QUESTIONS FOR THE RECORD
Patent Reform in the 111th Congress: Legislation and Recent Court Decisions
Tuesday, March 10, 2009 at 10:00 a.m.

Questions for all witnesses:

1. Do you believe legislation is needed to improve the patent system and the quality of patents being issued by the PTO? Yes

2. Last Congress, after the Committee marked up the bill, there were several meetings held with lawyers and lobbyists for the various industries. At one point, there were approximately a dozen outstanding issues that needed to be resolved – damages, post-grant review, venue, inequitable conduct, fee diversion, first-to-file, interlocutory appeal, markings, best mode, applicant quality submissions, and willfulness. Between the court cases that have come out and the changes to the bill Senator Leahy has introduced, how many of these issues remain unresolved?

   In a number of areas such as venue and willfulness, progress has been made through judicial reform to restore balance to our patent system. However, numerous issues remain unresolved. Given the pressing need for reform to ensure that our patent system promotes economic growth and helps create jobs, Congress must act. S. 515 addresses the issues that most urgently warrant reform.

3. Is there a middle ground that could treat these different industries and business models fairly on how judges and juries calculate damages?

   IBM believes a balanced solution for reasonable royalty damages can be achieved and recommends the approach outlined in David J. Kappos' letter to Members of the Judiciary Committee, dated March 19, 2009, a copy of which has been made part of the hearing record. IBM's proposal calls for creation of a framework consisting of a strong gatekeeper provision, guidance based on the accepted legal principle set forth in the Supreme Court's unanimous Quanta decision[1], and application of the entire market value rule (EMVR) only where the invention is "**the** basis for customer demand" for the entire product.

4. Please provide comments on whether Senator Feinstein's legislative language is workable.

   Senator Feinstein has made two legislative proposals for determining damages: (1) a gatekeeper provision plus codification of the so-called 15 Georgia-Pacific factors[2] and (2) a gatekeeper provision plus language that states, in part, that "[a] reasonable royalty shall reflect the economic value fairly attributable to the infringer's use of the claimed invention as embodied in the infringing product or process at the time of the

[1] Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (U.S. 2008)
[2] Georgia-Pacific v. Unites States Plywood Corp., 318 F. Supp. 116 (S.D.N.Y. 1970)

infringement." . . "the court will direct the jury to consider any other specific relevant factors or methodologies" . . . [based on the evidence] . . . including . . . the entire market rule, convoy sales, or comparable licensing." The "gatekeeper" language is an improvement over existing law. However, the additional language in both provisions is not acceptable.

Under proposal (1), codifying the Georgia Pacific factors will not address overcompensation of patentees for the use of an inventive component contained in a complex multi-component product. Professor Paul Janicke, in a recent presentation at a Federal Trade Commission hearing, described the current standard for determining reasonable royalty damages as the "The *Georgia Pacific* grab bag", stating it "could cause runaway juries" and it places "[n]o controls on how the logic should go". In addition, codifying the Georgia Pacific factors necessarily excludes courts from considering other relevant factors.

Proposal (2) would improperly focus damages awards on what has been claimed in the patent rather than what was invented, by codifying the term "claimed invention". This is an inflexible approach that will harm certain industries, especially the information technology (IT) industry. In the IT industry claims are often drafted to include, in addition to the invention, other non-necessary elements included for the purpose of aligning the claim language with products incorporating the invention as a component. In contrast, the flexible "essential features" formulation derived from Quanta would achieve appropriate compensation for different types of inventions, regardless of how they are claimed. Also, the phrase "the entire market rule, convoy sales, or comparable licensing" standing alone is problematic because it elevates these factors or methodologies without defining them.

The approach outlined in Mr. Kappos' March 19th letter provides sufficient guidance to properly compensate the inventor for the value of the invention, while at the same time giving courts the discretion and flexibility to consider the appropriate facts and circumstances in reaching a reasonable royalty determination.

5. Do you support requiring the judge to serve as a "gate-keeper" – meaning there has to be a determination as to which of the Georgia Pacific factors go to the jury – but also leaving all the Georgia Pacific factors available to choose from? See response to question 4.

6. If there isn't a fair middle ground, why not pass a bill that includes legislative language that helps the Patent and Trademark Office do their job better and any other policies where there is a compromise solution and not address damages? IBM believes a balanced solution for reasonable royalty damages can be achieved. See response to question 3.

7. Last year, my office heard that many of the stakeholders preferred the House approach on post-grant review. Do you support this new language? If not, why not?

IBM supports S. 515's approach to post-issuance administrative review proceedings to allow the public to bring forward relevant information about whether a patent was properly issued. S. 515's approach will increase the quality of patents and will provide a low cost alternative to litigation. The bill provides the ability to challenge a patent in a post-grant review proceeding for one year following issuance based on a broad array of grounds related to patentability. The public can bring forward relevant information after one year through an "improved" version of the existing Inter Partes reexamination proceeding. The improved Inter Partes reexamination proceeding will no longer prevent a challenger from going to court at a later time on an issue that was not raised in the proceeding. The grounds for bringing information forward under Inter Partes reexamination are much narrower than under post-grant review, minimizing any concern about harassment.

8. Do you believe the PTO can handle additional responsibilities of a revised administrative review without there being a negative impact on its ability to process applications? Yes. Are you concerned that this will only exacerbate the problem of patents being issued that should not be issued? No.

The U.S. Patent and Trademark Office (PTO) successfully manages several administrative review proceedings, including Ex Parte reexamination, Inter Partes reexamination, and Interference proceedings, as well as "ordinary" patent prosecution and appeals by applicants to the Board of Patent Appeals and Interferences. IBM believes the PTO will be able to successfully administer the post grant review and "improved" Inter Partes reexamination proceedings in S. 515. Inter Partes reexamination proceedings should remain unchanged from the perspective of the PTO, and the PTO currently administers Interference proceedings that contemplate the submission and consideration of a broad range of evidence in determining the fact-intensive question of priority of invention.

9. What is needed to address the backlog at PTO?

Passage of meaningful patent reform legislation and careful, creative management at the PTO will address the backlog. There are two crucial reforms in S. 515 that enable the public to assist the PTO in making patentability determinations. These reforms encourage the public to come forward with relevant information about a patent or application not previously discovered or disclosed. The first reform is the post-grant review/Inter Partes reexamination solution described above. The second, "preissuance submissions by third parties", creates an opportunity for the public to submit prior art to the PTO during patent prosecution along with commentary regarding the relevance of the prior art to the patent application under consideration. This important and broadly supported change will be highly effective in raising patent quality.

As shown by the success of the PTO's current Peer Review pilot program, the fundamental shift in modern industries toward collaborative innovation can be harnessed to review patent applications. Collaborative communities are thriving today and their collective knowledge can be directed to bring forward prior art information relevant to

the examination process. The Peer Review program could simply be expanded if this reform is enacted. The pilot has already proven its effectiveness in helping examiners and improving patent quality. Approximately one third of the patent applications in the pilot have been rejected by examiners based on at least one reference submitted to the PTO through the pilot.