

THE PATENT REFORM ACT OF 2010

Its Origins and Development

The lineage of the Patent Reform Act of 2010 can be traced back to the report of the President's Commission on the Patent System issued in 1966. The Commission's report, "To Promote The Progress of ... Useful Arts" contained thirty-five recommendations, beginning with the recommendation that the United States issue patents to the first-inventor-to-file rather than to the first inventor to make an invention. The report set forth six objectives:

1. To raise the quality and reliability of the U.S. patent.
2. To shorten the period of pendency of a patent application from filing to final disposition by the Patent Office.
3. To accelerate the public disclosure of technological advances.
4. To reduce the expense of obtaining and litigating a patent.
5. To make U.S. patent practice more compatible with that of other major countries, wherever consistent with the objectives of the U.S. patent system.
6. To prepare the patent system to cope with the exploding technology foreseeable in the decades ahead.

Legislation introduced in the 90th Congress to implement the Commission's recommendations was not adopted, though several recommendations, including publishing applications 18 months after filing (with an opt-out for applications not filed abroad), preliminary applications, ex parte reexamination, and a patent term of 20 years from filing, have found their way into U.S. law in subsequent years.

In 2004, nearly one-half century later, following an extensive four-year study, the National Research Council of the National Academy of Sciences (NAS) issued a report on the current state of the U.S. patent system. NAS found that while the patent system was working well and did not require fundamental changes, economic and legal changes were putting new strains on the system. To address these concerns, NAS offered seven recommendations for achieving a 21st Century patent system:

1. Preserve an open-ended, unitary, flexible patent system.
2. Reinvigorate the non-obviousness standard.
3. Institute a Postgrant Open Review Procedure.
4. Strengthen USPTO capabilities.
5. Shield some research uses of patented inventions from infringement liability.
6. Modify or remove the subjective elements of litigation.
7. Harmonize the U.S., European, and Japanese Patent Examination Systems.

109th Congress

Legislation to address some of these recommendations, H.R. 2795, was introduced by Congressman Lamar Smith, Chair of the House Judiciary Subcommittee on the Courts, the Internet, and Intellectual Property, on June 8, 2005. H.R. 2795, the “Patent Reform Act of 2005,” contained provisions that would have: granted patents to the first-inventor-to-file, provided objective criteria for determining patentability, eliminated the subjective requirement to disclose the “best mode” of making an invention, constrained willful infringement, limited the unenforceability defense to inequitable conduct by a patent owner, published all applications at 18 months, expanded the right of prior commercial users to all inventions, established an all-issues post-grant opposition procedure available during the first nine months of patent grant, and allowed the public to submit information to the USPTO during patent examination.

Unfortunately, a number of provisions not recommended by the NAS or earlier studies were also included in H.R. 2795. These included proposals to limit patent damages (to “the realizable profit that should be credited to the inventive contribution”), make the grant of injunctive relief problematic, and permit the USPTO to impose limits on the filing of continuing patent applications. Some improvements (elimination of the provision on injunctive relief) were made in an “Amendment in the Nature of a Substitute to H.R. 2795” published in July 2005, but the limitation on damages was continued and a new provision restricting the venue where patent owners could enforce their patents was added.

While the Senate held hearings in 2005 and 2006, no patent reform legislation was introduced in the Senate until late in the 109th Congress when Senator Hatch introduced S. 3818, The Patent Reform Act of 2006, on August 3rd, 2006. S. 3818 had many of the improvements recommended by NAS, but it also contained a provision limiting reasonable royalty damages (to “the economic value... attributed to the novel and non-obvious feature or features of the invention”) and added new provisions allowing interlocutory appeals of claim construction rulings, and giving the Director of the USPTO broad discretion to issue substantive rules for interpreting the patent statute.

Neither H.R. 2795 as amended nor S. 3818 advanced beyond Committee in the 109th Congress.

110th Congress

Identical patent reform bills, H.R. 1908 and S. 1145, were introduced early in the 110th Congress by the Chairman of the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property, Congressman Howard Berman, and the Chairman of the Senate Judiciary Committee, Senator Patrick Leahy. While these bills continued some of the changes recommended by NAS such as first-inventor-to-file, an early all-issues opposition, constraints on willful infringement and expanding a prior commercial user’s right to all inventions, other recommended changes such as the elimination of the “best mode” requirement and secret prior art were not carried forward from earlier bills.

In addition, the all-issues opposition was made available for the life of a patent if there was a substantial reason to believe that a claim caused or was likely to cause significant economic harm. Also, provisions limiting damages (to the “economic value properly attributable to the patent’s specific contribution over the prior art”) and the venue where patent suits could be brought were included, along with provisions removing the restraints on taking interlocutory appeals and authorizing substantive rule making.

Following one hearing, an Amendment in the Nature of a Substitute to H.R. 1908 was reported by the House Subcommittee on Courts, the Internet, and Intellectual Property on May 16, reported by the full Judiciary Committee on September 4, and passed by the House on September 7. While much of H.R. 1908 as introduced remained intact in the version which passed the House, several changes were made that embraced the NAS recommendations such as the addition of provisions to limit the “best mode” and inequitable conduct defenses. Other amendments, however, moved it in the opposite direction. These included making the effective date of first-inventor-to-file dependent on both Europe and Japan adopting a grace period, precluding the grant of patents for tax planning methods, and empowering the Director to issue regulations imposing limits on continuing applications. The inclusion in H.R. 1908 of controversial provisions not recommended by NAS, especially those limiting patent damages, led 175 Members to vote against the bill. No further action was taken on patent reform by the House in the 110th Congress and the activity shifted to the Senate.

After holding one hearing, the Senate Judiciary Committee favorably reported S.1145 with amendments on July 19, 2007. While most of the provisions in the bill as introduced remained intact, including those limiting damages and venue and allowing interlocutory appeals, one significant improvement was the inclusion for the first time in any of the bills of a provision aimed at strengthening the capabilities of the USPTO. This provision would have authorized the Director to set fees and established a revolving fund into which those fees would be deposited for the exclusive use of the Office. Ultimately, patent reform also ended in the 110th Congress in the Senate when the Judiciary Committee leadership could not agree on a formula for limiting patent damages to the “economic value...attributable to the infringer’s use of the patentable features of the invention.”

111th Congress

Early in the 111th Congress, similar (but not identical) bills, H.R. 1260 and S. 515, were introduced. Both bills continued to include provisions in line with the recommendations of NAS. These included provisions adopting first-inventor-to-file (although H.R. 1260 still conditions it on Europe and Japan adopting a grace period), addressing willful infringement by referencing the “objective reckless standard of *In re Seagate*, creating an all-issues post-grant opposition procedure (available only during a short period following patent grant as recommended by NAS), allowing members of the public to submit prior art to the Office prior to patent grant, and authorizing the Director to set fees – but without any protection to ensure that those fees could only be used by the Office. As in earlier Congresses, provisions were also included that would have limited

damages to a “claimed invention’s specific contribution over the prior art,” limited the venue where infringement actions could be brought, and removed the restraints on taking interlocutory appeals of claim construction. Neither bill contained any limitation on the inequitable conduct defense.

While a hearing was held in each chamber during the 111th Congress, action was only taken on S. 515. The first action occurred on April 2, 2009 with the adoption by the Senate Judiciary Committee of a compromise version of S. 515. The most significant change was the removal of all provisions that would have limited patent damages. In their place, a provision inspired by the Federal Circuit’s decision in *Lucent Technologies, Inc. v. Gateway, Inc.* was included. The Federal Circuit in *Lucent Technologies* signaled that it is not the law on damages that needs to be revised; what is needed is more discipline in the proof and analysis put on by the parties on damages and in the trial court’s review of the sufficiency of the evidence to support an award. This provision (which has come to be known as the “gate keeper” provision) ensures that only damage claims with a legally sufficient evidentiary basis can be considered, thus ensuring that damage awards will be fair to all litigants. In addition, the venue provision was amended to follow the Federal Circuit’s *In re TS Tech USA Corporation* ruling that “a motion to transfer venue should be granted upon a showing that the transferee venue is ‘clearly more convenient’ than the venue chosen by the plaintiff.” Another amendment that more closely aligned S. 515 with the NAS recommendations removed failure to disclose “best mode” as a basis on which a patent may be held invalid or unenforceable.

Following extensive consultations among the members of the Senate Judiciary Committee, Senators Leahy, Sessions, Hatch, Schumer, Kyl, and Kaufman announced on March 4, 2010 that they had reached an agreement on the details of a patent reform bill to be considered by the full Senate. The agreed bipartisan Managers’ Amendment to S. 515 would, in addition to the changes noted above, more fully embrace the “objective recklessness” standard set out by the Federal Circuit in its *In re Seagate* decision, clearly limit inter partes reexamination to patents and publications under sections 102 and 103 of Title 35, allow patentees to request “supplemental examination” by the Office to consider or correct information believed relevant to patentability, limit actions for false marking to those who have suffered a competitive injury as a result of a falsely marked patent, and retain the current law regarding when an interlocutory appeal may be taken. The bipartisan Managers’ Amendment to S. 515 is supported by a large and diverse group of companies, trade associations, universities, labor, and the Administration.

Looking Forward to the 112th Congress

The Coalition for 21st Century Patent Reform is committed to working with the 112th Congress on a “Patent Reform Act of 2011,” building on the many improvements realized in the bipartisan Managers’ Amendment to S. 515. The time for patent reform legislation implementing the recommendations of the 1966 Presidential Commission and the NAS is sorely needed and long overdue.