

**LEAHY-HATCH  
PATENT REFORM ACT OF 2009  
SECTION-BY-SECTION SUMMARY**

**BACKGROUND:** Significant Changes from the 2008 Judiciary Committee-Approved Bill

**18 Month Publication.** The new bill strikes the 18 month publication requirement. Labor unions and small inventors expressed concern that applicants not seeking protection abroad would see their inventions used overseas without compensation.

**Applicant Quality Submissions (AQS).** The new bill strikes the AQS requirement, which would have required applicants to submit their own search data, rather than have Patent and Trademark Office (PTO) examiners perform the search. Further, based on increasing concerns about outsourcing the search and examination functions, the new bill clarifies that such duties, which serve as the basis for determining patent eligibility, are to be performed by the United States Government.

**Post-Grant Review.** The new bill adopts the approach in the legislation passed by the House of Representatives to expanding inter partes reexamination, rather than introducing a new post-grant review for second window challenges. It adds prior “public use or sale in the United States” as a basis for challenging a patent. Further, the new bill ensures that ex parte reexamination proceedings are maintained.

**Willful Infringement.** The Federal Circuit issued an in banc decision, In re Seagate, last year, which reversed its 20-year-old precedent regarding the standard to prove willfulness and instituted an “objective recklessness” standard. The sponsors have heard from many in the patent community that this new standard should be codified and it is part of the new bill.

**Delete Marking.** The limitation on damages for patent inventions without notice or marking would have been reduced in the Patent Reform Act (S. 1145), as reported, from six to two years. The limitation is not in the new bill.

**Late Filings.** The Patent Reform Act as reported would have given the PTO authority to waive applicant deadlines. This provision has been associated with one particular patent term extension application that was late-filed. The new bill strikes this provision.

**CHECK 21.** The Patent Reform Act as reported would have immunized companies practicing the industry standard established as a result of the Check 21 Act of 2003 from patent infringement suit. The new bill strikes this provision.

**Fee Diversion.** The Patent Reform Act, as reported, would have ended fee diversion by creating a revolving fund that permits the PTO to retain automatically the fees it collects. The sponsors heard strong opposition both from leaders of the Senate Appropriations Committee and the union representing patent office examiners because it would leave Congress without the necessary oversight that comes with the appropriations process. The new bill strikes this provision.

**Inequitable Conduct.** The bill strikes the inequitable conduct provision added to the bill in Committee last Congress.

## **Sec. 1. Short title; table of contents**

This Act may be cited as the Patent Reform Act of 2009.

## **Sec. 2. Right of the first inventor to file**

*In general.* The United States stands alone among industrialized Nations that grant patents in not using an objective standard for giving priority to a patent application. The result is a lack of international consistency, and a complex and costly system in the United States to determine inventors' rights. The United States Patent Office ("USPTO") currently uses an interference proceeding to determine which party was first to "invent" the claimed invention, where competing claims arise. The determination is intensely fact-specific and costly to resolve. By contrast, a first-to-file system injects needed clarity and certainty into the system.

This section converts the United States' patent system into a first-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 not the proper applicant for the claimed invention – such a proceeding will be faster and less expensive than were interference proceedings. This section also encourages the sharing of information by providing a grace period for publicly disclosing the subject matter of the claimed invention, without losing priority.

Specifically, this section makes the following amendments:

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

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

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. A grace period is provided for an inventor or joint inventor that discloses the subject matter of the claimed invention, or others who obtained the subject matter directly or indirectly from the inventors.

Further, an exception is made for claiming an invention if the subject matter previously disclosed was obtained directly or indirectly from the inventor or joint invention or if the subject matter was owned by the same person or subject to an obligation of assignment to the same person.

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

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

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

Subsections (h), (i) & (j). – Repeals interference proceeding, 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.

Subsection (k)—Clarifies that examination and search functions are inherently governmental and shall be performed by employees of the United States Government.

### **Sec. 3. Inventor’s oath or declaration**

*In general.*— 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**

*Relationship of Damages to the Inventive Feature.*— The measure of 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.” There has not been any concern expressed with current determinations of lost profits, and therefore the bill does not alter the law governing those determinations.

In recent years it has become more common that the patent holder seeks reasonable royalty as damages – this is especially true when 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); or because the infringed patent is so new to the marketplace that there has yet to be any real competition to it.

Juries today are given little useful guidance in calculating a “reasonable royalty”; often, the jurors are presented with the fifteen “*Georgia-Pacific*” factors and some version of the “entire market value” rule, and then left to divine an appropriate award.

This section preserves the current rule that mandates that a damages award shall not be less than a “reasonable royalty” for the infringed patent, and further requires the court to conduct an analysis to ensure that, when a “reasonable royalty” is the award, it reflects the economic value of the patent’s “specific contribution over the prior art”, i.e. the contribution the invention makes to promoting science and the useful arts per the requirement of Article I, Section 8 of the Constitution. The court also is required to identify the factors that will be considered in determining a reasonable royalty, ensuring that the record is clear on what considerations the judge or jury assessed in awarding damages. The court must also consider any non-exclusive marketplace licensing of the invention, if there is such a history, in

determining a reasonable royalty. Finally, the court is instructed to consider any other relevant factor, which is included to ensure that the significant body of judge-made law on the topic of damages awards in infringement cases is preserved to the extent not affected by the provision. The bill also preserves the entire market value rule.

*Willful infringement.*— A willful infringer of a patent is liable for treble damages. The current definition of willful infringement, however, perversely discourages parties from reviewing issued patents to determine whether a patent exists.

This section improves the doctrine of willful infringement in both procedural and substantive respects. These changes should greatly reduce unwarranted allegations of willfulness, as well as unnecessary costly discovery, and thereby eliminate current obstacles to review of issued patents.

This section codifies the Federal Circuit’s recent *In re Seagate* decision, in which it reversed its 20-year old precedent regarding the standard to prove willfulness. Courts will now require a plaintiff to demonstrate with clear and convincing evidence that the infringer acted in a manner that was objectively reckless, which is also subject to a good faith defense.

*Prior User Rights.*— Subsections (b) & (c) relate to the prior user right defense to infringement. 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” and when someone invents and uses the invention, but never files a patent application for it. 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. This section permits the defense to be used by entities controlling or controlled by the prior user. It also requires the Director to issue a report to Congress on the prior user right defense to infringement.

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

*In general.*— After a patent issues, a party seeking to challenge the validity and enforceability of the patent has two avenues under current law: a reexamination proceeding at the USPTO or litigation in federal district court. The former is used sparingly and is considered not very effective; the latter, district court litigation, is unwieldy and expensive. This section improves the inter partes reexamination system at the USPTO and creates a new administrative post-grant review for challenges to patents within 12 months of the patent’s issue or reissue.

The section expands the evidence that a party may cite to the USPTO under § 301 to include written statements of the patent owner regarding the scope of the patent claims and evidence that the claimed invention was in public use or on sale in the United States more than one year prior to the application. Requests for reexamination under § 302 can be based on either prior art or prior public use or sale, as can requests for inter partes reexamination under chapter 31. Inter partes reexamination will now be heard by an administrative patent judge in accordance with procedures established by the Director. Inter partes reexamination is further improved by permitting a third-party requester to file written comments.

A third-party requester is estopped from asserting the invalidity of any claim determined to be valid in inter partes reexamination on any ground that was raised in reexamination. Further, the estoppel bar to instituting an inter partes reexamination proceeding after a judicial determination of patent validity is lowered from a “final decision” to a judgment of the district court.

This section also creates a new post-grant review procedure that can be instituted either within 12 months after the issuance of a patent or a reissue patent, or if the patent owner consents. The post-grant review

begins with a cancellation petition and moves forward only if the Director determines that there is a substantial new question of patentability. The presumption of validity does not apply in this proceeding, but the burden of proof is on the party advancing a proposition. The Director will prescribe rules governing the proceeding, including rules to sanction abuse. This section prohibits successive filings or filings after a final decision in a civil action.

## **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**

This section 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**

*In general.*— This section addresses two litigation issues unique to the patent world. Subsection (a) deals with venue. A venue section specific to patent infringement cases exists in 28 U.S.C. § 1400(b). A change in the general venue provision, 28 U.S.C. § 1391, was later read by the courts to apply to the patent venue provision. The result has been forum shopping, which this subsection addresses. Subsection (b) makes patent litigation more efficient by providing the Federal Circuit jurisdiction over interlocutory orders in what have become known as *Markman* orders, in which the district court construes claims of a patent. The contours of the claim are crucial to resolution of the patent litigation, and authorizing interlocutory appeals will add predictability at an earlier stage of litigation.

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. Any judge of the Federal Circuit who does not reside within a 50-mile radius of Washington DC must use the chambers of an existing courthouse in the district where the judge resides.

### **Sec. 11. Micro-Entity Defined**

This section adds a new § 123, which defines the qualifications for “micro-entity” status, which can be used by the USPTO to craft rules appropriate to truly small inventors.

### **Sec. 12. Technical amendments**

This section sets forth technical amendments consistent with this Act.

### **Sec. 13. 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.