

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

PATENT REFORM WRAP-UP FOR THE 110TH CONGRESS

Since 2005, the Coalition for 21st Century Patent Reform (21 C) has been urging reform of the patent laws to improve the quality and reliability of the patent system, including reforms recommended by the National Academies of Sciences' ("NAS") report *A Patent System for the 21st Century*. While considerable progress has been made in the last three years in gaining a consensus on several of these reforms, other changes have become unnecessary due to intervening events. Several other proposed reforms never recommended by the National Academies, including proposed dilutions of patent damages, have proven themselves to be highly controversial, and thus have stood in the way of meaningful patent reform. Nonetheless, the 21C continues to believe that a consensus-focused patent reform bill that will bring improvements to the patent system now is still achievable.

- **First-Inventor-to-File** – significant support now exists for moving to a *first-inventor-to-file* patent system that includes simplifying the definition of “prior art” (the information to define whether an invention is patentable) and incorporating a broad “grace period” to assure that an inventor who publishes or discloses his or her invention before filing a patent application is protected for a 1-year period against losing the right to obtain a patent. These changes to the patent statute will greatly improve the patent law, permit it to be more predictably applied, and will advance efforts at harmonizing U.S. law with those of our major trading partners. In implementing this system, it is important to avoid any provision, such as that previously included in H.R.1908, that would give foreign governments a veto power over when a first-inventor-to-file-system will become effective, thereby essentially precluding U.S. inventors from enjoying its benefits.

The 21 C supported first-inventor-to-file with a definite, one-year transition.

- **Inequitable Conduct** – NAS recommended that the non-statutory (judge-made) “inequitable conduct” doctrine – which permits a court to refuse to enforce an *entirely valid and clearly infringed patent* – be eliminated or at least substantially curtailed. Unfortunately, neither of the bills proposed in the 110th Congress would have achieved this NAS recommendation. H.R. 1908 would have codified the current materiality standard which permits a patent to be unenforceable “if a reasonable examiner...would find a claim unpatentable based ...information...not disclosed,” while S. 1145 would have permitted an unenforceability ruling where an examiner merely found the information “important.” Supreme Court precedent makes it clear that the judicially-created doctrine usurps the congressionally vested discretion of the USPTO to set out the quantum of disclosure that should be required of patent applicants and the consequences, if any, of omissions or misstatements made in examination. The effective curtailment or elimination of the unenforceability defense based upon inequitable conduct is an essential predicate for any expanded post-grant review procedure.

The 21 C supported the elimination or restriction of the IC defense.

- **“Best Mode”** – NAS, noting that the requirement for an inventor to disclose the “best mode” for carrying out the invention was highly subjective and introduced unnecessary cost and unpredictability into patent infringement litigation, urged its elimination. While there is considerable consensus for adopting this approach, H.R. 1908 would only have amended section 282(b) to remove failure to comply with the best mode requirement as a defense to patent validity, while S. 1145 would have retained the

requirement without limitation. The elimination of this problematic feature would reduce litigation costs and further the harmonization of US patent laws with those of the rest of the world.

The 21 C supported elimination of the “best mode” requirement.

- **Willful infringement** – NAS found that the doctrine of enhancing damages against defendants, who knew of patents they were later found to infringe and who were found to not have complied with the judicially created doctrine to exercise “due care” to avoid such patents, resulted in perverse anti-disclosure consequences. NAS recommended the doctrine be substantially curtailed or eliminated. While both bills would have adopted this recommendation, the issue was overtaken by the Federal Circuit’s August 20, 2007 *en banc* decision in *In re Seagate*. The Federal Circuit found the “duty of care” willfulness rule, which it created in 1983 in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, was inconsistent with the Supreme Court’s view that to be willful, some level of “objective recklessness” must be involved. Since *Seagate*, no defendant has been held to have willfully infringed under this new standard.

The 21 C supported legislation restricting the doctrine of willful patent infringement, until the issue was mooted by In re Seagate.

- **Post-Grant Review Procedures** – *Provided inequitable conduct reform of the kind discussed above were to be achieved*, the 21 C supported implementation of the NAS recommendation to allow post-grant oppositions to be brought during a nine-month window from patent grant, and to be concluded within a 1-year time frame. Both H.R. 1908 and S. 1145 would have adopted a post-grant procedure in which a third party could challenge a patent on all grounds during the first 12-months from grant (first window). Unlike H.R. 1908, however, S. 1145 would also unacceptably permit all-grounds challenges for the life of the patent (second window). H.R. 1908 offers, instead of a second window, some important enhancements to existing *inter partes* reexamination for later challenges. However, neither bill would provide the necessary presumption of validity in the first-window.

Based on the assumption that it would be accompanied by appropriate inequitable conduct reforms, the 21 C supported limited expansion of post-grant review.

- **Damages** – after the release of the NAS report and the effort to implement its recommendations was well underway, efforts were made to inject several new issues into the discussions which had not been recommended by the NAS. One of these new items involved the effort to include in both bills provisions limiting the reasonable royalty damages for infringing a valid patent by using a so-called “prior art subtraction” approach to substantially reduce the economic value of the patented invention to far below its actual value in the marketplace. Presently, reasonable royalties are determined by looking at the realities of the marketplace at the time the infringement began to determine what the infringer would willingly have paid, and what the patentee would have willingly accepted for a license to do what has later been found to be the infringement. This approach is fair to both sides, allowing infringers wide latitude to present evidence explaining why in a particular case, a small reasonable royalty is appropriate. The case has simply not been made that there is any need to reform the way patent damages are now awarded.

The 21 C opposed any substantive change on the law on damages as unneeded.

- **Venue** – another topic injected into the patent reform debate that was not recommended by NAS involves the question of where a patentee should be able to bring an action for patent infringement. Both bills included provisions to prevent patentees from bringing such suits in districts where neither the patentee nor the accused infringer has any significant contacts. S.1145, as reported, would have limited venue to the location of the defendant, with certain exceptions, precluding traditional corporations from bringing suit where they do research, development, and manufacturing. Any change to curtail alleged predatory forum shopping must ensure that there is a need, that the proposal is balanced, and that it have a minimal increase in litigation cost.

The 21 C supported venue reform, but only if organizations involved in the research, development, or manufacturing of patented inventions are able to bring suit where these activities are conducted.

- **Interlocutory appeals** – another controversial proposal not recommended by NAS would remove the discretion of the Court of Appeals for the Federal Circuit (CAFC) to take interlocutory appeals. The proposal would place no limits on taking such appeals or on whether the case would be stayed pending the appeal. This would increase the caseload of the CAFC dramatically, as infringers would likely use it as a strategy to unduly delay cases, discourage or outspend opponents, and otherwise game the system to their advantage. Without limitations requiring that the appeal be from the denial of a potentially case-dispositive issue and a District Court certification that the record is sufficiently developed, the claims construction ruling is sufficiently final, and an appeal would advance ultimate termination of the case, interlocutory appeals should not be permitted.

The 21 C supported permitting interlocutory appeals to the CAFC from certain denials of case-dispositive summary judgment motions.

- **Substantive Rulemaking** – both bills as introduced would have given the PTO Director broad new authority to issue rules interpreting substantive patent law. These provisions are highly controversial, and have drawn widespread opposition. They would have allowed the Director to issue regulations that could guide the interpretation of fundamental questions such as the definition of the term “invention” in § 100 or the hypothetical “person having ordinary skill in the art” in § 103 – matters currently reserved for the judiciary and Congress. While this provision was dropped from both bills, a new provision was added to H.R. 1908 to retroactively authorize the Director’s promulgation on August 21, 2007 of final rules limiting the filing of continuations. Since then, however, the PTO was enjoined from implementing the proposed final rules (*Tafas v. Dudas*) as “in excess of statutory jurisdiction [and] authority.” Clearly, the limitation on the filing of continuations authorized in H.R. 1908, based on recent evidence, could be used by the PTO to preclude patent applicants from obtaining adequate protection of their inventions. It should not be allowed.

The 21 C opposed granting the PTO substantive rulemaking authority.

- **Applicant responsibilities** – both bills contain a highly controversial provision mandating (S.1145) or authorizing (H.R. 1908) the Director to require an applicant for patent to submit a search report and a patentability analysis. While the fear of an inequitable conduct (IC) charge dictates that applicants today disclose everything they know and say little or nothing about it, this provision essentially and unacceptably imposes burdens on applicants that are expensive, and highly likely to prompt later third party IC claims, and with no protection against the risk of an IC charge.

The 21 C opposed the unilateral imposition of the applicant responsibilities requirements of H.R. 1908 and S. 1145.

- **3rd party submission of prior art** – as suggested in the NAS report, both bills provide that submissions of information may be made by third parties for use by patent examiners to determine whether an invention claimed in a patent application is patentable. This provision affords a means for enhancing the quality of issued patents by assuring that the most complete record possible is developed in the PTO before a patent examiner decides whether to issue a patent and for reducing the backlog of pending applications.

The 21 C supported 3rd party submission of prior art.

- **Fee setting plus no diversion** – S. 1145 would implement the NAS report recommendation that the PTO’s capabilities be strengthened by authorizing the Director to set patent and trademark fees and by establishing a revolving fund into which such fees would be deposited and be available for use by the Director without fiscal year limitation. The Director would be required to submit any proposed fee to the Public Advisory Committees and publish such fee in the Federal Register for comment. It will take permanent, continued full funding of the PTO to ensure that the challenges it faces can be met, but there must be a guarantee that it can retain and use its fee revenues. Without such a guarantee, the prospects of a return to the practice of PTO revenues being diverted to support other unrelated government programs would be too great a risk.

The 21 C supported PTO fee setting only with a dedicated revolving fund to prevent diversion.

- **Publication after 18 months** – the NAS report recommended that all pending applications be published at 18 months after their original filing dates and both bills initially contained provisions implementing this recommendation. As passed, however, H.R. 1908 was modified to allow applicants not filing abroad to delay publication until after receipt of a second “action” or communication. Publication of applications at 18 months provides notice to the public of pending patent rights, allowing businesses to avoid infringing patents held by others. In addition, 18-month publication permits the PTO to conduct more complete examination since the process of patent examination can take years to complete and publication assures that the information contained in pending applications is available in a timely manner. It also permits the public to submit information relevant to the published application to the examiner. Nonetheless, mandatory 18-month publication has proven quite controversial, especially with individual inventors.

The 21 C supported publication of all applications 18 months from filing, provided the concerns of its current opponents were adequately addressed.