

# THE COALITION FOR 21ST CENTURY PATENT REFORM

*Protecting Innovation to Enhance American Competitiveness*

April 25, 2007

## **Coalition for 21st Century Patent Reform: Views on the “Patent Reform Act of 2007” (S. 1145/H.R. 1908)**

The 40-plus members of the Coalition for 21st Century Patent Reform (Coalition) support and want patent reform. S. 1145/H.R. 1908, the “Patent Reform Act of 2007” introduced by Chairmen Patrick Leahy and Howard Berman, begin the public discussion of a crucial topic which will shape U.S. corporate businesses practices and impact the nation’s economy and job growth. While the Coalition appreciates their efforts in bringing the legislation to this stage, the Coalition believes that there are a number of areas where the legislation must be improved.

The member companies of the Coalition for 21<sup>st</sup> Century Patent Reform include many of America’s most innovative and competitive technology-based companies. While they represent a broad spectrum of industries, they share in common substantial investment in research and development. Their ability to generate return and sustain continued investment is dependent on being able to obtain and enforce patents on the inventions of their scientists and engineers. Each of the member companies of the Coalition operates major research and manufacturing facilities in the United States while selling their patented products throughout the world.

The Coalition for 21<sup>st</sup> Century Patent Reform agrees with the finding of the National Research Council that, “the intellectual property system is working well and does not require fundamental changes,” but that the “patent system ... merits periodic examination to help ensure the vitality of the national innovation system.” It is encouraging that Chairmen Leahy and Berman also recognize that the patent system has served our nation well, even though there remains a need today to foster further innovation with reforms. Because of the breadth of the NRC study and the many competing interests which it reconciled, the Coalition feels that this study and its resulting recommendations provide an excellent starting point for the specifics of patent reform legislation. The members of the Coalition welcome oversight of the patent system and pledge to work cooperatively with the Congress in enacting reform legislation in the 110<sup>th</sup> Congress.

The Coalition agrees that it is important to ensure that patents issued by the USPTO are of the highest possible quality and is sympathetic to complaints about abuses by both plaintiffs and defendants in patent infringement litigation. However, the Coalition is also concerned that any reforms directed at these issues not damage the ability of other patent-dependent enterprises to protect themselves against infringement of valid patents that have been issued in accordance with long-standing principles of patent law. Therefore, the Coalition supports balanced changes that include both administrative and litigation reforms. Moreover, because many of the proposed reforms are inter-related, they cannot stand alone. That is why our Coalition supports comprehensive patent reforms like those outlined in the National Academy of Sciences Report on the Patent System.

Given the breadth, diversity and experience of our coalition, we hope to provide Members of Congress with our insights and views on the meaningful reforms that will ensure American companies have the necessary incentives to fund researchers, to make investments in new and emerging technologies, and to bring new products to the marketplace.

The following compares key principles that coalition members support for patent reform and the current language in the Bill:

**I. "First-Inventor-to-File" Principle:** To improve the quality of patents issued in the United States, the U.S. patent system must operate with greater predictability, less reliance on information that is not accessible to the public, more objective patentability standards, more prompt patentability determinations by the PTO, and lower overall costs to procure and enforce a patent. The "first-to-invent" principle that has long (and uniquely) been a part of U.S. patent law frustrates these goals of predictability, public accessibility, objectivity, promptness, and economy. It also makes determining what is "prior art" to a patent or patent application dependent upon when an earlier discovery was made, not when it was published or otherwise disclosed to the public. In the United States, the questions "What was the invention date?" and "Who first invented what?" must be answered to know if a patent can be validly issued. These often highly subjective inquiries complicate the determinations of patentability in the PTO and of patent validity in the courts. The "first-inventor-to-file" principle, in contrast, determines whether an invention is patentable by addressing a much simpler question: When was the patent for the invention sought and what subject matter relating to the invention had previously become known to the public?

**The Coalition supports the inclusion of language codifying the first-inventor-to-file principle in the Bill. This principle is widely recognized as a "best practice" in patent administration. The first-inventor-to-file principle specified in Section 3 would add clarity to the patent system by replacing the subjective determination of the first inventor with the objective identification of the first filer, and would reduce or eliminate the unpredictable and often substantial costs of interferences and litigation associated with determining the first inventor. It retains the 12 month grace period for publications containing a disclosure of the invention, of particular importance to independent and university inventors. The Bill also continues and strengthens the CREATE Act to foster joint research activities.**

There is, however, a need to refine the specific language in certain respects. For example, the continuation of the limiting and undefined phrase "public use or on sale" of 35 U.S.C. §102(b) into §102(a) of the Bill has implications that are not clear at present. Additionally, the "Prior Inventor Disclosure Exception," would exclude from prior art the prior disclosures of "applicants," in addition to those of the inventors, which will merit further review. In addition, the transition/effective date provisions would appear to change the rules from first-to-invent to first-inventor-to-file for pending applications and some issued patents. This must be carefully considered to avoid possible unintended consequences in the current formulation.

**II. Repealing the Best Mode Requirement as Recommended by the NAS:** Patent law should be built upon objective requirements for determining the validity of patents. The Coalition supports the repeal of the highly subjective requirement for inventors to disclose what they themselves contemplate, at the time of filing their patent applications, to be their "best mode" for carrying out their inventions. Since inventors already must provide a full and exact description of how to make and use their inventions, this requirement does not add value for the public, but rather adds cost and unpredictability to patent lawsuits.

**The Coalition regrets that the legislation fails to implement the recommendation of the NAS to delete the requirement in current law to disclose the "best mode." No clear-cut evidence exists that this requirement positively affects the quality of application disclosure in any meaningful manner. Rather, many other factors compel disclosure of meaningfully important technical information, including the necessity to adequately support the patent claims. Not only do foreign patent systems operate effectively without a best mode requirement, but the public interest in high-quality technical disclosures in patents can be fully realized by the "enablement" requirement. The NAS conclusion should be adopted.**

### **III. Eliminating Unenforceability Defense on the Basis of “Inequitable Conduct” Allegations:**

The issuance of higher quality patents can be obtained by allowing applicants to work more closely with patent examiners and engage in a meaningful dialogue with the patent examiner concerning the merits of the invention such that patent applicants should be encouraged to submit information to the USPTO that will assist the Office in examining patent applications and granting patents without the fear that such disclosures or the lack thereof will result in the unenforceability of the entire patent. Further, the costs and uncertainty in litigation of massive and expensive discovery and the trial of unnecessary or frivolous issues should be reduced by removing the subjective elements of the inequitable conduct defense. This unnecessary and unproductive activity should be constrained or eliminated, as recommended by the NAS Report.

**This recommendation of the NAS did not find its way into the Bill. While the Coalition supports sanctions against those who knowingly and intentionally engage in fraudulent behavior, the absence of meaningful reform of unenforceability defense will continue frustrate the efforts of the PTO to reduce its backlog of applications and to improve the quality of patents. It will force applicants to continue to act in a protective manner in their dealings with the PTO rather to engage in a meaningful dialogue with examiners. Further, the expense and resources spent in litigation to defend these allegations will continue. The benefit to the public of this defense is far outweighed by the adverse impact it has on the patent examination process and the cost of litigation defending against it.**

**V. Post-Grant Opposition:** To test questionable patents after they are issued, the Coalition supports a post-grant opposition proceeding in the USPTO where the public can promptly (within 9 months of grant) challenge the validity of a patent on any ground, but with incentives that encourage the public to promptly bring such challenges and with protections for inventors against harassment. To make this type of validity challenge administratively feasible, however, it is essential that it be accompanied by three other changes – limit “prior art” to publicly accessible information through adoption of the first-inventor-to-file principle, repeal the “best mode” requirement, and limit the unenforceability defense to cases of actual fraud on the PTO.

**While the Coalition notes that the recommendations of the NAS and FTC for a post-opposition procedure are implemented in the legislation, we oppose allowing third parties unlimited “second window” opportunities to seek review of patents, on subjective grounds, and on the basis of a preponderance of the evidence standard of proof for facts. This will subject patentees, especially patentees of limited means, to harassing tactics that could significantly limit the benefits of the patent system to them and the public. In addition, all of the necessary prerequisite changes – first-inventor-to-file, elimination of best mode, and elimination or restriction of the unenforceability defense must accompany the post-grant procedure. As with other sections of the legislation, the Coalition pledges to work with the Congress to develop a post-grant review procedure to achieve objectives foreseen by the NAS and FTC while providing the patentee with safeguards against serial challenges to provide a measure of “quiet title.”**

**V. Submitting Prior Art to Patent Examiners:** To improve overall patent quality, the Coalition supports creating an effective avenue for the public to bring information to the attention of patent examiners before a decision is made to issue a patent.

**The Coalition is pleased to see Section 9 of the Bill which implements this needed and desirable reform.**

**VI. Assuring Adequate Patent Damages:** The Coalition is prepared to accept a faithful codification of the existing law of damages if necessary to achieve greater consistency in damages determinations,

provided that all inventors and all types of inventions remain entitled to damage awards adequate to compensate for the infringement of a patent.

**The Coalition supports the current rule that mandates that a damages award shall not be less than a "reasonable royalty for the use made of the invention by the infringer." We agree that uniformity in the application of existing judge-made law will enhance the patent system by ensuring that inventors are fairly rewarded for what their inventions contribute to our society. We further agree that where the use made of the invention is the basis for market demand for an infringing product or process, the royalty should be based upon the entire market value of the products or processes provided to satisfy that demand. Where it is not, and the infringer shows that apportionment is necessary, the royalty calculation should exclude the economic value attributed to the infringer's incorporation into the infringing product or process of features or improvements, whether or not themselves patented, that contribute economic value to the infringing product or process, as opposed to the economic value stemming from the infringer's use of the patented invention. We look forward to working with Congress to improve the language of the legislation to assure that inventors receive their rightful rewards, while ensuring that they will not unfairly be compensated for the contributions of others.**

**VII. Limiting Willful Infringement:** To further the constitutional purpose of the patent system and to limit patent lawsuits to consideration of only objectively determined factors, the Coalition supports limiting punitive damages to situations involving truly egregious conduct by infringers.

**The Coalition is pleased to see the limitations imposed on willful infringement - one of the "subjective factors" identified by the NAS for restriction. The Bill achieves this goal by limiting willful infringement to situations where an infringer continues to engage in infringing conduct after the patent owner has provided specific written notice of the acts of infringement, the infringer has intentionally and knowingly copied the patented invention, or the infringer has continued to engage in conduct not colorably different from that previously found to be an infringement.**

**VIII. Prior User Rights:** The Coalition supports allowing inventors in all fields of invention who have placed their inventions into commercial use, or made substantial preparations for commercial use, in the United States to continue that use without liability to anyone else who might later apply for and obtain a patent on such inventions.

**Again, the Coalition expresses its appreciation to Chairmen Leahy and Berman for including this important, pro-competitive provision in the Bill. Prior user rights arise as a consequence of contemporaneous, independent inventions, and can be regarded as an important "independent inventor" right. Prior user rights are protective and supportive of pre-existing investments in manufacturing in the United States. As such, they are protective of U.S. manufacturing enterprises in much the same manner that foreign "prior use" provisions protect foreign manufacturing investments and, ultimately, advantage U.S. interests.**

**IX. Interlocutory Appeals:** S. 3818 (109<sup>th</sup> Congress) contained a provision allowing interlocutory appeals of decisions in which a trial court defines how it will interpret the claims of patents at issue in litigation (Markman appeals). Subsequent to the introduction of S. 3818, strong opposition was expressed to any change in the law which would permit interlocutory appeals of *Markman* rulings. Such appeals would flood the Federal Circuit, causing significant delays in the resolution of appeals; cause District Courts to routinely stay proceedings pending resolution of interlocutory appeals, thereby delaying resolution of patent disputes; and conflict with current treatment of claim construction by the Federal Circuit.

**The Bill would allow appeals of Markman claim construction rulings. The Coalition believes that permitting such appeals would delay the resolution of patent cases – an outcome that most stakeholders oppose. It agrees with the Court of Appeals for the Federal Circuit that such a change would invite piecemeal litigation that is as “strictly precluded by the rule of finality for patent cases as it is for any other case.” The Coalition believes that the case has not been made for Congress to include changes regarding interlocutory appeals in legislation.**

**X. Venue:** Many patentees commence infringement actions in the U.S. District Court for the Eastern District of Texas, both because local rules provide for swift trials and because this jurisdiction has gained a reputation of having patent friendly juries. Many manufacturing companies have been sued in this jurisdiction. The Bill adopts the proposal advanced in S. 3818 that required that all patent cases be brought only in the judicial district where either party has its principal place of business, the state in which either is incorporated, or the district where the defendant has committed acts of infringement “*and has a regular and established place of business.*” However, the amendments would entirely exempt from this rule the declaratory judgment actions that an alleged patent infringer would bring against a patent owner.

**The Coalition understands the perceived difficulty of allowing plaintiffs unfettered discretion to bring suit in jurisdictions where there is no meaningful nexus with the parties and/or evidence involved in the case. The Coalition is concerned that the current language restricts plaintiffs from bringing cases in jurisdictions where there is a meaningful nexus with the parties and/or evidence, without providing a complete remedy for the concerns that have been raised. In addition, the proposal lacks balance: it suggests that forum shopping by patent owners for the best venue to enforce their patents is a problem, but forum shopping by alleged infringers for the best venue to avoid the consequences of their infringing activity is not.**

**XI. Rule-Making Authority of the USPTO Director:** Current law gives the Director the authority to establish “regulations not inconsistent with law, which ... govern the conduct of proceedings in the Office.” The Court of Appeals for the Federal Circuit has interpreted this as a *limited* grant of authority, holding that the Director does not have “the authority to issue substantive rules... [b]ecause Congress has not vested the Commissioner [Director] with any general substantive rulemaking power....” The Bill incorporates the provision contained in S. 3818 giving the PTO Director broad new authority to issue rules interpreting substantive patent law. It would expand the Director’s current authority to issue regulations on PTO proceedings (35 USC 2(b)(2)(A)), authorizing regulations to “carry out the provisions” of Title 35.

**The Coalition for 21<sup>st</sup> Century Patent Reform believes the case for this provision has not been made and recommends further consultation with all stakeholders before legislation is passed in this area. Further, the proposed language does not contain the present limitation of regulatory authority, “not inconsistent with law.” The potential for unintended (and unknown) consequences is too great to adopt this provision without a full appreciation of its impact on patent system users.**

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