

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

S. 515 COMPROMISE OFFERS IMPORTANT, EFFECTIVE AND ACHIEVEABLE PATENT REFORM

On April 2nd, the Senate Judiciary Committee ordered reported a bipartisan consensus patent reform bill that represents a major breakthrough for finally achieving effective reform of the nation's patent laws. Building on the reforms recommended by the National Academies of Sciences' report in 2004, *A Patent System for the 21st Century*, the Senate compromise would make a number of improvements to S. 515 as introduced that would simplify the administration of the patent laws, enhance patent quality, and address in a fair and balanced manner some changes that were not recommended by the National Academies. While the bill still needs several technical amendments (such as more nuanced transition provisions) and could benefit from certain other amendments that do not disturb the conceptual underpinnings of the agreed compromise, we believe that S. 515 should proceed to the floor of the Senate.

- **First-Inventor-To-File** – S. 515 will simplify the definition of “prior art” (the information to define whether an invention is patentable) and incorporate a broad “grace period” to assure that an inventor who discloses an 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.
- **Post-Grant Review** – S. 515 would provide a prompt, effective post-grant review opportunity for the public to challenge patents on all grounds of patentability as recommended by the National Academies. It also would strengthen existing *inter partes* reexamination proceedings by assigning Administrative Patent Judges to conduct them to ensure that they are more promptly processed and that they are only instituted upon the presentation of evidence that raises serious doubts about a patent's validity. At the same time, the compromise would make *inter partes* reexamination proceedings available to all issued patents and would limit the resulting estoppel. Further technical amendments to the reexamination procedures to more closely align these proceedings with those of post-grant review would facilitate the administration of reexamination proceedings by the USPTO.
- **“Best Mode”** – while S. 515 does not follow the National Academies' recommendation to simply eliminate the subjective requirement for an inventor to disclose the “best mode” for carrying out the invention, it would exclude failure to disclose the best mode as a basis on which any claim of a patent may be held invalid or unenforceable. Thus, S. 515 would eliminate the unnecessary costs and unpredictability of litigating over the best mode requirement.
- **Willful Infringement** – finding no evidence of a beneficial deterrent effect on would-be infringers, coupled with evidence that it discourages the reading of patents, the National Academies recommended elimination or limitation of enhanced damages based on a finding that the infringer's disregard for the patent was willful. Since the National Academies' report, however, the Federal Circuit, in *In re Seagate*, raised the bar for a willfulness finding, from one requiring a showing of a breach of a “duty of reasonable care,” to one requiring a showing of “objective recklessness.” While the option of simply allowing courts the freedom to develop the “objective recklessness” standard is a viable alternative, the Senate's compromise as reported in S. 515 (or more preferably an amended version taking full account of the *Seagate* holding) is acceptable as part of a comprehensive legislative compromise.

- **Damages** – S. 515 constructively resolves an issue not raised by the National Academies, the one issue that blocked patent reform in the last Congress, namely the allegations by some proponents of patent reform that inconsistent and unfair awards of reasonable royalty patent damages are rampant. The compromise “gatekeeper” language adopted by S. 515 appropriately address these allegations by ensuring that courts consider only those damages contentions that are cognizable at law and supported by substantial evidence. By rejecting various earlier proposals that would have limited the basis for reasonable royalty damages to an invention’s “inventive contribution,” or its “patentable features,” or its “essential features,” or, as proposed in S. 515 as introduced, “the patent’s specific contribution over the prior art,” the compromise gatekeeper language would avoid the severe adverse consequences that would have resulted, i.e., a wholesale reduction of all reasonable royalty damage awards, and will allow the substantive law on damages to continue to develop.
- **Venue** – another new issue not raised by the National Academies which S. 515 successfully addresses relates to forum shopping – filing patent lawsuits in venues that lack any substantive connection to any party’s activities or to the evidence relating to the case, but which nonetheless attract patent owners because these venues are perceived to be “pro-patent.” The compromise in S. 515 resolves this issue by codifying the approach taken in two recent cases, *In re Volkswagen of America, Inc.* and *In re TS Tech Corp.*, that mandates the granting of motions to transfer cases to a venue which is clearly more convenient than the venue in which the action is pending.
- **Interlocutory Appeals** – yet another new issue not raised by the National Academies involves the question of whether it should be mandatory for the Federal Circuit to take interlocutory appeals of claim construction rulings from district courts. S. 515 handles this issue by allowing such interlocutory appeals, but would require district courts to first make specific findings to ensure that any claim construction issues that are appealed will be of sufficient maturity and finality to merit the time and attention of the Federal Circuit.
- **3rd Party Submission of Prior Art** – as recommended in the National Academies’ report, S. 515 provides for greater opportunities for the public to submit information for use by patent examiners in determining whether an invention is patentable, thus enhancing the quality of issued patents
- **Fee Setting Plus No Diversion** – as the National Academies noted in its 2004 report, “the Congress has for several years appropriated a portion of the fees collected by the USPTO to other governmental activities.” There is strong support among all stakeholders for adequately funding the USPTO and for ending this practice of fee diversion. S. 515 partially addresses the funding issue by authorizing the Director to set the level of the fees charged, but it would do nothing to ensure that the USPTO could retain and use the fees collected. It is understood that an amendment to end fee diversion will be offered when S. 515 is considered by the Senate. All Senators who want to see the USPTO continue to be a world-class patent office should support this amendment.

The time to enact consensus patent reform is now. The conceptual underpinnings and framework of S. 515 are sound. It is a bipartisan effort, widely supported by major stakeholders. S. 515 merits enactment by Congress.