Responses from

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to questions following the March 10, 2009 Senate Judiciary Hearing,
"Patent Reform in the 111th Congress: Legislation and Recent Court Decisions"

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QUESTIONS FOR THE RECORD (Sen. Feinstein)

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?**

   Answer: Yes. IPO members believe that a properly-functioning patent system is critical to preserving our nation's leadership in creating new innovations and spurring economic growth, especially important in the current economic downturn. Patent quality, of course, is a complex problem not amenable to any single solution. Confidence in the validity of patents will continue to be lower than desirable until action is taken by Congress and the USPTO to improve the quality of examination, reduce the time it take to examine patent applications, and simplify the process for obtaining patent rights. The USPTO should work in a more collaborative way with the patent user community.

   The current legislation, S.515, includes a number of reforms directed at improving the quality of patents. Sec. 7 of the bill would provide a greater opportunity for the public to submit prior art to the Office that is relevant to pending applications. Sec. 5 would improve the existing reexamination process and establish a more robust post-grant opposition system to provide a quality check on the examination process by allowing the public to challenge patents within a year after a patent is granted. And Sec. 2 would switch the U.S. to a first-inventor-to-file system, simplifying the process of obtaining a patent in the U.S. and seeking protection in other countries.

   These provisions provide a good start to improving patent quality. IPO members believe that continued Congressional oversight and reforms at the agency are also a critical part of reforming the patent system. Equally important is the appointment of a qualified Director of the USPTO at an early date.

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?**

Answer: Opinions issued by the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit in recent years have certainly altered the patent system, but many issues related to litigation reforms do remain unresolved. We believe only two issues from the list cited, however, have been resolved: applicant quality submission and willfulness.

IPO strongly opposed the applicant quality submissions provision and was pleased to see that it was not included in S.515. The provision would have unnecessarily increased the cost of patent applications, place onerous new burdens on patent applicants and further increased unwarranted charges of inequitable conduct against patent owners.

IPO members believe that the Federal Circuit's decision in *In re Seagate Technology* addressed many of the problems with willful infringement and believe it is unnecessary to include a provision in the current legislation.

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

Answer: IPO members represent a broad range of technology companies and various business models and our members have been divided on the issue of damages. The 50-member IPO Board of Directors voted to support legislation that would codify the existing law on damages for calculating a reasonable royalty. We believe, however, that a middle ground can be found in language along the lines of the amendment to S. 515 adopted on April 2, 2009.

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

Answer: Yes. Following the March 10 hearing, IPO communicated in a letter to Sen. Feinstein that IPO could support a draft proposal that the Senator circulated. The proposal included a provision providing a "gatekeeper" role for the judge to identify for the record those factors most relevant to the determination of reasonable royalty damages, which we interpreted as based on existing damages law.

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?**

Answer: Yes, again consistent with past IPO Board resolutions, we believe this type of solution would codify existing law and the discretion of the court to treat cases as appropriate, while requiring the judge to provide guidance to juries faced with a series of complex facts in determining damage awards. This could provide greater consistency in damage awards in patent cases.

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?**

Answer: Our members believe the provisions including those cited above that would improve patent quality at the USPTO and adopt a First-Inventor-to-File are worthwhile reforms in their own right and should be enacted into law. We are optimistic, however, that a consensus position on damages will be found and it will not be necessary for the Senate to decide whether to split up S. 515.

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?**

Answer: IPO supported the House approach to establishing a post-grant review proceeding. In many cases, providing an opportunity to challenge a patent at the USPTO within 12-months after grant may result in removing uncertainty over an owner's rights early in the life of a patent. Post-grant review offers a more robust opportunity for the public to challenge patents at the USPTO and provides a helpful check on the quality of the examination process.

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? Are you concerned that this will only exacerbate the problem of patents being issued that should not be issued?**

Answer: The USPTO will need adequate time to prepare for managing a large new proceeding. The new Patent Trial and Appeals Board will need to implement new training and hire additional Administrative Patent Judges. The USPTO may have to hire additional lawyers from outside the agency who have patent experience. The challenge facing the examination corps, however, with issuing patents that should not be issued, is a challenge distinct from that of preparing the Board to cope with the new post-grant review proceedings.

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

Answer: The first thing the USPTO needs is the appointment of a new Director. A qualified Director and Deputy Director with experience with patents and trademarks and also with managing large organizations is critical. Equally important, perhaps, is permanently ending the diversion of USPTO user fees. IPO has strongly supported legislation to ensure that all fees collected by the Office are used to fund its operations and hire additional examiners.

IPO has also recommended a number of reforms that the USPTO management might implement to address quality including revising employee production goals, hiring, training and retaining the highest quality employees, and more actively engaging the user community when considering new rules. Although, because of the weak economy, we do not favor a fee increase immediately beyond the cost-of-living increases already authorized by 35 U.S.C. 41(f), we support adequate funding to hire whatever number of examiners is needed to reduce the backlog over the next few years while maintaining and improving quality. The economic downturn will cause fewer applications to be filed in 2009, we believe, which may give some help in addressing the backlog. We do not favor deferring the examination of patent applications as a solution to the backlog, because of the uncertainty over patent rights the weakening of incentives for R&D that it would cause.

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

Question for the panel:

More than ever, I believe we need to discourage weak cases from clogging our judicial system. I believe we should strengthen the current attorney fee provision in the Patent Code, which currently allows reasonable attorney's fees in *exceptional* cases. Section 505 of the Copyright Statute gives courts the *discretion* to award reasonable attorney's fees to the prevailing party.

What are your thoughts on incorporating attorney's fee language, similar to the Copyright Act, into the Patent Code?

Do you think this would have any kind of deterrent effect on weeding out weak claims?

Answer: IPO would support such a provision. We believe it would discourage frivolous patent suits.

Question for the panel:

In this current fiscally difficult climate, is there something more that we could do to keep our patent system strong? As you know, people either are not filing or choosing not to prosecute existing patent applications.

I don't need to tell you what that does to the revenue stream at the USPTO, and consequently, what impact that will have on our economy.

What are your thoughts on restoring the USPTO with monies that were lost due to the past practice of fee diversion?

Wouldn't that send a strong signal that our country recognizes the vital role that IP and research and development play for all sectors of our economy?

What are your thoughts?

Answer: IPO has long supported a permanent end to the diversion of USPTO user fees. We support amending S.515 to ensure that all fees collected by the Office are used to fund its operations while maintaining strong oversight authority for Senate and House appropriators.

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

1. **S. 1145, the precursor to S. 515 (the Patent Reform Act of 2009) included Section 15, which would have provided for a legislative end to diversion of USPTO user fees. Do you and the organization you represent support the concept of a permanent end to USPTO fee diversion?**

   Answer: IPO has long supported permanently ending the diversion of USPTO user fees to unrelated government programs. We supported Section 15 in S.1145 (110th Congress) as reported out of the committee. The loss of some $750 million during the last decade that was withheld during the appropriations process was largely responsible for the significant application backlog at USPTO and exacerbated many other problems currently facing the USPTO.

   Members of IPO have supported providing the Office with adequate funding to enable it to do its job and to make improvements. We are concerned with the potential loss of income the Office may face in coming years due to reduced filings and other factors related to the economic downturn. A first step to addressing these problems should be to ensure that the fees collected at the Office stay at the Office. This step should be taken before any proposals to increase user fees is entertained. Any proposals to increase fees should follow in-depth analysis of which fees should be raised and how such an increase will support the USPTO's quality and pendency goals.

2. **If the answer to question #1 was generally "yes," do you and the organization you represent support a provision like Section 15 to also be added to S. 515?**

   Answer: Yes, creating such a revolving fund is a critical step towards ensuring that the agency has the resources it needs to fund reform efforts.

3. **Section 15 of S. 1145, mentioned above, included the following accountability and transparency provisions: Section 15(d) Annual Report, Section 15(e) Annual Spending Plan, Section 15(f) Annual Audit, and Section 15(g) Annual Budget. Do you believe that the aforementioned provisions provide adequate accountability and transparency so that you and your colleagues in your related field will have enough information to review PTO management of your fees and alert Congress with concerns? If not, what other accountability and transparency provisions do you think should be added?**

   Answer: These provisions ensure that sufficient congressional oversight is maintained and provide needed transparency into the financial situation facing the agency. Effectively addressing the problems facing the USPTO will require innovating thinking from those in the USPTO, on Capitol Hill and in the user community. IPO supports strong and proactive oversight by congressional leaders to ensure that actions of the agency are focused on improving operations and effectively serving the public interest.

4. **This bill is a big fight about winners and losers and there are high stakes involved. How does Congress strike the proper balance to protect intellectual property but also protect the ability to create innovative products and industries?**

   Answer: A well balanced intellectual property system provides technology creators and developers – large and small – with a cost effective way to obtain reliable rights, a robust

examination of patent applications, early determination of those rights to lessen any uncertainty in the marketplace and appropriate and cost-effective access to the legal system to enforce those rights. Reforms directed toward achieving these objectives will help ensure that patents retain their value and do not impede the efforts of other innovators. Indeed, a properly-functioning patent system will encourage other innovators to design around and improve on protected property.

Of course, the operation of the patent system and its ability to promote innovation depends on careful coordination of actions taken by the USPTO, the U.S. courts and the U.S. Congress. Actions by Congress should shape the structure of the patent system so that it will encourage innovation in all industries. Legislation should leave flexibility for the USPTO and the courts to fine tune the systems for granting and enforcing paten rights. Such legislation, of course, should strike a balance between strong exclusive rights and vigorous competition. We believe reform legislation can be crafted so there are not winners and losers.

5. **What changes would you suggest be made to provisions in S. 515 related to post grant review?**

Answer: IPO supported the House approach to establishing post-grant review proceedings. Providing an opportunity to challenge a patent in the USPTO for a 12-month period of time may, in many cases, result in removing uncertainty over an owner's rights early in the life of a patent. Post-grant review offers a more robust opportunity for the public to challenge patents at the USPTO and provides a helpful check on the quality of the examination process. Critical to such a proceeding is limiting cost and the time needed by the USPTO to complete a proceeding, allowing an adequate opportunity to argue a particular case and limiting the potential for abuses. To limit possible abuses, the legislation should coordinate post-grant review and various other proceeding addressing the same issues within the USPTO, at the International Trade Commission, and in civil litigation, so that petitioners can choose one forum to challenge and resolve disputes over rights.

6. **Do you think PTO has the capability to administratively manage the provisions in S. 515 related to post grant review?**

Answer: The USPTO will need adequate time to prepare for managing a large new proceeding but has the capability to do so along with models based on existing post-grant proceedings (including reexamination and patent interferences) on which it can establish sufficient procedures. The new Patent Trial and Appeals Board will need to implement new training and hire additional Administrative Patent Judges. The USPTO may also need to hire additional lawyers from outside the agency who have patent experience.

7. **What issues should the Senate address in S. 515 related to enhancing patent quality that is not addressed in S. 515?**

Answer: IPO believes that S.515 contains a sufficient number of provisions that can improve the quality of patents being granted at the USPTO and encourage the agency to initiate a more robust review of its current operations. More resources at the USPTO should be directed towards improving the quality of patent examination, but such efforts do not require legislation. IPO will continue to work with the USPTO leadership to encourage these types of activities.