IMPLEMENTATION OF THE LEAHY-SMITH AMERICA INVENTS ACT

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

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IMPLEMENTATION OF THE LEAHY-SMITH AMERICA INVENTS ACT

WEDNESDAY, MAY 16, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to call, at 10:09 a.m., in room 2141, Rayburn House Office Building, the Honorable Lamar Smith (Chairman of the Committee) presiding.

Present: Representatives Smith, Sensenbrenner, Coble, Gallegly, Goodlatte, Issa, Franks, Griffin, Gowdy, Conyers, Scott, Watt, Lofgren, Waters, Quigley, and Deutch.

Staff Present: (Majority) Blaine Merritt, Counsel; Travis Norton, Counsel; (Minority) Jason Everett, Counsel; and Norberto Salinas, Counsel.

Mr. SMITH. The Judiciary Committee will come to order.

Without objection, the Chair is authorized to declare recesses of the Committee at any time.

And we welcome everyone here today. I am going to recognize myself for an opening statement, then the Ranking Member, and then the Chairman and Ranking Member of the Intellectual Property Subcommittee as well.

The America Invents Act took 6 years to negotiate and represents the most comprehensive change to American patent law in 175 years. The new law improves our patent system and demonstrates that Congress can successfully work on a bipartisan and bicameral basis.

While the America Invents Act is a noteworthy achievement, it is a complex statute that the Patent and Trademark Office labors to implement. Today's hearing allows us to receive updates from PTO Director Kappos and representatives of a broad cross-section of patent owners and users affected by the law.

The America Invents Act directs the PTO to initiate a number of rulemakings on a variety of subjects and to publish studies on other important patent issues. Is PTO making satisfactory progress on these projects? Is the agency complying with congressional intent? And does the law need some tweaks?

The America Invents Act matters because technological innovation from our intellectual property is linked to three-quarters of America's economic growth, and American IP industries account for over one-half of all U.S. exports and more than a third of our GDP. These industries also provide millions of Americans with well-paying jobs. Our patent laws, which provide a time-limited monopoly

to inventors in exchange for their creative talent, helps create this prosperity.

The Commerce Department released a report in April that further documents the importance of IP to the American economy. The report focuses on those industries that produce or use significant amounts of IP and rely most intensively on these rights. The updated figures are stunning. There are 75 industries that qualify as being "IP-intensive." Direct employment in these industries exceeds 27 million jobs, with indirect activities associated with these industries providing another 13 million jobs. This means that 40 million jobs in the American economy, about 28 percent of all jobs, are linked to our IP system. So you don't have to be Thomas Edison to understand why Congress should be concerned about maintaining the health of our IP sector.

Senator Leahy and I decided to pursue patent reform 6 years ago because our system hadn't been comprehensively updated for 60 years. During this time, we have seen tremendous technological advancements, with the transition from computers the size of a closet to the use of wireless technology in the palm of your hand. But we cannot protect the technologies of today with the tools of the past.

The old patent system was outdated and was dragged down by frivolous lawsuits and uncertainty regarding patent ownership. Unwarranted lawsuits that typically cost millions of dollars to defend prevent legitimate inventors and companies from creating products and generating jobs. And while America's innovators are forced to spend time and resources to defend their patents, our competitors are busy developing new products that expand their businesses and grow their economies. The more time we waste on frivolous litigation, the less time we have for innovation.

American inventors have led the world in innovation and new technologies for centuries, from Benjamin Franklin to the Wright brothers to Steve Jobs. But if we want to foster future creativity, we must do more to encourage today's inventors. That is what the patent reform bill is all about. It fixes modern-day patent problems and liberates modern-day inventors.

While we didn't succeed in making every stakeholder 100 percent happy, the goal was more realistic: to make most of the stakeholders content most of the time. And I hope that is the case with the members of our two witness panels today.

That concludes my opening statement, and the gentleman from Michigan, the Ranking Member of the Judiciary Committee, Mr. Conyers, is recognized for his.

Mr. CONYERS. Thank you, Chairman Smith. I can safely say I agree with everything you said.

Mr. SMITH. Good to hear that.

Mr. CONYERS. But it still makes my opening statement important because I want to create a few distinctions and add to—I hope that you can say the same thing about mine when I finish.

Mr. SMITH. I am sure I will.

Mr. CONYERS. Well, this is an unusual hearing because the law that we are having a hearing on was signed by the President last September. And so the hearing is about how we implement the provisions in a law that we have already agreed on.

We have had at least four hearings. Chief Kappos has been before us about three times. We have been working on patent reform for 6 years. And we are required to come here again this morning because of the different times that the implementation of particular provisions go into effect. And, of course, my principal concerns have been the fee diversion elimination and the ending of a 700,000 backlog of applications that already exist.

So I begin by congratulating the Director for selecting Detroit as the first branch PTO office. I plan to be there in July in Detroit. And a great name, for one of the first major African American inventors, Elijah McCoy. I hope it is going to be on the 19th, but I am not sure if that is definite yet. But whenever it is going to open, the office is eagerly awaiting our opening and a considerable number of employment opportunities that go along with it.

Now, the concerns are these: Would the benefit go to large multinationals at the expense of independent inventors and thereby diminish job creation in the country? The provisions in the bill regarding retroactivity with regard to business method patents and false marking cases are all my concern. And it seemed that stripping the legal rights of private parties involved in pending litigation was not good.

And now that the bill is law, our focus should be on how it can be improved. Twenty provisions that require implementation; seven are in effect. Notices of rulemaking have been issued for nine others. And so there is a lot of work left for the Patent and Trademark Office. In particular, the proposed rules for an inventor's oath and declaration, pre-issuance submissions, supplemental examination, and inter-parties review are all to be considered, with other things, in the hearing that we have this morning.

Another area is how we deal with the universities, who provide immeasurable, if not one of the most important, contributions to the patent system. And one of the most important things that we can do is clarify the intent of the grace period. I want to find out how we can ensure that universities receive proper protection under the law, as well as why the grace period is so important to them.

And so I have shared this concern, that such a provision can be—some definitions can be overinclusive and allows covered business method patents to include anything used in the provision of financial services. So I am very nervous about the retroactive discussion that we will hear this morning. But I remind you that the section 18 has been referenced by our recognized constitutional experts, Epstein and Massey, and have observed that this provision really boils down to special interest legislation.

And so I am happy to be here. Critical that any revisions to the act must consider the interests of all the parties and not harm the small inventors.

Thank you, Mr. Chairman. I will put my statement in the record, what remains of it.

Mr. SMITH. Without objection. Thank you, Mr. Conyers.

[The prepared statement of Mr. Conyers follows:]

Prepared Statement of the Honorable John Conyers, Jr., a Representative in Congress from the State of Michigan, and Ranking Member, Committee on the Judiciary

Today's hearing gives us an opportunity to study the implementation of the America Invents Act—the most significant reform to the Patent Act since 1952—which was signed into law by President Obama on September 16, 2011.

The Judiciary Committee has been working on patent reform for more than over six years, under both parties.

Over the course of these efforts, my principal priorities have been to prohibit patent "fee diversion" and eliminate the Patent and Trademark Office's 700,000 plus application backlog.

I have concerns about whether sufficient progress has been made and whether the America Invents Act adequately addresses my concerns.

To begin with, I want to congratulate Director Kappos for running the PTO in a transparent and open manner and for his leadership in implementing the Act, which I understand has been going smoothly.

In addition, Director Kappos has made an excellent choice in opening the first PTO satellite office in the Detroit business district. His decision has sent a strong signal to businesses, innovators, and educators all over the Nation and the world that Detroit is a top notch technology destination.

The Elijah J. McCoy Detroit Satellite office, which is scheduled to open in July, will create more than 100 high technology jobs, according to the PTO.

Equally important, the opening of this satellite office will help facilitate patent filings by thousands of Detroit area businesses.

I look forward to working with the PTO and the Commerce Department to ensure that the opening of this office becomes a model for others to emulate.

Second, when we debated the Act on the floor, I had serious concerns as to whether it would benefit large multinationals at the expense of independent inventors and innovation, and thereby harm job creation in our Nation. For this reason, I opposed the bill.

But, now that the bill is law, our focus should be on how it can be improved and whether further action is needed.

Of the 20 provisions requiring implementation, only 7 provisions are in effect. Notices of Proposed Rulemaking have been issued for 9 provisions and regulations for the remaining 4 provisions are under development. That leaves a lot of work to be done by the PTO.

In particular, the PTO's proposed rules for an inventor's oath and declaration, pre-issuance submissions, supplemental examination, *inter partes* review, post-grant review, covered business method review, and derivation should be considered as part of today's hearing.

A third area that we should examine today is how the Act's implementation affects various constituencies.

For example, we must make sure universities are adequately protected during implementation. Universities provide immeasurable value to the patent system and deserve to be protected.

Accordingly, I will be particularly interested to hear from the representative from the University of Michigan today about how we can ensure that universities will receive proper protection under the law.

And, with respect to section 18 of the bill, which deals with transitional business method patents, I want to know how this provision is being implemented.

We have received reports from several entities about ways to improve this section under the proposed rules.

Specifically, they cite the definition of technological invention for the transition program for covered business method patents.

I understand their concern to be that the definition is over-inclusive because it allows covered business method patents to include anything used in the provision of financial services.

I have shared similar concerns in that this provision could provide large banks a special, new bailout at the expense of small inventors and the American taxpayer. Even worse, this provision would do so on a retroactive basis.

Several constitutional law experts, including Richard Epstein and Jonathan Massey, have observed that this provision "is special interest legislation, pure and simple."

They concluded that the provision would constitute an unconstitutional taking of property, which would force the federal government—that is, you and me and American taxpayers—to pay just compensation to the patent holders.

It is critical that any revisions to the Act must consider the interest of *all* parties and not harm small inventors.

It is also important to keep in mind that the Act has been in effect less than a year and that, therefore, it is premature to make any changes at this time.

The PTO's America Invents Act Implementation Team has been reaching out to interested parties across the United States in order to generate a dialogue about the PTO's proposed rules recently released for public comment.

Yet, the most important goal, as the Act is implemented, must be to protect small inventors, which was my fundamental concern with the bill when it was considered in Congress last year.

Mr. SMITH. I am going to introduce the Chairman and Ranking Member of the Intellectual Property Subcommittee, but I first want to say, in the case of Mr. Goodlatte and Mr. Watt, that both played very, very influential roles in the development of the bill and its enactment. And all of us were at the signing ceremony, as well, very appropriately.

The gentleman from Virginia, Mr. Goodlatte, the Chairman of the Intellectual Property Subcommittee, is recognized for an opening statement.

Mr. GOODLATTE. Well, thank you, Mr. Chairman. And I appreciate your holding this hearing on the implementation of the—I prefer to call it the Smith-Leahy America Invents Act.

The AIA was the first patent reform bill in over 60 years and the most substantial reform of U.S. Patent law since the 1836 Patent Act. But as the Members who drafted and worked to enact this law, our primary purpose today is to ensure that the hard-fought reforms in the AIA are implemented by the PTO in keeping with congressional intent.

It needs to be made crystal-clear that the rulemakings and the regulations promulgated by the PTO should move us forward toward greater certainty and not be allowed to maintain the status quo. As we implement these changes in the patent system, we need to ensure that the new post-grant review and other proceedings provide simple, cost-effective methods for raising challenges to potential PTO prosecution mistakes and that they provide less expensive alternatives to Federal court litigation. If implemented correctly, these proceedings will increase certainty with regard to patent rights and thus spur more investment in new ideas.

The PTO also needs to continue working to ensure that our patent system not only expeditiously reviews patent applications but issues high-quality patents that obviate the need for subsequent challenges and that can be enforced through the courts and administrative proceedings. This means we need to focus simultaneously on patent quality and patent quantity.

A significant focus of the AIA was to reduce the problem of overpatenting, particularly by so-called patent trolls—the situation where weak or frivolous applications have been developed through creative or predictive lawyering, rather than, as Abraham Lincoln put it, through the fire of genius. The strength of our system relies on granting strong patents that are truly novel and are nonobvious inventions, those that are the result of true innovations and not the product of legal gamesmanship.

As the PTO reviews the volume of applications and works through the backlog, the bar needs to be set higher and quality

controls need to start on the front end rather than relying with the courts.

A positive example from the AIA is the work being done to implement a transitional program to correct the egregious errors made in the granting of a wide range of business method patents. This program will provide the PTO with a fast, precise vehicle to review low-quality business method patents, which the Supreme Court has acknowledged are often abstract and overly broad. This program has the potential of making our Nation's patent portfolio stronger, and if it is successfully implemented, we may want to consider making it permanent in the future and expanding its applicability to other nontechnological patents.

One area I plan to continue to watch is PTO fees. The fee authority Congress gave the PTO is finite for a reason. We sunset this authority so that the PTO would be mindful that it would need to come back to Congress to make the case that they have exercised this authority wisely. We will continue to monitor fees and make sure the PTO is enacting reforms to achieve maximum agency efficiency before it resorts to fee increases in the future.

The issues that we discuss in today's hearing will require ongoing vigilance as we work to implement the AIA. We look forward to working with the PTO, American innovators and industry to help identify specific concerns and issues so that we can ensure that the bill is implemented in line with congressional intent and promotes U.S. economic growth and job creation.

I look forward to hearing from all of our witnesses on the implementation of the AIA and ensuring that the U.S. patent system helps to promote U.S. manufacturing, technology, and innovation. And I particularly look forward to hearing from and continuing to work with our Director, Mr. Kappos.

Thank you, Mr. Chairman.

Mr. SMITH. All right. Thank you, Mr. Goodlatte.

Mr. SMITH. The gentleman from North Carolina, Mr. Watt, is recognized.

Mr. WATT. Thank you, Mr. Chairman.

And this is not part of my opening statement, but Ranking Member Conyers made reference to the fact that they are opening an office in Detroit that is going to be named in honor of Elijah McCoy, an African American inventor. And it triggered my recollection that during Black History Month I had done a presentation on the floor of the House about African American inventors. And they have a long, elaborate history that is given very little attention to. So I thought it might be a good time for me to ask unanimous consent to insert a copy of the comments that I made on the floor of the House into the Judiciary Committee's record so that they will be memorialized here in our Committee also.

Mr. SMITH. Without objection, so ordered.

[The information referred to follows:]

United States of America

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Vol. 158 WASHINGTON, TUESDAY, FEBRUARY 28, 2012 No. 31

House of Representatives

The House met at 10 a.m. and was called to order by the Speaker pro tempore (Mr. FITZPATRICK).

DESIGNATION OF SPEAKER PRO TEMPORE

The SPEAKER pro tempore laid before the House the following communication from the Speaker:

WASHINGTON, DC,
February 28, 2012.

I hereby appoint the Honorable MICHAEL G. FITZPATRICK to act as Speaker pro tempore on this day.

JOHN A. BOEHNER,
Speaker of the House of Representatives.

MORNING-HOUR DEBATE

The SPEAKER pro tempore. Pursuant to the order of the House of January 17, 2012, the Chair will now recognize Members from lists submitted by the majority and minority leaders for morning-hour debate.

The Chair will alternate recognition between the parties, with each party limited to 1 hour and each Member other than the majority and minority leaders and the minority whip limited to 5 minutes each, but in no event shall debate continue beyond 11:50 a.m.

AFRICAN AMERICAN INVENTORS

The SPEAKER pro tempore. The Chair recognizes the gentleman from North Carolina (Mr. WATT) for 5 minutes.

Mr. WATT. Mr. Speaker, one of the few important accomplishments of the 112th Congress thus far has been the passage of the America Invents Act, a comprehensive reform of the United States patent system which was signed into law by President Barack Obama on September 16, 2011. There's little disagreement that patent reform was long overdue, and even those who voted against the bill recognized how important it was to the American inventor and to American innovation to update and streamline the patent system.

Our country has always respected and admired inventors. As young children, we were taught about famous inventors such as Thomas Edison, Alexander Graham Bell, Henry Ford, and many others. Frequently overlooked in the discussion of important inventors, however, have been the accomplishments of African American inventors. Until this year's publication of the children's book, "What Color is My World? The Lost History of African-American Inventors" by basketball legend Kareem Abdul-Jabbar, we've done little to teach children about the outstanding contributions African American inventors have made to innovation.

I therefore would like to use this time during Black History Month to pay tribute to some of the many, many contributions African American inventors have made. I'm not the first Member of this body to take to the floor of the House to acknowledge the long legacy of inventiveness in the African American community. On August 10, 1894, Representative George Washington Murray, the only African American in the House of Representatives at the time and himself the holder of eight patents on agricultural implements, read the names of 92 African Americans who held patents and described the inventions on the House floor.

Had time allowed, Representative Murray would likely have highlighted the achievements of even more patent holders—inventors such as Thomas L. Jennings, a free person of color and one of the earliest African Americans to patent an invention, who in 1821 was awarded a patent for developing an early drycleaning process to remove dirt and grease from clothing. Or James Forten, another freeborn man who invented a contraption to handle the sails on a sailboat. Or Judy W. Reed, the first known woman of color to receive a patent, who created an improved dough kneader and roller. Or Henry Blair, an inventor who received utility patents on a seed and cotton planter.

If Representative Murray had continued to be a Member of Congress, he would, no doubt, have come to the floor of the House many more times to brag about African American inventors and to acknowledge the major significance of their inventions. He would have reported that by the year 1900, African Americans had patented 357 inventions. And I'm certain that he would have been especially moved to share with this body that by the early to mid-20th century, African American inventors had obtained patents for innovations in countless industries, including medical, chemical, aviation, automotive, grocery, cosmetic, and apparel.

For example, Garrett Morgan invented the gas mask to protect firemen and other rescuers from breathing smoke and poisonous gas when entering dangerous fires and other situations, and he was also awarded a patent for the three-way electric traffic signal. Charles Drew created a method to mass-produce blood plasma, which led to the formation of blood banks to store plasma for victims of life-threatening emergencies. Unfortunately, he bled to death following an automobile accident which occurred in my native State of North Carolina, and his injuries were too severe for the process he invented to be used to save his life.

Frederick McKinley Jones was the first African American member of the American Society of Refrigeration Engineers. He developed a means to refrigerate perishables being transported long distances. Jack Johnson, who was best known as the great African American boxer, received two patents: one for an improvement to the monkey wrench and the other for a theft prevention device for vehicles. I suspect

☐ This symbol represents the time of day during the House proceedings, e.g., ☐ 1407 is 2:07 p.m.

Matter set in this typeface indicates words inserted or appended, rather than spoken, by a Member of the House on the floor.

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that my good friend and our colleague Representative DARRELL ISSA might be surprised to learn that Jack Johnson, an African American inventor, developed a device to prevent people from stealing cars long before Representative ISSA got into the business.

I encourage my colleagues to look at the books on African American invention.

Mr. Speaker, one of the few important accomplishments of the 111th Congress thus far has been the passage of H.R. 1249, the "America Invents Act," a comprehensive reform of the United States patent system which was signed into law by President Barack Obama on September 16, 2011. H.R. 1249 authorized the transition from a first-to-invent process to a first-to-file process for obtaining a patent, expanded the prior user rights defense and addressed to some extent (although not to my satisfaction) the diversion of fees collected by the Patent and Trademark Office to the general fund. There is little disagreement that patent reform was long overdue and even those who voted against H.R. 1249 recognized how important it was to the American inventor and to American innovation to update and streamline the patent system.

Our country has always respected and admired inventors. As young children we were taught about famous inventors such as Thomas Edison, Alexander Graham Bell, Henry Ford and many others. Frequently overlooked in discussions of important inventors, however, have been the accomplishments of African-American inventors. Until this year's publication of the children's book, What Color is My World?: The Lost History of African American Inventors, by basketball legend Kareem Abdul-Jabbar, we've done little to teach children about the outstanding contributions African-American inventors have made to innovation. I would, therefore, like to use this time during Black History Month to pay tribute to some of the many, many contributions African-American inventors have made.

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If Rep. Murray had continued to be a member of Congress he would no doubt have come to the floor of the House many more times to brag about African-American inventors and to acknowledge the major significance of their inventions. He would have reported that by the year 1900 African-Americans had patented 357 inventions. And I am certain that he would have been especially moved to share with this body that by the early to mid-twentieth century, African-American inventors had obtained patents for innovations in countless industries, including medical, chemical, aviation, automotive, grocery, cosmetics and apparel. For example:

Garrett Morgan (1877–1963) invented the gas mask to protect fireman and other rescuers from breathing smoke and poisonous gas when entering dangerous fires and other situations and he was also awarded a patent for the three-way electric traffic signal.

Charles Drew (1904–1950) created a method to mass-produce blood plasma which led to the formation of blood banks to store plasma for victims of life-threatening emergencies. Unfortunately, he bled to death following an automobile accident which occurred in my native state of North Carolina and his injuries were too severe for the process he invented to be used to save his life.

Frederick McKinley Jones (1893–1961) was the first African-American member of the American Society of Refrigeration Engineers. He developed a means to refrigerate perishables being transported long distances.

Jack Johnson (1878–1946), best known as the great African-American boxer, received two patents, one for an improvement to the monkey wrench and the other for a theft-prevention device for vehicles. I suspect that my good friend and our colleague Rep. Darrell Issa might be surprised to learn that Jack Johnson, an African-American inventor, developed a device to prevent people from stealing cars long before Rep. ISSA got into the business.

Norbert Rillieux (1806–1894) invented a sugar processing evaporator that provided a safer, cheaper, and easier way of evaporating sugar cane juice and made the refinement of sugar more efficient. It is still used for the production of sugar, gelatin, condensed milk and glue, among other things.

Annie Minerva Turnbo Malone (1869–1957) was the first African-American beauty entrepreneur to manufacture a line of beauty products for African-American women. In the late 1800s and the early 1900s she manufactured and sold her products door-to-door. Mme. C.J. Walker, who is often credited with starting the African-American beauty business, was actually one of her sales agents.

Dr. Lloyd Augustus Hall (1894–1971), a pioneer in the area of food chemistry, developed preservative chemicals that were used to keep food fresh without sacrificing flavor. In the 1930s he introduced "flash-dried" salt crystals that revolutionized the meat packing industry.

Percy Lavon Julian (1899–1975) developed synthetic cortisone, which provided cheaper relief from rheumatoid arthritis. In 1954 he founded Julian Laboratories to research steroids and in 1961 he sold his company to Smith, Kline and French.

By the start of the 21st century and on into the present day, African-Americans have also been awarded patents in many other categories, including the technology and engineering fields. For instance:

Dr. Mark Dean holds more than twenty domestic patents and was a key developer of computer architecture for IBM.

Dr. George H. Simmons obtained a patent for creating a fiber-optic extension of an optic local area network and another for designing a system to eliminate the unwanted pulses in a dial pulse stream on telephones.

Dr. James E. West is the well-regarded co-inventor of foil-electret transducers, which are the devices used to change sound into electrical signals and are used in items such as lapel microphones, hearing aids and portable tape recorders.

Lonnie Johnson invented the popular "Super Soaker" water gun.

I could go on ad infinitum about these and countless other examples of African-American ingenuity, but my time is limited. So I will instead encourage you to investigate for yourselves and learn more about the unique role that African-American inventors have played in the rich history of American inventiveness. For that purpose I direct you to an outstanding book called The Inventive Spirit of African Americans by Patricia Carter Sluby which details the many examples I have discussed, as well as many other outstanding innovations and patents by African-Americans. It is probably the most thorough and best researched and written history of African-American inventiveness available today. I also direct my colleagues to Kareem Abdul Jabbar's recent book written especially for children, entitled What Color is My World?: The Lost History of African-American Inventors. I commend these resources to my colleagues as we honor the exemplary achievements of African-Americans during Black History Month and throughout the year.

WE NEED TO MOVE TOWARD ENERGY INDEPENDENCE

The SPEAKER pro tempore. The Chair recognizes the gentleman from Indiana (Mr. BURTON) for 5 minutes.

Mr. BURTON of Indiana. Mr. Speaker, I watched the President on television the other night defending his energy policy, and he said, "The Republicans say drill, drill, drill, baby, but that's not the answer."

The fact is that the people of this country are suffering under severe energy prices that are rising at a rapid rate. Everything that we buy is affected by energy prices. I went to the store the other day to buy some apples and some tomatoes. We got three tomatoes for $5, and I think we got four apples for $5. Now, the reason those prices are going up so rapidly is because when you transport those across the country, or you use energy to produce those products, it costs more.

If you talk to the guys that drive these tractor-trailer units, they'll tell you how expensive it is to transport goods and services, clothes, food, and everything else that we buy. So we really need to move toward energy independence.

Now, the administration has had the ability to help other countries explore for oil. We sent I think $2 billion or $3 billion down to Brazil for deepwater drilling, but we cut back on the permits that we could get to drill in the Gulf of Mexico. Because of the environmental "nut cases," as I call them, the President has restricted the ability of the American energy sector to drill for

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Mr. WATT. Thank you.

The Leahy-Smith America Invents Act was a monumental achievement and the first significant legislative overhaul of the patent system in over 50 years. After several cycles of congressional consideration, the patent reform bill was made possible in large part by the sheer doggedness of many of today's witnesses and the industries they represent, as well as the leadership of the

Administration and Director Kappos and Members of this Committee and our Senate counterpart.

The key reforms incorporated in the America Invents Act, as part of Obama administration's commitment to promote innovation, stimulate job growth, and enhance America's global competitiveness, are far too numerous to recite in the time I have. However, I do want to acknowledge one that unified virtually all Members of this Committee, and that is full funding for the Patent and Trademark Office.

Earlier this month, the House passed the CJS appropriations bill, which included $2.93 billion for the Patent and Trademark Office for fiscal year 2013. That represents a 9.5 percent increase over the 2012 appropriation. This amount reflects a spending level equal to the estimated fees the Patent and Trademark Office will collect and is consistent with the gentlemen's agreement in the America Invents Act.

Despite the unfortunately large number of negative things in the CJS appropriations bill that made it impossible for me to vote for it, the record should be clear that I have never deviated from my views that the PTO should and must have access to all the fees it collects to provide the efficient and quality services our innovators deserve.

The increasingly uncertain plight of most annual appropriations bills highlights the uncertainty, if not the folly, of the deal that was struck on the anti-fee diversion provision in the America Invents Act. I can only hope that we will not allow rank politics to hijack or hold hostage the policy objectives we all agree are in the best interests of our country. This is an ongoing concern and leads me to wonder to what extent the PTO or its users' fears about the precariousness of full funding has or will influence or negatively impact implementation of the vision and provisions of the America Invents Act.

But we are not here to reiterate the shortcomings of the America Invents Act. Rather, we are here to obtain an update on its implementation. Of the 20 provisions in the law requiring the PTO to establish new procedures or adjust current ones, the agency has fully implemented 7. Of the remaining provisions that require PTO action, nine have been addressed in recent notices of proposed rulemaking and await public comment, while only four remain under development.

The PTO is on schedule with each of these provisions and, by all accounts, has conducted a fair, inclusive, and transparent process. Unless we hear something compelling to the contrary from our second panel today, I believe Director Kappos and his staff are clearly to be commended for their accomplishments to date.

While the development, evaluation, and implementation of the procedures and processes to carry out the mandate of the America Invents Act ultimately rests with the PTO, I look forward to hearing from the witnesses today on the various approaches they recommend to the agency to meet its challenges and about any legislative recommendations they may have.

Mr. Chairman, I thank you for calling this hearing and assembling an impressive panel of witnesses. And I yield back the balance of my time.

Mr. SMITH. Thank you, Mr. Watt.

We have two distinguished panels of witnesses today. And I will first introduce Director Kappos, and he will proceed with his testimony. After Members have an opportunity to ask him questions, we will proceed to our second panel of witnesses.

The Honorable David Kappos is the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office. In this role, he advises the President, the Secretary of Commerce, and the Administration on intellectual property matters.

Before joining the PTO, Mr. Kappos led the intellectual property law department at IBM. He has served on the Board of Directors at the American Intellectual Property Law Association, the American Intellectual Property Owners Association, and the International Intellectual Property Society. He has held various other leadership positions in intellectual property law associations in Asia and the United States and has spoken on intellectual property topics around the world.

Mr. Kappos received his Bachelor of Science Degree in electrical and computer engineering from the University of California—Davis in 1983, and his law degree from the University of California—Berkeley in 1990.

Without Director Kappos' steady hand, expertise, and support, we would not have enacted the America Invents Act. He and his staff did an outstanding job of providing us with advice, briefings, and drafting assistance. We can all thank him for his work at PTO.

Director Kappos, we look forward to your testimony, and if you will please proceed.

TESTIMONY OF THE HONORABLE DAVID J. KAPPOS, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY, DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE, UNITED STATES DEPARTMENT OF COMMERCE

Mr. KAPPOS. Well, thank you. Good morning, Chairman Smith, Ranking Member——

Mr. SMITH. Make sure your mic is on. And maybe move it a little bit closer.

Mr. KAPPOS. Chairman Smith, Ranking Member Conyers, and Members of the Committee, thank you for this opportunity to discuss the USPTO's ongoing efforts to implement the Smith-Leahy America Invents Act.

Mr. Chairman, before I do, I would like to again thank you and your colleagues on this Committee for your efforts over several Congresses that led to enactment of this historic legislation. We would not be here today but for your tireless efforts on behalf of America's innovators. Thank you, thank you, thank you.

Mr. Chairman, I am pleased to report that the AIA implementation efforts are indeed proceeding on schedule. We have implemented seven provisions of the AIA, all within the time frames prescribed by the act. We have published proposed rules for nine additional provisions, and we are on schedule to implement all of them on time. While our stakeholders have differing views on some of our proposals, most all of them have commented quite favorably on

our transparent, thorough implementation process and the extent of our public outreach.

Our AIA implementation team continues to review hundreds of comments received from individuals and IP organizations and IP practitioners and other government entities and academic institutions. And our ultimate goal, of course, remains to produce rules consistent with the language and intent of the AIA that will best serve the needs of America's entire innovation community.

We will respond to the comments in our final rules, to be issued on or before August 16th of this year. The rules will then become effective on September 16, 2012, providing us with a window of time of a month or more to educate our patent examiners and the public regarding the final rules in advance of their implementation.

In early February of this year, we published proposed fees as authorized by the AIA for our patent services and received substantial feedback and recommendations from the public. We also look forward to receiving a report from our Patent Public Advisory Committee before we begin the rulemaking process relative to our fees.

Our stakeholders are already benefiting from the AIA. We launched the accelerated examination program known as Track One that provides for patent application processing in less than 12 months and offers small businesses a discount. Since its inception, we have received more than 3,500 Track One applications already, completed first examinations on them in an average of less than 90 days.

Needless to say, Mr. Chairman, our satellite office program has drawn quite a bit of interest. We are on schedule to open the first satellite office, the Elijah J. McCoy Satellite Office in Detroit, Michigan, in July. And we are in the process of reviewing and analyzing the more than 600 comments and suggestions we received in response to our Federal Register notice. We expect to announce the locations of additional offices this summer.

While we are pleased with the progress we are making to implement the AIA, we are also concurrently working to improve the patent examination process and move important innovations more quickly into the marketplace. And my written statement details a number of those efforts.

With adoption of the AIA, Congress has enabled the USPTO to promote a new vision of an IP world in which national and regional patent systems are coordinated to create an optimal environment for technological innovation globally. Passage of the AIA has provided an opportunity to restart long-stalled discussions with our foreign counterparts toward substantive harmonization that will help U.S. businesses succeed in the global business environment.

And a critical part of these discussions is adoption by other countries of a modern grace period. The grace period has been adopted in many patent systems throughout the world, and it is recognized as a global best practice. We look forward to continuing these discussions.

It is clear that policies supporting a high-quality IP system are making a difference in our Nation's economic recovery now. The recent IP jobs report, "Industries in Focus," shows that America's core strength continues to lie in our ability to innovate. Sensible government policies encouraging that spirit of innovation can de-

monstrably contribute to job creation and economic wellbeing. The end result: 40 million jobs in IP-intensive industries, representing 35 percent of U.S. GDP.

Mr. Chairman, we look forward to working with you and the entire Committee to ensure that the innovation-advancing, job-creating, deficit-neutral work conducted by the USPTO continues to best serve America's innovators. We appreciate your continued support for the employees and operations of the USPTO.

Mr. SMITH. Thank you, Director Kappos.

[The prepared statement of Mr. Kappos follows:]

STATEMENT OF

DAVID J. KAPPOS

UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE

COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES

"Implementation of the Leahy-Smith America Invents Act"

MAY 16, 2012

Introduction

Chairman Smith, Ranking Member Conyers, and Members of the Committee:

Thank you for this opportunity to discuss the United States Patent and Trademark Office's (USPTO) ongoing efforts to implement the provisions of the Leahy-Smith America Invents Act (AIA).

Mr. Chairman, before I do so, I want to again thank you and your colleagues for your efforts over several Congresses that led to enactment of this historic legislation. We would not be here today but for your tireless efforts on behalf of America's innovators.

AIA Implementation

Mr. Chairman, I am pleased to report that our AIA implementation efforts are proceeding on a timely basis. America's innovators are already seeing the benefits of this legislation.

We have implemented seven provisions of the AIA – all within the time frames prescribed by the Act – and we have published proposed rules for nine more provisions. We remain on track to implement all of them on time.

Stakeholders have commented favorably on our transparent implementation process and the extent of our outreach. Our AIA Micro-site contains all implementation-related materials including summary documents, legislative history, implementation-related events, announcements and points of contact.

Our AIA implementation team continues to review more than 350 comments received from individuals, IP organizations, IP practitioners, other government entities and academic institutions. We are identifying which aspects of the proposed rules are strong as proposed, as well as areas where improvements can be made. Importantly, we have received excellent input on rules ranging from post-grant opposition to *inter partes* review to oath and declaration, enabling us to make many substantive improvements to our proposed rules provisions across the board, and produce rules that will best meet the needs of America's innovation community.

Consistent with that approach, for example, the proposed regulations for the new administrative trials are aimed at streamlining and converging issues for decision while giving flexibility to the parties to determine the manner of putting forward their case. In order for the new trial proceedings to serve as a quick and cost effective alternative to litigation, the proposed rules provide the parties, subject to the guidance of neutral, disinterested judges at the Patent Trial and Appeal Board, with flexibility to tailor the scope and timing of discovery and other requests as warranted by the positions taken by the parties and the facts of the case. By providing parties with these tools, it is anticipated that the current inefficiencies of *inter partes* reexamination will be reduced and potential future abuses of the *inter partes* review process will be avoided.

We will respond to the comments in our Final Rules to be issued on or before August 16, 2012. The rules will then become effective on September 16, 2012, providing us with a window of time in which we can educate both examiners and the public on the final rules in advance of implementation. And, recognizing the importance of continuous improvement in this complex rulemaking process, we have made clear our intent to iterate on the rules even post implementation, taking more input once users gain experience with the rules, with an eye toward further improvement and refinement.

Reports

On January 16, 2012, we submitted two AIA-required studies to Congress: an analysis of the prior user rights defense, and a report on international patent protections for small businesses. Comments have been solicited and two hearings held on the issue of genetic testing; our report to Congress is due June 16, 2012.

Fee Setting

In early February, the USPTO published proposed fees for all of the patent services it provides, pursuant to the new fee setting authority under the AIA. The proposed fee schedule represents only an initial proposal and is far from final. We have invited feedback and recommendations from the public and have received substantial input. We anticipate a meaningful dialogue over the coming months as we attempt to set our fees at the most appropriate levels.

Throughout the fee setting process, the USPTO will be guided by two overriding principles. First, the agency must operate within a more sustainable funding model than it has in the past to avoid disruptions in agency operations caused by fluctuations in the economy. Doing so requires that the fees charged for services more closely reflect the actual cost of delivering those services. This cost must account for both planned expenses and unanticipated events, requiring the Office to build an operating reserve that ensures its long-term financial stability. Second, the USPTO is adhering to the strategic imperative set by its user community to dramatically reduce patent pendency and the backlog of unexamined patent applications in accord with the USPTO's 2010 – 2015 Strategic Plan. Doing so requires a significant increase of examination resources, which in turn dictates the necessary fee collections. We will of course reevaluate fee levels when we reach financial stability and meet our goals in terms of patent backlog and pendency.

The Patent Public Advisory Committee (PPAC) held two public hearings on the proposed fee schedule and will issue a report to the USPTO before we publish our Final Rule, detailing its comments, advice, and recommendations.

Roadshows

The USPTO conducted seven AIA roadshows, at locations across the country, to explain and receive feedback on our proposed rules for various new provisions required under the AIA, including supplemental examination, *inter partes* review, and post grant review. Our audiences, numbering a total

of 1,300 attendees, included independent inventors, private practitioners, in-house counsel and IP academics. Informational slides and videos of the presentations are posted on our AIA Micro-site. We are planning a special public roundtable for the first-inventor-to-file provision during the forthcoming public comment period.

Track One

The USPTO has launched the AIA-mandated accelerated examination program (Track One) that allows patent applications to be processed to completion in 12 months and offers small businesses a discount on this option. Since its inception, we have received more than 3,500 Track One patent applications, and more than 1,300 entrepreneurs have taken advantage of those 50 percent discounts. We have completed more than 1,900 first actions on Track One examinations in an average of 43 days, mailed over 330 allowances, and issued more than 100 patents.

Pro Bono and Ombudsman Programs

Consistent with the directives in the AIA, we are working with intellectual property law associations across the country to expand the availability of *pro bono* patent services for independent inventors. Programs have been launched in Minneapolis/St. Paul and Denver, and we anticipate adding five more cities this year and an additional 11 or more in 2013. We intend to have regional coverage across the entire U.S. completed by 2014.

Our Ombudsman Program, now in its second year, has enhanced the USPTO's ability to assist applicants and their representatives in getting their application back on track when there is a breakdown in the normal application process.

Satellite Offices

As a means of attracting and retaining qualified patent examiners and improving applicant-examiner interaction, the AIA directs the USPTO to establish, within three years, three satellite offices. The USPTO will open its first satellite office in Detroit this summer. The general public and city and state officials were invited via a *Federal Register* notice to submit comments and suggestions regarding the selection of additional offices. We are in the process of reviewing and analyzing the more than 600 responses received and expect to announce the locations of additional offices this summer.

Ongoing Patent Programs and Initiatives

Mr. Chairman, while we are pleased with the progress we are making in the AIA implementation process, we are also proud of our ongoing, concurrent efforts to improve the patent examination process and more quickly move important innovations to the marketplace. For example, our backlog of utility patent applications has been reduced to 640,491, the lowest level in several years despite significant increases in filings last year and this year. Our total pendency is 33.9 months and our forward looking first action pendency down to 16.2 months.

Quality Assurance

We continue to focus on delivering high-quality patents to innovators. More than two years ago, we worked with our patent examiners' union to develop a new work credit system that gives examiners more time to review the merits of an application before making a decision. We have improved our hiring practices, recruiting experienced IP professionals as well as recent engineering graduates. Comprehensive training is provided for new as well as experienced examiners.

We implemented new performance standards that place a greater emphasis on examiners interacting with patent applicants earlier in the process to clarify claims and enhance the quality of patent reviews. Collaboration with our Patent Public Advisory Committee--and the entire patent community--led to the development of a comprehensive set of metrics that we use to monitor patent quality from start to finish. These quality metrics are reported to our stakeholders on a monthly basis via our website's performance dashboard.

Information Technology (IT) Initiatives

The USPTO is implementing a variety of IT initiatives to improve our patent operations.

Patents End to End (PE2E) is currently being used by examiners in our central reexamination unit (CRU) with more cases and examiners moving to PE2E every month. And, PE2E is scheduled to release major new functionality, such as Office Actions, to a pilot group at the end of FY 2012. PE2E will be released to incrementally larger segments of the examination corps, with full deployment targeted by the end of FY 2013.

PE2E's Patent Application Text Initiative (PATI) will convert 55 million image-based documents into structured text later this quarter (Q3 FY 2012). This effort will yield XML text versions of the key documents for the entire active patent backfile. Upon completion, legacy tools will provide the converted documents to all patent examiners for seamless use within the legacy examination tools. Furthermore, it lays the foundation for PE2E's content as PE2E grows to encompass the patent corps.

Universal Laptops have been deployed throughout 99 percent of the USPTO. This 18-month effort is on time and on budget, providing nearly 10,000 employees with state-of-the-art laptops and collaboration tools to improve productivity and facilitate telework and remote collaboration through video conferencing and Voice Over IP (VOIP) capabilities.

E-petitions allow applicants to obtain real-time decisions on their petitions by automating the handling of common electronically filed petitions. E-petitions now account for more than a third of petitions received by the USPTO.

The USPTO's network infrastructure has been upgraded with connectivity to the internet at 3GBps, providing ISP-grade network bandwidth to our examiners. This ensures that teleworkers have the highest quality remote access into their examination tools, and it substantially improves the USPTO's ability to support high definition video conferences between examiners and applicants.

Interviews

We have significantly increased our total number of interview hours – time spent working with patent applicants to understand their inventions and resolve issues. As of the end of April, we have logged more than 90,000 interview hours this fiscal year. This represents an increase of 19 percent over the comparable period in FY 2011. Our goal is to reach 160,000 hours this fiscal year, an all-time record for our agency.

After Final Practice and Quick Path IDS (QPIDS) Pilot

As another part of our on-going efforts toward compact prosecution and increased collaboration between examiners and stakeholders, we recently announced the start of the After Final Consideration Pilot (AFCP). The AFCP allows additional flexibility for applicants and examiners to work together in after final situations to move applications toward allowance.

Our QPIDS pilot provides consideration of an Information Disclosure Statement (IDS) submitted after the payment of the issue fee without requiring a Request for Continued Examination (RCE). The program will reduce the number of RCEs filed for consideration of an IDS after the issue fee is paid.

Patents for Humanity

At a White House event in February, the USPTO announced the Patents for Humanity pilot program. This program encourages patent owners to address humanitarian needs with their patented technology. The 12-month pilot advances the President's global development agenda by rewarding innovators who bring life-saving technologies to underserved regions of the world, while highlighting positive examples of humanitarian actions that are compatible with business interests and strong patent rights.

COPA

Clearing Our Oldest Patent Applications 2.0 (COPA 2.0) is a continuation of the original COPA effort to eliminate the "tail" of backlog applications. For COPA 2.0, the "tail" is applications that are 13 months and older as of October 1, 2011 – that have not received a first Office Action. The goal for FY 2012 is to complete a first Office Action on 260,000 applications. To date, we have addressed more than 176,000 COPA 2.0 applications, or 67 percent of the goal. We are working hard to surpass the goal, positioning the USPTO for significant further patent pendency reductions in 2013.

Outreach to Independent Inventors

Our independent inventor programs will reach thousands of independent inventors this year. Our latest regional independent inventors conference was held last month in Tampa, Florida. It was co-sponsored by Invent Now and the National Academy of Inventors. Our Deputy Director, senior USPTO officials, successful inventors, and intellectual property experts were on hand to provide practical advice and information for novice and seasoned inventors.

The USPTO continues to provide an array of resources, information and guidance to independent inventors via our USPTO Inventors Assistance Program. This program includes not only regional and headquarters-based independent inventor educational conferences but also: an Inventors Resource page and computer training modules on our web site; webcast presentations; a dedicated mailbox for receiving and responding to inventor questions (independentinventor@uspto.gov); a dedicated toll-free number for independent inventor inquiries (1-800-786-9199); a hotline staffed by attorneys with expertise in protection and enforcement of IP rights (1-866-999-HALT); and Patent and Trademark Resource Centers, a nationwide network of public, state and academic libraries.

Patent Prosecution Highway – Work Sharing

In recent years, the Patent Prosecution Highway (PPH) has proven to be a significant work sharing initiative for the USPTO, and a successful vehicle enabling faster and less expensive multi-country patent prosecution for the IP community.

Through a series of international work-sharing agreements, PPH has helped patent applicants receive IP protection in 22 different countries—faster and at a lower cost. This kind of international collaboration is especially important in breaking down the barriers that impede smaller companies trying to export their products into a global marketplace.

As of the end of the second quarter of FY 2012, a total of 10,322 applications at the USPTO had been received within the PPH program since its inception. This puts us well on our way to a greater than 100 percent increase in usage for three years running. Users benefit not only by fast portfolio-building, but also by enjoying the collective savings of millions of dollars in the process. A study by our user community demonstrated that—in a single application—anywhere from $2,000 to $13,000 in reduced prosecution costs can be realized through PPH. For international filers of all sizes, that level of savings adds up quickly.

And even while the PPH has grown tremendously in usage, we are working with our partner offices—which now total 21—to further improve the program. One of the first major steps was expansion of the PPH into the Patent Cooperation Treaty (PCT) system. This has opened up the advantages of PPH to an entire sector of international filers, while paving the way toward making PCT the work-sharing model it was originally intended to be. With the world's patent offices making productive use of each other's work, we can reduce the cost of doing business and help innovators move their products to market faster, with greater predictability and certainty.

International Harmonization

Mr. Chairman, with the adoption of the AIA, the U.S. is now able to implement an optimal 21st century harmonized patent system – one that international negotiations have anticipated for the last 25 years. Congress has enabled the USPTO to not only act, but to lead in realizing a vision of an IP world in which national and regional patent systems are coordinated to create an optimal environment for technological innovation and diffusion. Passage of the AIA has provided an opportunity to restart long-stalled discussions with our foreign counterparts toward substantive harmonization that will help U.S. businesses succeed in the global business environment.

The USPTO is working to capture this opportunity, reaching out to our stakeholders and our counterparts in patent offices throughout the world, to work toward substantive patent law harmonization. During the first week of April, I visited several of our foreign counterparts to discuss this unrivaled opportunity for substantive patent law harmonization. During these conversations I stressed that a key issue to realizing international harmonization is European adoption of a modern grace period. The grace period has been adopted in many patent systems throughout the world and is recognized as a global best practice. We look forward to continuing these discussions.

U.S. patent reform has set the scene for further harmonization to simplify the process of seeking international patent protection, reduce the cost and time it takes to obtain patent rights, and to speed the deployment of innovative goods and services to the marketplace – thus promoting growth and creating jobs.

Conclusion

Mr. Chairman, as we continue to engage the IP user community on implementation of the America Invents Act, we are reminded, time and again, that the growth, job creation, and success of businesses of all shapes and sizes is highly contingent on the effectiveness of IP protection and the efficiency of the USPTO. I want to take this opportunity to thank Commerce Secretary Bryson and Deputy Secretary Blank for their continued support of the USPTO and as we implement this historic legislation.

It is clear that policies supporting a higher-quality IP system are making a difference in our nation's economic recovery. The recent report on IP and the U.S. economy "Industries in Focus" shows that America's core strength lies in our ability to experiment, innovate, and create. Sensible government policies that encourage and stimulate that spirit of innovation can demonstrably contribute to job creation

and economic well-being. The end result is 40 million jobs in IP-intensive industries, representing 35 percent of U.S. GDP.

Mr. Chairman, we look forward to working with you to ensure that the innovation-advancing, job-creating, deficit-neutral work conducted at the USPTO continues to best serve America's innovators.

We appreciate your continued support for the employees and operations of the USPTO.

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Mr. SMITH. As you know, the goal of the act was to enable the Patent and Trademark Office to approve better patents more quickly. And it sounds like you are well on your way to helping us accomplish that goal. You have mentioned, as we all know, the backlog, 3-year wait, and you have some of those patents speeded up to the process of 90 days, it sounds like. So all I can do is thank

you for the progress you have made, and I hope we can continue to make that progress.

My first question goes to the patent fees, and I know you have proposed some increases. I think they have generally been well accepted and are appreciated because they know what the money is going to be spent for. But if you could tell us a little bit more of what you have in mind with the patent fees and also specifically how you might use that additional revenue.

Mr. KAPPOS. Sure. Thank you for the question.

Yes, we have proposed in our initial February document substantial increases in fees. We have received great input relative to some of those fees that could be recalibrated in the lower direction, and we are inclined to do that. In fact, we are working on approaches that will take some of those fees that the American innovation community was concerned about down somewhat. We believe we can do that and still stay on track to meet our strategic plan goals by 2015, getting our backlog and pendency under control in that time frame.

Now, we are also very cognizant of what we need to spend that money for, and that is to improve our IT system—continue improving our IT system, to continue hiring patent examiners and board judges so that we can keep increasing the quality of our output. As you said, Mr. Chairman, higher-quality patents issued more quickly, we have to do both of those. And that is what the fee increases are aimed at.

We inherited a large backlog. When we started, we had over 750,000 patent applications awaiting examination and no money in the agency with which to conduct that work. We are going to get that backlog under control, and we are making some progress. We have it down to 640,000 now. We are headed toward about 600,000 by the end of this financial year, and we will just keep it going down.

So in order to do all that work, it requires more examiners. And in order to hire those additional examiners, it requires funds. So, in effect, we are putting fees together that enable us to get the resources in place to overcome an unfunded mandate, a backlog that just did not have any money matched against it. You have to get that money to do that work.

Mr. SMITH. Do you have any specific goals as far as the backlog goes or as far as the average time to secure a patent goes? I mean, do you have a goal of trying to get to 1 year or 2 years and reduce the average of 3 years by any certain period of time?

Mr. KAPPOS. Yes, absolutely, we have extremely specific goals. We will take the backlog down to an appropriate inventory level of about 330,000 applications. That represents the right workload so every examiner has a good docket but not too much. We can do that by about the end of 2015. All of this is in our strategic plan.

And when we hit that level, it will mean that, on average, we will be processing a first office action, so we will be doing the first substantive review of every application about 10 months after filing, and we will be completing review on every application about 20 months after filing. And our community informs us that those are optimal processing times, balancing the need to have adequate information against the need to go as fast as possible.

Mr. SMITH. Okay. That is great news.

Another question is this. We live in a world economy. Information is transmitted literally at the speed of light. Are we doing everything we can, and in what ways does the act enable us, to protect American patents overseas?

Mr. KAPPOS. Yes, well, thanks.

The AIA, as I mentioned somewhat in my statement, has proven to be transformative, in terms of repositioning America at the forefront of the global patent system and enabling us to, again, take leadership and work with our overseas trading parties for them to put in place 21st-century patent systems that are much more similar to what we have done under the AIA.

So U.S. patent protection, as important as it is, is no longer completely adequate for many innovators, many American innovators. They need global protection. They need protection in Europe, they need protection in China, they need protection in Korea and Japan and other parts of Asia. And to do that, they are incredibly hampered by patent systems that are totally misaligned.

The AIA creates a new gold standard for patent systems that has been the U.S. system. We now are in a position to work with our trading parties overseas, and we are doing that aggressively, to get them to update and improve their patent systems to make it easier for American innovators and innovators everywhere to take an idea, file a patent application here, essentially file about the same application and get the same level of protection where they need it overseas.

Mr. SMITH. Okay. Thank you, Director Kappos.

The gentleman from Michigan, Mr. Conyers, is recognized.

Mr. CONYERS. Thank you, Chairman Smith.

Under Secretary David Kappos, you have been in your office since August 2009. At the present time, it takes almost 3 years, 2 months short of 3 years—if a person filed an application today, they would be waiting 33.9 months before a final resolution.

Now, I am here to help you about what can you do. How about some new technology in applying this? And what if we were to give you lots more patent examiners and anything you might have to add to how we speed this time up? It is too long. An independent inventor can't hang in here for 3 years waiting for the office to do what it should be doing much, much sooner.

Mr. KAPPOS. Well, thank you, Ranking Member Conyers. I appreciate the question.

Indeed, the numbers have gone down slightly from 34 months. We are now in the 32-month range for final pendency, so we have made a little more progress. I fully agree with you that 32 months remains too long. We do have some additional, however, good news coming on the horizon, which is that our forward-looking pendency numbers for our first action—this is first time we look at an application—are now down to about the 16-month range, which means that for applications being filed today, the review time is getting much, much shorter.

That is a byproduct of the fact that, as you say, we are doing a lot of work on our IT, we are doing a lot of work with hiring examiners, including in Detroit, where we have already hired examiners, and we are easily going to meet and surpass our hiring goals of ex-

tremely qualified people, experienced IT professionals, who we will be able to put to work within a few weeks of joining the USPTO, have them examining applications right there in Detroit, in addition to several panels of board judges, extremely highly qualified folks, already hired, already being trained, ready to go as we open that office in just less than a couple of months.

So I fully agree, we have more work to do. Putting more examiners in place is clearly part of the equation. We are working on it. Thank you so much for your focus on funding and stewarding this agency, which has enabled us to engineer this transformation. We keep running our play with hiring more people and working on IT and working on efficiencies, all of which we are doing. But you are right, we can get this under control, and we can take these numbers down further.

Mr. CONYERS. I feel a little better. And that is the only question I am going to ask you, because this is where we have to put our focus and direct attention as much as we can.

Thank you, Chairman Smith.

Mr. SMITH. All right. Thank you, Mr. Conyers.

The gentleman from Wisconsin, Mr. Sensenbrenner, is recognized for his questions.

Mr. SENSENBRENNER. Thank you, Mr. Chairman.

Director Kappos, let me say that the Congress unloaded upon you one very, very big job when the AIA was passed. And I think that you have done an extremely good job in meeting the mandates and changing the procedures in your office as directed by Congress.

I opposed the AIA. I made no secret of that. And what we are talking about in part here is legislation that seems to be kind of secret, in terms of making technical corrections to the AIA. And the fact that we have a roomful of witnesses in something that is supposed to be technical and nonsubstantive in nature, to me, raises a very red flag.

So I am directing these comments less to you, Mr. Director, and more to the two senior Members that are seated to my left. First of all, don't play "I have a secret" with the changes that you are proposing. Bring the bill draft around, seek input from people who opposed your law rather than supported it.

Second, keep it technical and only keep it technical. Otherwise, we are going to go through the same fight that we had for 6 years in getting the AIA passed, where some people will be winners and exceedingly happy and some people will be losers and even more mad than they were before. We have to bridge that gap. And how this technical corrections bill is done will go a long way to determining whether the gap gets bridged or whether the gap gets wider. You know, the fact that we are talking about technical corrections I think should be an admission that the bill was not properly drafted in the beginning, because now we are going to have to fix a few parts of it.

Now, in terms of substantive and nontechnical issues that are being considered, let me talk about a couple of things. First of all, changes in the language that could have raised estoppel from the post-grant review process isn't technical. That is very substantive. And I think that this should be considered separately and not in something that is supposed to be noncontroversial.

Also, I think substantive issues would be the expansion of the prior-use rights to create a new right that extends to commercial products and changes to the first-to-file provisions to address concerns about unanticipated limitations of the university grace period. These are substantive issues as well.

So let's keep it technical. It does have a chance to get through this Congress and will help make Director Kappos' job of implementing this big assignment that we have given him much easier. Let's debate the substantive things in separate legislation. Some may pass, some may not pass, some will be modified.

But, in sum, don't play "I have a secret" with this, as happened in the past with this and other types of legislation. Because when you don't expose massive legislation to the full light of day and have a full debate on it, there will be mistakes that will require technical corrections.

Strike one on you folks. Let's not have strike two or strike three. Thank you.

Mr. SMITH. Thank you, Mr. Sensenbrenner.

The gentleman from North Carolina, Mr. Watt, is recognized.

Mr. WATT. Thank you, Mr. Chairman.

Since Mr. Sensenbrenner spoke about the people to his left and the only Member of his side of the House who is left at the present is the Chairman, I hope he is not talking about the other people to his left down here. Because if there is a bill that is either substantive or technical, we haven't seen it either. So I would join him in requesting that it be a transparent discussion of all of these issues if we are talking about making changes.

But I just wanted to make sure, since he was talking about people to his left, and the only person I saw to his left that was on his side of the aisle who might have some of control over this would be his own Chairman——

Mr. SMITH. Would the gentleman yield?

Mr. WATT. He is putting up his thumb to suggest that it might be——

Mr. SMITH. Before we make this too personal and before you act too quickly to join the gentleman from Wisconsin, let me assure you that there is no technical bill and everybody will be——

Mr. WATT. That is what I thought, too, but——

Mr. SMITH [continuing]. Made aware of it when there is.

Mr. WATT.—I thought maybe Mr. Sensenbrenner knew something that we didn't know. But I wasn't aware of a bill either. So, anyway, let me get on to the questions I wanted to ask.

Director Kappos, the PTO published a notice on April 20 seeking public comment on whether the procedures it employs to screen patent applications for national security implications should also be used to consider, quote, "economic security implications." The request, which the notice indicates emanated from the Appropriations Committee, is based on the concern that a loss of competitive advantage during the time between required publication of a patent application and the time the patent is granted—that is the time that the Ranking Member was expressing concern about—undermines domestic development, future innovations, and contingent economic expansion because of worldwide access to the applications.

I wonder if you could comment conceptually on whether the notion of an economic security evaluation is compatible with the goals of the AIA or our various treaty obligations. What are your thoughts about that?

Mr. KAPPOS. Well, thank you for the question, Congressman Watt.

And the answer is that an economic security test would be a new kind of a test. We don't have anything like that that we currently employ. We have national security tests that are actually executed by the various national security-related agencies, DOD and others. USPTO does not, itself, conduct those kinds of tests.

There would indeed be challenges relative to the AIA. An economic security test is not, on its face, compatible with the AIA, so something would need to be done about that. There would be challenges relative to treaty obligations that we have, and those would have to be worked out if we did decide to go down the road.

But the USPTO felt it was important to act on the concerns of the CJS Appropriations Committee that also oversees us. And we were asked to seek input, and so we are trying to do that in as balanced a way as we can.

Mr. WATT. All right.

Director, based on recent press accounts, technology companies seem to be engaged in a so-called patent arms race. Tech companies are spending a lot of money to buy patent portfolios and suing to block technologies in every conceivable venue. And on Monday a Federal appeals court ruled that Apple can move ahead with its case to block some Samsung tablets over patent infringement claims. That is according to Reuters.

Over the course of this Congress, we frequently heard representatives of the tech community argue that copyright infringement suits brought against tech companies by content owners stifle innovation. By that logic, it would seem the rash of patent cases brought by tech companies against tech companies might stifle technological innovation.

Can you give us your take on this? And does litigation to protect intellectual property rights stifle innovation? Is there any reason to think that copyright litigation against tech companies stifles technological innovation any more or less than patent litigation?

Mr. KAPPOS. Well, the answer is, no, I don't think there is any reason to believe that either copyright or patent lawsuits of the kind that we are seeing in the so-called smartphone wars are a sign of stifling technological innovation. In fact, much to the contrary.

First of all, we have seen this movie before. We have seen this movie many times before. We saw it when Boulton and Watt got in their fights in the 18th century in England over the patents that started out——

Mr. WATT. That is W-A-T-T?

Mr. KAPPOS. Well, we saw it again with them too. We saw it when the sewing machine was invented. Then we saw it when the telegraph was invented. And we are seeing the same dichotomy, we are seeing the same series of events play out.

It starts with fundamental technological innovation that is transformative in nature. Then others come along and want to do incre-

mental innovation on top of it. The original innovators—let's say, the Apples of the world as an example, companies that everyone would say have made transformative changes in our lives—have intellectual property positions resulting from massive investments. They seek to enforce those positions, level the playing field in some way, and you have a dustup like we are seeing right now.

I do not believe that it is a sign that there is anything at all wrong with the innovation environment in the U.S. In fact, I think it is a byproduct of a very healthy overall innovation environment. These things happen. They sort themselves out over time. It is a strength of our system that we have strong and balanced intellectual property rights that let folks play their hands out the way that they are.

And the last thing I will say is, I don't think that it is in any way a sign that there is some fundamental problem with patents at all across the board. It would be one thing if we were talking about noninnovators involved in these patent wars, but we are talking about some of the most innovative companies on the planet that have done tremendous research, have sought to protect their research, and are now protecting their rights that go along with it.

So I actually just see this as a, you know, market reaction to a market development in a very competitive space, by the way. The smartphone space is characterized by extremely sharp drops in costs over time, extremely strong increases in performance, multiple changes in market leads, with different companies leading at different points in time. It is a tremendously competitive marketplace. And so I think what is going on here is just the natural ebb and flow of technology development.

Mr. WATT. Thank you, Mr. Chairman. I yield back.

Mr. SMITH. Thank you, Mr. Watt.

The other gentleman from North Carolina, Mr. Coble, is recognized.

Mr. COBLE. Thank you, Mr. Chairman.

Director Kappos, refresh my memory. First to file was to take effect 18 months after enactment?

Mr. KAPPOS. Correct.

Mr. COBLE. Which would be, I guess, March.

Mr. KAPPOS. March next year.

Mr. COBLE. Do you anticipate any transition problems?

Mr. KAPPOS. No, we don't. We are in the middle of the transition actually already. We are in the period where applicants need to decide whether they file under the old grace period and the old first-to-invent rules or under the new grace period and the new first-inventor-to-file rules.

We are preparing our NPRM, our notice of proposed rulemaking, right now. We intend to conduct roundtable discussions and get great public input on it. We will be right on time with implementing it.

There has been speculation about whether there will be a big bubble of patent applications filed before or after. I really don't think there will be. There will be several things that will be interacting, including fee changes, including just the needs of the marketplace. And I think that the transition will be quite manageable.

Mr. COBLE. Thank you, sir.

Mr. Kappos, a recent hearing was conducted regarding international patent issues. And in the wake of the passage of the AIA, how are your talks going with our European and Japanese allies and others toward patent harmonization, including adoption of the 1-year grace period, A? And, B, what have been the most obvious stumbling blocks that you encountered?

Mr. KAPPOS. Well, Mr. Coble, thank you very much for that question.

The answer is that we are making actually quite considerable progress with our trading parties overseas on harmonization. The Japanese already have a good grace period. It is not exactly the same as ours, but it doesn't need to be exactly the same as ours. They need to extend theirs to 1 year, but I believe that we can work with them on that. The Republic of Korea, South Korea, recently put in place an excellent grace period based on our free trade agreement with them. And that has been implemented, so they are clearly in good condition. Other countries have good grace periods also.

The main issue is working with the Europeans on that point. And, indeed, we are working hard with them. They are, I think, taking a very honest and appropriate look. We now have study groups consisting of USPTO employees working with employees of various European offices—the German office, the U.K. Office, the Dutch office, the French office. The European Patent Office is involved also. And we are working through the details of what would be an approach to the grace period that I would hope will inspire the European movement.

Mr. COBLE. Thank you, sir.

One final question, Mr. Kappos. Can you provide us with an update on the selection process for further PTO satellite offices?

Mr. KAPPOS. Right. So, sure. We are working on that. As I mentioned, we open the Elijah J. McCoy office just in a couple months, I think probably even a little less than that now, in July.

We are mandated by the legislation to identify two additional offices. We plan to do that by this summer. We are working through a process that I think Congress did a good job of outlining for us. It is very objective. It looks at factors, including the ability to attract and retain examiners in the area; the ability to interact with an applicant community, with an IP community in the area; and the ability, importantly, to increase the economic vitality of the area generally.

So we have criteria under those basic requirements. They are very objective in nature—how many patent practitioners there are, how many university graduates there are in the technological fields, cost of living, cost of housing, other objective factors. We have a gigantic matrix of all of that information, and we are sifting through it now on a very objective basis to try and identify good candidates.

Mr. COBLE. Thank you. Thank you for being with us, Mr. Kappos.

I yield back, Mr. Chairman.

Mr. SMITH. Thank you, Mr. Coble.

The gentleman from Virginia, Mr. Scott, is recognized.

Mr. SCOTT. Thank you, Mr. Chairman.

Mr. Kappos, are there any provisions of the law that you will not be able to implement on time?

Mr. KAPPOS. No. We will succeed in implementing all of them on time.

Mr. SCOTT. And are there any other initiatives that the PTO has implemented to improve the patent process?

Mr. KAPPOS. Yes, Congressman Scott. Thank you for that question. It could be a very long answer, so I will give just a few examples.

We are very intent on improving—continuing to improve the quality of our work while also improving the efficiency of our work so we can get more workflow through the agency. To do that, you have to have get examiners who have the time and the tools and the processes available to them to do a great job.

So we have given examiners more time, right? Quality more important than quantity, at the end of the day. We have actually given our examiners across the board more time. And, not surprisingly, quality went up when we did that.

We have given our examiners much better training and much better performance systems to incent them to engage with applicants to understand applications deeply the first time through and to get them done, whether "done" means granting a patent or finally rejecting an application. And it is showing progress. We are going to hit somewhere in the neighborhood of 170,000 hours of examiner interviews this year, which is an all-time world record for our agency. It compares with under 100,000 hours just a couple of years ago. So we are increasing the amount of time examiners spend understanding applications by wide, wide margins.

Our IT tools are finally starting to come on line and relieve some of the burdens of examiners. We have our universal laptops almost completely deployed, and I think 99 percent of the agency is done. So our examiners finally have a good platform to work on. Not surprisingly, it is causing our IT systems to have less down time than they did, so examiners are becoming more productive.

Our new Patents End-to-End system is coming up. Our CRU, Central Examination Unit, is already using PE2E. It is transformative for the examiners who use it. They are just blown away by the quality. We are gradually bringing function on. We are going to get the whole CRU over here in the next several months. Then we are going to start bringing the corps of over 7,000 examiners on. That is another step to function up in efficiency of the agency.

And the last thing I will mention is, at the same time you are doing all of that, you have to give examiners the substantive tools, in terms of the guidelines and procedures internally, so that they can do a great job. So we are responding very quickly to case law that is coming out of the Supreme Court, the Federal circuit, and the accumulation of everything those courts are doing. We put out new rules within 24 hours after the Supreme Court's Prometheus decision to keep our examiners going but to keep them very current.

We put out for the first time in the history of the agency guidelines to improve the quality of our examiners' work relative especially to software-related patent applications, applications that use

broad functional language. We have had that in place for nearly a year now. We have tested it. It has indeed increased our examiners' use of what is called 112 rejections and objections, which is exactly what we wanted to have happen. Very pleased with the ability of our agency now to put in place these new tools, IT, new processes, substance, new management systems, getting examiners to work with applicants. So at the same time then increasing the quality and the effectiveness of the work we are doing.

Mr. SMITH. Thank you, Mr. Watt—Sorry, Mr. Scott, excuse me. The gentlewoman from California, Ms. Lofgren, is recognized.

Ms. LOFGREN. Thank you, Mr. Chairman; and thank you, Director, for being here.

Just a comment. Something like a quarter of the patents in the United States come from the Silicon Valley. And I know that there has been a strong interest in the Valley for a next office, and I am hoping that you will consider that overwhelming fact as you consider these various offices.

A small comment on the patent thicket and kind of the patent wars that are developing. I understand your point that you made to Mr. Watt, but it is certainly not just the cell phone wars. It is also the social network wars. And recently an independent analysis suggested that in the infringement litigation currently under way, for example, between Yahoo and Facebook that there were over 30,000 patents implicated in that litigation. And it seems to me if you are a software engineer and there is potentially 30,000 patents implicated, I mean, there is no point in even looking in terms of infringement.

I think there is a problem, and I think we are not going to solve it here today, but I think it bears examination, and especially for the engineers involved in the Valley. And I am hoping to have some discussion among the parties. Because that kind of litigation—everybody has to do it, both as a sword and a shield. But from a 30,000-foot level it is draining a lot of money from innovation that I think is a problem.

I want to talk about the inter partes situation. Some have suggested that the PTO will be accepting too many re-exams, even though the AIA raised the acceptance threshold; and some have suggested that you should have voluminous initial disclosures, which I have some questions about. And I am wondering what your thoughts would be, what the Office would do and what would the costs be for the Office if the patent claims scope were similar to a Markman hearing, as opposed to what I think most of us envisioned when the bill was crafted. You know, I just don't know how we would pay for that, but maybe that is a misconcern on my part.

I am also interested in the costs for a company defending itself against an invalid patent in district court. How would that compare if we were to go to a more voluminous filing as some have suggested? And your comments on that would be very welcome, as well as any other in that as the process is developed.

Mr. KAPPOS. Well, thanks for the questions and comments, Congresswoman Lofgren. And I will tell you I am concerned about patent wars, also, despite my previous comments. While I think they are a reflection of marketplace reality, they involve creative companies on both sides. You mentioned the Yahoo-Facebook suit.

Ms. LOFGREN. Yes, and I am not taking one side over the other. I am just noting that, for business reasons, companies are buying up and using as a sword and a shield these gigantic portfolios that are weighing down the sites.

Mr. KAPPOS. But I think the AIA provides us with an opportunity to help sort those things out much more cost-effectively.

The second part of your question, in a suit that involves however many patents between litigants, if we can reassess the patentability of those inventions quickly and cost-effectively through post-grant opposition and inter partes review at the PTO, that is where the action is and that is where parties can then quickly and effectively assess their relative positions and resolve those suits without having to spend extreme amounts of money.

So that is the first part of the question.

Now I will be out in your home State and my home State, California, later this week—no, actually, first of next week talking about these various issues with judges and with members of the IP community there specifically to learn more about this and to make sure we are doing everything we can at the PTO as we implement the AIA.

So relative to the second part of your question and voluminous disclosures in these post-grant processes, I am concerned, also. One thing I will tell you is I do not believe that the USPTO will be living up to the mandate of the AIA if we implement it just like a district court process. That is it not what you intended. I do not believe that is what the Congress intended. I do not believe that is what is reflected in either the statute or the legislative history, and I do not believe we can proceed that way.

Parties who want to spend millions of dollars on voluminous extensive document discovery with lawyers fighting with each other inexorably and then dumping millions of documents on dispute resolvers need to go to district courts to do that. That is what district court discovery looks like.

You put in a process for us that you want us to get done in a year. That is going to require a lot more oversight and a lot more proactive involvement and a lot less voluminous disclosures by parties.

One of the smartphone lawsuits—there was a report just last week on one of the parties that filed a document that was over a thousand pages and the judge looked at the document and reactively said, I am not even going to read this thing. The situation's out of control.

What we are trying to create in the PTO is a system that proactively prevents those kinds of abuses and wastes from happening by having our ALJs reasonably involved all along the way, just like the district courts are starting to do with magistrates who are getting more involved in litigation all along the way. It is a best practice being recognized in the district court. We want to do the same thing with our procedures so that our folks are involved helping to guide the parties in a streamlined, cost-effective, fast way and not get into this situation with voluminous uncontrolled disclosures that will run up costs just like in district courts, waste millions of dollars, not behave in a manner that is consistent with

your statute, and create a process that we will never be able to administer at the PTO.

So I am very alert to your concern. We are trying to balance all of these issues with parties on the one hand who want wide-open, district-court-like processes in the USPTO and, on the other hand, get these processes completed in a reasonable amount of time.

Ms. LOFGREN. If I could, Mr. Chairman, I am wondering if you could tell us what percentage of accepted inter partes exams today result in a change to the claims?

Mr. KAPPOS. Well, I am doing this from memory, but today my recollection is that a high percentage of the cases that are accepted actually do result in a change of claims. A number like 85 percent is sticking in my mind. But it may be slightly more or less. But it is a high number. I believe that actually is a testament to the strength of the process that when we accept one of these into review it is one that we really do need to look at.

Ms. LOFGREN. I yield back, Mr. Chairman. Thank you very much.

Mr. SMITH. Thank you, Ms. Lofgren.

The gentlewoman from California, Ms. Waters, is recognized.

Ms. WATERS. Thank you very much, Mr. Chairman.

I would like to thank Mr. Kappos for his presence here today.

There is one part of the bill that I continue to have concerns about. Mr. Kappos, as you may recall, I sponsored an amendment on the floor to the America Invents Act with Congressman Schock to extract Section 18 from the bill. This section created an additional review process for financial services related business method patents. According to an April 13th, 2011, article published in the Huffington Post entitled: One observer claimed the banks were using patent reform to seek special consideration exemptions.

Many of the major banks have been using patented business methods without permission of the patent owners or payment to them. The financial industry has persuaded this Administration and the Senate and the House Judiciary leaders to retroactively change patent office rules in a way that makes it impossible for patent owners to enforce their constitutional rights against the banks' infringement. In effect, the Congress is voiding issued patents on behalf of the banks.

I was struck by the information that we were presented with, particularly a case by a man named Mr. Claudio Ballard. I never met this gentleman, but he explained to us that he had founded something called Data Treasury Corporation and that he had really created the technology that removed paper checks from the payment process and replaced them with electronic digital images. And he explained that the financial services industry took extraordinary steps to try and invalidate his inventions.

They took him to court, and he won in court. They came to the Congress in 2008. The Congress did not see fit at that point to do anything to invalidate these inventions. They even went to the Federal Court, and the Federal Court supported them, and I think your office supported them. But they were able to use the power and influence of the financial services industry to insert this Section 18.

And so now you have the responsibility, I suppose, for determining whether or not these inventions are valid, this transitional

review proceeding that you have the responsibility for. And you could literally invalidate patents retroactively.

Have you taken a look at Section 18 and determined how you will be implementing this? And what input have you had coming to you, comments in this process, the regulatory process? Could you help me with that?

Mr. KAPPOS. Sure. Yes, we have looked at that section carefully; and indeed we put out proposed rules on it. We have gotten comments from the intellectual property community on the proposed rules, and we are currently in the process of drafting the final rules to implement the covered business method procedure.

Now we benefit from the fact, relative to the transitional CBM, that there is a lot of legislative history. A lot was said on the floor of both Chambers. And so our job is to implement the legislation that Congress passed. We are implementing it right along the lines of the law and the legislative history that explained the intent.

Ms. WATERS. So I guess what I am asking is, do you have the authority and the flexibility to make a determination about whether or not these patents in the financial services industry that are being challenged are legitimate challenges? And do you have the authority to retroactively invalidate patents in this area?

Mr. KAPPOS. Well, yes, I think we do in the sense of retroactivity. The CBM provision 18 is no different from inter partes re-examination nor post-grant opposition or even supplemental examination or ex parte reexamination that we already have and have been executing for years in the sense that it charges the PTO with taking a second look at a patent that we have granted and potentially determining that some or all of the claims were unpatentable. So it is retroactive in the sense that we are always looking at patents that we previously granted. Congress has given us the authority and the obligation to do all of that.

Ms. WATERS. Well, I recognize that in Section 18. And let me just say that what draws my interest to all of this is we encourage innovation, we encourage creativity, and we have encouraged the average American citizen with an idea to pursue it. It seems to me that there is gross unfairness in the way that this gentleman and others have been treated by the financial services industry. They have a lot of power, they have a lot of money, and they have a lot of clout. And it seems to me this issue is costing these companies a lot of money going into court, winning; coming into your office, winning; and all of a sudden, because they were able to get this in this legislation, this Section 18, they have to continue to pay lawyer's fees and use their precious resources to try and fight against basic unfairness.

And I just want to put that on your mind and let you know that some of us would encourage you: Just do the right thing.

Mr. SMITH. Thank you, Ms. Waters.

The gentleman from Illinois, Mr. Quigley, is recognized.

Mr. QUIGLEY. Thank you, Mr. Chairman.

Welcome.

The enhanced transitional review program, as you know, is tasked with reviewing business method patents that have been characterized as being of poor quality, specifically patents that were issued during a time period when the patent office lacked ac-

cess to the most relevant prior art to assist examiners as they reviewed business methods.

You know, on one hand, these smaller institutions that support something like this, they struggle to defend themselves against lawsuits. Some of these are pretty small, community bankers and so forth. So a lot of them settle to avoid an extraordinary cost of litigation.

On the other hand, while this new process will help, these institutions would have a difficult time paying large fees to get a patent reviewed under the business method patent review program unless the fees were scaled, I guess. Is that your intention? Is that your understanding, the intention of PTO to scale the fees to help smaller institutions?

Mr. KAPPOS. Well, if I recall right, we are permitted by Congress to scale fees in a lot of areas, and we are. We are going to be for the first time offering micro-entity fee discounts of 75 percent in addition to small-entity discounts of 50 percent.

But if I recall right, Congress did not give us the authority to scale the fees to a micro level for those post-grant processes. Well, my understanding was that the overall view was that as you get into processes like that, like the covered business method review process, you are really almost always in a position where the PTO is by far the least-cost alternative, because your other alternative is going into district court. So the cost in USPTO our fees are going to be circa a few tens of thousands of dollars. You have got the lawyers' fees on top of that. But compared with going into district court and spending millions of dollars to get the same thing done.

Mr. QUIGLEY. And I appreciate that you say that is your understanding.

Mr. Chairman, can I ask you if you know or someone else knows what your understanding was of whether Congress was giving the PTO the authority to micro target?

I see by the shaking heads it appears no.

Mr. SMITH. I think the answer is no, having consulted with staff, but we can look into it further for you.

Mr. QUIGLEY. I would appreciate it, sir, if you and your staff could, Mr. Chairman.

Thank you, and I yield back.

Mr. SMITH. The gentleman yields back.

There are no other Members here for questions so, Director Kappos, thank you for your testimony today, very much appreciated.

We will now go to our second panel of witnesses, and as soon as they are seated I will introduce them.

Our first witness is Bob Armitage, Senior Vice President and General Counsel for Eli Lilly and Company. Before joining Lilly in 1999, Mr. Armitage worked as Upjohn's Chief IP counsel and practiced law for Vinson & Elkins in Washington, D.C. He is also an Adjunct Professor of Law at George Washington University.

Mr. Armitage earned a degree in physics and mathematics from Albion College as well as a Master's degree in physics and a law degree from the University of Michigan. He was a major stakeholder participant in the negotiations of the American Invents Act and is the author of an article on the new patent law that was re-

cently published in the AIPLA Quarterly Journal. I have a copy here, and the article I think is 110 pages long. So—and I have heard it is well written and look forward to reading it.

Our next witness is Eliot Williams, a Partner in Baker Botts' New York office, who will testify on behalf of the Financial Services Roundtable, the American Bankers Association, the American Insurance Association, the Independent Community Bankers of America, and the National Association of Federal Credit Unions.

Mr. Williams practices in all areas of intellectual property law, with a focus on patent and trade secret litigation. Mr. Williams frequently speaks on IP issues and is an Adjunct Assistant Professor at Brooklyn Law School where he teaches patent litigation. He earned a B.S. in electrical engineering from Texas A&M University and his law degree from New York University.

Our next witness is Carl Horton, Chief IP Counsel for General Electric, who will testify on behalf of the Coalition for 21st Century Patent Reform. He also served as an IP counsel for GE's Healthcare and Distribution and Control Businesses.

Before joining GE, Mr. Horton practiced IP law for 4 years in Alexandria, Virginia, for Burns, Doane, Swecker & Mathis. He received a chemical engineering degree from the University of Utah and a law degree from George Washington University.

Our next witness is Kevin Rhodes, President and Chief IP Counsel at 3M Innovative Properties Company in St. Paul, Minnesota, who will testify on behalf of the Intellectual Properties Owners Association. Mr. Rhodes manages the IP assets of 3M and its worldwide affiliates.

Before joining 3M in 2001, Mr. Rhodes was a partner at Kirkland & Ellis in Chicago, where he specialized in IP litigation. He earned his undergraduate degree in chemistry from Grinnell College and his law degree from Northwestern.

Our next witness is Richard Brandon, Associate General Counsel for the University of Michigan. His practice focuses on patent, technology transfer, and research legal issues. Prior to joining the university, Mr. Brandon practiced IP law in Chicago for a number of years. He has experience in domestic and foreign patent prosecution, licensing, and other technology and IP-related issues.

Mr. Brandon received concurrent bachelor degrees in Chemistry and Spanish from Wayne State University and his law degree from the University of Michigan.

Our final witness is Timothy Molino, Director of Government Relations for the Business Software Alliance. Prior to joining BSA, Mr. Molino served as Chief Counsel for Senator Amy Klobuchar and worked for the Antitrust, Competition Policy, and Consumer Rights Subcommittee. He was responsible for advising the Senator on a variety of tech and IP issues.

Mr. Molino also practiced IP law in Washington with two firms: Bingham McCutchen and Burns, Doane, Swecker & Mathis. He earned his undergraduate degree from the University of Mary Washington and his law degree from Washington and Lee University.

We welcome our witnesses today. Please limit your testimony to 5 minutes. And, Mr. Armitage, we will start with you.

TESTIMONY OF ROBERT A. ARMITAGE, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, ELI LILLY AND COMPANY

Mr. ARMITAGE. Thank you, Chairman Smith and Ranking Member Conyers.

It was exactly 8 months ago today that the Leahy-Smith America Invents Act became law. This achievement was largely attributable to the bipartisan persistence of this Committee and its Senate counterpart over what seemed like a short 6-year period to see a comprehensive patent reform bill through to enactment.

The new law positions the United States as the global leader in efforts to improve the world's patent systems through greater international cooperation and harmonization. On a host of issues the AIA implements what the U.S. patent communities agreed would be the best patent practices for a globally harmonized patent system. This was done so that our law might serve as the mold and model for the rest of the world.

As the United States Patent and Trademark Office moves to implement our new law, the devil in such an implementation sometimes lies in its most obscure details. This makes today's hearing, with the aim of focusing on several of those details, of the utmost importance to the country. Thus, I am pleased to be able to offer the views of Eli Lilly and Company on the AIA implementation efforts thus far. Let me begin by offering a few words on the process that the USPTO has followed in bringing the AIA to life.

If there were a single word for that process, it would be transparency. If you were to grant me two words to describe the Office's efforts, they would be transparency and candor. The USPTO has reached out to the patent community to understand both the "what" and the "why" of the sometimes quite diverse viewpoints being expressed on these implementation issues. Let me therefore publicly thank those in the Office who are leading this effort. They have shown an uncommon dedication and focus on seeing their mission to a successful conclusion. The Nation could hardly be better served by those now leading this effort, beginning with Director Kappos.

With the limited time available for my opening remarks, let me highlight just a few points from a written statement.

First, the USPTO efforts to implement the new fee-setting authority indicate that Congress was fully justified in giving to the Office this fee-setting responsibility. Lilly wants the Office to be run frugally and efficiently and for the Office to use its financial resources to invest for the long term in ways that will make it more efficient and more effective and that hold the promise that the fees of the future might indeed even be lower.

In the aggregate, we see the plan to invest $2.93 billion of user fee collections next year as a well-justified target, set at the right level for the investments the Office is making in the future of this country's patent system. That, of course, assumes, as we have heard today, that those fees are not just collected but also available to the Office for their use.

Second, with respect to the new supplemental examination procedure, the Office, at least in Lilly's view, has not fully embraced this procedure, nor has it sought to optimize its potential for increasing the reliability and quality of issued patents. The Office could in-

deed improve the quality and usefulness of the information coming before patent examiners during the original examination of a patent by facilitating more ready access to supplemental examination, and to do so it must greatly simplify the requirements that now appear in its proposed rules.

Third, I would like to commend the Office for its response to the criticism of its proposed rules implementing assignee filing and the so-called inventor's oath provision of the AIA. It is clear from recent actions of the Office that the final rules will proceed to fully implement the assignee filing provisions of the AIA, and hopefully this augurs well for the Office's final rules as they relate to the inventor's oath.

Fourth, Kevin Rhodes, appearing today on behalf of IPO, has submitted testimony for the record that provides a detailed road map for crafting rules on the new post-issuance procedures in the AIA. This road map was created on a cooperative basis by the ABA, IPO, and AIPLA.

Lilly's hope is that the views in Kevin's submission will become the detailed blueprint for the Office's final rules. And indeed, just to underscore what Director Kappos has said, it is very important that those rules be crafted so that the post-grant review procedures are efficient and economical, providing discovery that is fair and needed but not trying to duplicate district court litigation.

Let me end with just one final observation. Congress in passing patent reform of the U.S. laws undertook a task that hadn't been successfully undertaken since 1836. It is a remarkable achievement. It deserves implementation efforts commensurate with that achievement.

To date, I would contend that the Office has shown itself to be up to the task of securing a remarkable implementation of this remarkable new law. The proof, however, of my contention will come in the pudding of the final rules and examination guidelines, rules yet to be finalized and examining guidelines yet to be proposed.

Thank you.

[The prepared statement of Mr. Armitage follows:]

Statement of
Robert A. Armitage
Senior Vice President and General Counsel
Eli Lilly and Company, Indianapolis, Indiana

Before

The United States House of Representatives

Committee on the Judiciary

On

"Implementation of the Leahy-Smith America Invents Act"

Wednesday
May 16, 2012

Chairman Smith, Ranking Member Conyers, and Members of the Committee:

Mr. Chairman and Ranking Member Smith, my name is Robert Armitage. I am pleased to have this opportunity to testify on the implementation of the Leahy-Smith America Invents Act.

The patent community owes an enormous debt of gratitude to this Committee, and its Subcommittee on Intellectual Property, Competition, and the Internet, for the work in crafting H.R. 1249, and the legislative efforts – beginning with H.R. 2795 in the 109th Congress – that preceded it and that ultimately resulted in this new law being signed by the President on September 16, 2011. For me, personally, seeing the AIA come to fruition represents the last stride in a 30-year marathon.[1] Like many in the patent profession who worked with Congress to bring the AIA into being, getting to the finish line was worth the effort. Today, the United States has resumed in its rightful role as the leader in the global patent community, with what has been hailed as the world's first 21st century patent law – one with an unprecedented inventor friendliness and a clear recognition of the role that collaborations play in the discovery and development of new technologies.

The enactment of the AIA, from my perspective at least, will stand as one of the seminal accomplishments of the 112th Congress. The new law contains sweeping reforms of the U.S. patent system. Its provisions constitute the first comprehensive patent system reform that Congress has made since 1836.

A case can be made that it is the most important set of changes that have been made to U.S. patent laws since the original 1790 Patent Act, enacted by the First Congress. During my last testimony before this subcommittee in February, I noted that:

> The Leahy-Smith America Invents Act, the world's first truly twenty-first century patent act, contains all the elements needed for a patent system to operate effectively, efficiently, economically, and equitably. If the decade ahead yields greater international patent cooperation and harmonization among patent systems around the world, the starting point for that effort should lie in the incorporation of its provisions into patent laws across the globe."[2]

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[1] See generally, Robert A. Armitage, *Reform of the Law on Interference: A New Role for an Ancient Institution in the Context of a First-to-File System*, 64 J. PAT. OFF. SOC'Y 663 (1982), making the case for creating a comprehensive and coordinated set of reforms to U.S. patent law, centered on adoption of the first-inventor-to-file principle, mandatory publication of patent applications at 18 months from initial filing, and a patent term that provided patents would expire 20 years from the initial patent filing.

[2] Robert A. Armitage, "LEAHY-SMITH AMERICA INVENTS ACT: WILL IT BE NATION'S MOST SIGNIFICANT PATENT ACT SINCE 1790?", Washington Legal Foundation Legal Backgrounder, Vol. 26, No. 21 (September 23, 2011), available at: http://www.wlf.org/Upload/legalstudies/legalbackgrounder/09-23-11Armitage_LegalBackgrounder.pdf.

More recently, I have had the opportunity to reflect on the new patent law in the American Intellectual Property Law Association Quarterly Journal:

> The America Invents Act has made many significant changes to the patenting landscape in the United States. It is a giant step toward a more transparent patent system, where a person skilled in the technology of a particular patent and knowledgeable in patent law can review a patent, reference only publicly accessible sources of information, and make a complete and accurate assessment of the validity of the patent. At its core, the AIA seeks a more objective patent law, where subjective issues like an inventor's contemplations or a patent applicant's intent bear no relevance to any issue of validity or enforceability of the patent. It is a patent law that, in many situations, may require no discovery of the inventor to determine if a claimed invention is patentable.
>
> Congress took bold steps to reach these goals. The "loss of right to patent" provisions were all repealed. The "best mode" requirement was made a functional dead letter. All references to "deceptive intention" were stripped from the patent law. A new "supplemental examination" procedure was instituted to address any error or omission in the original examination of a patent and bar the defense of patent unenforceability once the procedure has run to completion. Finally and most dramatically, it concisely limited "prior art" on which the novelty and non-obviousness of a claimed invention was to be assessed. Nothing can qualify as prior art absent representing a prior public disclosure or an earlier patent filing naming another inventor that subsequently became publicly accessible—casting aside 175 years of a more complicated, subjective, and uncertain standard for patenting.
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> Thus, without question, *transparent, objective, predictable* and *simple* are four words that should come to describe the hallmarks of the new patent law arising from this historic legislative achievement. Those four words suggest a fifth that appears to be equally apt. *Remarkable*.[3]

As just one example of the promise of the new patent law, Congress has now streamlined and refined patentability criteria in ways that make them simple and

[3] Robert A. Armitage, *Understanding the America Invents Act and Its Implications for Patenting*, AIPLA Q.J. 40:1, 133 (2012).

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straightforward to express, and – for both patent professionals and the inventors and investors that they advise – far more understandable:

> Congress has managed to boil patentability law down to four requirements for a claimed invention in a patent to be valid:
>
> • *Sufficient differentiation* from the prior art. "Prior art" is defined in a simple and transparent manner as subject matter that, at the time of an inventor's patent filing, was already available to the public, or available from a previously-filed U.S. patent or published U.S. application for patent, subject to the inventor-friendly and collaboration-friendly "grace period" and "self-collision protection" provisions that have long been part of U.S. patent law.
>
> • *Sufficient disclosure* in the inventor's patent filing to identify the embodiments of the claimed invention and enable them to be put to a specific, practical, and substantial use.
>
> • *Sufficient definiteness* in the inventor's patent claims, to reasonably identify the subject matter being claimed from that not being claimed.
>
> • *Sufficient concreteness* in the subject matter claimed, such that the process or product being claimed is not excessively conceptual or otherwise abstract.[4]

There are important consequences to this new patent law for the rest of the world:

> The Act's simple, clear, and objective patentability law—although over 220 years in the making—may prove to have been well worth the wait and, as global patent harmonization discussions recommence, the mold and model for the rest of the world to now emulate.[5]

As the U.S. patent community looks to the implementation of the AIA, part of its assessment of whether the *practice* under the AIA matches the *promise* of the AIA will reside in whether the USPTO can establish new rules and procedures that U.S. interests would wish to see used as the mold and model elsewhere. Can the USPTO implement the AIA so that U.S.-based innovators realize the full benefits of more efficient, streamlined, and effective patenting mechanisms domestically that serve as the model for patenting processes internationally?

One hope across the U.S. patent community is that the AIA has positioned the United States to urge foreign patenting systems to now follow the U.S. lead, not only in

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[4] Robert A. Armitage, *Perspective*, ABA IPL Section Landslide 4:1 (August-September 2011) at p. 1.
[5] Robert A. Armitage, *Perspective*, *supra*, at p. 1.

crafting transparent, objective, predictable and simple substantive standards for patentability, but in marrying those provisions with more inventor- and collaboration-friendly features. For the United State to lead, however, U.S. negotiators must be positioned to urge foreign governments to "do as we do," rather than simply "do as we say." Thus, I would like to explain in detail what I believe the United States, particularly the USPTO, must now *do* in implementation of the AIA in order to realize and reinforce a U.S. leadership role.

For decades, efforts at U.S. leadership on creating more globally harmonized patent laws have been stymied because the majority of the U.S. patent community had no interest in seeing our patentability standards and criteria exported globally. When U.S. interests defined the "best practices" internationally for crafting a patent law and patent system, those practices were in key respects absent in our laws. The AIA has ended that era of followership for the United States. The supporters of the AIA look at its provisions as the epitome of best patenting practices.

Thus, a critical filter through which Lilly – and other U.S.-based innovators – look at AIA implementation is whether the congressional promise of using the AIA as a tool for global leadership on patent system matters is being realized. How completely can our new law fulfill this enormous domestic promise and international potential for good for U.S.-created innovation?

With this enormous promise for the new patent law, now eight months old, what is the current state of its implementation? To answer this question requires a look first at the upcoming work the Office will undertake to implement the first-inventor-to-file provisions of the AIA and then to follow that look with an analysis of how USPTO proposed rules in the areas of supplemental examination procedures, assignee filing/inventor's statement requirements, and post-grant review procedures either do or do not serve to advance both domestic concerns of the U.S. patent user community and the broader international leadership role that the United States needs to play to advance U.S.-based interests globally.

First-Inventor-to-File Provisions – Implementing Congressional Intent

If there be one aspect of the AIA that Congress would have wished to be seen as crystal clear, it would be the new rules that Congress laid out on the most fundamental aspect of patent law: *What acts preceding the filing of a patent application can bar the ability of an inventor to secure a valid patent on an invention? Most specifically, what can qualify as "prior art" against which an invention is assessed for novelty and non-obviousness?* The answer to these questions can be simply restated: What pre-filing acts or actions can the USPTO cite to bar the issuance of U.S. patent as failing to meet the requirements under new §102 of the patent statute?

With its drafting of new §102, Congress itself believed its new statutory language met the tests of clarity and non-ambiguity. This is clear from the encyclopedic, chapter-and-verse analysis of the AIA's new provisions in the legislative history. Congress was,

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on its face at least, clear and unambiguous with respect to what constitutes "prior art" and what, contrary to the pre-AIA law, no longer serves as a bar to patenting.

There is a cogent confirmation that the congressional crafting of these key components of the AIA was completely clear. Recently published is a complete analysis of "what got done when and why." It can be found in Joe Matal, *A Guide to the Legislative History of the America Invents Act, Part I of II*, Federal Circuit Bar Journal 21:435 (2011). Mr. Matal worked on the AIA for leading congressional sponsors of patent reform, Senators Kyl and Sessions.

At pp. 466-475 of the Matal analysis, the entirety of the legislative development of new §102 is set out. On the "prior art" provision of the new patent law, at p. 468, Mr. Matal notes:

> The final Committee Report for the America Invents Act [H.R. Rep. No. 112-98] was issued on June 1, 2011, and the full House began debate on June 22, 2011. On that first day of debate, Representative Lamar Smith, the Chairman of the House Judiciary Committee and lead sponsor of the bill, engaged in a colloquy with Representative Charles Bass of New Hampshire regarding the AIA's new definition of "prior art" and its grace period. The Smith-Bass colloquy was similar in substance to the Leahy-Hatch colloquy[6] of March 9, 2011. [157 Cong. Rec. S1496-97] It concluded by noting that, "*contrary to current precedent, in order to trigger the bar in the new 102(a) in our legislation, an action must make the patented subject matter 'available to the public' before the effective filing date*." [157 Cong. Rec. H4429; emphasis supplied.]

The "available to the public" standard was employed in part, according to this analysis, to overrule old "loss of right to patent" provisions,[7] most notable among which

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[6] Matal quotes two passages from the Leahy-Hatch colloquy in order to explain how the new "prior art" definition in §102 will operate:
"[T]he important point is that if an inventor's disclosure triggers the 102(a) bar with respect to an invention, which can only be done by a disclosure that is both made available to the public and enabled, then he or she has thereby also triggered the grace period under 102(b). *If a disclosure* resulting from the inventor's actions is not one that is enabled, or *is not made available to the public*, then such a disclosure *would not constitute patent-defeating prior art under 102(a) in the first place*."
"One of the implications of the point we are making is that subsection 102(a) *was drafted in part to do away with precedent under current law that private offers for sale or private uses or secret processes practiced in the United States that result in a product or service that is then made public may be deemed patent-defeating prior art*. That will no longer be the case. In effect, the new paragraph 102(a)(1) imposes an *overarching requirement for availability to the public*, that is a public disclosure, which will limit paragraph 102(a)(1) prior art to subject matter meeting the *public accessibility standard that is well-settled in current law, especially case law of the Federal Circuit*." [Emphasis supplied.]

[7] The pre-AIA heading for §102 was titled "Conditions for patentability, novelty and loss of right to patent," and in the AIA the repeal of these "loss of right" provisions was in part evidenced by the new title

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were the "forfeiture provisions" in pre-AIA §102(b) in which an inventor's secret offer for sale or secret use of an invention, once deemed "ready for patenting," would bar the inventor from seeking a valid patent for the invention unless the patent was sought within the one-year period from the date of such a secret undertaking.

The new legal standard under §102, under which the "loss of right to patent" provisions were to be repealed, *i.e.*, by requiring that any patent bar under §102 should require some act, action or activity that rendered subject matter "available to the public," was a consensus position of the U.S. patent user community. It was identified as an essential "best practice" in devising the standards for whether or not a valid patent might be issued for an invention. Thus, one of the primary objectives of the supporters of H.R 1249 was to assure that secret, private, confidential or otherwise non-public acts of the inventor would no longer constitute a "forfeiture" of the inventor's right to secure a patent on the invention.

Indeed, the development of this consensus among U.S. interests, *i.e.*, that there be a *public accessibility* requisite in new §102 in order for earlier-disclosed subject matter to serve as a bar to patenting, was recently detailed in a publication of the Intellectual Property Law Section of the American Bar Association:

> In a 2001 *Federal Register* notice, the USPTO sought views on no less than 17 harmonization-related issues, including: "As to priority of invention, the United States currently adheres to a first-to-invent system. The remainder of the world uses a first-to-file rule in determining the right to a patent. Please comment as to which standard is the 'best practice' for a harmonized, global patent system."
>
> Dozens of domestic entities and individuals responded to the 2001 notice, expressing views on the first-inventor-to-file principle and how best to implement it. Reading the responses, it becomes clear that a consensus emerged, not just on the principle of adopting a first-inventor-to-file rule, but on numerous details of its implementation.
>
> When Congress sought to write the new statute, it drew on the domestic consensus from 2001. It provided a globalized "prior art" standard, rejected Europe's novelty-only "prior art" rule for earlier patent filings, retired the *Hilmer* doctrine, *ended each of the §102 "patent forfeiture" doctrines*, and secured a strong "grace period"

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for §102, "Conditions for patentability, novelty," *indicating without ambiguity that no such "loss of right to patent" provisions remain.*

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> for inventors who publish before patenting.[8] [Emphasis supplied.]

The desire to see the demise of the "forfeiture" doctrine was fully documented because it was one of the 17 "best practice" issues on which the USPTO sought input from the patent user community in its 2001 notice.[9] The specific question posed by the USPTO in 2001 on "forfeiture" was the following one:

> United States law provides for loss of right provisions, as contained in 35 USC 102(c) and 102(d), that discourage delays in filing in the United States. Further, 35 USC §§102(a) bars the grant of a patent when the invention was "in public use or on sale" more than one year prior to filing in the United States. *Secret commercial use by the inventor is covered by the bar* in order to prevent the preservation of patent rights when there has been successful commercial exploitation of an invention by its inventor beyond one year before filing. *Most other patent systems do not have such provisions.* [Emphasis supplied.]

Among the organizations whose comments then indicated in very explicit terms that the forfeiture doctrine had no place in a modern patent law, based upon the aforementioned "best practices" capable of serving as a model for patent systems globally, were a litany of leading national organizations that would later become the leading supporters of the AIA, specifically:

- National Association of Manufacturers
- Biotechnology Industry Organization
- Intellectual Property Owners Association
- Intellectual Property Law Section of the American Bar Association
- American Intellectual Property Law Association

The comments of NAM were typical of the views on "best practices" for a 21st century patent system, one that needed to repeal a forfeiture doctrine so that it could be the foundation for a more globally harmonized set of "best practice" rules for patenting:

> A major component of any harmonization treaty should be the maintenance of the right to obtain patent protection so long as the acts of the inventor are not *publicly accessible* to persons of ordinary skill in the art. If the acts of the inventor or the inventor's agents cause a *disclosure of the invention that is reasonably and effectively accessible* to persons of ordinary skill in the art,

[8] Robert A. Armitage, *Perspective*, ABA IPL Section Landslide 4:4 (February-March 2012) at p.1.
[9] See 66 Fed. Reg. 15409-15411 (March 19, 2001).

> it should be *patent-defeating after one year*. If the invention is not so accessible, *there should no longer be a personal forfeiture*. This avoids the complexity and arbitrariness of the "ready for patenting" standard recently set forth in the United States.[10]

Given that Congress was clear on what would be required for securing a valid patent under new §102 – and given that the leading proponents for patent reform in the U.S. patent community had long ago gone on record as to the "best practices" they were seeking to have ensconced into new §102 – it is worth exploring how the new law's provisions on this key point are being discussed by the wide spectrum of commentators as to its import.

What has transpired since the enactment of the AIA among commentators who have dissected the new law?

One example worthy of note can be found in the conclusions drawn by two noted academicians whose lectures on the eve of enactment of the new law still reside on their website. They have come to the diametrically opposite conclusion relative to the aforementioned consensus "best practice" on whether the new patent law can trigger a "forfeiture" bar to patenting based upon subject matter that is confidential and, thus, unavailable to the public. Two slides from their website appear as follows:[11]

New Act perpetuates current rule in distinguishing prior art events initiated by inventor and those of 3rd parties

- ANY disclosure by inventor him or herself – including confidential on-sale activities and non-informing public uses – initiates a 1-year grace period
  - Inventor has 1 year within which to file after on-sale or public use event

Under the statute

- A's on-sale activity or non-informing public use creates a grace period FOR A but DOES NOT bar a patent for others such as B
  - Why not? Because it is prior art ONLY TO A under 102(a)(1), and *therefore* a "disclosure" under 102(b)(2) which qualifies for the 1 year grace period
- Also: As under current law, confidential third party on-sale and non-informing public use activities by third party B do NOT create prior art for patent applicant A

The views depicted in the slides above are, of course, simply incapable of reconciliation with the views of the House and Senate sponsors of the legislation and, on the House side, contrary to the clear understanding of the new law to be found in this Committee's report that preceded the floor debate on H.R. 1249. While it is difficult to understand how any holistic reading of the new definition of prior art under §102(a)

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[10] See, for all comments received in response to the USPTO's Federal Register notice, United States Patent and Trademark Office, Comments Regarding the International Effort to Harmonize the Substantive Requirements of Patent Laws, USPTO.GOV, http://www.uspto.gov/web/offices/dcom/olia/harmonization/.

[11] Prof. Robert Merges and Prof. John Duffy, *Leahy-Smith America Invents Act: Overview (9.15.2011)*, http://www.law.berkeley.edu/files/belt_Leahy-Smith_AIA_2011_Overview_Final.pdf, at slides 25-26, as viewed on May 8, 2012.

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could lead to a conclusion that there is a different standard for what constitutes a bar to patenting in the case of the inventor, in contrast to someone other than the inventor, what is relevant is that – for whatever reason and on whatever basis – such contentions can be found.[12]

The mere existence of views other than those of the Committee on the intent and the meaning of the new statute makes it important for the implementation efforts relating to the new provisions in §102 to align fully with congressional intent. The USPTO, starting on March 16, 2013 – 10 months from today – will begin receiving patent applications in which the new §102 will apply. As that date approaches, inventors are entitled to certainty as to the Office's views of what the new law will demand and what standards the Office will use in examining inventors' claims for novelty and non-obviousness over the prior art.

What does this suggest is the next critical juncture in the AIA's implementation?

For many of the AIA's proponents, the most crucial "get it right" event in the AIA implementation will be the manner in which the new standard for "prior art" under §102 is described in the USPTO's examination guidelines. These guidelines will set out the expert agency's understanding of the text of the new law's provisions in order that patent examiners can know what to examine for and patent applicants can know when and under what circumstances they might be entitled to file for a patent.

The Office simply cannot be equivocal, have reservations, or express uncertainty about the manner in which it will be examining patent applications – and what requirements a patent applicant must meet under the new law in order for a patent to be legitimately sought and validly issued.

It should not be too much for Congress to ask of the USPTO that it commit to implementing the provisions of the new law in a manner that is both consistent with the plain wording of the new patent statute itself and the clear intent of its House and Senate legislative sponsors in enacting it.[13] This is particularly important given the relationship

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[12] In the case of the slides displayed above, the authors elsewhere in their presentation concluded that "[p]rior art categories under 102(a)(1) incorporate existing [pre-AIA] law defining each category," a contention that stands in defiance of the modifier Congress placed in the new statute, "or otherwise available to the public," as well as in contradiction to the plain meaning of those statutory words (and reinforcement of that plain meaning in the House report on H.R. 1249). The authors did so on the slender reed that the "statute specifically distinguishes between 'disclosure' and 'PUBLIC disclosure'." This distinction, the authors concluded, means that subject matter other than a "public disclosure" must have been contemplated under §102(a)(1) as qualifying as prior art, thereby wholly ignoring that the use of the term "public disclosure" in both §102(b)(1)(B) and §102(b)(2)(B) was clearly intended to limit the availability of both these subparagraph (B) exceptions (from subject matter otherwise qualifying as prior art) to only subject matter the inventor disclosed in the manner described in §102(a)(1), that is, by making the subject matter available to the public, as opposed to subject matter disclosed in the manner described in §102(a)(2), namely a disclosure made in a patent filing that is not public – and may never become public.

[13] The Committee has made its expectations clear to the Office at different times in different ways over the past 60 years. In its consideration of the Patent Law Amendments Act of 1984, it directed the patent office to undertake a broadly based expansion of the "obviousness-type double patenting" doctrine as part of

between §102(a)'s prior art definition and clearly interrelated provisions in the AIA that depend upon a transparent and objective law on patentability.

The House's viewpoint on the interrelationship between §102's new provisions and the remaining reforms in the AIA was not just a view expressed there; it was a view clearly shared in the Senate. "Thus, new section 102(a)(1) imposes a public-availability standard on the definition of all prior art enumerated in the bill—an understanding on which the remainder of the bill is premised." Senator Kyl, 157 Cong. Rec. S1368-1371 (March 8, 2011).

Perhaps the most significant of those provisions of the AIA on which an implementation of new §102 that is faithful with congressional intent depends is the new post-grant review procedure. These PGR proceedings do no less than demand a transparent standard for what subject matter can qualify as prior art. Transparency in what is or is not a bar to patenting is essential – namely, it is critical to have a prior art definition that is keyed to *public accessibility* – so that the USPTO can confine its inquiry into the "scope and content of the prior art" to subject matter that had become publicly accessible before the patent was sought.

The rationale for the new PGR proceedings was to permit the USPTO to decide administratively in the Office any issue of patent invalidity that a court could consider in the context of a declaratory judgment of patent invalidity or an invalidity defense to a charge of patent infringement. The "forfeiture" doctrine is notorious for its discovery implications – requiring extensive fact-finding on what the inventor or those operating at the inventor's behest may or may not have undertaken in work with third parties, done in secret years before, and, simultaneously, attempting to ferret out facts as to whether the

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statutory reforms that pulled back on the statutory grounds under which "obviousness" could exist: "The Committee expects that the Patent and Trademark Office will reinstitute in appropriate circumstances the practice of rejecting claims in commonly owned applications of different inventive entities on the ground of double patenting. This will be necessary in order to prevent an organization from obtaining two or more patents with different expiration dates covering nearly identical subject matter." See Analysis of H.R. 6286, Congressional Record (October 1, 1984) at H10525 to H10529, remarks by Representative Robert Kastenmier, Chairman of the Subcommittee on Courts, Civil Liberties and the Administration of Justice of the Committee on the Judiciary. Similarly, see the implicit direction to interpret §102(a) under the 1952 Patent Act, such that "known or used" would be limited by the patent office to mean "publicly known or publicly used" at S. Rep. No. 82-1979 at 17 (1952), reprinted in 1952 U.S.C.C.A.N. 2394, 2410. "The interpretation by the courts of paragraph (a) [of pre-AIA § 102] as being more restricted than the actual language would suggest (*for example, known has been held to mean publicly known*) is recognized but no change in the language is made at this time." [Emphasis added.] Finally, see H.R. Rep. No. 108-425, at 6, setting out congressional expectations for implementation of the CREATE (Cooperative Research and Technology Enhancement) Act of 2004: "Congress intends that parties who seek to benefit from this Act to waive the right to enforce any patent separately from any earlier patent that would otherwise have formed the basis for an obviousness-type double patenting rejection. Further, Congress intends that parties with an interest in a patent that is granted solely on the basis of the amendments made pursuant to this Act to waive requirements for multiple licenses. In other words, the requirements under current law for parties to terminally disclaim interests in patents that would otherwise be invalid on "obviousness-type" double patenting grounds are to apply, mutatis mutandis, to the patents that may be issued in circumstances made possible by this Act." The USPTO then proceeded to implement rules to accomplish this intent. See http://www.uspto.gov/web/offices/com/sol/og/2005/week45/patcrea.htm.

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patented invention at such time met the hypothetical standard of being "ready for patenting."

Congress indicated that it sought to end this quagmire by injecting the term "available to the public" into section 102. Simultaneously, it extracted other subjective and secret elements that served to bar patents under pre-AIA. By doing so, the Congress limited the amount of fact-finding, much of which under pre-AIA law was highly discovery-intensive, that might be relevant to patent validity. Indeed, as noted above, in many situations, the restriction of patent validity to a set of transparent, objective, predictable and simple requirements means that no discovery from the inventor may be of potential relevance to the validity of many patents.

It was this cleanup of the patent law that made PGR feasible as a means for addressing all issues of validity of an issued U.S. patent—and fair to both patent owners and patent challengers to construct a procedure that would need significant limitations on discovery in order to meet the one-year statutory deadline for completion once instituted.

Consider the following hypothetical example of a post-grant review proceeding in which an attack is made on a patent as being invalid under a contention that §102's new provisions allow consideration of an inventor's forfeiture of the right to patent, *i.e.*, through a confidential, non-public, foreign-origin offer for sale:

> A competitor of Armonk Software Solutions, Istanbul Business Machines, files a petition for a post-grant review of a key patent on which Armonk has staked much of its future. The petition seeks invalidation of the Armonk patent under §102(a). The facts alleged in the petition are that, during a visit to Istanbul's headquarters in Ankara, a Turkish employee of Armonk who was at the time Armonk's general manager in Turkey, undertook discussions under a confidential disclosure agreement with Istanbul, indicating that the patented technology – although still under development by Armonk – was nonetheless available for sale to Istanbul, as part of Armonk's desire to collaborate more broadly with Istanbul.
>
> In support of its contention that §102(a)'s provisions had been violated because Armonk's claimed invention was secretly "on sale" in Turkey, Istanbul offered a document, purporting to be a transcript of the discussions with Armonk's Turkish employee. The document containing the transcript was dated one year and one day before the Armonk patent was initially sought. Thus, Istanbul contended, Armonk could not avail itself of the "grace period" exceptions under §102(b) to the novelty requirement under §102(a).

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> Armonk could not deny that its Turkish employee had visited Istanbul, had signed a confidentiality agreement relating to the same field of technology covered by the patent, and had discussed the possibility of a number of business relationships with Istanbul, including the possibility of collaborating more broadly with Istanbul in the development of the type of technology present in its patented invention. *Armonk, however, denied authorizing its employee to make any offer for sale. The employee, however, had later resigned from his position with Armonk and now could not be found at the last address that Armonk had for the employee.*
>
> Istanbul, in addition to the document asserted to be a transcript of the encounter with its ex-employee, also included with its post-grant review petition declarations from two of Istanbul's participants in the discussions with Armonk. The declarants for Istanbul corroborated the content for the transcript.
>
> To decide the petition for post-grant review, the USPTO, as a threshold matter, would need to decide whether confidential discussions at Istanbul's home office, although not available to the public, could qualify as "prior art" under §102(a)'s "on sale" provision and, additionally, whether it was more likely than not that the petition established the invalidity of Armonk's patent.
>
> If the PGR proceeding is implemented, a mere preponderance of the evidence will determine if the Armonk patent will be canceled based on the alleged non-public activities that an ex-employee is alleged to have engaged in private, potentially placing Armonk's future viability at risk by opening up the U.S. market for its patented technology to Istanbul Business Machines, its most serious global rival.

The above hypothetical exemplifies precisely what most proponents of PGR have sought to avoid by assuring that only subject matter that had become available to the public could be the basis for barring a patent to an inventor under §102(a)(1).[14] It was the

[14] In fairness, it appears that not all the supporters of the AIA share this view. The USPTO is receiving an array of input on the implementation of the AIA, including on the issue of what and to what extent "uses" can bar a patent. One example of a contrary view can be found on the USPTO website from IBM. http://www.uspto.gov/patents/law/comments/x_aia-c_ibm_20110916.pdf. IBM has stated: "As the AIA limits prior art to that which is available to the public, we believe it is important to address the impact on

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reason why both House and Senate consideration of H.R. 1249 was replete with legislative history citing to the overarching requirement for public accessibility in §102(a)'s definition for prior art.[15]

Congress acted to avoid having the USPTO face the difficult challenge of ferreting out the truth of the matter in deciding what happened in secret, behind closed doors, years earlier. In order to get at the truth of the matter in the above hypothetical situation – whether or not an oral offer for sale had been made in a distant foreign country in the course of a confidential discussion – in a fair manner, where a mere preponderance of the evidence is sufficient to destroy a patent of potentially immense commercial value, it is clear that significant discovery may be needed. Moreover, the

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patentability of secret commercial use by an inventor. IBM believes the change to the scope of prior art made by the AIA should not limit application of the rule that prevents an inventor from seeking patent protection after an extended period of secret commercialization." IBM's position, which in effect would require a return to the pre-AIA law where "in public use" or "on sale" would permit a patent to be barred under the scenario described above facing Istanbul Business Machines, is curious in several respects. First, the proposition of law that IBM suggests that the USPTO recognize post-AIA was never the law prior to the AIA. A foreign-based entity was always able to exploit an invention commercially outside the United States for an unlimited period before applying for a U.S. patent. The principle, somewhat bizarrely, only impacted a U.S.-based entity. Moreover, once this bar took hold, it had the negative impact of deterring making the invention public and forcing continued reliance on trade secret protection. The AIA, of course, turned the patent law upside down on the policy underpinnings for barring a commercial user's ability to seek a patent after commencing a secret commercial use. The first-inventor-to-file rule provides an incentive to seek patents promptly. Moreover, so long as the invention has not yet become public, that incentive continues. Finally, once any public disclosure of the invention has been made, the ability of someone other than the disclosing party to seek an after-the-fact patent vanishes. These factors, taken together, form a far superior public policy to the personal bar to patenting for a secret commercial user or for a secret offer for sale. They avoid the absurd result that the same patent filing on the same day claiming the same invention with the same claim to novelty and non-obviousness over all subject matter theretofore that had been publicly accessible is wholly valid if sought by one inventor, but wholly a nullity if sought by a second inventor, depending only on activities that were beyond public view. In such a case, both inventors advanced the state of public knowledge and both inventors did so under a first-inventor-to-file rule that encouraged promptly filing for a patent, a right that would be forfeited by any disclosure – even if only made a day before a patent filing – that sufficed to make the invention obvious in view of such disclosure.

[15] The non-transparency issue of the old pre-AIA forfeiture bar – and the difficulty to reconcile the bar with the simplicity and predictability essential for a modern patent law to operate in the public interest – can be appreciated from a short hypothetical. Consider that a patent issues that is entirely valid based on the tests for sufficient differentiation, disclosure, definiteness and concreteness described earlier, but assume further that the patent was issued to (1) a U.S.-based inventor who had made a secret offer for sale to a U.S.-based partner more than one year before seeking the patent, (2) a German-based inventor who had made a similar offer to a German-based partner, or (3) a Japanese-based inventor who asserts that its discussion with a Japanese partner at no time involved such an offer for sale. Under pre-AIA law, only the U.S.-based inventor could forfeit the right to patent the invention. Under IBM's view expressed to the USPTO, the AIA would require that both the U.S.-based and German-based inventors' patents would be invalid for forfeiture, but unless more evidence could be adduced to demonstrate that the Japanese inventor's conduct amounted to an offer for sale at a time the Japanese inventor's invention was "ready for patenting," there would be no forfeiture of the Japanese inventor's right to patent. *A U.S. patent law that treats the identical patent with the identical claims differently depending upon secret, non-public information – that is far easier to conceal the more distant the conduct is from the U.S. courthouse where the validity of the patent is being assessed is neither a patent law that can serve U.S. competitive interests nor entice anyone outside the United States that it is a viable model for the rest of the world to follow.*

credibility of the witnesses to the events in question may be crucial to arriving at a fair result. Finally, the imperative that Congress placed on concluding the post-grant review period within a one-year statutory time limitation imposes yet a further strain on securing a fair and just result.

Hence, much is at stake as the USPTO moves to implement the new first-inventor-to-file prior art standard under the AIA's §102(a). Either a transparent, objective and simple implementation of the new law will impose an overarching requirement for public accessibility for any subject matter to qualify as a §102(a)(1) bar to patenting, or patent owners may be faced with a situation no one supporting the enactment of the AIA could have imagined or would have supported. Without the "public accessibility filter," private, secret, or otherwise confidential subject matter, inaccessible to the public anywhere in the world, could be dredged up from any location on the planet to invalidate a patent in a post-grant review or a patent enforcement action in the courts.

In conclusion, as Congress looks to exercise oversight over implementation of the AIA, it is critically important that the USPTO's actions on the first-inventor-to-file prior art guidelines for patent applicants are fully consistent with and fully recognize not just congressional intent, but the only reasonable construction the words of the new patent law could have. I must admit, it is perplexing that there are those who read the words, "in *public* use … or *otherwise available to the public*" as a clear signal from Congress that *non-public* activities can qualify under §102(a)(1) to bar an inventor from securing a valid U.S. patent."

However, I promise – this is not an issue that I simply manufactured out of thin air, to "cry wolf" before this Committee, much as that might appear. As the slide presentation cited above, authored by well-regarded patent academicians indicates, this is an implementation issue where Congress may wish to speak, and speak again, until no doubt exists as to the words it placed into the statute and the import and intent of those words.

USPTO Financing Provisions – Assuring Fees Meet Policy Objectives Set by Congress

THE USPTO HAS JUSTIFIED ITS NEED FOR $3 BILLION IN 2013 FEES

A second set of critical policy issues in connection with the implementation of the Leahy-Smith America Invents Act lie in its provisions relating to the financing of the operations of the United States Patent and Trademark Office. For the first time since the Office was created pursuant to the 1836 Patent Act, it now has an unprecedented opportunity, through its new fee-setting authority and the related AIA provisions assuring the Office will have access to the fees that it collects from users, to address longstanding structural issues.[16]

[16] All stakeholders in the U.S. patent system commend Congress for taking steps in the AIA to end, at once and all time, diversion of USPTO user fees. We commend the Judiciary Committees in the House and the Senate for working closely with the respective Appropriations Committees, the Majority and Minority

After decades of starts and stops in building needed capabilities, the Office at last has a financing model that permits sustained investments in building critical capabilities. It can increase its professional staff to the scale required by the level of new patent filings. It can build the new capabilities that the new responsibilities entrusted to it under the AIA will now demand. It can address what had become an unconscionable backlog of unexamined patent filings, and a similarly distressing backlog in deciding patent appeals. It can use its growing cadre of human resources to undertake and complete the examination of patent applications in an efficient, timely, and accurate manner – and to a degree heretofore unattainable.

In both the House[17] and Senate[18], the fiscal year 2013 appropriations process is on track to afford the USPTO nearly $3 billion to invest in securing opportunities for strong patents, timely issued. The Director of the Office has been abundantly clear about what is at stake – placing the USPTO in a position that it might serve as an engine for investing in new technologies – and a source of quality new American jobs.

Lilly would like to applaud the efforts of the Office to set fees at an aggregate level sufficient to ensure the Office can move forward to hire and train the professional staff that it needs, both to address its steady-state workload needs from new patent filings and to vanquish its accumulated backlog of unexamined patent applications; to acquire the advanced IT capabilities that can drive improvements in the productivity and quality of all its operations (and, over the longer term, therefore, work to reduce the costs and burdens on patent applicants and other users of the Office's services); and to maintain an adequate reserve fund to assure that it can sustain its operations in the face of fluctuations in fee collections from fiscal year to fiscal year.

We are aware that some have expressed concern that the fee levels impose too great a burden on users of the patent system. That is a concern that we, however, do not share.

Our interests differ not at all from other users of USPTO services. We expect the Office to be frugally and efficiently operated. We expect constant improvements in

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Leadership offices in both the House and the Senate, and with the Administration, to achieve the principle that all patent user fees be used to fund USPTO, and only USPTO, operations. It is important to emphasize that USPTO is 100 percent user fee funded and that there are no taxpayer dollars appropriated to the agency. We are mindful of the growing federal budgetary challenges and of the possibility of sequestration or other extraordinary measures to better control federal spending. It is the expectation and hope of stakeholders that all USPTO user fees remain fully, solely, and timely available to the agency, no matter what pressures arise to divert or delay these funds. We stand prepared to work with the Committee as you make sure that the anti-diversion provisions of the AIA are implemented going forward."

[17] See http://appropriations.house.gov/UploadedFiles/CJS-FY13-FULL_COMMITTEE_REPORT.pdf at p. 15.

[18] "**Patent and Trademark Office (PTO)** – The [Senate] bill provides $2.93 billion for PTO, allowing the agency to spend all of its expected fee revenue for fiscal year 2013. The bill continues the reserve fund authorized by the America Invents Act." See http://www.appropriations.senate.gov/news.cfm?method=news.download&id=c016ad78-5f89-418b-b51a-eebf0eba72b9, April 17, 2012 on FY2013 CJS Appropriations.

USPTO operations that place a downward pressure on its fees, as well as any need to increase its fees. When the Office invests in creating new capabilities, whether IT-related or otherwise, we expect that those investments produce a positive return in terms of increased quality or productivity – again creating the opportunity for a fee-change trajectory with a negative slope.

Over the past three years, however, we have seen nothing in the manner in which the USPTO has operated – or proposed to operate – that is inconsistent with these shared expectations among all users of the patent system.

Rather than seeing an aggregate fee price tag for users of $3 billion as a sign of a bloated Office, we look behind the number and see an Office dedicated to becoming *lean and clean*. It is literally staffing up to clean out a backlog of unexamined applications that are a disgrace to the U.S. patent system. A backlog model is a terrible model for us to set on the global IP stage.

We see the Office beefing up its IT "weight room." What the USPTO is proposing on the information technology front is by and large "lean mass," not adipose tissue. Patent examiners will be able to exercise their authority with better systems for accessing needed information and better systems for efficiently communicating with patent applicants. While we will – as will other users – constantly be on the lookout for opportunities to suggest ways in which the resource needs of the Office can be lessened, what $3 billion in user fees in 2013 will do for the Office is assure it will be adequately nourished.

We are particularly concerned, therefore, with those who believe that proposed fee levels are significantly too high, and that a percentage cut in fee levels, somewhere in the *double-digit* range would be warranted. Lilly believes that taking such a step would be to set out on a path towards a chronically malnourished USPTO. Some more modest fee cut might leave the USPTO with the resources it needs to operate, no doubt. However, we are wary of any fee cut, however modest it might appear on its face, if it would mean delaying or denying the USPTO the resources it needs to best serve the public interest and the best interests of patent applicants – both of which deserve prompt patent examination accomplished in a high-quality manner.

Lilly would not want its testimony to suggest sanguinity over the substantial ramp-up of USPTO user fees. Rather, our analysis of the impact of the USPTO's fees is grounded in the aggregate costs of patenting today, only a modest portion of which is represented by USPTO fees. Knocking 10% off the proposed 2013 fees levels would at best result in only a very small aggregate reduction in the cost to secure a U.S. patent. It follows, therefore, that even a smaller cut in USPTO fee levels, i.e., somewhere in the single digit range, would be even more modest in terms of its potential impact on the total costs of patenting.

This leads us to ask the penny-wise-and-pound-foolish question, especially given the non-zero-sum aspect of improving USPTO capabilities and performance.

A high-performing USPTO, able to tackle the examination of patent applications promptly after they are filed – and funded at a level to have the capabilities for doing so – would likely lead to a significant reduction in the direct costs of seeking and securing patents. Increasing fee levels to produce a sustained performance by the Office would mean that patent examination would take less time – potentially much less time – and would result in fewer iterations in the examiner-application communication process that typically precedes the final allowance of a patent application. This could mean a significant reduction in what is typically the most costly aspect of securing a patent, the fees charged by the patent professionals that represent patent applications before the USPTO.

For Lilly, therefore, we see 2013 fee-setting, at least at the macroeconomic level, as a win-win-win for the USPTO, the patent community, and the broader public interest. The Office becomes a better and more attractive place to work, capable of nurturing and demanding higher levels of performance. The user community supports building the capabilities that will mean a more efficient and productive USPTO capable of issuing strong patents more rapidly at an overall lower cost to patent applicants. And, of course, the public benefits both from the more favorable environment for protecting innovation and from the more effective administration of the patent system.

There is a final dimension to Office fee-setting that provides a similar tradeoff between investments needed over the short term and potential savings for users over the longer term. For the first time in many decades, the United States has a substantive patent law that is at the forefront of the best thinking on how to define the principles for establishing whether a patent should be held valid or not. With the AIA, we have stripped out of our law the subjective elements of the law of patent validity, as well as the non-transparent aspects under which the right to a patent could be forfeited based upon the secret or private activities of either the inventor or of competitors working in the field of the invention. In the 21st century, our former patent law lagged the rest of the world in transparency and objectivity in the parameters defining what makes a good and valid patent; it denied us the leadership role globally we rightly deserve.

Moreover, with the AIA, the United States has further solidified its position as having a substantive patent law most favorable to inventors who may elect to publicly disclose an invention before applying for a patent or who work in teams or with collaboration partners in creating new and potentially patentable technology. In an era when many inventions are made through such collaboration and when facile means exists for public dissemination of information, such inventor- and collaboration-friendly features again critically define what should lie at the essence of a 21st century patent law.

With what I and many others have described as the world's first 21st century patent system, the United States is now positioned to lead the efforts at greater international patent harmonization. As I noted earlier, U.S. interests in stronger and more effective patent laws globally would be best served if the AIA's provisions on patent validity became the mold and model for 21st century patent laws across the globe.

This aspiration – for domestic leadership on international patent harmonization issues – requires USPTO resources be taken from its user-fee collections to fund those efforts. The resources are needed to sustain a USPTO equipped to take the lead in international forums where international agreements on greater patent harmonization can be realized. This requires an investment in people and programs by the Office that, however, will carry a quite modest price tag over the next several years.

If such USPTO-led efforts were to succeed, they could lead to a dramatic reduction in the costs of patenting globally. If patent harmonization succeeded on just the issues of novelty and non-obviousness over the prior art, i.e., the question of whether the invention to be patented was sufficiently different from technology that had already been disclosed by others at the time the patent was sought, the cost savings for patent applicants could be staggering. It would open the potential for a patent application to be examined once under a globally harmonized standard and – with little incremental effort or cost – to be patented many times – in many countries around the world that might agree to observe the identical patentability standard.

I continue to emphasize the theme of investments being made today that produce positive returns in the years ahead because – in both areas cited above – the relative costs are so modest and the potential returns are so magnificent. Imagine, within a year or so of seeking a patent, not only having a clear idea of what subject matter can be validly patented, but having a sense that those rights could be secured across the whole of the industrialized world!

This prospect, at least in Lilly's view, is one important part of the promise that lies in the provisions of the AIA relating to the financing of USPTO activities and the importance of implementing those provisions in the manner that the Office has proposed to do – prudently and carefully investing today's fees in activities that may profoundly change the face of patenting by the end of this decade.

THE USPTO MUST RETHINK TWO ASPECTS OF FEE-SETTING POLICY

Just as it is important, we believe, to acknowledge the areas where the Office has made sound choices in implementation of its fee-setting responsibilities, it is of equal importance to constructively criticize the efforts of the Office in areas where it has – at least in Lilly's view – deviated from optimal policy choices. There are two such areas that bear some discussion. In both instances, they raise the question of whether USPTO implementation is at odds with congressional intent.

In very important respects, fee setting is patent policy setting. The Office can implicitly or explicitly set fees based upon policy choices. In addition, fees, once set, have policy impacts. Let me offer two examples below of areas where Lilly believes that

the Office needs to carefully reconsider as its proposed fees are finalized and as those fees once finalized are modified in the future.[19]

POST-GRANT REVIEW FEE-SETTING BASED ON NUMBER OF CLAIMS

First, with respect to the new post-grant review procedures, the Office proposed to set fees based upon the number of patent claims that are being challenged by the PGR petitioner. While the Office's rationale for doing so evidences reasonableness on its face, the policy consequences of implementing the fees as proposed would make it financially prohibitive for someone wishing to challenge a patent containing an inordinately large number of nearly identical, nearly redundant claims.

The claims-based proposed fees would have two undesirable consequences. First, they would discourage challenges to some of the most problematic patents issued by the Office – those drafted with a prolixity of claims, often with a Byzantine interrelationship among the claims. Patents of this type can be difficult to challenge in court and the Office's expertise in examining patents with convoluted claim structures make it the superior venue for addressing important issues over the validity of such patents. Second, the proposed fee structure would likely have the effect of encouraging patent applicants – who might seek to reduce the prospect that their patents might be effectively challenged in a post-grant review proceeding – to craft more larger and elaborate claim structures.

Both these outcomes would be undesirable. A better policy choice would be to set the fees for a PGR petition at a level that was independent of the number of patent claims challenged, but focused instead on the number of issues of patent validity for which the review was being sought, or simply setting the PGR petition fee.

Based on the public input that the Office has received on this issue, it appears that the Office will reconsider its proposal for having a fee structure for post-grant review based upon the number of claims for which a review is being sought. If it does so, it will

[19] In identifying areas where we believe that the proposed fees represent inferior policy choices, it is useful to reflect on another aspect of the implementation efforts of the Office that are of particular relevance to the Office's fee-setting efforts, but apply with equal force to all its AIA implementation activity. The Office has gone out of its way to facilitate criticism of the choices it has made in implementation. This has happened because of the transparency of the Office's efforts and, indeed, the accessibility of the Office and its senior leadership throughout the process. It is possible for members of the public to comment in meaningful ways on the approach to each of the key AIA implementation issues in large measure because of the commendable candor and openness with which the Office has operated. The Office has additionally offered in open forums much detail about the background and rationale for its proposals. On many issues, its thought processes and its considerations based upon its own internal workings have been freely discussed with the user community. By making its thought-processes known, it has facilitated criticism of the Office's proposals – and encouraged back-and-forth dialogue. The transparency and candor with which the Office has approached its fee-setting and other rulemaking efforts is particularly laudable because patent policy is among the most important public policy impacting the long-term economic prosperity of the United States. Indeed, as noted above, the authority given to the Office to set fees for services it provides the Office no less than the authority to set patent policy: which activities within the Office are subsidized – and by how much – as well as which activities will be disproportionately burdened by fees in excess of any costs carry profoundly important policy implications.

produce a level playing field for patent challengers that might require a modest increase in the cost for all PGR petitions. In doing so, the Office could assure that it would have the resources needed in the event that a post-grant review that sought review of a larger number of patent claims required more resources from the Office than a review involving only a small number of patent claims.

Such an outcome, particularly in the initial phases of development of the Office's PGR capabilities would appear to have a preferable set of consequences as a matter of policy. If the use of PGR was modestly deterred because of a somewhat higher petition fee in the early going, the lower utilization of PGR initially would afford the Office the time needed to build its capabilities, and might help assure that the petitions being filed did not exceed the Office's capacity to handle them. Moreover, over the longer haul, it would afford the Office with information needed to titrate fees for PGR in order to strike the optimal policy balance, so that whatever subsidy might be appropriate would neither unduly encourage nor unduly discourage PGR use based on the fee level being set.

SUPPLEMENTAL EXAMINATION – LIMITATION ON ITEMS CONSIDERED

A more concerning aspect of the Office's fee-setting activities relates to the new supplemental examination procedure. Here the Office has been explicit that it is setting fees in a manner calculated to moderate or even discourage the use of supplemental examination: "Set supplemental examination fees slightly above cost to encourage applicants to provide all relevant information during initial examination, which facilitates compact prosecution"[20]. Although perhaps not self-evident, such a statement turns sound logic and good policy on its head and represents a most unfortunate development.

Why so?

One of the grave challenges facing the U.S. patent system is not that patent applicants provide too little information to patent examiners, but most patent applicants provide too much information, particularly too much information of little or no consequence to patentability. To compound this issue, patent applicants have a disincentive to provide any characterization or commentary on the potential significance of the information that is provided. "Tell much, say little" or "over-disclose, under-explain" are typical patent procurement mantras that are observed by the wisest patent applicants today. In the ultimate irony, it is the Office's own "duty of candor" (and the "inequitable conduct" unenforceability defense in the courts) that impedes the type of focused, candid patent applicant-patent examiner dialogue that might lead to better examined patents.

Supplemental examination was conceived in part to actually reverse the incentives under the current law to *over-provide* and *under-analyze* information that sometimes appears by the shovel full in USPTO patent application files. In a nutshell, the availability of the "safety valve" of supplemental examination was intended to encourage

[20] http://www.uspto.gov/aia_implementation/fee_setting_-_ppac_hearing_executive_summary_7feb12.pdf, slide 8.

patent applicants to provide only truly important information to patent examiners – that which is needed to assure patent examination is complete and accurate – and to be able to reasonably characterize the significance of the information being provided.

Then, after the patent issues, if it appears that information may have been missing, inadequately considered or incorrect in the original examination – and may raise a question of patentability – the patent owner can return to the USPTO, have information considered, reconsidered or corrected in the original examination record – and, if necessary have the entire patent reexamined to eliminate any invalid claims.

The win-win-win outcome for the patent applicant, patent examiner, and the public lies, therefore, in assuring the viability of the supplemental examination mechanism, not discouraging its use through fee-setting authority. Properly encouraged, the new procedure would make the initial patent examination more efficient for patent applicants and patent examinations, more focused on information important to patentability, and more compact. It would also assure that no question of patentability would remain for commercially important patents in which the initial examination might not have considered all such information or considered it adequately or correctly.

Thus, Lilly would urge that the USPTO rethink its implementation of supplemental examination from the ground up to assure its viability and accessibility to patent owners. We have done so in a submission directly to the USPTO.[21]

The Lilly submission lays out much of what is wrong with the USPTO's proposed rules. At the top of that list, however, is the inexplicable limitation of the request for supplemental examination to 10 items of information per request. This limitation may mean that patent owners will make the work of the USPTO more difficult by forcing the Office to coordinate information contained in multiple requests, and excessive costs on patent owners by forcing them to pay separate fees for the multiple "supplemental examination" filings and assuring that appropriate cross-references are made between the information in one filing that can only be completely understood by considering information contained in a separate filing.

Implementing the AIA – The Next Generation of Substantive Legislative Improvements

In the current issue of the magazine of the Intellectual Property Law Section of the American Bar Association, I raised the topic of post-AIA statutory changes to the AIA.[22] The title of the article was "*The Remaining "To Do" List on Patent Reform: Consolidation and Optimization*." The thesis of this article was a simple one:

> There are, I believe, some near-term opportunities for further legislative intervention in the patent statute that would not require either rethinking or retreating from the reforms already enacted into law. Rather, they represent

[21] See http://www.uspto.gov/patents/law/comments/sup_exam/xs_c-eli_20120322.pdf.
[22] Robert A. Armitage, *Perspective*, ABA IPL Section Landslide 4:5 (April-May 2012) at p.1.

> areas for further change that could *consolidate* the many achievements of the AIA and, indeed, *optimize* their potential for greater transparency, objectivity, predictability, and simplicity in the operation of the U.S. patent system.

Let me briefly outline those provisions and their potential importance to the fullest possible realization of the AIA:

- Replace the requirement for an "oath or declaration" of the inventor with a patent applicant's express statement that it has obtained the right to file the application for patent from the inventor that the patent applicant has named in its application for patent. This would replace a pure formality, nowhere else required in the world, with an affirmative representation from the patent applicant that could be routinely provided with each new patent filing.

- Remove the option for a patent applicant to opt-out of mandatory publication of pending patent applications at 18 months from the original patent filing. This option, which had a justification under the pre-AIA patent law (albeit a strained one), simply has no place in a patent system where an inventor's patent filing, once published categorically bars any later-filing patent applicant from obtaining a patent either on the inventor's disclosed invention or on any subject matter that would constitute a trivial or otherwise obvious variation on the disclosure in the patent filing. Rather than exposing the inventor whose application was published to a "priority" challenge from a later-filing patent applicant spurred into action by the publication of the earlier-filed patent application, the AIA provides this categorical protection for inventors who seek patents—but only once their patent applications are published.

- Eliminate the complex provisions and practices that exist around "patent term adjustments" (35 U.S.C. §154(b)) based on delays in the USPTO issuing a patent. With the emergence of "priority examination" and its success in securing prompt issuance of patents for patent applicants desiring the patenting process to move quickly to a decision, there is little justification remaining for adjusting a 20-year patent term based upon delays in granting a patent.

- Move the U.S. patent system to the international norm of annual patent maintenance fees, in place of the current practice in which these fees must be prepaid for multiple years into the future at various (arbitrary) periods after a patent has issued. Doing so would move U.S. patent law to the international norm and allow more inventors to keep more patents for longer periods of time by avoiding the need to pre-pay fees for keeping patents in force years in advance.

- Repeal the "best mode" requirement. Congress eliminated the consequences of failing to comply with the "best mode" requirement for good reason – it was among the most absurdly subjective requirements in the U.S. patent law and its

repeal was recommended not once, but twice, in the National Academies' recommendations for a 21st century patent system. It is another impediment to the United States fully assuming a leadership role on international patent harmonization.

- End, once and for all, the plague of "inequitable conduct" allegations in patent infringement litigation. For a host of reasons, this doctrine in the post-AIA world makes less, not more, policy sense than it ever did. If a fraud is perpetrated on the USPTO in order to issue an invalid patent, then declaring the invalid patent cannot be enforced is not deterrent to the fraud – it is merely a redundant punishment. If the supposed fraud resulted in the issuance of an entirely valid patent – the same patent that would have issued absent the supposed fraud – then the punishment is absurdly draconian. Indeed, it is simply perverse to speak of a "fraud" when the only fruits of the supposed bad conduct are obtaining an entirely valid, fully justified patent property right. By ending the "inequitable conduct" defense through remedial legislation the United States would – again – be moving to the international mainstream of patent law, where such a doctrine has no counterpart.

If these half-dozen reforms could be accomplished, U.S. patent law would become even more transparent, objective, predictable and simple. Its contours would be further aligned with "best practices" that domestic constituencies in the patent community have long urged be placed into U.S. law. Our law would be more aligned and better harmonized with "best practices" outside the United States. Indeed, the 2004 recommendations of the National Academies of Science on the needs of a 21st century patent system would be more fully realized.[23]

Implementing the AIA – Technical and Other Conforming Changes to the New Law

For a patent law as long and complex as the AIA, there are surprisingly few areas where Congress should consider changes of a technical or conforming nature to eliminate drafting errors or assure the effectiveness of new provisions placed into law. Several of the more important areas where technical or other conforming changes to the new law have been under discussion deserve at least some brief explanation.

JUDICIAL ESTOPPEL PROVISION FOR POST-GRANT REVIEW

The proponents of the new post-grant review procedure introduced into U.S. patent law under the AIA (Lilly among them), see this procedure as a global "best practice." It was designed from the ground up in the AIA largely to avoid the many drawbacks – for both patent owners and patent challengers – of the post-grant opposition procedures in use under the European Patent Convention.

[23] See "A Patent System for the 21st Century," Stephen A. Merrill, Richard C. Levin, and Mark B. Myers, Editors, Committee on Intellectual Property Rights in the Knowledge-Based Economy, National Research Council, National Academies of Science (2004).

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However, a technical error during the legislative process that resulted in H.R 1249 becoming law inadvertently raised the estoppel from issues raised to include issues that "reasonably could have been raised." This term appears in Chapter 31's inter partes review provisions in §§315(e)(1) and (2), respectively treating estoppel issues relating to further proceedings in the USPTO and civil actions in the courts, as well as Chapter 32's PGR provision in §325(e)(1), treating estoppel issues relating again to further proceedings in the USPTO. However, it's further presence in §325(e)(2), the judicial estoppel provision for PGR, was an inadvertent legislative error that merits prompt correction.

S. 23, which passed the U.S. Senate by a 95-5 margin on March 8, 2011, contained a corresponding §325(e)(2) that limited the judicial estoppel in PGR to "any ground that the petitioner *raised* during a post grant review of the claim that resulted in a final written decision … ." [Emphasis added.] This was a provision that was specifically supported – and the alternative inadvertently introduced into H.R 1249 was specifically opposed – by the major proponents of comprehensive patent reform in this Congress – the Coalition for 21st Century Patent Reform, the Intellectual Property Law Section of the American Bar Association, and the American Intellectual Property Law Association, among others.

The provision now in §325(e)(2) threatens to turn PGR into a dead letter, with an estoppel so draconian in character that it would be highly problematic for a patent challenger to use. The reason is quite simple – while inter partes review is limited to issues of novelty and non-obviousness based upon published materials only – creating a narrow (albeit desirable) reach for an "or reasonably could have been raised" estoppel, the PGR proceeding cover any and every possible defense that could later be raised against a patent in the courts.

Thus, if nothing else is accomplished through a technical amendments process, this technical mistake in the transit of H.R 1249 through Congress should be remedied.

"GRACE PERIOD" ENHANCEMENT – PUBLISHING AS PRIORITY

While the inventor- and collaboration-friendly features of the AIA's new definition of "prior art" in §102 already form a world-leading framework for defining a patent law for the 21st century, recent calls from the university community have raised the issue of whether the provisions of H.R 1249 might have better protected inventors under a relatively rare hypothetical situation in which the inventor who has already published on an invention then decides nonetheless to apply for a patent but discovers that in the interim between the inventor's own publication and its patent application filing date that someone else has either applied for a patent or published on subject matter that was both discovered and created independently of the inventor and was somewhat different from anything that the inventor published and then subsequently sought to patent.

In this situation – where the independent work of an independent creator that is published or contained in a patent filing *differs* from what an inventor has *earlier*

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published and later sought to patent – the intervening publication/patent filing to the extent of any differences from what the inventor earlier published remains as prior art to the inventor's later patent filing and, thus, might render a claim to what the inventor has earlier published in its later patent filing obvious and unpatentable.

This situation can arise because an earlier publication by a inventor, for "grace period" purposes is not given the same effect as the inventor would have enjoyed had the inventor sought a patent (*e.g.*, filed a provisional patent application) in lieu of or contemporaneously with the publication of the invention. Nothing in the adoption of the first-inventor-to-file principle is, however, in any way or to any extent inconsistent with providing that an inventor disclosing an invention in a printed publication be given all the benefits, at least for "grace period" purposes, as though a provisional patent filing had been undertaken by the inventor.[24]

While it is critical to not provide an inventor who publishes any type of advantage over an inventor who makes a provisional patent filing, a statutory change providing greater parity between the two could represent good patent policy. The mechanism for doing so could be to provide an inventor who has published on an invention to seek a patent during the one-year period after the publication and treat the publication as though it had constituted a provisional patent filing for whatever it disclosed. This would mean that any claimed invention in the inventor's nonprovisional patent filing could claim the date of the publication as the effective filing date of the claimed invention *if the disclosure in the printed publication would have been sufficient to establish the right to such an effective filing date had it appeared instead in a provisional patent filing.*[25]

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[24] The rationale for doing so was set out 30 years ago, as the prime mechanism for effecting a grace period as part of a first-inventor-to-file system. See, Robert A. Armitage, *Reform of the Law on Interference: A New Role for an Ancient Institution in the Context of a First-to-File System*, 64 J. PAT. OFF. SOC'Y 663 (1982) at pp.678-9: "As a remedy from the harsh, patent-defeating effect which arises when an inventor's own publication is immediately an element of prior art, new section 119 provides that such prior publications can become the basis for a new right of priority. When this right of priority is asserted in accordance with new section 119(a), the inventor's effective filing date for his patent application directed to the published invention becomes the publication date itself. In this manner, the prior art effect of publication is avoided and a new type of one year grace period is effectively introduced into the statutory scheme, one consistent with the first|-inventor|-to-file principles of prior art determinations enumerated above."

[25] A possible statutory mechanism for accomplishing this result is the following:

GRACE PERIOD.—Section 102(b) of title 35, United States Code, is amended by inserting at the end:

"(3) DISCLOSURES FOLLOWING THE INVENTOR'S PUBLICATION DESCRIBING A CLAIMED INVENTION.—A disclosure shall not be prior art to a claimed invention under subsection (a) if—

"(A) before such disclosure was made available to the public or was effectively filed, the claimed invention had been described by the inventor or a joint inventor of the claimed invention, or another who obtained the claimed invention directly or indirectly from the inventor or joint inventor, in a printed publication;

"(B) the effective filing date for the claimed invention, disregarding any claim for priority under section 119, 365(a), or 365(b), was one year or less from the date the claimed invention was described in the printed publication; and

"(C) the description in the printed publication would have been sufficient under section 119(c)(1) for establishing an effective filing date for the claimed invention under section 100(i)(1)(B)."

The Committee should give careful consideration to the further enhancement of the "grace period" to address the concerns that have been raised within the university community. Appropriately implemented, the additional protection for inventors who inadvertently publish before seeking a patent is consistent with the principle that the patent law should be as inventor-friendly as possible, given the overarching responsibility that patenting rules should also remain transparent and objective.

Moreover, the public interest otherwise would be well served by the "printed publication = provisional patent filing" for effective filing date purposes by encouraging inventors who do publish not to "double stack" the one-year periods that can delay the start of the 20-year patent term until a nonprovisional patent filing takes places, as well as delay the timing of an 18-month publication of pending patent applications.

PRIOR USER DEFENSE – PROTECTING DOMESTIC MANUFACTURING

One of the achievements of the AIA that appeared to be beyond reach until very near the end of the legislative road to enactment was improvement to the prior user defense. Fortunately, Congress was able to expand the prior user defense by recrafting the provisions of §273 from the ground up. Importantly, the archaic requirement for explicitly establishing a "reduction to practice" was removed, as well as the limitation to patents for methods of doing or conducting business.

However, there are at least three limitations to the defense that continue to dilute the effectiveness of the defense for companies that invest in the United States – creating domestic facilities and employing U.S. workers. These limitations merit removal to assure fair protection of these U.S. operations from belatedly sought patents. I had the opportunity to testify at length in a hearing before the Subcommittee on Intellectual Property, Competition and the Internet on February 1 and described in more specifics during my prior testimony the work that remains undone on this defense:

- Remove the remaining language that restricts the use of the defense to some types of patents. The defense should apply in a non-discriminatory manner to any patent for which commercial activities in the United States have been completed before a patent seeking to disrupt those activities was sought.
- Remove the one-year holdout period that restricts the defense to considering only the commercial activities in the United States that had been completed more than one year before the patent filing.
- Include the ability to rely on the completion of substantial preparations in the United States for commercial use in the United States as a basis for entitlement to asserting the defense against a later-sought patent.[26]

[26] The changes to the post-AIA §273 that would be needed to make needed improvements in the prior user defense could be accomplished fairly simply:

PRIOR USE.—Section 273) of title 35, United States Code, is amended by—

(1) striking "consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process.";

While Lilly stands proudly among those domestic interests that are proponents of strong and effective patent rights, we are equally adamant in our belief that Congress wisely created the prior-user defense against those rights. The effectiveness of the AIA's provisions should be revisited. As I stated in concluding my testimony last February, what appears to be yet missing is the needed consensus for doing so:

> Congress should now look to develop a consensus on three areas in the law that would benefit U.S.-based manufacturers: *opening the [prior user] defense to patent claims of all types, eliminating the 1-year "hold back" period before the defense can be established, and permitting the completion of substantial preparations for commercialization to be a sufficient trigger for asserting the defense*. U.S. patent law should give those who choose the United States as the place to invest in creating manufacturing facilities – and providing jobs for American workers – the same immunity from charges of patent infringement that investors in creating jobs here would enjoy had they instead invested in creating foreign-based manufacturing plants. Let's develop the consensus needed to get this done forthwith.

Lilly would urge the Committee to continue the dialogue, especially with the university community, with the aim of achieving a consensus on the desirability of a simple, balanced and straightforward set of changes to the post-AIA law on the prior use defense. As with the proposals to further enhance the "grace period," changes to the prior user defense will reopen discussions that reached closure with the enactment of the AIA.

On both the "grace period" and "prior user defense" issues, there are good, perhaps compelling, policy reasons for doing so. The immediate task ahead is forging what is good policy into a broader consensus that in fact it is such.

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(2) striking "at least 1 year" and inserting "or substantial preparations for such use were completed"; and

(3) inserting in subsection (e), at the end—

"(6) DILIGENCE REQUIRED.—Substantial preparations for commercial use of subject matter of a claimed invention shall be deemed to have been completed under subsection (a) only if prior to the effective filing date of the claimed invention —

"(A) diligent efforts had commenced and thereafter continued in the United States until the commercial use of such subject matter was accomplished and

"(B) the activities relied upon to demonstrate completion of substantial preparations were carried out in the United States and constituted the preponderance of the investments required to accomplish the commercial use of such subject matter."

Tackling the "Inequitable Conduct" Issue As a Final Element of AIA Implementation

Before turning its attention to the collection of time-urgent AIA implementation issues, the USPTO had proposed rules to address its "duty of candor and good faith," which is also known as its "duty of disclosure." Lilly had the opportunity to provide some detailed comments on this proposed rulemaking.[27]

Although not directly required under any provision of the AIA, it appears highly desirable for the Office to address this "duty" in light of the post-AIA world in which what does or does not determine patentability of an invention is publicly accessible information alone, and the public at large can participate in the patenting process, both before a patent issues and in the aftermath of the grant of a U.S. patent by the Office.

Lilly recently outlined the gist of what the USPTO might do with its "duty of disclosure." Under the AIA, it must become a duty placed with equal measure and effect both upon patent applicants and members of the public who will be challenging the right of the inventor to secure or retain a patent. Under the Lilly proposal, the USPTO would regulate the duty by:

> • Imposing no incremental duty or responsibility on *anyone* appearing before the USPTO other than compliance with 18 U.S.C. § 1001(a).
> • Assuming [for itself the] full responsibility for identifying and applying information available to the public that is material to the examination of any application for patent.
> • Requiring that, should patent applicants wish to cite publicly available information to the USPTO, such information must have particular significance and its relevance must be identified.
> • Providing that any individual's duty or responsibility to supply information to the USPTO in a matter or proceeding is satisfied by providing the information to a registered practitioner retained to represent the individual in the matter or proceeding.
> • Limiting any duty or responsibility to provide to the USPTO non-public information solely to information required to reach an accurate and correct determination of the issue before the USPTO.
> • Stating by rule that information available to the public, but not cited by the USPTO [during patent

[27] See Letter from Robert A. Armitage, Senior Vice President, Eli Lilly and Company, to The Honorable David J. Kappos, Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office, (Sept. 19, 2011) at http://www.uspto.gov/patents/law/comments/x_ac58-e_elililly_20110919.pdf.

> examination], is to be deemed to have been considered by the USPTO, but found to be of no relevance.[28]

This approach would, of course, much more closely align USPTO practices with those of other countries that have long imposed only transparent requirements for patenting and long permitted public participation in the patenting process. It would discourage excessive, largely defensive disclosures of information to the USPTO. It would pave the way for the USPTO to impose meaningful requirements in situations where applicants would elect to provide publicly available information. Again, as with other aspects of AIA implementation, it could allow the United States to assume a role as the mold and model for patent systems around the world.

Thus, when the rulemaking required to implement the AIA is completed, Lilly would urge the USPTO to turn its attention back to the possibility of more efficient and complete patent examination for the post-AIA patents – those patents that will be subject to the AIA's largely transparent and objective patenting rules – through a 21st century approach to the patent applicant's duties and responsibilities in connection with the patenting process. In doing so, it can leverage public participation with patent applicant incentives for more concise, relevant, and otherwise meaningful disclosures of information to patent examiners.

Finalizing the Proposed Rules for Implementing Key AIA Provisions

SUPPLEMENTAL EXAMINATION RULEMAKING

One of the most significant set of accomplishments in the AIA was the new ability, after a patent has issued, for a patent owner to seek to have information considered, reconsidered or corrected in connection with the Office's examination of that patent. Where the patent owner comes forward with such information, the Office is first given the task of determining if a substantial new question of patentability is created by the information being considered, reconsidered or corrected and, if so, then to reexamination of each such issue so that any unpatentable claims might be removed from the patent.

Self-evidently, use of such a procedure has significant public benefits. The examination record for the patent becomes more complete and correct. The assurance that the claims remaining in the patent are valid ones is reinforced – the patent claims will have been twice examined by the Office. In subsequent patent litigation, the courts will be deciding the validity of the patent on the enhanced examination record and will not be faced with pleadings of "inequitable conduct" based upon the missing or incorrect information in the original examination record if the information was considered, reconsidered or corrected in the supplemental examination.

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[28] Robert A. Armitage, *Understanding the America Invents Act and Its Implications for Patenting*, supra, at p. 132.

Congress created these new proceedings with the intent that they would be used by patent owners – they are remedial provisions whose provisions ought to be accorded a liberal construction. Viewed in this light, there are a pair of features of the Office's proposed rules that require changes in the final rulemaking for these provisions to reach their promise of improving patent quality, patent reliability, and patent system integrity:

- The Office would limit a single supplemental examination request to 10 individual items. There should be no limitation. Instead, the Office should consider a fee-per-item charge for items in a petition in excess of 10.

- The Office imposes burdensome requirements on requesters. The purpose of the supplemental examination is to identify whether a substantial new question of patentability exists. This is the same type of issue (in a more limited context) that the USPTO determines on a regular basis in ex parte reexamination (chapter 30, title 35). What should be required in a supplemental examination request should be a simple and straightforward discussion of the information to be considered, reconsidered or corrected so the Office can readily reach that determination.

There are creative ways in which the Office might use supplemental examination to encourage patent applicants to make more focused, concise, and relevant disclosures of information in the original patent examination – to make it more compact and efficient – using supplemental examination as a "safety valve" where information of secondary importance might be given consideration in the case of patents of particular commercial significance. What follows is a description of the potential in supplemental examination that might be realized, given a USPTO willingness to pursue a more creative implementation of the new statute:

> The broad availability of supplemental examination, coupled with its rapid timeline, affords the USPTO the ability to offer applicants new and creative patent prosecution options that make use of the availability of supplemental examination. One such option merits consideration.
>
> For a patent applicant desiring that the USPTO consider a substantial number of potentially relevant items that might qualify as prior art, the USPTO could provide, by regulation, that such items could be submitted under a two-tiered approach. The tier one items could be a limited number of the most pertinent disclosures, to which the actual examination of the patent would be confined. Tier two items would be remaining items that potentially qualify as prior art. For tier two prior art, before enforcing the patent, the patent applicant may wish to assure that they have been considered by the USPTO and affirmed as raising no substantial question of patentability.

> Rulemaking might provide that patent applicants be permitted to defer submission, to the USPTO, of all tier two items until either after the notice of allowance has been secured or the patent has issued. In order to do so, the patent applicant would be permitted to make an election to submit only items deemed by the applicant to be of the most relevance to patentability. A patent applicant, making such election, would be required to submit a concise description of the relevance or significance of each tier one item as part of the election. By electing to provide to the USPTO any tier two items only after allowance or issuance, the applicant would be deemed, by the USPTO, to have requested supplemental examination with respect to such tier two items immediately upon grant of the patent.
>
> Again by regulation, the USPTO could provide that all fees for the supplemental examination would be waived, except in the situation where the supplemental examination triggered a reexamination of the patent and the reexamination required some modification of the claims of the patent. In such a case, all required fees for supplemental examination would fully apply.
>
> The impact of such a procedure, in the vast majority of circumstances, would be a more efficient initial examination of the application for patent, because of the more focused and complete assessment of the possible prior art provided by the patent applicant. Additionally, the examined application could issue more promptly. Once issued, the supplemental examination, which would commence immediately upon issuance, would then assess the significance of the tier two items. In most situations, the secondary items should not uncover any substantial new question of patentability. Thus, typically, the supplemental examination could conclude within three months after the patent issued.
>
> If a follow-on reexamination were needed because a question of patentability had been detected, it presumably would be limited to one or more relatively narrow issues, and be relatively quickly and efficiently resolved. If any material prior art were identified in tier two, such that the patent claims required modification, then the patent applicant could not be subject to unenforceability for misconduct later, but would pay the full-freight fees for the supplemental examination/reexamination.

Without a rulemaking that encourages the use of this new procedure, it is certain to delay or defer the ability for it to realize its full promise. Lilly looks forward to a set

of final rules designed to assure that the proceeding will be useful to patent owners and assure that supplemental examination is set to realize its enormous promise for improving the quality of U.S. patents.

THE "INVENTOR'S OATH" AND "ASSIGNEE FILING" RULEMAKING

Another area where the proposed USPTO implementing rules need a change of direction as the final rulemaking approaches lies in the efforts to implement the new assignee filing regime and simplify the statements required of the inventor in connection with an application for patent. The deficiencies in the Office's proposed rules have been well documented. Lilly itself filed comments on the rules, attempting to lay out a path forward that would be far simpler for the Office to administer and simpler for patent applicants to use in seeking patents.[29]

This is an area where the Office's persistence in a transparent process, marked by affirmative outreach to the patent community and constructive engagement through USPTO-private sector dialogue appears poised to pay huge dividends for the patent system. It is clear from statements USPTO officials have made in public forums that they are considering several alternatives to the rules as proposed. They have indicated support for technical amendments to the AIA that would further simplify the task of the Office and the effort required of patent applicants.

Lilly's hope is that when the final rulemaking appears it will implement the assignee filing provisions of the AIA in the most complete manner as the Office can muster and that it would limit the extent of any required inventor's statements to what is essential to assure that no fraud is being practiced, and whatever patent filing is made is an inventor-authorized one.

Otherwise, Lilly has urged that the burden of providing all other information needed for a timely and efficient examination of applications for patent be placed on the patent applicant – which typically will not be the inventor but an entity to whom the inventor has assigned the right to seek and obtain a patent.

If the final rules accomplish this objective in the fullest possible manner, U.S. patent law would be largely harmonized with patent laws outside the United States on the issue of this type of formality in the patenting process. Again, as the United States seeks to be a leader in adopting international "best patent practices," minimization of formalities required for a complete patent filing is an essential component.

IMPLEMENTING THE NEW PGR AND IPR PROCEEDINGS

Among the most important policy choices that the USPTO will be called upon to make will be in the new post-issuance proceedings authorized under the AIA. The rulemaking for the new post-grant review and inter partes review proceedings must walk along a fine line in dealing with a host of implementation issues. They must, first and

[29] http://www.uspto.gov/patents/law/comments/oath/xo_e-lilly_20120305.pdf.

foremost, afford patent owners a full and fair opportunity to defend the validity of their issued patents. Of no less importance, however, is the objective of providing patent challengers a full and fair opportunity to present evidence and arguments contesting the validity of issued patents.

Fairness and balance are not the only constraining factors in this rulemaking. These procedures must be concluded within a statutory timeframe of one year. Additionally, these procedures need to be economical for their participants. Rules must be cost-conscious of both the USPTO resources devoted to these proceedings and the cost of participation by those who are parties thereto.

When the Office issues its final rules in a few months, it is likely to be only the first iteration of what will be an ongoing effort to rethink and refine how these proceedings can be best crafted. Experience with these procedures will, in fact, be the best teacher – for both the USPTO and the participants in these proceedings – for drafting the optimal set of regulations under which they will be conducted. Thus, for the USPTO and for the patent user community the question to be asked is what the *initial* round of rulemaking on these procedures should provide? What is the best starting point from which further iterations over the years can be made that will optimize the fairness, balance, timing and economics of their use?

Lilly has strong views on what the initial effort at rulemaking should look like. Indeed, the best expression of them is in the joint submission of the Post-Issuance Working Group chartered by the Intellectual Property Law Section of the American Bar Association, the American Intellectual Property Law Association and the Intellectual Property Owners Association. These three groups have one important common element – they represent patent constituencies that will both be patent challengers petitioning to institute PGRs and IPRs and the patent owners who will be defending against those challenges. Moreover, the working group brought a wealth of real-world litigation experience to bear of its recommendations for first-round rulemaking.

Our unqualified support for the Post-Issuance Working Group's efforts is based on large measure on our belief that this may not be the final placement of the fulcrum for balancing these PGR/IPR proceedings, but is the best manner in which to set out the rules under which proceedings should be governed initially and with which to gain the experience needed to further titrate the governing procedures. There are several critical elements to the Post-Issuance Working Group's efforts that give us the confidence that the first-generation of rulemaking should incorporate these suggestions *in toto*.

Foremost in our minds are the issues of tightly controlling discovery once these proceedings are instituted and assuring that unnecessary procedural steps do not make the costs of participation too great for patent applicants and the burdens of administration too onerous for the administrative patent judges who will be assigned to handling them. The brilliance of the proposals of the Post-Issuance Working Group is that they address the knottiest issues in the most efficient manner for all parties involved.

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The Post-Issuance Working Group proposed that the petitioner lay out the complete case against the patent together with the petition for instituting the proceeding. Additionally, without any required motion practice, the Group proposed that the petitioner would provide such additional information as would be necessary for a fair proceeding for the patent owner.

As one example, if the patent challenger were to build its case on obviousness, i.e., attempted to present expert evidence with its petition that the invention would have been readily apparent to a person of ordinary skill in the art requiring only routine skill and no undue effort to arrive at the patented invention, then the patent challenger would be obligated to reveal facts known to it that would be contrary to and rebut these assertions.

For example, if the patent challenger's own engineers had repeatedly attempted and failed to solve the problem that was resolved through the patented invention, such facts represent objective criteria that would support a determination that the patented invention was not in fact obvious. As another example, consider the situation where a patent challenger hired five experts, working in isolation from one another, to attempt to repeat the key teaching in the patent on which its patentability (*e.g.*, "operability under §112(a)) would depend. In such a case, the petitioner could not submit the affidavit of the one (and only one) of the five experts who failed to confirm "operability" *without also providing an initial disclosure* of the work done its four remaining experts whose experiments categorically confirmed the patent's operability. Forcing the patent owner into a cat-and-mouse discovery motion practice after the institution of the PGR would only encourage this type of gamesmanship – and gross unfairness – that the working group's proposed rules so effectively would operate to discourage.

On the basis of the foregoing, the Post-Issuance Working Group proposed that the petitioner would be obliged to make an initial disclosure of precisely this type of information so that the patent owner would not need to seek discovery of this type once the PGR or IPR was instituted. Since it is precisely the type of relevant evidence that the patent owner would be entitled to discover if obviousness were raised as a defense to a lawsuit alleging infringement of a patent, it is the type of evidence that needs to be efficiently provided to the patent owner in defending the same type of invalidity allegation in a PGR. The attempt of the Post-Issuance Working Group is to limit the fodder for discovery disputes post-institution by getting all the relevant facts and evidence before the Office and the parties as the proceedings are being instituted.

Available discovery – and the limitations thereon in key respects (who can be deposed and how long such depositions may be) – should be explicit in the rules. The administrative patent judge assigned to a proceeding should have authority to address special circumstances. The underlying principle at work is that discovery – and initial disclosures – should be mandated to assure fairness, but strictly limited to defined parameters otherwise. *It should not be the result of a case-by-case determination, requiring parties to request discovery that should be available as a matter of course, or*

to respond to requests for burdensome discovery requests – and be forced to bear the costs of doing so.

If a discovery regime so constructed proves with experience to be less than optimal, it would be relatively easy to titrate, by affording administrative patent judges greater flexibility and greater control over individual PGR/IPR proceedings in future rulemaking. However, it is unlikely to be as easy to reverse course – to move closer to the working group's proposals – if the starting point is greater flexibility and more complete control before the administrative patent judges.

PGR and IPR proceedings would be rendered both fair and administratively feasible under relatively strict limitations on post-institution discovery for two reasons. The first reason, of course, is the requirement that all of the patent challenger's evidence of invalidity must be provided with the petition and the types of initial disclosure that would normally complete the patent's validity picture would come pre-institution, not on post-institution discovery motions. The second reason is that the new proceeding inherently addresses issues where discovery of the inventor or the patent applicant is most typically unnecessary. Although PGR is open to all issues of patent invalidity that an accused infringer could raise in defending a patent infringement lawsuit, only those patents fully subject to the AIA may be brought into PGR.

For AIA patents, all the so-called "loss of right to patent" provisions are repealed. Patent owners can no longer avoid prior art that would otherwise invalidate a patent by asserting an earlier date of invention. Additionally, only information accessible to the public can constitute prior art capable of invalidating a patent. The other requirements for a valid patent are entirely objective – and are based on what the patent disclosure would enable a skilled person to accomplish based on the patent disclosure and how such a person would understand and interpret the patented invention. Nothing the inventor or the patent applicant did or did not do, knew or did not know, contemplated or did not contemplate will ordinarily be of any possible relevance to the validity of the patent.

Hence, in almost every situation, the patent challenger can present its complete invalidity case in its petition for instituting a PGR – since patent invalidity will generally turn solely on what information was publicly accessible before the patent was sought and post-institution discovery of the patent owner will typically not be appropriate, much less relevant, except to the extent the patent owner engages experts to support its contentions with respect to the validity of the patent. Given the Post-Issuance Working Group's proposals are accepted, the patent challenger will be in a similar posture. The patent owner, except for deposing individuals indentified in the PGR petition as experts, or having factually relevant information, should have little or no need for additional discovery in a typical PGR proceeding.

As earlier suggested, this Post-Issuance Working Group's proposal may prove optimal in striking the right balance and may prove to be the epitome of efficiency. Absent real-world experience with these proceedings, the opposite conclusion cannot be dismissed out of hand – that the front-loading of all invalidity evidence coupled with an

initial disclosure of the types of potentially relevant information otherwise operates poorly in practice.

However, as between a post-institution, motion-intensive discovery model in the proposed rules and a pre-institution, front-loaded, initial-disclosure model advocated by the Post-Issuance Working Group, Lilly sees the best hypothesis to test as PGR and IPR are being rolled out initially is the latter approach. It would be far easier for the Office to titrate down the Post-Issuance Working Group's proposal than to find a path to morph the proposed rules into the Post-Issuance Working Group model if that (or something close to it) is indeed the best path forward.

Conclusions

The Committee should take justifiable pride in its efforts to see H.R 1249 become the Leahy-Smith America Invents Act. It holds enormous promise for the United States. It places the United States in the leadership position globally on patent system operation and patent system policy issues. The efforts of the United States Patent and Trademark Office to implement the new law should be informed both by Congress' manifest intent to create a more transparent, objective, predictable and simple patent law and by the need to make changes here that can become the mold and model for the rest of the world to emulate.

The next important step along this path will be the publication of draft patent examination guidelines for implementation of the first-inventor-to-file "prior art" standards set out in new §102 of the patent statute, followed by final rules. It will be important that the USPTO's examination guidelines clearly reflect the congressional intent that the United States have a transparent and objective law on patentability and that the Office's final rulemaking otherwise vindicate the tremendous promise of our remarkable new patent law.

May 16, 2012
Indianapolis, Indiana

Lilly
Answers That Matter.

Appendices to the
Statement of
Robert A. Armitage
Senior Vice President and General Counsel
Eli Lilly and Company, Indianapolis, Indiana
Before

The United States House of Representatives
Committee on the Judiciary
On

"Implementation of the Leahy-Smith America Invents Act"

Wednesday
May 16, 2012

Excerpts from *Understanding the America Invents Act and Its Implications for Patenting* (AIPLA Q. J. 40:1, 2012)
pp. A2-A7

Landslide Magazine Perspectives on the America Invents Act (5-Part Series; 2011-2012)
pp. A8-A16

The America Invents Act: Will it be the Nation's Most Significant Patent Act Since 1790? (Thomson Reuters – Patents in the 21st Century, 2012)
pp. A17-A19

I. OVERVIEW—AN HISTORIC REFORM, CAPPING A THREE-DECADE REVOLUTION IN U.S. PATENT LAW

On September 16, 2011, Public Law 112-29,[1] the Leahy-Smith America Invents Act ("AIA") became law. Congress acted "[t]o amend title 35, United States Code, to provide for patent reform."[2] The new law represents a comprehensive reform of the law of patentability and patent enforceability. In addition, the AIA makes dramatic changes to the role of the public in the patenting process.

For inventors, patent applicants, patent owners, and the patent professionals who assist them in the process of seeking and securing patents, it is important to understand the new law and its implications for patenting. A review of the historical context from which these new patenting rules arose can assist in gaining a fuller understanding of Congress' mission to reform patent law.

In a nutshell, the AIA completes a 30-year journey to remake, in their entirety, each of the foundational assumptions underlying the operation of the U.S. patent system.[3] It is no exaggeration to assert that the patenting process in the United States, as it existed from the 1790s through the 1970s, was stunningly different from the new patenting regime resulting from the AIA's comprehensive reform measures.

A. *Problems with the Pre-1980 U.S. Patent System*

The old patenting process in the United States was a secret one, hidden from public view. From 1836 until the start of this century, determining the patentability of an invention consisted exclusively of a secret, non-public

[1] Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

[2] *Id.*

[3] *See generally* Robert A. Armitage, *Reform of the Law on Interference: A New Role for an Ancient Institution in the Context of a First-to-File System*, 64 J. PAT. OFF. SOC'Y 663 (1982) (making the case for creating a comprehensive and coordinated set of reforms to U.S. patent law, centered on adoption of the first-inventor-to-file principle, mandatory publication of patent applications at 18 months from initial filing, and a patent term that provided patents would expire 20 years from the initial patent filing). This paper was based on the author's work to secure support from the American Intellectual Property Law Association for these reforms and was initially drafted during his tenure as chair of its Patent Interference Committee. *Id.* at 663.

dialogue between the patent applicant and the patent examiner.[4] Indeed, except during the past decade, the first inkling that a U.S. patent might issue for an invention often arrived on the very day the patent on the invention was actually issued.[5]

In addition, prior to the AIA, critical information that might be necessary for a patent examiner to analyze to determine the patentability of an invention could include secret information, unavailable to the public.[6] Private information only known to the inventor or patent owner could be highly material to the patent examiner's decision to allow a patent to issue. This dependency on an applicant's private knowledge made it critical that the patent applicant proactively provide to the patent examiner, at the outset of the patent examination process, sufficient information to assure that the examination could be accurate and complete in assessing patentability.[7]

Some of this essential information had an absurdly subjective character, encouraging second-guessing as to whether the inventor had been fully candid with the patent examiner.[8] The ultimate in such subjectivity was a requirement

[4] *See* Patent Act of 1836, §§ 7-8, 5 Stat. 117, 119-21 (describing the patent examination process).

[5] Congress acted in 1999 to make pending patent applications open to public inspection. *See* Act of Nov. 29, 1999, Pub. L. No. 106-113, § 4001, 113 Stat. 1501, 1501A-552.

[6] *See* 35 U.S.C. §§ 102(b) and (g) (2006), under which the inventor's secret commercial uses (even offers for sale) and secret inventions, made by other inventors not yet made public, can bar the ability to secure a valid patent. *See, e.g.*, Evans Cooling Systems, Inc. v. General Motors Corp., 125 F.3d 1448, 1454 (Fed. Cir. 1997) (holding that a secret contract between a third party who misappropriated the invention and the inventor to sell one year before filing patent application triggered the "on-sale bar" and thus the patent was anticipated, and as such, invalid).

[7] *See* 37 C.F.R. §§ 1.97-98 (2011), providing for "information disclosure statements" to be submitted by patent applicants, and 37 C.F.R. § 1.56, otherwise setting out an affirmative requirement to provide information "material" to the patent examination.

[8] *See* Robert A. Armitage, *Leahy-Smith America Invents Act: Will It Be The Nation's Most Significant Patent Act Since 1790?*, LEGAL BACKGROUNDER (Sept. 23, 2011), http://www.wlf.org/Upload/legalstudies/legalbackgrounder/09-23-11Armitage_LegalBackgrounder.pdf (discussing "best mode" as an example

that first appeared in U.S. patent law in 1952 that inventors must disclose what they "contemplated" as their "best mode" for carrying out their respective inventions.[9]

The validity of any issued patent could, in addition, depend upon other secret information—unavailable to the public, much less the patent applicant—that was held privately in the hands of other parties. Notably, prior inventions of others made in (or introduced into) the United States could destroy the patentability of a patent applicant's claimed invention, even if there were no contemporaneous public clues that such inventions had been independently made by others and, if so, when.[10]

For members of the public, another price of the pervasive patent secrecy was the absence of any meaningful opportunity for a member of the public to participate in the decision of the United States Patent and Trademark Office ("USPTO") to issue a U.S. patent. Moreover, except in recent decades, even if a patent issued by the USPTO was manifestly invalid, there was no post-issuance opportunity to contest a patent examiner's clearly incorrect determination of patentability.[11]

of a subjective standard that historically has been considered in assessing whether a patent should be granted).

[9] *Compare* Patent Act of 1952, Pub. L. No. 593, § 112, 66 Stat. 792, 798 ("The specification shall . . . set forth the best mode contemplated by the inventor of carrying out his invention."), *with* Patent Act of 1870, ch. 230, § 26, 16 Stat. 198, 201 (providing "in case of a machine, [the inventor] shall explain the principle thereof, and the best mode in which he has contemplated *applying that principle* so as to *distinguish it from other inventions*." (emphasis added)). Prior to 1870, there was no requirement whatsoever in the patent laws relating to a "best mode." From this quite limited requirement in 1870, on its face intended to allow a new machine to be distinguished in its operation from other inventions, Congress appears to have derived the "best mode" requirement in the Patent Act of 1952, which remained a requirement for a valid patent until the AIA. *See* Patent Act of 1952 § 112.

[10] *See, e.g.*, Hybritech Inc. v. Monoclonal Antibodies, Inc., 802 F.2d 1367, 1379 (Fed. Cir. 1986), *cert. denied*, 480 U.S. 947 (1987) ("Section 102(g) . . . is one type of 'anticipation,' i.e., prior invention by another of the same invention.").

[11] Ex parte patent reexamination, which allowed any person at any time after patent issuance to request patent claims be canceled based on patents and printed publications was introduced in an amendment to the Patent Act in

Lastly, other than for patents sought since 1995, the date when patent protection would ultimately expire could depend in significant measure on the attitude of the patent applicant in securing the patent. Patent expiration was measured at 17 years from the date the patent was *ultimately issued*, not the date when the patent was *originally sought*.[12] If a patent applicant were eager to issue a patent, it was possible for a patent to grant within a year from patent filing, with patent expiration then taking place less than 18 years after the patent was first sought.[13]

The impact of this yardstick for measuring patent life meant that the less eager the patent applicant was to see its patent filing proceed to a final patent grant, the longer the public would need to wait for the issued patent to eventually expire. Not uncommon were patents that expired 30 or 40 or even 50 years after the invention was made and the patent for it initially sought.[14]

The curious nature of the pre-1980s U.S. patent law produced a further perversity for patent applicants. It created a body of jurisprudence where the courts permitted patent infringers to call into question every judgment the patent applicant made in the course of securing a patent. Even if the resulting patent

1980. *See* Act of Dec. 12, 1980, Pub. L. No. 96-517, §§ 301 *et seq.*, 94 Stat. 3015, 3015.

[12] As part of the transition to the new filing-based patent term, Congress provided a best-of-both-worlds transitional provision that extended the 17-year patent terms from issuance for previously issued patents to not less than 20-years from the original patent filing date. *See* U.S. DEP'T OF COMMERCE, MANUAL OF PATENT EXAMINING PROCEDURE § 2701 (8th ed. 2001) (Latest Revision, Jul. 2010) [hereinafter MPEP] ("All patents (other than design patents) that were in force on June 8, 1995, or that issued on an application that was filed before June 8, 1995, have a term that is the greater of the 'twenty-year term' or seventeen years from the patent grant.").

[13] Under the Patent Act of 1952, a patent expired seventeen years from the date of issue, thus if a patent issued within a year of filing, the expiration of the patent would be less than 18 years from initial patent filing. *See generally* Patent Act of 1952 § 154 ("Every patent shall . . . grant to the patentee . . . for the term of seventeen years . . . .").

[14] *See, e.g.*, *In re* Hogan, 559 F.2d 595, 597 (C.C.P.A. 1977) (finding the patentability of the patent application in dispute depended on the earliest priority date in 1953, thus the patent once issued would expire 17 years from the issue date, which was after 1977–more than 24 years after the date of original filing date).

was entirely valid, it could be nonetheless declared unenforceable due to a supposed fraud arising from the patent applicant's conduct before the USPTO.

B. *Rationales Behind the Pre-1980 U.S. Patent System*

The criticality of non-public information in the hands of the patent applicant—and the abundant sources of possible mischief arising from withheld information or falsified information—led the USPTO to impose an affirmative duty to disclose information to patent examiners.[15] The courts contemporaneously issued holdings indicating that the patent applicant bore an *uncompromising duty* of candor and good faith.[16] An error or omission in the communications from patent applicant to patent examiner could result in a statutorily valid patent that was permanently unenforceable because of the patent procurement misstep.

As an aggregated result of these features, the U.S. patent system operated non-transparently, with great subjectivity, and with distressing unpredictability. It could only be characterized, especially in comparison to the most advanced foreign counterparts, as a patent system of mindless complexity. Unpredictable patent life, unpredictable sources of invalidity, and unpredictable enforceability could trump patent exclusivity–the primary incentive for making the investments necessary to bring patented innovations to commercialization.

With the AIA, Congress completed a statutory patent revolution, 30 years in the making. Each of the foregoing foundational aspects of U.S. patent laws has now been turned on its head.

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[15] *See generally* 57 Fed. Reg. 2007, 2034 (Jan. 17, 1992) (codified at 37 C.F.R. § 1.56 (2011)).

[16] *See* Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 818 (1944) ("Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue. This duty is not excused by reasonable doubts as to the sufficiency of the proof of the inequitable conduct nor by resort to independent legal advice. Public interest demands that all facts relevant to such matters be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. Only in this way can that agency act to safeguard the public in the first instance against fraudulent patent monopolies.") (internal citations omitted).

The much-needed reforms to the patent system commenced, timidly at first, with the Patent Act of 1980,[17] creating a new "ex parte reexamination" procedure. It afforded members of the public a highly limited opportunity to raise an issue of patentability before the USPTO in connection with an issued U.S. patent.[18] However, the limited nature of the public involvement in this *ex parte* proceeding has meant that, even today, it is of little use to members of the public concerned over an apparently invalid patent.

The next significant reforms to U.S. patent law arrived with the Uruguay Round Agreements Act of 1994 ("URAA of 1994"),[19] and the American Inventors Protection Act of 1999 ("AIPA of 1999").[20] Together, these two Acts made three significant improvements to the operation of the U.S. patent system by: (1) requiring publication of most pending patent applications at 18 months after the initial patent filing;[21] (2) limiting most issued patents to a term expiring 20 years after the formal (nonprovisional) patent filing in the United States;[22] and (3) broadening the opportunity to challenge an issued U.S. patent through a new *inter partes* mechanism—albeit a mechanism still highly limited in its reach (i.e., to very narrow patentability issues arising from patents and printed publications).

Only with the enactment of the AIA did Congress finally abandon altogether relative timidity in its approach to patent reform. Through a 130-page bill[23] and over a six-year legislative process,[24] Congress transformed the U.S. patent system from one of non-transparency, subjectivity, unpredictability, and excessive complexity, to one that will operate with near-complete transparency, objectiveness, predictability and simplicity in the principles that govern patentability and patent validity.

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[17] Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015.

[18] *Id.* § 302.

[19] Uruguay Round Agreements Act, Pub. L. No. 103–465, § 101, 108 Stat. 4809 (1994).

[20] Act of Nov. 29, 1999, Pub. L. No. 106-113, § 4001, 113 Stat. 1501, 1501A-552.

[21] *Id.* § 4502.

[22] Uruguay Round Agreements Act § 532.

[23] *See* America Invents Act, H.R. 1249, 112th Cong. (2011).

[24] *See* H.R. 2795, 109th Cong. (2005) (originally introduced on June 5, 2005, this bill began the active congressional consideration of the key patent reforms that ultimately became part of the Leahy-Smith America Invents Act).

C. *Changes in the U.S. Patent System Resulting From the AIA*

In the future, most patent applications will not only be promptly published, but members of the public will have the opportunity to submit information relevant to patentability that the patent examiner must consider *before* making a decision to issue a patent.[25] After a patent has been issued, members of the public will have the opportunity to return to the USPTO and challenge a patent on *any validity issue that could be raised as a defense to patent infringement in the courts.*[26] Indeed, this new opportunity to challenge patent validity back in the USPTO will be conducted before technically and legally trained administrative patent judges and must run to completion within a year (at most 18 months) from commencement.[27] A right to appeal to the Court of Appeals for the Federal Circuit assures that these proceedings can involve a full vetting of patentability issues.[28]

This profound reversal in the patenting process—with the public's role being transformed from blinded spectator to full participant—was made possible because of the manner in which the AIA rewrites basic rules for patentability of applications for patents and validity of patents once issued. Simply, the AIA limits patentability issues in a manner that renders the new post-grant patent challenge mechanisms administratively feasible.

Under the AIA, the new post-grant reviews will be confined to what are essentially questions of law, with limited factual underpinnings needed to make those essentially legal assessments. Most importantly, the determination of whether a claimed invention is *sufficiently different* (i.e., novel and non-obvious) from previously existing technology (i.e., the "prior art") to merit a patent has changed in fundamental ways.[29] The constituents of the "prior art" are now assessed on the basis of disclosed subject matter that qualifies as either *available to the public* prior to the inventor's patent filing or having been *described* in an earlier-filed patent application that subsequently became *available to the public.*[30]

This new, transparent definition for what qualifies as "prior art," which is then used to determine the novelty and non-obviousness of a claimed invention,[31] sits alongside the three remaining core legal issues of patent validity: (1) is the claimed invention *sufficiently disclosed* in the patent such that it identifies the embodiments of the invention and enables them to be put to a specific, practical and substantial use;[32] (2) are the claims of the patent *sufficiently definite* to reasonably differentiate the subject matter being patented from subject matter that is not;[33] and (3) are the claims of the patent confined to subject matter that is *sufficiently concrete*, such that the invention relates to a process, machine, manufacture or composition of matter that is expressed in terms that are not excessively conceptual or otherwise abstract?[34]

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[25] Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 8, § 122, 125 Stat. 315-16 (2011) (amending § 122 to add a new subsection (e)).

[26] *Id.* sec. 6, § 321.

[27] *Id.* sec. 6, § 326.

[28] *See generally id.* sec. 6 (amending title 35, United States Code, to add a new Chapter 32 (35 U.S.C. §§ 321-329) providing a new post-grant review proceeding).

[29] *Id.* sec. 8, § 102(a).

[30] *Id.* sec. 3, § 102(a)-(b) (defining scope and content of prior art through an overarching requirement for disclosures to be publically available to qualify as prior art).

[31] An established patent law rubric is that "'anticipation is the epitome of obviousness.'" Connell v. Sears, Roebuck & Co., 722 F.2d 1542, 1548 (Fed. Cir. 1983).

[32] *See* 35 U.S.C. § 112 (2006). The section 112 requirements that bear on a patent's validity or enforceability are enablement and written description. "[W]hether a specification sufficiently enables a claim under 35 U.S.C. § 112, para. 1 (1988), enablement is a question of law reviewed *de novo*, which may involve subsidiary questions of fact reviewed for clear error." *In re* Epstein, 32 F.3d 1559, 1568 (Fed. Cir. 1994). The "written description" requirement, i.e., the requirement that the specification of the patent identify the embodiments of the claimed invention, is, thus, a requirement to demonstrate in the patent document the completed conception of the invention, which is likewise a question of law. *See* Scott v. Koyama, 281 F.3d 1243, 1246 (Fed. Cir. 2002) ("Priority of invention is a question of law, based on findings of evidentiary fact directed to conception, reduction to practice, and diligence."); *see also* Ellsworth v. Moore, 61 U.S.P.Q.2d 1499, 1506 (B.P.A.I. Nov. 20, 2001) (noting "conception" is an issue of law).

[33] *See* 35 U.S.C. § 112.

[34] *Id.* §§ 101, 112. The section 101 requirement for subject-matter eligibility is a question of law. *See* Arrhythmia Research Tech., Inc. v. Corazonix Corp., 958 F.2d 1053, 1055-56 (Fed. Cir. 1992) (explaining that "[w]hether a claim is directed to statutory subject matter is a question of law" and further noting

Given that further reforms under the AIA mean that the naming of an inventor in an application or patent can now be corrected irrespective of any contention of "deceptive intention" in the original inventor naming, this question of law should have no impact on a patent's validity in any forum where the validity of the patent is being contested.[35] Why so? The available remedial actions to correct the naming of the inventor can be undertaken in almost any imaginable circumstance, including in the AIA's new "supplemental examination" proceeding.[36]

The same can be said for holding a patent invalid based upon a defective "oath" of the inventor. Not only does the AIA reduce the requirement for the inventor's oath or declaration to nothing more than a one-time obligation to make two required statements,[37] which the patent applicant can simply incorporate into an inventor's assignment of the invention, but a new statutory "savings clause" now expressly permits correction of any such oath at any time.[38] Once corrected, any prior defect can no longer be a basis for invalidity or unenforceability of the patent.

Yet another AIA provision insulates the patent owner against invalidity or unenforceability of a patent on the basis that the "best mode" contemplated by the inventor at the time of the patent filing was not included in the patent specification.[39] This insulation extended to prohibit consideration of the "best mode" issue in any post-issuance proceeding before the USPTO.[40]

A final effort at curbing unenforceability and opening remedial measures in the patent statute is found in Congress' decision to eliminate all provisions containing restrictions or limitations based upon "deceptive intention."[41] Indeed,

that "determination of this question may require findings of underlying facts specific to the particular subject matter and its mode of claiming").

[35] *See* C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1352 (Fed. Cir. 1998) (finding "[i]nventorship is a question of law, applied to relevant facts").

[36] Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 12, § 257(a), 125 Stat. 284, 325 (2011).

[37] *Id.* sec. 4, § 115(b).

[38] *Id.* sec. 4, § 115(h)(3).

[39] *Id.* sec. 15.

[40] *Id.*

[41] *See id.* sec. 20.

for the first time since the 1836 Patent Act, the words "deceptive intention" appear nowhere in the U.S. patent code.[42]

In the aggregate, therefore, it is virtually unimaginable that the USPTO, in a post-issuance proceeding or a court hearing an invalidity defense, would be required to address a patentability issue other than the four core issues of sufficient *differentiation, disclosure, definiteness, and concreteness*.

As a further safety valve, the new supplemental examination proceeding assures that a valid patent can be fully enforceable, even if errors or omissions were made in the original examination of the patent that would otherwise trigger its permanent unenforceability.[43] The patent owner is required under this provision to seek (and conclude) the supplemental examination procedure before attempting to enforce the patent.[44]

The congressional intent in this long litany of remedial provisions added to the patent statute—and the ejection from the law of ancient proscriptions on remedial measures based upon "deceptive intention"—appears unmistakable.[45] In reforming the patent law so that *publicly available* information alone drives most patentability determinations and the patenting process itself is largely open to the public—in that the public has a right to participate in the patenting process both before and after the patent has issued—Congress intended to place on an equal footing the *equitable conduct expectations* of both patent applicants and public participants in the patenting process.[46]

Whatever the role of an individual appearing in proceedings before the USPTO, the participants ought to be subject to the same conduct rules and bear the same consequences for misconduct. In a broader sense, the expectations for

[42] *Compare* 35 U.S.C. §§ 116, 251, 253, 256, 288 (2006) (all including the phrase "without deceptive intention"), *with* Leahy-Smith America Invents Act, sec. 20 (striking "deceptive intention" from listed sections in Title 35).

[43] Leahy-Smith America Invents Act, sec. 12, § 257.

[44] *Id.* sec. 12, § 257(c)(2)(B).

[45] The most comprehensive understanding of congressional intent in enacting the key provisions of the AIA that are treated in this article is found in Joseph D. Matal, *A Guide to the Legislative History of the America Invents Act: Part I of II*, 21 Fed. Cir. B.J. 435 (forthcoming March 2012). Nothing in the present analysis departs, knowingly at least, from the guide provided therein.

[46] *See id.*

proper conduct before the USPTO in a public proceeding, largely considering the import of information available to the public, should be no different from conduct expectations of participants in all other proceedings before any other administrative agency.

D. *Consequences of the Changes in the U.S. Patent System Resulting From the AIA*

From the most mundane (permitting the patent owner to file for a patent as the assignee and trivializing full compliance with the requirement for an "inventor's oath"), to the most profound (banishing the concept of "deceptive intention" from the patent statute and affording patent owners a remedy for correcting all errors and omissions made in the original examination of a patent through the new supplemental examination), to the most substantive (elimination of all subjective and non-transparent tests for patentability in favor of a patent law in which the validity of a patent is assessed through information available to the public), the AIA did not shirk from working reform where the consequence would be greater transparency, objectivity, predictability, and simplicity in the operation of the U.S. patent system. This Article attempts to set out how these changes to the patent statute can be best understood and best applied by those affected by the patenting process.

~~II. THE VOCABULARY OF THE NEW PATENT LAW: UNDERSTANDING THE NEW NOMENCLATURE~~

~~Congress placed important new definitions in the patent statute. Newly defined terms are used in the most critical passages of the revised code, setting forth the substantive patent law.[12] To assure the fullest possible understanding of the new statute, an introductory primer is in order.~~

~~For the first time, several of the most commonly used terms in patent parlance - "inventor," "claimed invention," and "effective filing date" - for a~~

[12] ~~35 U.S.C. § 100 sets out explicit statutory definitions. However, other provisions of the patent statute now contain similarly explicit definitions. See, e.g., Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 10, § 125, 125 Stat. 284, 318 (2011).~~

IX. CONCLUSIONS

The America Invents Act has made many significant changes to the patenting landscape in the United States. It is a giant step toward a more transparent patent system, where a person skilled in the technology of a particular patent and knowledgeable in patent law can review a patent, reference only publicly accessible sources of information, and make a complete and accurate assessment of the validity of the patent. At its core, the AIA seeks a more objective patent law, where subjective issues like an inventor's contemplations or a patent applicant's intent bear no relevance to any issue of validity or enforceability of the patent. It is a patent law that, in many situations, may require no discovery of the inventor to determine if a claimed invention is patentable.

Congress took bold steps to reach these goals. The "loss of right to patent" provisions were all repealed. The "best mode" requirement was made a functional dead letter. All references to "deceptive intention" were stripped from the patent law. A new "supplemental examination" procedure was instituted to address any error or omission in the original examination of a patent and bar the defense of patent unenforceability once the procedure has run to completion. Finally and most dramatically, it concisely limited "prior art" on which the novelty and non-obviousness of a claimed invention was to be assessed. Nothing can qualify as prior art absent representing a prior public disclosure or an earlier patent filing naming another inventor that subsequently became publicly accessible—casting aside 175 years of a more complicated, subjective, and uncertain standard for patenting.

Thus, without question, *transparent*, *objective*, *predictable* and *simple* are four words that should come to describe the hallmarks of the new patent law arising from this historic legislative achievement. Those four words suggest a fifth that appears to be equally apt. *Remarkable*.

Perspective

By Robert A. Armitage

The World's First 21st Century Patent Law (Maybe): The Leahy-Smith America Invents Act

As this issue of *Landslide*® magazine heads to press, the legislative fate of the Leahy-Smith America Invents Act, H.R. 1249, is unknown. We all may still be wondering whether the nearly identical bills that passed by wide margins in both the House and the Senate will eventually become law. On the other hand, by the time this issue hits the streets, the Section may be taking justifiable credit for helping to get a new patent law across the congressional finish line.

We were among the earliest supporters of the 2004 legislative recommendations of the National Academies that form the core of the Act. Our public enthusiasm for these patent reforms dates back to the Section's testimony on April 20, 2005, at the House Judiciary Committee hearing that launched the legislative push for reform. The strong support for an ambitious agenda of patent reforms expressed at this hearing led Chairman Lamar Smith (R-TX) to introduce H.R. 1249's predecessor, H.R. 2795, in June 2005. Nearly simultaneous with this bill's introduction, the Section released its comprehensive White Paper, *Agenda for 21st Century Patent Reform*, laying out the value and virtues of making truly revolutionary changes to our patent laws. After gestating over these past six years, the Act—assuming its enactment—will represent the world's first truly 21st century patent law, and it holds the promise of becoming this young century's most significant patent law.

How so and why so?

H.R. 1249 establishes a streamlined patentability and patent validity law, the hallmarks of which lie in its transparency, objectivity, predictability and simplicity. Congress has managed to boil patentability law down to four requirements for a claimed invention in a patent to be valid:

- *Sufficient differentiation* from the prior art. "Prior art" is defined in a simple and transparent manner as subject matter that, at the time of an inventor's patent filing, was already available to the public, or available from a previously-filed U.S. patent or published U.S. application for patent, subject to the inventor-friendly and collaboration-friendly "grace period" and "self-collision protection" provisions that have long been part of U.S. patent law.
- *Sufficient disclosure* in the inventor's patent filing to identify the embodiments of the claimed invention and enable them to be put to a specific, practical, and substantial use.
- *Sufficient definiteness* in the inventor's patent claims, to reasonably identify the subject matter being claimed from that not being claimed.
- *Sufficient concreteness* in the subject matter claimed, such that the process or product being claimed is not excessively conceptual or otherwise abstract.

The legal nature of these four patentability pillars means that the most fact-intensive aspect of much patent litigation will be a transparent one: *What became available to the public when?* This fact-finding will determine "obviousness," which is ultimately a question of law. Likewise, the requirement for a "sufficient disclosure" is an objective one, which under current jurisprudence is essentially a question of law ("enablement" historically having been so recognized and "written description" now being a test of whether the embodiments of the invention have been sufficiently identified to evidence a complete "conception," another question of law). Lastly, "sufficient definiteness" and "sufficient concreteness" each represent questions of law with limited fact-based predicates.

Making a patent filing will become much simpler, with technicalities and technical traps being swept away. The new law will provide the opportunity to eliminate any ground of invalidity connected with incorrect inventorship or defects in the formalities in connection with a patent filing. The law will permit assignee filing, provide the option to replace a separate "inventor's oath" with a simple statement in an inventor's assignment, eliminate any requirement to file successive or supplemental oaths, add a comprehensive "savings clause" to correct any defects in an inventor's oath or declaration, and liberalize correcting mistakes in naming inventors.

One salutary benefit of the foregoing is that discovery in patent litigation may be greatly curtailed. For many patents, there will be *no discovery from the inventor or the patent owner that will be relevant to patent validity*. With the demise of the "best mode" requirement, repeal of the *Metallizing Engineering* doctrine (an inventor's forfeiture of the right to patent based upon secret use, sale, or offer for sale of the invention), the elimination of the *Oddzon* doctrine (private knowledge obtained from others forming prior art for obviousness purposes), and the disappearance of an inventor's invention date as relevant to determining prior art, *nothing of substance will typically remain in patentability law that lends relevance to the inventor's knowledge, contemplations, actions, or activities unless available to the public before the patent was sought.*

The Act's simple, clear, and objective patentability law—although over 220 years in the making—may prove to have been well worth the wait and, as global patent harmonization discussions recommence, the mold and model for the rest of the world to now emulate. ■

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Perspective

By Robert A. Armitage

The Leahy-Smith America Invents Act: The Once-Secret Patenting Process Grows More Public

The most significant new patent legislation of this young century has now been signed into law by President Obama. As I noted in the last issue of *Landslide*® magazine, the playbook describing key provisions of the America Invents Act can be found in the comprehensive White Paper, "Agenda for 21st Century Patent Reform," by the ABA Section of Intellectual Property Law. Our Section's priorities for patent reform ended up being closely aligned with the agendas of many other constituencies, whose combined efforts made this new law possible.

One of the most significant Section-supported aspects of the new law can be found in a collection of provisions providing greater public participation in the patenting process. For nearly two centuries, the public was ignored in decisions taken by the United States Patent and Trademark Office (USPTO) in deciding which patents should issue and which should be kept in force. Prior to 1980, all "patent examination" was a two-way discussion between patent applicant and patent examiner. The public was clued into the goings-on only on the day the patent issued.

Once a patent issued, there was no role or redress for members of the public. The USPTO simply had no jurisdiction that allowed it to process a complaint from a member of the public alleging that the USPTO should not have granted a patent in the first place.

Given the growing importance of patents to the economy (and the financial consequences for businesses defending in court against a patent that never should have been granted), this 19th century "help not wanted" model for patent examination began to erode as the 20th century was drawing to a close. Congress took two important, but tentative, legislative steps before the millennium to provide a much more significant role for the public in matters of patenting.

First came Public Law 96-517 in December 1980. It created a new procedure now known as "ex parte reexamination," under which a member of the public could request that the USPTO address a "substantial new question of patentability" of a claimed invention in a patent arising from a patent or printed publication.

Then, weeks before the turn of the millennium, the American Inventors Protection Act of 1999 made a pair of additional concessions to the public. The first was to mandate the publication of pending applications within 18 months from the original patent filing date for the vast majority of U.S. patent applicants. The other was to augment the 1980 ex parte reexamination with a new and parallel "inter partes reexamination."

Under the 1999 inter partes reexamination, an individual requesting the reexamination was given a right to participate more fully in the reexamination process and the right to appeal a decision made in the patent owner's favor all the way to the Federal Circuit. Unfortunately, the good intentions in the reexamination statute were not immediately matched by an equally good execution in the USPTO of its new responsibilities. As a result, these steps did not quiet the calls for a more effective means for the public to participate actively in decisions of the USPTO on whether an invention merited a patent.

The America Invents Act has now added three new procedures to U.S. patent law that hold the promise of being best-in-world vehicles for public participation in the patenting process. The first of the three procedures expressly authorizes public submissions of prior art to the USPTO before it can make a final decision to issue a patent. The latter two procedures are now termed "post-grant review" and "inter partes review" and will represent entirely new proceedings in the USPTO. As these new proceedings are implemented, the "inter partes reexamination" will be phased down and out.

The new "post-grant review" has an impressive promise. It will allow a member of the public to raise any issue of patentability in the USPTO that could be a defense to the validity of an issued patent raised by a defendant in patent infringement litigation. It offers discovery, albeit highly limited, to both the patent owner and the public petitioner seeking the review.

The post-grant review proceeding must move to completion within one year from its initiation. The proceeding is heavily "front loaded," with petitioners seeking a review being required to present all of the evidence upon which the USPTO would base its invalidity determination in the initial petition for the review. The new procedure calls for *adjudication* of the issues in dispute, not an *examination*, and, thus, these proceedings will be conducted before administrative patent judges.

To prevent the new procedure from being used as a tool to harass patent owners, the USPTO is required to limit use of these reviews to issues on which a showing has been made that it is more likely than not that the claimed invention

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at issue is invalid. Also, such reviews can be sought only during the first nine months after a patent has issued.

The new "inter partes review" is virtually a carbon copy of "post-grant review," with three principal exceptions. It is limited to the same patentability issues that were available under the reexamination laws, but under a higher threshold, one requiring a reasonable likelihood that the claimed invention in the patent is invalid. Lastly, inter partes review cannot be commenced until after the time for seeking a post-grant review has run and, if a post-grant review has been initiated, has concluded.

As I noted in the last issue of *Landslide*, the new legislation's simple, clear, and objective patentability law deserves much of the credit for making these new mechanisms for the public in the patenting process possible. As with the new U.S. patentability law, the new U.S. public participation vehicles merit discussion as a mold and model for the rest of the world to now emulate. ■

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Perspective

By Robert A. Armitage

The Role of the America Invents Act in Ending the Plague of "Inequitable Conduct" Allegations

The process for patenting in the United States has been remade from the ground up over the span of my professional career. Back in the day (the 1790s through the 1970s), patent examination was conducted in secret between a patent applicant and a patent examiner. The first inkling the public was given that a patent was being sought for an invention was often on the very day that this secret review process in the USPTO was concluded and the patent was finally granted.

Much of the information on which patentability rested was not available from public sources. The patent examiner was dependent on the patent applicant's willingness to be candid and forthcoming with the raft of nonpublic information that might be essential to reaching an accurate assessment of patentability.

Even worse, when the examination process finished and the patent issued, there was no public forum within the USPTO in which to raise an issue of patentability, even if the patent was mistakenly issued. No matter how blatantly invalid the patent, the public had no recourse back in the USPTO.

The enactment of the America Invents Act (AIA) has completed the turning upside down of each of these foundational premises for patenting in America. Almost all U.S. patent applications are now published promptly after filing. Virtually everything needed for the USPTO to issue a valid patent under the AIA's patenting rules will come from sources of information available to the public.

Members of the public will enjoy new opportunities to submit information that must be considered by a patent examiner before the examiner is permitted to issue a patent. Then, once a patent is issued, any member of the public can seek cancellation of the patent on any ground of invalidity that might later be raised in court.

This revolution of transparency in the patenting process, and public participation in the work of the USPTO, has taken over 30 years to drive to completion. However, the patent applicant's "duty of disclosure" and the desirability of an "inequitable conduct" unenforceability defense to a patent's infringement have not been commensurately rethought.

As an example, as the role of the public in the patent process has been elevated, no real thought has been given to the "duty of candor and good faith" that should reside on these public participants. Indeed, going forward under the America Invents Act, the so-called "duty of candor and good faith," really a restatement of the obligation of honesty in dealing with all federal entities set out in 18 U.S.C. § 1001(a), must apply as pervasively to public participants in the patenting process as it applies to patent applicants themselves.

Congress, of course, was not oblivious to the fact that attention was needed to the elements of the patent statute relating to the patent applicant's duty of honesty as it revolutionized core concepts of patenting in the AIA. In the area of unenforceability of patents based upon applicant conduct, Congress made clear it was time to cut back on a host of misconduct-related provisions in the law:

- All references to "deceptive intent" are stripped out of the patent statute. Remedial measures that have been heretofore dependent upon the ability to show absence of deceptive intent are no more.
- A new "safe harbor" provision precludes unenforceability based upon a defective inventor's oath (or the new "required statements"). Indeed, under the new law, the incorrect naming of inventors can always be corrected and, once corrected, removes any grounds for invalidity or unenforceability associated with the faulty inventor naming.
- A faulty "best mode" disclosure not only cannot be a ground for invalidity, but cannot be raised as a basis for alleging a patent is unenforceable.
- Finally, and most dramatically, a new supplemental examination procedure is created in which "errors and omissions" in the original examination of a patent can be corrected and, once this has been accomplished, the patent cannot be held unenforceable based on the failure to disclose or incorrect disclosure of the information considered, reconsidered, or corrected during the supplemental examination.

These changes to U.S. patent law would, by themselves, have been sufficient for the America Invents Act to have been one of the most significant set of changes to the U.S. patent statute in decades, perhaps since the Patent Act of 1836, where the term "deception intention" first appeared in the patent code. It is possible that this collection of changes may, at long last, spell the end of the "inequitable conduct" plague in patent litigation.

How effective Congress has been at addressing the "inequitable conduct" issue may well be determined by the implementation of the new provisions on "supplemental examination." For a supplemental examination to have an impact on a pleading of "inequitable conduct," the process in the USPTO must have run to completion before an enforcement action is commenced. Under the new law, the USPTO must

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reexamine the involved patent on any issue of patentability where the new or corrected information raises a substantial patentability question.

Thus, this new procedure will allow the USPTO to cancel any invalid patent claims, leaving the patent owner with only those claims found valid after the new or corrected information was considered. While an infringer then loses the opportunity for an "inequitable conduct" pleading on the errors and omissions that were remedied, the public has greater assurance that whatever remains of the original patent was reconfirmed as patentable based on a complete and accurate examination record.

As I noted in the last issue of *Landslide*® magazine, our new patent law represents a mold and the model for the rest of the world to now emulate in many respects. Following the lead of the rest of the civilized world in taking "inequitable conduct" considerations out of the mainstream of patent litigation certainly reinforces that American role modeling. ■

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Perspective

By Robert A. Armitage

International Patent Harmonization
Requisites, Ripeness, and Realism

"I urge us all to begin the process of patent law harmonization anew, now. I urge us all to search for common ground. I urge us all to let best global policy and best practices be our guide."[1]

Under Secretary Kappos spoke those words nearly a year ago at a conference in London. Five months later, Congress passed the Leahy-Smith America Invents Act (AIA). It implemented the 2004 recommendations made by the National Academies of Science calling for greater harmonization of U.S. patent law principles with those of our major trading partners.

The new U.S. patent law can lay claim to setting a new global standard for defining "prior art" and a set of exceptions from "prior art" that best assure an inventor- and collaboration-friendly law. The global patent community now has at least one template for crafting a treaty harmonizing patent laws on the issues of novelty and nonobviousness.

Looking beyond these issues, however, what should be the *requisites* for movement towards greater global patent harmonization? What further topics are now *ripe* for harmonizing? What might be *realistic* expectations for such efforts during the decade ahead?

Requisites

Kappos got it just right. While compromise lies at the heart of most successful endeavors, patent harmonization should not be a series of compromises. Compromising may be the negotiating ticket for achieving a treaty to address global warming or reaching an accord to end a labor dispute between players and team owners of a professional sports league. It is not, however, a constructive path to building a better patent law—no country wants to degrade its patent laws, in any material respect, just for the sake of making them be just like the second-rate laws of its harmonization partners.

The AIA itself is an instructive example of how to advance harmonization of substantive patent law. We adopted the first-inventor-to-file principle because of a broad domestic consensus that it represented the *better practice* relative to the first-to-invent law that existed in the United States before the enactment of the AIA. Indeed, the first-inventor-to-file principle was simply one of a number of AIA "better practices" for which a domestic consensus had been achieved.

How did that consensus develop and emerge? It was, again, the USPTO that took the lead in fostering a "best practice" consensus.

In a 2001 *Federal Register* notice, the USPTO sought views on no less than 17 harmonization-related issues, including: "As to priority of invention, the United States currently adheres to a first-to-invent system. The remainder of the world uses a first-to-file rule in determining the right to a patent. Please comment as to which standard is the 'best practice' for a harmonized, global patent system."[2]

Dozens of domestic entities and individuals responded to the 2001 notice, expressing views on the first-inventor-to-file principle and how best to implement it.[3] Reading the responses, it becomes clear that a consensus emerged, not just on the principle of adopting a first-inventor-to-file rule, but on numerous details of its implementation.

When Congress sought to write the new statute, it drew on the domestic consensus from 2001. It provided a globalized "prior art" standard, rejected Europe's novelty-only "prior art" rule for earlier patent filings, retired the *Hilmer* doctrine, ended each of the § 102 "patent forfeiture" doctrines, and secured a strong "grace period" for inventors who publish before patenting.

The domestic road traveled from 2001 to 2011 reflects the prime requisite for proceeding with greater international harmonization of substantive patent law principles. The road begins with the *identification* of the "best practices" for crafting a patent law. It continues by then *testing the identified practices for possible consensus*.

Hence, as the patent community looks ahead to possible international agreements under which greater global harmony among patent laws is to be realized, these two requisites should remain paramount. What can we identify as the better way? What consensus exists that it is in fact better?

Ripeness

Were a patent law treaty to be concluded, its purpose would be to constrain the direction in which the substantive patent law might further develop and limit (or, at a minimum, greatly complicate) the degree to which national laws could later be changed. This necessarily leads to a second consideration. What substantive law issues are truly ripe to be confined with treaty language—so that there is confidence that imposing such constraints and complications is appropriate?

Several aspects of the substantive patent law illustrate potential ripeness issues.

Both Europe and the United States require that an invention must be *sufficiently differentiated* from the "prior art" to be validly patented. In Europe,

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the requirement is for an "*inventive step*" under which the inventor must lay out the "problem" for which the invention provides an inventive "solution." The United States uses a more general *nonobviousness* requirement tied to the differences in *the subject matter as a whole* sought to be patented.

As between the more straightjacketed "problem-solution" approach and the more general "subject matter as a whole" approach, has one or the other emerged as a better practice? It appears that global support may be ripening for a decision on whether the AIA's incarnation of the nonobviousness standard now represents the better global standard.[4]

Moreover, a treaty is not the vehicle to test or try some new idea or new legal formulation. Consider the issue of whether a claimed invention has been *sufficiently disclosed* to be validly patented. In 1952, Congress added to domestic law what was then a newly-formulated disclosure standard, the "best mode" requirement. A mere 60 years later, under the AIA, Congress has now eviscerated that requirement, based on a broad domestic consensus that its elimination was a "better practice."

Similarly, the 1952 Patent Act laid out a requirement that inventors must identify the embodiments of a claimed invention in order to have a sufficient disclosure. This is the so-called "written description" test. However, both the existence and desirability of a separate "written description" requirement have been regularly contested since 1952, with the issue only being definitively resolved by the Federal Circuit *en banc* with its *Ariad* decision in 2010.[5]

Is the current U.S. law for a sufficient disclosure the global "best practice" and is it now ripe for imposing as the global standard? Alternatively, is more deliberation necessary to arrive at the optimal global principles for a sufficient disclosure in a patent filing?

Finally, the most problematic issue for would-be harmonizers is the issue of subject matter eligibility for patenting. Here, a multiplicity of ripeness concerns exists.

In the United States, the eligibility for patenting of genomic-related inventions remains the subject of active contention. Historic limitations on the patenting of inventions encompassing "mental steps" now appear to be undergoing a much-needed renascence. Much of this churning in the law comes from the Supreme Court intervention to nix patenting of excessive conceptual or otherwise abstract subject matter.[6]

Across the Atlantic, Europe limits patents to inventions "capable of industrial application." It applies a "technological invention" test to screen out whatever subject matter appears undesirable as an area for patenting.

The scope and import of these various patent-eligibility approaches are barely comprehensible to most patent professionals. Is anything in this area ripe for harmonizing? Or would continuing disharmony for a time allow for the development of better defined, more cogent legal concepts under which patent-eligible subject matter might be identified?

Realism

More global and globally consistent rules defining what can be validly patented hold the promise of strengthening patent systems everywhere. In 1973, the European Patent Convention offered a glimpse of what might be possible among a group of countries willing to forge a *compromise* to address their differing approaches to patenting. Today, the America Invents Act demonstrates what can be accomplished by setting out to identify "best practices" and then building a consensus on their content.

If greater international patent harmonization is achieved, it will hopefully come with less of the 20th century approach, as reflected in the EPC compromise, and more in the 21st century methodology of achieving a consensus on "best practices," as was the case with the AIA. Realistically, therefore, there may be a long road ahead to substantive patent law harmonization, especially given the areas where "best practices" remain to be defined and a global consensus as to their content has yet to be sought. ■

Endnotes

1. David Kappos, *A Global Call for Harmonization*, USPTO.GOV (April 5, 2011), http://www.uspto.gov/news/speeches/2011/kappos_london.jsp.

2. 66 Fed. Reg. 15409-15411 (March 19, 2001).

3. United States Patent and Trademark Office, Comments Regarding the International Effort to Harmonize the Substantive Requirements of Patent Laws, USPTO.GOV, http://www.uspto.gov/web/offices/dcom/olia/harmonization/.

4. See AIPPI Resolution Q217, The patentability criterion of inventive step/nonobviousness, dated Oct. 18, 2011 (ExCo Hyderabad), noting "almost unanimous indication by the Groups of the desirability of harmonization on the definition and criteria for inventive step/nonobviousness."

5. Ariad Pharms., Inc. v. Eli Lilly & Co., 598 F.3d 1336 (Fed. Cir. 2010) (*en banc*).

6. Bilski v. Kappos, 130 S. Ct. 3218 (2010).

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Perspective

By Robert A. Armitage

The Remaining "To Do" List on Patent Reform

Consolidation and Optimization

The United States Patent and Trademark Office (USPTO) is marching along with the immense efforts needed to complete regulations to implement the Leahy-Smith America Invents Act (AIA). Within the patent profession—notably within the Patent Division of the ABA Section of Intellectual Property Law—there have been prolific and heroic efforts to assist the USPTO in the rule writing needed to bring the AIA to life.

If there is one oft-expressed hope of many participants in the AIA's legislative and regulatory phases, it is that successful conclusion of these efforts will yield a sustained period of reflection. "No New Patent Laws!"—at least not until the new law now on the books is digested and its impacts, for better or worse, are more fully understood.

I would offer a dissenting view—or perhaps a more nuanced one. There are, I believe, some near-term opportunities for further legislative intervention in the patent statute that would not require either rethinking or retreating from the reforms already enacted into law. Rather, they represent areas for further change that could *consolidate* the many achievements of the AIA and, indeed, *optimize* their potential for greater transparency, objectivity, predictability, and simplicity in the operation of the U.S. patent system.

Let's start with a very simple proposal for refining legislation that cannot possibly be controversial in light of what the AIA has already achieved: eliminate altogether the required statement of the inventor under the new 35 U.S.C. § 115 (the so-called "oath or declaration" requirement). In place of this archaic provision, augment the explicit requirement (already in new § 115) that the patent applicant must name the inventor by incorporating a further requirement that the patent applicant itself, if not the inventor, must provide an applicant's express statement that it has obtained the right to file the application for patent from the inventor named in the application for patent. Since, for over 99 percent of patents filed, there is no real dispute over either the inventorship or the ownership, there is no real justification for any formality beyond a statutory requirement that the patent application identify both inventor and applicant.

Next, allow me to move to what should be regarded as a mere correction: remedying an oversight in the implementation of the AIA's new first-inventor-to-file principle. The AIA failed to eliminate the option for a patent applicant to opt out of mandatory publication of pending application for patent at 18 months from the initial application filing. Congress should now do so. The soon-to-be-extinct first-to-invent system exposed the inventor of a patent application, once published, to the specter of a later-filing patent applicant, having been spurred by the publication, to seek to muscle its way into a patent interference with the published patent application by alleging an earlier invention date. All that nonsense in U.S. patent law will now end. With the new law now on the books, the 18-month publication of all pending patent filings benefits all patent applicants. In particular, it assures the patent application of any subsequently-filing inventor can be rejected by a patent examiner based upon the earlier-filed application, but only once that earlier application has published. Having ended any risk to the inventor of early publishing, keeping the option in place merely diminishes the transparency of the new law, without any policy justification for so doing.

"Patent term adjustment" is another feature of U.S. patent law whose policy justification has been mooted by virtue of the improvements in the patent examination process under the AIA. If, by 2013/2014, it is clear that patent applicants have access in the USPTO to an effective system for accelerating the examination of their patent applications, then electing the new "priority examination" option will better serve the interests of both patent applicants and the public than the belated remedy, for a slow-to-issue patent, of tacking time on to the end of the 20-year patent term. For applicants electing a more leisurely approach to securing their patents, there is little policy justification for adding extra patent term. For applicants eager to get a patent to issue and wanting at least a 17-year post-issuance patent term, "priority examination" represents a mechanism that should be able to guarantee such eager applicants a route to issuance consuming no more than three years of that 20-year statutory term.

As the USPTO has moved forward with its new fee-setting responsibilities, it is clear that patent maintenance fees will remain one of its sustaining revenue sources. However, unlike many other countries in which maintaining a patent in force can be achieved through the annual payment of a modest fee, U.S. law has, since the inception of maintenance fees in 1979, required "prepayment" of these fees. For example, at 11 years, six months after patent grant, a lump-sum fee must be paid to keep the patent in force for the remaining term of the patent. Fee-setting authority now gives the USPTO the flexibility it needs to move to annual maintenance fees on patents. Like the current fees, they can be progressive as the 20-year term

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runs, but without the 3-, 7-, and 11-year "choke points" of current law.

Another area of compromise along the AIA's legislative journey that may now have matured into an area of consensus for further improvement relates to the "best mode" requirement. Congress nullified this requirement in the patent enforcement context, but left it untouched in the patent procurement context. This anomaly makes no sense and, indeed, there are hopeful signs that an emerging consensus on this point can lead to outright repeal through relatively swift legislative action.

The new law provided a grand compromise on the prior-user defense, putting the United States in greater alignment with the laws of other countries that protect a prior domestic commercialization of new technology from allegations of infringement of subsequently sought patents. The key feature of the compromise, which enabled universities to lend support for the AIA, was the exclusion of university-owned patents from the assertion of the defense. However, as the recent USPTO study of the use of this defense has now confirmed, U.S. law still falls short of international norms in three respects: (1) not recognizing completion of substantial efforts to commercialize as sufficient to trigger the defense, (2) the one-year hold-back provision after commercialization before the defense can be asserted, and (3) a limitation on the type of patent claims to which the defense applies. A new dialogue with the university community may yet produce a path forward to the consensus required to get these improvements enacted into law, perhaps forthwith.

Finally, it may be that the next Congress can make more explicit the implicit provisions of the AIA by enacting an express and categorical statutory bar to unenforceability pleadings based upon "inequitable conduct" allegations. In the patenting process dictated under the AIA—one that is open to the public, with public participation before and after the patent issues, and with the standards for determining patentability and patent validity turning almost entirely on information available to the public—a misconduct-based unenforceability doctrine imposed on otherwise valid and enforceable patent claims makes sense only if the misconduct in question infects the enforcement of the patent, i.e., is misconduct before the court perpetrated by an "unclean litigant."

The sum and substance of the above changes plays on themes familiar to those involved in the six-year journey that produced the AIA: the best patent system is one that is the most transparent, most objective, most predictable, and most simple. If that be the case, nothing says that Congress needs to wait to make what is now the world's best patent law even better. So, I would ask, "Why wait?" ■

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COMMENTARY

The America Invents Act: Will it be the Nation's Most Significant Patent Act Since 1790?

By Robert A. Armitage, Esq.
Eli Lilly & Co.

On Sept. 16 the 150-page Leahy-Smith America Invents Act, H.R. 1249, became law. It is, without question, significant, even record-setting, patent legislation.

The America Invents Act is — by far — the lengthiest patent act in our nation's history. It is more than double the size of the bill creating the 1952 Patent Act, which recodified the entirety of U.S. patent law from scratch.

The new act's legislative gestation consumed over six years. Only once before, in enacting the American Inventors Protection Act of 1999, did Congress take so long to bring a new patent law into being.

Being the lengthiest patent act of all time — and the slowest to transit Congress — constitute at best uninspiring superlatives. They hardly suggest that this new congressional work product might one day be acknowledged not just as a significant advance in U.S. patent law, but as the most significant since the first Congress crafted the first patent act in 1790.

To make good on such a brash and bold aspiration would be to fulfill a very tall order. It would require that the new law surpass in its implications and affect both the Patent Act of 1836 (creating the patent office and the modern system of patent examination) and the 1952 Patent Act (providing a complete and cogent, ground-up restatement of all U.S. patent law under a full statutory recodification). In other words, the America Invents Act needs to achieve nothing short of extraordinary credentials to top the significance of these two great patent acts of the 19th and 20th centuries.

Just why might the America Invents Act someday realize such an outsized potential? For the proponents of the new law, it holds the promise of accomplishing two things, each of which is potentially profound.

The first possible accomplishment would be to work a revolution in the criteria by which a new invention can be judged to have been validly patented in the United States. The new act both limits and then reshapes patenting rules to those that, both individually and collectively, are transparent, objective, predictable and simple. It also successfully retains and even enhances the historic inventor-friendly and collaboration-friendly features that have long set U.S. patent law apart from patent systems globally.

The second potential impact is even more ambitious: that our new patent law will serve as a beacon to guide future changes in foreign patent laws so that in the decades ahead, foreign patent laws would come to be built around the very same principles Congress enshrined in our new law. Should this potential be realized, greater harmonization of the world's patent laws may come to mean nothing more than foreign patent laws adopting the mold and model of America Invents Act provisions.

Photo by Tom Brenner / Reuters

The America Invents Act, shown here after President Obama signed it, more than double the size of the bill creating the 1952 Patent Act, which recodified the entirety of U.S. patent law from scratch.

HOW DOMESTIC PATENT LAW PRINCIPLES WILL BE REVOLUTIONIZED

The New Law is TOPS

The proponents of the America Invents Act sought a new patent law — and a reformed patent system — operating with greater transparency, objectivity, predictability and simplicity in the determination of whether a valid patent could be granted on an invention. To a quite stunning degree, they got what they were seeking with the enactment of the America Invents Act.

Transparency. Once the America Invents Act takes full effect, only information that has become available to the public before an inventor seeks a patent for an invention — or had become publicly available from an earlier patent filing by someone else — will be used to determine whether the invention to be patented is sufficiently different from pre-existing knowledge to merit a patent. To achieve this result, the America Invents Act erases from U.S. patent law an array of archaic principles and practices that resulted in secret knowledge or secret activities — sometimes secret activities undertaken by the inventor and other times secret work done by third parties — being cited to prevent

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a patent from issuing or to destroy its validity once granted.

Objectiveness. In a similar manner, the new statute removes from existing patent law subjective tests that have historically been considered in the assessment of whether a patent is valid. When did the inventor first think of the invention in its completed form? On the day of the patent filing, what did the inventor contemplate would be the best mode for practicing the invention? These types of subjective inquires have no relevance under the America Invents Act. This full objectivity in patenting principles will be particularly relevant in assessing whether the inventor's patent filing sufficiently disclosed the new invention. Henceforth, a sufficient disclosure rests on two objective standards: whether the actual embodiments of the claimed invention are properly identified in the patent, and whether those embodiments could be put to a practical and substantial use based on the information provided by the inventor in the patent.

Predictability. To a remarkable extent, the new law secures greater predictability in the assessment of a patent's validity by removing unneeded patent law concepts that were fact-intensive and required much discovery during lawsuits to resolve. What remains is a patent law focused on legal standards in preference to extensive factual inquiries.

Predictability is further enhanced for inventors through a set of new remedial and "safe harbor" provisions aimed at permitting an inventor to address and rectify errors and omissions in the information provided to the U.S. Patent and Trademark Office prior to the grant of the patent. If an inventor is incorrectly named in the patent, the naming of the inventor can be more readily corrected. If the inventor supplied a deficient oath as to inventorship, a corrected substitute can be more readily provided and accepted. If other information was missing or incorrect during the original examination of the patent, the missing or corrected information can now be provided and considered in a new procedure that is specifically tailored for this purpose. In each of these respects, patents will become more predictably valid and predictably enforceable.

Simplicity. What the America Invents Act has in essence done is to boil the entirety of U.S. patent law down to a set of four largely legal questions and standards that, while they fully protect the public from overly broad or overly vague patents, require little discovery and minimal fact-finding. In a sentence, once the law fully takes hold, the validity for a patent will require no more than that an inventor's claimed invention be confined to subject matter that is:

- Sufficiently different from what was already available to the public (or previously disclosed in a publicly available patent filing made by someone else) as of the date that the inventor's patent was sought.
- Sufficiently disclosed so that the actual embodiments of the invention are identified and can be put to a substantial and practical use.
- Sufficiently definite so a skilled person reading the patent knows what is and is not being patented.
- Sufficiently concrete so that whatever is claimed in the patent is not excessively conceptual or otherwise abstract in character.

Once the new patent law is fully implemented, patents granted under it will be valid or invalid based on whether these four legal criteria are met, producing a patent law its proponents contend is TOPS: transparent, objective, predictable and simple. Indeed, by being TOPS, basing patenting on information available to the public and largely restricting the law to legally rather than factually grounded tests for patenting, it becomes possible that in much patent litigation, little — perhaps no — discovery from the inventor may be of any relevance to the validity of a patent. This, of course, would represent a profound reversal of the situation that applies under existing U.S. patent law.

> The statute successfully retains and even enhances the historic inventor-friendly and collaboration-friendly features that have long set U.S. patent law apart from patent systems globally.

U.S. Patent Law Becomes Even More Inventor-Friendly and Collaboration-Friendly

Making the substantive patent law simpler and more transparent was, however, only the beginning of the benefits that supporters of the new act now tout. The United States has long recognized a "grace period" during which inventors who disclosed their inventions during the year before seeking patents were not subject to their own disclosures being used against them to destroy the validity of their patents.

The America Invents Act not only continues these protections for inventors, but further enhances them with a guarantee to the first inventor to publicly disclose an invention of the right either to patent the invention, provided a patent filing is made during the one-year grace period after the disclosure, or to dedicate the invention to the public, in the event the inventor elects not to seek a patent.

The same can be said for the so-called "collaboration-friendly" features of U.S. patent law. In 1999, and again in 2004, Congress amended patent law initially to protect co-workers, and later to protect all individuals working collaboratively under joint research agreements, from having their respective patent filings cited against one another as "prior art." Prior to these changes, an earlier-filed patent application of one such co-worker or collaborator could be cited as a ground for holding the later patent filings of any others unpatentable, even if the earlier patent filing had not become public at the time the later patent filing was made.

The America Invents Act reinforces these unique collaboration-friendly features of U.S. patent law by providing that such earlier patent filings cannot be cited to show either lack of novelty or obviousness in the later patent filing of another co-worker or collaborator. The ironclad protections of this type now found in U.S. patent law are unprecedented; foreign patent systems typically hamper collaborative work by allowing all of the earlier patent filings of inventors, co-workers and other collaborators to be cited as prior art to destroy the novelty of later-filed patents within the same organization or joint-research group.

Looking globally across patent systems today, it becomes clear that one and only one

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patent system now exists that fully recognizes the realities of invention in the 21st century. In an era of cooperation and collaboration among research organizations, it is essential that patenting principles reflect that reality. The U.S. patent law now embodies the international "gold standard" for protecting the fruits of collaborative research — and can be credibly monikered as the world's first truly 21-century patent law.

How U.S. Law Will Set The Standard for the Public's Role in the Patenting Process

As early as 1980, Congress recognized that the 1836 model of patent examination was deficient in failing to provide any formalized means for public participation in the patenting process. In that year, Congress passed a bill providing for the *ex parte* re-examination of previously issued patents, on the limited ground of whether a patent or other publication raised a substantial new question of patentability. These provisions were subsequently broadened in 1999 under the American Inventors Protection Act to add an *inter partes* re-examination procedure.

> What the America Invents Act has in essence done is to boil the entirety of U.S. patent law down to a set of four largely legal questions and standards that require little discovery and minimal fact-finding.

The America Invents Act phases out the 1999 *inter partes* procedure and instead offers what could prove to be the world's best provisions for public participation in the patenting process. First, the new law provides effective public participation early in the patenting process — before a decision to issue a patent is made by a patent examiner. It does so by providing a formal mechanism for submitting information relevant to whether the subject matter for which a patent is being sought is new and nonobvious — sufficiently different from the prior art to merit issuing a patent.

In a more sweeping set of statutory changes, the replacement for the 1999 re-examination law provides that both the patent owner and someone challenging a patent's validity can receive a prompt and fair adjudication of each significant validity issue raised by the challenger. The new procedures are termed "post-grant review" and "*inter partes* review," with the first available only during the period immediately after a patent issues and the latter available thereafter throughout the life of the patent.

These replacement procedures are to be conducted by legally trained, technically competent administrative patent judges, not (as under current law) patent examiners. They can only be initiated through a request that provides all the legal arguments and factual support for moving ahead with the proceeding at the time the request to challenge the patent is initially lodged with the Patent and Trademark Office. They are to be confined to addressing only issues where a serious question of validity has been established, an issue that is more likely than not to invalidate the patent or for which there is at least a reasonable likelihood of invalidation.

As a result of being "front loaded" with the relevant evidence and arguments of the challenger and limited to truly serious questions of patent validity, each of these new proceedings is subject to a one-year statutory deadline to reach a final decision. Because of the legal nature of the patent validity issues under the America Invents Act — and the limited nature of the factual matters that will underlie those legal determinations — the new procedures provide for limited discovery, assuring fairness while tightly controlling the time and costs required to get to a final resolution.

Again, the promise of the new law is nothing short of revolutionary. By moving away from the so-called "opposition" procedures used in Europe since the 1970s, where the European Patent Office typically takes five times — even 10 times — as long to resolve a "patent opposition" as the new U.S. law will permit, the new U.S. post-grant regime, if effectively implemented, may well earn the status of international gold standard for defining the mechanisms for public participation in the patenting process.

What The New Act Means for Efforts at Global Patent Cooperation and Harmonization

The America Invents Act — the world's first truly 21-century patent law — contains all the elements needed for a patent system to operate effectively, efficiently, economically and equitably. If the decade ahead yields greater international patent cooperation and harmonization among patent systems around the world, the starting point for that effort should lie in the incorporation of its provisions into patent laws across the globe.

Should that promise be realized, the America Invents Act will have realized its full potential as the most significant patent act since 1790, not only for the United States, but for inventors and creators everywhere, as well as those who invest in the creation of new inventions, those who are employed producing and selling them, and, of course, those who are then able to benefit from them as consumers.

Robert A. Armitage is senior vice president and general counsel of **Eli Lilly & Co.** Reprinted with permission from the Washington Legal Foundation, © 2011

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Mr. SMITH. Thank you, Mr. Armitage.
Mr. Williams.

TESTIMONY OF ELIOT D. WILLIAMS, PARTNER, BAKER BOTTS L.L.P., ON BEHALF OF THE FINANCIAL SERVICES ROUNDTABLE (FSR), THE AMERICAN BANKERS ASSOCIATION (ABA), THE AMERICAN INSURANCE ASSOCIATION (AIA), THE INDEPENDENT COMMUNITY BANKERS OF AMERICA (ICBA), THE NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS (NAFCU), AND THE CREDIT UNION NATIONAL ASSOCIATION (CUNA)

Mr. WILLIAMS. Thank you, Mr. Chairman. Thank you for the opportunity to testify today regarding implementation of the newly renamed Smith-Leahy America Invents Act.

I am going to focus my comments on Section 18, which relate to the transitional program for review of business method patents, which attracted some interest from Members of the Committee, today.

We would first like to begin by thanking the Chairman and the other Members of the Committee and the Members of the Intellectual Property Subcommittee for their leadership on this important program, and we would like to thank Director Kappos and his as team at the Patent Office for the commendable job they have done in their initial rounds of rulemaking.

While we are largely supportive of those proposed rules, we do have some suggestions for slight alterations that will properly carry out the congressional intent of the underlying program. I will touch on a few of those recommendations in my oral testimony today and refer the Members of the Committee to my written statement for some further discussions of additional recommendations.

Let me preface the recommendations with a few words about the importance of the transitional business method review program.

The program offers a less costly and more efficient administrative alternative to patent litigation so that companies acting in good faith do not have to spend the millions of dollars it can often cost to litigate a business method patent of questionable validity in Federal court.

Unlike the traditional patent application process where the patent office hears only from the patent applicant, the transitional business method review program permits full participation by a party charged with infringement. This allows the patent office to obtain the most pertinent prior art known to that accused infringer, which can be especially important in the case of business method patents, because the most pertinent prior art is most often found in nontraditional locations, such as marketing literature, prior sales, et cetera, and therefore may be difficult for the patent office to uncover without the assistance and involvement of industry participants.

Notably, the business method review program is only available after the patent office determines, after reviewing the materials and arguments submitted by the accused infringer in the request, that it is more likely than not that at least one claim of the challenged patent is invalid. This relatively high threshold provides ample protection to patentees against improper use of the program,

and the program should therefore be implemented so that there are no technical loopholes that would permit a questionable patent to escape review.

With these guideposts in mind, we offer the following more specific comments:

First, we believe the burden should be on the patentee to show that the technological invention exception applies. In close cases, the Office should err in favor of permitting review of a patent under challenge. Proposed rules should therefore be clarified to put the ultimate burden of persuasion on the patentee to show that the patent escapes review under the program because it qualifies as a technological invention.

We believe the economy will be benefited by erring on the side of including patents within the program so that these potentially invalid patents do not escape review. Notably during the House's legislative hearing on impending H.R. 1249, Director Kappos testified that it is more costly to the U.S. Economy when the threshold for determining whether to reevaluate a patent is set too high, because this can cause invalid patents to escape review in the Patent Office.

Moreover, the legislative history of the AIA shows that the Act's authors, including the Chairman, intended the implementing regulations to be drafted so that the business method program would apply as broadly as possible. Similarly, Senator Schumer, one of the sponsors of the provision in the Senate in his comments to the PTO has cautioned that the term "technological invention" should not provide a haven for clever lawyers to draft patent claims that would escape review under the program.

The regulations that implement the review program should be simple and should err in favor of permitting review. The use of overly complicated or inflexible standards risks the exact kind of damage to the economy that Director Kappos previously testified about when he cautioned against setting thresholds for review too high. And in particular the complex test for eligibility under the program will risk keeping improperly granted patents on the books, which is contrary to the intent of this important program.

The second point we would like to address has to do with the definition of "charged with infringement." In particular, we believe there should be no requirement that a patentee use any magic words in its correspondence with potential targets, such as "litigation" or "infringement", before an accused infringer can invoke the program to test the patent's validity. Instead, we believe the Patent Office should apply a test similar to that used in the District courts to decide if declaratory judgment is present. And we believe this will make it most likely that patents that are of particularly questionable validity will make it into the program without clever lawyering avoiding such a review.

Finally, we note that the business method proposed rules seem to prevent the use of the business method program for the first 9 months of first-to-invent patents—in other words, the patents which are currently on the books—which we believe is an incorrect reading of the statute. The proposed rule effectively insulates these first-to-invent business method programs from review during the first 9 months of their term, which is again inconsistent with the

exact text of the AIA. So we encourage the PTO to look at that proposed rule again.

In conclusion, we do want to thank the Chairman and the Members of the Committee again for the opportunity to testify. We are very excited about the transitional business method review program and look forward to working with the Patent Office and Members of the Committee to ensure it is implemented properly.

Thank you.

[The prepared statement of Mr. Williams follows:]

Statement Of Eliot D. Williams

On Behalf Of

The Financial Services Roundtable (FSR),
The American Bankers Association (ABA)
The American Insurance Association (AIA),
The Independent Community Bankers of America (ICBA),
NACHA – The Electronic Payments Association,
The National Association of Federal Credit Unions (NAFCU), and
Credit Union National Association (CUNA)

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES HOUSE OF REPRESENTATIVES

Hearing on Implementation of the Leahy-Smith America Invents Act
(Pub. Law 112-29)

May 16, 2012

Thank you for this opportunity to discuss implementation of the America Invents Act. I am appearing today on behalf of The Financial Services Roundtable (FSR), The American Bankers Association (ABA), The American Insurance Association (AIA), The Independent Community Bankers of America (ICBA), NACHA – The Electronic Payments Association, The National Association of Federal Credit Unions (NAFCU), and the Credit Union National Association (CUNA) to discuss implementation of Section 18 of the Leahy-Smith American Invents Act (AIA), which creates a transitional program for review of business method patents.

At the outset, we would like to thank Chairman Smith, Chairman Goodlatte, and the other members of the Committee for their leadership on this important program. We also would like to thank Director Kappos and his team at the U.S. Patent & Trademark Office for the commendable job they have done in the initial rounds of rule-making related to implementation of the AIA.

While we are largely supportive of the Patent Office's proposed rules relating to the transitional business method review program, we believe there are few areas in the proposed rules that would benefit from slight alteration or clarification, so as to properly carry out the Congressional intent underlying the program

Importance of the Transitional Business Review Program

The importance of the transitional review program for covered business methods to the overall purpose of the AIA cannot be overstated. The program offers a less-costly and more efficient alternative to litigation, so that businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent of questionable validity.[1] Instead, they can request that the Patent Office reevaluate that patent in view of the best prior art available, and can be an active participant in that reevaluation process.

Unlike the traditional patent application process, where the PTO hears from only one party (*i.e.* the patent applicant), the transitional business method review program permits full participation by the party charged with infringement. The PTO is therefore able to obtain additional insight and argument from interested parties in the impacted industry, including the most-pertinent prior art known to the accused infringer. This can be especially important in the case of business method patents, where the most pertinent prior art is often found in non-traditional locations, such as marketing literature, and therefore may be difficult for the PTO to uncover during the original application process.[2]

Additionally, recent caselaw developments in the Court of Appeals for the Federal Circuit have heightened the need for a robust business method review program, so that parties charged with infringement can be full participants in the reevaluation of these patents.[3]

Notably, business method review will only be available after the PTO determines, in view of the material submitted by the petitioner requesting reevaluation of the patent, that it is more likely than not that at least one claim of the challenged patent is invalid.[4] Accordingly, this relatively high threshold already provides ample protection for patentees against improper use of

the program. The program should therefore be implemented so that no technical loopholes permit a questionable patent to escape review.

With these guideposts in mind, we offer the following comments on the PTO's proposed rules implementing the business review program, which we believe are necessary to properly carry out the intent of the program.

1. The Burden Should Be On The Patentee To Show The "Technological Invention" Exception Applies (Proposed 37 CFR §§ 42.301(b), 42.304(a))

We fully support the Office's proposed definition of "technological invention."[5] However, the Leahy-Smith America Invents Act and its legislative history, demonstrate that the Office should err in favor of permitting review of the patent under challenge. Therefore, the PTO should revise its proposed rule to clarify that the ultimate burden of persuasion is on the patentee to show that the patent is a "technological invention."

In particular, section 42.304(a) of the proposed rules should be revised to clarify that the petitioner need only make a *prima facie* showing (rather than "demonstrate") that the patent for which review is sought is a covered business method patent.

Further, the definition of "technological invention" should be amended by adding a new sentence to the end, as follows: "The burden of persuasion shall be on the patentee to show that claimed subject matter satisfies this definition."

These recommendations are well-supported in the text and legislative history of the AIA. First, the AIA specifically requires the Office, in prescribing regulations related to the post-grant review proceeding (including the transitional post-grant review proceeding for business method patents), to "consider the effect of any such regulation on the economy." AIA § 6(d); *see also* AIA § 18(a)(1). Here, the economy would be benefited by erring on the side of including patents in the business method review program, rather than excluding them, so that potentially invalid patents cannot escape review under this program. Notably, during the legislative hearing on then-pending H.R. 1249, Director Kappos testified that it is more costly to the U.S. economy when patents escape subsequent review in the PTO because the threshold for determining whether to reevaluate the patent was set too high.[6]

Second, the legislative history reveals that the Act's authors, including the Chairman of this Committee, intended the implementing regulations to be drafted to apply the business method review program "as broadly as possible."[7] Similarly, Senator Schumer, one of the sponsors of the business-method review program in the Senate, in his comments to the PTO, cautioned that the "term 'technological invention' should not provide a haven for clever lawyers" to draft patent claims to escape review.[8] We believe that our proposal, which places the burden of persuasion on the patentee to show that the technological invention exception applies, is consistent with this legislative history, and best ensures that the program will be applied as envisioned by the Act's authors.

Finally, we note that some other commenters have suggested that the Office should replace the proposed "technological invention" definition with a standard based on subject matter eligibility under 35 U.S.C. § 101, and/or have proposed highly-complex, multi-factor tests to

determine whether a patent is a "covered" business method. These approaches should be rejected, as they depart from the purpose of the program, which is to ensure rigorous and thorough review of business method patents in view of the most pertinent prior art.

The regulations implementing the business method review program should be simple and straight-forward. The use of overly-complicated standards risks the exact kind of damage to the economy that Director Kappos referred to when he cautioned against setting the review threshold too high. In particular, those complex tests risk keeping improperly-granted business method patents on the books, which is contrary to the intent of this important program.

2. The Office Should Further Define "Charged With Infringement" (Proposed 37 CFR § 42.302(a))

The proposed rules require a petitioner to show that it has been "sued for infringement of the patent or has been *charged with infringement* under that patent" before a business method review may be initiated.[9] The rule should be revised to clarify that there is no requirement that the patentee expressly use "magic words" such as "litigation" or "infringement" in its correspondence before a petitioner may invoke the program. In particular, the Office should apply a test similar to that used in the district courts to determine whether declaratory judgment jurisdiction is present. Under that test, "a declaratory judgment action cannot be defeated simply by ... correspondence that avoids magic words."[10] As long as there is a substantial controversy between the patentee and the petitioner (or the petitioner's privies) that is real and sufficiently immediate, the program should be available.

Any other result would frustrate the purpose of this program. In particular, a patentee could send cleverly-drafted correspondence to potential targets that would not trigger applicability of the program -- forcing those targets to either file their own declaratory judgment action in district court (and incur the substantial expense of that litigation), or take the risk of incurring potentially-increasing liability under the patent until the patentee sues in court.

3. There Should Be No Restriction on Requesting Business Method Patent Review Of First-To-Invent Patents During The Post-Grant Review Period (Proposed 37 CFR § 42.303)

In the Patent Office's proposed rules, a petition requesting a covered business method review may not be filed "during the period in which a petition for a post-grant review of the patent would satisfy the requirements of 35 U.S.C. § 321(c)."[11] This, however, is inconsistent with section 18(a)(2) of the AIA, which specifies that the transitional business method review program is available to "any covered business method patent...except" for the first nine months after issuance of *patents subject to the first-to-file* provisions of the AIA. *See* AIA § 18(a)(2).

The proposed rule appears to improperly preclude the use of the program to review first-to-invent business method patents during the first 9 months of their pendency, even though such patents are not subject to review under the post-grant review program.[12] Thus, the proposed rule effectively insulates first-to-invent business method patents from review for the first nine months of their term.

To remedy this error, proposed rule 42.303 should be revised to read:

> 42.303 Time for filing. A petition requesting a covered business method patent review may be filed at any time, except that such a petition may not be filed to institute review of a patent issued from an application that has an effective filing date on or after March 16, 2013 during the period in which a petition for a post-grant review of such patent would satisfy the requirements of 35 U.S.C. 321(c).

In short, the transitional review program should be available for all first-to-invent patents, even within the first nine months of the grant of such patents.

4. The Appropriate Fees Should Be Charged To Ensure An Effective Review Program (Proposed 37 CFR § 42.15(b))

We strongly support the ongoing efforts of the Office and the Administration to "put[] patent quality first."[13] The transitional business review program should be an important part of that initiative. In that regard, we are supportive of a fee model that ensures the Office has sufficient resources for a sustainable and effective business review program.

However, to ensure that the business method review program is broadly accessible to all entities (large and small) against whom a covered business method patent is asserted, we suggest that the proposed rules regarding the fees applicable to the business method review program be slightly revised. Notably, the currently proposed fee structure may enable owners of business method patents to extract settlements from small entities using a settlement value based on avoiding the cost of filing a business method review which, in the case of patents with numerous claims, may exceed $100,000 -- even if the review is not ultimately granted.[14] Patentees should not be permitted to build their litigation war chests through these tactics.

Accordingly, the fee should be reduced in instances where the petition is filed by a small (or micro) entity. Additionally, a staged fee structure should be adopted -- imposing an initial fee due at the filing of a petition for business method review, and a subsequent fee due if the review is instituted. This is similar to the PTO's current practice under 37 CFR § 1.16(a), (k) and (o) of staging filing, search and examination fees for utility patent applications.

5. The Office Should Interpret "Financial Product Or Service" Broadly In Accordance With the Purpose of the Program (Proposed 37 CFR §§ 42.301(a))

The Office should interpret "Covered business method patent" in § 42.301(a) broadly, consistent with Congressional intent. In particular, the legislative history of the AIA discusses several specific types of "financial products or services" to be covered by the transitional business method review program, including: (1) financial data processing; (2) administration and processing of benefits; (3) insurance products and services; (4) collecting, analyzing, maintaining or providing consumer report information or other account information; and (5) securities brokerage, investment transactions and related support services, among others.[15] Moreover, the language in proposed rule 42.301(a), which comes from section 18(d)(1) of the AIA, explicitly makes eligible for review patents that can be applied to the "practice, administration, or management" of a financial product or service. The legislative history of that provision shows that the language was "intended to make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service" and was

meant to "cover any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing."[16]

We support proposed rules 42.302 and 42.304(a), which properly reflect that a petition under the business method program can be invoked by any entity, as long as the disputed patent is asserted against a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service. *See* AIA § 18(d)(1).[17]

6. The Office Should Consider Accepting Petitions For Business Method Review Prior To September 16, 2012

In view of the importance of the transitional business method review program, the Office should accept petitions for business method review prior to the effective date of the program pursuant to AIA § 18(a)(2), so that the Office can immediately begin consideration of those petitions on September 16, 2012. Similarly, the PTO should publish business method review filing parameters on the PTO website, as contemplated by proposed rule 42.6(b)(1), several weeks prior to September 16, 2012. This would allow practitioners to properly prepare and file petitions in advance of the effective date.

Conclusion

In conclusion, we thank the Chairman and the members of the Committee for the opportunity to testify here today. We are very excited about the transitional business method review program, and look forward to working with the Patent Office, and the members of this Committee in ensuring that the program is implemented effectively and efficiently.

The Financial Services Roundtable (FSR) represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

The American Bankers Association (ABA) represents banks of all sizes and charters and is the voice of the nation's $13 trillion banking industry and its two million employees.

The American Insurance Association (AIA) is the leading property-casualty insurance trade organization, representing approximately 300 insurers that write nearly $100 billion in premiums each year. AIA member companies offer all types of property-casualty insurance, including personal and commercial auto insurance, commercial property and liability coverage for businesses, workers' compensation, homeowners' insurance, medical malpractice coverage, and product liability insurance.

The Independent Community Bankers of America (ICBA) represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers they serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace. With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1.2 trillion in assets, $960 billion in deposits, and $750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data. The ACH Network serves as a safe, secure, reliable network for direct consumer, business, and government payments, and annually facilitates billions of payments such as Direct Deposit and Direct Payment. Utilized by all types of financial institutions, the ACH Network is governed by the NACHA Operating Rules, a set of fair and equitable rules that guide risk management and create certainty for all participants. As a not-for-profit association, NACHA represents over 10,000 financial institutions via 17 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholders to enable innovation that strengthens the industry with creative payment solutions. To learn more, visit www.nacha.org, www.electronicpayments.org, and www.payitgreen.org.

Founded in 1967, the National Association of Federal Credit Unions (NAFCU) exclusively represents the interests of federal credit unions before the federal government. Membership in NAFCU is direct; no state or local leagues, chapters or affiliations stand between NAFCU members and its headquarters in Arlington, VA. NAFCU provides its members with representation, information, education, and assistance to meet the constant challenges that cooperative financial institutions face in today's economic environment. NAFCU represents nearly 800 federal credit unions, accounting for two-thirds of total federal credit union

assets and 61 percent of all federal credit union member-owners. NAFCU represents many smaller credit unions with limited operations as well as many of the largest and most sophisticated credit unions in the nation, including 83 out of the 100 largest federal credit unions.

The Credit Union National Association (CUNA) is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,300 state and federally chartered credit unions and their 94 million members.

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[1] 157 Cong. Rec. S5408, S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle). *See also* 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting that the program will "reduce the burden placed on courts and the economy" by providing a "temporary administrative alternative for reviewing business method patents").

[2] *See* House Judicial Committee Report on H.R. 1249 (H. Rep. 112-98), p. 54; 157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011)(statement of Sen. Schumer).

[3] For instance, patentees have been permitted to have their facially-invalid patents allowed during reexamination in the patent office by making arguments which have the effect of narrowing otherwise facially broad language in their claims, but without triggering intervening rights. *See Marine Polymer Tech., Inc. v. Hemcon, Inc.*, 672 F.3d 1350 (Fed. Cir. 2012). Similarly, patentees have been permitted to reissue with broadened claims recapturing subject matter previously given up in order to obtain the original patent. *See In re Youman*, ___ F.3d ___, 2012 WL 1598089, Docket No. 2011-1136 (Fed. Cir., May 8, 2012).

[4] *See* AIA § 6(d) (35 U.S.C. § 324(a)).

[5] *See* Transitional Program for Covered Business Method Patents - Definition of Technological Invention, 77 Fed. Reg. 7095, 7108 (to be codified at 37 C.F.R. § 42.301(b)).

[6] *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).

[7] *See* Letter from Rep. Lamar Smith to Sens. Kyl, Schumer, Leahy, and Grassley (Sep. 8, 2011) ("This program was designed to be construed as broadly as possible and as [the] USPTO develops regulations to administer the program that must remain the goal.") 157 Cong. Rec. S7413-S7414 (daily ed. Nov. 14, 2011).

[8] Letter from Sen. Schumer to United States Patent and Trademark Office, p. 3 (Apr. 10, 2012). <http://www.uspto.gov/aia_implementation/comment-schumer.pdf>.

[9] 77 Fed. Reg. 7080, 7095 (proposed § 42.302(a)) (emphasis supplied).

[10] *Arris Group Inc. v. BT*, 639 F.3d 1368, 1379 (Fed. Cir. 2011); *see also MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

[11] 77 Fed. Reg. 7080, 7095 (proposed 37 CFR § 42.303).

[12] The only limitation on the filing of a post-grant review petition expressed in 35 U.S.C. § 321(c) is that the petition must be filed within 9 months of issuance of the patent. There is no apparent restriction in that Section that the patent to be reviewed must also be a first-to-file patent. Of course, under AIA § 6(f)(2)(A), post-grant reviews are only available for first-to-file patents.

[13] See https://wwws.whitehouse.gov/petitions#!/response/promoting-innovation-and-competitive-markets-through-quality-patents.

[14] *See* 77 Fed. Reg. 7080, 7086 (Feb. 10, 2012); Rules of Practice for Trials Before the PTAB, 77 Fed. Reg. 6879, 6909 (Feb. 9, 2012) (to be codified at 37 C.F.R. § 41.15(b)).

[15] 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

[16] 157 Cong. Rec. S1363, S1365 (daily ed. March 8, 2011) (statement of Senator Schumer).

[17] *See also* 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); see also 157 Cong. Rec. S5441 (daily ed. Sep. 8, 2011) (statement of Sen. Leahy).

Mr. SMITH. Thank you, Mr. Williams.
Mr. Horton.

TESTIMONY OF CARL HORTON, CHIEF INTELLECTUAL PROPERTY COUNSEL, GENERAL ELECTRIC, ON BEHALF OF THE COALITION FOR 21st CENTURY PATENT REFORM

Mr. HORTON. Mr. Chairman, Members of the Committee, I appreciate the opportunity to testify today in my capacity as chair of the Coalition for 21st Century Patent Reform, or the 21C as we are known, a diverse group of nearly 50 innovative companies in 18 different industry sectors that employ millions of Americans in well-paying jobs.

Let me begin by expressing my sincere gratitude and appreciation to all Members of Congress, and especially Members of this Committee, for your leadership in passing the Leahy-Smith/Smith-Leahy America Invents Act. It represents a tremendous step forward for the patent laws of the United States that will continue to pay dividends for years to come.

Let me also thank the staff of the Office, and particularly Director Kappos, for all their efforts to implement provisions of the AIA in a manner that is timely, transparent, and collaborative with the user community.

The 21C was intimately involved in the discussions leading up to the passage of the AIA. Armed with this knowledge and experience, we have critically reviewed each of the various rules issued by the Office to ensure that they faithfully adhere to congressional intent. For the most part, such rules have remained true to the provisions of the AIA. Consequently, I will address only those provisions where additional changes would yield the greatest benefits or where the rules have strayed farthest from what was intended when the AIA was passed.

Collectively the new post-grant review, PGR, and inter partes review, IPR, proceedings work to form the key cornerstone of the AIA. The PGR and IPR proceedings were to provide a fast, fair, and cost-effective manner to challenge patents of excessive scope or questionable validity. However, as currently drafted, these proceedings are not nearly as streamlined as they might be, and they also lack procedural safeguards that would better balance the proceedings between patent owners and patent challengers.

Both PGR and IPR proceedings could be dramatically improved if requests were comprehensive at the outset, containing all information on which petitioners intend to rely, and patentees were permitted to respond with all information explaining why a petition should be denied, thereby providing the Office with a full and complete record on which to base its decision to institute such proceedings.

Once instituted, IPR and PGR proceedings should be further streamlined by using proven best practices such as automatic protective orders, clearly articulating the appropriate scope and limitations on discovery, restricting the length and breadth of witness questioning, and eliminating any and all unnecessary motion practice that would do little more than inflate legal fees.

Finally, claims should be interpreted consistently with other adjudicative proceedings, lest patentees face one claim scope for validity and a conflicting claim scope for purposes of infringement.

Despite the global economic uncertainties and cost pressures facing our companies, the 21C supported the Office and the goals in its strategic plan by approving the 15 percent surcharge levied in conjunction with the AIA. However, the 15 percent surcharge is already having a significant adverse impact on the number of patent applications that applicants can afford to file, issue, and maintain. Further fee increases could have even greater detrimental consequences on applicants.

The AIA should in no way act as a deterrent to R&D, nor should it inhibit a company's ability to protect the fruits of such innovation. We are committed to working with the Office to simplify processes to eliminate fee increases so that applicants can secure rights to all innovations that have the potential to fuel future U.S. economic growth and recovery.

One such opportunity for cost savings is the arcane practice of signing an oath or declaration when inventors have already assigned such rights to their employer. The current U.S. practice and, unfortunately, the draft rules proposed by the Office are tedious and time consuming. By requiring only an express statement by applicants that they have obtained the requisite right to file the patent application, the U.S. could dramatically simplify current practices to coincide with global best practices, as was intended.

Section 18 of the AIA likewise has the potential to divert precious resources within the Office if the proceedings are made overly complex or unduly ambiguous. In its attempt to define technological inventions that do not qualify for business method challenges, the Office has conflated the issues of both novelty and nonobviousness together with the definition of technological feature, as well as requiring the technological feature to solve a technological problem with a technological solution.

Finally, the supplemental examination provisions permit patentees an opportunity to ask the Office to consider or correct information possibly relevant to patentability before seeking to enforce their patents. The draft supplemental examination rules impose overly burdensome and unnecessary requirements such as detailed statements from applicants for each item of information submitted. The Office's draft rules would also deny applicants access to the benefits of this procedure if it determines the request did not comply with all of the formal requirements set forth, including the formal of the papers filed. We believe some relaxation of these requirements is in order.

Thank you for the opportunity to present our Coalition's views on the implementation of the AIA. I would be pleased to answer any questions.

[The prepared statement of Mr. Horton follows:]

THE COALITION FOR 21ST CENTURY PATENT REFORM
Protecting Innovation to Enhance American Competitiveness
www.patentsmatter.com

Statement of

Carl Horton

Chairman

Coalition for 21st Century Patent Reform

and

Chief IP Counsel of General Electric

Before the

Committee on the Judiciary

United States House of Representatives

Washington, D.C.

On

Implementation of the America Invents Act

May 16, 2012

Mr. Chairman:

I am pleased to have the opportunity to present the views of the Coalition for 21st Century Patent Reform (21C) on the progress the U. S. Patent and Trademark Office (USPTO) is making on the implementation of the AIA. The coalition has nearly 50 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The coalition's steering committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble. The coalition has members in a variety of industry sectors including: Aerospace and Defense, Chemical, Computers, Diversified Financials, Diversified Technology, Energy, Food Production, Forest & Paper Products, Health Care, Household & Personal Products, Industrial Equipment, Medical Equipment & Devices, Network & Communications, Payroll Services, Pharmaceutical, Biotechnology, Semiconductors & Electronic Components, and Transportation Equipment.

As this is the first opportunity I have had to testify before this Committee since the enactment of the AIA, I would like to express the appreciation of the 21C for the outstanding work of the Committee under your leadership in achieving the very significant and important reforms represented by its passage. The AIA provides solutions that will benefit the US patent system and the USPTO, fairly balance the interests of the public, patent holders and patent challengers, and represent the most widely accepted improvements to the patent system. The AIA gives the United States the "gold standard" of patent systems by authorizing:

- An orderly transition to a first-inventor-to-file patent system featuring an effective grace period
- Preissuance submissions of relevant information by third parties
- Post-grant and inter parte review proceedings
- Supplemental examination proceedings permitting patent owners to obtain the USPTO's determination on the effects, if any, of patent

owner submitted information on the validity and enforceability of their patents
- Provisions limiting certain "subjective intent" factors in patent prosecution and enforcement
- And very importantly, provisions that provide adequate and stable funding for the USPTO

The USPTO has been working very diligently on the many rules packages needed to implement the AIA since it was adopted last September. The Office, Director Kappos and his staff are to be congratulated on the transparency and openness to the user community in the effort to formulate these rules.

Since the AIA was signed by the President, the Office has published rules for comment on:

- Inter partes review
- Post-grant review
- Proposed patent fees
- Transitional program to review covered business method patents
- Derivation
- Trial practice guide
- Inventor's oath/declaration
- Preissuance submission of prior art by third parties
- Citation of patent owner's statements in patent files
- Supplemental examination of information not previously considered

In addition, the Office has requested user input and/or published studies on:

- International patent protection for small business
- Prior user rights
- Genetic testing

- Creation of satellite offices to better serve users and retain examiners

The quality of this enormous rule making exercise is commendable. The process has been very open and the Office has gone the extra mile to explain its process and the proposed rules in numerous cities throughout the country. By commenting on what the 21C views as deficiencies or opportunities for improvement in certain of the proposed rules, we should not lose sight of the bigger picture and the outstanding effort of the USPTO. Director Kappos and his team are to be congratulated for their open and collaborative approach and the tremendous progress achieved thus far.

Proposed Rules to Implement Post-Grant/Inter Partes Review Proceedings

The AIA provides an all-issues, post-grant-review (PGR) procedure in which a patent could be challenged during the initial nine months from grant on any of the issues of invalidity that could be considered in litigation. This robust post-grant review or "opposition" process was one of the drivers for patent reform, drawing on the National Academy of Sciences recommendations for improving patent quality. The AIA sets forth a statutory scheme for PRG that is intended to include a number of safeguards to ensure a prompt, fair, and effective procedure to protect patent owners from harassment, while allowing the USPTO to invalidate (or appropriately narrow) challenged patent claims that are determined to be unpatentable. Most of these safeguards are also included in the statutory provisions establishing the inter partes review (IPR) proceedings, which replace inter partes reexamination previously in title 35.

Unfortunately, in the view of the 21C, the rules proposed for implementing both PGR and IPR will not provide proceedings that are both fair to patent owners, and free from likely abuse by patent challengers. Instead, the proposed rules treat these proceedings as if they are merely updated versions of inter partes reexaminations. This is contrary to the legislative intent that treats both procedures as adjudicative proceedings rather than as enhanced examination proceedings.

The Congressional intent behind the establishment of PGR and IPR was to provide proceedings that would be available to challenge plainly invalid patents. Congress did not envision that these proceedings would be instituted in almost every instance, as was the case with inter partes reexaminations where 95% of all challengers' requests were found to satisfy the "substantial new question of patentability" threshold. Accordingly, Congress provided elevated thresholds for implementing PGR and IPR proceedings (information presented that demonstrates it is "more likely than not" that a challenged claim is unpatentable (for PGR proceedings) and information that shows "there is a reasonable likelihood that the petitioner would prevail" (for IPR proceedings)).

In addition, Congress enumerated a number of circumstances and situations where the Director should decline to institute PGR and IPR proceedings and provided a list of considerations to be weighed by the Director in proscribing regulations to implement these proceedings. These circumstances and considerations, which provide an important balance in the implementation of the AIA, are largely absent in the proposed rules. These limitations address legitimate concerns that these new proceedings not be instituted on an incomplete record, not become a burden to the Office or to the inventor community, not duplicate other proceedings in the Office, and not negatively affect the "economy, the integrity of the patent system, the efficient administration of the Office, or the ability of the Office to timely complete proceedings." For a complete list of the reasons the Director may decline to institute these post-grant proceedings, see http://www.uspto.gov/patents/law/comments/x_aia-a_abaetal_20111208.pdf, pages 41 and 63-64.

This guidance to the Director regarding the nature and number of proceedings is especially important in view of the potential for such proceedings to be misused by petitioners to harass inventors and impose undue burdens on the inventor community. Indeed, it has been estimated that the average total cost to a patent owner to defend such a proceeding will likely exceed $350,000 – and may in complex cases approach or even exceed $750,000. The potential impact of such misuse is highlighted by the report

from the Office for the first two quarters of FY 2012 that shows that, with the number of requests being essentially the same as the corresponding period for FY 2011, it has granted 91.5% of the requests to institute inter partes reexamination using the new "reasonable likelihood" threshold - in contrast to the previous "substantial new question" threshold where 95% were granted.

The USPTO's projection that it will grant about 90% of all filed petitions appears to stem in part from the fact that its proposed pre-institution procedures are procedurally biased in favor of the petitioner. For example, petitioners will be allowed to support their petitions with sworn witness statements, test results and experts' opinions, while patent owners will not be allowed to respond in kind with corresponding rebuttal evidence. Moreover, petitioners will be under no pre-institution obligation to disclose information known to them that may rebut their allegations, or that may support the patentability of the challenged patent claims.

In the case of PGR, petitioners will have at least 9 months to prepare their case, and often much longer as allowed patent claims are routinely made available to the public six months or more before patent issuance. In the case of IPR, petitioners will have even longer, sometimes years, in which to marshal their cases. By contrast, patent owners will normally first learn of the bases of the challenges to their patents when the petitions are received, and then will be given only two months within which to file their initial responses to these claims. With adjustments to more closely conform pre-institution procedures to those contemplated in the AIA, establishment of a more equitable balance in pre-institution proceedings could easily be achieved.

Other provisions in the proposed rules carry the apparent bias in favor of the challenger into the post institution phase. For example, the proposed rules would allow petitioners to file a motion identifying supplemental information relevant to a ground for which a proceeding has been instituted without any requirement to show good cause why such information was not presented initially, thus "blindsiding" the patent owner after the proceeding has been initiated. To allow petitioners to submit additional evidence during

or after the patent owner's limited period for discovery is not only unfair, placing an undue burden and hardship on the patent owner, but also permits (if not encourages) petitioners to game the proceedings by initially disclosing only enough evidence to initiate the proceeding, while withholding the remainder to be introduced when time constraints will prevent the patent owner from adequately responding.

The proposed rules further envision (1) unnecessary and expensive motion practice, (2) do not authorize automatic protective orders, (3) fail to restrict the length and breadth of witness questioning and (4) do not provide sufficient time for patent owners to develop their responses (as contemplated by the AIA).

Patent owners would also be prejudiced by requirement in the proposed rules that patent claims be given their broadest reasonable construction in light of the specification of the patent. This is inconsistent with the nature of an adjudicative proceeding and would likely result in inconsistent, if not conflicting, claim scope interpretations in the PGR proceeding as compared to any pending or potential litigation involving the patent. This would create the untenable result that patents may be held invalid under the USPTO's broader claim construction when the narrower, proper claim construction that would be applied in the courts would have confirmed their validities. Exacerbating the concern is that unlike initial examination, patent owners would be given only one opportunity to amend, and even that would be subject to approval by the Patent Trial and Appeal Board.

Suffice it to say that the 21C is greatly concerned with the rules proposed to implement the PGR and IPR proceedings. I will not delve further into their shortcomings, since the witness for the IPO, who has been intimately involved in working with the USPTO on these rules, can more thoroughly explain the issues they raise.

Before leaving this topic, however, I will note that the fees for recovering the cost to the Office for conducting these procedures are significantly more than would otherwise be needed if such PGR/IPR procedures were simplified and streamlined in the manner

outlined by those testifying on this subject today (or as outlined by various industry groups in their responses to the proposed PGR rules, etc.). More importantly from a fee perspective, the USPTO fees, while excessively high in their own right, are only one part of the costs to patent owners and challengers. The total cost of these procedures, as currently proposed, will be very substantial for each party involved.

Thus, in addition to considering the appropriate level of official USPTO fees for these proceedings, the Office should also keep in mind the total costs the rules will impose. If the total costs of such proceedings are not significantly reduced, it is unlikely that PGR/IPR will permit parties to affordably challenge patents of questionable scope or validity as was intended by Congress.

Proposed patent fee schedule

Turning now to the proposed fees for all services provided by the Office, it must initially be said that it is difficult to offer definitive comments about the fees the USPTO is proposing given the lack of detailed information regarding how the Office determined the various fees it has proposed. The 21C supports the USPTO's goals for reducing average pendency time to first action within 10 months and average pendency to disposal within 20 months by 2015/2016 as called for in the PTO's strategic plan, however, the steep increases in certain fees do raise serious concerns. The trajectory for achieving this goal must be balanced with the need to ensure that users are not priced out of the system. Similarly, while the building of a 3-month operating reserve is a worthwhile long-term ambition, it must be carefully balanced against current economic realities faced by applicants and the very real costs and other burdens placed on users as a result of the AIA, not all of which are fee-based.

We strongly urge further analysis of whether the proposed fee increases are necessary in order to achieve the pendency and quality goals of the Office. The proposed fees would, as we understand it, result in an aggregate 10 percent increase in fee revenue in 2013, followed by another 5 percent aggregate increase in 2014. These increases

would come after the 15 percent across-the-board fee increase imposed by the AIA last September. Together, these fees would increase the aggregate fee revenue of the Office by 30 percent in less than 3 years, a greater increase than projected for research and development over that same period, while US companies, both large and small, struggle against weak and uncertain economic growth. Our fundamental concern is that the proposed fee increases would discourage innovators from seeking patent protection in the United States to the detriment of American competitiveness and job creation.

In addition, while in complete agreement that the Office should be permitted to set its fees to recover the aggregate cost of providing services to the user community, one could question whether the Office is taking an overly expansive approach in its cost analysis, resulting in the proposal of fees that exceed the likely costs for certain procedures. For example, the minimum fee proposed for requesting an IPR (20 or fewer clams) is $27,200 as contrasted with the current fee of $8,800. The proposed fees for requesting supplemental examination is $5,180 with an additional fee of $16,120 for any ensuing ex parte reexamination as contrasted with the current fee for requesting Ex Parte Reexamination of $2,520. Even if the prediction of the new fees represents the cost of such service, some subsidization may be warranted to permit patents of questionable scope or validity to be reexamined at minimal expense rather than spawning expensive litigation based on patents of dubious merit. The use of both IPRs and supplemental examination were designed to improve the overall efficiency of the patent system and should be encouraged, not discouraged.

Proposed Rules to Implement Supplemental Examination Provisions

The AIA introduced the possibility of obtaining a "supplemental examination" into the patent law. This provision allows a patent owner to ask the Office to consider or correct information believed relevant to patentability. If the information submitted raises a substantial new question of patentability, a reexamination will be ordered. Any patent emerging from such reexamination shall not be held unenforceable on the basis that such information had not been previously considered.

We are concerned, however, that the proposed rules for requesting supplemental examination impose overly burdensome requirements (and also unnecessarily high fees). For example, the rules would require a statement, for each item of information submitted, whether it was not considered or inadequately considered, as well as a detailed statement as to why consideration or reconsideration is being requested. This is wholly unnecessary once it is established that an item of information was not adequately considered, giving rise to what appears to be a substantial new question of patentability.

Further, the proposed rules would not grant a filing date to a request for a supplemental examination if the Office determines the request did not comply with all of the requirements set forth (even including the format of papers filed). By granting a filing date only when all the minor defects are timely corrected, the rules could result in a patent owner losing the protection otherwise available under a supplemental examination in the case of an intervening civil action or section 337 proceeding by delaying the conclusion of such supplemental examination – which is the critical date for obtaining such protection.

Proposed Rules to Implement the Inventor's Oath or Declaration Provisions

As stated in House Report 112–98, the AIA eliminates the antiquated notion that it is the inventor who files the application, rather than a company-assignee. It updates the patent system by facilitating the process by which an assignee may file and prosecute patent applications. It also provides similar flexibility for a person to whom the inventor is obligated to assign, but has not assigned, rights to the invention.

Unfortunately, the proposed rules fail to faithfully implement the clear language of Section 4 of the AIA, or account for the express legislative intent underlying that provision, to allow an assignee to fully participate in the patent application process, including directly applying for a patent. The rules interpret the assignee filing provisions

in a manner that essentially maintains the status quo regarding the requirements for an oath or declaration.

For example, the proposed rules would maintain the requirement that a patent be "applied for in the name or names of the actual inventor or inventors" contrary to Section 4 of the AIA which expressly provides that "A person to whom the inventor has assigned or is under an obligation to assign the invention may make an application for patent." This defeats the express purpose of Section 4 of the AIA to permit corporations to file in their own names, and not that of the inventors, where title to such inventions had passed from the inventor to the employer/assignee.

The proposed rules also fail to implement the applicant's right, as provided by the AIA, to proceed with a "substitute statement" in the situation where an inventor is deceased, legally incapacitated, cannot be found, or is under an obligation to assign the invention but refuses to execute the required oath or declaration. This is an expensive and cumbersome disadvantage placed on US applicants which Congress intended to eliminate with the passage of the AIA.

These failures to faithfully implement the assignee filing provisions of the AIA miss a valuable opportunity to simplify outdated elements of the patent system and put corporations at a potential competitive disadvantage with no apparent benefits to the USPTO. Moreover, failure to remedy these shortcomings will deny the United States the opportunity to achieve "procedural harmonization" with the rest of the world and achieve effective labor-reducing work-sharing with other patent offices around the world.

Definition of Technological Invention

Section 18 of the AIA creates a transitional program to allow post-grant review of the validity of "covered business method patents." This term expressly excludes patents for "technological inventions" and authorizes the Director to issue regulations for determining whether a patent is for a technological invention. The USPTO has proposed

defining "technological invention" on a case-by-case basis by considering "whether the claimed subject matter as a whole (1) recites a technological feature that is *novel and unobvious over the prior art*, and (2) solves a technical problem using a technical solution." This definition would unfairly prejudice the rights of patent owners and introduce an unnecessary layer of expense and complexity into Section 18 proceedings.

By defining a technological invention as one that is novel and unobvious, the Office is conflating two separate issues, i.e., whether the patent is technological in nature and whether it satisfies the novelty and non-obviousness criteria of Sections 102 and 103. In doing so, the proposed definition shifts the burden of proving patentability to the patent owner at the petition stage – an unacceptable reversal of the burden of proof that normally rests on the person asserting invalidity.

Further, the proposed definition would essentially import the European Patent Office ("EPO") standard of "technological" into U.S. patent law. The EPO has struggled for decades to define terms such as "technical contribution, effect or advantage," with varying degrees of success; decisions of the EPO technical boards of appeal on the subject frequently conflict with one another. In fact, the EPO Enlarged Board of Appeal considered the EPO President's referral of the question for an advisory opinion to provide clarity and chose not to accept the referral.

Rather than create (or adopt from the EPO) a definition for "technological invention," which would result in years of appeals and endless court disputes and tremendous uncertainty to patent applicants, the 21C believes the definition of "technological invention" would accomplish Congressional intent by focusing solely on Section 101 using existing jurisprudence on patent eligibility under Section 101 based on the Supreme Court's guidance in *Bilski*, as further elaborated by subsequent Federal Circuit interpretations of that decision. By so doing, this proceeding would effectively eliminate the "worst offenders in the field of business method patents" or business method patents of "dubious validity" that many in Congress had intended to remove via Section 18 of the AIA.

Statute of Limitations Provisions for Office Disciplinary Proceedings

Section 32 of Title 35 as amended by the AIA requires that a disciplinary proceeding be commenced not later than the earlier of either 10 years after the date on which the misconduct forming the basis for the proceeding occurred, or one year after the date on which the misconduct forming the basis for the proceeding is made known to an officer or employee of the USPTO.

The proposed rule defines "the date on which the misconduct forming the basis for the proceeding is made known to an officer or employee of the Office" as follows:

1) with respect to complaints based on reciprocal discipline, on the date on which the Director, Office of Enrollment and Discipline (OED Director) receives a certified copy of the record or order regarding the practitioner being publicly censured, publicly reprimanded, subjected to probation, disbarred, suspended, or disciplinarily disqualified;

2) with respect to complaints for interim suspension based on a serious crime conviction, the date on which the OED Director receives a certified copy of the record, docket entry, or judgment demonstrating that the practitioner has been convicted of a serious crime; and

3) with respect to complaints predicated on the receipt of a probable cause determination from the Committee on Discipline, on the date on which the OED Director receives from the practitioner a complete, written response to a request for information and evidence.

The proposed rule requires too much formality for complaints based on reciprocal discipline and on conviction for a serious crime. It also creates too much opportunity for

delay by the Office in the case of complaints predicated on the receipt of a probable cause determination from the Committee on Discipline.

Particularly with respect to the third situation, the 21C does not believe that it is necessary to require that a formal complaint be received by the OED Director. Section 32, as modified by the AIA, only requires that "the misconduct forming the basis for the proceeding [be] made known to an officer or employee of the Office." This language would permit the Office to consider a complaint to be received when information that discloses specific conduct is presented to an official or employee of the USPTO for the purpose of having that official or employee determine whether such conduct constitutes fraud or a violation of the USPTO Code of Professional Responsibility. The receipt of such information should be sufficient to start the statutory period for the Office to commence any disciplinary action it wishes to take, even if the recipient officer or employee is not in the OED.

The Office should be held to its one-year obligation, so that practitioners need not be concerned that years later, when recollections have dimmed, witnesses have become unavailable, or valuable documentation misplaced or destroyed, the Office might attempt to resurrect the issue.

Preissuance submission of prior art by third parties

One of the quality-enhancing features of the AIA is the addition of a mechanism for third parties to submit patents, published patent applications, or other printed publications of potential relevance to the examination of a pending patent application. We are concerned, however, that the proposed rules will not provide the intended benefits for either applicants or third parties.

The proposed rules provide that the Office will discard non-compliant submissions, considering compliance on a document-by-document basis, striking through documents that were not considered because, for example, (1) "the document was listed

improperly, (2) a copy of the document was not submitted, or (3) a concise description was not provided." This procedure would shift the disclosure burden to applicants, requiring applicants to submit, in an Information Disclosure Statement, any documents that the Office indicates it did not consider. An alternative approach, such as preparing a clean or redacted list of only the documents that were considered and discarding any paper that mentions any documents that were not considered, should be considered.

The proposed rules also provide that the Office will only notify and provide applicants with a copy of a preissuance submission when the first Office Action is sent. Prompt notice of such submissions would give applicants an opportunity to respond before the first Office Action is issued, in order to simplify and expedite prosecution.

On the other hand, the proposed rules state that third party submitters will not be notified when a preissuance submission is accepted or rejected, although the Office "may attempt to notify the third party submitter" by e-mail if the preissuance submission is deemed to be non-compliant. To maximize the benefit of this provision, third party submitters should be notified when a preissuance submission is deemed to be non-compliant (and told why), so that they have an opportunity to submit a compliant submission if the statutory time period has not yet expired.

Conclusion

Mr. Chairman, the Coalition for 21st Century Patent Reform appreciates the opportunity to offer our views on the progress the USPTO is making in its efforts to implement the AIA. We offer these comments in the interest of ensuring that the implementation is as effective as possible. In addition, as I noted at the outset, our suggestions and comments should in no way be taken as criticizing the efforts of Director Kappos and his team, which we deeply appreciate.

We pledge our full support to work diligently with you and the USPTO to achieve all the benefits hoped for in the AIA, including simplified processes, with greater efficiency, as

well as fairness and equal treatment of all industries and users of the patent system and also between patent owners and challengers.

Mr. SMITH. Thank you, Mr. Horton.
Mr. Rhodes.

TESTIMONY OF KEVIN H. RHODES, PRESIDENT AND CHIEF INTELLECTUAL PROPERTY COUNSEL, 3M INNOVATIVE PROPERTIES COMPANY, ON BEHALF OF THE INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)

Mr. RHODES. Chairman Smith and Members of the Committee, thank you for the opportunity to testify today. I am speaking on behalf of IPO, the Intellectual Property Owners Association, which is a trade association of more than 200 companies and more than 12,000 individuals representing all industries and all fields of technology.

I will echo what the previous panelists have said, thanking the Committee for its work in guiding through the enactment of the Smith-Leahy America Invents Act and for all the efforts that went into that. And, also, I will join in commending Director Kappos and the patent office for their excellent progress to date in promulgating and implementing regulations for the Act.

I offer my testimony today in a constructive and not critical spirit. I will focus my remarks on the proposed rules to implement the new post-grant review and inter partes review proceedings.

IPO is concerned that the proposed rules for these reviews do not yet fully implement the full intent and the promise of the Act, and IPO is not alone in those views. A cross-organization committee of experienced practitioners that was appointed by IPO, APLA, and the IP law section of the American Bar Association joined together and submitted detailed comments asking for specific changes to the proposed rules.

My written testimony that I have submitted lays out nine of those recommendations that all three of these leading IP organizations have endorsed and that they believe are the most critical to effective implementation of the new review proceedings. I will summarize a few of those recommendations today.

Before I get into specifics, however, I would like to respond to a point that was made during the prior testimony. I do not believe that it is accurate to characterize the rules that all three of the IP organizations have recommended as being a version of litigation-type discovery. The discovery that we have proposed and the initial disclosures that go along with those are much more limited, restricted only to the issues on which review has been granted. They are not simultaneous discovery as in district court litigation. They are sequential. So no party to a review will need to take and defend discovery at the same time. And they really do implement some of the best practices in district courts around the country as how to make sure there is a full and complete disclosure of information at the outset of proceedings.

District courts around the country, including the Eastern District of Texas and the Northern District of California, have adopted patent disclosure rules that really do promote the streamlined, efficient, and fair adjudication of patent infringement lawsuits, and that is what we are trying to replicate in our proposed rules that the three organizations have endorsed.

As far as a summary of a few of the specifics, first, the rules should ensure that that the PTO bases its decision whether to institute a review on as complete a record as possible. The petition seeking review should disclose all of the petitioner's invalidity arguments and supporting information, and the patent owner should be permitted in its preliminary response to provide any evidence showing why the review should not be instituted.

A review should be ordered only when the PTO determines, after considering all of the evidence presented, that the statutory evidentiary threshold has been met as well as the other factors that the Act allows the director and the board to consider in deciding whether to institute a review.

Second, the reviews need to proceed without the extensive motion practice that the current proposed rules contemplate. Clear default rules mandating and limiting what must be disclosed and filed and when that must be done and what can be discovered are needed to ensure the rules can operate with minimal oversight from administrative patent judges and with minimal burdens on participants in terms of preparing for and participating in motion practice and other interactions with the board.

Third, with respect to discovery, as mentioned, the rules should clearly set forth the scope and procedures of discovery to promote predictability, consistency, fairness, and due process for all parties. Both petitioners and patent owners alike should make initial disclosures so that the case is presented at the outset and the discovery can be narrowed from there, and that should take place without having to continually seek motions from the board on items of discovery that should be routine in nearly every review.

Finally, with respect to claim construction, I will echo what Mr. Horton said. In IPR and PGR proceedings, claims should be construed using the same procedures as used in litigation. These are by nature, and as indicated in the House report on the bill, adjudicatory in nature; and if we apply a different claim construction in these proceedings as in litigation, the patent holder is not only going to face dual standards but it is going to operate to the disadvantage of the patent holder in each setting.

In the PTO review, the claim would be given its broadest reasonable construction, a broad claim making it easier to invalidate with prior art. To turn around in litigation that might be occurring at the same time, the patent holder will face a claim construed under the Markman procedures, presumably narrower, thereby more difficult to prove infringement. I don't think it was the intent of the Act to tip the scales against patent owners in that manner.

Thank you. I will be happy to answer questions.

[The prepared statement of Mr. Rhodes follows:]

Statement of

KEVIN H. RHODES

MEMBER OF THE EXECUTIVE COMMITTEE

INTELLECTUAL PROPERTY OWNERS ASSOCIATION

Before the

HOUSE COMMITTEE ON THE JUDICIARY

on

"IMPLEMENTATION OF THE LEAHY-SMITH AMERICA INVENTS ACT"

Wednesday, May 16, 2012
10:00 a.m.

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)

Chairman Smith, Ranking Member Conyers and Members of the Committee:

I appreciate the opportunity to testify today. I am a member of the Board of Directors and Executive Committee of Intellectual Property Owners Association (IPO). I am also President and Chief Intellectual Property Counsel for 3M Innovative Properties Company, but I am speaking on behalf of IPO today.

IPO is a trade association representing companies and individuals in all industries and fields of technology who own or are interested in intellectual property rights. IPO's membership includes more than 200 companies and more than 12,000 individuals involved in the association primarily through their companies or law firms. Our corporate members represent a broad spectrum of large and mid-sized companies in industries ranging from information technology to consumer products to pharmaceuticals and biotechnology. We also have small business and independent inventor members. In addition to our legislative interests, we comment frequently on U.S. Patent and Trademark Office (PTO) issues and file *amicus* briefs in cases of interest to our members. IPO is active in international intellectual property activities as well and has commented on activities and policies of the Chinese, European and Japanese patent offices.

IPO congratulates the Committee again on its tremendous accomplishment last year in guiding enactment of the landmark Leahy-Smith America Invents Act (AIA), which we supported. IPO appreciates the opportunity today to discuss our views on implementation of that legislation. I will focus on the rules, policies, and user fees that we believe should be adopted by the PTO to implement various provisions of the AIA in a manner that will achieve the act's goal and promise of ensuring that the United States has a modernized, world-class patent system that allows innovation to flourish.

IPO also congratulates PTO Director David Kappos, who has brought a high level of creativity and energy to efforts to improve the PTO. He and the PTO are to be commended for the diligence, openness and transparency of the PTO's rulemaking thus far to implement the AIA. We appreciate the opportunities the PTO has afforded IPO to provide input on the proposed rules, and we agree in large part with the proposed rules published by the PTO. In this testimony, IPO seeks to provide the Committee and the PTO with the views of our members, who represent a wide cross-section of the PTO user community, on how some of the PTO's proposed regulations might be improved to best implement various provisions of the AIA. But by doing so, IPO does not intend to detract from the overall observation that the PTO is to be congratulated for its rulemaking progress to date.

I. IPR AND PGR PROCEEDINGS

The new Post Grant Review (PGR) and Inter Partes Review (IPR) proceedings are central to two of the most important goals of the AIA – improving the quality of patents issued by the PTO and providing efficient and effective alternatives to costly and protracted litigation over issues of patent validity. These proceedings, if they operate as intended, will serve as a useful check on the quality of patents after they are granted by the PTO, and will provide accessible, efficient, speedy and effective alternatives to litigation to test patent validity in a contested proceeding. IPO commends the PTO for its efforts to devise a workable system for managing IPR and PGR proceedings, and also the Transitional Program for Covered Business Method

Patents set forth in Section 18 of the AIA,[1] all of which will be conducted by the Patent Trial and Appeal Board (PTAB or the Board) created by the AIA.

IPO appreciates that the PTO reached out to it and to other leading intellectual property organizations to seek input on rulemaking for the new post-issuance review proceedings. Last November, a committee composed of two representatives each from IPO, the American Intellectual Property Law Association and the Intellectual Property Law Section of the American Bar Association submitted a complete set of proposed rules for IPR and PGR proceedings, along with a detailed explanation of those proposed rules.[2] Following the PTO's publication of its proposed rules, in April this same cross-organizational committee submitted very detailed comments to the PTO on the proposed rules.[3] We have identified several aspects of the PTO's proposed rules where we have recommended changes designed to improve the fairness, effectiveness and efficiency of the new review proceedings.

Today, I will summarize those joint recommendations from IPO, the American Intellectual Property Law Association and the Intellectual Property Law Section of the American Bar Association:

Challenger's Petition for Review

Although the PTO's proposed rules appropriately begin with the filing of a petition that lays out the petitioner's grounds and supporting evidence, on a challenged patent-claim-by-patent-claim basis, for instituting the requested review proceeding, the proposed rules also

[1] The Transitional Program for Covered Business Method Patents expressly states that these proceedings will follow the same procedures as PGR. Leahy-Smith America Invents Act, Public Law No. 112-29, § 18(a)(1).

[2] *See* http://www.uspto.gov/patents/law/comments/x_aia-a_abaaiplaipo_20111118.pdf

[3] *See* http://www.uspto.gov/aia_implementation/comment-aba-aipla-ipo.pdf

authorize the petitioner to file what is deemed "supplemental information" following institution. Such "supplemental information" can be relevant to any issue upon which the review has been instituted.

This right to supplement is unfair to patent owners. The petitioner will have had substantial opportunity to prepare invalidity evidence and arguments before filing the petition. In the case of a PGR petition, the petitioner typically will have had the opportunity to monitor the progress of the prosecution of the patent application at issue throughout much of its pendency, and generally will have been able to learn the language of the allowed claims several months prior to the patent's issuance. Thereafter, the petitioner will have had an additional nine months to prepare its petition and supporting materials. With respect to IPR, the petitioner may have had even longer to prepare the petition. We believe the petitioner should not be entitled to an opportunity to submit additional evidence following the filing of its petition, other than rebuttal evidence – that is, evidence adduced during discovery responsive to the patent owner's response or evidence responding to the patent owner's motion to amend claims.

Forcing the patent owner to face new affirmative evidence of alleged unpatentability once the review has commenced, with such evidence potentially surfacing for the first time during the patent owner's limited period for discovery, would place undue burden and hardship on the patent owner. Moreover, the risk of "sandbagging" exists, where a petitioner might hold back some evidence to spring upon the patent owner after the review is commenced, thereby further compressing the time for the patent owner to rebut the new evidence.

We believe that later introduction of evidence by the petitioner should be limited to rebuttal evidence of positions taken by the patent owner and evidence bearing on the credibility of the patent owner's witnesses. The AIA's reference to the "submission of supplemental

information" is consistent with this view. It should be seen as affording the petitioner the right to submit rebuttal evidence supporting its written comments, but not a right to introduce new affirmative evidence of unpatentability into the proceeding after it is instituted.[4] The AIA contemplates that the petition will serve as the petitioner's main trial brief; and as such, it should disclose the entirety of the petitioner's case and supporting information. The petitioner should not thereafter be allowed to introduce new arguments of unpatentability or new evidence in support of its contentions.

Initial Evidentiary Disclosures

District courts around the country have concluded that mandatory initial disclosures further the efficient resolution of patent infringement actions, which typically involve patent validity issues similar to those in the new PTO review proceedings. IPO believes that IPR and PGR proceedings similarly would benefit from the mandatory initial disclosure of information and documents that are likely to be central to a patentability review. Meaningful initial disclosures, as part of an automatic discovery process defined in advance for anyone contemplating whether to file an IPR or PGR petition, would provide predictability and certainty to the discovery process, to the benefit of petitioners and patent owners alike.

Under the PTO's proposed rules, however, the only required disclosures are those listed as "routine discovery," which are unduly limited to (1) exhibits cited in a paper or in testimony; (2) cross-examination of affidavit testimony; and (3) "noncumulative information that is inconsistent with a position advanced by the patent owner or the petitioner during the

[4] *See* 35 U.S.C. §§ 316(a)(3) (for IPR, Director shall prescribe regulations "establishing procedures for the submission of supplemental information after the petition is filed"); 326(a)(3) (same for PGR). Under the AIA, the petitioner has the right, following institution, to take discovery and to file written comments to the patent owner's response. Thus, the AIA's reference to the "submission of supplemental information" should be seen simply as affording the petitioner the right to submit rebuttal evidence supporting its written comments.

proceeding." Any other disclosure is treated as "additional discovery," which may be obtained only by the filing of a motion. There is no provision for mandatory initial disclosures, even as to information and documents that one would think would be routinely discoverable, such as documents reviewed by any expert witness or documents consulted or referenced in the preparation of a declaration or affidavit.

Further, certain types of challenges to validity may give rise to more extensive and challenging discovery issues. In particular, allegations of prior non-published public disclosures (*e.g.*, public use or sale) may be factually specific and complex, and allegations of obviousness may open discovery into objective evidence of nonobviousness. When such allegations are presented, more robust initial disclosures are needed to account for the factually-intensive nature of validity challenges such as these.

IPO believes that initial disclosures required of the petitioner and the patent owner alike will advance the expeditious resolution of review proceedings by reducing the number of discovery disputes, obviating miscellaneous motion practice and lessening the need for PTAB involvement in discovery. For the petitioner, initial disclosures should be made with the filing of the petition seeking review, and should include not only supporting information, but also information known to the petitioner that contradicts positions being taken in the petition, and/or that favor patentability, including any objective evidence of nonobviousness. For the patent owner, initial disclosures should be made with the filing of the response, and should include not only supporting information, but also information known to the patent owner that contradicts positions being taken in the response, and/or that favor unpatentability.

Patent Owner's Preliminary Response

The PTO's proposed rules would allow the petitioner to submit all relevant evidence of unpatentability, including testimonial evidence, while the patent owner would not be allowed to submit testimonial evidence in its preliminary response prior to the PTO's determination whether to institute a review. In IPO's view, fairness requires that the patent owner be allowed to respond preliminarily to the petition with testimonial evidence, in the same manner as evidence proffered by the petitioner.

In addition to the unwarranted disparate treatment of petitioners and patent owners, IPO is concerned that restricting the patent owner's evidentiary submissions in the preliminary response will result in reviews being instituted upon an incomplete record, when consideration of a fuller record would have made clear that the evidentiary threshold has not been met. Despite the higher thresholds for instituting IPR and PGR proceedings – a reasonable likelihood, or more likely than not, that a challenged claim is invalid (as compared to the substantial new question of patentability used for reexamination) – the PTO estimates that 90% of petitions for IPR and PGR will be granted. IPO believes the decision to institute review, which comes with a substantial cost and burden on patent owners, petitioners and the PTO as well, should be made based upon the best available evidence and as complete a record as it is possible to generate prior to institution.

Claim Construction in IPR and PGR

With respect to the claim construction the PTO will use in deciding whether to institute review and in conducting the review, the PTO is proposing to give patent claims their broadest reasonable interpretation in light of the specification of the patent. This is the claim construction standard used in PTO examinations and reexaminations, but it should not be used for the new

IPR and PGR proceedings. Rather, claims for which the new review proceedings are requested should be given the same construction as would be applied in litigation as a result of a "*Markman*" or claim construction hearing. As such, all relevant intrinsic evidence, including the claim language, specification and prosecution history, should be considered in construing the claims; as well as extrinsic evidence, which may be of secondary importance if it supports a construction consistent with the intrinsic evidence. *See Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (*en banc*).

IPR and PGR are adjudicatory proceedings intended to serve as viable alternatives to litigation.[5] Consequently, if the PTO interprets claims differently in those reviews, as compared to the interpretation a court would use in litigation, there is a risk of inconsistent results whereby the patent owner will be faced with a broader construction in the validity review and a narrower construction in the infringement action. Nothing in the AIA suggests an intent to saddle patent owners with such a double standard or tip the scales in favor of accused infringers.

Under current practice, the PTO gives claims their broadest reasonable interpretation during examination and reexamination. To justify this rule, courts have explained that during these PTO proceedings, a patent applicant or owner has liberal opportunity to amend the claims. In other words, through amendment, prior art that would otherwise invalidate the claims under the broadest reasonable interpretation can be avoided.[6] In contrast, the patent owner's ability to

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[5] As stated in the House Judiciary Committee report on the AIA, "[t]he Act converts *inter partes* reexamination from an examinational to an adjudicative proceeding, and renames the proceeding '*inter partes* review.'" H.R. Rep. No. 112-98, pt. 1, at 46-47 (June 1, 2011).

[6] *See, e.g.*, *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984). A patent applicant has an unfettered opportunity to present amended claims during initial examination. Similarly, the reexamination statute provides that the patent owner is "permitted to propose any amendment to the patent and a new claim or claims" apart from claims which enlarge the scope of the patent. 35 U.S.C. §§ 305, 314(a).

amend claims is much more limited in IPR and PGR proceedings. The patent owner is presumptively limited to only one motion to amend the patent. Under the PTO's proposed rules, even this one amendment requires Board approval. Moreover, after the patent owner's one motion to amend, there is no further right to amend to meet new arguments or new evidence advanced by the petitioner in a response to the motion to amend or to respond to the views of the Administrative Patent Judges at the Final Hearing. Thus, the justification for applying the broadest reasonable construction standard used during examination does not exist with respect to IPR or PGR adjudications. The same claim construction principles should be applied in all adjudicatory proceedings involving the issue of patent validity, whether in a district court or the PTO.

Decision to Institute Review

The PTO's proposed rules seem to presume that review proceedings will be instituted in every instance where the statutory evidentiary threshold is met. The AIA specifies, however, that satisfaction of the evidentiary threshold is a necessary, but not always sufficient, reason to grant a petition for review.[7] Reviews should be instituted only when the PTAB determines, after considering all the evidence presented, not only that the statutory evidentiary threshold has been met, but also that the proceeding should be instituted after consideration of the effect on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete the proceeding. For example, reviews should not be instituted as to validity challenges based on issues that cannot be fairly presented and adjudicated

[7] The AIA requires, "[i]n prescribing regulations…., the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted under this chapter." 35 U.S.C. §§ 316(b), 326(b).

within the statutory timeframes, or evidence unlikely to be subject to full and fair discovery under the limited discovery permitted in the review proceedings. There is nothing unfair to either party if review is denied on one of these grounds, as no estoppel will arise and the petitioner can raise all of its validity challenges in litigation. Thus, these statutory-mandated reasons for denying review even if the evidentiary threshold has been met should be set forth in the PTO's final regulations, and employed to ensure that proceedings are instituted as intended by Congress – only where to do so would serve both the interests of justice and the patent system.

Automatic Discovery

IPO favors minimizing motions for discovery, miscellaneous motion practice, and other procedural complexities requiring PTAB oversight and involvement throughout the course of the review proceedings. This can be achieved by defining a meaningful scope of mandatory initial disclosures, coupled with automatic discovery that each party is entitled to take without seeking leave of the Board, with such discovery taking place under a standing scheduling order. Such discovery should commence automatically upon institution of a review. Although parties to a review proceeding might still need to file motions seeking additional discovery, raising discovery disputes, or on other miscellaneous matters, the rules should minimize collateral disputes by making clear a sufficient scope of document and deposition discovery that each party can take as of right. In this way, the burden on the PTO resulting from frequent Board involvement in interlocutory matters, as well as the burden on participants in the review in terms of preparing for and participating in motion practice and other interactions with the Board, would be reduced.

The PTO's proposed rules recognize the concept of automatic discovery, but on a much more limited scale. As an example, the proposed rules would define as "additional discovery," available only after seeking leave from the Board, such seemingly noncontroversial disclosures as documents reviewed by any expert who submits an affidavit or declaration, documents considered or referenced in the preparation of a declaration or affidavit, and other discovery directly relevant to the petitioner's or patent owner's allegations. By specifying that such discovery is automatic in the PTO rules or by way of a PTAB standing order, the parties could avoid the burden, expense and delay engendered by having to request, and fight over, discovery that should be routinely allowed in the vast majority of review proceedings.

Defining Discovery Scope and Procedures

The PTO's proposed rules largely leave the scope, limits and procedures for discovery up to the Board for determination on a case-by-case basis. Consistent with IPO's view that clear discovery rules will curtail collateral disputes and motion practice, avoid delays and lessen the burdens on the PTO as well as parties to the review proceedings, IPO submits that the rules should set forth the schedule, procedures and limits for the most common forms of discovery likely to be sought during review proceedings. A default scope of discovery and pre-defined discovery schedules and procedures will promote predictability, consistency, fairness and due process for all parties.

With respect to depositions, for example, we have recommended overall time limits for examination, as well as a default allocation of examination time by the party noticing the deposition and for cross-examination by opposing parties. With respect to deposition scheduling and location, we have urged that witnesses who have submitted an affidavit, declaration or expert testimony on behalf of a party must make themselves available for deposition in the United

States. Since the new review proceedings, particularly PGR, may involve alleged evidence of unpatentability proffered by witnesses located outside the United States, the rules should implement the basic fairness principle that the party seeking to introduce such evidence must bear the burden and expense of making its witnesses available for cross-examination by the patent owner in the United States, or else such evidence will not be admissible. A patent owner should not have to traipse all over the world to track down the petitioner's witnesses, nor pay for them to travel to the United States to tell the patent owner that the challenged patent is invalid. Finally, the proposed rule dealing with the timing and location of depositions requires that notices of deposition be accompanied by extensive disclosures of exhibits and expected testimony, and creates a complex process for noticing depositions and initiating a conference with the Board whenever the parties cannot agree on a time or location. IPO supports adoption of the more straightforward, and less burdensome, deposition procedures of Rule 30 of the Federal Rules of Civil Procedure.

Motions to Amend the Claims

For the most part, IPO supports the PTO's proposed rules directed to motions to amend the claims. However, one proposed rule would estop a patent owner from obtaining, in any other PTO proceeding, a claim that "could have been filed in response to any properly raised ground of unpatentability [in an IPR or PGR]." This rule, nowhere authorized in the AIA, would be unfair to patent owners and arguably constitutes substantive rulemaking beyond the PTO's rulemaking authority.

Miscellaneous Motions

In IPO's view, the rules implementing IPR and PGR proceedings should allow the reviews to progress without awaiting motion practice or rulings from the Board. The proposed

rules, however, contemplate extensive motion practice and Board involvement throughout the proceedings. Examples include motions needed to: set the schedules for review proceedings, seek even routine discovery, set the timing of discovery, and manage depositions and other types of discovery. Not only will each of these issues potentially generate the filing of a motion, a response and a reply, followed by a conference with the Board, but the PTO also contemplates the availability of a motion for reconsideration of any decision it issues, from the decision to institute the review proceeding, through each interlocutory ruling, and to the final written decision.

We recognize that Board intervention will be required to handle miscellaneous motions, and to consider whether to permit additional discovery a party might request beyond the default automatically authorized by the rules. But beyond such required involvement, we believe that the rules should not encourage motion practice. The PTO estimates that its proposed approach will result in the filing of numerous motions: *inter partes* review will have an average of 6.92 motions, oppositions, and replies per trial after institution; post-grant and covered business method patent reviews will have an average of 8.89 motions, oppositions, and replies per trial after institution. We believe this undue volume of motion practice will add appreciably to the overall costs of the review proceedings. Even though the estimated Board time spent on each motion is small compared to the Board time spent deciding whether to institute the review and to write the final opinion, the legal fees and costs that petitioners and patent owners will incur in connection with motion practice will be substantial.

Under the PTO's proposed rules, motion practice is especially prevalent in the form of late-stage briefing of evidentiary issues just prior to the Final Hearing. The AIA requires only three principal submissions (the Petition, the Patent Owner's Response & the Petitioner's

Written Comments). The PTO's proposed rules graft more submissions onto this framework after the filing of these principal submissions, including: motions to exclude evidence, with responses and replies; and motions for observations on cross examination, with responses. IPO believes that issues of evidence admissibility should be handled within the parties' principal submissions and at the Final Hearing, not through burdensome motion practice.

PTO Fees and Total Participant Legal Fees and Costs for IPR and PGR Proceedings

IPO has not expressed an opinion on what PTO fees would be "reasonable" for IPR and PGR proceedings. However, IPO encourages the PTO not to set fees so high that their use is discouraged, thus undermining Congress's goals in establishing IPR and PGR. In that regard, IPO urges the PTO to reconsider the approach of basing filing fees on the number of claims in the challenged patent. This approach risks the unintended consequence of encouraging patent applicants to seek patents with excessive numbers of claims, thereby making it cost-prohibitive to file a petition for post-issuance review. In effect, by seeking issuance of a large number of interrelated patent claims, all directed to a single invention, a patent applicant might create a "poison pill" that all-but immunizes the patent from IPR or PGR proceedings. Instead, the better approach may be to base the fees on the number of proposed grounds of unpatentability in the petition for review. This approach would increase the accessibility of IPR and PGR proceedings to those wishing to challenge patents with large numbers of claims, while at the same time discouraging petitioners from including frivolous validity challenges in their petitions for review.

IPO also wishes to emphasize that the implementing rules will have a significant impact on the overall legal fees and costs that petitioners and patent owners will incur. Additional briefing and motion practice, for example, are likely to increase the costs of participation by

petitioners and patent owners. The PTO should take into consideration these legal fees and costs on all participants, beyond just the PTO fees the requestor must pay.

IPO's recommendations for the review proceedings are intended to reduce the burdens and costs on participants. IPO urges the PTO to take these burdens and costs into account by considering ways to reduce Board involvement and motion practice prior to the final hearing, such as adopting a standing scheduling order providing sufficient time for patent owners and petitioners to develop their cases in an orderly manner, requiring initial disclosures coupled with automatic discovery to reduce the Board's involvement in discovery management, restricting the number of substantive filings to three principal filings and motions seeking and opposing claim amendments, and minimizing miscellaneous motion practice.

II. IMPLEMENTATION OF OTHER AIA PROVISIONS

In addition to the proposed rules to implement IPR and PGR proceedings, the PTO has published a number of other proposed rules for implementing the AIA. IPO has filed 10 letters with the PTO on many aspects of the rules.[8] I will mention only a few points raised in our comments:

(1) **Requiring Ex Parte Reexamination Requests to Identify the Real Parties in Interest.** IPO has questioned a proposed rule that would require a party requesting ex parte reexamination to identify the real parties in interest. The AIA requires identification of the real parties in interest in PGR and IPR proceedings, but not in ex parte reexamination. Ex parte reexamination requests have never required identification of the requestor, and the AIA did nothing to change this longstanding rule and practice. To the extent that the PTO is concerned that identification of

[8] IPO's letters are on the PTO website, along with the other public comments, accessible at http://www.uspto.gov/aia_implementation/comments.jsp.

the requestor is needed to ensure that the request is not barred by estoppels arising from earlier IPR and PGR proceedings brought by the same requestor, real party in interest or privy, such concerns can be addressed by a requirement that the requestor provide a certification that neither the requestor, nor a real party in interest or privy, has previously filed an IPR or PGR petition directed to the patent for which reexamination is requested.

(2) **Time for Filing Inventor's Oath or Declaration.** IPO has questioned a proposed rule that would require an inventor's oath or declaration to be filed before examination of a patent application, with penalties imposed for submissions after the application filing date. In keeping with the intent of the AIA to streamline the oath or declaration process to make the filing of patent applications easier, IPO recommends that the PTO permit patent applicants to file oaths or declarations until the issuance of the Notice of Allowance, rather than requiring the filing prior to examination. This will improve the efficiency and accuracy of inventorship determinations, which may not become clear until the late stages of prosecution, when the scope of the claimed invention has been more fully defined during examination and through claim amendments. If the PTO has a need for an earlier, preliminary identification of inventorship for examination purposes, this need can be met with a simple Application Data Sheet filed with the application and listing potential inventors.

(3) **Assignee Filing.** IPO has expressed concerns that the proposed rules fall short of realizing the opportunity provided in Section 4 of the AIA to simplify and facilitate the rights of an assignee of an inventor to file and prosecute a patent application. The AIA redefines what is meant by an "applicant" for a patent to reflect the modern reality that "applicant" is not always synonymous with "inventor." Following enactment of the AIA, 35 U.S.C. § 118 allows a patent application to be filed by "[a] person to whom the inventor has assigned or is under an obligation

to assign the invention." Through this change, U.S. patent law was updated to match what has long been the practice in other patent offices around the world.[9] The proposed rules, however, fail to implement fully this intent, by retaining references to the applicant only being the inventor, and not referencing a substitute statement by the assignee in lieu of an inventor's oath or declaration. IPO urges the PTO to amend its proposed rules to make clear that the term "applicant" means not only the inventor, but alternatively, an assignee, an entity to which the inventor is obligated to assign the invention or a person with a sufficient proprietary interest in the invention.

(4) **Supplemental Examination.** IPO has expressed concerns with two aspects of the rules proposed to implement the new supplemental examination of patents created by Section 12 of the AIA. These concerns are premised on the risk that the rules may discourage the use of supplemental examination. Specifically, IPO recommends reconsideration of the proposed rule requiring patent owners to identify and explain in detail how each item of information submitted raises an issue, because patent owners may fear that the level of detail required may expose them to subsequent misconduct allegations. Also, with respect to the proposed fees for supplemental examination, IPO has questioned the proposed rule that would limit each request to no more than 10 items of information and that would require the filing of separate requests for supplemental examination for consideration of more than 10 items of information. IPO has recommended either not limiting the number of items to be considered in supplemental examination, or charging a base amount up to a certain number of items, with a reasonably proportional surcharge for each additional item.

[9] H.R. Rep. No. 112-98, pt. 1, at 43-44 (June 1, 2011) ("Current law still reflects the antiquated notion that it is the inventor who files the application, not the company-assignee. . . . The Act updates the patent system by facilitating the process by which an assignee may file and prosecute patent applications.").

(5) **Definition of "Technological Invention."** IPO has expressed concerns about the proposed definition of "technological invention" in the proposed rules for implementing the "Transitional Program for Covered Business Method Patents" in AIA Section 18. Patents directed to "technological inventions" are excluded from the Transitional Program," and the PTO has proposed the following definition of "technological invention":

> Technological invention. In determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods (section 42.301(a)), the following will be considered on a case-by-case basis: whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.

IPO has expressed concern that this definition lacks clarity because it combines the threshold determination of whether the claimed subject matter solves a technical problem using a technical solution with questions of novelty and nonobviousness, which are among the patentability issues that the transitional program itself is designed to consider. It seems unduly burdensome on PTO resources, and somewhat illogical, to have the PTO apply an initial novelty/nonobviousness analysis to the claims just to consider whether or not those claims qualify for review based on, *inter alia*, whether they are novel and nonobvious. IPO urges the PTO to remove factors relating to novelty and nonobviousness from the definition, replacing them with a factor that takes into account whether or not all of the technological features of the claimed subject matter represent insignificant pre- or post-solution activity.

III. PTO FEES AND FUNDING IN GENERAL

The PTO is scheduled to publish formal rulemaking on fees this summer. Although a patent fee schedule has not been formally proposed yet, IPO would like to offer some general comments about PTO user fees and funding.

INTELLECTUAL PROPERTY OWNERS ASSOCIATION (IPO)

IPO supports the PTO's pendency goals; namely, reducing the average time to a first office action to 10 months and reducing average pendency to final action to 20 months. Likewise, IPO supports, as a long-term goal, the PTO's plan to establish a reserve totaling three months of operating costs. The fee increases designed to meet these goals, however, cause considerable concerns among IPO members in the user community. IPO believes the PTO can take actions than will enable it to achieve its goals, albeit over a longer time period than currently contemplated, with smaller increases in fees than those currently being considered.

When the PTO's Patent Public Advisory Committee held a hearing on a preliminary fee schedule on February 15, 2012, IPO: (1) questioned whether a FY 2012 fee increase of 10% in the aggregate should be adopted in the wake of the automatic 15 percent across-the-board increase imposed by the AIA last September (which IPO supported); (2) questioned whether substantial funds should be set aside for an operating reserve at this time, and (3) urged the PTO to take action to reduce the number of "requests for continued examination" as a way to reduce expenses. IPO encourages the PTO to consider these comments in finalizing a proposed fee schedule.

A majority of IPO members are large entity fee payers. Under the AIA funding scheme, large entity fee payers subsidize not only small entities, but also the new micro entities. Based on fee calculations published by the PTO on February 7th, IPO estimates that large entities will pay about 13% higher fees due solely to the subsidies for small and micro entities. While IPO understands the public policy rationale for such subsidies, we urge the PTO to keep in mind that large entities pay a disproportionate share of fee increases.

IPO strongly supports giving the PTO access to all of the user fees it collects. While the language of the AIA itself does not guarantee the PTO full access to all of its fees, we are

heartened that the current appropriations bills include language that guarantees the PTO will have access to all of the $2.93 billion it expects to collect in user fees in FY 2013.

Beyond these general comments, it is difficult at this point for IPO to address the specific preliminary proposed fees without more detailed information regarding the underlying estimates and assumptions upon which the PTO based its preliminary views. With the significant, nearly across-the-board increases the PTO is considering, it is important that the user community be able to understand better the need for particular fees to be set at a given level. IPO supports adequate funding for the PTO, and the principle that the PTO's fees should cover its costs in the aggregate, but IPO looks forward to continuing to work with the PTO in seeking ways to improve estimates and reduce expenses so that fees can be kept lower than the levels published in the preliminary fee schedule in February.

* * *

Mr. Chairman, Ranking Member Conyers and Members of the Committee, I thank you for the opportunity to appear here today and to offer IPO's views on implementation of the AIA. Again, our recommendations for improvements to some of the proposed rules should not diminish from our overall commendation of Director Kappos and the PTO for their progress thus far in their rulemaking activities. As always, IPO remains committed to working with the PTO to ensure that the implementing regulations are faithful to the letter and spirit of the AIA and achieve the goal of building the world's first and only 21st century patent system. I will be pleased to answer any questions or supply additional information for the record.

Mr. SMITH. Thank you, Mr. Rhodes.

Mr. Brandon.

TESTIMONY OF RICHARD BRANDON, ASSOCIATE GENERAL COUNSEL, UNIVERSITY OF MICHIGAN, ON BEHALF OF THE ASSOCIATION OF AMERICAN UNIVERSITIES (AAU)

Mr. BRANDON. Thank you for the opportunity to speak today about the America Invents Act.

I am Rick Brandon, associate general counsel for the University of Michigan. I am here today to speak on behalf of the Association of American Universities, which includes 59 of the Nation's leading public and private research universities.

AAU was the lead negotiator on behalf of the universities for a consortium of six higher education associations to ensure that universities——

Mr. WATT. Mr. Chairman, I am still having a little trouble hearing. Could you pull the mic a little bit closer?

Mr. BRANDON. Is that better?

Mr. WATT. That is much better.

Mr. BRANDON. We wanted to make sure that universities' voices were heard during debate on the AIA. We very much appreciate how both the majority and minority Members of this group worked with us to craft the ultimate legislation.

Let me begin by commending the U.S. Patent and Trademark Office for its work to implement the new patent law. As indicated by Director Kappos, the USPTO has provided ample opportunity for input from the public. Indeed, the Office has been conducting major outreach across the Nation, as you already heard about today, appearing at a variety of forums and answering the myriad of questions the new law has generated, in many cases involving universities.

Let me also acknowledge how excited we are in the State of Michigan about the opening of the new Detroit satellite office, which you heard a bunch about today already.

Universities play a key role in the U.S. Patent system, and the discoveries made on my campus and others throughout the country will lead to new cures for diseases, new technologies, and ultimately to the creation of new jobs and industries to keep our Nation competitive and our national security strong.

Thanks to the effective work of this Committee, the USPTO, and their staffs, the product of the patent reform effort will hopefully be an improved system that is more harmonious with that of other countries and will stimulate the economy and simplify the patent process to the benefit of all sectors, including universities.

As USPTO moves through its numerous rulemakings and proceeding, it is important that the carefully crafted promises that enabled passage of the AIA remain intact, allowing the USPTO to implement the bill as passed. We believe that any deviations from the compact embodied in the AIA be considered only with the agreement of all the affected parties.

Two possible amendments to the AIA have arisen since its passage that are not strictly technical, one clarifying the grace period for inventors, which is a particularly important issue for university

researchers, and the other calling for a proposed further expansion of prior user rights, which in our view is even more substantive.

Universities view these two issues differently. Let me start by clarifying the intent of the grace period.

We believed that the grace period language in the AIA as passed would preclude obvious variants of a published invention from being considered as prior art during the 1-year grace period following an inventor's disclosure. We now understand that this interpretation is being called into question, and we are discussing possibly amending language that would establish unequivocally that such obvious variants would not constitute patent-defeating prior art.

Simply put, we are seeking a grace period amendment that would accomplish no more or less to implement the original intent of the grace period language that was introduced in 2005, which we believe was the intent of this Committee when it passed the Act last year. Indeed, a widely stated goal of this legislation was maintaining a strong grace period that would permit university researchers to continue to discuss and publish their research results in advance of actually filing a patent application.

In contrast, some groups are now seeking further expansion of prior user rights, calling for adding provisions that were explicitly discussed at the end of the patent reform process and omitted from the compromise agreement that was a major factor in passage of the Act. That agreement involved universities reversing their longstanding opposition to any expansion of prior user rights. We understood at the time of the compromise that all parties had entered into a binding agreement, and we concur with the recent USPTO report that itself concludes that further expansion of prior user rights is not warranted at this time and that this issue can be revisited when the PTO conducts a mandated study of prior user rights and other issues in 2015.

Nevertheless, in the interest of sound public policy, we have been negotiating with other groups to see if it is possible to reach agreement on language that would expand the prior user rights while effectively addressing the concerns of universities. To date, we have not found such language, and we would be strongly opposed to any effort to amend the AIA to expand prior user rights without broader agreement by universities and all affected parties.

In conclusion, universities wish to thank the Members of this Committee for their effective work and diligence in helping to negotiate this landmark legislation. We believe that the PTO has done an excellent job of implementing the new law. We urge that, absent broad agreement, any technical corrections being considered be just that, technical in nature and not designed to make major changes to the Act that was just signed 8 months ago today.

Thank you for your attention. I look forward to any questions.

[The prepared statement of Mr. Brandon follows:]

STATEMENT OF

RICHARD BRANDON

ASSOCIATE GENERAL COUNSEL

UNIVERSITY OF MICHIGAN

ON BEHALF OF

ASSOCIATION OF AMERICAN UNIVERSITIES

BEFORE THE HOUSE COMMITTEE ON THE JUDICIARY

HEARING ON:

"IMPLEMENTATION OF THE LEAHY-SMITH AMERICA INVENTS ACT"

MAY 16, 2012

10:00 A.M.

2141 RAYBURN HOUSE OFFICE BUILDING

Chairman Smith and Ranking Member Conyers, thank you for the opportunity to testify today on the implementation of the America Invents Act of 2011.

I am Rick Brandon, Associate General Counsel for the University of Michigan, where I work exclusively on patents and other intellectual property issues. I am appearing here today on behalf of the Association of American Universities, which includes 59 of the nation's leading public and private research universities. AAU was the lead negotiator on behalf of universities for a consortium of six higher education associations[i] to ensure that universities' voices were heard during debate and action on the AIA. We very much appreciate how both majority and minority members of this committee worked with us to craft the ultimate legislation.

Research universities are the nation's principal source of the basic research that expands the frontiers of knowledge. The patent system plays a pivotal role in helping them transfer the discoveries made in their laboratories to the commercial sector for development into products and processes that benefit society. Our position on patent reform closely followed recommendations by academic and industry leaders convened by the National Academies in 2004. Recently, I have been part of a special task force of university patent officials that has been working with the higher education association consortium on implementation and other issues related to the new patent law that Congress approved last fall.

Let me begin by commending the U.S. Patent and Trademark Office (USPTO) for its very thorough effort to implement the new patent law. We believe that the USPTO has been conducting an effectively transparent and consultative implementation process with the patent community, including universities. As indicated by Director Kappos, USPTO has developed a carefully crafted schedule of rulemakings, widely publicized to provide ample opportunity for input. In addition, the Office has been conducting major outreach across the nation – appearing at forums and answering the myriad questions that the new law has generated. For example, Director Kappos and several of his staff attended the annual meeting of the Association of University Technology Managers (AUTM) in California in March, where numerous sessions were held for technology transfer professionals from universities across the nation to help them get insight into the new law and its ramifications. USPTO also created a special web site which has been a terrific way for all parties to track the various actions during implementation.

At the University of Michigan, we were also pleased to host Assistant USPTO Director Teresa Stanek Rea on our campus this spring, where she met with not only university officials, but also local patent attorneys to discuss the new law and answer questions.

As we all know all too well, patent reform took more than six years to complete. It was a long and difficult process that required compromises by all sectors to achieve the final product that passed Congress and was signed by President Obama into law. It is generally recognized as the most sweeping patent reform legislation ever crafted.

Universities play a key role in the U.S. patent system, and the discoveries made on my campus and many others in this country will lead to new cures for diseases, new technologies, and ultimately to the creation of new jobs and industries to help keep our nation competitive and our national security strong. Thanks in significant measure to the effective work of this Committee and its staff, the product of the patent reform effort will be a greatly strengthened patent system which is more harmonious with that of other countries and will stimulate the economy and simplify the patent process – to the benefit of all sectors of the patent community, including universities.

As USPTO moves through its numerous rulemakings and proceedings, it is important that the carefully crafted compromises that made passage of AIA possible remain intact, allowing USPTO to implement the bill as passed. We believe that any deviations from the compact embodied in AIA should be considered only with the agreement of all affected parties.

As with any legislation of the scope and complexity of AIA, some genuinely technical amendments will be necessary for Congress to consider. Two possible amendments to AIA have arisen since its passage that are not strictly technical: one clarifying the grace period for inventors – which is particularly important for university researchers – and the other calling for a further expansion of prior user rights.

The university community views these two issues as quite different in status. Let me discuss briefly each of those issues, starting with clarifying the intent of the grace period.

After AIA passage, we became aware that the grace period language in Section 102 may not be interpreted to function as we believe all parties understood it to function when the original AIA grace period language was introduced by Chairman Smith in 2005 in H.R. 2795. We believed that the grace period language in AIA would preclude obvious variants of a disclosed invention from being considered as prior art during the one-year grace period following a qualifying disclosure. We now understand that that interpretation is being called into question, and we are discussing possible amending language that would establish unequivocally that obvious variants would not constitute patent-defeating prior art to a disclosure qualifying for the grace period.

Thus, while the scope of such an amendment might exceed that of a purely technical amendment, we are seeking a grace period amendment that would accomplish no more nor less than to implement the original intent of the grace period language introduced in 2005, and which we believe was the intent of this Committee when it passed patent legislation last year. Indeed, a stated goal of this legislation was maintaining a strong grace period that would permit university researchers to continue to discuss and publish their research results in advance of actually filing a patent application.

In contrast, some groups are now seeking further expansion of prior user rights, calling for adding provisions that were explicitly discussed at the end of the patent reform process and omitted from the compromise agreement that was a major factor in passage of the AIA. That agreement involved universities reversing their long-standing opposition to any expansion of prior user rights. We understood at the time of the compromise that all

parties had entered into a binding agreement, and we concur with the recent USPTO report that concludes that further expansion of prior user rights is not warranted at this time and that the issue can be revisited when the USPTO conducts a mandated study of AIA implementation in 2015.

We understand the interest of the IT sector and some other parties in a further expansion of prior user rights, and we have been conducting discussions with other groups to see if it is possible to reach agreement on language that would expand prior user rights while effectively addressing the concerns of universities. To date, we have not found such language, and we would be strongly opposed to any effort to amend the AIA to expand prior user rights without universities' agreement.

In conclusion, universities wish to thank the members of this Committee for their effective work and diligence in helping negotiate this landmark legislation. The benefits of the new patent law will have a long-term positive impact on our nation's economy and on the ability of American inventors on university campuses and elsewhere to continue to churn out amazing discoveries leading to new products and processes that strengthen our economic competitiveness and enrich our quality of life.

We believe that the USPTO has done a good job of implementing the new law, and would urge that any technical corrections being considered be just that – technical only, and not designed to re-write in a major way legislation which was signed into law merely eight

months ago today. Thank you for your attention, and I look forward to answering any questions you may have.

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[1] List of the six associations
Association of American Universities (AAU)
Association of Public and Land-grant Universities (APLU)
American Council on Education (ACE)
Association of American Medical Colleges (AAMC)
Association of University Technology Managers (AUTM)
Council on Governmental Affairs (COGR)

Mr. SMITH. Thank you, Mr. Brandon.
Mr. Molino.

TESTIMONY OF TIMOTHY A. MOLINO, DIRECTOR OF GOVERNMENT RELATIONS, BUSINESS SOFTWARE ALLIANCE (BSA)

Mr. MOLINO. Chairman Smith and other distinguished Members of the Committee, thank you for the opportunity to testify at this very important hearing.

Intellectual property rights are the cornerstone of innovation, giving innovators confidence that it is worth the risk to invest and developing and commercializing new ideas. Patents are an indispensable part of these protections.

The Business Software Alliance is the leading advocate for the software industry. BSA members have worked closely with this Committee for many years to modernize the patent system. Because of this Committee's leadership, patent reform became a reality last year. The Business Software Alliance believes the America Invents Act is a substantial step forward in bringing our patent system into the 21st century.

Current efforts by the Patent and Trademark Office to implement the American Invents Act follows this Committee's goal of making the U.S. patent regime the best and most efficient patent system in the world. We support the PTO's proposed rules with some clarifying changes, because they will enhance the patent system and promote innovation in computers and software.

The PTO is being very open and transparent during the drafting of the proposed rules under Secretary Kappos, and the entire PTO team deserve a great deal of credit for their hard work in implementing this ground breaking law. BSA submitted comments to the PTO on the Office's proposed rules. Our suggestions aim to strike a balance between intellectual property owners and those seeking to challenge an application of issued patent, and I ask that BSA's comments be made a part of the record in this hearing.

[The information referred to follows:]

Robert W. Holleyman, II
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April 6, 2012

Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
Mail Stop Patent Board
P.O. Box 1450
Alexandria, VA 22313-1450
Via email: (inter_partes_review@uspto.gov)
(post_grant_review@uspto.gov)
(patent_trial_rules@uspto.gov)

Attn: Lead Judge Michael Tierney, *Inter partes* Review Proposed Rules, and Post-Grant Review Proposed Rules.

Comments Submitted by the Business Software Alliance on Notice of Proposed Rulemaking Changes to Implement Inter Partes Review Proceedings, and Changes to Implement Post-Grant Review Proceedings

Dear Commissioner:

The Business Software Alliance ("BSA") is pleased to have the opportunity to present its views with respect to the Notice of Proposed Rulemaking on the definition of Covered Business Method Patents, Post-Grant Review, and *Inter partes* Review.

BSA is the leading global advocate for the software industry. It is an association of nearly 100 world-class companies that invest billions of dollars annually to create software solutions that spark the economy and improve modern life. BSA members include software and computer companies[1] that collectively hold hundreds of thousands of patents around the world. Our members invest billions of dollars in research and development every year, and every one of relies on intellectual property protection for the viability of its business.

[1] *The Business Software Alliance (www.bsa.org) members include: Adobe, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, CNC/Mastercam, Intel, Intuit, McAfee, Microsoft, Minitab, Progress Software, PTC, Quest Software, Rosetta Stone, Siemens PLM, Dassault Systèmes SolidWorks, Sybase, Symantec, The MathWorks, and Trend Micro.*

Intellectual property rights are the cornerstones of innovation—giving creators confidence that it is worth the risk to invest time and money in developing and commercializing new ideas. For the software industry in particular, robust intellectual property protections are fundamental to ongoing innovation and technology improvements. Patents are an indispensable part of these protections. As a result, all BSA members support ongoing efforts to enhance the patent system and promote innovation in computers and software.

Patent reform is a critical piece of these ongoing efforts. And here, the United States Patent and Trademark Office ("PTO") is uniquely positioned. Many of the provisions in the America Invents Act ("AIA") provide the PTO with broad discretion in terms of their implementation. Overall, BSA believes that the PTO has done an excellent job thus far in establishing the proposed regulations called for under the AIA.

With regard to the proposed fee increases, BSA appreciates the PTO's rationale for the growth in prices. BSA is committed to ensuring that the PTO has sufficient resources to accomplish its mission. At the same time, the large increases, especially in the traditional preparation and prosecution categories, will cause some BSA members to reassess their patent procurement strategies. Therefore, BSA believes that the PTO should continue to review the fee increases to ensure that the prices charged are commensurate with the work being performed.

One commendable area are the fees set by the PTO for *inter partes* review ("IPR") and post-grant review ("PGR"). While high, these fees appear reasonable in view of the substantial work required from the Patent Trial and Appeal Board and appear to allow for full cost-recovery by the Office, which is necessary to avoid subsidizing the post-grant and inter partes systems through the diversion of fees that would otherwise be used for planned (and much-needed) investments in technology and infrastructure that will improve the operational efficiency and capacity of the Office. Additionally, requiring a substantial fee will help ensure that these procedures are utilized only where a significant business dispute warrants such an expenditure. Thus these fees should discourage

frivolous filings by parties that would seek to abuse these contested proceedings at the PTO, which was certainly not Congress' intent when it created the new programs.

Notwithstanding the foregoing, BSA also believes that there are areas in which the proposed rules may be improved. The procedures proposed for IPR and PGR are one such area. Here, the timelines, scope of discovery, page limits and process for resolving claim disputes can be improved to circumscribe and more properly apportion the respective burdens on the petitioner and patent owner, and to allow for more efficient administration by the PTO.

Thus, to help improve these proceedings, BSA offers the following comments and suggestions.

I. PROCEDURAL ISSUES IN IPR AND PGR

A. Basic timeline for IPR and PGR should be Modified

The proposed timeline provides nine months for the patentee to prepare its initial response to the petition with a four month window in which to take discovery. In contrast, the petitioner has only two months to analyze the patentee's response and reply. And replying to that response may be a significant undertaking. In its response, the patentee could propose amended claims, introduce evidence regarding secondary considerations of nonobviousness, and introduce other additional evidence. Consequently, the petitioner may have to search for and analyze new art, evaluate and retain experts to address secondary considerations, in addition to dealing with any other new evidentiary issues—all in just two months. Clearly, the timeline significantly favors the patentee.

The only justification offered for this allocation is that petitioners would have years to prepare their petitions while patentees would only have a few months to prepare their positions. However, this justification ignores the reality that not only will the patentee have

nine months from the filing of the petition to prepare its papers,[2] but petitioners often will have to prepare their petitions in a short period of time. In many industries, including those of BSA's members, the vast majority of patent assertions are unexpected. The party learns of the action by receiving the summons and complaint. Thus, typically the petitioners will not have years in which to prepare their petitions. At most, they will have either nine months for a PGR or twelve months for an IPR.

Furthermore, the decision whether to initiate a proceeding cannot be made lightly. It requires a detailed understanding of the claims, the prior art, the accused products or methods, if known, and a multitude of other evidence. While patentees may take years to plan their cases, the petitioner has to respond within the statutory deadlines. The burden imposed by these deadlines is exacerbated by the pace of litigation in many instances. For example, in many courts, it may take months after the filing of the complaint for the patentee to indicate what products infringe and their basis for the infringement. As a result, petitioners will only have a few months from finally receiving the contentions of the patentee before they may initiate a proceeding. Therefore, BSA disagrees with the premise that the patentee needs four months after the initiation of the proceeding to prepare its papers.

BSA proposes shortening the time for the patentee to make its first mandatory response from the current nine months to eight under the standard timeline. Similarly, the petitioner's time to reply should be lengthened by one month. Although still a substantial undertaking, allowing an additional month for the petitioner's reply gives the petitioner a more reasonable opportunity to respond to the new arguments and claims that likely will be presented in the patent owner's response.

[2] Under a typical PGR and IPR, the patentee has two months to file its preliminary position if it so chooses, followed by three months for a decision to initiate the proceeding, and then four more months to file its initial brief—a total of nine months.

B. Patentees should be required to announce intent to rely on secondary considerations early and produce secondary considerations documents immediately if they intend to rely on such evidence

The Board must implement a rule to accommodate for the added complexity introduced by secondary considerations. Secondary considerations such as commercial success significantly complicate a case with extensive, and otherwise not germane, evidence regarding records of sales, advertising, and marketing. To properly address the increased complexity, the Board should implement a rule to provide a petitioner an adequate opportunity to take discovery to rebut the testimony that the patentee prepares for its response. Such a rule is consistent with the "interests of justice" standard for discovery in IPR and the "evidence directly related to factual assertions" standard in PGR.

First, if the patentee seeks to rely on secondary considerations, increasing the complexity of the proceeding, the Board and the petitioner must know immediately upon initiation. Hence, BSA proposes that within two weeks of the initiation of the trial, the patentee should be required to state whether it intends to prove commercial success or some other secondary considerations of nonobviousness. Within a month of the initiation of the proceeding, the patentee who is relying upon such indicia should be required to produce the actual evidence with which it intends to support those secondary considerations and all supporting documentation, sales literature, advertising expenses, and marketing programs. This will provide the petitioner with an adequate opportunity to respond to the patentee's arguments.

Second, if a patentee seeks to argue that its patent should be found nonobvious due to secondary considerations, such as commercial success, then the patentee should immediately be required to produce:

1. Its product designs or process flows for all related products or processes so that the petitioner can contest whether the

patentee's products or processes are within the scope of the patents;

2. All other patents relating to the product or process so that the petitioner can challenge the assertion that the patent at issue is the one that causes the commercial success;

3. All advertising and marketing materials and the annual budgets to permit the petitioner to challenge whether the commercial success is attributable to the patent or marketing;

4. All analyses by the patentee of competitive products to determine whether those enjoy commercial success;

5. Knowledgeable witnesses on these subjects including how its products are within the scope of the claims.

The patentee is almost universally the best source for this evidence. And, without this evidence, the petitioner is unable to respond to the patentee's assertions and rebut such arguments. It would be a clear injustice if a patentee, or a petitioner, could rely on evidence exclusively within its possession to prove a point while depriving its opponent of the opportunity to take meaningful cross. Under these circumstances, broader discovery should be permitted to avoid injustice.[3]

C. The PTO should Eliminate the Proposed Rule 42.51(b)(3) for Routine Discovery of Information that is Inconsistent with a position

Rule 42.51(b)(3) appears to graft on requirements of Rule 56 to IPR. This is ill-advised and impractical. First, it is important to draw several distinctions between the expansiveness of this new proposed Rule 42.51(b)(3) and Rule 56. Unlike Rule 56, which is limited to those who are involved in the prosecution of a case, such as the inventors and the attorneys, proposed Rule 42.51(b)(3) has no such limitations. Under Rule 42.51(b)(3) any comments from a party to an inter partes

[3] Cf. Federal Rule of Civil Procedure 26(b)(3)(a)(ii).

proceeding that may be inconsistent with a position advanced must be produced. For large parties who have tens, if not hundreds, of thousands of employees, searching for all such statements is burdensome and oppressive. In fact, given the breadth of issues that may emerge as relevant to an inter partes proceeding; it is questionable how any large organization could search through its employees e-files to discover information inconsistent with a position taken.

BSA understands that the office is considering revising the proposed rule to limit it to those involved in the proceeding. But even with such revisions, the proposed rule would still be problematic and would lead to needless motion practice over collateral issues regarding whether a party in fact produced all such documents.

The experience of the federal courts in dealing with the disclosure requirements under Federal Rule of Civil Procedure 26 shows that these rules are unlikely to be workable. In 1993, Federal Rule of Civil Procedure 26(a)(1) was amended to require for the first time the identification of a copy or description by category and location of all documents and things that "are relevant to disputed facts alleged with particularity in the pleadings . . . ." In other words, a party had an obligation to disclose or describe certain documents that were inconsistent with its position (to borrow from the language of the proposed rule). However, in 2000, these disclosure requirements in the Federal Rules of Civil Procedure were limited to documents that such party "may use or *support its* claims or defenses . . . ." Undoubtedly, the decision to limit the scope was due in part to the substantial ancillary litigation that ensued over whether parties had complied with this duty.

Another justification offered for Rule 42.51 is that it merely extends the duty of disclosure required under Rule 56, in *ex parte* proceedings, to IPR. However, this justification ignores the very purpose for which the duty of disclosure was created to support ex parte prosecution:

> [W]e do subscribe to the recognition of a relationship of trust between the Patent Office and those *wishing to avail themselves of the governmental grants* which that agency has been given authority to issue. The ex parte prosecution and examination of a patent application must not be considered as an adversary proceeding *and should not be limited to the standards required in inter partes proceedings*. With the seemingly ever-increasing number of applications before it, the Patent Office has a tremendous burden. While being a fact-finding as well as an adjudicatory agency, it is necessarily limited in the time permitted to ascertain the facts necessary to adjudge the patentable merits of each application. In addition, it has no testing facilities of its own. Clearly, it must rely on applicants for many of the facts upon which its decisions are based. The highest standards of honesty and candor on the part of applicants in presenting such facts to the office are thus necessary elements in a working patent system. We would go so far as to say they are essential. It follows, therefore, that we do approve of the indicated expansion of the types of misconduct for which applicants will be penalized.[4]

Thus, the policy behind Rule 56, for *ex parte* proceedings, is distinguishable from the policies underlying the post-grant and *inter partes* proceedings, which are both adversarial. It is inappropriate to apply Rule 56 to an adversary proceeding which has fundamentally different needs. Given the complexity and speed with which these new proceedings must be resolved, BSA suggests that the adversary process will serve as a much better approach to avoid fraud on the Office. Hence, BSA suggests striking Rule 42.51(b)(3).[5]

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[4] *Norton v. Curtiss*, 433 F.2d 779, 794 (C.C.P.A. 1970)(emphasis added).

[5] The materiality construct of Rule 56 that led eventually to including inconsistent statements by the patentee as material information can be traced to the Office's adoption of a materiality from securities fraud. *See* C. Shifley & R. Stockton, The Duty of Disclosure and the Exception of "Cumulative" Prior Art, at 6 . http://www.bannerwitcoff.com/ docs/library/articles/disc.pdf. In any event, it is clear that the duty to disclose material information in securities law for non-adversarial proceedings such as securities registration does not extend to adversarial proceedings such as securities lawsuits, criminal securities prosecutions and securities enforcement proceedings before the SEC.

D. Scope of Direct

The "sequencing" of "trial," which amounts to discovery under the proposed rules, must be revised to account for third party testimony and production of documents. Under well-established rules of cross examination, which appear to be engrafted into proposed Rule 42.53(b)(5)(D), opponents are barred from taking testimony at a deposition outside of the scope of direct. This will cause additional and unnecessary costs and travel for the participants and impose unnecessary burdens on third party witnesses.

If one party to a proceeding takes direct testimony of a witness of limited scope but a second party wants to question the witness about another relevant topic, Rule 42.53(b)(5)(D) precludes such testimony by the second party. As a result, the second party will have to separately arrange for the deposition of such witness, which will lead to doubling the cost of the deposition through duplicative travel. Also, witnesses will be resistant to the additional interruptions and inconveniences. The more appropriate procedure would be to require that a party seeking to take testimony outside the scope of direct provide a counter notice similar to the notice contemplated in Rule 42.53. This will save time and money and avoid further inconvenience to third parties. It will also avoid needless arguments and burdens on the Board of resolving whether a given topic is inside or outside the scope of direct.

E. Providing Documents Ahead of Time Under Rule 42.53(c)(3) Should Not Apply to Cross Examination

The proposed rule 42.53(c)(3) appears to contemplate that all documents intended for use at a deposition be provided before the deposition even if the deposition is to be used for purposes of cross examination. While that appears reasonable for purposes of taking direct testimony, such a rule makes little sense for purposes of impeachment or cross examination where documents are typically not provided ahead of time. If documents are provided ahead of time, the Board will not receive real witness testimony but will rather

receive carefully crafted testimony prepared by counsel ahead of the deposition.

F. The Proposed Rules Should Include a Process Commonly Used by District Courts to Resolve Claim Interpretation Disputes

Many courts require counsel to meet and confer before meeting with the judge on procedural and scheduling issues.[6] Those meetings narrow the issues and thus allow the meetings with the judge to proceed faster. The Patent Office should follow a similar requirement by requiring counsel for the petitioner and patentee to meet and confer ahead of the early meeting with an APJ.

Thus prior to the early meeting with an Administrative Patent Judge ("APJ") contemplated under proposed Rule 42.20, the petitioner and the patentee should be required to hold at an early meeting of counsel in an attempt to resolve as many differences as possible. Issues that should be resolved, as much as possible, include, but are not limited to: claim interpretation, level of skill, whether the prior art identified as raising a substantial ground of patentability is in fact prior art, and what factual issues the patentee intends to raise including secondary considerations of non-obviousness. These meetings should be conducted with an idea that hopefully a horse trading process will evolve to permit the parties reduce the issues for the APJ. The process should encourage the parties to agree on as many of these points as possible.

G. Page Limits Under Proposed Rule 42.42(a) for Petitions Should Not Include Claim Charts

As worded, the proposed page limits for a petition under Rule 42.24(a) are unreasonable since they include claim charts within the

[6] *See, e.g.* United States District Court for the Northern District of California, Local Rule 4-1 http://www.cand.uscourts.gov/localrules/patent#CCProc; United States District Court for the Eastern District of Texas, Local Rule 4-1 http://www.txed.uscourts.gov/page1.shtml?location=rules

fifty or seventy page limit according to the guidelines.[7] When more than a few claims are at issue, which BSA believes will often be the case; these page limitations will be inadequate. To address this problem, BSA believes that claim charts should not count towards the page limitations.

BSA understands that the likely interpretation of the guidelines is that where a party wishes to rely on the meaning of the term to one of ordinary skill and the claim chart is in the declaration or affidavit of the expert, such claim chart will count towards the page limit. However, this raises a number of issues. First, a patentee could have been her own lexicographer and created numerous unique definitions in the claims. Yet a petitioner who has to discuss these unique definitions would be forced to include those definitions in its petition and be penalized for the patentee's approach in its patent.

Second, where a patentee has provided its own claim chart as part of an infringement case or a charge, the petitioner is penalized if it wishes to use those claim charts to show the patentee's claim interpretation and why the claims are invalid in light of that interpretation. If the patentee makes an implicit claim interpretation, such as by claiming that the patent is essential for a standard, the petitioner should be able to provide a claim chart based upon its understanding of the patentee's position—in addition to the claim charts that the petitioner provides. This is highly relevant information that the petitioner should be allowed to present.

Accordingly, BSA believes that the better approach is not to include claim charts in the petitioner's or the patentee's page limitations—at least until after the petition is granted and the trial commences. Rather, as suggested in the previous section, it would be far better for the Office to require the parties to meet before the first meeting with the APJ to set forth a limited number of claim limitations that the parties will dispute for the purposes of the proceeding.

[7] While the proposed rules on trial practice are silent on whether claim charts count towards the page limits, the PTO's Proposed Trial Practice Guidelines state that "Claim charts submitted as part of a petition or motion count towards applicable page limits. 77 Fed. Reg. at 6873.

BSA appreciates the opportunity to comment on this issue. Any questions or further communications should be directed to Tim Molino, Director, Government Relations, BSA (timothym@bsa.org).

Sincerely,

Robert Holleyman

Robert W. Holleyman, II
President and CEO

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April 6, 2012

Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
Mail Stop Patent Board
P.O. Box 1450
Alexandria, VA 22313-1450
Via email: (TPCBMP_Definition@uspto.gov)

Attn: Lead Judge Michael Tierney, Covered Business Method Patent Review Proposed Definition for Technological Invention

Comments Submitted by the Business Software Alliance
on Notice of Proposed Rulemaking Transitional Program for Covered Business Method Patents–Definition of Technological Invention

Dear Commissioner:

The Business Software Alliance ("BSA") is pleased to have the opportunity to present its views with respect to the Notice of Proposed Rulemaking on the definition of Covered Business Method Patents.

BSA is the leading global advocate for the software industry. It is an association of nearly 100 world-class companies that invest billions of dollars annually to create software solutions that spark the economy and improve modern life. BSA members include software and computer companies[1] that collectively hold hundreds of thousands of patents around the world. Our members invest billions of dollars in research and development every year, and every one of relies on intellectual property protection for the viability of its business.

Intellectual property rights are the cornerstones of innovation—giving creators confidence that it is worth the risk to invest time and money

[1] *The Business Software Alliance (www.bsa.org) members include: Adobe, Apple, Autodesk, AVEVA, AVG, Bentley Systems, CA Technologies, CNC/Mastercam, Intel, Intuit, McAfee, Microsoft, Minitab, Progress Software, PTC, Quest Software, Rosetta Stone, Siemens PLM, Dassault Systèmes SolidWorks, Sybase, Symantec, The MathWorks, and Trend Micro.*

in developing and commercializing new ideas. For the software industry in particular, robust intellectual property protections are fundamental to ongoing innovation and technology improvements. Patents are an indispensable part of these protections. As a result, all BSA members support ongoing efforts to enhance the patent system and promote innovation in computers and software.

Patent reform is a critical piece of these ongoing efforts. And here, the United States Patent and Trademark Office ("PTO") is uniquely positioned. Many of the provisions in the America Invents Act ("AIA") provide the PTO with broad discretion in terms of their implementation. Overall, BSA believes that the PTO has done an excellent job thus far in establishing the proposed regulations called for under the AIA.

With regard to the proposed fee increases, BSA appreciates the PTO's rationale for the growth in prices. BSA is committed to ensuring that the PTO has sufficient resources to accomplish its mission. At the same time, the large increases, especially in the traditional preparation and prosecution categories, will cause some BSA members to reassess their patent procurement strategies. Therefore, BSA believes that the PTO should continue to review the fee increases to ensure that the prices charged are commensurate with the work being performed.

One commendable area are the fees set by the PTO for *inter partes* review ("IPR") and post-grant review ("PGR"). While high, these fees appear reasonable in view of the substantial work required from the Patent Trial and Appeal Board and appear to allow for full cost-recovery by the Office, which is necessary to avoid subsidizing the post-grant and inter partes systems through the diversion of fees that would otherwise be used for planned (and much-needed) investments in technology and infrastructure that will improve the operational efficiency and capacity of the Office. Additionally, requiring a substantial fee will help ensure that these procedures are utilized only where a significant business dispute warrants such an expenditure.

Thus these fees should discourage frivolous filings by parties that would seek to abuse these contested proceedings at the PTO, which was certainly not Congress' intent when it created the new programs.

Notwithstanding the foregoing, BSA also believes that there are areas in which the proposed rules may be improved. One area is the definition of technological invention for the Transitional Program for Covered Business Method Patents. The current definition proposed by the PTO lacks specificity and thus is both under- and over-inclusive.

Thus, to help improve these proceedings, BSA offers the following comments and suggestions.

I. SECTION 18 - TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS

With respect to Section 18(d)(2), it is essential that the PTO define technological invention so as to safeguard general software and computing technologies that are incidentally used in connection with financial products or services while not frustrating the intent behind the Transitional Program for Covered Business Method Patents. The PTO's proposed definition of technological invention in § 42.301(b) provides that "[i]n determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods (section 42.301(a)), the following will be considered on a case-by-case basis: whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution." This definition, however, is both over- and under-inclusive and requires further clarification.

The PTO's proposed definition is over-inclusive because it potentially allows the definition of covered business method patent to include anything used in the provision of financial services. As a result, it could be interpreted to cover a significant amount of general software

and computing technology patents that have little or nothing to do with business methods. These include patents covering general purpose servers, email clients, and basic spreadsheet applications. While the financial services industry has benefitted from these software and computing innovations, so have many others. Inclusion of these patents in the Transitional Program would be an unfortunate and unintended consequence of the proposed definition. It also would invite challenges to non-business method patents under this program.

At the same time, the proposed definition is potentially under-inclusive. The PTO's proposal for technological invention does not account for the relationship between the invention and its use in the practice, administration or management of a financial service or product. By ignoring the field to which the inventive contribution of the patent is directed or in which it is predominantly used, it is possible that covered business method patents may qualify for the exception when one looks only at the technological contribution in isolation.

For these reasons, BSA believes further specificity is required. To this end, the PTO should revise the definition of technological invention to clarify its meaning and relationship to the definition of covered business method patents, in which it appears. BSA proposes the following definition for this purpose:

> § 42.301(b) *Technological invention.* In determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods (section 42.301(a)), the following factors will be considered on a case-by-case basis:
>
> (1) *Whether the inventive contribution of the claimed subject matter falls within economics, finance, or related fields.* If the invention's advance over the prior art pertains to a core financial services activity or function, the patent is likely to be a covered business method. Such core activities and functions include asset

management, investment planning banking, investment, risk assessment, the trading or exchange of securities or commodities, extension of credit, provision of insurance, calculation of tax liability, preparation and submission of taxes, forms, or related documentation to a governmental entity, and the exchange or processing of financial instruments. Conversely, if the patent's inventive contribution falls within an established field of technology that is unrelated to economics or finance; this weighs in favor of a conclusion that the invention is technological.

(2) *Whether the predominant use of the invention is in the practice, administration, or management of financial products or services.* Predominant use by entities in the financial services industry suggests that the invention's contribution relates directly to a method of doing business and weighs in favor of a conclusion that it is a covered business method. Conversely, if the invention is widely used by entities not engaged in the provision of financial services or products, or if use of the invention within the financial services industry is incidental or insubstantial, this suggests that the invention is not a covered business method.

(3) *Whether the patent claims a general concept, principle, theory, plan or scheme that relates to economics, finance, or conducting business.* Examples of general concepts of this nature include, but are not limited, to: Basic economic practices or theories (e.g., hedging, insurance, financial transactions, marketing); Mental activities relating to economics (e.g., forming a judgment, observation, evaluation, or opinion about the value of an asset, the likely future value of a stock, or the financial risk presented by a transaction); Interpersonal interactions (e.g., negotiation, cooperation with colleagues, leading a business team); Human behavior (e.g., exercising, following rules or instructions, dressing for success). The presence of patent claims directed to a general concept that relates to economics,

finance, or conducting business weighs in favor of a determination that the claimed invention is a covered business method.

(4) *Whether the claimed invention limits the field of use to core financial services activities.* If the claims limit the patent's scope to activities that are normally performed in the course of providing financial services and products, and are not normally performed by entities in other lines of business, this weighs heavily in favor a conclusion that the patent is directed to a covered business method. Similarly, if the patent identifies the provision of financial services or products as the invention's primary field of use, the invention is likely to be a covered business method. Conversely, if the patent does not indicate the field of use or if the patent describes a field of use, the scope of which does not include or extends substantially beyond activities normally undertaken in provision of financial services and products, this suggests the patent is not directed to a covered business method.

The definition suggested by BSA would properly clarify the scope of the covered business method patents eligible for the Transitional Program. It provides safeguards against the inclusion of general software and computer technology patents while providing context so that patents directed to financial services or products are not excluded by looking at their technological contributions in isolation. Thus, by evaluating the aforementioned factors on a case-by-case basis, BSA believes the Office can make a more accurate determination of whether the patent is eligible for review, lessen the number of ineligible petitions filed, and increase the efficiency of the Transitional Program for Covered Business Method Patents.

BSA appreciates the opportunity to comment on this issue. Any questions or further communications should be directed to Tim Molino, Director, Government Relations, BSA (timothym@bsa.org).

Sincerely,

Robert W. Holleyman, II
President and CEO

Mr. MOLINO. BSA believes there are three areas in which the proposed rules can be improved. These are the transitional program for covered business method patents, inter partes review, and post-grant review. The purpose of these programs is to remove low-quality patents. Removing low-quality patents from the system will instill greater certainty and confidence.

With respect to the transitional program for covered business method patents, which focuses on patents in the financial services

sector, BSA believes that the PTO should better define which patents will potentially be subject for review under this program. The PTO's proposed definition of the technological invention exception provides that eligibility for review will be determined on a case-by-case basis using two criteria: where the claimed subject matter as a whole recites a technological feature that is novel and whether it is unobvious over the prior art and solves a technological problem using a technological solution.

We believe that using only these criteria will potentially allow the definition of covered business method patents to include anything used in the provision of financial services, including patents covering general purpose servers, email clients, and basic spreadsheet applications. As a result, it could be interpreted to cover a significant number of general software and computing technology patents that have little or nothing to do with business methods.

The availability of method patents benefits a vast variety of industries. Broad inclusion of these patents in the transitional program would be an unfortunate and unintended consequence of the proposed definition. This could produce effects beyond financial services and create unwelcome uncertainty, chill innovation, and reduce investment in bringing new technologies to American consumers and creating jobs here in America.

At the same time, we recognize the financial industry's strong interest in this area. Thus, it is important that the PTO strike the right balance in determining which patents fall under this program and which do not.

BSA has suggested a four-factor balancing test to determine whether a patent should be reviewed under this program. It provides safeguards against the inclusion of general software and technology patents, while providing context so the patents directed to financial services or products are not excluded, looking at their technological contributions in isolation. By adopting this test, the PTO would provide clarity as to which patents fall under this program and which do not.

BSA's other suggestions relate to the procedures for inter parte review and post-grant review. We support the direction of the proposed rules, but we believe minor changes to the time line, scope of discovery, page limits, and process for resolving claim disputes can be made to more properly apportion respective burdens on the petitioner and patent owner. Our suggestions would also allow for more efficient administration by the PTO.

Finally, BSA supports the PTO's fee changes with a few considerations. Some of the fee increases, especially in traditional preparation and prosecution categories, may cause BSA members to reassess their patent strategies. Therefore, BSA believes the PTO should continue to review the fee increases to ensure that the prices that are charged are appropriate. On that note, we believe the fees set by the PTO for inter parte review and post-grant review, while high, are reasonable in view of the substantial work required from the Patent Trial and Appeals Board.

Again, the Business Software Alliance appreciates this opportunity to testify. I look forward to answering your questions.

[The prepared statement of Mr. Molino follows:]

Hearing before
The House of Representatives
Committee on the Judiciary

Implementation of the Smith-Leahy America Invents Act

Rayburn House Office Building
Wednesday, May 16, 2012
10:00 A.M.

Testimony of Timothy A Molino
Director of Government Relations

The Business Software Alliance

Good morning Chairman Smith, Ranking Member Conyers and other distinguished members of the Committee, I am Tim Molino, and I am the Director of Government Relations at the Business Software Alliance or "BSA."[1] Thank you for the opportunity to testify at this very important hearing to draw attention to the strong work being done to implement the America Invents Act ("AIA") and how those efforts can be refined to help both government and the private sector.

Intellectual property rights are the cornerstones of innovation—giving creators confidence that it is worth the risk to invest time and money in developing and commercializing new ideas. Patents are an indispensable part of these protections.

The Business Software Alliance is the leading global advocate for the software industry. BSA members have worked closely with this Committee for many years to modernize the patent system. Because of your leadership, Chairman Smith and Ranking Member Conyers, patent reform became a reality last year. The Business Software Alliance believes the America Invents Act is a substantial step forward in bringing our patent system into the twenty-first century. The AIA modernizes our patent laws to take into account the current state and global nature of our patent system. It provides clarity and better certainty for both patent owners and those looking to manufacture or provide new services.

Current efforts by the Patent and Trademark Office ("PTO") to implement the AIA follow this Committee's goal of making the U.S. patent regime the best and most efficient patent system in the world. We support the PTO's proposed rules, with some clarifying changes, because they will enhance the patent system and promote innovation in computers and software.

[1] BSA represents nearly 100 world-class companies that invest billions of dollars annually to create software solutions that spark the economy and improve modern life. BSA members include software and computer companies that collectively hold hundreds of thousands of patents around the world. Every one of them relies on intellectual property protection for the viability of its business.

Overall, BSA believes that the PTO has done an excellent job in establishing the proposed regulations called for under the AIA. The PTO is being very open and transparent during the drafting of the current proposed rules. Under Secretary Kappos and the entire PTO team deserve a great deal of credit for their hard work and commitment to implementing this groundbreaking law.

BSA, along with many other organizations, citizens, and private companies, submitted comments to the PTO on the Office's proposed rules for implementing the AIA. I ask that BSA's comments to the PTO be made part of the record in this hearing. Most of our suggestions would clarify the proposed rules to provide additional guidance to both examiners and applicants. Our suggestions aim to strike a fair balance between intellectual property owners and those seeking to challenge an application or issued patent.

BSA believes there are three areas in which the proposed rules can be modified and improved.

Our suggestions center on the Transitional Program for Covered Business Method Patents, *Inter partes* Review ("IPR"), and Post-Grant Review ("PGR"). The purpose of these programs is to remove "low quality" patents from the system that may have inadvertently been issued by the Patent Office. Removing such low quality patents from the system will provide greater certainty and confidence in the system for both patent owners and responsible businesses that in good faith try to avoid infringing on the inventions of others.

With respect to the Transitional Program for Covered Business Method Patents, which focuses on patents in the financial services sector, BSA believes the PTO should better define which patents will potentially be subject for review under this program. The PTO's proposed

definition of technological invention in § 42.301(b) provides that eligibility for review will be determined on a case-by-case basis using only two criteria: 1) whether the claimed subject matter as a whole recites a technological feature that is novel; and 2) whether it is unobvious over the prior art and solves a technical problem using a technical solution.

We believe that using only these criteria would potentially allow the definition of "covered business method patent" to include anything used in the provision of financial services. As a result, it could be interpreted to cover a significant number of general software and computing technology patents that have little or nothing to do with business methods. These include patents covering general-purpose servers, email clients, and basic spreadsheet applications.

The availability of method patents benefits a broad array of industries. Broad inclusion of these patents in the Transitional Program would be an unfortunate and unintended consequence of the proposed definition. We are concerned that the proposed definition could result in the term "covered business method" being applied to a much broader scope of patents than was intended. This could produce effects beyond financial services and create unwelcome uncertainty, chill innovation, and reduce investment in bringing new technologies to American consumers and creating jobs here in America. While we recognize the financial industry's strong interests in this area, solutions must be found that accommodate their interests without harming innovation and the many other industries that benefit from patent protection. Thus, it is important that the PTO strikes the right balance in determining which patents fall under this program.

At the same time, the proposed definition needs further clarification to account for the relationship between the invention and its use in the practice, administration or management of a

financial service or product. It is possible that covered business method patents may qualify for the exception when one looks only at the technological contribution in isolation by ignoring the field to which the inventive contribution of the patent is directed or in which it is predominantly used.

BSA has suggested a four factor balancing test to determine whether a patent should be reviewed under this program. Details of the balancing test can be found in BSA's submission to the PTO. It provides safeguards against the inclusion of general software and computer technology patents while providing context so that patents directed to financial services or products are not excluded by looking at their technological contributions in isolation. By adopting the test, the PTO would provide clarity as to which patents fall under this program and which do not.

BSA's other suggestions relate to the procedures for *Inter partes* Review and Post-Grant Review. We support the direction of the proposed rules, and our suggestions aim to provide additional clarity and efficiency. We believe minor changes to the timelines, scope of discovery, page limits and process for resolving claim disputes can be made to better circumscribe and more properly apportion the respective burdens on the petitioner and the patent owner:

- The basic timeline for IPR and PGR should be modified to provide more time for the petitioner
- Patentees should be required to announce their intent to rely on secondary considerations early and produce secondary considerations documents immediately if they intend to rely on such evidence
- The PTO should eliminate the proposed Rule 42.51(b)(3) for routine discovery of information that is inconsistent with a position
- The "sequencing" of "trial," which amounts to discovery under the proposed rules, must be revised to account for third party testimony and production of documents

- Providing documents ahead of time under proposed Rule 42.53(c)(3) should not apply to cross examination
- The proposed rules should include a process commonly used by district courts to resolve claim interpretation disputes
- Page limits under proposed Rule 42.42(a) for petitions should not include claim charts

Our suggestions, if adopted, would also allow for more efficient administration by the PTO.

Finally, we would offer a comment on a vital issue of long-standing importance to the Committee, that of ensuring the PTO has sufficient resources to accomplish its mission. Overall, BSA supports PTO's fee changes, with a few modifications. Some of the fee increases, however, especially in the traditional preparation and prosecution categories, may cause BSA members to reassess their patent strategies. Therefore, BSA believes that the PTO should continue to review the fee increases to ensure that the prices charged are commensurate with the work being performed.

In thinking about fees, we believe it is important to consider the time and effort PTO is expected to devote each particular task. For example, the fees set by the PTO for *Inter partes* Review and Post-Grant Review, while high, we believe are reasonable in view of the substantial work required from the Patent Trial and Appeal Board.

Again, the Business Software Alliance appreciates this opportunity to testify. I look forward to answering your questions.

Mr. SMITH. Thank you, Mr. Molino.

Let me recognize myself for questions and begin with Mr. Armitage, if I may.

Mr. Armitage, my question for you is what technical fixes would you recommend that we consider for the American Invents Act?

Mr. ARMITAGE. Let me start with what I consider to be the most obvious, and I will call it a technical fix, although I realize there may be some controversy on that issue.

During the legislative process, in effect almost through the last day of the 6-year process, the estoppel and post-grant review against later judicial proceedings was "issues raised" in one form or another, not "issues raised or could have been raised." Due to what I think everyone would acknowledge was an error in the legislative process, that estoppel includes issues that could have reasonably been raised, which may have the effect of essentially nullifying the provision unless that error can be corrected. So, to the exclusion of anything else that needs to be done, I would urge that correction to be done.

Mr. SMITH. Thank you, Mr. Armitage.

Mr. Williams, what else can we do either with the America Invents Act or what else can the Patent and Trademark Office do to discourage patent trolls?

Mr. WILLIAMS. Wow.

Mr. SMITH. That is a softball over home plate.

Mr. WILLIAMS. Yes, well, I think, obviously, the business method review program is an excellent start. As you know, Mr. Chairman, those patents are ones that are sort of special in the sense they are seem to be litigated far more frequently than patents in general. And so to the extent there is a single classification of patents where the patent troll or non practicing entity companies become more involved, it seems to be those are the ones.

So having an effective and cost-effective way to review those patents again, to give them a closer look using the best prior art is a good step in the right direction. And to do that in a way where companies who are acting in good faith don't have to spend millions of dollars in District court litigation going through discovery that may or may not be relevant to the ultimate issues in the case on validity I think is definitely a step in the right direction. So I think that is the main point that I would say.

And the second point in terms of technical amendments or changes to the Act—and I think this goes to a question from Mr. Quigley earlier during the discussion with Director Kappos—the fee structure is one that we do think is important to look at closely. We are supportive of, obviously, the patent office charging fees necessary to make these review programs work effectively and so that those are funded. But we would encourage the Committee and the members of the staff as well as the PTO to look closely at whether those fees could be staged or maybe reduced for small entities if they want to bring these types of reviews.

Mr. SMITH. Thank you, Mr. Williams.

Mr. Horton, actually that has led to my next question to you. How do you think the increase in fees are being received or will be received from what you heard Mr. Kappos say?

Mr. HORTON. You know, as I indicated in my oral testimony, I think it is a mixed blessing. I think we all generally support the patent office, particularly given their heroic efforts with the AIA, to try to get their hands around patent quality and just to do a stellar job of doing what we hoped they were always able to do but

were lacking the funds to do so. That is why we supported the 15 percent fee increase associated with the bill.

However, that being said, my employer forces me daily to be cognizant of the realities of the economy that we are facing, and we are starting feel the impact of the fee increase already. I fear subsequent increases could cause even more pressure points to come to bear.

We took a quick look at some of the fees. If I look at just the filing and issue fees associated with our portfolio, if I say 3,000 patents is roughly what we file on an annual basis, we would be looking at about a $3.5 million increase on our filings and search fees at the PTO.*

It gets even worse if we try to maintain a portfolio over the life of those patents, which for us being a long-cycle business can be the full 20 years. The maintenance fees go up to about around $5 million at the first maintenance fee payment for 10,000 patents, another $5 million at the second maintenance fee payment for only 7,000 patents, and about $16 million at the third maintenance fee payment of 5-6,000 patents. That is $26 million in aggregate cost on a budget, granted the size of GE, which is north of $100 million, but still is no small fee increase for us to swallow to try to maintain our protection.*

Mr. SMITH. Thank you, Mr. Horton.

Mr. Rhodes, last question is for you. The America Invents Act permits the PTO, in fact, encourages the PTO to establish regulations that prioritize examination for products, processes, or technologies. Do you think that IPO member companies will take advantage of some of these provisions?

Mr. RHODES. Thank you for the question, Mr. Chairman.

I think that certainly with as diverse a membership as IPO we have companies that will be interested in various aspects of those programs. The green program that was announced, I know that we at 3M had some patent applications that we submitted into those.

I think, more generally speaking, though, with such a diverse membership we are concerned when certain technologies or certain patent holders are put to the front of the line and prioritized among others who would have equally beneficial inventions. There is no denying that we want to encourage some of the subject matter of the inventions that are being prioritized, but we just don't know what is in some of the rest of the backlog as well. So that does create some concern.

I distinguish that, however, from the accelerated examination that we certainly support. If you are willing to pay more to accelerate examination, I think that program is a tremendous success.

Mr. SMITH. Thank you, Mr. Rhodes.

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*Mr. Horton amended this portion of his response to read as follows:

We took a quick look at some of the fees. If I look at just the filing and issue fees associated with our portfolio, if I say 3,000 patents is roughly what we file on an annual basis, we would be looking at about a $1.8 million annual increase on our filing and exam fees at the PTO.

It gets even worse if we try to maintain a portfolio over the life of those patents, which for us, being a long-cycle business, can be a full 20 years. The maintenance fees go up by about around $2 million at the first maintenance fee payment for 10,000 patents, another $3 million at the second maintenance fee payment for about 4,000 patents, and about $12 million at the third maintenance fee payment for 4,300 patents. That is $17 million in aggregate cost on a budget, granted the size of GE, which is north of $100 million, but still is no small fee increase for GE to absorb in order to maintain our protection.

That concludes my questions; and the gentleman from North Carolina, Mr. Watt, is recognized for his.

Mr. WATT. Thank you, Mr. Chairman.

I thank the witnesses for being here.

I think all of you were here when I asked Director Kappos about this economic impact analysis that the Appropriations Committee suggested that he try to incorporate in the analysis. And I don't want to leave the impression that I am not sensitive to the domestic economic impact. I am sensitive to that. I just do not know how, consistent with what we have tried to achieve in the patent reform bill and consistent with our treaty obligations internationally, how you can put that together and into the same analysis.

So I am wondering if you all have any ideas about how, consistent with our treaty obligations, we can address the foreign economic impact that patent publication may facilitate and how all of this may be made more compatible. Any of you have any ideas on that?

That is a softball question again, I thought.

Mr. ARMITAGE. Could I speak to that question?

Mr. WATT. Yes, sir.

Mr. ARMITAGE. Because I think the gist of the proposal here was that if you did the economic impact analysis you could elect not to have your patent application published at 18 months, or in fact it just simply may not be published at 18 months. It seems like that is simply taking the patent law in the wrong direction. There was some justification perhaps for not publishing all patent applications promptly under our old regime. But our new regime basically guarantees someone once they file an application, and once that application is published, that no one can come later and get a patent that is either the same as what was originally filed or obvious in view of what was originally filed. It is a categorical guarantee that if anyone gets a patent, you do. It worked different with a first-to-invent system.

So with the burdensome nature actually having to do the analysis and then with the fact that if you do it you are just perpetuating secrecy when sunshine would be a far better policy, I would strongly urge the Office as they move forward with this analysis to look at this as not only something we want to do but something we would not want our trading partners to do. That is, keep things secret, where we would also be better off globally knowing who was going to get patent rights and who wasn't.

Mr. WATT. Any other comments on that?

I mean, as sensitive as I am to the economic impact of this, I don't know you give it the same level of credibility, I guess, as national security, which might justify some level of secrecy. But I am open to any other discussion about that you might have.

Mr. HORTON. I might add to what Mr. Armitage has said. The fact is that now, for the first time in a long time, the U.S. has regained its leadership position on patent harmonization and IP protection discussions globally. That is huge. Because where we really struggle I think for adequate protection for all the intellectual property that is generated in the U.S. is in other countries where those laws we find to be—and the enforcement of those laws is inadequate. By regaining that leadership position, by harmonizing

with some of our major trading partners, I think it puts us in a much better position to try and advocate for broader, better, stronger protection internationally that will give us the kind of rights that we benefit from here in the U.S. in many of the areas where our growth is also happening pretty quickly. So I think they have done a great job, by the way, of taking this and making it work internationally.

Mr. WATT. Now, I shouldn't lose sight of the fact that this is being done at the request of the Appropriations Committee, and there is a connection to the second question that I want to ask. They have got to do what the Appropriations Committee ask them to do, which is put out a rule and evaluate the implications of this economic impact. Otherwise, there is a fear that the appropriators will take the money that they are collecting and not give it back to them.

I raised the question in my opening statement about the impact that this kind of gentleman's agreement could potentially have going forward with the appropriators. I guess the question is, if the money is collected—you talked about your concerns about fees, but if the money is being collected and applied to something other than the workings of the PTO office, I assume you all would be even more concerned about the increase in fees.

So I am raising this kind of to put it on the record so that maybe the appropriators will understand that these two things are connected to each other. And in this area our objective is to get an appropriate Patent and Trademark Office operation, not to collect more fees for the benefit of solving our budget deficit, I suppose.

I won't ask you all to comment about that. I mean, I assume everybody on the panel basically agrees with the general notion that I have expressed without alienating the appropriators.

Mr. ARMITAGE. Billions for the Office, not one cent for diversion.

Mr. WATT. That is probably a good summary in capsule.

With that, Mr. Chairman, I will yield back.

Mr. SMITH. Thank you, Mr. Watt.

Let me thank our witnesses for their testimony today. We do have a number of questions in writing to submit to you all. A number of Members have to be on the House floor—have had to be on the House floor for the last hour or so, so we have a number of questions from them we would like you to respond to them in the next week or 10 days, if you could.

So thank you again for your testimony, very, very helpful. And we do expect to proceed with a bill that will make some tweaks, and we look forward to your continuing input in that regard.

Without objection, all Members will have 5 legislative days to submit additional written questions for the witnesses or additional materials for the record, and this hearing is adjourned.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

Prepared Statement of the Honorable Bob Goodlatte, a Representative in Congress from the State of Virginia, and Member, Committee on the Judiciary

Today we are holding a hearing on the implementation of the Leahy-Smith America Invents Act. The AIA was the first patent reform bill in over 60 years and the most substantial reform of U.S. patent law since the 1836 patent act.

But as the Members who drafted and worked to enact this law, our primary purpose today is to ensure that the hard fought reforms in the AIA are implemented by the PTO in keeping with Congressional intent. It needs to be made crystal clear that the rulemakings and regulations promulgated by the PTO should move us forward toward greater certainty and not be allowed to maintain the status quo.

As we implement these changes in the patent system, we need to ensure that the new post grant review and other proceedings provide simple, cost-effective methods for raising challenges to potential PTO prosecution mistakes and that they provide less expensive alternatives to federal court litigation. If implemented correctly, these proceedings will increase certainty with regard to patent rights and thus spur more investment in new ideas.

The PTO also needs to continue working to ensure that our patent system not only expeditiously reviews patent applications, but issues high quality patents that obviate the need for subsequent challenges and that can be enforced through the courts and administrative proceedings. This means we need to focus simultaneously on patent quality and patent quantity.

A significant focus of the AIA was to reduce the problem of overpatenting, particularly by so-called "patent trolls," the situation where weak or frivolous applications have been developed through creative or predictive lawyering, rather than as President Abraham Lincoln put it, through the "fire of genius." The strength of our system relies on granting strong patents that are truly novel and non-obvious inventions—those that are the result of true innovations and not the product of legal gamesmanship.

As the PTO reviews the volume of applications and works through the backlog, the bar needs to be set higher, and quality control needs to start on the front end rather than relying with the courts.

A positive example from the AIA is the work being done to implement a transitional program to correct the egregious errors made in the granting of a wide range of business method patents. This program will provide the PTO with a fast, precise vehicle to review low-quality business method patents, which the Supreme Court has acknowledged are often abstract and overly broad. This program has the potential of making our nation's patent portfolio stronger and if it is successfully implemented, we may want to consider making it permanent in the future and expanding its applicability to other non-technological patents.

One area I plan to continue to watch is PTO fees. The fee authority Congress gave the PTO is finite for a reason. We sunset this authority so that the PTO would be mindful that it would need to come back to Congress to make the case that they have exercised this authority wisely. We will continue to monitor fees and make

sure the PTO is enacting reforms to achieve maximum agency efficiency before it resorts to fee increases in the future.

The issues that we discuss in today's hearing will require ongoing vigilance as we work to implement the AIA. We look forward to working with the USPTO, American innovators and industry to help identify specific concerns and issues, so that we can ensure that the bill is implemented in line with Congressional intent and promotes U.S. economic growth and job creation.

I look forward to hearing from all of our witnesses on the implementation of the AIA and ensuring that the U.S. patent system helps to promote U.S. manufacturing, technology and innovation.

Prepared Statement of the Honorable Melvin L. Watt, a Representative in Congress from the State of North Carolina, and Member, Committee on the Judiciary

The Leahy-Smith America Invents Act was a monumental achievement and the first significant legislative overhaul of the patent system in over 50 years. After several cycles of congressional consideration, the patent reform bill was made possible in large part by the sheer doggedness of many of today's witnesses and the industries they represent, as well as the leadership of the Administration and Director Kappos and members of this Committee and our Senate counterparts.

The key reforms incorporated in the America Invents Act as part of the Obama Administration's commitment to promote innovation, stimulate job growth and enhance America's global competitiveness, are far too numerous to recite in the time I have. However, I want to acknowledge one that unified virtually all members of this committee—full funding for the PTO.

Earlier this month the House passed the CJS appropriations bill which included $2.93 billion for the PTO for fiscal year 2013, a 9.5 percent increase over 2012. This amount reflects a spending level equal to the estimated fees the PTO will collect and is consistent with the "gentleman's agreement" in the AIA. Despite the unfortunately large number of negative provisions in the CJS appropriations bill that made it impossible for me to support, the record should be clear that have never deviated from my view that the PTO should and must have access to all of the fees its collects to provide the efficient and quality services our innovators deserve. The increasingly indeterminate plight of most annual appropriations bills highlights the uncertainty, if not the folly, of the deal that was struck on the anti-fee diversion provision in the AIA. I can only hope that we will not allow rank politics to highjack or hold hostage the policy objectives we all agree are the best for our country.

This is an ongoing concern and leads me to wonder to what extent the PTO or its users fears about the precariousness of full funding has or will influence or negatively affect implementation of the vision and provisions of the America Invents Act.

But we are not here to re-litigate the shortcomings of the America Invents Act. Rather we are here to obtain an update on its implementation. Of the 20 provisions in the law requiring the PTO to establish new procedures or adjust current ones, the agency has fully implemented 7. Of the remaining provisions that require PTO action, 9 have been addressed in recent Notices of Proposed Rulemaking and await public comment, while only 4 remain under development. The PTO is on schedule with each of these provisions and, by all accounts, has conducted a fair, inclusive and transparent process. Unless we hear something compelling to the contrary from our second panel today, Director Kappos and his staff are clearly to be commended for their accomplishments to date.

While the development, evaluation and implementation of the procedures and processes to carry out the mandate of the America Invents Act ultimately rests with the PTO, I look forward to hearing from the witnesses today on the various approaches they recommend to the agency to meet its challenge.

Mr. Chairman, I thank you for calling this hearing and assembling an impressive panel of witnesses and yield back.

QUESTIONS FOR THE RECORD FOR DAVID J. KAPPOS
U.S. House of Representatives, Committee on the Judiciary
Oversight Hearing on "Implementation of the Leahy-Smith America Invents Act"
Held on: May 16, 2012

QUESTIONS OFFERED BY CHAIRMAN LAMAR SMITH

Question #1:

Director Kappos, we are all concerned about the patent backlog at the PTO and the issue of over patenting, that ongoing tension between the volumes of patents granted and their quality. Though the AIA was designed to help go a long way toward improving this situation, there is still work to be done to ensure that our patent system remains focused on protecting truly novel and non-obvious innovations in all areas of technology, curtailing so called "paper" patents, those patents that were invented in a law firm office rather than a lab.

What would you think about limiting patenting to technological inventions? Theoretically, creating a requirement that only a technological invention would be deemed sufficient to differentiate a claimed invention from the prior art.

Such a provision would meet our TRIPS obligations not to discriminate against any field of technology, be consistent with patent practice around the world, and free-up valuable PTO resources, potentially hundreds of millions of dollars, to speed up review of patent applications, eliminate the backlog, and severely curtail much of the downstream problems that we have seen in the patent arena. What are your thoughts?

Answer to Question #1:

The statutory tools presently in place are a sufficient filter to ensure that the Office issues patents that are directed to appropriate subject matter. 35 U.S.C. 101 requires that an invention be directed to a new and useful process, machine, manufacture, or composition of matter. These four defined categories confine the subject matter available for patenting and also exclude abstract ideas, laws of nature, and natural phenomenon. Thus, inventions that are simply concepts untethered to the real world would not pass the initial threshold of patent eligibility currently in place. Additionally, inventions that lack a specific and substantial utility, i.e., are not useful, would not pass the current initial threshold. This statutory provision already serves as a filter to prevent issuance of so called "paper" patents.

Question #2:

Director Kappos, earlier this year we held a hearing on the issue of prior user rights, As the AIA is implemented, and this provision in particular goes into effect, we have heard about how many manufacturers engage in "defensive patenting" - where they seek patents simply to protect their own right to continue to practice the invention - to ensure that other, later patents do not patent the invention out from under them,

In your view, if prior-user rights were theoretically extended to all products and that allowed rights to be triggered by substantial commercial preparations that were made several months before a patent's filing date or disclosure date - would such a right reduce the need for manufacturers to engage in "defensive patenting?"

And if the need for American manufacturers to engage in defensive patenting were eliminated or substantially reduced, how would that impact the USPTO and its current workload and backlog of unprocessed patent applications?

Answer to Question #2:

Pursuant to the enactment of the Leahy-Smith America Invents Act, U.S. patent law provides for a prior user rights defense to infringement that affords a competitive advantage to businesses in the U.S. that bring technology to the market early. Such a defense to infringement is critical for a first-inventor-to-file system to ensure that businesses that have made significant commercial investments are able to protect their investments in the event of a later issued patent. This type of a prior user rights defense is pro-manufacturing and pro-jobs, as it will reward businesses that put new technology promptly into commercial use. Additionally, it will protect small businesses that cannot always afford to patent each of their technical improvements.

The prior user right defense is likely to result in businesses filing fewer defensive patent applications, thereby contributing to a reduction in the total number of applications for examination by the USPTO. As a result, the USPTO would be able to focus its attentions on examining patent applications that cover the core technologies of these and other businesses.

USPTO's report on this topic, required by the **AIA**, was submitted in January. One observation in the report was that U.S. law, as now amended, is that the one-year limitation is more restrictive than other countries. This may unnecessarily prevent use of the defense by U.S. manufacturers and that some future statutory change might be desirable. Such a change could improve the law by replacing the one-year limitation with a "substantial preparation" requirement which would be more harmonized with the approach taken successfully by other countries and more in keeping with modern commercial reality.

Question #3:

Director Kappos, the supplemental examination proceeding was expressly designed by Congress to improve patent quality and overall patent examination. Why then are the PTO proposed rules designed to discourage its use, by requiring excessive fees, and potentially exposing patent owners to future litigation by requiring excessive information from patent holders?

Answer to Question #3:

The USPTO published a notice of proposed rulemaking in January that proposed fees and requirements for a request for supplemental examination. The proposed fees were designed to recover the cost of the supplemental examination process, which is a requirement of the USPTO's current fee setting authority under 35 USC 41(d)(2). The proposed requirements for patent holders to submit certain information were designed to permit the USPTO to conclude the supplemental examination process within the three-month period set by statute and promptly resolve any resulting reexamination proceeding. The proposed fees and requirements were not designed to either be excessive or to discourage the use of supplemental examination.

During the comment period after the January publication of the notice of proposed rulemaking, the USPTO received a number of comments expressing concerns about the proposed fees and requirements for a request for supplemental examination. The USPTO has reconsidered the proposed requirements and is working to lessen the burden placed on patent holders by making the requirements more comparable to the current requirements for a request for *ex parte* reexamination.

As stated above, the fees proposed in the January notice were based on the cost recovery fee setting authority in 35 USC 41(d)(2). The USPTO will have greater flexibility in setting the supplemental examination fee in the rulemaking process under section 10 of the AIA. A notice of proposed fees under section 10 has not yet been finalized. It should be noted, however, that to set the supplemental examination fees significantly below cost would require that revenue be diverted from other activities, such as the examination of pending applications, to the supplemental examination of issued patents. Thus, setting the supplemental examination fee significantly below cost would likely have a negative impact on patent quality and the examination process.

Question #4:

The transitional program for business-method patents, the new post-grant review system, the joinder provision, and the false-marking changes in the new statute demonstrate that Congress intended to rid the system of bad patents and questionable lawsuits. If these and other changes are successfully implemented, do you think that patent trolls will migrate in greater numbers to the International Trade Commission to sue? Can you provide the Committee with any advice about changing the way patent disputes are resolved at the ITC?

Answer to Question #4:

If these and other changes are successfully implemented, do you think that patent trolls will migrate in greater numbers to the International Trade Commission to sue?

It is likely that non-practicing entities (NPEs) will seek relief in greater numbers at the International Trade Commission (ITC) if these and other changes are successfully implemented. There are several reasons for reaching this conclusion, including the impact of the lower standard for obtaining an injunction in the ITC as compared to district court litigation, the impact of the America Invents Act (AIA) joinder provisions, and the current reluctance of the ITC to stay pending proceedings when parallel proceedings are before the USPTO.

Although damages are not available at the ITC, the ability of an NPE to obtain an injunction (exclusion order) gives it significant leverage in licensing negotiations. Injunctions are easier to obtain in ITC proceedings as the only barrier to an injunction is a rarely-used public interest exception. By contrast, district courts must apply the traditional four-part injunction test after the Supreme Court's decision in *eBay v. MercExchange*, 547 U.S. 388 (2007). This test is more difficult for NPEs to meet. In addition, the rapid speed of the ITC assists in obtaining a monetary settlement.

Joinder also may be an important factor in causing NPEs to seek relief in greater numbers at the ITC. The provision in the America Invents Act (AIA) regarding joinder of multiple defendants does not apply at the ITC. Additionally, a recent Federal Circuit case (*Kyocera*) decided that a complainant at the ITC must, with some exceptions, name all parties against whom the complainant wishes to obtain an exclusion order. Thus, the current trend at the ITC is to name more respondents, not fewer. Given the high cost to the NPE for litigating either a district court action or an ITC proceeding, there is an incentive for the NPE to seek the forum where it can obtain economies of scale by naming most or all infringers at once.

Additionally, it remains to be seen whether the ITC will stay its proceedings in favor of the new AIA proceedings. An ITC proceeding typically takes 15-18 months to conclude, which is slightly longer than the statutory requirement for the new AIA *inter partes* review, post-grant review, and transitional covered business method review proceedings. In the past, the ITC has not stayed cases with pending reexaminations because the pendency of a reexamination is generally longer than that of an ITC investigation. The ITC may, however, decide to stay an investigation where there is a parallel AIA

proceeding at the USPTO due to the speed at which the new proceedings will be conducted and the inefficient use of ITC resources that may result if the ITC proceeding is not stayed.

Can you provide the Committee with any advice about changing the way patent disputes are resolved at the ITC?

The USPTO takes no position on how best to change the ITC. Provided below however, are some concerns that have been previously identified by others.

The ITC has a statutory requirement that a complainant show a domestic industry in the patented technology. NPEs typically only have an interest in licensing the technology, not in manufacturing goods. Under case law, an NPE must show "substantial" investment in licensing and/or research, but litigation expenses alone may not be sufficient. *See Mezzalingua Associates, Inc. (d/b/a PPC, Inc.) v. Int'l Trade Comm'n*, 630 F.3d 1322 (Fed. Cir. 2011), affirming ITC's conclusion that complainant failed to meet the domestic industry requirement. One way to add greater certainty to this requirement is to consider strengthening the domestic industry requirement, for example, by requiring an NPE to show "significant investment in plant or equipment" or "significant employment" in the U.S.

Additional changes that have been suggested by others include:

1. Requiring the ITC to apply the *eBay* four-factor test in order to obtain an injunction. Alternatively, consider strengthening the public interest exception.

2. Encouraging the ITC to stay its proceedings in favor of AIA trial proceedings.

3. Requiring the ITC to conduct a study and issue a report to Congress on instances where ITC proceedings have not been stayed where the same patent is undergoing review at the USPTO, including the results of any appeal to the Federal Circuit.

A number of patent owners and practitioners are content with the current ITC procedures for handling patent disputes. In light of continuing implementation of AIA provisions and developing patent case law, they believe that any proposed changes to ITC authority and procedures are premature and unwarranted at this time.

Questiou #5:

Director Kappos, as part of your written testimony you cite several iuitiatives designed to iucrease the productivity within the patent process. These include IT projects, work sharing and international harmonization among other things. Under the framework of the Patent Prosecution Highway system you note in particular the Patent Cooperation Treaty (PCT) system and the work that is leading to it being the "work-sharing model it was originally intended to be". What are your views on using outside firms or contractors to assist in search functions for national stage applications in a manner similar to the process currently used under PCT?

<u>Answer to Question #5:</u>

The USPTO has engaged contractors to perform certain work on PCT applications when we are acting as an International Searching Authority. This has allowed us to improve the timeliness while maintaining the quality of International Search Reports, much to the satisfaction of our applicants. International Search Reports, however, differ substantially from examinations conducted by USPTO examiners on U.S. national applications. International Search Reports provide a preliminary indication as to whether the

claimed invention is novel, involves an inventive step, and is industrially applicable in accordance with broad international standards. They do not constitute an official decision that the claims are in fact patentable (or not) according to U.S. law, whereas, the opposite is true for patentability decisions rendered by USPTO examiners on U.S. national applications.

QUESTION OFFERED BY RANKING MEMBER JOHN CONYERS

Question:

As I noted in my opening comments at the hearing, I would like to learn about additional tools and approaches that may be needed to make the additional reductions to the patent backlog. You noted a number of aggressive steps that you are taking to address the backlog of pending patent applications at the USPTO. The efforts include the hiring of additional examiners, improvements in the use of technology and cooperation with other major patent offices. Are there tools such as enhanced search resources that can be given to examiners to make them more efficient? This model has seemingly worked well in the context of the work that the USPTO does on Patent Cooperation Treaty applications filed in the United States. Would a similar approach be useful to consider in the context of United States national stage applications as well?

Answer to Question:

Patent examiners currently have access to full-featured search systems that the USPTO continuously improves to promote efficient examiner searching.

For example, the Patents Linguistic Utility Service (PLUS) is a query-by-example search system that provides examiners a statistically ranked list of U.S. patents with the closest match of an application's significant keywords including classification information.

In addition to the USPTO's existing search systems, the Patents End-to-End initiative has several projects that are researching improvements to search technology, which will result in enhanced search systems and resources. These projects include researching methods for automating prior art searches, exploring search technologies including open source platforms and improved user interface design, as well as efforts to accommodate the new Cooperative Patent Classification initiative within Patents search tools.

Additionally, other examination tools have been created to assist in patent prosecution to make examination more efficient. One such project determined whether text documents could be leveraged by computers to enhance the examiner prosecution of patent applications.

United States House of Representatives
Committee on the Judiciary
Questions for Mr. Robert (Bob) A. Armitage
Hearing on: "Implementation of the Leahy-Smith America Invents Act"
Wednesday, May 16, 2012
10:00 a.m.
2141 Rayburn House Office Building
Questions Offered by Chairman Lamar Smith Followed by Answers Provided by Robert A. Armitage:

Question #1:

In a situation in which one person commercially uses an invention several months before anyone else has filed a patent for the invention or disclosed the invention, I think that we would all agree that the commercial user was almost certainly the first inventor of the invention. He, after all, put the invention into actual use well before he could have derived the invention from a later patent filing or disclosure. Unless the patent filer was slow in filing for a patent, it is almost inevitable that the party that commercially used the invention several months earlier was the first and true inventor.

I would like to ask your views about the following scenario: assume that the first inventor of an invention never files for a patent, but instead diligently commercializes the invention, and makes the invention accessible to the public - in effect, he gives away the idea for free when he sells his product.

Now assume that another inventor files for a patent for the same invention just before the first inventor commercializes his product. Under the AIA, the first inventor's product would not be prior art against the second inventor's patent, since the product was not sold to the public before the patent's filing date. As a result, the second inventor's patent would be valid.

In such a scenario, in which the first inventor commercialized the invention and shared the idea with the public, free of charge, do you believe that the second inventor should be allowed to prevent the first inventor from practicing the invention?

Answer:

The hypothetical situation you describe is, first of all, a rare situation: two rival inventors, working independently from one another, in separate organizations, make essentially the same invention, following which at least one of whom then seeks a patent. In such a relatively rare circumstance, the pre-AIA law attempted to sort out valid patent rights through the "prior invention defense," or, if both rival inventors sought patents, through a "patent interference." Either route of resolution of the "first inventor" issue was typically problematic – in part because of concepts such as "conception," "independent corroboration" and "continuous diligence" that made it frustratingly difficult to know if a prior invention defense against a rival's patent would ultimately succeed – or which party to the patent interference might be found to be the first to invent.

Because deciding the first-to-invent issue depended upon so many factual considerations, and was based on a combination of records and recollections of work done years earlier by the

time a judgment on the issue was to be made, it frequently amounted to a near-arbitrary call as to which of the two original and bona fide inventors was time-wise the first. Both the seemingly arbitrary nature of the first-to-invent determination and its winner-take-all character strained any notion that the pre-AIA law could consistently deliver fair outcomes, particularly if the independent work of the rival inventors was carried out largely contemporaneously.

I provide this background to point out that, while it is good common sense to conclude that someone who was first to commercialize would typically be the first to invent (especially if the commercialization took place before a rival inventor had first sought a patent), such an outcome need not be the case under the pre-AIA patent law. Nothing in pre-AIA law made it simple or predictable to get to an ultimate determination of the first-inventor status – even in a situation some would posit that the law could not reasonably come to a contrary result.

Thus, in dealing with the hypothetical situation in your question, my answer would, first of all, simply ignore the issue of which inventor could lay claim to being the "first and true inventor." In other words, I would answer the hypothetical in exactly the same manner if the first-to-commercialize inventor was or was not the first-to-invent.

I take that position because these rival inventors independently made the same invention, worked in a nearly contemporaneous timeframe, acted in good faith with respect to one another, and proceeded in their respective inventive work in ignorance of each other's efforts. Thus, both can lay claim to being *true originators* of the same invention.

Just as one example, under copyright law, each of the two rival "inventors" would be deemed to have been an "independent creator" of its own work. Each independent creator, under copyright principles, would separately enjoy full copyright protection for its own work, notwithstanding that the works of the respective creators were identical. Patent law, unlike copyright law, has always taken a different view where such identical creative works are made by two individuals. Patent law accords one of the two rival creators, the right to a patent and – absent further statutory relief – then bars the other independent creator from enjoying any right to practice what it created – originally, independently, and in good faith.

This raises two very important policy questions: What is the right legal standard for determining the winner and the loser in the situation of near-simultaneous, independent creation, one providing a fair basis upon which to inflict such a draconian outcome (that is to declare one independent creator the winner, granting exclusive rights, and the other independent creator a loser, withholding even the right to continue to use its own original creation)? A second issue is of no less policy importance: Should some amelioration of this harsh outcome be provided under law – is, indeed, there a way of doing so that might be in the public interest?

As to the first question, the fairest and most sensible manner in which to make such a "winner-and-loser" choice on the right patent exclusivity is by invoking the public policy of *encouraging an early public disclosure of the invention*. Under this policy umbrella, whoever is the *first to publicly disclose the invention*, or the *first to file for a patent on the invention*, ought to be accorded the right to patent the invention. In a nutshell, this is what the AIA accomplished.

While it took 200 years, we now have a transparent, objective, predictable and simple way in which to decide which of two rival inventors is to be entitled to a patent for an invention that each made independently from the other. Since the "first to invent" any invention inherently has the capability of being the first to publicly disclose the invention or to file for a patent on the invention, the AIA's patenting rules have a fundamental fairness that the pre-AIA was never able to realize in practice. In effect, we now have a patent law where the first to invent always has the ability to secure for itself the right to a patent on its invention, but is obliged to take action to be the first to publicly disclose or the first to file for a patent in order to vindicate its right to patent.

If Congress has finally put in place an optimal standard for the winner/loser determination, then the next question becomes important to answer: Instead of "winner take all," are their equitable situations in which Congress could reasonably decide that a "loser keep some" outcome is justified?

Without question, under the AIA, we also have a more sensible law for treating the losing inventor. The "losing" independent inventor, at least in certain situations, is given a personal right to continue to commercialize its invention, notwithstanding that the right to patent its invention lies with a rival invention. However, the AIA imposes very stringent conditions for the loser to exercise even this personal right.

To qualify for its personal right, an independent creator of an invention patented by a rival must have placed the patented invention into commercial use in the United States before the patent awarded to its rival inventor was originally sought.

As much of an improvement in the patent law that the AIA represents, this provision according personal rights based upon prior domestic commercial use of an invention by a bona fide inventor, acting in good faith, simply does not go far enough. Its chief deficiency is that it does not address the situation where substantial preparations for commercial use in the United States were completed before the rival inventor's patent was initially sought.

What would be most fair in that situation would be to recognize the completion domestically of substantial preparations for commercial use of the invention as sufficient for entitling the inventor to a limited, personal defense to infringement, with respect to any later-sought patents. On its face, such would be a fair outcome for someone not only independently creating an invention, but moving it towards commercial reality – based on domestic activities.

While the hypothetical in the question deals with the situation where the patented invention, once commercialized, becomes available to the public, the protection that should be given to an inventor as a personal infringement defense should apply even if commercialization does not actually result in the invention itself becoming publicly accessible thereby. There is no reason to reward good faith efforts at domestic commercialization for some types of inventions but not others, which is precisely what an "available to the public" standard would create.

In sum, the way in which this defense related to commercialization should operate is to protect an inventor (or the inventor's enterprise) once it has completed domestically substantial preparations for commercial use of an invention as against any patents that are subsequently

sought by others. It should not be grounded on whether the inventor (or entity) qualifying for the defense was the "first to invent" – being an original and true inventor are all the bona fides that should be required – and should not matter whether the invention becomes publicly accessible upon commercialization or not.

Question #2:

As these post-grant review proceedings are implemented, what are the key things that need to be done to ensure that they serve as a strong alternative to costly district court litigation? And if you were the PTO director, what is the first thing that you would do to set these post grant programs on the right track for implementation?

Answer:

First, I will premise my answer with the assumption that Congress fixes the legislative error in the judicial estoppel provision relating to PGR, so that the estoppel imposed upon the patent challenger in a PGR does not extend to issues that "reasonably could have been raised." Without that legislative correction, the PGR provision will become a dead letter or nearly so. Other than the legislative correction that has not yet commenced, it is clear that the most important things that need doing are actually being done.

These procedures will require hiring of large numbers of administrative patent judges able to conduct the PGR/IPR proceedings and conclude them within the one-year time frame. The USPTO has provided the public with regular updates on its success in hiring new APJs. Thus, keeping to the current, and ambitious, hiring schedule is critical. Assuring that qualified individuals not only join the USPTO is likewise essential. It is important that those hired are well trained and can be retained. Given how much of the success of the PGR/IPR process depends on good judges, ones able to control the proceedings and bring them to correct resolution, success of the PGR/IPR efforts will depend upon adequate staffing within the APJ corps and retention of skilled personnel. For the foreseeable future, the quality, capacity, and trial-management capabilities of the APJ corps will become an ongoing priority for the USPTO.

Second, these proceedings need to work for both patent owners and patent challengers. For that to happen, the rules need to be finely tuned to deliver to the challenger a full and fair opportunity to challenge and to the patent owner a full and fair opportunity to defend the validity of a patent.

An example of the needed balance lies in the opportunities for discovery. It would be ideal if these procedures could operate fairly without the need for any discovery whatsoever. While that is obviously not possible, it is possible for these proceedings to operate fairly with very limited and tightly controlled discovery.

The best proposal that I have seen thus far for appropriately limiting discovery, to what is essential to produce a fair proceeding for patent owner and patent challenger, is a regime providing for a limited set of initial disclosures by the patent challenger and the patent owner – largely to prevent either from withholding information that would refute or otherwise be

inconsistent with the affirmative evidence each would offer in support of their respective contentions – coupled with a limited right to take deposition testimony of individuals providing evidence, factual or expert.

This limited set of initial disclosures and other discovery would be accorded to both parties as a matter of right, leaving any further discovery to a showing that the interests of justice so require.

Third, it is important, wherever possible, to treat these proceedings as *adjudications*, not *examinations*. The statute limits the right to amend patent claims. While claim amendments in these proceedings will often result in their early resolution, as the patent owner volunteers amendments to narrow the scope of the patent, providing unlimited opportunities to amend can make the patent a moving target for the patent challenger. Perhaps of equal importance is construing patent claims as a matter of law and *not* using the so-called "broadest reasonable construction" that a patent examiner would employ during an examination or reexamination to tease out the final wording that the examination was prepared to accept as patentable.

There can be any number of *possible constructions* of each of the many terms that are typically to be found in a single patent claim and it would be unfortunate if patent challengers in a PGR were to be able to advance numerous *possible constructions* of claim terms as *reasonable constructions* as a launching pad for invalidity contentions, when – in other adjudicatory contexts – the nonsense is avoided given the ability of the judge to simply inform the parties of the proper construction of the patent claim as a matter of law.

The USPTO can best serve the public interest by permitting the patent challenger to offer a claim construction as a basis for its invalidity contentions for the claim and then having the patent owner disagree with that construction and propose a more narrow construction if needed to sustain validity – that thereafter would bind the patent owner in any patent litigation if accepted by the APJ – as a limitation on the scope of the patent.

Fourth, the one-year time limitation needs to be the overarching guiding principle for the procedural aspects implementing PGR. It not only dictates limited opportunities to amend patent claims and construing patent claims as a matter of law, as well as tightly prescribing discovery, but it also means that these proceedings should have an adjudicatory mission that is tightly defined at the outset.

Since patentability under the AIA no longer depends on anything that the inventor knew or did (or did not know or did not do), but merely what is objectively provided in the patent disclosure – and prior art is limited to publicly accessible information as of the time of the patent filing – the patent challenger, from publicly available information, should be able to present to the USPTO in its PGR petition any patent invalidity issue that might be found. These proceeding could easily careen out of control if new issues, new prior art and new grounds of validity are added to a PGR/IPR once instituted.

Fifth and finally, experience will be the best teacher for how best to operate both PGR and IPR. What I have offered above is, I am convinced, the best recipe the Director might

undertake for getting them off to a good start. However, I cannot pretend to have nearly the expertise available to me in making these suggestions that Director Kappos has available to him – as he assumes the final responsibility for the decisions being made.

What is of overarching importance in the current run-up to implementation is the rulemaking as the beginning of a multi-year process to bring the new PGR/IPR procedures up and running in a fair and efficient manner. For the next several years, the USPTO will be in a "conduct and learn" mode. Experience will be the best teacher on how to undertake the necessary refining and optimizing of the rules and their administration that will be needed.

Question #3:

Why are prior user rights beneficial to U.S. manufacturers and thus beneficial to job creation in the U.S.? Why is it important that U.S. companies here enjoy the same protections that exist for prior user rights in other countries?

Answer:

The United States will best respond to its global competitiveness issues by having a strong system of intellectual property rights protections. That said, strong IP systems are also balanced ones. Given that patent rights are exclusionary rights – granted in broad terms – it necessarily follows that some balancing points do and should exist.

One balance point is the so-called "experimental use" exemption from patent infringement. The National Academies have now twice proposed that a statutory exemption relating to experimental uses of a patented invention be placed into the law. This is an area of reform that could not be accomplished as part of the AIA, but hopefully can find its way onto a future patent reform agenda.

In brief, such a defense would protect domestic R&D activities against patent infringement charges where the experimentation on the patented invention was directed to better understanding the invention, or to investigating how it operated, or to developing improvements to the invention. Such an experimental use exemption would encourage this type of research to be conducted in the United States. The absence of any statutory research exemption under U.S. patent law can drive some basic research on patented technologies overseas – where experimental use is not an act of patent infringement.

The prior-user defense provides to the prior domestic commercial user of a patented invention exactly the same type of protective measure from charges of patent infringement, but with respect to patents sought after the prior-user's commercialization began (or its substantial preparations for the commercialization were completed). The defense applies only to these types of belatedly sought patents and limits them so that the domestic entities, whose prior U.S. commercialization activities can be established through clear and convincing evidence, can continue them. U.S.-based manufacturing plants that were built in ignorance that a patent would later be sought to cover technology within the plant, are faced with shutdown or excessive royalty demands to keep them in operation.

Given how these rights operate under foreign laws to protect foreign-operating companies in their home markets, it simply makes no patent sense for the U.S. patent law not to provide U.S.-operating entities the same type of protection for their U.S.-located manufacturing facilities, which are an important source of high-quality U.S. jobs.

Question #4:

Do the PTO's proposed rules regarding supplemental examination discourage its use, and potentially expose patent owners to future litigation?

Answer:

Supplemental examination was crafted to improve the quality of issued patents and to make patents more reliably enforceable. It was designed to offer the patent owner the opportunity to have information considered, reconsidered or corrected in the record before the USPTO on which the patent was granted. It was equally designed for the USPTO to assure that, based on the information considered, reconsidered or corrected, that the patent remained valid or, if not, that invalid patent claims could be canceled or amended. The public has the benefit of a patent twice examined by the USPTO and with claims twice confirmed as valid and the patent owner has the benefit that the enforceability of its patent cannot be challenged because the information considered, reconsidered or corrected in the supplemental examination had not been considered or considered adequately in the original examination of the patent.

The originally proposed USPTO rules limited a supplemental examination request to an arbitrary 10 items of information, notwithstanding that the statute imposed no such limit and the limit might force a patent owner to file multiple, cross-referencing requests for supplemental examination to have all issues addressed. Moreover, it is a complex structure for submitting the information with the necessity for the patent owner to engage in much speculation that could subject the patent owner to later challenges in litigation that the information provided in the supplemental examination petition was incomplete or misleading to the USPTO.

Lilly submitted extensive comments to the USPTO relating to these and other issues and proposed a possible path forward in the rulemaking to address these issues and other issues. These comments now appear on the USPTO website. In brief, Lilly urged that the new statutory provision is relatively clear and concise on what the new procedure is to require the Office to do in assessing the need to reexamine a patent pursuant to a supplemental examination request. Hopefully, the final rules will clearly set out what the USPTO needs to conduct an efficient and thorough supplemental examination and request what is needed from applicants in a clear and straightforward set of rules – and seek no more than such efficiency and thoroughness would demand.

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES HOUSE OF REPRESENTATIVES

Hearing on Implementation of the Leahy-Smith America Invents Act
(Pub. Law 112-29)

May 16, 2012

Answers of Eliot D. Williams

On Behalf Of

The Financial Services Roundtable (FSR),
The American Bankers Association (ABA)
The American Insurance Association (AIA),
The Independent Community Bankers of America (ICBA),
NACHA – The Electronic Payments Association,
The National Association of Federal Credit Unions (NAFCU), and
Credit Union National Association (CUNA)

To The Written Questions Offered By Chairman Smith

Question 1

Mr. Williams, can you explain to us the importance of the transitional program for business method patents, and why it is essential for the program's success to have sufficient flexibility, creating a program that can be used by all industries and for all non-technological business method patents that have some type of business or commercial orientation?

The importance of the transitional review program cannot be overstated. The program will reduce the burden placed on courts and the economy by providing a cost-effective and quick administrative adjudicative process for reviewing business method patents of questionable validity.[1] When properly implemented, the transitional program for business method patents will permit businesses acting in good faith to avoid the substantial time, expense, and distraction of litigation in the federal district courts -- permitting those companies to redeploy these resources toward economically productive ends, such as capital investment, innovative research and development activities, and job-creation.

This is especially important in the case of non-technological business method patents. Although the patent office may occasionally issue defective patents in any technology area (a reality previously recognized by Congress in 1980, when it enacted revisions to the patent laws allowing the patent office to reevaluate any issued patent when potential invalidity issues were brought to its attention),[2] business method patents have proven to be particularly susceptible to errors during the patent application process.[3] One reason for this is that the most pertinent prior art applicable to business method patents is often found in non-traditional locations, and is therefore difficult or impossible for patent office examiners to uncover during the original application process.

Accordingly, to ensure that valuable economic resources are not improperly directed to litigating the validity of problematic business method patents in court, it is vitally important that the transitional business method program is implemented in a broad and flexible manner to ensure that the program is available to any company whose products or services are accused of infringing a business method patent of suspect validity.

Question 2

Why is it important for the definition of what is "technological," in the business method patent program, to have enough flexibility to ensure that holders of weak or frivolous patents can't escape the program through creative drafting or legal tricks?

A flexible definition for "technological" in the business method patent program is important because it ensures that the Congressional purpose of the program is effected, by focusing on the substance of the purported invention rather than formalities. Without flexibility in applying review, clever lawyers will be able to draft patent claims that escape substantive review merely by reciting well-known prior art structures, such as software, hardware, or other elements in the patent claims.[4]

A flexible interpretation will also serve the goal of ensuring that as many problematic business method patents as possible are subject to review in the transitional program. As Director Kappos previously testified, it is more damaging to our economy when invalid patents evade

reexamination in the patent office because the bar for reexamination eligibility was set too high than when a reexamination of a valid patent is conducted.[5]

Similarly, patentees should not be concerned about a flexible definition of "technological." Congress included several procedural safeguards in the program to protect patentees, such as requiring that the patentee first take aggressive action against a petitioner or its customers by suing or charging them with infringement before the petition can be filed;[6] applying estoppel against a petitioner in subsequent litigation and subsequent proceedings against the Office;[7] and requiring a finding that the patent is "more likely than not invalid" before review can begin.[8] In short, owners of valid patents have nothing to fear from a robust and flexible business review program. To the contrary, the program is likely to strengthen valid patents, and simplify issues in, and thereby speed the resolution of, subsequent district court litigation -- benefiting patentees of valid patents.

Question 3

How can PTO best craft the rules for the business method patent program, to ensure that it errs on the side of including patents, requiring a patent holder that would like to be excluded to demonstrate that their invention is technological?

We recommend that section 42.304(a) of the proposed rules be revised to clarify that the petitioner need only make a *prima facie* showing (rather than "demonstrate") that the patent for which review is sought is a covered business method patent. Further, the definition of "technological invention" in section 42.301(b) should be amended by adding a new sentence to the end, as follows: "The burden of persuasion shall be on the patentee to show that claimed subject matter satisfies this definition."

These recommendations are well-supported in the text and legislative history of the AIA. First, the AIA specifically requires the Office, in prescribing regulations related to the post-grant review proceeding (including the transitional post-grant review proceeding for business method patents), to "consider the effect of any such regulation on the economy." AIA § 6(d); *see also* AIA § 18(a)(1). Here, as discussed previously, the economy would be benefited by erring on the side of including patents in the business method review program, rather than excluding them, so that potentially invalid patents cannot escape review under this program.[9] Second, the legislative history reveals that the Act's authors, including the Chairman of this Committee, intended the implementing regulations to be drafted to apply the business method review program "as broadly as possible."[10]

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[1] 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer)
[2] *See Paltex Corp. v. Mossinghoff*, 758 F.3d 594, 601-02 (Fed. Cir. 1984).
[3] *See eBay Inc. v. Mercexchange, L.L.C.*, 547 U.S. 388, 397 (Kennedy, J., concurring) (discussing the "potential vagueness and suspect validity of some of these patents").
[4] 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) ("Clever drafting of patent applications should not allow a patent holder to avoid PTO review.... Any other result would elevate form over substance.")

[5] *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).
[6] AIA § 18(a)(1)(B).
[7] AIA § 18(a)(1)(D); AIA § 6(d) (new 35 U.S.C. § 325(e)(1)).
[8] AIA § 6(d) (new 35 U.S.C. §§ 323, 324(a).
[9] *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).
[10] *See* Letter from Rep. Lamar Smith to Sens. Kyl, Schumer, Leahy, and Grassley (Sep. 8, 2011) ("This program was designed to be construed as broadly as possible and as [the] USPTO develops regulations to administer the program that must remain the goal.") 157 Cong. Rec. S7413-S7414 (daily ed. Nov. 14, 2011).

From Carl B. Horton
Questions Offered by Chairman Lamar Smith:

Question #1:

In a situation in which one person commercially uses an invention several months before anyone else has filed a patent for the invention or disclosed the invention, I think that we would all agree that the commercial user was almost certainly the first inventor of the invention. He, after all, put the invention into actual use well before he could have derived the invention from a later patent filing or disclosure. Unless the patent filer was slow in filing for a patent, it is almost inevitable that the party that commercially used the invention several months earlier was the first and true inventor.

I would like to ask your views about the following scenario: assume that the first inventor of an invention never files for a patent, but instead diligently commercializes the invention, and makes the invention accessible to the public – in effect, he gives away the idea for free when he sells his product.

Now assume that another inventor files for a patent for the same invention just before the first inventor commercializes his product. Under the AIA, the first inventor's product would not be prior art against the second inventor's patent, since the product was not sold to the public before the patent's filing date. As a result, the second inventor's patent would be valid.

In such a scenario, in which the first inventor commercialized the invention and shared the idea with the public, free of charge, do you believe that the second inventor should be allowed to prevent the first inventor from practicing the invention?

Answer to Question #1:

In the scenario posited, yes.

The "first" inventor had the opportunity to file a patent application as envisioned by the patent system and initiate a process by which the invention would be made accessible to the public so that others could learn about and build upon it. This inventor chose not to use the patent system, and to instead dedicate the invention to the public by commercializing it. This inventor could have ensured that no later filed patent application could prevent the use of the invention by publicly disclosing the invention prior to starting the commercialization effort. Indeed, such disclosure would be consistent with the underlying Constitutional purpose of the patent system "To promote the Progress of ... useful Arts" by encouraging the prompt disclosure of technology.

It should be noted that the question of who was "first" to make an invention has no bearing on the answer. If the invention has not been publicly disclosed prior to the time an inventor files a patent application, the fact that another inventor was in the process of commercializing that invention is irrelevant. Of course, if the invention had been commercially used at least one year before the date the patent application was filed, the user would have a prior user right under 35 U.S.C. 273 to continue to use the invention.

Question #2:

As these post-grant review proceedings are implemented, what are the key things that need to be done to ensure that they serve as a strong alternative to costly district court litigation? And if you were the PTO director, what is the first thing that you would do to set these post grant programs on the right track for implementation?

Answer to Question #2:

The question refers to post grant proceedings which include both "Post-Grant Review" and "Inter Partes Review." Post-Grant Review is intended to allow members of the public to initiate an early and rapid process to remove or correct plainly invalid patents. In order for this procedure to be used, the estoppel provision which precludes a party that brings a Post-Grant Review from later raising any issue that "reasonably could have been raised" in later federal court litigation needs to be deleted. This change appears to have been made by staff charged with making technical corrections to the bill, who apparently assumed that the omission of could-have-raised estoppel in § 325(e)(2) was an oversight.

Additionally, the key to ensuring that both Post-Grant Review and Inter Partes Review proceedings are effective is for the implementing regulations to treat these proceedings as adjudicative proceedings consistent with the legislative intent of the AIA, rather than as enhanced examination proceedings. The proceedings must be efficient and fair and balanced for both patent owners and challengers. This means that -

• Petitioners, at the time of the petition filing, must be required to provide all evidence on which they will base their patent invalidity allegations, including the disclosure of all information otherwise relevant to their invalidity allegations, and

• Petitioners and patent owners must have the right to limited, assured discovery with a pre-defined right to proceed with depositions) so that these proceedings can operate with minimal oversight from administrative patent judges and with minimal procedural burdens on the participants.

• In deciding whether to institute the proceeding, and in making a final decision on the merits, the Director and Board should interpret the originally-issued patent claims as they would be interpreted in court, to ensure that they will be construed to be of the same scope both for purposes of assessing their validities, and for determining whether accused products fall within their scopes.

The Director should ensure that the determinations to initiate post grant proceedings reflect the intent of Congress that such proceedings should only be available to challenge plainly invalid patents. The AIA elevated the thresholds for implementing PGR and IPR proceedings, yet the current application of the IPR threshold (information that shows "there is a reasonable likelihood that the petitioner would prevail") has not appreciably reduced the rate of instituting inter partes reexaminations (where 95% of challenges were found to satisfy its "substantial new question of patentability"). Unless the Director

appropriately limits the challenges to patents as I outlined in my statement, the Office will be overwhelmed with post-grant proceedings and they could be misused by petitioners to harass inventors and impose undue burdens on the inventor community.

Question #3:

Why are prior user rights beneficial to US manufacturers and thus beneficial to job creation in the US? Why is it important that U.S. companies here enjoy the same protections that exist for prior user rights in other countries?

Answer to Question #3:

Prior user rights are beneficial to US manufacturers because they allow for the continued use of numerous processes, materials, and equipment in their manufacturing operations in the United States to produce products for sale here and abroad without the interruption that a subsequently issued patent could cause. A manufacturer may decide to keep an invention secret, particularly a valuable process or method innovation which could be used without detection by copyists, and make its benefits available to the public though commercialization. Without the right to continue the use of these inventions, a later inventor could obtain a patent in the United States and disrupt the operations of a U.S. company and the jobs of the workers involved. It should also be noted that patents owned by universities or technology transfer organizations whose primary purpose is to facilitate the commercialization of technologies developed by universities would not be subject to a prior use defense.

It is particularly important that U.S. companies have prior user rights to "level the playing field" with their foreign competitors. Prior user rights generally exist in the patent systems of countries throughout the world. Without a prior user right in this country, a foreign company could obtain a patent here and disrupt the production line of its U.S. competitor, but the reverse would not be true. The prior user rights in other countries would permit their manufacturers to continue operations without interruption, notwithstanding a patent obtained there by a U.S competitor. Without a prior user right in the United States, U.S. companies would be incentivized to establish foreign manufacturing facilities and export American jobs.

Question #4:

Do the PTO's proposed rules regarding supplemental examination discourage its use, and potentially expose patent owners to future litigation?

Answer to Question #4:

The proposed rules for requesting supplemental examination would, by imposing overly burdensome requirements (and also unnecessarily high fees), discourage its use. For example, the rules would require a statement, for each item of information submitted, whether it was not considered or inadequately considered, a detailed statement as to why consideration or reconsideration is being

requested, and would limit a request for supplemental examination to 10 items of information (for each request). These requirements are wholly unnecessary once it is established that an item of information was not adequately considered, giving rise to what appears to be a substantial new question of patentability, and will complicate the work of the Office in handling this procedure.

Further, the proposed rules would not grant a filing date to a request for a supplemental examination if the Office determines the request did not comply with all of the requirements set forth (even including the format of papers filed). By granting a filing date only when all the minor defects are timely corrected, the rules could result in a patent owner losing the protection otherwise available under a supplemental examination in the case of an intervening civil action or section 337 proceeding by delaying the conclusion of such supplemental examination – which is the critical date for obtaining such protection.

In addition, by requiring a statement for each item of information submitted why it was not considered or inadequately considered, together with a detailed statement as to why consideration or reconsideration is being requested, the proposed rules would expose patent owners to future litigation. Such statements and submissions will provide a basis for others to attack the validity and/or enforceability of the patent.

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ConocoPhillips
Thierry Sueur
Air Liquide
James J. Trussell
BP America, Inc.
Cheryl Tubesh
J.M. Huber Corp.
Roy Waldron
Pfizer, Inc.
Michael Wallace
DuPont
BJ Watrous
Apple Inc.
Stuart Watt
Amgen, Inc.
Paul D. Yeager
Abbott Laboratories

General Counsel
Michael D. Nolan
Milbank, Tweed, Hadley & McCloy, LLP

Executive Director
Herbert C. Wamsley

June 20, 2012

Chairman Lamar Smith
Committee on the Judiciary
U.S. House of Representatives
2138 Rayburn House Office Building
Washington, DC 20515-6216

Dear Chairman Smith,

Thank you again for the opportunity for Intellectual Property Owners Association (IPO) to testify at the Judiciary Committee hearing on the "Implementation of the Leahy-Smith America Invents Act" on Wednesday, May 16, 2012.

We also appreciate the opportunity to answer the three questions for the record which you sent to IPO on June 7, 2012. Please find the answers to your questions enclosed. Thank you for considering our responses. We welcome any further dialogue or opportunity to assist the Committee in the future.

Sincerely,

Kevin H. Rhodes
IPO Board of Directors

[Enclosure.]

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Question #1:

"In a situation in which one person commercially uses an invention several months before anyone else has filed a patent for the invention or disclosed the invention, I think that we would all agree that the commercial user was almost certainly the first inventor of the invention. He, after all, put the invention into actual use well before he could have derived the invention from a later patent filing or disclosure. Unless the patent filer was slow in filing for a patent, it is almost inevitable that the party that commercially used the invention several months earlier was the first and true inventor.

I would like to ask your views about the following scenario: assume that the first inventor of an invention never files for a patent, but instead diligently commercializes the invention, and makes the invention accessible to the public – in effect, he gives away the idea for free when he sells his product.

Now assume that another inventor files for a patent for the same invention just before the first inventor commercializes his product. Under the AIA, the first inventor's product would not be prior art against the second inventor's patent, since the product was not sold to the public before the patent's filing date. As a result, the second inventor's patent would be valid.

In such a scenario, in which the first inventor commercialized the invention and shared the idea with the public, free of charge, do you believe that the second inventor should be allowed to prevent the first inventor from practicing the invention?"

IPO's Response to Question #1:

IPO believes that in the scenario described in Question #1, the second inventor (which we believe is better described as the first inventor to file) should be allowed to prevent other parties from practicing the invention, except for certain prior commercial users.

As a general rule, a first inventor to file should possess exclusive rights in the invention. The first inventor to file system enacted by Congress in the AIA was a fundamental improvement in patent law over the first to invent system that was used only in the United States before the AIA. The first to invent system caused uncertainty and delay. Often it is not easy to determine which party was the first to invent.

The prior user defense in section 273 of the Patent Act, as amended by the AIA, also was an important improvement in patent law. It allows an inventor to continue practicing his invention if he placed the patented invention into commercial use in the U.S. at least one year before the effective filing date or public disclosure by the first inventor to file. In fact, when IPO's Board of Directors last looked at the issue in 2007, IPO supported a broader prior user rights defense that would have been triggered by substantial and effective preparation for commercial use and would have removed the one-year before filing or disclosure requirement. A prior user would still have had to commercially use the invention before the patent's filing date, however, to be entitled to the defense. Since enactment of amended section 273 in the context of the AIA as a whole, IPO has not

reconsidered the scope of the prior user defense. Thus, at this time IPO cannot express a view as to whether it would still favor further broadening of the prior user defense.

A prior user defense of proper scope encourages early disclosure of inventions while balancing the needs and rights of inventors and manufacturers who prefer to maintain inventions as trade secrets. As such, the broadened prior user defense enacted by amended section 273 is a significant improvement to U.S. patent law.

Question #2:

"As these post-grant review proceedings are implemented, what are the key things that need to be done to ensure that they serve as a strong alternative to costly district court litigation? And if you were the PTO director, what is the first thing that you would do to set these post grant programs on the right track for implementation?"

IPO's Response to Question #2:

We would like to highlight three main recommendations from our testimony for ensuring the USPTO's new post-grant review proceedings serve as an effective alternative to costly district court litigation.

First, in order for the post-grant review proceedings to serve as a strong alternative to district court litigation, IPO believes that the PTO must adopt the same claim construction that would be applied in district court litigation "*Markman*" or claim construction hearings. As such, all relevant intrinsic evidence, including the claim language, specification and prosecution history, should be considered in construing the claims, as well as extrinsic evidence, which may be of importance if it supports a construction consistent with the intrinsic evidence.[1]

In its proposed rules, the PTO contemplates using a different standard of claim construction. However, as stated in the House Judiciary Committee Report, post-grant review proceedings are intended to serve as viable alternatives to litigation, and presumably encompass procedures more similar to district court litigation of patent claims than patent examination in the PTO. If post-grant review proceedings and district court litigation employ two different standards of claim construction, there is a risk of inconsistent results, whereby the patent owner will be faced with a broader construction in the validity review and a narrower construction in the infringement action. Nothing in the AIA suggests such an intent to saddle patent owners with such a double standard or tip the scales in favor of accused infringers.

Second, petitioners seeking post-grant review proceedings should not be entitled to the opportunity to submit "supplemental information" other than rebuttal evidence[2] following institution of a post-grant proceeding. The AIA's reference to the "submission of supplemental information" is consistent with this view, as the AIA contemplates that the initial petition will serve as the

[1] *See Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (*en banc*).

[2] By "rebuttal evidence", IPO means evidence adduced during discovery responsive to the patent owner's response or evidence responding to the patent owner's motion to amend claims.

petitioner's main trial brief, disclosing the entirety of the petitioner's case and supporting information.

It is unfair to patent owners if the petitioner may introduce supplemental information after the proceeding is instituted. Due to the timing of post-grant procedures, the petitioner will have had substantial opportunity to prepare invalidity evidence and arguments before filing its petition. Forcing the patent owner to face new affirmative evidence of alleged unpatentability once the review has commenced, with such evidence potentially surfacing for the first time during the patent owner's limited period for discovery, would place an undue burden and hardship on the patent owner.

The petitioner should be required to submit as much information as possible up front, so that the administrative law judge is fully informed prior to making his or her decision to institute the post-grant proceeding. IPO notes that allowing supplemental information to be submitted by a petitioner after institution increases the risk of "sandbagging", where a petitioner might hold back some evidence to spring on a patent owner after the review is commenced, thereby further compressing the time for the patent owner to rebut the new evidence.

Third, IPO favors minimizing motions for discovery, miscellaneous motion practice and other procedural complexities requiring Patent Trial and Appeal Board (PTAB) oversight and involvement. We believe that this can be achieved by defining a clear and meaningful scope of discovery in the review procedures, including clear procedures for mandatory initial disclosures, coupled with automatic discovery that each party is entitled to take without seeking leave of the Board. We urge that such discovery take place under a standing scheduling order and believe that it would be most efficient if commenced automatically upon institution of a post-grant review proceeding.

IPO understands that some motions to the PTAB may be necessary; however, the rules should minimize collateral disputes by making clear a sufficient scope of document and deposition discovery that each party can take as of right. This lessens both the burden on the PTO as well as the burden on participants in terms of preparing for and participating in motion practice and other interactions with the PTAB.

Question #3:

"Why are prior user rights beneficial to U.S. manufacturers and thus beneficial to job creation in the U.S.? Why is it important that U.S. companies here enjoy the same protections that exist for prior user rights in other countries?"

IPO's Response to Question #3:

Both trade secrets and patents benefit U.S. manufacturers and the U.S. economy. A broad prior user rights defense creates a balanced, cooperative structure between trade secrets and patents.

Trade secrets are an important form of intellectual property protection that benefit U.S. manufacturers and are beneficial to job creation because:

- They are not limited in time;
- They do not require any application costs;
- They have an immediate effect;
- They do not require compliance with any formalities; and
- They do not require public disclosure.

Patents, of course, are also important to U.S. manufacturers and are beneficial to job creation in many ways, including:

- They allow an inventor to stop others from using the invention without authorization;
- They can allow the inventor to profit from the invention;
- They constitute an "asset" that can help the inventor raise investment funds; and
- They can enhance the valuation of the innovation.

Without prior user rights, many U.S. manufacturers may be forced to patent innovations that are best kept as trade secrets or may be unduly penalized by not having patented earlier inventions. Prior user rights, we believe, create a balance between trade secrets and patents that allows U.S. manufactures the greatest flexibility in determining which form of intellectual property rights is best to pursue.

A long-held IPO principle is ensuring that intellectual property systems apply without advantage or discrimination to all industries and all technologies. After passage of the 1999 American Inventors Protection Act, and prior to enactment of the AIA, prior user rights could be used only as a defense for business method patents.[3] IPO commends Congress for expanding the prior user rights defense in the AIA to be used by all technologies, not just business methods.

Regarding why it is important that U.S. companies enjoy the same protections that exist for prior user rights in other countries, the U.S. would be putting its own innovators and economy at a competitive disadvantage if we did not give our own companies the same rights as enjoyed by those overseas. In the modern global economy, many U.S. manufacturers face competition across the globe, making a level legal playing field of paramount importance. Given the general public policy benefits of prior user rights, it would make no sense to deprive our own innovators of the prior user defense, while non-U.S. innovators would enjoy those benefits in their home countries.

[3] American Inventor Protection Act of 1999, 35 U.S.C. § 273 (1999) (repealed and replaced by the Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 5, 125 Stat. 284, 297-99 (2011)).

Response to Question for Record Submitted by Ranking Member John Conyers
to Richard A. Brandon on June 7, 2012

"You discussed the issue of the grace period for university researchers during your testimony. Can you expand upon why this one-year window between public disclosure and filing for a patent is so crucial to maintain and protect?"

Response:

A primary mission of research universities is the discovery of new knowledge through the conduct of fundamental research. University researchers disseminate this knowledge principally through publication in peer-reviewed scholarly journals and through presentations at academic conferences.

University research often produces discoveries that may lead to patentable inventions that can be developed into valuable new products and processes that benefit society. Before filing a patent application, however, universities often need time to consider the potential commercial application of such fundamental research discoveries, which may not be obvious at the point of discovery, and to assess the receptivity within the commercial sector to licensing any resultant patent for development. Moreover, the budgetary limitations on non-profit universities often constrain the resources they can devote to rapid filing of fully developed patent applications.

An effective one-year grace period will support early disclosure of university discoveries and prevent others from appropriating those discoveries and turning them into patent applications during the time that universities are assessing the receptivity to licensing within the commercial sector.

Such a grace period should provide that if a patent applicant first publishes an invention and then a third party subsequently publishes an obvious variant of the invention, the obvious variant should not be prior art to the applicant's invention as long as the applicant files a patent application within one year of publication of the invention. Universities had understood that the grace period included in the America Invents Act (AIA) prevented such obvious variants from being prior art. That interpretation of the AIA grace period language is being called into question, necessitating an amendment to remove that ambiguity.

The grace period also should not have new constraints attached. For example, an applicant taking advantage of the grace period should be permitted to file a provisional application -- as was the case under prior law -- because, among other problems, requiring a utility filing: (a) would shorten the term of patents held by U.S. entities compared to the term for foreign entities (a primary reason for the 1995 Uruguay Round legislation); (b) would unnecessarily increase an applicant's prosecution costs due to the more complex prosecution that would be required; and (c) would waste PTO resources because applicants will likely file many more utility applications requiring action by the

PTO, only to be abandoned later. Further, requiring an applicant to disclose its pre-filing activities in order to take advantage of a potential grace period will unduly burden universities and small entities, by increasing the cost of filing and prosecuting applications. We would be happy to provide further input on these points.

In conclusion, in the absence of an effective grace period, university researchers will be discouraged from publishing the results of research that may lead to patentable inventions, undermining the university mission of broad dissemination of new knowledge and depriving the public of early access to that knowledge.

THE FINANCIAL SERVICES ROUNDTABLE
Financing America's Economy

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November 15, 2011

Submitted Via Electronic Mail: aia_implementation@uspto.gov

Attention: Janet Gongola
Patent Reform Coordinator
United States Patent and Trademark Office
Alexandria, VA 22313

Re: Preliminary Comments of The Financial Services Roundtable Regarding Implementation of The Transitional Program For Business Method Patents Under Section 18 of the Leahy-Smith America Invents Act

The Financial Services Roundtable ("The Roundtable") thanks the United States Patent and Trademark Office (the "Office") for this opportunity to provide preliminary input on the implementation and proposed rulemaking relating to Section 18 of the Leahy-Smith America Invents Act ("AIA"), which creates a transitional review program for covered business method patents (the "program").

Background of the Transitional Review Program

The importance of the transitional review program for covered business methods to the overall purpose of the AIA cannot be overstated. The program ensures that "businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent" of questionable validity in court by creating "a less costly, more efficient alternative to . . . abusive litigation." 157 Cong. Rec. S5408, S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle). *See also* 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting that the program will "reduce the burden placed on courts and the economy" by providing a "temporary administrative alternative for reviewing business method patents").

Accordingly, it is important that the scope of the program be defined to ensure the Congressional purpose of the provision is effected, and that patents not escape review under the program due to artful claim drafting. *See* 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) ("Clever drafting of patent applications should not allow a patent holder to avoid PTO review. . . . Any other result would elevate form over substance.").

Comments On Implementation of the Transitional Review Program

The AIA defines a "covered business method patent" that is subject to review under the transitional review program as follows: "a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions." AIA § 18(d)(1). The AIA gives the Director authority to promulgate

regulations for generally establishing and implementing the program and specifically for determining whether a patent is for a "technological invention" and therefore ineligible for review. AIA §§ 18(a)(1), 18(d)(2).

The Roundtable submits the following specific comments for the Office's consideration as it prepares any proposed rulemaking or guidance for determining whether a patent to be reviewed under the transitional review proceeding is a "covered business method patent."

1. A Patent is Eligible For Review if it Covers an Activity that is Financial in Nature or is Ancillary thereto

The program is intended to be available for review of any patent that is asserted against a "financial product or service." "At its most basic, a financial product is an agreement between two parties stipulating movements of money or other consideration now or in the future." 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

Specific types of included "financial products or services" mentioned in the legislative history include: (1) activities related to extending and accepting credit, (2) deposit-taking activities, (3) selling, providing, issuing or accepting stored value or payment instruments; (4) financial data processing; (5) administration and processing of benefits; (6) insurance products and services; (7) collecting, analyzing, maintaining or providing consumer report information or other account information; and (8) securities brokerage, investment transactions and related support services, among others. 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

Further, the AIA's definition of "covered business-method patent" is not limited to those patents that can be applied directly to the financial product or service itself. Rather, the text of section 18(d)(1) provides that a patent is also eligible for review if it can be applied to the "practice, administration, or management" of a financial product or service:

> This language is intended to make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service. In addition to patents covering a financial product or service, the ``practice, administration and management" language is intended to cover any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing.

157 Cong. Rec. S1363, S1365 (daily ed. March 8, 2011) (statement of Senator Schumer).

Section 1843(k)(3) and 1843(k)(4) of Title 12 of the U.S. Code provides the Office a statutory definition of activities that are financial in nature or incidental thereto.

The best source of information regarding whether a patent is a "covered business method patent" is likely to be materials submitted by the requestor showing "how the patent has been asserted" by the patentee. 157 Cong. Rec. S1368, S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). Therefore, even if it is "unclear on the face of the patent whether it relates to a financial product or service" there should be a strong presumption that the patent is a covered business method patent if it is asserted against a financial services company.[1] *Id. See also id.* at S1364, S1365 (statement of Sen. Schumer) ("if a patent holder alleges that a financial product or service infringes its patent, that patent shall be deemed to cover a 'financial product or service' … regardless of whether the asserted claims specifically reference the type of product [or] service accused of infringing"); 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer) (noting that "if a patent is allegedly being used by a financial services company, the patent will qualify").

It is important to look at "how the patent has been asserted" because to satisfy the definition of a covered business-method patent, "the patent need not recite a specific financial product or service. Rather the patent claims must only be broad enough to cover a financial product or service." 157 Cong. Rec. S1363, S1365 (daily ed. March 8, 2011) (statement of Sen. Schumer). Many of the business-method patents that apply to financial products or services are written so broadly that they apply to transactions in every conceivable industry. Obviously, Congress did not intend for business-method patents to be able to evade review simply by becoming so broad and vague that they do not specifically reference any particular industry.

While most of the patents that cover an activity that is financial in nature or ancillary thereto will be in class 705, a number of such patents can be found in classifications other than 705. John J. Love & Wynn W. Coggins, *Successfully Preparing and Prosecuting a Business Method Patent Application* (presented at AIPLA Conference Spring 2001) ("not all business method claims are classified in Class 705"); John R. Allison & Starling D. Hunter, On the *Feasibility of Improving Patent Quality One Technology at a Time: The Case of Business Methods*, 21 Berkeley Tech. L.J. 729, 731 (2006) (noting that a number of business method patents can be found in classes other than 705). Accordingly, the fact that a patent is not in class 705 is not dispositive as to whether the patent is eligible for review under the program.

Even if a patent covers activities that are financial in nature or ancillary thereto, it may nevertheless be excluded from review under the program if it is a "technological invention," as discussed below. Nonetheless, there should be a strong presumption that a patent in class 705 is eligible for review under the program.

2. <u>The "Technological Invention" Exception Should Be Properly Defined</u>

Consistent with the importance of the transitional review program to the purpose of the AIA, the exclusion for "Technological Invention" should be defined so that suspect patents do not escape review under the program simply by including software, hardware, or other

[1] The program is not limited, however, to patents asserted against financial services companies. Rather it applies to "[a]ny business that sells or purchases goods or services" because those businesses practice or administer a financial service when they conduct a transaction, and is not limited to petitions brought by a financial service company. 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); *see also* 157 Cong. Rec. S5441 (daily ed. Sep. 8, 2011) (statement of Sen. Leahy).

technological elements in the patent claim language, while protecting true technological inventions from review under the transitional program. This is consistent with the legislative history. *See* 157 Cong. Rec. H4497 (daily ed. June 23, 2011) (statement of Rep. Smith) ("The technological invention exception does not exclude a patent simply because it recites technology"); 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) ("the recitation of computer hardware, . . . software, . . . databases, specialized machines, such as an ATM or point of sale device, or other known technology, does not make a patent a technological invention.").

Accordingly, it is inappropriate to construe "Technological Invention" so broadly as to exclude from the transitional review program all but those patents assigned to particular art unit(s) and/or particular class(es) of the U.S. Patent Classification System. Indeed, Congress addressed this topic directly in the legislative history. *See, e.g.* 157 Cong. Rec. S5410 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer) ("after the bill passed the Senate, it became clear that some offending business method patents are issued in other sections [beyond class 705]"); 157 Cong. Rec. S1368, S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (discussing patent "assigned to the class of cryptography" and a patent "assigned to Class 705" and nothing that both "are obviously business method patents").

We do, however, expect that many patents to be reviewed under the program will be in class 705, and that for ease of administration of the program, a patent classified in Class 705 should be presumed to fall outside the "technological invention" exception, and therefore eligible for review under the program. The burden should be on the patentee to overcome this presumption in any preliminary response to the petition submitted pursuant to 35 U.S.C. § 323. This approach is fully consistent with the intent of the statute and the legislative history discussed above.

If a patent is not classified in Class 705, to determine whether a patent is a "technological invention" the Office should review the claimed subject matter as a whole to determine whether it: (1) recites a technological element (*i.e.* a structural element or technological component) that is an advance over the prior art; (2) solves a technical problem; and (3) solves the technical problem using a technical solution. This approach is consistent with the legislative history. 157 Cong. Rec. H4497 (daily ed. June 23, 2011) (statement of Rep. Smith) ("technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution"); 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting the "exception only excludes those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution"); 157 Cong. Rec. S1368, S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (noting the Office may "recognize a business-method patent as such despite its recitation of technological elements that are not colorably novel and non-obvious . . . if a technological element in a patent is not even assertedly or plausibly outside of the prior art, the Office should not rely on that element to classify the patent as not being a business-method patent.").

In implementing this test, we suggest the following guidance for determining whether subject matter is a "technological invention."

The following claim techniques should not render a patent a "technological invention":

- Mere recitation of known technologies, such as "computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases, specialized machines, such as an ATM or point of sale device." 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. S5428 (daily ed. Sep. 8, 2011) (statement of Sen. Coburn) (noting the exception "does not exclude a patent . . . simply because it recites technology")

- Reciting the use of known prior art technology to accomplish a process or method, even if that process or method is novel and non-obvious. 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. S1368, S1379 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) ("when patents . . . recite[] elements incorporating off-the-shelf technology or other technology 'know[n] to those skilled in the art,' that should not preclude those patents' eligibility for review under this program"); 157 Cong. Rec. S5428 (daily ed. Sep. 8, 2011) (statement of Sen. Coburn) (noting the exception does not exclude techniques that "use known technology to accomplish a novel business objective")

- Combining prior art structures to achieve the normal, expected or predictable result of that combination. *See* 157 Cong. Rec. S1363, S1364 (daily ed. Mar. 8, 2011)(statement of Sen. Schumer) ("a patent is not a technological invention because it combines known technology in a new way to perform data processing operations."); 157 Cong. Rec. S5429, S5431 (daily ed. Sep. 8, 2011) (statement of Sen. Kyl).

The Roundtable recognizes that there may be ambiguity in implementing the technological invention exception. In resolving that ambiguity, the Office should place the burden of persuasion on the patentee to show that the patent is a "technological invention," and should err in favor of permitting review of the patent under challenge. This is consistent with the statutory framework and legislative history of the AIA for the following reasons:

First, Congress included several procedural safeguards that protect patentees. For instance, a patent is not subject to review unless and until the petitioner has been sued or charged with infringement under that patent. AIA § 18(a)(1)(B). Moreover, estoppel applies against the petitioner in subsequent litigation (AIA § 18(a)(1)(D)) and in subsequent proceedings in the Office (AIA § 6(d) (new 35 U.S.C. § 325(e)(1)). In addition, a patent that is "eligible" for review must be determined to be "more likely than not invalid" before a review is initiated by the Office, and the patentee will have an opportunity to submit arguments opposing institution of the proceeding before that decision is made. AIA § 6(d) (new 35 U.S.C. §§ 323, 324(a)). Finally, the procedure is quick and efficient, typically terminating in twelve months, and therefore will not substantially disrupt a patentee's ability to assert its patent. AIA § 6(d) (new 35 U.S.C. § 326(a)(1)).

Second, the AIA specifically requires the Office, in prescribing regulations related to the post-grant review proceeding (including the transitional post-grant review proceeding for business method patents) to "consider the effect of any such regulation on the economy." AIA § 6(d) (new 35 U.S.C. § 326(b)); *see also* AIA § 18(a)(1). Notably, during the House Judiciary

Hearings on the AIA, Director Kappos testified that "it is more costly to our economy to have false negatives" (*i.e.*, it is more costly when patents escape post-grant review in the PTO). *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).

Third, the legislative history reveals that the Act's authors intended the Office to develop regulations to apply the program "as broadly as possible." *See* Letter from Rep. Lamar Smith to Sens. Kyl, Schumer, Leahy, and Grassley (Sep. 8, 2011) ("This program was designed to be construed as broadly as possible and as [the] USPTO develops regulations to administer the program that must remain the goal.").

Finally, this approach gives the Office a relatively easy test to administer when deciding whether a patent is eligible under the program, while giving full respect to the delicate balance Congress created in the statutory framework. For instance, it will ensure that the particular examples of covered business methods discussed in the legislative history will be eligible for review (*e.g.* transmitting and processing checks electronically, printing ad at the bottom of a billing statement; ordering something online but picking it up in person; getting a text when your credit card gets swiped, charitable fund-raising using a computer network), while excluding from review those purely technological inventions that might otherwise qualify as a "Financial Product or Service." *See e.g.* 157 Cong. Rec. S1379 (daily ed. Mar. 8, 2011)(statement of Sen. Kyl); 157 Cong. Rec. H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle); 157 Cong. Rec. H4496 (daily ed. June 23, 2011) (statement of Rep. Crowley).

3. Summary of Recommendations For Determining Eligibility Under the Program

The attached flow chart summarizes our suggested approach to determining eligibility under the program. A summary of the recommendations follows:

- **A patent is a covered business method patent if it can be applied to an activity that is financial in nature or ancillary thereto.**
- **The Office should give no deference to the particular statutory category (e.g. process, system, etc.) that the claim's language is crafted to literally invoke.**
- **Patents in all classifications are potentially eligible for review under the program.**
- **A patent classified in Class 705 should be presumed to be a "covered business method patent" and not a "technological invention."**
- **To determine whether a patent is a "technological invention" the Office should review the claimed subject matter as a whole to determine whether it: (1) recites a technological element (*i.e.* a structural element or technological component) that is an advance over the prior art; (2) solves a technical problem; and (3) solves the technical problem using a technical solution.**

- **In applying the technological invention test, the Office should err in favor of eligibility for the program.**

Conclusion

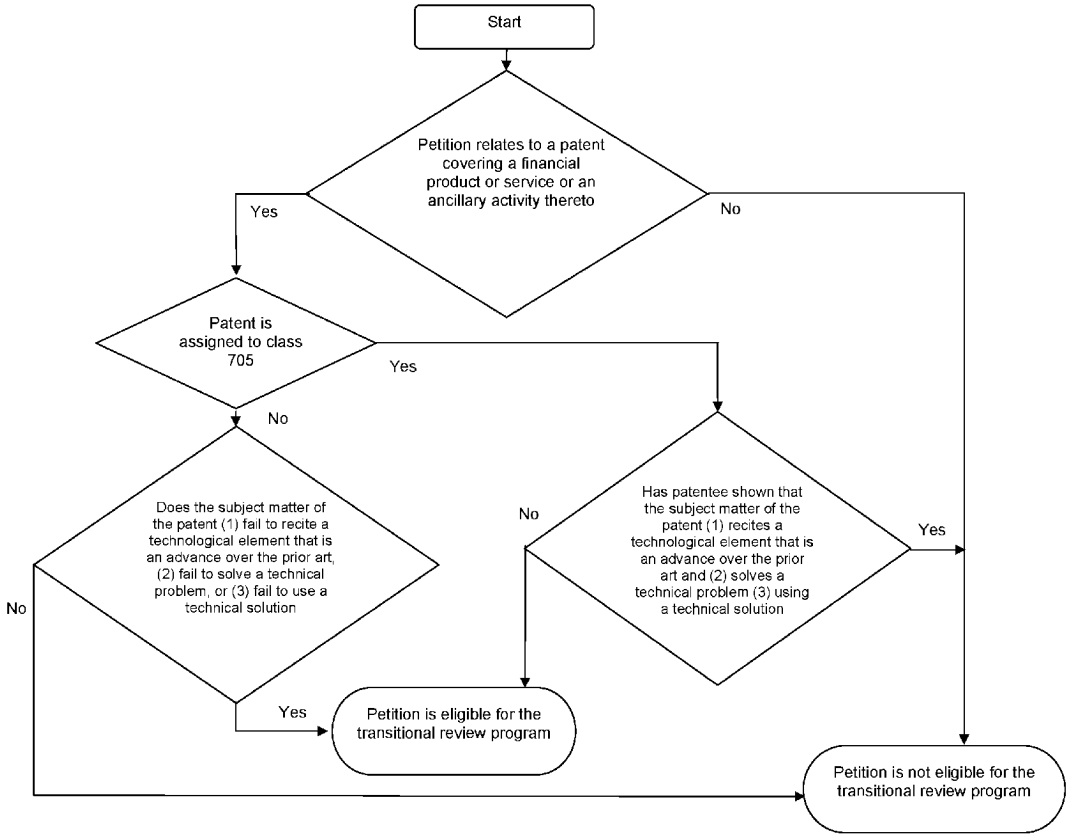
The Roundtable believes its proposed approach is consistent with the purpose of the program and the legislative history, would be relatively straightforward for the Office to administer, and would ensure the availability of a robust and efficient alternative to judicial review of the validity of business method patents. We look forward to working with the Office on the forthcoming rulemaking.

We thank the Office for the opportunity to provide our comments. If you have any questions, please feel free to contact me or Peter Freeman at (202) 289-4322.

Respectfully submitted,

Richard M. Whiting

Richard M. Whiting
Executive Director and General Counsel
Financial Services Roundtable


Start
Petition relates to a patent covering a financial product or service or an ancillary activity thereto
Yes
No
Patent is assigned to class 705
Yes
No
Does the subject matter of the patent (1) fail to recite a technological element that is an advance over the prior art, (2) fail to solve a technical problem, or (3) fail to use a technical solution
No
Yes
Has patentee shown that the subject matter of the patent (1) recites a technological element that is an advance over the prior art and (2) solves a technical problem (3) using a technical solution
No
Yes
Petition is eligible for the transitional review program
Petition is not eligible for the transitional review program

April 10, 2012

Submitted Via Electronic Mail:
TPCBMP_Rules@uspto.gov;
TPCBMP_Definition@uspto.gov; &
patent_trial_rules@uspto.gov

Attention: Lead Judge Michael Tierney, Covered Business Method Patent Review
United States Patent and Trademark Office
Alexandria, VA 22313

Re: Proposed Rulemakings Implementing The Transitional Program For Business Method Patents (PTO-P-2011-0082; PTO-P-2011-0085; PTO-P-2011-0087)

The Financial Services Roundtable, The American Bankers Association, The American Insurance Association, American Financial Services Association, The Clearing House Association, Consumer Bankers Association, Credit Union National Association, The Independent Community Bankers of America, Investment Company Institute, Mortgage Bankers Association, NACHA-The Electronic Payments Association, National Association of Federal Credit Unions, National Association of Mutual Insurance Companies, The New York Bankers Association, The Pennsylvania Bankers Association, The Securities Industry and Financial Markets Association, and SWACHA-The Electronic Payments Resource (collectively, hereinafter "Commenters")[1] submit these comments in response to the proposed rulemaking by the United States Patent and Trademark Office (the "Office") relating to Section 18 of the Leahy-Smith America Invents Act ("AIA"), which creates a transitional review program for covered business method patents (the "program"). In particular, these comments address the following proposed rulemakings: (1) Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions (Docket No. PTO-P-2011-0082); (2) Changes to Implement Transitional Program for Covered Business Method Patents (Docket No. PTO-P-2011-0085); and (3) Transitional Program for Covered Business Method Patents -- Definition of Technological Invention (Docket No. PTO-P-2011-0087).

Importance of the Transitional Business Review Program

As set forth in The Financial Services Roundtable's comments dated November 15, 2011, the importance of the transitional review program for covered business methods cannot be overstated. The program ensures that "businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent" of questionable validity in court by creating "a less costly, more efficient alternative to . . . abusive litigation." 157 Cong. Rec. S5408, S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); 157 Cong. Rec. H4429 (daily ed. June 22, 2011) (statement of Rep. Quayle). *See also* 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (noting that the program will "reduce the burden placed on courts and the economy" by providing a "temporary administrative alternative for reviewing business method patents").

[1] Additional information about the Commenters appears at the end of this letter.

Accordingly, it is important that the rules implementing the program be structured to ensure the Congressional purpose remains a distinctive aspect of the program. In view of that guidepost, we offer the following comments.

1. The Appropriate Fees Should Be Charged To Ensure An Effective Review Program (Proposed 37 CFR § 42.15(b))

Commenters strongly support the ongoing efforts of the Office and the Administration to "put[] patent quality first"[1] and believe that the transitional business review program is an important part of that initiative. In that regard, Commenters are supportive of a fee model that ensures the Office has sufficient resources for a sustainable and effective transitional business review program.

To ensure that the business method review program is broadly accessible to all entities against whom a covered business method patent has been asserted, Commenters suggest that the Office consider slight revisions to the fee model. First, Commenters recommend that the Office consider a staged fee -- imposing an initial fee due at the filing of a petition for business method review, and a subsequent fee due if the review is instituted. This is similar to the Office's current practice under 37 CFR § 1.16(a), (k) and (o) of staging filing, search and examination fees for utility patent applications. Second, Commenters also recommend that the Office consider reducing the fee for a business method review in instances where the petition is filed by a small (or micro) entity. Such a reduction may be appropriate to combat the possibility that owners of business method patents attempt to extract settlements from small entities using a settlement value that is based on avoiding the cost of filing a business method review.

2. The Burden Should Be On The Patentee To Show The "Technological Invention" Exception Applies (Proposed 37 CFR §§ 42.301(b), 42.304(a))

Commenters fully support the Office's proposed definition of "technological invention" (§ 42.301(b)). However, the text and legislative history of the AIA reveal that the Office should err in favor of permitting review of the patent under challenge, and therefore, the ultimate burden of persuasion should be on the patentee to show that the patent is a "technological invention." Accordingly, Commenters recommend that section 42.304(a) of the proposed rules be revised to clarify that the petitioner need only make a prima facie showing (rather than "demonstrate") that the patent for which review is sought is a covered business method patent.

Further, Commenters recommend that the definition of "technological invention" in section 42.301(b) be amended by adding a new sentence to the end, as follows: "The burden of persuasion shall be on the patentee to show that claimed subject matter satisfies this definition."

These recommendations are well-supported in the text and legislative history of the AIA. First, the AIA specifically requires the Office, in prescribing regulations related to the post-grant review proceeding (including the transitional post-grant review proceeding for business method patents), to "consider the effect of any such regulation on the economy." AIA § 6(d) (new 35 U.S.C. § 326(b)); *see also* AIA § 18(a)(1). Notably, during the House Judiciary Hearings on the

[1] See https://wwws.whitehouse.gov/petitions#!/response/promoting-innovation-and-competitive-markets-through-quality-patents.

AIA, Director Kappos testified that "it is more costly to our economy to have false negatives" (*i.e.*, it is more costly when patents escape post-grant review in the PTO). *America Invents Act: Hearing on H.R. 1249 Before the Subcomm. on IP, Competition, and the Internet of the H. Comm. on the Judiciary*, 112th Congress 52 (Mar. 30, 2011) (oral testimony of Hon. David J. Kappos, Director of the U.S. Patent and Trademark Office).

Second, the legislative history reveals that the Act's authors intended the Office to develop regulations to apply the program "as broadly as possible." *See* Letter from Rep. Lamar Smith to Sens. Kyl, Schumer, Leahy, and Grassley (Sep. 8, 2011) ("This program was designed to be construed as broadly as possible and as [the] USPTO develops regulations to administer the program that must remain the goal.") 157 Cong. Rec. S7413-S7414 (daily ed. Nov. 14, 2011).

Finally, we note that some other commenters have suggested that the Office should replace the proposed "technological invention" definition with a standard based on subject matter eligibility under section 101 – even suggesting that a proper petition under the business method review program must demonstrate that the patent was more likely than not invalid under 35 U.S.C. § 101, before review could proceed. That proposal is fundamentally flawed. As an initial matter, this proposal effectively eviscerates the purpose of the business method program which is to ensure that these patents are subject to a more "rigorous and thorough review" in view of the most pertinent prior art, which was not necessarily available to the Office during initial prosecution due to the "limited" nature of the "library or prior art on business method[s]" that was available to the Office in the initial wake of the *State Street* decision. 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer). In particular, the requirement that a petitioner establish invalidity under section 101 in the initial petition would essentially eliminate the need for a further review of the patent under the more pertinent prior art submitted with the petition, because the only patents that would qualify for the program under that proposal are ones that are more likely than not invalid under section 101. There would therefore be no need for the Office to further consider invalidity in view of the prior art. Moreover, had Congress intended the "technological invention" exception to be equivalent to an inquiry under section 101, it could have easily said so in the AIA; in fact, Congress explicitly refused to adopt that test. *See* AIA § 18(e) ("Nothing in this section shall be construed as amending or interpreting categories of patent-eligible subject matter set forth under section 101 of title 35, United States Code."). For these reasons, the proposal that the "technological invention" exclusion be replaced with an inquiry under section 101 should be rejected.

3. <u>There Should Be No Restriction on Requesting Business Method Patent Review Of First-To-Invent Patents During The Post-Grant Review Period (Proposed 37 CFR § 42.303)</u>

In the proposed rules, the Office has proposed that a petition requesting a covered business method review may not be filed "during the period in which a petition for a post-grant review of the patent would satisfy the requirements of 35 U.S.C. § 321(c)." 77 Fed. Reg. 7080, 7095 (proposed 37 CFR § 42.303). Commenters request that the Office reconsider this rule, as it is seemingly inconsistent with the statutory language in §18(a)(2) of the AIA.

In particular, Commenters suggest that proposed rule 42.303 be revised to read:

> 42.303 Time for filing. A petition requesting a covered business method patent review may be filed at any time, except that such a petition may not be filed to institute review of a patent issued from an application that has an effective filing date on or after March 16, 2013 during the period in which a petition for a post-grant review of such patent would satisfy the requirements of 35 U.S.C. 321(c).

As currently drafted, the proposed rule apparently precludes filing of a business method review of any patent (*i.e.* first-to-invent and first-to-file patents) within the first 9 months after that patent issues.[1] This, however, is inconsistent with section 18(a)(2) of the AIA, which specifies that the transitional business method review program is available to "***any covered business method patent***...***except*** that the regulations shall not apply to ***a patent that is described in section 6(f)(2)(A) of this Act*** during the period in which a petition for post-grant review of that patent would satisfy the requirements of section 321(c)..." (emphasis supplied). Thus, the statute makes the program available to all patents, except those patents described in § 6(f)(2)(A) during the post-grant review period. That section, in turn, is limited to patents described in AIA § 3(n)(1) (*i.e.*, those subject to the first-to-file provisions of the AIA). Therefore, the proposed rule appears to improperly preclude the use of the program to review covered business method patents that have an effective filing date prior to March 16, 2013 until at least 9 months have elapsed from issuance of such a patent.

Although the transitional business method review program generally employs the standards and procedures of post-grant review, there are important differences between the two proceedings. *See* AIA § 18(A)(1)(a) (specifying that 35 U.S.C. §§ (b), (e)(2), and (f) "shall not apply" to transitional business method proceedings). For instance, the scope of any subsequent estoppel differs (*cf.* 35 U.S.C. § 325(e)(2) *with* AIA § 18(a)(1)(D)), as do the considerations to be employed by a district court when considering whether to stay a litigation while a business method review is pending (*cf.* 35 U.S.C. § 325(b) *with* AIA § 18(b)). Accordingly, the transitional review program should be available for non-first-to-file patents, even within the first nine months of the grant of such patents.

4. <u>The Office Should Further Define "Charged With Infringement" (Proposed 37 CFR § 42.302(a))</u>

In the proposed rules, a petitioner may not file a petition seeking review under the transitional business method program unless that petitioner, its real party in interest, or a privy has been "sued for infringement of the patent or has been *charged with infringement* under that patent." 77 Fed. Reg. 7080, 7095 (proposed § 42.302(a)) (emphasis supplied). Commenters believe that further clarification of the words "charged with infringement" is advisable to make clear that there is no requirement that the patentee expressly use "magic words" such as "litigation" or "infringement" in its correspondence before a petitioner may invoke the program. *Cf. Arris Group Inc. v. BT*, 639 F.3d 1368, 1379 (Fed. Cir. 2011) ("a declaratory judgment action cannot be defeated simply by the stratagem of a correspondence that avoids magic words..."). Accordingly, Commenters believe that the Office should apply a test similar to that used in the district courts to determine whether declaratory judgment jurisdiction is present. *See*

[1] The only limitation on the filing of a post-grant review petition expressed in 35 U.S.C. § 321(c) is that the petition must be filed within 9 months of issuance of the patent. There is no apparent restriction in that Section that the patent to be reviewed must also be a first-to-file patent.

MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118 (2007). As recently stated by the Federal Circuit, declaratory jurisdiction is present:

> when the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality…[t]he dispute must be definite and concrete, touching the legal relations of parties having adverse legal interests, such that the dispute is real and substantial and admi[ts] of specific relief…

Arris Group Inc., 639 F.3d at 1373-74 (internal quotations omitted). As discussed above, this proposal is fully consistent with the text and legislative history of the AIA, which makes clear that the regulations implementing the business method review program are to be drafted so as to apply the program "as broadly as possible" because it is "more costly to our economy" when dubious patents escape review. *See supra* at 2-3.

5. The Office Should Interpret "Financial Product Or Service" Broadly In Accordance With the Purpose of the Program (Proposed 37 CFR §§ 42.301(a))

Commenters note that, as discussed in the comments submitted by The Financial Services Roundtable on November 15, 2011, the transitional business review program is intended to have broad applicability, and suggest that the Office interpret the definition of "Covered business method patent" in § 42.301(a) broadly, consistent with that intent.

In particular, the legislative history of the AIA discusses several specific types of "financial products or services" to be covered by the transitional business method review program, including: (1) financial data processing; (2) administration and processing of benefits; (3) insurance products and services; (4) collecting, analyzing, maintaining or providing consumer report information or other account information; and (5) securities brokerage, investment transactions and related support services, among others. 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). Moreover, the language in proposed rule 42.301(a), which comes from section 18(d)(1) of the AIA, explicitly makes eligible for review patents that can be applied to the "practice, administration, or management" of a financial product or service. The legislative history of that provision shows that the language was "intended to make clear that the scope of patents eligible for review under this program is not limited to patents covering a specific financial product or service" and was meant to "cover any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing." 157 Cong. Rec. S1363, S1365 (daily ed. March 8, 2011) (statement of Senator Schumer).

Commenters also support proposed rules 42.302 and 42.304(a), which properly reflect that a petition under the business method program can be invoked by any entity, as long as the disputed patent is asserted against a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service. *See* AIA § 18(d)(1). *See also* 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer); see also 157 Cong. Rec. S5441 (daily ed. Sep. 8, 2011) (statement of Sen. Leahy).

6. The Office Should Consider Accepting Petitions For Business Method Review Prior To September 16, 2012

In view of the importance of the transitional business method review program, Commenters encourage the Office to accept petitions for business method review prior to the effective date of the program pursuant to AIA § 18(a)(2) so that the Office can immediately begin consideration of those petitions as of September 16, 2012. No further rulemaking or revisions to the proposed rules should be required if the Office were to accept this proposal, although the Office may find it advisable to publish business method review filing parameters on its website, as contemplated by proposed rule 42.6(b)(1), several weeks prior to September 16, 2012. This procedure would allow practitioners to properly prepare and file petitions in advance of the effective date.

Conclusion

Commenters thank the Office for the opportunity to comment on the proposed rules, and for the Office's efforts in moving quickly to draft and implement regulations for this important program. If you have any questions, please feel free to contact Peter Freeman at (202) 289-4322.

Respectfully submitted,

The American Bankers Association
The American Insurance Association
American Financial Services Association
The Clearing House Association
Consumer Bankers Association
Credit Union National Association (CUNA)
The Financial Services Roundtable
The Independent Community Bankers of America
Investment Company Institute
Mortgage Bankers Association
NACHA-The Electronic Payments Association
National Association of Federal Credit Unions
National Association of Mutual Insurance Companies (NAMIC)
The New York Bankers Association
The Pennsylvania Bankers Association
The Securities Industry and Financial Markets Association (SIFMA)
SWACHA-The Electronic Payments Resource

Additional information about the Commenters:

The American Bankers Association represents banks of all sizes and charters and is the voice for the nation's $13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than $165 million in assets.

The American Insurance Association (AIA) is the leading property-casualty insurance trade organization, representing approximately 300 insurers that write nearly $100 billion in premiums each year. AIA member companies offer all types of property-casualty insurance, including personal and commercial auto insurance, commercial property and liability coverage for businesses, workers' compensation, homeowners' insurance, medical malpractice coverage, and product liability insurance.

Founded in 1916, the American Financial Services Association (AFSA) is the national trade association for the consumer credit and finance industry. AFSA's nearly 400 active member companies, which account for approximately $350 billion in outstanding consumer receivables, include auto finance companies, credit card issuers, mortgage lenders, and large and small consumer finance companies.

Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively employ over 2 million people and hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing—through regulatory comment letters, amicus briefs and white papers—the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost $2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the U.S. *See* The Clearing House's web page at www.theclearinghouse.org.

The Consumer Bankers Association ("CBA") is the only national financial trade group focused exclusively on retail banking and personal financial services — banking services geared toward consumers and small businesses. As the recognized voice on retail banking issues, CBA provides leadership, education, research, and federal representation for its members. CBA members include the nation's largest bank holding companies as well as regional and super-community banks that collectively hold two-thirds of the total assets of depository institutions.

CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,300 state and federally chartered credit unions and their 94 million members.

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers they serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever changing marketplace. With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold $1.2 trillion in assets, $960 billion in deposits, and $750 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of $13.3 trillion and serve over 90 million shareholders.

The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans.

NACHA manages the development, administration, and governance of the ACH Network, the backbone for the electronic movement of money and data. The ACH Network serves as a safe, secure, reliable network for direct consumer, business, and government payments, and annually facilitates billions of payments such as Direct Deposit and Direct Payment. Utilized by all types of financial institutions, the ACH Network is governed by the NACHA Operating Rules, a set of fair and equitable rules that guide risk management and create certainty for all participants. As a not-for-profit association, NACHA represents over 10,000 financial institutions via 17 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholders to enable innovation that strengthens the industry with creative payment solutions. To learn more, visit www.nacha.org, www.electronicpayments.org, and www.payitgreen.org.

Founded in 1967, the National Association of Federal Credit Unions ("NAFCU") exclusively represents the interests of federal credit unions before the federal government. Membership in NAFCU is direct; no state or local leagues, chapters or affiliations stand between NAFCU members and its headquarters in Arlington, VA. NAFCU provides its members with representation, information, education, and assistance to meet the constant challenges that cooperative financial institutions face in today's economic environment. NAFCU represents nearly 800 federal credit unions, accounting for 63.9 percent of total federal credit union assets and 58 percent of all federal credit union member-owners. NAFCU represents many smaller credit unions with limited operations as well as many of the largest and most sophisticated credit unions in the nation, including 82 out of the 100 largest federal credit unions.

NAMIC is the largest and most diverse national property/casualty insurance trade and political advocacy association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/ homeowners market and 31 percent of the business insurance market. NAMIC has been advocating for a strong and vibrant insurance industry since its inception in 1895.

The New York Bankers Association is comprised of 150 community, regional and money-center banks operating in New York State, with approximately 250,000 New York employees.

The Pennsylvania Bankers Association is the trade association representing commercial and savings institutions of all sizes throughout the Commonwealth of Pennsylvania.

The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

SWACHA-The Electronic Payments Resource®, is one of the largest not-for-profit regional payments associations in the country with approximately 1,100 members across the Southwest. SWACHA is the resource of choice for financial institutions and corporations in the areas of education, training, payments system risks and knowledge about electronic payments. For more information visit: Web: www.swacha.org; Facebook: www.facebook.com/bringingpaymentstogether Twitter: @SWACHA

Before the
United States Patent and Trademark Office
Alexandria, VA 22313

In the Matter of	)
	)
Implementation of the	)
Leahy-Smith America Invents Act	)
Public Law 112-29	)

PRELIMINARY COMMENTS OF GOOGLE INC.,
VERIZON COMMUNICATIONS INC., AND CISCO SYSTEMS, INC.
REGARDING IMPLEMENTATION OF
TRANSITIONAL POST-GRANT REVIEW OF BUSINESS METHOD PATENTS
UNDER THE LEAHY-SMITH AMERICA INVENTS ACT

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November 11, 2011

A. Introduction

In establishing post-grant and inter partes review procedures in Section 6 of the America Invents Act (AIA),[1] Congress recognized the harm to innovation caused by invalid patents and the need for an alternative to litigation to eliminate those patents.[2] Post-grant and inter partes reviews are intended to "provide a meaningful opportunity to improve patent quality."[3]

In Section 18 of the AIA, Congress further acknowledged that one particular category of patents – business method patents – raise such significant concerns about the burden that invalid patents of this type place on the economy that a transitional post-grant review proceeding is needed.[4] In contrast to post-grant review under Section 6, where only patents filed after March 16, 2013 can be challenged, the transitional program allows post-grant review of business method patents regardless of the filing date.[5]

Proper implementation of Section 18 is important because, as Congress recognized, business method patents have been highly controversial and the subject of extensive litigation and threats that place a drag on the economy by draining scarce resources from R&D activities. Business method patents are nearly seven times more likely to be litigated than other patents, and high litigation rates can be correlated with questionable validity and unclear claim scope.[6] Because firms consider litigation risk when deciding whether to invest in R&D, these patents can deter innovation.[7] For that reason, the Supreme Court has warned against the

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[1] Pub. L. 112-29, 125 Stat. 284 (2011).

[2] *See, e.g.,* H.R. Rep. 112-98 at 48, 87.

[3] H.R. Rep. 112-98 at 48.

[4] As Senator Charles Schumer stated in discussing the need for transitional business method program, "litigation over invalid patents places a substantial burden on U.S. courts and the U.S. economy." 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer); *see also* 157 Cong. Rec. H4497 (June 23, 2011) (Crowley) (business method patents have been "used to sue legitimate businesses and nonprofit business organizations . . . who engage in normal activity that should never be patented.").

[5] Compare AIA §§ 6(f)(2)(A) and 3(n)(1) with 18(a)(2).

[6] James Bessen & Michael J. Meurer, PATENT FAILURE, 22, 191 (2008).

[7] Id. at 130.

"potential vagueness and suspect validity" of business method patents[8] and the potential for an unduly low bar for patentability to "put a chill on creative endeavor and dynamic change."[9] Also recognizing the problem, Congress created the transitional program and gave companies an important tool to test the validity of business method patents through administrative review rather than spend millions of dollars in litigation.[10]

To administer the transitional program for business method patents, the Patent and Trademark Office ("PTO") must promulgate numerous governing regulations. The transitional program will employ many of the procedures of post-grant review as established by Section 6 of the AIA. Accordingly, the comments that we submitted regarding the procedural implementation of Section 6 are equally applicable to Section 18.[11]

But implementation of the transitional program raises additional issues that are specific to Section 18. In particular, the AIA allows only those persons who have been sued or "charged with infringement" of a "covered business method patent" to file a petition seeking to institute a transitional proceeding. This statutory text raises two definitional issues concerning eligible petitions that the PTO should address in implementing regulations:

- what constitutes being "charged" with infringement where there is no lawsuit; and
- what patents are "covered business method patents."

As explained below, in order to fulfill the congressional purpose of Section 18 and to mitigate the harm to the economy from invalid business method patents, the PTO

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[8] *eBay v. MercExchange*, 126 S. Ct. 1837, 1842 (J. Kennedy, concurring).

[9] *Bilski v. Kappos*, 130 S.Ct. 3218, 3229 (2010).

[10] Rep. Smith explained that the transitional program was enacted to "create an inexpensive and faster alternative to litigation, allowing parties to resolve their disputes rather than spending millions of dollars that litigation now costs." 157 Cong. Rec. H4495 (June 23, 2011) (Smith); *see also* 157 Cong. Rec. S5409 (Sept. 8, 2011) (Schumer) (transitional program provided "so that businesses acting in good faith do not have to spend the millions of dollars it costs to litigate a business method patent in court").

[11] *See* Preliminary Comments of Verizon Communications Inc, Google Inc., Cisco Systems, Inc., and Intuit, Inc. Regarding Implementation of Inter Partes and Post-Grant Reviews under the Leahy-Smith America Invents Act, at 20-28 (filed Nov. 6, 2011).

should adopt rules that allow the broadest possible access to the transitional post-grant review procedure consistent with the statutory language.

B. Petitioners "Charged" with Infringement Are Those that Can Satisfy the Standards for Bringing a Declaratory Judgment Action of Invalidity

The AIA does not define when a party is "charged" with infringement, but the structure of the statute makes clear that being "charged" with infringement is something other than being sued for infringement in federal district court. The AIA states:

> A person may not file a petition for a transitional proceeding with respect to a covered business method patent unless the person or the person's real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent.[12]

The rationale for allowing petitioners to challenge the validity of business method patents in the transitional program even when they have not been sued is clear. Fundamentally, for the transitional program to serve as an alternative to litigation as Congress intended, parties must be able to access the procedure before litigation ensues. Moreover, the costs and drag on innovation imposed by invalid business method patents reaches far beyond the expense of litigation. The assertion of invalid patents forces licensors to pay unwarranted fees and incur transaction costs that can exceed litigation expenses. Even when assertion does not result in litigation, it generates expense and business uncertainty that deters investment in productive activities. For the transitional program to provide an effective antidote to the costs imposed by invalid business method patents, it must allow parties facing the threat of an infringement suit to challenge validity.

The standard for determining when a party can bring a declaratory judgment ("DJ") action challenging patent validity in district court is based on similar concerns about the injury that an infringement threat can cause even without litigation. As such, it provides a robust and well-defined external standard that the PTO can adopt through regulation for determining when a party has been "charged" with infringement and is eligible to file a petition under Section 18.

A party may bring a DJ action when it can demonstrate that "there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."[13] This

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[12] AIA § 18(a)(1)(B).

[13] *Medimmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764, 771 (2007) (quoting *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941)).

standard recognizes that even implied threats of infringement can impose costs that create the need for the target to seek resolution of patent issues. For that reason, the Federal Circuit has held that a DJ action may be brought even when the patent-holder asserts that it "has no plan whatsoever to sue" if its actions demonstrate otherwise. The court explained that there should be redress for "extra-judicial patent enforcement with scare-the-customer-and-run tactics,"[14] which generate controversy and threaten injury. The analysis looks past form to the substance of a controversy. Thus, a "declaratory judgment action cannot be defeated simply by the stratagem of a correspondence that avoids magic words such as 'litigation' or 'infringement.'"[15]

The transitional program rules likewise should not require "magic words" such as "charge" or "allege infringement" in correspondence between a patent owner and its target to support the filing of a petition. Doing so would make the program an ineffective tool for fighting the costs imposed by invalid business method patents. Instead, the PTO should make clear through regulations that the DJ standard governs the identification of those eligible to seek review under the transitional program.

C. The PTO Should Interpret the Term "Covered Business Method Patent" to Fulfill Congress' Intent that the Transitional Program Provide a Useful Alternative to Litigation for Challenging Validity

In debating and passing Section 18, Congress made clear that it sought to relieve the burden that invalid business method patents – which Senator Schumer called "the bane of the patent system" – place on productive companies.[16] To accomplish that end, Section 18 defined "covered business method patents" to distinguish them from non-business method patents that are ineligible for the transitional program. In particular, Section 18 provides:

> For purposes of this section, the term "covered business method patent" means a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.[17]

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[14] *SanDisk Corp. v. STMicroelectronics, Inc.*, 480 F. 3d 1372, 1382-83 (Fed. Cir. 2007).

[15] *ABB, Inc. v. Cooper Industries*, LLC, 635 F. 3d 1345, 1348 (Fed. Cir. 2011) (quoting *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1362 (Fed. Cir. 2009)).

[16] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer).

[17] AIA § 18(d)(1).

When interpreting this provision and identifying those patents eligible for the transitional program, it would be contrary to Congress' intent to restrict the program to a small subset of business method patents. To provide a statutory interpretation that is more consistent with Congress' intent, we first discuss the broad category of financial-related patents encompassed by the statute. We then turn to the exception for "technological inventions."

(1) "Covered Business Method Patent"

As one important indication of its breadth, the plain language of the statutory definition of business methods is not limited to method claims. It also covers apparatus claims. Congress chose this language so that techniques of claim drafting would not allow patent owners to avoid review under the transitional program by elevating form over substance.[18] As Senator Schumer explained, "[t]he phrase 'method or corresponding apparatus' is intended to encompass, but not be limited to, any type of claim contained in a patent, including, method claims, system claims, apparatus claims, graphical user interface claims, data structure claims–Lowry claims–and set of instructions on storage media claims–Beauregard claims."[19]

As a second important indication of its breadth, the plain language of the statutory definition covers not only financial products and services, but also the "practice, administration and management" of a financial product or service. The legislative history explains that this language covers a broad range of activities, including "any ancillary activities related to a financial product or service, including, without limitation, marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations--e.g., payment processing, stock clearing."[20]

These broad provisions demonstrate that the scope of patents eligible for review under the transitional program is not limited to those covering any particular financial activity. Accordingly, the language that a covered business method patent relates to a "financial product or service" places few limits on the category of eligible patents other than the requirement that they involve financial transactions. The plain meaning of this language encompasses a broad range of services relating to money.[21] It includes for instance, payment-processing services

[18] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer).

[19] Id.

[20] Id.

[21] *See* Merriam Webster Online Dictionary (defining "financial" as "*relating to* finances or financiers" (emphasis added), with "finance" defined as "money," *available at* http://www.merriam-

for sales that occur in person or over the Internet. Certainly, nothing in the statute suggests that covered financial services are limited by the type of institution providing the service, such as a bank. On the contrary, Section 18 addresses the problem of invalid business method patents for "all businesses that have financial practices."[22]

Moreover, the legislative history explains that for a patent to "relate" to a financial product or service, it "need not recite a specific financial product or service. Rather the patent claims must only be broad enough to cover a financial product or service."[23] The example provided illustrates the full breadth of Section 18:

> For example, if a patent claims a general online marketing method but does not specifically mention the marketing of a financial product, such as a savings account, if that marketing method could be applied to marketing a financial product or service, the patent would be deemed to cover a "financial product or service."[24]

A more narrow definition of "covered business method patents" would destroy the ability of the transitional program to promote innovation by weeding out invalid business method patents that would otherwise generate wasteful litigation and unwarranted licensing fees. The need for the transitional program is great. As Rep. Goodlatte explained, "[b]usiness method patents . . . are litigated at a rate 39 times greater than any other patents. Section 18 is designed to correct a fundamental flaw in the system."[25]

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webster.com/dictionary/financial?show=0&t=1320687431; *see also Smith v. United States,* 508 U.S. 223, 228, 229 (1993) (interpreting undefined statutory term in federal statute according to its "everyday meaning" and dictionary definitions).

[22] 157 Cong. Rec. S5409 (Sept. 8, 2011) (Schumer) ("Of course, this problem extends way beyond the financial services industry. It includes all businesses that have financial practices, from community banks to insurance companies to high-tech startups.").

[23] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer).

[24] Id.

[25] 157 Cong. Rec. H4497 (Mar. 8, 2011) (Goodlatte). Lerner reports that financial patents are 27 to 39 times more likely to be litigated than other patents. Josh Lerner, *The Litigation of Financial Innovations,* 14 (NBER Working Paper No. W14324, 2008), *available at* http://hbswk.hbs.edu/item/6040.html.

(2) "Technological Invention" Exception

Although "technological inventions" are not subject to review under the transitional program, both the statute and the legislative history indicate that this exception is narrow. Section 18 calls on the PTO to issue guidance on the exception's meaning.[26] First, in forming that guidance, the PTO should not consider all patent-eligible subject matter under 35 U.S.C. § 101 to be a "technological invention" that falls outside the transitional program. The AIA clarifies that there is no link between patent-eligible subject matter and patents eligible for the transitional program.[27] Excluding any invention sufficiently "technological" to satisfy Section 101 would vitiate the Section 18.

Second, the PTO should state that the presence of claim limitations reciting physical elements, such as a computer or the Internet, does not render a claim a "technological invention." The statutory language requires this outcome because it expressly allows a patent claiming "an apparatus for performing data processing" to fall within the transitional program.

The legislative history provides further guidance on the meaning of the technological invention exception. Multiple Congressmen explained that the exception does not exclude a patent from challenge under Section 18 "simply because it recites technology."[28] Thus, the "technological invention" exception does not "exclude patents that use known technology to accomplish a business process or method of conducting business—whether or not that process or method appears to be novel."[29] For example, the recitation of computer hardware, communication or computer networks, software, memory, computer-readable storage medium, scanners, display devices or databases does not make a patent a "technological invention" immune from review under Section 18.[30] Thus, there can be no question

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[26] The AIA calls on the PTO to "issue regulations for determining whether a patent is for a technological invention." AIA § 18(d)(2).

[27] AIA § 18(e) ("Nothing in this section shall be construed as amending or interpreting categories of patent-eligible subject matter set forth under section 101 of title 35, United States Code.").

[28] 157 Cong. Rec. S1363-65 (Mar. 8, 2011) (Schumer); 157 Cong. Rec. S5428 (Sept. 8, 2011) (Coburn); 157 Cong. Rec. H4497 (June 23, 2011) (Smith).

[29] 157 Cong. Rec. S1363-S1365 (Mar. 8, 2011) (Schumer).

[30] Id. Rep. Smith gave an example of a patent covering "machines that scan currency whose novelty turns on a technological innovation over the prior art" as a patent covering a "technological invention" and outside the transitional program. 157 Cong. Rec. H4497 (June 23, 2011) (Smith).

that Section 18 review is available at least for those patents relying on known technology, machines or apparatuses to implement a business method.

D. Conclusion

Based on the language of Section 18, as well as its fundamental purpose and its legislative history, we urge the PTO to adopt regulations and practices allowing broad access to the transitional program for testing the validity of business method patents. Petitioner's right to file a petition should be judged based on its ability to satisfy the declaratory judgment standard for challenging patent validity. A "covered business method patent" should be defined as one that can relate in many different ways to a financial product or service, regardless of who provides that product or service. Patents cannot be excluded from review simply because they recite technology.

These interpretations would be consistent with the essential goals of the statute to promote innovation by weeding out invalid business method patents that might otherwise be the subject of expensive litigation and unwarranted licensing fees. Such a program would increase business certainty and confidence in the integrity of the patent system, precisely as Congress intended.

Section 18 Puts Patent Quality Above Litigation for a Broad Range of Businesses

Section 18 will provide an alternative to costly, spurious litigation of poor quality business method patents involving financial products or services. These types of patents can, and have, been asserted against a broad range of businesses, including retailers, airlines, hotels, energy suppliers, health care providers, technology companies, and the financial sector. Section 18 targets the poorest quality and most litigated category of business method patents – one litigated at a rate 39 times greater than that of patents as a whole (Josh Lerner – Harvard).

Section 18 simply allows the patent office to review these patents to ensure there is no evidence that a patent issued before someone else was already doing or selling a certain business method.

Any company that is sued over a common method for providing customer service involving the administration or management of a financial product or service has the ability to use the post-grant review proceedings under Section 18. An illustrative list of companies who been targeted by litigation in this space, alongside banks, insurance companies, and credit unions, follows:

Abercrombie & Fitch Co
AETNA
Amazon.com
American Airlines Inc
Amoco Oil
Argosy Publishing, Inc.
AT&T
Atlantic Richfield Company
Atmos Energy Corp
Barnes & Noble
Bed Bath & Beyond, Inc.
Best Buy Co.
Blockbuster, Inc.
Cabela's Inc.
Carl's Jr.
CDW Corporation
Charter Communications
Cinemark Holdings, Inc.
Comcast Corporation
Conrad Hotels USA, Inc
Deere & Company
Dell Inc.
Delta Air Lines, Inc
Doubletree Hotels Corp.
Dr. Pepper Snapple Group
eBay, Inc.
Expedia, Inc.
Experian.
Exxon Corporation
Facebook, Inc.
Frito-Lay, Inc.
Google, Inc.
Gulf Oil Corporation
Hampton Inns, Inc.
Hewlett Packard Company
Hilton Hospitality, Inc.
Hotels.com
Iasis Healthcare
IBM Corporation
J.C. Penney Company, Inc.
Kawasaki Motors Corp.
K-Mart Corp.
LinkedIn Corporation
Lucky Stores, Inc.
Marriott International, Inc
Martha Stewart Living
Match.com
Omnimedia, Inc
Mitsubishi Motors North America, Inc.
National Broadcasting Co.
Neiman Marcus, Inc
Office Depot, Inc.
Officemax, Inc.
PayPal, Inc.
Perot Systems Corp.
Pioneer Natural Resources
Pitney Bowes, Inc.
QVC, Inc.
Reliant Energy, Inc.;
Rent-A-Center, Inc.
Research In Motion
Ritz-Carlton Hotels
Sabre Holdings
Sam's Inc.
SAP America, Inc.
Sharp Electronics Corp.
Shell Oil Company
Siemens
Sprint Nextel Corporation
Staples, Inc.
Sun Microsystems
The Finish Line, Inc
The Go Daddy Group, Inc.
T-Mobile USA Inc
TravelCenters of America
Travelocity.com, Inc
Tripadvisor LLC
TXU Energy Retail Company LLC
United Parcel Service, Inc.
United States Cellular Corporation
Unocal Oil Company
Verizon Communications
Vivendi Universal S.A
Wal-Mart Stores Inc
Walt Disney Co
Western Union
Windstream Corporation
Yahoo! Inc.
YouTube

June 1, 2012

Joint Statement of
IEEE-USA and NSBA
before the
Committee on the Judiciary, U.S. House of Representatives
Implementation of the Leahy-Smith America Invents Act (AIA)

IEEE-USA is the United States unit of the IEEE, the Institute of Electrical and Electronics Engineers, the world's largest association for technological professionals. IEEE-USA has 210,000 members, largely electrical, software, electronic, mechanical, and biomedical engineers, working in thousands of companies from the largest and most-established to the smallest and newest. The National Small Business Association (NSBA) is a national nonprofit membership organization. Established in 1937 and reaching 150,000 small businesses across the nation, NSBA is the country's oldest, nonpartisan small-business advocacy organization. The IEEE-USA and NSBA seek to represent the interests of their members, their careers, and their ability to create and maintain the next generation of America's companies and jobs. Efficient operation of the patent system is one of the keys to that future.

The IEEE-USA and NSBA were not among those supporting the enactment of the AIA because it reflects the needs of a tiny slice of American business, and a narrow understanding of the cause-and-effect relationships and capabilities of the American legal and business systems. The AIA may simplify *ex post* litigation for some lawyers, but complicates technology managers' ability to make *ex ante* decisions to control risk and run their businesses. The AIA reduces irritants for market incumbents, but takes away the legal tools that are vital to the ability of innovators to establish new companies that turn ideas into "the next big thing."

We fear that the unintended consequences of the AIA will harm startups and small business, and the jobs they create, and the innovation seeds that drive wodd commerce. A "technical corrections" bill offers opportunities to fix many of the problems and at the very least, should do no further harm. We are eager to work closely with this Committee in the weeks ahead to provide detailed proposals and feedback on ways to correct the AIA. We provide here only a few principle policies for such corrections.

Participation of all stakeholders is essential

In the May 16 hearing of this Committee, Rep. Sensenbrenner pointed out that it will be crucial that *all* stakeholders have a voice. We agree. In several years of the hearings leading up to 2011 passage of the AIA, not a single representative of startup companies, small business, individual inventors, or organization such as IEEE-USA or NSBA testified before the Senate, and only one such witness appeared before the House. Representatives for small companies, startups, individual inventors and technical professionals were systematically excluded from any negotiations relating to the original bill, and to date, have been excluded from meetings concerning the "technical corrections" bill. As we noted above, differences in perspective on the bill's effects do matter and should be considered.

Corrective legislation—fix the grace period, don't make it worse

The changes to 35 U.S.C. § 102 enacted in the AIA constitute unprecedented changes of 170 year-old law in ways that introduce many ambiguities. We are much more concerned about the grace period than we are about the first-to-file provisions which only govern very rare disputes among two inventors claiming the same invention at ready the same time. In contrast, the grace period impacts the majority of inventors. A helpful corrections bill would remove the ambiguities and restore major features of the pre-2011 grace period with respect to prior art and other patenting bars. At the very least, the grace period of § 102(b) of the 2011 Act should be clarified so that it provides a grace period for *all* public uses and offers for sale (even non-disclosing uses). While post enactment rhetoric in colloquy among two Senators and articles on the AIA suggest that the scope intended for the grace period should be construed based on a "symmetry" between § 102(a) and § 102(b), no such symmetry currently exists in the AIA text. At the very least, the textual terms in the exceptions in § 102(b) should be made the same terms as those used in § 102(a) so as to remove all ambiguities.

Empirical data show how the AIA, if uncorrected, will deter startup innovation

If uncorrected with respect to the grace period, the AIA will have adverse consequences for America's startups. The AIA is, to a commercial reality, similar to the system Europe has had for decades. Due to lack of adequate grace period, European patent attorneys counsel their inventor and investor clients not to talk to each other until after applications are filed. In Europe, applications have to be filed shortly after an idea is conceived—before they are fully vetted, before testing occurs outside a company's four walls. Of course this means that compared to the U.S., European inventors and investors have a much more difficult time meeting. Inventors' forums occur monthly in many American cities, but they are essentially unknown in Europe. Startups in Europe have a much more difficult time finding investors, strategic partners and testing their inventions.

Canada's experience is particularly predictive of what the U.S. can expect, since Canada adopted an AIA-like system in 1989. Economists at McGill University in Montreal studied two decades of results, and found "virtually no positive effect."[1] What they did find is that the share of patented innovations shifted from small firms like startups to large corporations, as we predict will occur in the U.S. under the AIA. Another recent study on the effects of this change in Canadian patent law shows that "the Canadian change to first-to-file generally harmed individual inventors" and that their share in issued patents declined by about 27% after the switch to first-to-file in Canada.[2] Yet another study of Canada's experience, by a U.S. and a Canadian patent attorney,[3] analyzed data from the U.S. and Canadian patent offices. The data showed that if the Canadian transition in the late 1980s and early 1990s is repeated in the U.S., the loss of the § 102(a) grace period will incrementally cost American businesses up to $1 billion per year, mostly in the form of patent expenses for inventions that turn out to be duds—inventions that, under pre-2011 law, never even enter the U.S. patent system because our pre-2011 law allows businesses the precious time they need to investigate first. Americans intuitively understand that quality inventions often emerge only after iterative design and testing, when enough information exists to sort good ideas from bad. We all recall Edison's famous quote: "Genius is one percent inspiration, ninety-nine percent perspiration." Under the uncorrected AIA's "use it or lose it" deadlines, such "dud" inventions (e.g., the thousand different light bulb filaments Edison tried before finally achieving success) will now require patent applications and gratuitous disclosure.

"Technical corrections" should not expand post-grant review

We have learned that a draft "technical corrections" bill circulating among some committee staff proposes to weaken the estoppel provisions of the post-grant review provisions. That is, an infringer who has only one bite at the apple under the 2011 AIA would have multiple bites under the 2012 "technical corrections" bill. The current language was one of the most heavily-negotiated parts of the bill and one of the biggest concerns of small company and startup group of stakeholders—this new effort certainly appears to be a "bait and switch." This will disproportionately harm small companies: even if the patentee startup succeeds on the law, many will be bled to death by attorney fees. This provision should be left alone.

Strikingly, a year before the bill passed, Japan repealed a system much like the AIA's post-grant system, because it was simply too costly and inefficient. The Japanese Patent Office found it was spending a full quarter of its effort examining post-grant challenges. If post-grant review is changed at all, it should be changed to reflect the lessons we can learn from others.

"Technical corrections" should not expand trade secret rights at the expense of those disclosing inventions through the patent system

We are troubled by certain suggested interpretations of the scope of § 102(a) as repealing certain bars for patenting inventions after years of secret commercial exploitation. We are also troubled by a draft "technical corrections" bill

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[1] Shih-tse Lo & Dhanoos Sutthiphisal, Does It Matter Who Has the Right to Patent, First-To-Invent or First-To-File? Lessons From Canada, *Nat'l Bureau of Economic Research*, NBER Working Paper 14926, (Apr. 2009), http://www.nber.org/papers/w14926.

[2] Abrams, David S. and Wagner, R. Polk, Poisoning the Next Apple? How the America Invents Act Harms Inventors, (2012). *Scholarship at Penn Law*, Paper 389, http://lsr.nellco.org/upenn_wps/389.

[3] David Boundy and Matthew Marquardt, Patent Reform's Weakened Grace Period: Its Effects On Startups, Small Companies, University Spin-Offs And Medical Innovators, *Medical Innovation & Business*, Vol. 2, No. 2, pp. 27-37 (Summer 2010), at http://journals.lww.com/medinnovbusiness/Fulltext/2010/06010/Patent_Reform_s_Weakened_Grace_Period__its__Effects.6.aspx

circulating among some committee staff that proposes to expand the prior user defense. We object to such proposed construction and expansion for the following reasons:

Consider the scenario where two inventors both come up with the same invention, one chooses to patent, and the other chooses to practice the invention as a trade secret. Under pre-2011 law, the inventor that chose to patent elected to assume the risk of disclosure in exchange for exclusive rights for a limited time. To avoid disclosure, the inventor that chose to maintain trade secret ran two risks. First, after a year of commercial use of a trade secret, that inventor forfeited the right to ever obtain a patent. Second, should a patent issue to the other inventor, it is enforceable against all, including against the trade-secret inventor. The *quid pro quo* of the patent system is the reward of a right to exclude competitors, in return for disclosure. Under the 2011 AIA, both of these change: a long-duration trade secret is no longer a bar against a patent, even many years later, but the trade secret use may be a defense against a patent of another who made the disclosure for the patent right. The 2011 AIA thus transfers enormous risks to those who participate in the patent system from those who do not. It fundamentally shifts the reward from those who make their inventions public to those who keep their ideas secret.

Substantial investments in new technologies can, and should be protected by participating in the patent system – not by undermining it. In essence, the 2011 AIA makes prior use akin to prior art--equating, illogically, a secret with a public good. Our Forefathers had some experience with the ills of hoarded secret technologies from the Guilds in Europe and wanted instead to encourage disclosure in order to promote the progress of the useful arts. A shift away from the pre-2011 patent law to trade secret favors market incumbents over startups and disruptive innovation. Bigger, older companies are much more likely to have accumulated trade secrets that can be used to "evergreen" older secret technology; such market incumbents are likely to have more trade secrets that move from disadvantageous under pre-2011 law to advantageous under the 2011 AIA. Finally, we object to further expansion of prior user rights and concur with the conclusion of a recent USPTO report that such further expansion is not warranted at this time.

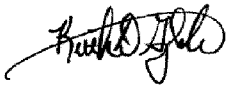
Suggestions that corrections and clarifications can be made through administrative rulemaking are misguided

In the May 16 hearing, proponents of the AIA acknowledged oversights, ambiguities, and weaknesses in its drafting, and have suggested that they can be cured "in the USPTO's examination guidelines." But the Patent Office has no authority to interpret substantive law, let alone set it through informally-issued "examination guidelines." The USPTO cannot *correct* the statute. This proposal would simply add additional cacophony atop the drafting ambiguity. The problems are in the statutory language, and have to be cured there.

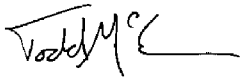
Uncorrected, the AIA will hurt inventors and small/medium-sized business start-ups, adversely affecting innovation and job creation in the U.S.

IEEE-USA and NSBA are ready and willing to work with the Judiciary Committee to help correct the AIA to minimize the harm to those who contribute the most to American job growth. We thank the Committee for considering these comments. We would welcome any further discussions on these matters.

Respectfully submitted,



Keith Grzelak
Vice President for Government Relations
IEEE-USA



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