The Patent Reform Act of 2011

The Patent Reform Act will keep America in its longstanding position at the pinnacle of innovation. The U.S. patent system has not been updated significantly in nearly 60 years. In the intervening years, our economy has changed dramatically. A well functioning and efficient patent system is critical to American invention and innovation, which are the cornerstones of our economy and job creation. The bipartisan legislation makes the following changes:

- The Act transitions the U.S. to a **first-inventor-to-file system**, which will simplify the application system and harmonize it with our trading partners, reduce costs, and improve the competitiveness of American inventors seeking protection globally.

- The Act makes important changes to **improve patent quality**. *First*, the Act establishes the opportunity for third parties to submit information (e.g., prior art) related to a pending application for consideration by a patent examiner. Patent examination is ex parte, with no participation by those who may have the best knowledge of the prior art. By allowing prior art to be submitted and explained, patent examiners will have a valuable tool to use to grant only high quality patents. *Second*, the Act creates a "first window" post-grant opposition proceeding, open for nine months after the grant of a patent, which allows challengers to weed out patents that should not have issued. High quality patents provide more certainty to both inventors and users of inventions.

- The Act improves the current system for **administratively challenging the validity of a patent** at the PTO throughout the life of the patent. Under current law, anyone can challenge a patent administratively through an inter partes reexamination proceeding at the PTO on the basis of patents or printed publications. While these challenges are easy to institute, they take more than three years on average to complete, even prior to appeals to the Federal Circuit. The inefficiency of the system is bad for challengers who have meritorious challenges but cannot get a final decision from the PTO, and is bad for patent owners who can have their patents tied-up in review for years even if the challenge is not ultimately going to be successful. The Act improves the system in four key ways:

  First, the Act creates a more meaningful alternative to litigation by establishing an adversarial inter partes review, conducted by Administrative Patent Judges, which contains procedural changes that will allow the PTO to complete most reviews within 12 months. The challenge will be heard by a panel of three Administrative Patent Judges, and its decision is appealable directly to the Federal Circuit. *Second*, the proceeding will include a threshold for instituting a proceeding. The challenger must show a "reasonable likelihood" that it would prevail in invalidating a claim of the patent. *Third*, the proceeding will include new, procedural safeguards to prevent a challenger from using IPR to harass patent owners. *Fourth*, the Act includes a "reasonably could have raised" estoppel standard, preventing a challenger from raising in court only an argument that reasonably could have been raised during an inter partes review that the challenger instituted.

- The Act will provide more **certainty in damages calculations and enhanced damages**. Specifically, the Act includes a rigorous gate keeping role for the court, pursuant to which

judges will assess the legal basis for the specific damages theories and jury instructions sought by the parties. The gate keeping provisions will ensure consistency, uniformity, and fairness in the way that courts administer patent damages law. The Act also permits a party to request, and requires a court to grant absent good cause, that the trial be sequenced such that the trier of fact decides questions of validity and infringement prior to damages.

In addition, the Act **improves the law of willfulness and enhanced damages**. It codifies the case law that holds that a defendant may only be found to have willfully infringed a patent if the plaintiff demonstrates by clear and convincing evidence that the infringer acted with objective recklessness and the objectively-defined risk was either known or so obvious that it should have been known by the infringer. The Act also requires that allegations of willfulness be pled with particularity, limits the use of vague pre-suit notifications, prohibits mere knowledge of a patent from being the basis of a willfulness finding, and does not allow the failure to obtain advice of counsel to be used to show willfulness or inducement. Finally, the court may not enhance damages if it determines that there was a close case as to validity, infringement, or enforceability, even if a trier of fact finds the infringer acted willfully.

- The Act creates a **supplemental examination process** to incentivize patent owners to commercialize their inventions despite potential flaws in the application process.

- The Act will prevent patents from being issued on claims for **tax strategies**.

- The Act provides **fee setting authority** for the PTO Director to ensure the PTO is properly funded and can reduce the backlog of patent applications, but mandates a reduction of fees by 50% for small entities and 75% for micro-entities.

The Agreement also retains additional provisions from last year's legislation, including (1) the compromise on venue; (2) amendments to best mode; (3) increased incentives for government laboratories to commercialize inventions; (4) restrictions on false marking claims; and (5) removal of the restrictions on the residency of Federal Circuit judges.

The Patent Reform Act of 2011 is nearly identical to the Managers' Amendment from last Congress, which has support from: The United Steelworkers, the AFL-CIO, The Coalition for 21st Century Patent Reform, National Association of Manufacturers (NAM), PhRMA, BIO, National Venture Capital Association, the American Intellectual Property Law Association (AIPLA), Intellectual Property Owners Association (IPO), the American Bar Association (ABA) Section on Intellectual Property, AdvaMed, the Association of American Universities, American Council on Education, Association of American Medical Colleges, Association of Public and Land-Grant Universities, Association of University Technology Managers, the Council on Government Relations, 3M, Bose Corp., Boston Scientific, Cargill, Caterpillar, the Dow Chemical Company, Ecolab, Exxon Mobil, General Electric, Genentech, IBM, Johnson & Johnson, Kodak, Medtronic, Microsoft, Monsanto, Motorola, Novartis, PepsiCo, Pfizer, Procter & Gamble, Zimmer, the President of Yale University and former co-Chair of the relevant National Academies of Sciences Committee, the California Healthcare Institute, the University of California, and the Wisconsin Alumni Research Foundation (WARF).