

A Bipartisan Jobs and Economic Stimulus Bill We Need Enact S. 515 - the Patent Reform Act of 2010

Overview

There is bipartisan agreement that the principal focus of patent reform should be the creation of jobs—the jobs that come when innovators gain access to needed capital for investing in and developing new products that require a new workforce to manufacture and market them. As Senators Leahy and Sessions stated in a letter to the editor of the New York Times late last year

Innovation and intellectual property-dependent industries drive our economy...We need to create the legal landscape that allows our innovators to flourish in the new economy, and we need to do it now.

This bipartisan agreement has taken an important step forward. Senator Leahy has filed a bipartisan Managers' Amendment to S. 515 (Managers' Amendment) that preserves the core of the compromise struck in Committee last year. The Managers' Amendment will update our patent laws and spur the innovation and investment needed to create new products and services that require a new workforce to produce and deliver them. All without spending tax dollars.

The Managers' Amendment would establish a simpler, objectively-based, transparent patent system that can eliminate patents that clearly should not have issued and speed the processing of patents that should be issued. It carries forward the most important recommendations contained in Federal Trade Commission and National Academies of Sciences studies and first contained in H.R. 2795, introduced by the then Chair of the House Judiciary Subcommittee on Courts, the Internet and Intellectual Property, Lamar Smith, in 2005.¹

¹ The genesis of The Patent Reform Act of 2010, lies in two very significant studies of the U.S. patent system conducted within the last decade: one by the Federal Trade Commission that resulted in a report entitled "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" published in October 2003, and a more recent effort by the National Academies of Sciences that resulted in a report entitled "A Patent System for the 21st Century" published in April 2004. Both studies found that the patent system plays an important role in stimulating technological innovation by providing legal protection for inventions and by fostering dissemination of useful technical information. Both reports offered a number of recommendations to ensure the vitality and improve the functioning of the U.S. patent system.

The bipartisan Managers' Amendment would create new post-grant review procedures and strengthen the capabilities of the United States Patent and Trademark Office. It would reign-in certain "state of mind" elements in the existing patent laws. This would bring the United States system into much greater harmony with the rest of the world. It also includes a number of other improvements to the patent laws such as provisions to update and improve the patent marking statute.

This Managers' Amendment is the result of extensive and inclusive legislative efforts, including many hearings in both chambers on a succession of bills to reform our patent system. It presents an opportunity for United States to take advantage of the years of study and effort that has now been refined and distilled.

Enacting the Patent Reform Act of 2010 will foster new investments that will bring new high-wage, high-technology jobs for American workers. Passage of this bill into law should be given the highest priority in the current session of Congress.

First-Inventor-to-File

Adoption of a first-inventor-to-file system by the United States will promote the growth of American jobs by facilitating the patenting of American technology here and abroad. By eliminating the arcane and subjective rules associated with the current first-to-invent system, the bipartisan Managers' Amendment will make it easier and less costly to obtain patent protection in the United States which will stimulate investment in new technologies. Today, when two inventors seek a patent on the same invention, the patent is awarded to the inventor who can prove that he or she was the first to make the invention and had not "abandoned, suppressed, or concealed" the invention. Other concepts such as "conception," "reduction to practice" and "reasonable diligence" can also come into play. These concepts are not only expensive to prove, they make the results of such contests unpredictable. These contests are especially harmful for independent inventors. Studies show that independent inventors lose rights to patents under the existing first-to-invent system of priority that they would have won in a first-inventor-to-file system of priority.

Moreover, while all inventors will continue to benefit from a one-year grace period in which to file a U.S. patent application after publicly disclosing their inventions, the incentive of the first-inventor-to-file system to file applications promptly will redound to their benefit in obtaining patents in our major trading partners. Inventors who today delay filing their U.S. applications (assuming that they will be able to obtain a U.S. patent by proving that they were first to make the invention) run the risk of being second-to-file in the rest of the world where patents are awarded to the first inventor to file. A first-inventor-to-file system would remove this false hope and thereby facilitate obtaining greater patent protection outside the United States for American technology, stimulating the export of American products produced by American workers.

Enhanced Patent Quality

The Managers' Amendment will strengthen patents granted in the United States by allowing the public to participate in the patent granting process and by strengthening the administrative procedures in the USPTO for reviewing patents after grant.

Pre-grant submission of prior art

The bill will expand the opportunity for the public to submit information to patent examiners working on individual patent applications, together with concise descriptions of its relevance. This will help ensure that all relevant information will be considered during the examination process, allowing the USPTO to conduct a quality examination before a patent is granted, reducing the need to rely on post-grant clean-up procedures. The public and patent applicants alike will benefit from the grant of more reliable patents that are based on more thorough and complete examination that this procedure will offer.

Administrative post-grant review of patents

The bipartisan Managers' Amendment will provide a new post-grant review that may be requested within 9 months after patent grant and, if initiated, will be completed within one year. In the new post-grant review procedure, patents may be challenged on all issues of patentability, thus providing an early quality control check on newly issued patents.

After the initial 9-month period from patent grant, all patents (including those granted prior to 1999) may be subjected to inter partes review, but only for patentability issues based upon prior patents and printed publications. Drawing upon amendments to inter partes reexamination procedures first proposed in H.R.1908 in 2007 by then Chair of the House Judiciary Subcommittee on Courts, the Internet and Intellectual Property, Howard Berman, the inter partes review procedure also permits the Office to take into account any written statements which the patent owner may have made concerning the scope of the patent. As with post-grant review, inter partes review proceedings will also be required to be completed within one year.

Ex parte reexamination will continue to be available as an inexpensive procedure to both patent owners and third parties to prompt the Office to review patents on the basis of submitted patents and printed publications, also taking into account certain written statements of the patentee.

While both the initial post-grant review and the inter partes review proceedings will enhance the validity of surviving patents, both procedures also contain safeguards to prevent harassment of patent owners. For example, third parties will be required to present a stronger case to initiate a post-grant review or an inter partes review proceeding than they are currently required to present under the existing inter partes reexamination threshold of "substantial new question of patentability."

To initiate a post-grant review, the Director must determine that the information presented, if not rebutted, demonstrates that it is more likely than not that at least one claim is unpatentable. The new threshold for initiating an inter partes review will be a “reasonable likelihood” that, in light of the information submitted by a third party and a preliminary response from the patentee, the third party “will prevail with respect to a claim” of the patent. These higher thresholds will serve to minimize the initiation of unwarranted proceedings.

Both procedures will be handled by a panel of Administrative Law Judges, instead of patent examiners (existing inter partes reexaminations are handled by patent examiners). APJs have the experience and expertise to promptly and efficiently conduct contested cases.

In addition, challenger in a post-grant review proceeding will be estopped from requesting or maintaining any subsequent administrative proceeding in the USPTO with respect to a claim on any ground that the challenger “raised or reasonably could have raised” during the post-grant review. In later civil actions or ITC proceedings, the challenger will be estopped from asserting the invalidity of a claim on any ground that was “raised” during the post-grant review.

The challenger in an inter partes review proceeding will be estopped from requesting or maintaining any subsequent administrative proceeding in the USPTO, or from asserting invalidity in a later civil action or ITC proceeding, with respect to a claim on any ground that the challenger “raised or reasonably could have raised” during the inter partes review proceeding. Together, these provisions will protect patentees against successive attacks by the same challenger.

Importantly, patent owners who promptly file suit after patent grant will be assured that the court will not automatically stay its consideration of the patent owner’s motion for a preliminary injunction on the basis that a petition requesting a post-grant review has been filed or that such a proceeding has been instituted.

Supplemental Examination Addressing Omissions and Errors in an Earlier Examination

The bipartisan Managers’ Amendment authorizes the “supplemental examination” of a patent. In situations where the information provided to the USPTO in the original examination of the patent was incomplete or inaccurate, the new supplemental examination provisions allow the missing or inaccurate information to be provided to the Office so that the Office can determine whether the information raises a substantial new question of patentability. If so, the Office will commence a reexamination to consider such questions.

When supplemental examination (including any reexamination ordered) is concluded before the patent is enforced, this new provision bars an accused infringer from raising an unenforceability defense based upon the failure to provide complete or

accurate information in the original examination, to the extent the information was considered or corrected as part of the supplemental examination.

Supplemental reexamination would not, however, allow a patent owner to avoid sanctions based upon violations of criminal or antitrust laws nor would it allow those responsible for any misconduct in proceedings before the Office to avoid disciplinary sanctions.

Litigation Reforms

The Managers' Amendment contains most of the litigation reforms in S. 515 as reported by the Senate Judiciary Committee, some of which were also recommended by the NAS.

Best Mode

The Managers' Amendment addresses the recommendation of the NAS to modify or remove the subjective elements of patent infringement litigation that depend on the assessment of a party's state of mind and increase the cost and decrease the predictability of such litigation. Current patent law requires that a patent application "set forth the best mode contemplated by the inventor of carrying out his invention." This requirement leads to the very subjective inquiry of whether the inventor at the time of filing, perhaps ten or fifteen years earlier, knew of a mode of practicing the invention that the inventor believed was preferable to others and failed to disclose it – even if unintentionally. A determination that the inventor did fail to comply can result in the patent being held invalid – a harsh result given the other, objective obligations for fully disclosing the invention. Under the bill, "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." This change was recommended by the NAS. By eliminating this inquiry into a party's state of mind, it will increase the predictability and decrease the cost of litigation.

Since the patent law already requires a "written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to make and use" the invention, the added requirement for disclosing the "best mode" is unnecessary. It serves primarily as a costly weapon for defendants to use in attacking patents, requiring time-consuming, expensive, and ultimately subjective pretrial discovery. The public is fully informed of the patented technology by the requirement for a complete written description and enabling details to permit the complete scope of the claimed invention to be used.

Damages

The Managers' Amendment continues the "gatekeeper" compromise reached in the Senate Judiciary Committee that ensures that courts or juries consider only those damages contentions that are cognizable at law and have "a legally sufficient

evidentiary basis”. The provision compliments several recent decisions of the Federal Circuit Court of Appeals in *Lucent Technologies, Inc. v. Gateway, Inc.*, 525 F.3d 1200 (Fed. Cir. 2008) and *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), which similarly address the need for patent damages verdicts to be adequately supported by substantial evidence. While S. 515 is not intended to alter substantive aspects of existing patent damages law, it does establish procedures that should improve consistency, uniformity, and fairness in the application of that law.

Willful Infringement Damages

The third subjective element in patent litigation addressed by the NAS is doctrine of “willful infringement” under which a court may increase damages up to three times if the court or jury determines that the accused infringer willfully infringed a patent. This doctrine, created by the Federal Circuit in *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (1983), required defendants to exercise a “duty of care” to avoid infringing patents in order not to be found to have “willfully” infringed. The NAS found, however, that this doctrine resulted in unforeseen and wasteful consequences. NAS found that in some business sectors, exposure to claims of willful infringement led to a practice of deliberately avoiding learning about issued patents, thereby undermining the Framers’ desire that patents promote the sciences and useful arts. NAS recommended the doctrine of willful infringement be eliminated.

During Congressional consideration of how to address this issue, the Federal Circuit decided *In re Seagate Tech., LLC*, 497 F.3d 1360 (2007) en banc. In *Seagate*, the Court found the “duty of care” rule which it created in 1983 was inconsistent with the Supreme Court’s view that, to be willful, some level of “objective recklessness” must be involved.

The Managers’ Amendment adopts *Seagate*’s “objective recklessness” standard. While not as far-reaching as the NAS’s recommendation to eliminate willfulness entirely, the *Seagate* standard has been widely viewed as an important step toward curtailing unfounded charges of willful infringement. The Managers’ Amendment provides certain procedural improvements which include (1) permitting a party to request the damages and willfulness phases be sequenced to occur after the infringement stage; (2) prohibiting use of failure to obtain advice of counsel to show willfulness or inducement (3) requiring that a patentee asserting willfulness plead the basis for the claim with particularity; (4) mandating that willful infringement may not be found solely on the basis that the infringer had knowledge of the patent; (5) requiring specificity in any pre-suit notifications that are to be relied upon to prove willfulness; and (6) upon motion, permitting the court to deny damages enhancement if it determines that a “close case” exists on infringement, validity or enforceability.

Venue

In response to a growing number of patent infringement cases filed by patentees in perceived pro-plaintiff venues with little or no connection to the parties in the case or

the locations of their operations, witnesses or documents, proposals were made to essentially restrict patent suits to the jurisdiction where the infringer had its principal operation. However, in 2009, the Fifth Circuit issued a writ of mandamus in a personal injury case directing the transfer of a case because the trial court, in denying a motion to transfer venue, “gave undue weight to plaintiffs’ choice of venue, ignored [] precedents, misapplied the law, and misapprehended the relevant facts” *In re Volkswagen of America, Inc.*, 545 F.3d 304 (5th Cir. 2008). The Federal Circuit followed suit in a patent case, *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008) granting a writ of mandamus and holding that same court clearly abused its discretion in denying a motion to transfer venue.

The bipartisan Managers’ Amendment incorporates the *Volkswagen/TS Tech Corp* approach and provides a measured approach to reigning-in undesirable forum shopping. It requires the court to transfer a patent infringement action “upon a showing that the transferee venue is clearly more convenient than the venue in which the civil action is pending.”

Pilot Program for District Courts

The Managers’ Amendment would create a 10-year pilot program in certain district courts to hone judicial expertise in patent cases. The bill would provide for the professional development of district judges and the hiring of law clerks with expertise in such cases. The pilot should lead to a reduction in the reversal rate of claim construction determinations in patent cases and improve the efficiency of courts in their handling of such cases.

Patent Fee Setting Authority and Ending Diversion

One of the most critical problems facing the USPTO is the lack of resources to address its quality, pendency, and IT issues. With the recent economic downturn, the USPTO is experiencing a significant reduction in fee income and has no ability to adjust fees to offset this loss, resulting in its inability to fill the positions of examiners leaving the Office. The problem was recently exacerbated when, prior to passing the USPTO’s FY 2010 appropriation, Congress removed a provision that would have allowed the USPTO to retain and use up to \$100 million in fee revenues above the level appropriated. The removal of this proviso guarantees that, as the economy recovers and greater fee revenues are received, all fee revenue in excess of the amount set by Congress will be deposited in the general Treasury and used for purposes other than those for which they were paid – the prompt and complete examination of patent applications and issuance of patents.

In its present form, the Managers’ Amendment to S. 515 would address only half of this problem. It would authorize the Director, subject to review and comment opportunities, first by the Patent Public Advisory Committee and then the public, followed by a 45 day period by the Congress to consider and comment on any final fee increase proposal, to adjust its fees to recover the costs of examining and granting

patents and registering trademarks. It would not, however, guarantee that all of the fee revenue collected would be used by the Office for these purposes.

While authorizing the USPTO to adjust its fees would allow the Office to address its patent pendency and quality problems as well as to make needed upgrades in its IT systems, these goals will only be realized if the Office is allowed to receive, retain, and use all of the fee revenue generated. Accordingly, the grant of fee setting authority must be accompanied by a solution to the diversion of USPTO fees.

Conclusion

The Manager's Amendment is the result of intense bipartisan efforts of the Senate Judiciary Committee leadership and their staffs. Upon its introduction, the bipartisan nature of this Amendment was highlighted by Senator Leahy who singled-out Senators Sessions, Feinstein, Kyl, Specter, Cornyn, and Klobuchar, and well as his longtime partner on intellectual property issues, Senator Hatch, for helping bring this bill to reality.

The Coalition for 21st Century Patent Reform agrees with Chairman Leahy and Ranking Member Sessions that Congress "is close to a comprehensive patent reform bill that benefits all corners of the patent community". In our view, the Managers' Amendment strikes an appropriate balance among all stakeholders. The time has arrived for the approval of the "Patent Reform Act of 2010."