concern with the current post grant scheme in S. 1145. Our own colleagues in the House of Representative considered the bill's post grant scheme so suspect that they eliminated the 2nd window altogether and expanded the current reexamination process at USPTO. Furthermore, data from the USPTO suggests that the current reexamination process is gaining popularity. Since FY03, the number or requests for both inter partes reexamination and ex parte reexamination has steadily increased. Thus, someone in the patent community must think the current system has redeeming attributes. The overwhelming lack of consensus on whether or how to implement the 2nd window should signal to this Committee to proceed cautiously.

The post-grant opposition system proposed in 5.1145 would encompass a quasi-judicial proceeding with judges, experts, discovery, cross-examination and other costly aspects of litigation. However, it would lack the many safeguards of existing judicial and administrative reexamination procedures that protect patent owners against unwarranted, duplicative, and abusive post-grant challenges. As a result, the proposed post-grant opposition system could encourage patent litigation and significantly increase the costs, delays, and uncertainty of patent ownership instead of doing the opposite. Moreover, the threat of expansive opposition litigation would significantly undermine a patent's value and enforceability if such procedures were available throughout a patent's life. This uncertainty over the patent would limit the ability of inventors to attract capital investment and further develop their innovation and bring it to the marketplace. The Committee must not be so intent on creating a new process that they disregard the legitimate industries that need a more certain and final system. The U.S. economy needs and relies on these industries' ability to continue to provide innovative products to improve our quality of life and continue providing jobs for our constituents.

The Committee also needs to further assess the experiences of foreign countries as they have tinkered with their post grant opposition systems. We know that countries like Japan, Korea, China, Taiwan and the European Union faced various hurdles as they implemented or reformed their post grant systems. In fact, some of the countries scrapped their system and revised it to avoid some of the same problems that U.S. companies warn of today. The risk of harassment is more than theoretical. In the EU, Japan and other markets with a post-grant opposition system, U.S. patent holders have reported a pattern of practice where foreign competitors routinely use administrative opposition proceedings as a means of tying up issued patents in multiple challenges with the aim of depleting the useful life of the patent. News accounts in foreign markets have documented the eager interests of foreign competitors as they look forward to using the new post grant system in S. 1145 to gain a competitive business advantage against their U.S. competitors. If we know other countries had problems in their reform efforts, why wouldn't we take the time available to us to more thoroughly study the issue to make sure we don't repeat their mistakes?

Where consensus does seem apparent is in implementing a "1st window". A more prudent course than launching into an unknown and potentially unnecessary 2nd window may be to enact the 1st window, make adjustments to the current reexamination system and monitor the results. If the changes are still inadequate, then maybe the need for a 2nd window, and the appropriate parameters, will be more apparent. It is safer for this Committee and the full Senate to tread cautiously and make adjustments in the future than it is to stumble into a thicket that we cannot easily escape.

We stand ready to assist the sponsors in their efforts to make the necessary adjustments to improve the post grant system in S. 1145.

TOM COBURN.
CHUCK GRASSLEY.
JON KYL.
SAM BROWNBACK.

MINORITY VIEWS BY SENATORS COBURN, SPECTER, GRASSLEY, KYL AND BROWNBACK

GENERAL OBSERVATIONS

Primum non nocere is Latin phrase that means "First, do no harm." This principal precept of medicine should be applied more often by Congress when debating the merits of proposed legislation. More specifically, the nation would be best served were the Committee on the Judiciary to consider further what harm might befall our patent system should the intervention proposed in S. 1145 "The Patent Reform Act of 2007" be enacted, and how does this harm compare to any potential benefits?

Although the sponsors of S. 1145 have concluded that S. 1145 will establish a "balanced set of changes," we have come to a starkly different conclusion. In our opinion, the intervention the bill proposes will create real and certain damage to our patent system and the ability of America's inventors and innovation industries to protect their intellectual property rights. As the U.S. battles to retain its status as the leader of the global economy, Congress can ill afford to misstep by passing S. 1145 as is, and further weaken the economy's shifting foundation.

Recently Congress has focused its attention on numerous issues through the lens of helping the "little guy" especially as he's pitted directly against the "big guy" corporate interests. Without significant changes, S. 1145 will considerably tilt the intellectual property landscape to favor a few high-tech mega-corporations and some large financial service interests against a myriad of players including academia, agriculture, alternative energy, biotechnology, chemical, electronics, environmental technology, financial services, information technology, life sciences, manufacturing, nanotechnology, and telecommunications industries. Congress will send to the President a bill that picks winners and losers based on business models and not on protecting the Constitutional rights of patent holders. The interests of infringers will be elevated over the interests of inventors; the interests of those with deep pockets over the interests of start-ups; litigation over licensing; and the interests of foreign competitors over the interests of domestic innovators.

As patents become more significant to U.S. industry, Congressional interest in the operation of our nation's patent system has increased. As the United States becomes a knowledge-based, technology economy, the commercial significance of patents is at a premium. When Congress looks to the knowledge economy and contemplates our future, it must strengthen, not weaken, America's intellectual property system because that system—the inventions it protects and the innovation systems it stimulates—will be the key to our nation's future success in the knowledge economy lying ahead.

Economic growth depends upon the continued strength and reliability of the U.S. patent system, which has recognized and protected the rights of inventors for more than two centuries. Our Country's Founders understood that property rights are as essential to the fruits of the mind as they are to the fruits of the land. Just as a deed creates legal incentives to cultivate and improve a plot of land, patent rights create incentives to invest in the development and commercialization of an idea. Patent certainty and reliability enables the collaborative development and funding required to nurture basic research through its upstream refinement to its downstream commercialization for the public benefit. That same certainty enables others to confidently invent around—or incrementally improve—published, patented technology. Thriving innovation is the key to a sound economy. It benefits the public while enhancing our nation's security and economic leadership. Thus the focus of patent legislation should be improvement of patent quality and protection of intellectual property rights. Legislation should not inject uncertainty into the patent system which will take years of litigation to sort out and that creates unknown ramifications for American innovation.

Proponents of the Senate bill have argued, and continue to argue, that the present patent regime is "broken" and sweeping reform is needed to right the ship. However, deficiencies cited with the U.S. Patent and Trademark Office's patent production are being remedied. USPTO reports that the number of rejections of patent applications is at an all time high while new and creative methods to involve the applicant and accelerate examinations are showing success. If our shared objective is to improve patent quality while preserving incentives to innovate, we should instead pursue reforms that enhance patent examination resources and capabilities within the USPTO and make it harder for questionable patents to survive scrutiny.

The USPTO has already taken important steps to achieve these goals, hiring thousands of new examiners, instituting new training programs and committing annually to performance benchmarks. But it needs Congress's support in the form of a predictable flow of resources and hence the Committee was right to pass an amendment to permanently end fee diversion, which will further buttress USPTO in its efforts to improve patent quality for years to come. In addition, Congress should continue to pursue constructive but narrowly tailored reforms that would increase access to prior art and lessen the subjective aspects of litigation. Carefully structured measures of this type would ultimately fortify the health of our patent system without endangering the rights of American's most innovative firms.

Furthermore, since the inception of the legislative reform effort, the patent playing field has been dramatically altered by some of the most significant Supreme Court and Federal Circuit decisions on patent rights and remedies since the codification of the U.S. patent laws more than 200 years ago. These decisions have, among other changes, made it far more difficult for many patent holders to obtain injunctive relief (eBay v. MercExchange); significantly altered the patentability test of obviousness, calling into question the validity of all issued patents (KSR International v. Teleflex); per-

mitted patent licensees to bring declaratory judgment actions challenging the validity and enforceability of issued patents (MedImmune v. Genentech); and heightened the standard for proving willful infringement (In re Seagate Technology LLC). These decisions signify an effort by the Supreme Court and Federal Circuit to rectify perceived imbalances in the patent system. At a minimum, this recent trend by the Courts in the patent field suggests that Congress should exercise extreme caution before tilting the playing field even further towards the interests of potential infringers. A far more prudent course would be to take the necessary time to further scrutinize and assess the combined impact of these key patent decisions before moving forward with particular reforms that may no longer be needed and will likely do more harm than good.

COMMITTEE PROCESS

The sponsors of S. 1145 have worked diligently in pursuit of this legislation's passage and we are grateful for their efforts and leadership. Over the previous Congresses, Senator Leahy and Senator Hatch have held a number of hearings on general patent issues. We appreciate their willingness to discuss our concerns in the weeks leading up to the Committee's consideration of the bill.

However, once the bill was actually filed in the Senate, with its House companion, the pace to passage was quick, with our Committee holding only one hearing before marking up the bill. The numerous provisions in the bill that require careful discussion and debate simply need more attention. In fact, in September of 2007, the sponsors of the bill convened a meeting with patent stakeholders to solicit concerns and possible revisions. At that meeting ten issues were identified as needing further refinement as follows: (1) how to determine damage awards in patent litigation, (2) post grant review, (3) venue, (4) inequitable conduct reform, (5) interlocutory appeal, (6) willful infringement, (7) permanently ending fee diversion, (8) applicant quality submissions, (9) first to file and (10) best mode.

Throughout the advancement of this legislation, House sponsors, the Administration and Senate sponsors have said that more work needed to be done on the bill and that such work would certainly occur. The Majority Report even acknowledges at footnote 51 that the provision in the bill creating the most sweeping change in the patent litigation system—the provision regarding how damage awards are allocated in patent infringement cases—"requires amendment * * * yet again." With plenty of time left in the 2008 Senate session, we stand ready and willing to assist the sponsors to make progress toward a consensus bill that can be supported by a broad cross-section of the patent community.

CONCLUSION

Given the critical importance of our patent system to American innovation and economic leadership, it is imperative that changes to the patent system be cautiously tailored to achieve needed improvements. Congress should be cautious to accept changes to the patent system advanced by one industry sector at the expense of many others. The over-arching goal of patent quality is ill served

by measures that would destabilize our current system of patent rights and remedies and, in turn, jeopardize the global leadership of this country's most innovative industries. Moreover, by creating uncertainty as to the validity and enforceability of patent rights, Congress stands to encourage, not discourage, costly litigation and infringement. Added costs, delayed enforcement, and increased risk combined with reduced damages for infringement is a sure recipe for the withdrawal of private capital from early stage development or innovative research.

In closing, the U.S. economy has long benefited from the strongest intellectual property laws in the world. Making dramatic changes to a patent system that is working well and, in so doing, risking capital investment in innovation is clearly not worth the risk. America's system of patent rights and remedies is universally recognized as the gold standard, and, as such, it has given us the moral authority and credibility to fight for stronger protection of U.S. innovations in other markets. Maintaining that authority is critical in today's increasingly competitive global economy. America's leadership in this knowledge-based economy is critically dependent upon the ideas and innovations that constitute our most valuable natural resources and our most desirable exports. If the United States weakens patent rights and remedies at home, our ability to press foreign countries to respect American intellectual property will be greatly diminished. Indeed, we will embolden other countries to adopt even more damaging policies that could jeopardize the continued preeminence of America's most productive industries.

President Lincoln observed, "Any man might instantly use what another had invented; so that the inventor had no special advantage from his own invention. The patent system changed this; secured to the inventor, for a limited time, the exclusive use of his invention and thereby added the fuel of interest to the fire of genius, in the discovery and production of new and useful things."[1] Congress should be careful to act in such a way that the fuel of interest and the fire of genius are not snuffed out.

TOM COBURN.
CHUCK GRASSLEY.
JON KYL.
SAM BROWNBACK.

[1] Allen, Joseph in "Swords Into Plowshares: How Tech Transfer (Unless We Mess It Up) Can Help Change the World," les Nouvelles, December 2006, p. 219.

VIII. Changes To Existing Law Made by the Bill, as Reported

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by S. 1145, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

UNITED STATES CODE

TITLE 15—COMMERCE AND TRADE

* * * * * * *

CHAPTER 22—TRADEMARKS

Subchapter I—The Principal Register

* * * * * * *

§ 1071. Appeal to courts

* * * * * * *

(b) Civil action; persons entitled to; jurisdiction of court; status of Director; procedure.

* * * * * * *

(4) Where there is an adverse party, such suit may be instituted against the party in interest as shown by the records of the Patent and Trademark Office at the time of the decision complained of, but any party in interest may become a party to the action. If there be adverse parties residing in a plurality of districts not embraced within the same State, or an adverse party residing in a foreign country, the [United States District Court for the District of Columbia] *United States District Court for the Eastern District of Virginia* shall have jurisdiction and may issue summons against the adverse parties directed to the marshal of any district in which any adverse party resides. Summons against adverse parties residing in foreign countries may be served by publication or otherwise as the court directs.

* * * * * * *

UNITED STATES CODE

TITLE 28—JUDICIARY AND JUDICIAL PROCEDURE

PART I—ORGANIZATION OF COURTS

* * * * * * *

CHAPTER 3—COURTS OF APPEALS

* * * * * * *

§ 44. Appointment, tenure, residence and salary of circuit judges

* * * * * * *

(c) Except in the District of Columbia, each circuit judge shall be a resident of the circuit for which appointed at the time of his appointment and thereafter while in active service. [While in active service, each circuit judge of the Federal judicial circuit appointed after the effective date of the Federal Courts Improvement Act of 1982, and the chief judge of the Federal judicial circuit, whenever appointed, shall reside within fifty miles of the District of Columbia.] In each circuit (other than the Federal judicial circuit) there shall be at least one circuit judge in regular active service appointed from the residents of each state in that circuit.

* * * * * * *

PART IV—JURISDICTION AND VENUE

* * * * * * *

CHAPTER 83—COURTS OF APPEALS

* * * * * * *

§ 1292. Interlocutory decisions

* * * * * * *

(c) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

(1) of an appeal from an interlocutory order or decree described in subsection (a) or (b) of this section in any case over which the court would have jurisdiction of an appeal under section 1295 of this title; and

(2) of an appeal from a judgment in a civil action for patent infringement which would otherwise be appealable to the United States Court of Appeals for the Federal Circuit and is final except for an accounting.

(3) of an appeal from an interlocutory order or decree determining construction of claims in a civil action for patent infringement under section 271 of title 35.] Application for an appeal under paragraph (3) shall be made to the court within 10 days after entry of the order or decree. The district court shall

have discretion whether to approve the application and, if so, whether to stay proceedings in the district court during the pendency of such appeal.

* * * * * * *

§ 1295. Jurisdiction of the United States Court of Appeals for the Federal Circuit

(a) The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction—

* * * * * * *

(4) of an appeal from a decision of—

(A) [the Board of Patent Appeals and Interferences of the United States Patent and Trademark Office with respect to patent applications and interferences, at the instance of an applicant for a patent or any party to a patent interference, and any such appeal shall waive the right of such applicant or party to proceed under section 145 or 146 of title 35] *the Patent Trial and Appeal Board of the United States Patent and Trademark Office with respect to patent applications, derivation proceedings, and post-grant review proceedings, at the instance of an applicant for a patent or any party to a patent interference (commenced before the effective date of the Patent Reform Act of 2007), derivation proceeding, or post-grant review proceeding, and any such appeal shall waive any right of such applicant or party to proceed under section 145 or 146 of title 35;*

(B) the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office or the Trademark Trial and Appeal Board with respect to applications for registration of marks and other proceedings as provided in section 21 of the Trademark Act of 1946 (15 U.S.C. 1071); or

(C) a district court to which a case was directed pursuant to section 145, 146, or 154 (b) of title 35;

* * * * * * *

CHAPTER 87—DISTRICT COURTS; VENUE

* * * * * * *

§ 1400. Patents and copyrights, mask works, and designs

* * * * * * *

(b) [Any civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.] *Notwithstanding section 1391 of this title, in any civil action arising under any Act of Congress relating to patents, a party shall not manufacture venue by assignment, incorporation, or otherwise to invoke the venue of a specific district court.*

(c) Notwithstanding section 1391 of this title, any civil action for patent infringement or any action for declaratory judgment may be brought only in a judicial district—

(1) where the defendant has its principal place of business or in the location or place in which the defendant is incorporated or formed, or, for foreign corporations with a United States subsidiary, where the defendant's primary United States subsidiary has its principal place of business or is incorporated or formed.

(2) where the defendant has committed substantial acts of infringement and has a regular and established physical facility that the defendant controls and that constitutes a substantial portion of the operations of the defendant;

(3) where the primary plaintiff resides, if the primary plaintiff in the action is—

(A) an institution of higher education as defined under section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or (B) a nonprofit organization that—

(i) qualifies for treatment under section 501(c)(3) of the Internal Revenue Code (26 U.S.C. 501(c)(3));

(ii) is exempt from taxation under section 501(a) of such Code; and

(iii) serves as the patent and licensing organization for an institution of higher education as defined under section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)); or

(4) where the plaintiff resides, if the sole plaintiff in the action is an individual inventor who is a natural person and who qualifies at the time such action is filed as a micro-entity pursuant to section 123 of title 35.

(d) If a plaintiff brings a civil action for patent infringement or declaratory judgment relief under subsection (c), then the defendant may request the district court to transfer that action to another district or division where, in the court's determination—

(1) any of the parties has substantial evidence or witnesses that otherwise would present considerable evidentiary burdens to the defendant if such transfer were not granted;

(2) such transfer would not cause undue hardship to the plaintiff; and

(3) venue would be otherwise appropriate under section 1391 of this title.

UNITED STATES CODE

TITLE 35—PATENTS

PART I—UNITED STATES PATENT AND TRADEMARK OFFICE

CHAPTER 1—ESTABLISHMENT, OFFICERS AND EMPLOYEES, FUNCTIONS

* * * * * * *

§ 2. Powers and duties

* * * * * * *

(e) DISCRETION TO ACCEPT LATE FILINGS IN CERTAIN CASES OF UNINTENTIONAL DELAY.—

(1) IN GENERAL.—The Director may accept any application or other filing made by—

(A) an applicant for, or owner of, a patent after the applicable deadline set forth in this title with respect to the application or patent; or

(B) an applicant for, or owner of, a mark after the applicable deadline under the Trademark Act of 1946 with respect to the registration or other filing of the mark,

to the extent that the Director considers appropriate, if the applicant or owner files a petition within 30 days after such deadline showing, to the satisfaction of the Director, that the delay was unintentional.

(2) TREATMENT OF DIRECTOR'S ACTIONS ON PETITION.—If the Director has not made a determination on a petition filed under paragraph (1) within 60 days after the date on which the petition is filed, the petition shall be deemed to be denied. A decision by the Director not to exercise, or a failure to exercise, the discretion provided by this subsection shall not be subject to judicial review.

(3) OTHER PROVISIONS NOT AFFECTED.—This subsection shall not apply to any other provision of this title, or to any provisions of the Trademark Act of 1946, that authorizes the Director to accept, under certain circumstances, applications or other filings made after a statutory deadline or to statutory deadlines that are required by reason of the obligations of the United States under any treaty.

(4) DEFINITIONS.—In this subsection, the term "Trademark Act of 1946" means the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out provisions of certain international conventions, and for other purposes", approved July 5, 1946 (15 U.S.C. 1051 et seq.) (commonly referred to as the Trademark Act of 1946 or the Lanham Act).

* * * * * * *

§ 6. [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*

(a) ESTABLISHMENT AND COMPOSITION.—**[**There shall be in the United States Patent and Trademark Office a Board of Patent Appeals and Interferences. The Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges shall constitute the Board. The administrative patent judges shall be persons of competent legal knowledge and scientific ability who are appointed by the Director.**]** *There shall be in the Office a Patent and Trial Appeal Board. The Director, the Deputy Director, the Commission for Patents, the Commissioner for Trademarks, and the administrative patent judges shall constitute the Patent Trial and Appeal Board. The administrative patent judges shall be persons of competent legal knowledge and scientific ability who are appointed by the Director. Any reference in any Federal law, Executive order, rule, regulation, or delegation of authority, or*

any document of or pertaining to the Board of Patent Appeals and Interferences is deemed to refer to the Patent Trial and Appeal Board.

(b) DUTIES.—[The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared under section 135(a). Each appeal and interference shall be heard by at least three members of the Board, who shall be designated by the Director. Only the Board of Patent Appeals and Interferences may grant rehearings.] *The Patent Trial and Appeal Board shall—*

(1) on written appeal of an applicant, review adverse decisions of examiners upon application for patents;

(2) on written appeal of a patent owner, review adverse decisions of examiners upon patents in reexamination proceedings under chapter 30;

(3) determine priority and patentability of invention in derivation proceedings under subsection 135(a); and

(4) conduct post-grant opposition proceedings under chapter 32.

Each appeal and derivation proceeding shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings. The Director shall assign each post-grant review proceeding to a panel of 3 administrative patent judges. Once assigned, each such panel of administrative patent judges shall have the responsibilities under chapter 32 in connection with post-grant review proceedings.

* * * * * * *

CHAPTER 3—PRACTICE BEFORE PATENT AND TRADEMARK OFFICE

* * * * * * *

§ 32. Suspension or exclusion from practice

The Director may, after notice and opportunity for a hearing, suspend or exclude, either generally or in any particular case, from further practice before the Patent and Trademark Office, any person, agent, or attorney shown to be incompetent or disreputable, or guilty of gross misconduct, or who does not comply with the regulations established under section 2(b)(2)(D) of this title, or who shall, by word, circular, letter, or advertising, with intent to defraud in any manner, deceive, mislead, or threaten any applicant or prospective applicant, or other person having immediate or prospective business before the Office. The reasons for any such suspension or exclusion shall be duly recorded. The Director shall have the discretion to designate any attorney who is an officer or employee of the United States Patent and Trademark Office to conduct the hearing required by this section. The [United States District Court for the District of Columbia)] *United States District Court for the Eastern District of Virginia*, under such conditions and upon such proceedings as it by its rules determines, may review the action of

the Director upon the petition of the person so refused recognition or so suspended or excluded.

* * * * * * *

CHAPTER 4—PATENT FEES; FUNDING; SEARCH SYSTEMS

* * * * * * *

§ 41. Patent fees; patent and trademark search systems

(a) The Director shall charge the following fees:

* * * * * * *

(6)(A) On filing an appeal from the examiner to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*, $300.

(B) In addition, on filing a brief in support of the appeal, $300, and on requesting an oral hearing in the appeal before the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*, $260.

* * * * * * *

§ 42. Patent and Trademark Office funding

* * * * * * *

(b) All fees paid to the Director and all appropriations for defraying the costs of the activities of the Patent and Trademark Office will be credited to the [Patent and Trademark Office Appropriation Account] *United States Patent and Trademark Office Public Enterprise Fund* in the Treasury of the United States.

(c) [To the extent and in the amounts provided in advance in appropriations Acts, fees] *Fees* authorized in this title or any other Act to be charged or established by the Director [shall be collected by and shall be available to the Director] *shall be collected by the Director and shall be available until expended* to carry out the activities of the Patent and Trademark Office. All fees available to the Director under section 31 of the Trademark Act of 1946 shall be used only for the processing of trademark registrations and for other activities, services, and materials relating to trademarks and to cover a proportionate share of the administrative costs of the Patent and Trademark Office.

* * * * * * *

PART II—PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS

CHAPTER 10—PATENTABILITY OF INVENTIONS

§ 100. Definitions

* * * * * * *

(f) The term "inventor" means the individual or, if a joint invention, the individuals collectively who invented or discovered the subject matter of the invention.

(g) The terms "joint inventor" and "coinventor" mean any 1 of the individuals who invented or discovered the subject matter of a joint invention.

(h) The "effective filing date of a claimed invention" is—

(1) the filing date of the patent or the application for patent containing the claim to the invention; or

(2) if the patent or application for patent is entitled to a right of priority of any other application under section 119, 365(a), or 365(b) or to the benefit of an earlier filing date in the United States under section 120, 121, or 365(c), the filing date of the earliest such application in which the claimed invention is disclosed in the manner provided by the first paragraph of section 112.

(i) The term "claimed invention" means the subject matter defined by a claim in a patent or an application for a patent.

(j) The term "joint invention" means an invention resulting from the collaboration of inventive endeavors of 2 or more persons working toward the same end and producing an invention by their collective efforts.

(k) The term "cancellation petitioner" means the real party in interest requesting cancellation of any claim of a patent under chapter 31 of this title and the privies of the real party in interest.

* * * * * * *

§ 102. [Conditions for patentability; novelty and loss of right to patent

[A person shall be entitled to a patent unless—

[(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

[(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

[(c) he has abandoned the invention, or

[(d) the invention was first patented or caused to be patented, or was the subject of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than twelve months before the filing of the application in the United States, or

[(e) the invention was described in

[(1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent or

[(2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effects for the purposes of this subsection of an application filed in the United States only if the international application designated

the United States and was published under Article 21(2) of such treaty in the English language, or

[(f) he did not himself invent the subject matter sought to be patented, or

[(g)(1) during the course of an interference conducted under section 135 or section 291, another inventor involved therein establishes, to the extent permitted in section 104, that before such person's invention thereof the invention was made by such other inventor and not abandoned, suppressed, or concealed, or

[(2) before such person's invention thereof, the invention was made in this country by another inventor who had not abandoned, suppressed, or concealed it. In determining priority of invention under this subsection, there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.]

Conditions for patentability; novelty

(a) NOVELTY; PRIOR ART.—A patent for a claimed invention may not be obtained if—

(1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public—

(A) more than 1 year before the effective filing date of the claimed invention; or

(B) 1 year or less before the effective filing date of the claimed invention, other than through disclosures made by the inventor or a joint inventor or by others who obtained the subject matter disclosed directly or indirectly from the inventor or joint inventor; or

(2) the claimed invention was described in a patent issued under section 151, or in an application for patent published or deemed published under section 122(b), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

(b) EXCEPTIONS.—

(1) PRIOR INVENTOR DISCLOSURE EXCEPTION.—Subject matter that would otherwise qualify as prior art based upon a disclosure under subparagraph (B) of subsection (a)(1) shall not be prior art to a claimed invention under that subparagraph if the subject matter had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or others who obtained the subject matter disclosed directly or indirectly from the inventor or joint inventor.

(2) DERIVATION, PRIOR DISCLOSURE, AND COMMON ASSIGNMENT EXCEPTIONS.—Subject matter that would otherwise qualify as prior art only under subsection (a)(2), after taking into account the exception under paragraph (1), shall not be prior art to a claimed invention if—

(A) the subject matter was obtained directly or indirectly from the inventor or a joint inventor;

(B) the subject matter had been publicly disclosed by the inventor or a joint inventor or others who obtained the subject matter disclosed, directly or indirectly, from the inventor or a joint inventor before the effective filing date of the application or patent set forth under subsection (a)(2); or

(C) the subject matter and the claimed invention, nor later than the effective filing date of the claimed invention, were owned by the same person or subject to an obligation of assignment to the same person.

(3) JOINT RESEARCH AGREEMENT EXCEPTION.—

(A) IN GENERAL.—Subject matter and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person in applying the provisions of paragraph (2) if—

(i) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

(ii) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(iii) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

(B) For purposes of subparagraph (A), the term "joint research agreement" means a written contract, grant, or cooperative agreement entered into by 2 or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.

(4) PATENTS AND PUBLISHED APPLICATIONS EFFECTIVELY FILED.—A patent or application for patent is effectively filed under subsection (a)(2) with respect to any subject matter described in the patent or application—

(A) as of the filing date of the patent or the application for patent; or

(B) if the patent or application for patent is entitled to claim a right of priority under section 119, 365(a), or 365(b) or to claim the benefit of an earlier filing date under section 120, 121, or 365(c), based upon 1 or more prior filed applications for patent, as of the filing date of the earliest such application describes the subject matter.

§ 103. [Conditions for patentability; non-obvious subject matter

[(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

[(b) (1) Notwithstanding subsection (a), and upon timely election by the applicant for patent to proceed under this subsection, a bio-

technological process using or resulting in a composition of matter that is novel under section 102 and nonobvious under subsection (a) of this section shall be considered nonobvious if—

[(A) claims to the process and the composition of matter are contained in either the same application for patent or in separate applications having the same effective filing date; and

[(B) the composition of matter, and the process at the time it was invented, were owned by the same person or subject to an obligation of assignment to the same person.

[(2) A patent issued on a process under paragraph (1)—

[(A) shall also contain the claims to the composition of matter used in or made by that process, or

[(B) shall, if such composition of matter is claimed in another patent, be set to expire on the same date as such other patent, notwithstanding section 154.

[(3) For purposes of paragraph (1), the term "biotechnological process" means—

[(A) a process of genetically altering or otherwise inducing a single- or multi-celled organism to—

[(i) express an exogenous nucleotide sequence,

[(ii) inhibit, eliminate, augment, or alter expression of an endogenous nucleotide sequence, or

[(iii) express a specific physiological characteristic not naturally associated with said organism;

[(B) cell fusion procedures yielding a cell line that expresses a specific protein, such as a monoclonal antibody; and

[(C) a method of using a product produced by a process defined by subparagraph (A) or (B), or a combination of subparagraphs (A) and (B).

[(c)(1) Subject matter developed by another person, which qualifies as prior art only under one or more of subsections (e), (f), and (g) of section 102 of this title, shall not preclude patentability under this section where the subject matter and the claimed invention were, at the time the claimed invention was made, owned by the same person or subject to an obligation of assignment to the same person.

[(2) For purposes of this subsection, subject matter developed by another person and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person if—

[(A) the claimed invention was made by or on behalf of parties to a joint research agreement that was in effect on or before the date the claimed invention was made;

[(B) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

[(C) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

[(3) For purposes of paragraph (2), the term "joint research agreement" means a written contract, grant, or cooperative agreement entered into by two or more persons or entities for the performance of experimental, developmental, or research work in the field of the claimed invention.]

Conditions for patentability; nonobvious subject matter

A patent for a claimed invention may not be obtained though the claimed invention is not identically disclosed as set forth in section 102, if the differences between the claimed invention and the prior art are such that the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains. Patentability shall not be negated by the manner in which the invention was made.

[§ 104. Invention made abroad

[(a) IN GENERAL.—

[(1) PROCEEDINGS.—In proceedings in the Patent and Trademark Office, in the courts, and before any other competent authority, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country other than a NAFTA country or a WTO member country, except as provided in sections 119 and 365 of this title.

[(2) RIGHTS.—If an invention was made by a person, civil or military—

[(A) while domiciled in the United States, and serving in any other country in connection with operations by or on behalf of the United States,

[(B) while domiciled in a NAFTA country and serving in another country in connection with operations by or on behalf of that NAFTA country, or

[(C) while domiciled in a WTO member country and serving in another country in connection with operations by or on behalf of that WTO member country, that person shall be entitled to the same rights of priority in the United States with respect to such invention as if such invention had been made in the United States, that NAFTA country, or that WTO member country, as the case may be.

[(3) USE OF INFORMATION.—To the extent that any information in a NAFTA country or a WTO member country concerning knowledge, use, or other activity relevant to proving or disproving a date of invention has not been made available for use in a proceeding in the Patent and Trademark Office, a court, or any other competent authority to the same extent as such information could be made available in the United States, the Director, court, or such other authority shall draw appropriate inferences, or take other action permitted by statute, rule, or regulation, in favor of the party that requested the information in the proceeding.

[(b) DEFINITIONS.—As used in this section—

[(1) the term "NAFTA country" has the meaning given that term in section 2(4) of the North American Free Trade Agreement Implementation Act; and

[(2) the term "WTO member country" has the meaning given that term in section 2(10) of the Uruguay Round Agreements Act.]

* * * * * * *

CHAPTER 11—APPLICATION FOR PATENT

§ 111. Application

(a) IN GENERAL.—

* * * * * * *

(2) CONTENTS.—Such application shall include—

(A) a specification as prescribed by section 112 of this title;

(B) a drawing as prescribed by section 113 of this title; and

(C) an oath [by the applicant] *or declaration* as prescribed by section 115 of this title.

(3) FEE [AND OATH].—The application must be accompanied by the fee required by law. The fee [and oath] may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Director.

(4) FAILURE TO SUBMIT.—Upon failure to submit the fee [and oath] within such prescribed period, the application shall be regarded as abandoned, unless it is shown to the satisfaction of the Director that the delay in submitting the fee [and oath] was unavoidable or unintentional. The filing date of an application shall be the date on which the specification and any required drawing are received in the Patent and Trademark Office.

(b) PROVISIONAL APPLICATION.—

* * * * * * *

(8) APPLICABLE PROVISIONS.—The provisions of this title relating to applications for patent shall apply to provisional applications for patent, except as otherwise provided, and except that provisional applications for patent shall not be subject to [sections 115, 131, 135, and 157] *sections 131 and 135* of this title.

§ 112. Specification

[The specification] *(a) IN GENERAL.—The specification* shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor [of carrying out his invention] *or joint inventor of carrying out the invention.*

[The specification] *(b) CONCLUSION.—The specifications* shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the [applicant regards as his invention] *inventor or a joint inventor regards as the invention.*

[A claim] *(c) FORM.—A claim* may be written in independent or, if the nature of the case admits, in dependent or multiple dependent form.

[Subject to the following paragraph] *(d) REFERENCE IN DEPENDENT FORMS.—Subject to subsection (e)*, a claim in dependent form shall contain a reference to a claim previously set forth and then specify a further limitation of the subject matter claimed. A claim in dependent form shall be construed to incorporate by reference all the limitations of the claim to which it refers.

[A claim] *(e) REFERENCE IN MULTIPLE DEPENDENT FORM.—A claim* in multiple dependent form shall contain a reference, in the alternative only, to more than one claim previously set forth and then specify a further limitation of the subject matter claimed. A multiple dependent claim shall not serve as a basis for any other multiple dependent claim. A multiple dependent claim shall be construed to incorporate by reference all the limitations of the particular claim in relation to which it is being considered.

[An element] *(f) ELEMENT IN CLAIM FOR A COMBINATION.—An element* in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

* * * * * * *

§ 115. [Oath of applicant] *Inventor's oath or declaration*

[The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter, or improvement thereof, for which he solicits a patent; and shall state of what country he is a citizen. Such oath may be made before any person within the United States authorized by law to administer oaths, or, when, made in a foreign country, before any diplomatic or consular officer of the United States authorized to administer oaths, or before any officer having an official seal and authorized to administer oaths in the foreign country in which the applicant may be, whose authority is proved by certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States, and such oath shall be valid if it complies with the laws of the state or country where made. When the application is made as provided in this title by a person other than the inventor, the oath may be so varied in form that it can be made by him. For purposes of this section, a consular officer shall include any United States citizen serving overseas, authorized to perform notarial functions pursuant to section 1750 of the Revised Statutes, as amended (22 U.S.C. 4221).]

(a) NAMING THE INVENTOR; INVENTOR'S OATH OR DECLARATION.—An application for patent that is filed under section 111(a), that commences the national stage under section 363, or that is filed by an inventor for an invention for which an application has previously been filed under this title by that inventor shall include, or be amended to include, the name of the inventor of any claimed in-

vention in the application. Except as otherwise provided in this section, an individual who is the inventor or a joint inventor of a claimed invention in an application for patent shall execute an oath or declaration in connection with the application.

(b) REQUIRED STATEMENTS.—An oath or declaration under subsection (a) shall contain statements that—

(1) the application was made or was authorized to be made by the affiant or declarant; and

(2) such individual believes himself or herself to be the original inventor or an original joint inventor of a claimed invention in the application.

(c) ADDITIONAL REQUIREMENTS.—The Director may specify additional information relating to the inventor and the invention that is required to be included in an oath or declaration under subsection (a).

(d) SUBSTITUTE STATEMENT.—

(1) IN GENERAL.—In lieu of executing an oath or declaration under subsection (a), the applicant for patent may provide a substitute statement under the circumstances described in paragraph (2) and such additional circumstances that the Director may specify by regulation.

(2) PERMITTED CIRCUMSTANCES.—A substitute statement under paragraph (1) is permitted with respect to any individual who—

(A) is unable to file the oath or declaration under subsection (a) because the individual—

(i) is deceased;

(ii) is under legal incapacity; or

(iii) cannot be found or reached after diligent effort; or

(B) is under an obligation to assign the invention but has refused to make the oath or declaration required under subsection (a).

(3) CONTENTS.—A substitute statement under this subsection shall—

(A) identify the individual with respect to whom the statement applies;

(B) set forth the circumstances representing the permitted basis for the filing of the substitute statement in lieu of the oath or declaration under subsection (a); and

(C) contain any additional information, including any showing, required by the Director.

(e) MAKING REQUIRED STATEMENTS IN ASSIGNMENT OF RECORD.—An individual who is under an obligation of assignment of an application for patent may include the required statements under subsections (b) and (c) and in the assignment executed by the individual, in lieu of filing such statements separately.

(f) TIME FOR FILING.—A notice of allowance under section 151 may be provided to an applicant for patent only if the applicant for patent has filed each required oath or declaration under subsection (a) or has filed a substitute statement under subsection (d) or recorded an assignment meeting the requirements of subsection (e).

(g) EARLIER-FILED APPLICATION CONTAINING REQUIRED STATEMENTS OR SUBSTITUTE STATEMENT.—The requirements under this

section shall not apply to an individual with respect to an application for patent in which the individual is named as the inventor or a joint inventor and that claims the benefit under section 120 or 365(c) of the filing of an earlier-filed application, if—

(1) an oath or declaration meeting the requirements of subsection (a) was executed by the individual and was filed in connection with the earlier-filed application;

(2) a substitute statement meeting the requirements of subsection (d) was filed in the earlier filed application with respect to the individual; or

(3) an assignment meeting the requirements of subsection (e) was executed with respect to the earlier-filed application by the individual and was recorded in connection with the earlier-filed application.

(h) SUPPLEMENTAL AND CORRECTED STATEMENTS; FILING ADDITIONAL STATEMENTS.—

(1) IN GENERAL.—Any person making a statement required under this section may withdraw, replace, or otherwise correct the statement at any time. If a change is made in the naming of the inventor requiring the filing of 1 or more additional statements under this section, the Director shall establish regulations under which such additional statements may be filed.

(2) SUPPLEMENTAL STATEMENTS NOT REQUIRED.—If an individual has executed an oath or declaration under subsection (a) or an assignment meeting the requirements of subsection (e) with respect to an application for patent, the Director may not thereafter require that individual to make any additional oath, declaration, or other statement equivalent to those required by this section in connection with the application for patent or any patent issuing thereon.

(3) SAVINGS CLAUSE.—No patent shall be invalid or unenforceable based upon the failure to comply with a requirement under this section if the failure is remedied as provided under paragraph (1).

(i) ACKNOWLEDGEMENT OF PENALTIES.—Any declaration or statement filed pursuant to this section shall contain an acknowledgement that any willful false statement made in such declaration or statement is punishable under section 1001 of title 18 by fine or imprisonment of not more than 5 years, or both.

§ 116. Inventors

[When**]** *(a) JOINT INVENTIONS.—When* an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even though

(1) they did not physically work together or at the same time,

(2) each did not make the same type or amount of contribution, or

(3) each did not make a contribution to the subject matter of every claim of the patent.

[If a joint inventor**]** *(b) OMITTED INVENTOR.—If a joint inventor* refuses to join in an application for patent or cannot be found or reached after diligent effort, the application may be made by the

other inventor on behalf of himself and the omitted inventor. The Director, on proof of the pertinent facts and after such notice to the omitted inventor as he prescribes, may grant a patent to the inventor making the application, subject to the same rights which the omitted inventor would have had if he had been joined. The omitted inventor may subsequently join in the application.

[Whenever**]** *(c) CORRECTION OF ERRORS IN APPLICATION.—Whenever* through error a person is named in an application for patent as the inventor, or through error an inventor is not named in an application, and such error arose without any deceptive intention on his part, the Director may permit the application to be amended accordingly, under such terms as he prescribes.

* * * * * * *

§ 118. Filing by other than inventor

[Whenever an inventor refuses to execute an application for patent, or cannot be found or reached after diligent effort, a person to whom the inventor has assigned or agreed in writing to assign the invention or who otherwise shows sufficient proprietary interest in the matter justifying such action, may make application for patent on behalf of and as agent for the inventor on proof of the pertinent facts and a showing that such action is necessary to preserve the rights of the parties or to prevent irreparable damage; and the Director may grant a patent to such inventor upon such notice to him as the Director deems sufficient, and on compliance with such regulations as he prescribes.**]** *A person to whom the inventor has assigned or is under an obligation to assign the invention may make an application for patent. A person who otherwise shows sufficient proprietary interest in the matter may make an application for patent on behalf of and as agent for the inventor on proof of the pertinent facts and a showing that such action is appropriate to preserve the rights of the parties. If the Director grants a patent on an application filed under this section by a person other than the inventor, the patent shall be granted to the real party in interest and upon such notice to the inventor as the Director considers to be sufficient.*

§ 119. Benefit of earlier filing date; right of priority

(a) An application for patent for an invention filed in this country by any person who has, or whose legal representatives or assigns have, previously regularly filed an application for a patent for the same invention in a foreign country which affords similar privileges in the case of applications filed in the United States or to citizens of the United States, or in a WTO member country, shall have the same effect as the same application would have if filed in this country on the date on which the application for patent for the same invention was first filed in such foreign country, if the application in this country is filed within twelve months from the earliest date on which such foreign application was filed**[**; but no patent shall be granted on any application for patent for an invention which had been patented or described in a printed publication in any country more than one year before the date of the actual filing of the application in this country, or which had been in public use or on sale in this country more than one year prior to such filing**]**.

§ 120. Benefit of earlier filing date in the United States

An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States, or as provided by section 363 of this title, [which is filed by an inventor or inventors named] *which names an inventor or joint inventor* in the previously filed application shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application. No application shall be entitled to the benefit of an earlier filed application under this section unless an amendment containing the specific reference to the earlier filed application is submitted at such time during the pendency of the application as required by the Director. The Director may consider the failure to submit such an amendment within that time period as a waiver of any benefit under this section. The Director may establish procedures, including the payment of a surcharge, to accept an unintentionally delayed submission of an amendment under this section.

§ 121. Divisional applications

If two or more independent and distinct inventions are claimed in one application, the Director may require the application to be restricted to one of the inventions. If the other invention is made the subject of a divisional application which complies with the requirements of section 120 of this title it shall be entitled to the benefit of the filing date of the original application. A patent issuing on an application with respect to which a requirement for restriction under this section has been made, or on an application filed as a result of such a requirement, shall not be used as a reference either in the Patent and Trademark Office or in the courts against a divisional application or against the original application or any patent issued on either of them, if the divisional application is filed before the issuance of the patent on the other application. [If a divisional application is directed solely to subject matter described and claimed in the original application as filed, the Director may dispense with signing and execution by the inventor.] The validity of a patent shall not be questioned for failure of the Director to require the application to be restricted to one invention.

§ 122. Confidential status of applications; publication of patent applications

* * * * * * *

(b) PUBLICATION.—

* * * * * * *

(2) EXCEPTIONS.—

[(A) An application] *An application* shall not be published if that application is—

[(i)] *(A)* no longer pending;

[(ii)] *(B)* subject to a secrecy order under section *181* of this title;

[(iii)] *(C)* a provisional application filed under section *111(b)* of this title; or

[(iv)] *(D)* an application for a design patent filed under chapter 16 of this title.

[(B)(i) If an applicant makes a request upon filing, certifying that the invention disclosed in the application has not and will not be the subject of an application filed in another country, or under a multilateral international agreement, that requires publication of applications 18 months after filing, the application shall not be published as provided in paragraph (1).

[(ii) An applicant may rescind a request made under clause (i) at any time.

[(iii) An applicant who has made a request under clause (i) but who subsequently files, in a foreign country or under a multilateral international agreement specified in clause (i), an application directed to the invention disclosed in the application filed in the Patent and Trademark Office, shall notify the Director of such filing not later than 45 days after the date of the filing of such foreign or international application. A failure of the applicant to provide such notice within the prescribed period shall result in the application being regarded as abandoned, unless it is shown to the satisfaction of the Director that the delay in submitting the notice was unintentional.

[(iv) If an applicant rescinds a request made under clause (i) or notifies the Director that an application was filed in a foreign country or under a multilateral international agreement specified in clause (i), the application shall be published in accordance with the provisions of paragraph (1) on or as soon as is practical after the date that is specified in clause (i).

[(v) If an applicant has filed applications in one or more foreign countries, directly or through a multilateral international agreement, and such foreign filed applications corresponding to an application filed in the Patent and Trademark Office or the description of the invention in such foreign filed applications is less extensive than the application or description of the invention in the application filed in the Patent and Trademark Office, the applicant may submit a redacted copy of the application filed in the Patent and Trademark Office eliminating any part or description of the invention in such application that is not also contained in any of the corresponding applications filed in a foreign country. The Director may only publish the redacted copy of the application unless the redacted copy of the application is not received within 16 months after the earliest effective filing date for which a benefit is sought under this title. The provisions of section 154(d) shall not apply to a claim if the description of the invention published in the redacted application filed under this clause with respect to the claim does not enable a person

skilled in the art to make and use the subject matter of the claim.]

* * * * * * *

(e) PREISSUANCE SUBMISSIONS BY THIRD PARTIES.—

(1) IN GENERAL.—Any person may submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other publication of potential relevance to the examination of the application, if such submission is made in writing before the earlier of—

(A) the date a notice of allowance under section 151 is mailed in the application for patent; or

(B) either—

(i) 6 months after the date on which the application for patent is published under section 122, or

(ii) the date of the first rejection under section 132 of any claim by the examiner during the examination of the application for patent,

whichever occurs later.

(2) OTHER REQUIREMENTS.—Any submission under paragraph (1) shall—

(A) set forth a concise description of the asserted relevance of each submitted document;

(B) be accompanied by such fee as the Director may prescribe; and

(C) include a statement by the person making such submission affirming that the submission was made in compliance with this section.

§ 123. Additional information; micro-entity exception

(a) IN GENERAL.—The Director shall, by regulation, require that an applicant for a patent under this title submit to the Director—

(1) a search report and analysis relevant to patentability; and

(2) any other information relevant to patentability that the Director, in his discretion, determines necessary.

(b) FAILURE TO COMPLY.—If an applicant fails to submit the search report, analysis, or information required under subsection (a) in the manner and within the time period prescribed by the Director, such application shall be regarded as abandoned.

(c) EXCEPTION.—Any application for a patent submitted by a micro-entity shall not be subject to the requirements of this section.

(d) MICRO-ENTITY DEFINED.—

(1) IN GENERAL.—For purposes of this section, the term "micro-entity" means an applicant who makes a certification under either paragraph (2) or (3).

(2) UNASSIGNED APPLICATION.—For an unassigned application, each applicant shall certify that the applicant—

(A) qualifies as a small entity, as defined in regulations issued by the Director;

(B) has not been named on 5 or more previously filed patent applications;

(C) has not assigned, granted, or conveyed, and is not under an obligation by contract or law to assign, grant, or

convey, a license or any other ownership interest in the particular application; and

(D) does not have a gross income, as defined in section 61(a) of the Internal Revenue Code (26 U.S.C. 61(a)), exceeding 2.5 times the average gross income, as reported by the Department of Labor, in the calendar year immediately preceding the calendar year in which the examination fee is being paid.

(3) ASSIGNED APPLICATION.—For an assigned application, each applicant shall certify that the applicant—

(A) qualifies as a small entity, as defined in regulations issued by the Director, and meets the requirements of paragraph (2)(D);

(B) has not been named on 5 or more previously filed patent applications; and

(C) has assigned, granted, conveyed, or is under an obligation by contract or law to assign, grant, or convey, a license or other ownership interest in the particular application to an entity that has 5 or fewer employees and that such entity has a gross income, as defined in section 61(a) of the Internal Revenue Code (26 U.S.C. 61(a)), that does not exceed 2.5 times the average gross income, as reported by the Department of Labor, in the calendar year immediately preceding the calendar year in which the examination fee is being paid.

(4) INCOME LEVEL ADJUSTMENT.—The gross income levels established under paragraphs (2) and (3) shall be adjusted by the Director on October 1, 2009, and every year thereafter, to reflect any fluctuations occurring during the previous 12 months in the Consumer Price Index, as determined by the Secretary of Labor.

* * * * * * *

CHAPTER 12—EXAMINATION OF APPLICATION

* * * * * * *

§ 134. [Appeal to the Board of Patent Appeals and Interferences] *Appeal to the Patent Trial and Appeal Board.*

(a) PATENT APPLICANT.—An applicant for a patent, any of whose claims has been twice rejected, may appeal from the decision of the primary examiner to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*, having once paid the fee for such appeal.

(b) PATENT OWNER.—A patent owner in any reexamination proceeding may appeal from the final rejection of any claim by the primary examiner to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board,* having once paid the fee for such appeal.

(c) THIRD PARTY.—A third-party requester in an inter partes proceeding may appeal to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* from the final decision of the primary examiner favorable to the patentability of any original

or proposed amended or new claim of a patent, having once paid the fee for such appeal.

§ 135. [Interferences] *Derivation proceedings*

(a) [Whenever an application is made for a patent which, in the opinion of the Director, would interfere with any pending application, or with any unexpired patent, an interference may be declared and the Director shall give notice of such declaration to the applicants, or applicant and patentee, as the case may be. The Board of Patent Appeals and Interferences shall determine questions of priority of the inventions and may determine questions of patentability. Any final decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent and Trademark Office of the claims involved, and the Director may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved in the patent, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation by the Patent and Trademark Office.] *DISPUTE OVER RIGHT TO PATENT.—*

(1) INSTITUTION OF DERIVATION PROCEEDING.—An applicant may request initiation of a derivation proceeding to determine the right of the applicant to a patent by filing a request which sets forth with particularity the basis for finding that an earlier applicant derived the claimed invention from the applicant requesting the proceeding and, without authorization, filed an application claiming such invention. Any such request may only be made within 12 months after the date of first publication of an application containing a claim that is the same or is substantially the same as the claimed invention, must be made under oath, and must be supported by substantial evidence. Whenever the Director determines that patents or applications for patent naming different individuals as the inventor interfere with one another because of a dispute over the right to patent under section 101, the Director shall institute a derivation proceeding for the purpose of determining which applicant is entitled to a patent.

(2) DETERMINATION BY PATENT TRIAL AND APPEAL BOARD.—In any proceeding under this subsection, the Patent Trial and Appeal Board—

(A) shall determine the question of the right to patent;

(B) in appropriate circumstances, may correct the naming of the inventor in any application or patent at issue; and

(C) shall issue a final decision on the right to patent.

(3) DERIVATION PROCEEDING.—The Board may defer action on a request to initiate a derivation proceeding until 3 months after the date on which the Director issues a patent to the applicant that filed the earlier application.

(4) EFFECT OF FINAL DECISION.—The final decision of the Patent Trial and Appeal Board, if adverse to the claim of an applicant, shall constitute the final refusal by the United States Patent and Trademark Office on the claims involved. The Director may issue a patent to an applicant who is determined by the

Patent Trial and Appeal Board to have the right to patent. The final decision of the Board, if adverse to a patentee, shall, if no appeal or other review of the decision has been or can be taken or had, constitute cancellation of the claims involved in the patent, and notice of such cancellation shall be endorsed on copies of the patent distributed after such cancellation by the United States Patent and Trademark Office.

* * * * * * *

CHAPTER 13—REVIEW OF PATENT AND TRADEMARK OFFICE DECISIONS

§ 141. Appeal to the Court of Appeals for the Federal Circuit

An applicant dissatisfied with the decision in an appeal to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* under section 134 of this title may appeal the decision to the United States Court of Appeals for the Federal Circuit. By filing such an appeal the applicant waives his or her right to proceed under section 145 of this title. A patent owner, or a third-party requester in an inter partes reexamination proceeding, who is in any reexamination proceeding dissatisfied with the final decision in an appeal to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* under section 134 may appeal the decision only to the United States Court of Appeals for the Federal Circuit. A party to [an interference] *a derivation proceeding* dissatisfied with the decision of the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* on the [interference] *derivation proceeding* may appeal the decision to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such [interference] *derivation proceeding,* within twenty days after the appellant has filed notice of appeal in accordance with section 142 of this title, files notice with the Director that the party elects to have all further proceedings conducted as provided in section 146 of this title. If the appellant does not, within thirty days after filing of such notice by the adverse party, file a civil action under section 146, the decision appealed from shall govern the further proceedings in the case.

* * * * * * *

§ 145. Civil action to obtain patent

An applicant dissatisfied with the decision of the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* in an appeal under section 134(a) of this title may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, have remedy by civil action against the Director in the [United States District Court for the District of Columbia] *United States District Court for the Eastern District of Virginia* if commenced within such time after such decision, not less than sixty days, as the Director appoints. The court may adjudge that such applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*,

as the facts in the case may appear, and such adjudication shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant.

§ 146. [Civil action in case of interference] *Civil action in case of derivation proceeding*

Any party to [an interference] *a derivation proceeding* dissatisfied with the decision of the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* may have remedy by civil action, if commenced within such time after such decision, not less than sixty days, as the Director appoints or as provided in section 141 of this title, unless he has appealed to the United States Court of Appeals for the Federal Circuit, and such appeal is pending or has been decided. In such suits the record in the Patent and Trademark Office shall be admitted on motion of either party upon the terms and conditions as to costs, expenses, and the further cross-examination of the witnesses as the court imposes, without prejudice to the right of the parties to take further testimony. The testimony and exhibits of the record in the Patent and Trademark Office when admitted shall have the same effect as if originally taken and produced in the suit.

Such suit may be instituted against the party in interest as shown by the records of the Patent and Trademark Office at the time of the decision complained of, but any party in interest may become a party to the action. If there be adverse parties residing in a plurality of districts not embraced within the same state, or an adverse party residing in a foreign country, the [United States District Court for the District of Columbia] *United States District Court for the Eastern District of Virginia* shall have jurisdiction and may issue summons against the adverse parties directed to the marshal of any district in which any adverse party resides. Summons against adverse parties residing in foreign countries may be served by publication or otherwise as the court directs. The Director shall not be a necessary party but he shall be notified of the filing of the suit by the clerk of the court in which it is filed and shall have the right to intervene. Judgment of the court in favor of the right of an applicant to a patent shall authorize the Director to issue such patent on the filing in the Patent and Trademark Office of a certified copy of the judgment and on compliance with the requirements of law.

* * * * * * *

CHAPTER 14—ISSUE OF PATENT

* * * * * * *

§ 154. Contents and term of patent; provisional rights

* * * * * * *

(b) ADJUSTMENT OF PATENT TERM.—

(1) PATENT TERM GUARANTEES.—

(A) GUARANTEE OF PROMPT PATENT AND TRADEMARK OFFICE RESPONSES.—Subject to the limitations under para-

graph (2), if the issue of an original patent is delayed due to the failure of the Patent and Trademark Office to—

(i) provide at least one of the notifications under section 132 of this title or a notice of allowance under section 151 of this title not later than 14 months after—

(I) the date on which an application was filed under section 111 (a) of this title; or

(II) the date on which an international application fulfilled the requirements of section 371 of this title;

(ii) respond to a reply under section 132, or to an appeal taken under section 134, within 4 months after the date on which the reply was filed or the appeal was taken;

(iii) act on an application within 4 months after the date of a decision by the ⟦Board of Patent Appeals and Interferences⟧ *Patent Trial and Appeal Board* under section 134 or 135 or a decision by a Federal court under section 141, 145, or 146 in a case in which allowable claims remain in the application; or

(iv) issue a patent within 4 months after the date on which the issue fee was paid under section 151 and all outstanding requirements were satisfied,

the term of the patent shall be extended 1 day for each day after the end of the period specified in clause (i), (ii), (iii), or (iv), as the case may be, until the action described in such clause is taken.

(B) GUARANTEE OF NO MORE THAN 3-YEAR APPLICATION PENDENCY.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to the failure of the United States Patent and Trademark Office to issue a patent within 3 years after the actual filing date of the application in the United States, not including—

(i) any time consumed by continued examination of the application requested by the applicant under section 132(b);

(ii) any time consumed by a proceeding under section 135(a), any time consumed by the imposition of an order under section 181, or any time consumed by appellate review by the ⟦Board of Patent Appeals and Interferences⟧ *Patent Trial and Appeal Board* or by a Federal court; or

(iii) any delay in the processing of the application by the United States Patent and Trademark Office requested by the applicant except as permitted by paragraph (3)(C),

the term of the patent shall be extended 1 day for each day after the end of that 3-year period until the patent is issued.

(C) GUARANTEE OR ADJUSTMENTS FOR DELAYS DUE TO ⟦INTERFERENCES⟧ *DERIVATION PROCEEDINGS,* SECRECY ORDERS, AND APPEALS.—Subject to the limitations under paragraph (2), if the issue of an original patent is delayed due to—

(i) a proceeding under section 135(a);

(ii) the imposition of an order under section 181; or

(iii) appellate review by the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board* or by a Federal court in a case in which the patent was issued under a decision in the review reversing an adverse determination of patentability,

the term of the patent shall be extended 1 day for each day of the pendency of the proceeding, order, or review, as the case may be.

* * * * * * *

(4) APPEAL OF PATENT TERM ADJUSTMENT DETERMINATION.—

(A) An applicant dissatisfied with a determination made by the Director under paragraph (3) shall have remedy by a civil action against the Director filed in the [United States District Court for the District of Columbia] *United States District Court for the Eastern District of Virginia* within 180 days after the grant of the patent. Chapter 7 of title 5 shall apply to such action. Any final judgment resulting in a change to the period of adjustment of the patent term shall be served on the Director, and the Director shall thereafter alter the term of the patent to reflect such change.

(B) The determination of a patent term adjustment under this subsection shall not be subject to appeal or challenge by a third party prior to the grant of the patent.

* * * * * * *

[§ 157. Statutory invention registration

[(a) Notwithstanding any other provision of this title, the Director is authorized to publish a statutory invention registration containing the specification and drawings of a regularly filed application for a patent without examination if the applicant—

[(1) meets the requirements of section 112 of this title;

[(2) has complied with the requirements for printing, as set forth in regulations of the Director;

[(3) waives the right to receive a patent on the invention within such period as may be prescribed by the Director; and

[(4) pays application, publication, and other processing fees established by the Director.

[If an interference is declared with respect to such an application, a statutory invention registration may not be published unless the issue of priority of invention is finally determined in favor of the applicant.

[(b) The waiver under subsection (a)(3) of this section by an applicant shall take effect upon publication of the statutory invention registration.

[(c) A statutory invention registration published pursuant to this section shall have all of the attributes specified for patents in this title except those specified in section 183 and sections 271 through 289 of this title. A statutory invention registration shall not have any of the attributes specified for patents in any other provision of law other than this title. A statutory invention registration pub-

lished pursuant to this section shall give appropriate notice to the public, pursuant to regulations which the Director shall issue, of the preceding provisions of this subsection. The invention with respect to which a statutory invention certificate is published is not a patented invention for purposes of section 292 of this title.

[(d) The Director shall report to the Congress annually on the use of statutory invention registrations. Such report shall include an assessment of the degree to which agencies of the Federal Government are making use of the statutory invention registration system, the degree to which it aids the management of federally developed technology, and an assessment of the cost savings to the Federal Government of the use of such procedures.]

* * * * * * *

CHAPTER 16—DESIGNS

* * * * * * *

§ 172. Right of priority

The right of priority provided for by subsections (a) through (d) of section 119 of this title [and the time specified in section 102(d)] shall be six months in the case of designs. The right of priority provided for by section 119(e) of this title shall not apply to designs.

* * * * * * *

CHAPTER 17—SECRECY OF CERTAIN INVENTIONS AND FILING APPLICATIONS IN FOREIGN COUNTRY

* * * * * * *

§ 184. Filing of application in foreign country

[Except when] *(a) FILING IN FOREIGN COUNTRY.—Except when* authorized by a license obtained from the Commissioner of Patents a person shall not file or cause or authorize to be filed in any foreign country prior to six months after filing in the United States an application for patent or for the registration of a utility model, industrial design, or model in respect of an invention made in this country. A license shall not be granted with respect to an invention subject to an order issued by the Commissioner of Patents pursuant to section 181 of this title without the concurrence of the head of the departments and the chief officers of the agencies who caused the order to be issued. The license may be granted retroactively where an application has been filed abroad through error and without deceptive intent and the application does not disclose an invention within the scope of section 181 of this title.

[The term] *(b) APPLICATION.—The term* "application" when used in this chapter includes applications and any modifications, amendments, or supplements thereto, or divisions thereof.

[The scope] *(c) SUBSEQUENT MODIFICATIONS, AMENDMENTS, AND SUPPLEMENTS.—The scope* of a license shall permit subsequent modifications, amendments, and supplements containing additional subject matter if the application upon which the request for the license is based is not, or was not, required to be made available for inspection under section 181 of this title and if such modifications,

amendments, and supplements do not change the general nature of the invention in a manner which would require such application to be made available for inspection under such section 181. In any case in which a license is not, or was not, required in order to file an application in any foreign country, such subsequent modifications, amendments, and supplements may be made, without a license, to the application filed in the foreign country if the United States application was not required to be made available for inspection under section 181 and if such modifications, amendments, and supplements do not, or did not, change the general nature of the invention in a manner which would require the United States application to have been made available for inspection under such section 181.

* * * * * * *

CHAPTER 18—PATENT RIGHTS IN INVENTIONS MADE WITH FEDERAL ASSISTANCE

* * * * * * *

§ 202. Disposition of rights

* * * * * * *

(c) Each funding agreement with a small business firm or nonprofit organization shall contain appropriate provisions to effectuate the following:

* * * * * * *

(2) That the contractor make a written election within two years after disclosure to the Federal agency (or such additional time as may be approved by the Federal agency) whether the contractor will retain title to a subject invention: Provided, That in any case where [publication, on sale, or public use, has initiated the one year statutory period in which valid patent protection can still be obtained in the United States] *the 1-year period referred to in section 102(a) would end before the end of that 2-year period,* the period for election may be shortened by the Federal agency to a date that is not more than sixty days prior to the end of [the statutory] *that 1-year* period: And provided further, That the Federal Government may receive title to any subject invention in which the contractor does not elect to retain rights or fails to elect rights within such times.

(3) That a contractor electing rights in a subject invention agrees to file a patent application prior to [any statutory bar date that may occur under this title due to publication, on sale, or public use] *the expiration of the 1-year period referred to in section 102(a),* and shall thereafter file corresponding patent applications in other countries in which it wishes to retain title within reasonable times, and that the Federal Government may receive title to any subject inventions in the United States or other countries in which the contractor has not filed patent applications on the subject invention within such times.

* * * * * * *

PART III—PATENTS AND PROTECTION OF PATENT RIGHTS

CHAPTER 25—AMENDMENT AND CORRECTION OF PATENTS

§ 251. Reissue of defective patents

[Whenever] *(a) IN GENERAL.—Whenever* any patent is, through error without any deceptive intention, deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim in the patent, the Director shall, on the surrender of such patent and the payment of the fee required by law, reissue the patent for the invention disclosed in the original patent, and in accordance with a new and amended application, for the unexpired part of the term of the original patent. No new matter shall be introduced into the application for reissue.

[The Director] *(b) MULTIPLE REISSUED PATENTS.—The Director* may issue several reissued patents for distinct and separate parts of the thing patented, upon demand of the applicant, and upon payment of the required fee for a reissue for each of such reissued patents.

[The provisions] *(c) APPLICABILITY OF THIS TITLE.—The provisions* of this title relating to applications for patent shall be applicable to applications for reissue of a patent, except that application for reissue may be made and sworn to by the assignee of the entire interest if the application does not seek to enlarge the scope of the claims of the original patent.

[No reissued patent] *(d) REISSUE PATENT ENLARGING SCOPE OF CLAIMS.—No reissued patent* shall be granted enlarging the scope of the claims of the original patent unless applied for within two years from the grant of the original patent.

* * * * * * *

§ 253. Disclaimer

[Whenever] *(a) IN GENERAL.—Whenever,* without any deceptive intention, a claim of a patent is invalid the remaining claims shall not thereby be rendered invalid. A patentee, whether of the whole or any sectional interest therein, may, on payment of the fee required by law, make disclaimer of any complete claim, stating therein the extent of his interest in such patent. Such disclaimer shall be in writing, and recorded in the Patent and Trademark Office; and it shall thereafter be considered as part of the original patent to the extent of the interest possessed by the disclaimant and by those claiming under him.

[In like manner] *(b) ADDITIONAL DISCLAIMER OR DEDICATION.—In the manner set forth in subsection (a),* any patentee or applicant may disclaim or dedicate to the public the entire term, or any terminal part of the term, of the patent granted or to be granted.

* * * * * * *

§ 256. Correction of named inventor

[Whenever] *(a) CORRECTION.—Whenever* through error a person is named in an issued patent as the inventor, or through error an inventor is not named in an issued patent and such error arose without any deceptive intention on his part, the Director may, on application of all the parties and assignees, with proof of the facts and such other requirements as may be imposed, issued a certificate correcting such error.

[The error] *(b) PATENT VALID IF ERROR CORRECTED.—The error* of omitting inventors or naming persons who are not inventors shall not invalidate the patent in which such error occurred if it can be corrected as provided in this section. The court before which such matter is called in question may order correction of the patent on notice and hearing of all parties concerned and the Director shall issue a certificate accordingly.

* * * * * * *

CHAPTER 28—INFRINGEMENT OF PATENTS

* * * * * * *

§ 273. Defense to infringement based on earlier inventor

* * * * * * *

(b) DEFENSE TO INFRINGEMENT.—

* * * * * * *

(6) PERSONAL DEFENSE.—[The defense under this section may be asserted only by the person who performed the acts necessary to establish the defense and, except for any transfer to the patent owner, the right to assert the defense shall not be licensed or assigned or transferred to another person except as an ancillary and subordinate part of a good faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates.] *The defense under this section may be asserted only by the person who performed or caused the performance of the acts necessary to establish the defense as well as any other entity that controls, is controlled by, or is under common control with such person and, except for any transfer to the patent owner, the right to assert the defense shall not be licensed or assigned or transferred to another person except as an ancillary and subordinate part of a good faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates. Notwithstanding the preceding sentence, any person may, on its own behalf, assert a defense based on the exhaustion of rights provided under paragraph (3), including any necessary elements thereof.*

* * * * * * *

CHAPTER 29—REMEDIES FOR INFRINGEMENT OF PATENT, AND OTHER ACTIONS

* * * * * * *

§ 282. Presumption of validity; defenses

[A patent] *(a) IN GENERAL.—A patent* shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. Notwithstanding the preceding sentence, if a claim to a composition of matter is held invalid and that claim was the basis of a determination of nonobviousness under section 103(b)(1), the process shall no longer be considered nonobvious solely on the basis of section 103(b)(1). The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

[The following] *(b) DEFENSES.—The following* shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

[In actions] *(c) NOTICE OF ACTIONS; ACTIONS DURING EXTENSION OF PATENT TERM.—In actions* involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Federal Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires. Invalidity of the extension of a patent term or any portion thereof under section 154(b) or 156 of this title because of the material failure—

(1) by the applicant for the extension, or

(2) by the Director,

to comply with the requirements of such section shall be a defense in any action involving the infringement of a patent during the period of the extension of its term and shall be pleaded. A due diligence determination under section 156(d)(2) is not subject to review in such an action.

* * * * * * *

§ 284. Damages

[Upon finding for the claimant the court shall award the claimant 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 interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.]

(a) IN GENERAL.—Upon finding for the claimant the court shall award the claimant 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 as fixed by the court, subject to the provisions of this section.

(b) DETERMINATION OF DAMAGES; EVIDENCE CONSIDERED; PROCEDURE.—The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances. The admissibility of such testimony shall be governed by the rules of evidence governing expert testimony. When the damages are not found by a jury, the court shall assess them.

(c) STANDARD FOR CALCULATING REASONABLE ROYALTY.—

(1) IN GENERAL.—The court shall determine, based on the facts of the case and after adducing any further evidence the court deems necessary, which of the following methods shall be used by the court or the jury in calculating a reasonable royalty pursuant to subsection (a). The court shall also identify the factors that are relevant to the determination of a reasonable royalty, and the court or jury, as the case may be, shall consider only those factors in making such determination.

(A) ENTIRE MARKET VALUE.—Upon a showing to the satisfaction of the court that the claimed invention's specific contribution over the prior art is the predominant basis for market demand for an infringing product or process, damages may be based upon the entire market value of that infringing product or process.

(B) ESTABLISHED ROYALTY BASED ON MARKETPLACE LICENSING.—Upon a showing to the satisfaction of the court that the claimed invention has been the subject of a nonexclusive license for the use made of the invention by the infringer, to a number of persons sufficient to indicate a general marketplace recognition of the reasonableness of the licensing terms, if the license was secured prior to the filing of the case before the court, and the court determines that the infringer's use is of substantially the same scope, volume, and benefit of the rights granted under such license, damages may be determined on the basis of the terms of such license. Upon a showing to the satisfaction of the court that the claimed invention has sufficiently similar non-

infringing substitutes in the relevant market, which have themselves been the subject of such nonexclusive licenses, and the court determines that the infringer's use is of substantially the same scope, volume, and benefit of the rights granted under such licenses, damages may be determined on the basis of the terms of such licenses.

(C) VALUATION CALCULATION.—Upon a determination by the court that the showings required under subparagraphs (A) and (B) have not been made, the court shall conduct an analysis to ensure that a 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. In the case of a combination invention whose elements are present individually in the prior art, the contribution over the prior art may include the value of the additional function resulting from the combination, as well as the enhanced value, if any, of some or all of the prior art elements as part of the combination, if the patentee demonstrates that value.

(2) ADDITIONAL FACTORS.—Where the court determines it to be appropriate in determining a reasonable royalty under paragraph (1), the court may also consider, or direct the jury to consider, any other relevant factors under applicable law.

(d) INAPPLICABILITY TO OTHER DAMAGES ANALYSIS.—The methods for calculating a reasonable royalty described in subsection (c) shall have no application to the calculation of an award of damages that does not necessitate the determination of a reasonable royalty as a basis for monetary relief sought by the claimant.

(e) WILLFUL INFRINGEMENT.—

(1) INCREASED DAMAGES.—A court that has determined that an infringer has willfully infringed a patent or patents may increase damages up to 3 times the amount of the damages found or assessed under subsection (a), except that increased damages under this paragraph shall not apply to provisional rights under section 154(d).

(2) PERMITTED GROUNDS FOR WILLFULNESS.—A court may find that an infringer has willfully infringed a patent only if the patent owner presents clear and convincing evidence that—

(A) after receiving written notice from the patentee—

(i) alleging acts of infringement in a manner sufficient to give the infringer an objectively reasonable apprehension of suit on such patent, and

(ii) identifying with particularity each claim of the patent, each product or process that the patent owner alleges infringes the patent, and the relationship of such product or process to such claim,

the infringer, after a reasonable opportunity to investigate, thereafter performed 1 or more of the alleged acts of infringement;

(B) the infringer intentionally copied the patented invention with knowledge that it was patented; or

(C) after having been found by a court to have infringed that patent, the infringer engaged in conduct that was not colorably different from the conduct previously found to

have infringed the patent, and which resulted in a separate finding of infringement of the same patent.

(3) LIMITATION OF WILLFULNESS.—

(A) IN GENERAL.—A court may not find that an infringer has willfully infringed a patent under paragraph (2) for any period of time during which the infringer had an informed good faith belief that the patent was invalid or unenforceable, or would not be infringed by the conduct later shown to constitute infringement of the patent.

(B) GOOD FAITH ESTABLISHED.—An informed good faith belief within the meaning of subparagraph (A) may be established by—

(i) reasonable reliance on advice of counsel;

(ii) evidence that the infringer sought to modify its conduct to avoid infringement once it had discovered the patent; or

(iii) other evidence a court may find sufficient to establish such good faith belief.

(C) RELEVANCE OF NOT PRESENTING CERTAIN EVIDENCE.—The decision of the infringer not to present evidence of advice of counsel is not relevant to a determination of willful infringement under paragraph (2).

(4) LIMITATION ON PLEADING.—Before the date on which a court determines that the patent in suit is not invalid, is enforceable, and has been infringed by the infringer, a patentee may not plead and a court may not determine that an infringer has willfully infringed a patent. The court's determination of an infringer's willfulness shall be made without a jury.

* * * * * * *

§ 287. Limitation on damages and other remedies; marking and notice

(a) ⟦Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein 1 or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.⟧

(1) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this cannot be done, by fixing to it, or to the package wherein 1 or more

of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

(2) In the case of a patented invention not covered under paragraph (1), no recovery shall be had for any infringement committed more than 2 years prior to the filing of the complaint or counterclaim for infringement in the action, except upon proof that the infringer was notified of the infringement by the patentee. Upon such proof, the patentee may recover damages for infringement for up to 2 years prior to such notice, as well as for infringement after such notice. In no event may damages be recovered for more than 6 years prior to the filing of the complaint or counterclaim for infringement in the action.

* * * * * * *

(c) * * *

* * * * * * *

(4) This subsection shall not apply to any patent issued based on an application ⟦the earliest effective filing date of which is prior to⟧ *which has an effective date before* September 30, 1996.

(d)(1) With respect to the use by a financial institution of a check collection system that constitutes an infringement under subsection (a) or (b) of section 271, the provisions of sections 281, 283, 284, and 285 shall not apply against the financial institution with respect to such a check collection system.

(2) For the purposes of this subsection—

(A) the term "check" has the meaning given under section 3(6) of the Check Clearing for the 21st Century Act (12 U.S.C. 5002(6));

(B) the term "check collection system" means the use, creation, transmission, receipt, storing, settling, or archiving of truncated checks, substitute checks, check images, or electronic check data associated with or related to any method, system, or process that furthers or effectuates, in whole or in part, any of the purposes of the Check Clearing for the 21st Century Act (12 U.S.C. 5001 et seq.);

(C) the term "financial institution" has the meaning given under section 509 of the Gramm-Leach-Bliley Act (15 U.S.C. 6809);

(D) the term "substitute check" has the meaning given under section 3(16) of the Check Clearing for the 21st Century Act (12 U.S.C. 5002(16)); and

(E) the term "truncate" has the meaning given under section 3(18) of the Check Clearing for the 21st Century Act (12 U.S.C. 5002(18)).

* * * * * * *

[§ 291. Interfering patents

[The owner of an interfering patent may have relief against the owner of another by civil action, and the court may adjudge the question of the validity of any of the interfering patents, in whole or in part. The provisions of the second paragraph of section 146 of this title shall apply to actions brought under this section.]

* * * * * * *

§ 293. Nonresident patentee; service and notice

Every patentee not residing in the United States may file in the Patent and Trademark Office a written designation stating the name and address of a person residing within the United States on whom may be served process or notice of proceedings affecting the patent or rights thereunder. If the person designated cannot be found at the address given in the last designation, or if no person has been designated, the [United States District Court for the District of Columbia] *United States District Court for the Eastern District of Virginia* shall have jurisdiction and summons shall be served by publication or otherwise as the court directs. The court shall have the same jurisdiction to take any action respecting the patent or rights thereunder that it would have if the patentee were personally within the jurisdiction of the court.

* * * * * * *

§ 298. Inequitable conduct

(a) IN GENERAL.—A party advancing the proposition that a patent should be cancelled or held unenforceable due to inequitable conduct in connection with a matter or proceeding before the United States Patent and Trademark Office shall prove independently by clear and convincing evidence that material information was misrepresented or omitted from the patent application of such patent with the intention of deceiving the Office.

(b) MATERIALITY.—Information shall be considered material for purposes of subsection (a) if—

(1) a reasonable patent examiner would consider such information important in deciding whether to allow the patent application; and

(2) such information is not cumulative to information already of record in the application.

(c) INTENT.—Intent to deceive the Office may be inferred under subsection (a), but the inference may not be based solely on the gross negligence of the patent owner or its representative, or on the materiality of the information misrepresented or not disclosed.

(d) PLEADING.—In actions involving allegations of inequitable conduct before the Office, the party asserting the defense or claim shall comply with the pleading requirements set forth under Federal Rules of Civil Procedure 9(b).

(e) REMEDIES.—If the court finds both that material information was misrepresented to, or withheld from, the Office and an intent to deceive, after balancing the equities, the court, using its discretion, shall impose 1 or more of the following remedies as it deems appropriate:

(1) Hold the patent unenforceable.

(2) Hold 1 or more claims of the patent unenforceable.

(3) Order that the patentee is not entitled to equitable relief and that the sole and exclusive remedy for infringement of the patent shall be a reasonable royalty.

CHAPTER 30—PRIOR ART CITATIONS TO OFFICE AND EX PARTE REEXAMINATION OF PATENTS

* * * * * * *

§ 303. Determination of issue by Director

(a) [Within three months following the filing of a request for reexamination under the provisions of section 302 of this title, the Director will determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. On his own initiative, and any time, the Director may determine whether a substantial new question of patentability is raised by patents and publications discovered by him or cited under the provisions of section 301 of this title. The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office.] *Within 3 months after the owner of a patent files a request for reexamination under section 302, the Director shall determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. On the Director's own initiative, and at any time, the Director may determine whether a substantial new question of patentability is raised by patents and publications discovered by the Director, is cited under section 301, or is cited by any person other than the owner of the patent under section 302 or section 311. The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office.*

* * * * * * *

§ 305. Conduct of reexamination proceedings

After the times for filing the statement and reply provided for by section 304 of this title have expired, reexamination will be conducted according to the procedures established for initial examination under the provisions of sections 132 and 133 of this title. In any reexamination proceeding under this chapter, the patent owner will be permitted to propose any amendment to his patent and a new claim or claims thereto, in order to distinguish the invention as claimed from the prior art cited under the provisions of section 301 of this title, or in response to a decision adverse to the patentability of a claim of a patent. No proposed amended or new claim enlarging the scope of a claim of the patent will be permitted in a reexamination proceeding under this chapter. All reexamination proceedings under this section, including any appeal to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*, will be conducted with special dispatch within the Office.

* * * * * * *

[CHAPTER 31—OPTIONAL INTER PARTES REEXAMINATION PROCEDURES]

[§ 311. Request for inter partes reexamination

[(a) IN GENERAL.—Any third-party requester at any time may file a request for inter partes reexamination by the Office of a patent on the basis of any prior art cited under the provisions of section 301.

[(b) REQUIREMENTS.—The request shall—

[(1) be in writing, include the identity of the real party in interest, and be accompanied by payment of an inter partes reexamination fee established by the Director under section 41; and

[(2) set forth the pertinency and manner of applying cited prior art to every claim for which reexamination is requested.

[(c) COPY.—The Director promptly shall send a copy of the request to the owner of record of the patent.

[§ 312. Determination of issue by Director

[(a) REEXAMINATION.—Not later than 3 months after the filing of a request for inter partes reexamination under section 311, the Director shall determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office.

[(b) RECORD.—A record of the Director's determination under subsection (a) shall be placed in the official file of the patent, and a copy shall be promptly given or mailed to the owner of record of the patent and to the third-party requester.

[(c) FINAL DECISION.—A determination by the Director under subsection (a) shall be final and non-appealable. Upon a determination that no substantial new question of patentability has been raised, the Director may refund a portion of the inter partes reexamination fee required under section 311.

[§ 313. Inter partes reexamination order by Director

[If, in a determination made under section 312 (a), the Director finds that a substantial new question of patentability affecting a claim of a patent is raised, the determination shall include an order for inter partes reexamination of the patent for resolution of the question. The order may be accompanied by the initial action of the Patent and Trademark Office on the merits of the inter partes reexamination conducted in accordance with section 314.

[§ 314. Conduct of inter partes reexamination proceedings

[(a) IN GENERAL.—Except as otherwise provided in this section, reexamination shall be conducted according to the procedures established for initial examination under the provisions of sections 132 and 133. In any inter partes reexamination proceeding under this chapter, the patent owner shall be permitted to propose any amendment to the patent and a new claim or claims, except that

no proposed amended or new claim enlarging the scope of the claims of the patent shall be permitted.

[(b) RESPONSE.—

[(1) With the exception of the inter partes reexamination request, any document filed by either the patent owner or the third-party requester shall be served on the other party. In addition, the Office shall send to the third-party requester a copy of any communication sent by the Office to the patent owner concerning the patent subject to the inter partes reexamination proceeding.

[(2) Each time that the patent owner files a response to an action on the merits from the Patent and Trademark Office, the third-party requester shall have one opportunity to file written comments addressing issues raised by the action of the Office or the patent owner's response thereto, if those written comments are received by the Office within 30 days after the date of service of the patent owner's response.

[(c) SPECIAL DISPATCH.—Unless otherwise provided by the Director for good cause, all inter partes reexamination proceedings under this section, including any appeal to the [Board of Patent Appeals and Interferences] *Patent Trial and Appeal Board*, shall be conducted with special dispatch within the Office.

[§ 315. Appeal

[(a) PATENT OWNER.—The patent owner involved in an inter partes reexamination proceeding under this chapter—

[(1) may appeal under the provisions of section 134 and may appeal under the provisions of sections 141 through 144, with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent; and

[(2) may be a party to any appeal taken by a third-party requester under subsection (b).

[(b) THIRD-PARTY REQUESTER.—A third-party requester—

[(1) may appeal under the provisions of section 134, and may appeal under the provisions of sections 141 through 144, with respect to any final decision favorable to the patentability of any original or proposed amended or new claim of the patent; and

[(2) may, subject to subsection (c), be a party to any appeal taken by the patent owner under the provisions of section 134 or sections 141 through 144.

[(c) CIVIL ACTION.—A third-party requester whose request for an inter partes reexamination results in an order under section 313 is estopped from asserting at a later time, in any civil action arising in whole or in part under section 1338 of title 28, the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised or could have raised during the inter partes reexamination proceedings. This subsection does not prevent the assertion of invalidity based on newly discovered prior art unavailable to the third-party requester and the Patent and Trademark Office at the time of the inter partes reexamination proceedings.

[§ 316. Certificate of patentability, unpatentability, and claim cancellation

[(a) IN GENERAL.—In an inter partes reexamination proceeding under this chapter, when the time for appeal has expired or any appeal proceeding has terminated, the Director shall issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent any proposed amended or new claim determined to be patentable.

[(b) AMENDED OR NEW CLAIM.—Any proposed amended or new claim determined to be patentable and incorporated into a patent following an inter partes reexamination proceeding shall have the same effect as that specified in section 252 of this title for reissued patents on the right of any person who made, purchased, or used within the United States, or imported into the United States, anything patented by such proposed amended or new claim, or who made substantial preparation therefor, prior to issuance of a certificate under the provisions of subsection (a) of this section.

[§ 317. Inter partes reexamination prohibited

[(a) ORDER FOR REEXAMINATION.—Notwithstanding any provision of this chapter, once an order for inter partes reexamination of a patent has been issued under section 313, neither the third-party requester nor its privies,[1] may file a subsequent request for inter partes reexamination of the patent until an inter partes reexamination certificate is issued and published under section 316, unless authorized by the Director.

[(b) FINAL DECISION.—Once a final decision has been entered against a party in a civil action arising in whole or in part under section 1338 of title 28, that the party has not sustained its burden of proving the invalidity of any patent claim in suit or if a final decision in an inter partes reexamination proceeding instituted by a third-party requester is favorable to the patentability of any original or proposed amended or new claim of the patent, then neither that party nor its privies may thereafter request an inter partes reexamination of any such patent claim on the basis of issues which that party or its privies raised or could have raised in such civil action or inter partes reexamination proceeding, and an inter partes reexamination requested by that party or its privies on the basis of such issues may not thereafter be maintained by the Office, notwithstanding any other provision of this chapter. This subsection does not prevent the assertion of invalidity based on newly discovered prior art unavailable to the third-party requester and the Patent and Trademark Office at the time of the inter partes reexamination proceedings.

[§ 318. Stay of litigation

[Once an order for inter partes reexamination of a patent has been issued under section 313, the patent owner may obtain a stay of any pending litigation which involves an issue of patentability of any claims of the patent which are the subject of the inter partes reexamination order, unless the court before which such litigation is pending determines that a stay would not serve the interests of justice.]

CHAPTER 32—POST-GRANT REVIEW PROCEDURES

§ 321. Petition for post-grant review

Subject to sections 322, 324, 332, and 333 of this chapter, a person who is not the patent owner may file with the Office a petition seeking to institute a post-grant review proceeding to cancel as unpatentable any claim of a patent on any ground that could be raised under paragraph (2) or (3) of section 282(b) (relating to invalidity of the patent or any claim). The Director shall establish, by regulation, fees to be paid by the person requesting the proceeding, in such amounts as the Director determines to be reasonable, considering the aggregate costs of the post-grant review proceeding and the status of the petitioner.

§ 322. Timing and bases of petition

A post-grant proceeding may be instituted under this chapter pursuant to a petition filed under section 321 only if—

(1) the petition is filed not later than 12 months after the grant of the patent or issuance of a reissue patent, as the case may be;

(2)(A) the petitioner establishes in the petition a substantial reason to believe that the continued existence of the challenged claim in the petition causes or is likely to cause the petitioner significant economic harm; and

(B) the petitioner files a petition not later than 12 months after receiving notice, explicitly or implicitly, that the patent holder alleges infringement; or

(3) the patent owner consents in writing to the proceeding.

§ 323. Requirements of petition

A petition filed under section 321 may be considered only if—

(1) the petition is accompanied by payment of the fee established by the Director under section 321;

(2) the petition identifies any real parties in interest;

(3) the petition identifies, in writing and with particularity, each claim challenged, the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for each challenged claim, including—

(A) copies of patents and printed publications that the petitioner relies upon in support of the petition; and

(B) affidavits or declarations of supporting evidence and opinions, if the petitioner relies on other factual evidence or on expert opinions;

(4) the petition provides such information as the Director may require by regulation; and

(5) the petitioner provides copies of any of the documents required under paragraphs (3) and (4) to the patent owner or, if applicable, the designated representative of the patent owner.

§ 324. Publication and public availability of petition

(a) IN GENERAL.—As soon as practicable after the receipt of a petition under section 321, the Director shall—

(1) publish the petition in the Federal Register; and

(2) make that petition available on the website of the United States Patent and Trademark Office.

(b) PUBLIC AVAILABILITY.—The file of any proceeding under this chapter shall be made available to the public except that any petition or document filed with the intent to be sealed shall be accompanied by a motion to seal. Such petition or document shall be treated as sealed, pending the outcome of the ruling on the motion. Failure to file a motion to seal will result in the pleading being placed in the public record.

§ 325. Prohibited filings

(a) IN GENERAL.—A post-grant review proceeding may not be instituted under paragraph (1), (2), or (3) of section 322 if the petition requesting the proceeding identifies the same petitioner or real party in interest and the same patent as a previous petition filed under any paragraph of section 322.

(b) PREVIOUSLY FILED CIVIL ACTIONS.—A post-grant review proceeding may not be instituted or maintained under paragraph (1) or (2) of section 322 if the petitioner or real party in interest has instituted a civil action challenging the validity of a claim of the patent.

§ 326. Submission of additional information

A petitioner under this chapter shall file such additional information with respect to the petition as the Director may require by regulation.

§ 327. Institution of post-grant review proceedings

(a) IN GENERAL.—The Director may not authorize a post-grant review proceeding to commence unless the Director determines that the information presented in the petition raises a substantial new question of patentability for at least 1 of the challenged claims. The Director shall determine whether to authorize a post-grant proceeding within 90 days after receiving a petition.

(b) NOTIFICATION.—The Director shall notify the petitioner and patent owner, in writing, of the Director's determination under subsection (a). The Director shall publish each notice of institution of a post-grant review proceeding in the Federal Register and make such notice available on the website of the United States Patent and Trademark Office. Such notice shall list the date on which the proceeding shall commence.

(c) DETERMINATION NOT APPEALABLE.—The determination by the Director regarding whether to authorize a post-grant review proceeding under subsection (a) shall not be appealable.

(d) ASSIGNMENT OF THE PROCEEDING TO A PANEL.—Upon a determination of the Director to commence a post-grant review proceeding, the Director shall assign the proceeding to a panel of 3 administrative patent judges from the Patent Trial and Appeal Board.

§ 328. Consolidation of proceedings and joinder

(a) CONSOLIDATION OF POST-GRANT PROCEEDINGS.—If more than 1 petition is submitted under section 322(1) against the same patent and the Director determines that each raises a substantial new question of patentability warranting the commencement of a post-

grant review proceeding under section 327, the Director may consolidate such proceedings into a single post-grant review proceeding.

(b) JOINDER.—If the Director commences a post-grant review proceeding on the basis of a petition filed under section 322(2), any person who files in compliance with section 322(2)(A) a petition that the Director finds sufficient to proceed under section 327 may be joined at the discretion of the Director, and such person shall participate in such post-grant review proceeding.

§ 329. Conduct of post-grant review proceedings

(a) IN GENERAL.—The Director shall prescribe regulations—

(1) in accordance with section 2(b)(2), establishing and governing post-grant review proceedings under this chapter and their relationship to other proceedings under this title;

(2) for setting forth the standards for showings of substantial reason to believe and significant economic harm under section 322(2) and substantial new question of patentability under section 327(a);

(3) providing for the publication in the Federal Register all requests for the institution of post-grant proceedings;

(4) establishing procedures for the submission of supplemental information after the petition is filed; and

(5) setting forth procedures for discovery of relevant evidence, including that such discovery shall be limited to evidence directly related to factual assertions advanced by either party in the proceeding.

(b) POST-GRANT REVIEW REGULATIONS.—Regulations under subsection (a)(1) shall—

(1) require that the final determination in a post-grant review proceeding issue not later than 1 year after the date on which the Director notices the institution of a post-grant proceeding under this chapter, except that, for cause shown, the Director may extend the 1-year period by not more than 6 months;

(2) provide for discovery upon order of the Director, as required in the interests of justice;

(3) prescribe sanctions for abuse of discovery, abuse of process, or any other improper use of the proceeding, such as to harass or to cause unnecessary delay or unnecessary increase in the cost of the proceeding;

(4) provide for protective orders governing the exchange and submission of confidential information; and

(5) ensure that any information submitted by the patent owner in support of any amendment entered under section 332 is made available to the public as part of the prosecution history of the patent.

(c) CONSIDERATIONS.—In prescribing regulations under this section, the Director shall consider the effect on the economy, the integrity of the patent system, and the efficient administration of the Office.

(d) CONDUCT OF PROCEEDING.—The Patent Trial and Appeal Board shall, in accordance with section 6(b), conduct each proceeding authorized by the Director.

§ 330. Patent owner response

After a post-grant review proceeding under this chapter has been instituted with respect to a patent, the patent owner shall have the right to file, within a time period set by the Director, a response to the petition. The patent owner shall file with the response, through affidavits or declarations, any additional factual evidence and expert opinions on which the patent owner relies in support of the response.

§ 331. Proof and evidentiary standards

(a) IN GENERAL.—The presumption of validity set forth in section 282 of this title shall not apply to challenges brought under section 322(1) but shall apply in a challenge brought under paragraph (2) or (3) of section 322 to any patent claim under this chapter.

(b) BURDEN OF PROOF.—The petitioner under section 322(1) shall have the burden of proving a proposition of invalidity by a preponderance of the evidence. For petitions filed under paragraphs (2) or (3) of section 322, the existence, authentication, availability, and scope of any evidence offered to establish invalidity shall be established by clear and convincing evidence. If such predicate facts are so established, invalidity shall be proven only if the persuasive force of such facts demonstrates invalidity by a preponderance of the evidence.

§ 332. Amendment of the patent

(a) IN GENERAL.—During a post-grant review proceeding, the patent owner may file 1 motion to amend the patent in 1 or more of the following ways:

(1) Cancel any challenged patent claim.

(2) For each challenged claim, propose a substitute claim.

(3) Amend the patent drawings or otherwise amend the patent other than the claims.

(b) ADDITIONAL MOTIONS.—Additional motions to amend may be permitted only for good cause shown.

(c) SCOPE OF CLAIMS.—An amendment under this section may not enlarge the scope of the claims of the patent or introduce new matter.

§ 333. Settlement

(a) IN GENERAL.—A post-grant review proceeding under this chapter shall be terminated with respect to any petitioner upon the joint request of the petitioner and the patent owner, unless the Office has decided the matter before the request for termination is filed. If the post-grant review proceeding is terminated with respect to a petitioner under this section, no estoppel under this chapter shall apply to that petitioner. If no petitioner remains in the post-grant review proceeding, the Office shall terminate the post-grant review proceeding.

(b) AGREEMENTS IN WRITING.—Any agreement or understanding between the patent owner and a petitioner, including any collateral agreements referred to in such agreement or understanding, made in connection with, or in contemplation of, the termination of a post-grant review proceeding under this section shall be in writing and a true copy of such agreement or understanding shall be filed in the

United States Patent and Trademark Office before the termination of the post-grant review proceeding as between the parties to the agreement or understanding. If any party filing such agreement or understanding so requests, the copy shall be kept separate from the file of the post-grant review proceeding, and made available only to Federal Government agencies upon written request, or to any other person on a showing of good cause.

§ 334. Decision of the board

If the post-grant review proceeding is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged and any new claim added under section 322.

§ 335. Effect of decision

If the Patent Trial and Appeal Board issues a final decision under section 334 and the time for appeal has expired or any appeal proceeding has terminated, the Director shall issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable and incorporating in the patent by operation of the certificate any new claim determined to be patentable.

§ 336. Relationship to other pending proceedings

Notwithstanding section 135(a), 251, and 252, and chapter 30, the Director may determine the manner in which any ex parte reexamination proceeding, reissue proceeding, interference proceeding (commenced before the effective date of the Patent Reform Act of 2007), derivation proceeding, or post-grant review proceeding, that is pending during a post-grant review proceeding, may proceed, including providing for stay, transfer, consolidation, or termination of any such proceeding.

§ 337. Effect of decisions rendered in civil action on future post-grant review proceedings

If a final decision has been entered against a party in a civil action arising in whole or in part under section 1338 of title 28 establishing that the party has not sustained its burdens of proving the invalidity of any patent claim—

(1) that party to the civil action and the privies of that party may not thereafter request a post-grant review proceeding on that patent claim on the basis of any grounds under section 322; and

(2) the Director may not thereafter maintain a post-grant review proceeding previously requested by that party or the real parties in interest of that party.

§ 338. Effect of final decision on future proceedings

(a) IN GENERAL.—If a final decision under section 334 is favorable to the patentability of any original or new claim of the patent challenged by the petitioner, the petitioner may not thereafter, based on any ground which the petitioner raised during the post-grant review proceeding—

(1) request or pursue a derivation proceeding with respect to such claim; or

(2) assert the invalidity of any such claim in any civil action arising in whole or in part under section 1338 of title 28.

(b) EXTENSION OF PROHIBITION.—If the final decision is the result of a petition filed on the basis of section 322(2), the prohibition under this section shall extend to any ground which the petitioner raised during the post-grant review proceeding.

§ 339. Appeal

A party dissatisfied with the final determination of the Patent Trial and Appeal Board in a post-grant proceeding under this chapter may appeal the determination under sections 141 through 144. Any party to the post-grant proceeding shall have the right to be a party to the appeal.

* * * * * * *

PART IV—PATENT COOPERATION TREATY

* * * * * * *

CHAPTER 36—INTERNATIONAL STAGE

* * * * * * *

§ 363. International application designating the United States: Effect

An international application designating the United States shall have the effect, from its international filing date under article 11 of the treaty, of a national application for patent regularly filed in the Patent and Trademark Office [except as otherwise provided in section 102(e) of this title].

* * * * * * *

CHAPTER 37—NATIONAL STAGE

* * * * * * *

§ 374. Publication of international application

The publication under the treaty defined in section 351(a) of this title, of an international application designating the United States shall be deemed a publication under section 122(b), except as provided in [sections 102(e) and 154(d)] *section 154(d)* of this title.

§ 375. Patent issued on international application: Effect

(a) A patent may be issued by the Director based on an international application designating the United States, in accordance with the provisions of this title. [Subject to section 102(e) of this title, such] *Such* patent shall have the force and effect of a patent issued on a national application filed under the provisions of chapter 11 of this title.

* * * * * * *

CONSOLIDATED APPROPRIATIONS ACT OF 2005 (P.L. 108–447)

* * * * * * *

DIVISION B—DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS ACT OF 2005

* * * * * * *

TITLE VIII—PATENT AND TRADEMARK FEES

SEC. 801. FEES FOR PATENT SERVICES

(a) GENERAL PATENT FEES.—**[**During fiscal years 2005, 2006 and 2007**]** *Until such time as the Director sets or adjusts the fees otherwise*, subsection (a) of section 41 of title 35, United States Code, shall be administered as though that subsection reads as follows:

* * * * * * *

SEC. 802. ADJUSTMENT OF TRADEMARK FEES

(a) FEE FOR FILING APPLICATION.—**[**During fiscal years 2005, 2006 and 2007**]** *Until such time as the Director sets or adjusts the fees otherwise*, under such conditions as may be prescribed by the Director, the fee under section 31(a) of the Trademark Act of 1946 (15 U.S.C. 1113(a)) for: (1) the filing of a paper application for the registration of a trademark shall be $375; (2) the filing of an electronic application shall be $325; and (3) the filing of an electronic application meeting certain additional requirements prescribed by the Director shall be $275. During fiscal years 2005, 2006 and 2007, the provisions of the second and third sentences of section 31(a) of the Trademark Act of 1946 shall apply to the fees established by this section.

* * * * * * *

SEC. 803. EFFECTIVE DATE, APPLICABILITY, AND TRANSITIONAL PROVISION

(a) EFFECTIVE DATE.—Except as otherwise provided in this title (including in this section), the provisions of this title shall take effect on the date of the enactment of this Act **[**and shall apply only with respect to the remaining portion of fiscal year 2005, 2006 and 2007**]**.

* * * * * * *

○