

AMERICA INVENTS ACT

JUNE 1, 2011.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SMITH of Texas, from the Committee on the Judiciary, submitted the following

R E P O R T

together with

DISSENTING VIEWS AND ADDITIONAL VIEWS

[To accompany H.R. 1249]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 1249) to amend title 35, United States Code, to provide for patent reform, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

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**SEC. 28. STUDY ON IMPLEMENTATION.**

(a) PTO STUDY.—The Director shall conduct a study on the manner in which this Act and the amendments made by this Act are being implemented by the Office, and on such other aspects of the patent policies and practices of the Federal Government with respect to patent rights, innovation in the United States, competitiveness of United States markets, access by small businesses to capital for investment, and such other issues, as the Director considers appropriate.

(b) REPORT TO CONGRESS.—The Director shall, not later than the date that is 4 years after the date of the enactment of this Act, submit to the Committees on the Judiciary of the House of Representatives and the Senate a report on the results of the study conducted under subsection (a), including recommendations for any changes to laws and regulations that the Director considers appropriate.

**SEC. 29. PRO BONO PROGRAM.**

(a) IN GENERAL.—The Director shall work with and support intellectual property law associations across the country in the establishment of pro bono programs designed to assist financially under-resourced independent inventors and small businesses.

(b) EFFECTIVE DATE.—This section shall take effect on the date of the enactment of this Act.

**SEC. 30. EFFECTIVE DATE.**

Except as otherwise provided in this Act, the provisions of this Act shall take effect upon the expiration of the 1-year period beginning on the date of the enactment of this Act and shall apply to any patent issued on or after that effective date.

**SEC. 31. BUDGETARY EFFECTS.**

The budgetary effects of this Act, for the purpose of complying with the Statutory Pay-As-You-Go Act of 2010, shall be determined by reference to the latest statement titled “Budgetary Effects of PAYGO Legislation” for this Act, submitted for printing in the Congressional Record by the Chairman of the House Budget Committee, provided that such statement has been submitted prior to the vote on passage.

## Purpose and Summary

The Constitution explicitly grants Congress the power to “promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their respective . . . discoveries.”<sup>1</sup> Congress has responded by authorizing patents to issue to inventors of new and useful inventions or improvements on inventions.<sup>2</sup> The patent law thus accomplishes two objectives, consistent with the authorization granted by the Constitution: first, it encourages inventors by granting them limited, but exclusive rights to their inventions; second, in exchange for the grant of those exclusive rights, the patent law requires disclosure of the invention and terminates the monopoly after a period of years.<sup>3</sup> This disclosure and limited time benefits both society and future inventors by making the details of the invention available to the public immediately, and the right to make use of that invention after the expiration of 20 years from the date the patent application was filed.

Congress has not enacted comprehensive patent law reform in nearly 60 years.<sup>4</sup> The object of the patent law today must remain true to the constitutional command, but its form needs to change, both to correct flaws in the system that have become unbearable, and to accommodate changes in the economy and the litigation

<sup>1</sup> U.S. Const. Art. 1, § 8.

<sup>2</sup> See 35 U.S.C. § 101.

<sup>3</sup> See *Perspectives on Patents: Post-Grant Review Procedures and Other Litigation Reforms: Hearing before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2006) (statement of Nathan P. Myhrvold, Chief Executive Officer, Intellectual Ventures); *Perspectives on Patents: Hearing before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Dean Kamen, President, DEKA Research and Development Corp.).

<sup>4</sup> The last major revision of the patent laws was the Patent Act of 1952, P.L. 82–593.

practices in the patent realm. The need to update our patent laws has been meticulously documented in 15 hearings before the Committee or its Subcommittee on Courts, the Internet, and Intellectual Property, as well as eight hearings before the United States Senate Committee on the Judiciary. In addition, these legislative findings are augmented by the Federal Trade Commission and the National Academy of Sciences,<sup>5</sup> both of which published authoritative reports on patent reform, and a plethora of academic commentary.<sup>6</sup>

While Congress has considered patent reform legislation over the last four Congresses, the need to modernize our patent laws has found expression in the courts, as well. The Supreme Court has reversed the Federal Circuit in six of the patent-related cases that it has heard since the beginning of the 109th Congress.<sup>7</sup> The Court's decisions have moved in the direction of improving patent quality and making the determination of patent validity more efficient. The decisions reflect a growing sense that questionable patents are too easily obtained and are too difficult to challenge.<sup>8</sup> Recent decisions by the Federal Circuit reflect a similar trend in response to these concerns.<sup>9</sup> But the courts are constrained in their decisions by the text of the statutes at issue. It is time for Congress to act.

The voices heard during the debate over changes to the patent law have been diverse and their proposals have been far from uniform. They have focused the Committee's attention on the value of harmonizing our system for granting patents with the best parts of other major patent systems throughout the industrialized world for the benefit of U.S. patent holders; improving patent quality and providing a more efficient system for challenging patents that

<sup>5</sup>The National Academy of Sciences (NAS), and the Federal Trade Commission (FTC) conducted multi-year studies on the patent system and its need for reform. See *National Research Council of the National Academies, A Patent System for the 21st Century* (2004) (hereinafter "NAS Report"); and *Federal Trade Comm'n., To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003) (hereinafter "FTC Report").

<sup>6</sup>See, e.g., Mark A. Lemley and Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991 (2007); Donald S. Chisum, *Reforming Patent Law Reform*, 4 J. Marshall Rev. Intell. Prop. L. 336 (2005); Gerald J. Mossinghoff, *The First-to-Invent Rule in the U.S. Patent System has Provided no Advantage to Small Entities*, 87 JPTOS 514 (2005); Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 Berkeley Tech. L.J. 943, 958 (2004); see also Adam B. Jaffe & Josh Lerner, *Innovation and Its Discontents: How Our Broken Patent System is Endangering Innovation and Progress, and What to Do About It* (2004); Kevin G. Rivette & David Kline, *Rembrandts in the Attic, Unlocking the Hidden Value of Patents* (2000).

<sup>7</sup>See *Bilski v. Kappos*, \_\_\_\_\_ U.S. \_\_\_\_\_, 130 S.Ct. 3218 (2010) (reversing the Federal Circuit and holding that the machine-or-transformation test is not the sole test for determining the patent eligibility of a process); *Quanta Computer, Inc. v. LG Elecs. Inc.*, 553 U.S. 617 (2008) (reversing the Federal Circuit and holding that patent exhaustion applies to method patents when the essential or inventive feature of the invention is embodied in the product); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007) (reversing the Federal Circuit and limiting the extraterritorial reach of section 271(f), which imposes liability on a party which supplies from the U.S. components of a patented invention for combination outside the U.S.); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (reversing the Federal Circuit and strengthening the standard for determining when an invention is obvious under section 103); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (reversing the Federal Circuit and holding that the threat of a private enforcement action is sufficient to confirm standing under the Constitution); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (reversing the Federal Circuit and holding that the generally applicable four-factor test for injunctive relief applies to disputes in patent cases).

<sup>8</sup>See generally *Patent Reform in the 111th Congress: Legislation and Recent Court Decisions*, Senate Judiciary Committee, 111th Cong. (2009) (statement of Professor Mark A. Lemley, Stanford Law School).

<sup>9</sup>See, e.g., *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (holding that willful infringement requires at least a demonstration of objectively reckless behavior and removing any affirmative obligation to obtain an opinion of counsel letter to combat an allegation of willful infringement).

should not have issued; and reducing unwarranted litigation costs and inconsistent damage awards.

The purpose of the “America Invents Act,” as reported by the Committee on the Judiciary, is to ensure that the patent system in the 21st century reflects the constitutional imperative. Congress must promote innovation by granting inventors temporally limited monopolies on their inventions in a manner that ultimately benefits the public through the disclosure of the invention to the public. The legislation is designed to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.

If the United States is to maintain its competitive edge in the global economy, it needs a system that will support and reward all innovators with high quality patents. The Committee has taken testimony from and its members have held meetings with interested parties that have different and often conflicting perspectives on the patent system. The Committee has taken all of those views into consideration, and drafted and then amended the “America Invents Act” to balance the competing interests. The legislation ordered reported by the Committee on a vote of 32–3 is a consensus approach that will modernize the United States patent system in significant respects.

### **Background and Need for the Legislation**

#### *First Inventor to File*

The “America Invents Act” creates a new “first-inventor-to-file” system. Every industrialized nation other than the United States uses a patent priority system commonly referred to as “first-to-file.” In a first-to-file system, when more than one application claiming the same invention is filed, the priority of a right to a patent is based on the earlier-filed application. The United States, by contrast, currently uses a “first-to-invent” system, in which priority is established through a proceeding to determine which applicant actually invented the claimed invention first. Differences between the two systems arise in large part from the date that is most relevant to each respective system. In a first-to-file system, the filing date of the application is most relevant;<sup>10</sup> the filing date of an application is an objective date, simple to determine, for it is listed on the face of the patent. In contrast, in a first-to-invent system, the date the invention claimed in the application was actually invented is the determinative date. Unlike the objective date of filing, the date someone invents something is often uncertain, and, when disputed, typically requires corroborating evidence as part of an adjudication.

There are significant, practical differences between the two systems. Among them is the ease of determining the right to a claimed invention in the instance in which two different people file patent applications for the same invention. In a first-to-file system, the application with the earlier filing date prevails and will be awarded the patent, if one issues. In the first-to-invent system, a lengthy, complex and costly administrative proceeding (called an “interference proceeding”) must be conducted at the United States Patent and Trademark Office (“USPTO”) to determine who actually in-

<sup>10</sup>When the term “filing date” is used herein, it is also meant to include, when appropriate, the effective filing date, *i.e.*, the earliest date the claim in an application-claims priority.

vented first.<sup>11</sup> Interference proceedings can take years to complete (even if there is no appeal to the United States Court of Appeals for the Federal Circuit), cost hundreds of thousands of dollars, and require extensive discovery.<sup>12</sup> In addition, because it is always possible that an applicant could be involved in an interference proceeding, companies must maintain extensive recording and document retention systems in case they are later required to prove the date they invented the claimed invention.

Another important difference between the two systems is that in some first-to-file systems, prior art can include the inventor's own disclosure of his invention prior to the filing date of his application. Such systems do not provide the inventor any grace period during which time he is allowed to publish his invention without fear of its later being used against him as prior art. The Committee heard from universities and small inventors, in particular, about the importance of maintaining that grace period in our system.<sup>13</sup> They argued that the grace period affords the necessary time to prepare and file applications, and in some instances, to obtain the necessary funding that enables the inventor to prepare adequately the application. In addition, the grace period benefits the public by encouraging early disclosure of new inventions, regardless of whether an application may later be filed for a patent on it.

Numerous organizations, institutions, and companies have advocated that the U.S. adopt a first-to-file system similar to those used in the rest of the world.<sup>14</sup> The National Academy of Sciences made a similar recommendation after an extensive study of the patent system.<sup>15</sup> When the United States patent system was first adopted, inventors did not typically file in other countries. It is now common for inventors and companies to file for protection in several countries at the same time.<sup>16</sup> Thus, United States applicants, who also

<sup>11</sup> See 35 U.S.C. § 135.

<sup>12</sup> See, e.g., Robert W. Pritchard, *The Future is Now—The Case for Patent Harmonization*, 20 N.C. J. Int'l L. & Com. Reg. 291, 313 (1995).

<sup>13</sup> See, e.g., *Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Charles E. Phelps, Provost, University of Rochester, on behalf of the Association of American Universities); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Carl Gulbrandsen, Managing Director, Wisconsin Alumni Research Foundation (WARF)); *Perspective on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of William Parker, Diffraction, Ltd.).

<sup>14</sup> See, e.g., *Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Gerald J. Mossinghoff, Former Assistant Secretary of Commerce and Commissioner of Patents and Trademarks); *Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Q. Todd Dickinson, Former Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Jeffrey P. Kushan, Partner, Sidley Austin Brown & Wood, LLP); *Patent Law Reform: Injunctions and Damages: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Mark A. Lemley, Professor, Stanford Law School); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Robert A. Armitage, Senior Vice President and General Patent Counsel, Eli Lilly and Company); *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

<sup>15</sup> See NAS Report at 124; see also *Perspectives on Patents: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (statement of Richard C. Levin, Yale University).

<sup>16</sup> See *Perspectives on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the Senate Comm. on the Judiciary*, 109th Cong. (2005) (state-

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