



Brief Overview of the Patent Reform Act of 2009/2010

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The Patent Reform Act of 2009 (“Reform Act”) is represented by bills in the House and Senate to overhaul the United States patent system for the first time since 1952. This brief overview focuses on the Senate bill. Similar bills were introduced in 2005 and 2007. Notable provisions of the Reform Act include establishing a first-to-file system with derivation proceedings, establishing a new post-grant review proceeding, allowing a substitute statement in lieu of an inventor oath or declaration, and new venue and damages rules. Computer and software companies tend to favor the Reform Act, anticipating that it will reduce the cost of defending against patent lawsuits by reducing the frequency of litigation and the size of damage awards. Biotechnology and pharmaceutical industries, on the other hand, are more likely to oppose the Reform Act, concerned that it may limit the value of their patent portfolios.

Departures from Prior Bills The current Reform Act does not include controversial Applicant Quality Submissions, which would have required patent applicants to conduct a patentability search and to report the findings to the Patent Office. Also, the current Reform Act does not include the 2005 Reform Act’s limitation that a defense to the enforcement of a patent cannot be based on a violation of the duty of candor and good faith in filing and prosecuting a patent application. Both of the above changes would have been a significant departure from current practice.

First-to-File The Reform Act would move the United States from a first-to-invent patent system to a first-to-file system. Under the current first-to-invent system, inventors can initiate interference proceedings to challenge patents and patent applications with evidence that they were chronologically the first to invent. Thus, when two applications claim the same invention, priority is established based on proof as to which party was the first to invent the claimed subject matter. Adopting a first-to-file system, in which the priority

to an invention is awarded to the first inventor to file a patent application on the invention, would eliminate interference proceedings and align the United States with the patent systems of most of the world.

Derivation Proceedings Although a first-to-file system would eliminate interference proceedings, a patent applicant could request a “derivation proceeding”¹ to determine whether a prior applicant derived the claimed invention from the applicant requesting the proceeding and filed an application claiming the invention without authorization. A request for a derivation proceeding, however, could only be made within 12 months of publication of the prior applicant’s application. Also, similar to current law, the Reform Act would not allow a patent for a claimed invention if “the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public” more than 1 year before the effective filing date of the claimed invention.

Secret Prior Art Under current law, 35 U.S.C. §102(e) prevents a patent in situations where another inventor filed a patent application before the invention by the applicant, even if the other inventor’s application was not published before invention by the applicant. The Reform Act maintains the possibility of such secret prior art by precluding a patent where “the claimed invention was described in a patent...or in an application...which...names another inventor and was effectively filed before the effective filing date of the claimed invention.” Unlike current practice, however, the first-to-file system of the Reform Act would prevent an inventor from swearing behind secret prior art based on prior invention.

¹ All quotations are from the Senate bill, “Patent Reform Act of 2009,” S. 515, 111th Cong. (2009; introduced March 3, 2009; amended April 2, 2009).

Post-Grant Review Issued patents can currently be challenged only by re-examination proceedings or litigation. The Reform Act would also allow third parties to contest the validity of an issued patent within 12 months of its issuance. Specifically, any third party may file “a petition for cancellation seeking to institute a post-grant review proceeding to cancel as unpatentable any claim of a patent” on any ground that could be raised relating to the invalidity of the patent or any claim. Moreover, patent claims challenged in a post-grant review proceeding would not be presumed valid, but the party advancing the post-grant review would have the burden of proving the invalidity of any claim.

Substitute Statements Current law requires inventors to file an oath or declaration along with patent applications, stating that they invented the claimed subject matter. Many inventors, however, are obligated by employment contracts to assign patent applications to their employers. The Reform Act would permit a “substitute statement” in lieu of executing an oath or declaration when an inventor has assigned, or is under an obligation to assign, the invention. For example, an inventor’s employer could file a patent application without an oath from the inventor if the inventor is under an assignment obligation. An inventor’s refusal or inability to make an oath or declaration would thus not preclude the filing of a patent application.

Venue The U.S. District Court for the Eastern District of Texas is an example of a venue that has developed a reputation as a plaintiff-friendly place for patent litigation. The Reform Act, however, would tighten venue restrictions for patent suits. Under the March 3, 2009 draft of the Reform Act, most plaintiffs could only bring a civil action for patent infringement in a judicial district “where the defendant has its principal place of business,” where the defendant “is incorporated or formed,” or where the defendant “committed substantial acts of infringement and has a regular and established physical facility.” The April 2 amendment, however, replaced the above-described March 3 language with a more generic statement that “[f]or the convenience of parties and witnesses, in the

interest of justice, a district court shall transfer any civil action...upon a showing that the transferee venue is clearly more convenient than the venue in which the civil action is pending.”

Damages Courts can currently award damages in patent cases based on the entire market value of an infringing product. Under the March 3 draft of the Reform Act, however, basing damages on the entire market value of an infringing product or process would have required a showing that a claimed invention’s “specific contribution over the prior art is the predominant basis for market demand” for the infringing product or process; if such a showing was not made, the court would then apply a reasonable royalty “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 April 2 amendment largely reverts to current law, stating that “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.” Furthermore, “[t]he court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.” What is new is that, before determining damages, “[t]he court shall identify the methodologies and factors that are relevant to the determination of damages.” Also, the “parties shall state, in writing and with particularity, the methodologies and factors the parties propose for instruction to the jury in determining damages.” The significant departure from current law in the March 3 draft has thus been avoided.

2010 Substitute Bill On March 4, 2010, the Senate Judiciary Committee announced an amendment, in the form of a substitute bill, to the Reform Act. Although the 2010 amendment is very similar to the Reform Act, notable changes include a reduction of the time period for third parties to file post-grant review petitions from 12 months after issuance to 9 months and the absence of a “reasonable royalty” standard for damages.