

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

PATENT REFORM WRAP-UP FOR THE 111TH CONGRESS AND THE POSITIONS OF THE COALITION FOR 21ST CENTURY PATENT REFORM

Since 2005, the Coalition for 21st Century Patent Reform (21C) has been seeking reform of the patent laws to incorporate recommendations contained in the National Academies of Sciences' report *A Patent System for the 21st Century*. Building on legislation introduced in the previous two Congresses, similar (but not identical) bills, H.R. 1260 and S. 515, were introduced in the House and Senate on March 3, 2009. While a hearing was held in each chamber during the 111th Congress, action was only taken on S. 515. On April 2, 2009, the Senate Judiciary Committee approved a compromise version of S. 515 by a 15 to 4 vote. After further deliberations among the Committee leadership, Senators Leahy, Sessions, Hatch, Schumer, Kyl, and Kaufman announced agreement on a bipartisan Managers' Amendment to S. 515 on March 4, 2010. The following brief summary presents the views of the 21 C with reference to S. 515 as introduced, H.R. 1260, and the bipartisan Managers' Amendment to S. 515.

The 21C has consistently supported a balanced package of reforms to the patent law and supported the bipartisan Managers' Amendment to S. 515 as generally representing such a package.

- **First-Inventor-to-File** – S. 515, H.R. 1260, and the bipartisan Managers' Amendment to S. 515 all provide for issuing a patent to the *first-inventor-to-file* a patent application; 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. However, H.R. 1260 continues provisions from an earlier House bill that unacceptably give foreign governments a veto power when first-inventor-to-file-system will become effective, essentially precluding U.S. inventors from enjoying its benefits.

The 21C has consistently supported moving to a first-inventor-to-file system and supported the first-inventor-to-file provisions of the bipartisan Managers' Amendment to S. 515.

- **Adopt Post-Grant Review Procedures** – NAS recommended that a post-grant procedure be available during the first twelve month window from grant and that any

post-grant proceeding initiated be concluded within one year. S. 515, H.R. 1260, and the bipartisan Managers' Amendment to S. 515 would adopt such a post-grant procedure ("first window") in which a third party could challenge a patent on any grounds that could be raised under 35 U.S.C. §282(2) and (3), during the first 12-months from grant in S. 515 and H.R. 1260 and during the first 9-months from grant in the bipartisan Managers' Amendment to S. 515. All three bills would continue inter partes reexamination ("second window") and would require that both first and second window proceedings be heard by administrative patent judges. Both S. 515 and H.R. 1260 would also permit challenges on the basis of public use and sale during the second window, while the bipartisan Managers' Amendment to S. 515 would limit such challenges to grounds that could be raised under sections 102 (novelty) and 103 (non-obviousness on the basis of patents and printed publications). The bipartisan Managers' Amendment to S. 515 would also have encouraged prompt challenges of patents by limiting the estoppel effect of first window proceedings in later civil actions.

The 21C has consistently supported allowing 3rd parties to initiate an all-issues post-grant (1st window) review procedure during a short period after patent grant as an initial quality control check on recently issued patents that were filed, examined and issued under first-inventor-to-file procedures. The 21C has not sought repeal of other, existing (2nd window) reexamination procedures, but has opposed expanding their basis beyond newly cited patents and publications. In the 111th Congress, the 21C also supported certain improvements in 2nd window inter partes procedures that were contained in the bipartisan Managers' Amendment to S. 515.

- **Inequitable Conduct** - NAS recommended that the "inequitable conduct" doctrine – which permits a court to refuse to enforce an *entirely valid and clearly infringed patent* – to be eliminated or at least substantially curtailed. Neither S. 515 nor H.R. 1260 contain any provision to implement the NAS recommendation regarding inequitable conduct, however, the bipartisan Managers' Amendment to S. 515 contains a provision for "supplemental examination" that would allow a patent owner to consider or correct information believed relevant to patentability. The Federal Circuit, sitting *en banc*, heard arguments on a series of questions relating to the inequitable conduct doctrine in *Therasense, Inc. v. Becton, Dickinson & Co.* in November 2010. The *Therasense* decision could alter the need for reform of this doctrine.

The 21C supported the concept of supplemental examination contained in the bipartisan Managers' Amendment to S. 515. The 21C intends to reassess its position relating to any need for further inequitable conduct reform following the Federal Circuit's pending *en banc* decision in the *Therasense* case.

- **"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. Both S. 515 and H.R. 1260 would preclude the initiation of a first-window post-grant review on the basis of the failure to disclose the "best mode." The bipartisan Managers' Amendment to S. 515 would also amend section 282(b) to remove failure to disclose the best mode as a defense to patent validity. The elimination of this

problematic feature as proposed in the bipartisan Managers' Amendment to S. 515 would reduce litigation costs and further the harmonization of US patent laws with those of the rest of the world.

The 21C has consistently supported elimination of the “best mode” requirement and supported its elimination as a defense to patent infringement as proposed in the bipartisan Managers' Amendment to S. 515.

- **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, had perverse anti-disclosure consequences. NAS recommended the doctrine be substantially curtailed or eliminated. Since this recommendation was made, however, it has been 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. While S. 515, H.R. 1260, and the Managers' Amendment to S. 515 all attempt to adopt the “objective recklessness” standard, the courts have adopted and applied the *Seagate* standard.

The 21C supported the NAS recommendation that the doctrine of willful infringement be eliminated or substantially curtailed, but now believes, in light of *In re Seagate*, that legislation on willful infringement is no longer needed.

- **Damages** – after the release of the NAS report and the effort to implement its recommendations was well underway, an attempt was launched to include several new items into the discussions which had not been recommended by the NAS. One of these new items involved the effort to include provisions limiting the reasonable royalty damages for infringing a valid patent. These efforts have taken various forms, including limiting such damages to the “realizable profit that should be credited to the inventive contribution,” or more recently in S. 515 and H.R. 1260, the “invention's specific contribution over the prior art.” 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. The case has simply not been made that there is any need to reform the way patent damages are now awarded. This was recognized by the Federal Circuit in *Lucent Technologies, Inc. v. Gateway, Inc.* where the court 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. The bipartisan Managers' Amendment to S. 515 adopts this reasoning in a “gate keeper” provision that directs district court judges to follow the Federal Circuit's guidance. This trend of clarifying the rules for determining reasonable royalty damages was most recently evidenced in *Uniloc USA, Inc. v. Microsoft Corp.* where the Federal Circuit held that the so-called “25 percent rule of thumb” rule that automatically allocates 25% of the profits to the patent owner is a “fundamentally flawed tool for determining a baseline royalty rate.” The *Uniloc* court also

emphasized that “for the entire market rule to apply, the patentee *must* prove that the patent-related feature is the basis for consumer demand.” Given *Lucent Technologies* and *Uniloc*, it would seem that the Federal Circuit has obviated the need for even a “gate keeper” provision.

The 21C continues to believe that the case has not been made for reforming the law on patent damage awards, and that recent decisions of the Federal Circuit demonstrate that concerns expressed relating to the fairness of patent damages awards are unfounded.

- **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. S. 515 and H.R. 1260 would limit 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. Such a result was reached by the Federal Circuit in *In re TS Tech USA Corporation*, where it held 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.” The Federal Circuit’s approach was incorporated in the bipartisan Managers’ Amendment to S. 515.

The 21C believes the development of the law to favor transfer upon a showing that the transferee venue is ‘clearly more convenient’ than the venue chosen by the plaintiff is sound. While the 21C did not oppose the codification of *TS Tech* in the bipartisan Managers’ Amendment to S. 515, it does not believe its codification is necessary.

- **False Marking** –Section 292 of title 35 imposes a \$500 penalty for each offense of false patent marking and allows “any person” to sue for the penalty and retain one half of any proceeds. Following the Federal Circuit’s ruling in *Forest Group, Inc. v. Bon Tool Co.* in December 2009 that the statute “requires courts to impose penalties for false marking on a per article basis,” opportunistic individuals and entities have literally deluged federal district courts with qui tam actions under subsection 292(b) targeting high volume products. More than 500 qui tam actions have been filed since the *Bon Tool* decision. The vast majority of these suits involve products originally marked with a valid patent number which are sold for a time after the patent’s expiration. The bipartisan Managers’ Amendment to S. 515 would limit such qui tam actions to the recovery of damages to compensate for actual competitive injury suffered by competitors. The government would continue to be authorized to bring actions in any cases where false marking has harmed the public.

The 21C believes that the flood of opportunistic qui tam actions for false marking following *Bon Tool* should be curtailed and supported the bipartisan Managers’ Amendment to S. 515.

- **Interlocutory appeals** – another proposal contained in both S. 515 and H.R.1260 that was not recommended by NAS would remove the discretion of the

Federal Circuit to take interlocutory appeals and give it to district courts. The proposal places no limits on a District Court taking such appeals or on whether the case would be stayed pending the appeal. This would increase the caseload of the Federal Circuit dramatically as parties would use it as a strategy to delay cases, discourage or outspend opponents, and otherwise game the system to their advantage. The bipartisan Managers' Amendment to S. 515 would not change existing law regarding interlocutory appeals.

The 21C opposes any provision that would increase the number of interlocutory appeals to the Federal Circuit and thus supported omission of any such provision in the bipartisan Managers' Amendment to S. 515.

- **3rd party submission of prior art** – as suggested in the NAS report, S. 515, H.R. 1260, and the bipartisan Managers' Amendment to S. 515 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 USPTO before a patent examiner decides whether to issue a patent.

The 21C has consistently supported provisions allowing for timely 3rd party submissions of prior art to the USPTO and supported such provisions in the bipartisan Managers' Amendment to S. 515.

- **Fee setting by USPTO** – S. 515, H.R. 1260, and the bipartisan Managers' Amendment to S. 515 would implement the NAS report recommendation that the USPTO's capabilities be strengthened by authorizing its 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 fees in the Federal Register for comment. It will take permanent, continued full funding of the USPTO 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 USPTO revenues being diverted to support other unrelated government programs would be too great a risk.

The 21C has consistently supported provisions authorizing the Director of the USPTO to set fees to recover the costs of operating the Office, but only if users are guaranteed that fee revenue will not be diverted for other government purposes.