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THE PATENT REFORM ACT OF 2007

SENATE REPORT NO. 110-259

January 24, 2008

*1 Mr. Leahy, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany S. 1145]

The Committee on the Judiciary, to which was referred the bill (S. 1145), 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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I. BACKGROUND AND PURPOSE OF THE PATENT REFORM ACT OF 2007

PURPOSE AND SUMMARY OF LEGISLATION

Purpose

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 . . . *2 discoveries.”¹ Congress has responded by authorizing patents to issue to inventors of new and useful inventions or improvements on inventions.² 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.³ 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 work that invention available to the public after the expiration of 20 years from the date the patent application was filed.

Congress has not enacted comprehensive patent law reform in more than 50 years.⁴ 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 practices in the patent realm. The need to update our patent laws has been meticulously documented in six hearings before the Senate Judiciary Committee, in addition to reports written by the Federal Trade Commission and the National Academy of Sciences,⁵ hearings before the House of Representatives Judiciary Committee's Subcommittee on the Internet, Intellectual Property, and the Courts, and a plethora of academic commentary.⁶

The growing impetus towards modernizing and improving the patent system has found expression not only in Congress, but in the other branches of government as well, with the Supreme Court taking up an ever-increasing number of patent cases,⁷ and the *3 United States Patent and Trademark Office (USPTO) addressing itself to regulatory changes through rulemaking.⁸ The voices heard in this debate are too numerous to list, but include representatives from all those who use, administer, study, teach, benefit from, report on, or are affected by the patent system: small inventors, academics, universities, government agencies, corporations, non-profit organizations, industry organizations, bar associations, and members of the general public. The proposed changes have been far-reaching and hardly uniform, but they have focused Congressional attention on three major areas of concern: (i) appropriate procedures for prosecuting, and standards for allowing, patents; (ii) increasing rates, costs, and uncertainty in patent litigation,⁹ and (iii) inconsistencies between the U.S. patent system and the other major patent systems throughout the industrialized world which disadvantage U.S. patent holders.

First, questions have been raised regarding whether the current scope of what is patentable is too broad, and whether the current standard for obtaining a patent is too low in practice. Many have questioned whether the current USPTO patent examination system is capable of handling the growing number,¹⁰ and increased complexity, of patent applications. In particular, questions have been repeatedly raised about how—and how much—the USPTO is funded, and about whether patent fees reflect the work necessary to ensure the issuance of high quality patents. A related concern focuses on whether patent applicants are bearing their burden of responsibility in searching the current state of the art and preparing and filing high quality applications.

Second, in recent years the cost and uncertainty of patent litigation has escalated, leading many to believe that it is an unbearable drag on the innovation that the patent system is supposed to foster. Patent holders can often sue an alleged infringer anywhere they wish in the United States. They may allege damages that are not always commensurate with the value of their inventions, and then often argue that these sums should be tripled based on alleged acts of willful infringement by the accused infringer. There are also troubling, plaintiff-focused litigation concerns, including that the doctrine of inequitable conduct needs improvements and codification.¹¹ Patent litigations typically take several years to *4 complete, if appealed may be remanded more than once, and can cost several million dollars.¹² In addition, litigation concerns can encourage unreasonable posturing during licensing negotiations, as well as premature settlements simply to avoid the high cost and uncertainty of patent litigation. Moreover, currently, there is no viable, inexpensive, quick administrative alternative for resolving patent validity issues.

Third, because business and competition are increasingly global, many patent applicants filing in the United States often seek patents in other countries for their inventions as well. Yet the United States' patent system differs from every other patent system in the world in one major respect—it awards patents to the “first to invent,” while every other patent system uses a “first to file” rule.¹³ As a result, U.S. patent applicants who also file abroad are forced to navigate through two different patent filing systems, adding cost and uncertainty to their package of patent rights.

The purpose of the Patent Reform Act of 2007, as reported by the Senate Judiciary Committee, is to ensure that the patent system in the 21st century accurately reflects the 18th century Constitutional imperative while ensuring that it does not unduly hinder innovation. Congress must promote innovation through the enticement to inventors of temporally limited monopolies on their inventions, and it must do so for the ultimate benefit of 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 time has come for Congress to reconsider the 50 year old patent statute and how it is currently being applied. The Committee has heard from numerous interested parties and, given the complex nature of patent law as well as the often conflicting interests involved, has tried to consider all of those concerns and produce a balanced set of changes that will move the patent system into the 21st century. Moreover, and in response to various concerns raised before the Committee, the bill as originally introduced has been significantly modified to reflect a more balanced, modest approach.

*5 Summary of Changes

The Patent Reform Act of 2007 has three primary goals: (i) to improve patent quality and the patent application process; (ii) to improve and clarify several aspects of patent litigation, including the creation of a less expensive, more expeditious administrative alternative to litigating patent validity issues; and (iii) to make the United States' patent system, where it is useful to do so, more consistent with patent systems throughout the rest of the industrialized world.

In general, the numbered sections of the Act do the following:

- (1) title the Act the Patent Reform Act of 2007;
- (2) change the system to a “first-inventor-to-file” system;
- (3) make it simpler for patent applicants to file and prosecute their applications;
- (4) codify and clarify the standard for calculating reasonable royalty damage awards, as well as awards for willful infringement;
- (5) create a relatively efficient and inexpensive administrative system for resolution of patent validity issues before the USPTO;
- (6) establish the Patent Trial and Appeal Board;
- (7) provide for eventual publication of all applications and enhance the utility of third parties' submissions of relevant information regarding filed applications;
- (8) improve venue in patent cases and provide for appeals of claim construction orders when warranted;
- (9) give the USPTO the ability to set its fees;
- (10) remove the residency restriction for judges on the United States Court of Appeals for the Federal Circuit;
- (11) authorize USPTO to require patent searches with explanations when a patent application is filed;
- (12) codify and improve the doctrine of inequitable conduct;
- (13) give the Director of the USPTO discretion to accept late filings in certain instances;
- (14) limit patent liability for institutions implementing the “Check 21” program;
- (15) end USPTO “fee diversion”;

(16) make necessary technical amendments; and

(17) set the effective date of the Act.

SECTION 1: SHORT TITLE; TABLE OF CONTENTS

This section provides that the Act may be cited as the “Patent Reform Act of 2007.” It also provides a table of contents for the Act.

SECTION 2: RIGHT OF THE FIRST INVENTOR TO FILE

First inventor to file; grace period; and prior art

Background

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 given to 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 *6 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;¹⁴ 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 three significant, practical differences between the two systems. The first concerns the rare 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 to determine who actually invented first.¹⁵ 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.¹⁶ In addition, since it is always possible an applicant could be involved in an interference proceeding, U.S. patent holders must maintain extensive recording and document retention systems in case they are later required to prove the very day they invented the claimed invention.

The second difference involves prior art. A patent will not issue if the invention is not new,¹⁷ or if it would have been obvious to someone in the relevant area of technology (commonly referred to as “a person of ordinary skill in the art”).¹⁸ A patent issuing office will examine all prior art—that is, all relevant information that existed before the patented invention—to determine whether an invention is indeed new and not obvious. Traditionally, the most common form of prior art has been other patents and printed publications. In the first-to-file system, prior art includes all art that exists prior to the filing date—again, an objective inquiry. In contrast, in a first-to-invent system, prior art is measured from the more uncertain date of invention.¹⁹

Third, 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 typically do not provide the inventor any grace period during which time he is allowed to publish his invention without fear of it later being used against him as prior art. That is, if an inventor publishes the invention in an academic journal, that publication may act as prior art and bar the inventor's own later-filed application. Thus, inventors in first-to-file systems must generally keep their inventions secret prior to filing applications for them, thereby sacrificing a significant part of one of the *7 benefits of the patent system—disclosure of inventions. Although some first-to-file systems do

provide the inventor some sort of grace period, others do not.²⁰ In contrast, the United States' first-to-invent system provides the inventor a grace period of one year, during which an inventor's prior disclosure of the invention cannot be used as prior art against the inventor's application.²¹

The Committee heard from universities and small inventors, in particular, about the importance of maintaining that grace period in our system.²² 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.

The first-to-file system is used in every patent system, other than the United States,²³ because it has the advantages of simplicity, efficiency and predictability. A first-to-file system avoids costly interference proceedings, provides better notice to the public, simplifies the prior art scheme that may preclude a patent from issuing, and provides more certainty to the patent system. In addition, a first-to-file system encourages the prompt filing of patent applications.

Numerous organizations, institutions, and companies have advocated the U.S. adopt a first-to-file system similar to those used in the rest of the world.²⁴ The NAS made a similar recommendation *8 after an extensive study of the patent system.²⁵ 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.²⁶ Thus United States applicants, who also want to file abroad, are forced to follow and comply with two different filing systems. Maintaining a filing system so different from the rest of the world disadvantages United States' applicants, the majority of which also file in other countries.²⁷ A change is long overdue.²⁸

Discussion of changes

Section 2 of the Patent Reform Act of 2007, drawing on the best aspects of the two existing systems, creates a new "first-inventor-to-file" system. This new system provides patent applicants in the United States the efficiency benefits of the first-to-file systems used in the rest of the world. The new system continues, however, to provide inventors the benefit of the one-year grace period. As part of the transition to a simpler, more efficient first-inventor-to-file system, this section eliminates costly, complex interference proceedings, because priority will be based on the first application. A new administrative proceeding—called a "derivation" proceeding—is created to ensure that the first person to file the application is actually a true inventor. Section 2 also simplifies how prior art is determined, provides more certainty, and reduces the cost associated with filing and litigating patents.

More specifically, Section 2 makes the following improvements. First, Section 2 moves the U.S. system much closer to a first-to-file system by making the filing date that which is most relevant in determining whether an application is patentable. In addition, Section 2 eliminates costly, complex interference proceedings since priority fights—who invented first—are no longer relevant. However, the new USPTO derivation proceeding is created to ensure that the first person to file the application is also actually a true inventor; someone who has not invented something will not be able to file a patent for the invention. If a dispute arises as to which of two applicants is a true inventor (as opposed to who invented it first), it will be resolved through an administrative proceeding by the Patent Board.

Second, Section 2 maintains a one-year grace period for U.S. applicants. Applicants' own publication or disclosure that occurs within one year prior to filing will not act as prior art against their applications. Similarly, disclosure by others during that time based on information obtained (directly or indirectly) from the inventor *9 will not constitute prior art. This one-year grace period should continue to give U.S. applicants the time they need to prepare and file their applications.

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