Overview of the Proposed Patent Reform Act of 2010

By Ed Kwok[1], Karen Wang[2], and Greg Webb[3]

The United States Senate Judiciary Committee has reached a bipartisan agreement on patent reform legislation that is known as the Patent Reform Act of 2010. Below is a summary of sections including notable changes to U.S. patent law that are included in the proposed legislation.[4]

Section 2 – First-Inventor-to-File

This section proposes to change U.S. patent laws from a first-to-invent standard to a first-to-file standard. Under this proposal, the U.S. would move closer to an absolute novelty standard for determining what qualifies as prior art. Under the proposed law, the only exceptions to an absolute novelty standard would be for certain disclosures made less than one year before the effective filing date of a claimed invention. Specifically, such a disclosure would not be considered to be prior art if (1) the disclosure was made by the inventor(s) or by someone who obtained the subject matter disclosed directly or indirectly from the inventor(s) or (2) before such disclosure, the subject matter had been publicly disclosed by the inventor(s) or others who obtained the subject matter disclosed directly or indirectly from the inventor(s).

With respect to two applications claiming the same subject matter, an application with an earlier effective filing date generally prevails, except when the later applicant can show that the earlier applicant took or derived the invention from the later applicant. In that situation, the proposed law authorizes a "derivation proceeding" to be heard in the U.S. Patent and Trademark Office. In a derivation proceeding, a later application will prevail over an earlier application if the later applicant shows, by a preponderance of the evidence, that the subject matter claimed in the earlier application was derived from the inventor(s) of the later application.

This section of the proposed legislation also provides that a civil action for false marking may only be brought by "a person who has suffered a competitive injury." This proposed provision would drastically limit suits like the dozens of *qui tam* suits filed recently for patent mismarking.[5] The proposed provision would apply even to pending cases at the time of enactment.

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[1] *Edward Kwok is a partner in the San Jose office of the law firm of Haynes and Boone, LLP. His practice emphasizes intellectual property law. He may be reached at edward.kwok@haynesboone.com or 408.660.4149.*
[2] *Karen Wang is an associate in the San Jose office of the law firm of Haynes and Boone, LLP. Her practice emphasizes patent prosecution and intellectual property litigation. She may be reached at karen.wang@haynesboone.com or 408.660.4162.*
[3] *Greg Webb is an associate in the Richardson office of the law firm of Haynes and Boone, LLP. His practice emphasizes patent prosecution. He may be reached at greg.webb@haynesboone.com or 972.739.8641.*
[4] *For the full text of the proposed Patent Reform Act of 2010 see http://judiciary.senate.gov/legislation/upload/PatentReformAmendment.pdf*
[5] *See Litigation Risk and Liability Danger from False Patent Marking in View of* Forest Group, Inc. v. Bon Tool Co.*, http://www.haynesboone.com/files/Publication/6f217d7d-c7ca-439d-a4f3-dcc7de627c72/Presentation/PublicationAttachment/571f734e-8ef6-4368-a847-f028090d43cf/Litigation_Risk_and_Liability_Danger.pdf*

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Section 3 – Inventor's Oath or Declaration

The proposed changes here would generally make it easier for an assignee to file applications without the inventor's cooperation. The proposed amendment would also allow the required oath/declaration statements to be made as part of an assignment document. Under 35 U.S.C. § 118, an assignee may apply for a patent with "a showing that such action is appropriate to preserve the rights of the parties." This standard is far easier to meet than the current rules, which require proof that the inventor refuses to execute the application and that the application as executed by the assignee is "necessary to preserve the rights" of the owner or to "prevent irreparable damage." Under the proposal, the required oath/declaration would no longer be part of the required application papers, but may be filed at a later time so long as the prosecution is still ongoing. A Notice of Allowance, however, could not be issued until the required oath/declaration is on file.

Section 4 – Damages

This section provides patent litigation procedures that are generally more favorable to accused infringers. This provision has been highly sought after by the software and electronics industries; however, it is widely criticized by the pharmaceutical and biotechnology industries. According to this section, judges would be required, upon motion or *sua sponte,* to determine which damage calculation methodologies and factors have sufficient evidentiary basis as to be permissible for consideration by the judge or jury in calculating damages in a case.

The common law standard for willful infringement (*e.g.*, under *In re Seagate*) is "objectively reckless" – the infringer must have acted despite an objectively high likelihood of infringement of a valid patent, and this risk is known or should have been known to the infringer. In establishing willful infringement, the proposed statute expressly states that knowledge of a patent's existence alone is insufficient. Pre-suit notification may be used to show willful infringement only if it identifies the patent and the accused product or process, and explains how the product or process infringes one or more claims of the patent. Of course, many patentees are reluctant to provide such a notification because such statements made in the notification may be deemed admissions by the patentee for such purpose as claim construction, and may also create declaratory judgment jurisdiction for an accused infringer to bring suit in an undesirable venue.

According to this Section, there is also a new threshold proposed for pursuing willful infringement allegations. Specifically, the Court may also determine whether there is a close case as to infringement, validity, or enforceability. When a close case is found, the issue of willful infringement cannot be tried to the jury.

Under this proposed section, failure to obtain or present advice of legal counsel cannot be used as evidence in proving willful infringement. Such failure may, however, still be relevant to showing intent in situations of induced infringement or contributory infringement.

Section 6 – Post-Grant Review Proceedings

Inter Partes Reexamination is proposed to be replaced by two separate proceedings. Within nine months of the issuance of a patent, a petitioner (whether a patent owner or a third party) may request a Chapter 32 post-grant review. After the 9-month period, or after the conclusion of a post-grant review, a Chapter 31 *Inter Partes* Review may be requested.

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Compared to *Inter Partes* review, post-grant review allows for more grounds for challenging the validity of an issued patent, but a higher threshold must be met before a review is granted. The two types of proceedings provide a discovery and settlement mechanism, and expressly apply estoppel to subsequent ITC litigation.

In relation to civil litigation, however, neither of the two proposed proceedings can be instituted or maintained if a petitioner files a civil action (*e.g.*, a counterclaim of invalidity). Defendants can, however, petition for *Inter Partes* or post-grant review within 3 months of being sued. As such, a defendant must choose between counter-suing and filing a petition for a Chapter 31 or 32 review.

Section 10 – Supplemental Examination

This section provides a patent owner with the opportunity to request Supplemental Examination of a patent to have information believed to be relevant to the patent considered, reconsidered, or corrected. If the Patent Office finds that the request for Supplemental Examination raises a substantial new issue of patentability, then reexamination of the patent would be conducted in accordance with the rules governing *Ex Parte* reexamination.

Section 11 – Residency of Federal Circuit Judges

This section removes the provisions of 28 U.S.C. § 44(c) that have long required judges of the Federal Circuit to live within 50 miles of the District of Columbia. This is a long sought modernization of the statute that expands the potential pool of suitable jurists for appointment, which is important as many current judges are expected to retire or take Senior status in the next few years.

Section 12 – "Micro Entity" Defined

This section defines a new entity size, the "micro entity," to join the current large entity and small entity designations for purposes of USPTO fee discounts.

For an unassigned application to qualify for micro entity status, each applicant must certify that the applicant: (1) qualifies for small entity status, (2) has not been named on 5 or more previously-filed patent applications, (3) has not assigned and is not under an obligation to assign any ownership interest in the application, and (4) does not have a gross income exceeding 2.5 times his or her average gross income for the preceding calendar year.

Similarly, for an assigned application to qualify for micro entity status, each applicant must certify that the applicant: (1) qualifies for small entity status, (2) has not been named on 5 or more previously filed patent applications, and (3) has assigned or is under an obligation to assign an ownership interest in the application to an entity that has 5 or fewer employees and has a gross income less than 2.5 times the average gross income for the preceding calendar year. Under the proposed fee setting rules of Section 9 of the Act, the fees for micro entities will be reduced by 75% relative to the fees for large entities.

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Section 13 – Funding Agreements

This section changes the provisions of the Bayh-Dole Act related to technology transfer from basic non-profit research institutions to commercial enterprises by altering the division of royalties based on inventions made with federal assistance. As proposed, instead of 75% of excess royalties going to the U.S. Treasury and 25% going to further scientific research, development, and education, only 15% will go the U.S. Treasury and 85% will go to research, development, and education.

Section 14 – Travel Expenses Test Program

This section establishes a test program to allow USPTO employees to work remotely and be reimbursed for travel expenses to a USPTO worksite. This option may provide the USPTO with the flexibility to hire examiners outside the Washington, D.C. area, which may be useful if “branch offices” of the USPTO presently being discussed do not come to pass.

Section 15 – Best Mode Requirement

This section provides that “failure to disclose the best mode shall not be a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable.” Strangely, however, the Act does not take the more streamlined approach of removing the best mode requirement itself from 35 U.S.C. § 112.

Section 16 – District Court Pilot Program

This section creates a 10-year pilot program intended to develop expertise in patent cases at the district court level. The Director of the Administrative Office of the United States Courts will select at least 6 district courts for the pilot program. At least $5 million will be appropriated each fiscal year to: (1) train the judges within the selected district courts on patent issues; and (2) hire law clerks with technical expertise to assist in patent cases.

Section 18 – Effective Date; Rule of Construction

This section establishes that the provisions of the Act are to take effect one year after its enactment, unless the Act provides otherwise, and that the provisions shall apply to any patent issued on or after that effective date.

This section also indicates that the USPTO should administer 35 U.S.C. §102(c) as provided by the Act in a manner consistent with the legislative history of the CREATE Act. In particular, this section notes that enactment of the first-inventor-to-file system is similarly intended to promote joint research activities as provided in the CREATE Act and, therefore, § 102(c) should be administered consistently with the legislative history of the CREATE Act.

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