

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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**Statement of
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and
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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 claims) 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.