



Statement of

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Before the

**SENATE JUDICIARY COMMITTEE**

on

**“PATENT REFORM IN THE 111<sup>TH</sup> CONGRESS: LEGISLATION AND  
RECENT COURT DECISIONS”**

Tuesday, March 10, 2009  
10:00 a.m.

## **Intellectual Property Owners Association (IPO)**

Mr. Chairman and Members of the Committee:

My name is Herbert C. Wamsley. I appreciate the opportunity to be here today to speak on behalf of Intellectual Property Owners Association (IPO). I am the Executive Director of the association.

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. Our members include a broad spectrum of more than 150 large and mid-size companies in industries ranging from information technology to consumer products to pharmaceuticals and biotechnology. We also have small business and independent inventor members. Our members file about 30 percent of the patent applications filed in the U.S. Patent and Trademark Office (USPTO) by U.S. residents. We are proud to say that all four of the companies on the panel today – Micron Technology, Inc., Johnson & Johnson, IBM Corp. and Tessera, Inc. – are IPO members.

We congratulate Chairman Leahy on introducing S. 515 to continue a difficult but critically important effort to improve America's patent laws. We strongly support patent reform and a majority of the provisions in S. 515.

### **INTRODUCTION**

I will comment on several sections of S. 515 and several recent court decisions affecting the patent system. My comments are based on positions adopted by the IPO Board of Directors on similar legislation in the last Congress and in previous Congresses. We are continuing to study the impact of patent reform proposals as well as recent court

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decisions and look forward to working with the committee as the legislation moves forward.

Two major developments have occurred since Congress began working on comprehensive patent reform in 2005, following the reports by the Federal Trade Commission (FTC)<sup>1</sup> and the National Academies.<sup>2</sup>

First, the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit have rendered decisions that have altered the patent system significantly. Cases have been decided involving injunctions in patent cases, the obviousness standard for obtaining a patent, the test for willful infringement and treble damages, the standard for declaratory judgment actions, transfers of patent suits to more convenient venues, and patent-eligibility of certain methods, including business methods. A controversial patent damages verdict was overturned by a district court. These decisions may have eliminated or mitigated the need for some legislation that was proposed in the past two Congresses.

Second, the severe worldwide economic recession is having a dramatic effect on the resources available to patent and trademark departments in U.S. companies. We know of no comprehensive survey of U.S. industry, but IPO has received numerous reports of sharp cuts in the budgets of company patent departments and lower projections for the number of patent applications that will be filed in the U.S. and abroad in 2009 and

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<sup>1</sup> To Promote Innovation: The Proper Balance of Competition and Patent Law Policy. A Report by the Federal Trade Committees (“FTC Report”) (October 2003), <http://www2.ftc.gov/opa/2003/10/cpreport.shtm> (Last Visited: Mar. 6, 2009)

<sup>2</sup> A Patent System for the 21<sup>st</sup> Century. A report by the National Research Council of the National Academies (Apr. 9, 2004), <http://www8.nationalacademies.org/onpinews/newsitem.aspx?RecordID=10976> (Last Visited: Mar. 6, 2009).

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subsequent years. The effects of corporate budget cuts on patent litigation are unknown at this time.

USPTO officials report that the agency's patent user fee income is lower than had been projected. Patent applications filed in January 2009 were slightly lower than in January 2008 after years of steady increases. USPTO trademark processing fee income was 7.5 percent lower for the first five months of the fiscal year than for the same period a year earlier. Further decreases in USPTO patent application filings and user fee income -- perhaps large decreases -- seem inevitable. Comparisons with the Great Depression may be alarmist, but patent applications in the United States fell by more than 10 percent a year in each of the years 1931, 1932, and 1933, and filings did not return to pre-depression levels until after World War II.

In the depressed economic environment, the cost of the patent system to innovative companies, individuals and universities becomes critical. If patent reform raises the cost of obtaining and enforcing patents too much, the incentives provided by the system – the incentives to invent, to disclose new technology, to develop and commercialize new products and services, and to improve and design around patented inventions of competitors – will be weakened.

Patent reform is a jobs issue. The best hope for restoring America's manufacturing base and creating new jobs in this country lies in American workers and American companies innovating new products and services that the people in this country and the rest of the world want to buy. The patent system, properly operating, is a huge stimulus to U.S. innovation and jobs. If the cost of obtaining and enforcing patents increases, the value of patents decreases, so the cost of each patent reform proposal must

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be reviewed for its effect on the affordability of patent rights. IPO continues to support establishing new post grant review proceedings in the USPTO, for example, but the cost of such proceedings to the USPTO and to patent stakeholders must be contained. The goal of patent reform should be to stimulate more invention and investment by improving patent quality at reasonable cost and reducing litigation costs and legal uncertainty without decreasing the value of patents.

### **PATENT REFORM PROVISIONS IN S. 515**

#### **First-Inventor-to-File**

Section 2 of the bill adopts a first-inventor-to-file rule for U.S. patent law, replacing the first-to-invent rule for determining which of two inventors may obtain a patent for inventing the same thing. IPO has long supported this change, which will simplify U.S. patent law and avoid expensive and time consuming patent interference proceedings for determining who came up with a specific innovation first. It would also provide more certainty about patent rights. We believe the first-inventor-to-file system is in the best interest of U.S. inventors large and small. Former USPTO head Gerald Mossinghoff conducted a study of the effect of first-inventor-to-file on small inventors by investigating actual cases. The study revealed that small inventors would fare as well under a first-inventor-to-file rule as under the existing first-to-invent rule.<sup>3</sup>

We favor implementation of the first-inventor-to-file rule as soon as legislation can be passed. While all other countries already follow first-inventor-to-file, and

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<sup>3</sup> Washington Legal Foundation Civil Legal Issues, No. 129 (April 15, 2005), <http://www.wlf.org/upload/0505WPMossinghoff.pdf> (Last visited: Mar. 6, 2009).

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adoption of the rule in the U.S. would further the long range goal of international patent law harmonization, implementation of first-inventor-to-file legislation should not be held up in hopes of an international agreement on harmonization. Adoption of a first-inventor-to-file system is a cost saving measure that benefits U.S. inventors and companies. We do not favor a provision in the House counterpart bill that makes first-inventor-to-file contingent on “major patenting authorities” adopting a 1-year grace period for filing patent applications. Such a provision could delay the adoption of the first-inventor-to-file rule in the U.S. for years if not indefinitely.

### **Willful Patent Infringement**

Section 4 of the bill reforms the law of willful infringement and treble damage liability. IPO has supported legislation along the lines of this proposal. When Congress began considering patent reform legislation in 2005, willful infringement was being asserted in nearly every patent litigation case. The FTC and the National Academies reports recommended that treble damages be assessed against infringers only in limited situations. At the time, some companies said they were wary of even permitting their employees to read competitors’ patent documents, fearing that the company would be found to be on notice of infringement for purposes of treble damage liability.<sup>4</sup> IPO believes treble damages should be limited to specific situations, such as where the defendant has received a detailed written notice from the patent owner charging infringement that identifies the specific patents and claims and the allegedly infringing products or processes, or where intentional copying occurred.

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<sup>4</sup> FTC Report, Chapter 5, page 29 (Fn. 203).

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The courts have attempted to address this particular defect in patent law. In 2007, the Federal Circuit decided *In re Seagate Technologies, LLC*.<sup>5</sup> The Seagate court abolished the “duty of due care” standard for willfulness and replaced it with an “objective recklessness” standard. The Seagate decision was well received by IPO members, but it is too early to say whether the case, which has been applied by courts in several recent cases, has reduced litigation costs and unwarranted suits. Section 4 of the bill grafts the “objective recklessness” standard of Seagate on the language in the bill from the last Congress. While we continue to support requiring more specific notice of infringement for willfulness, we are studying whether legislation on this issue is needed in light of the Seagate decision and, in addition, whether the objective recklessness language is compatible with the remainder of section 4 of the bill.

### **USPTO Opposition and Reexamination Proceedings**

Section 5 of S. 515 is directed to post grant procedures and other quality enhancements. We generally support establishing a new procedure for a post grant review that can be requested within 12 months after the date of patent grant. The 12-month period, a so-called “first window,” would afford an additional review of the patent examination process in the USPTO and an opportunity for members of the public to submit information and present arguments that may not have been available to the Office during examination. Such a proceeding should increase the quality of patents. Limiting the time to request a post grant review to 12 months after grant will lessen opportunities to harass patent owners and resolve uncertainty over legal rights early in the life of the patent.

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<sup>5</sup> 497 F.3d 1360 (Fed. Cir. 2007).

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Our support for this entirely new 12-month first window proceeding is contingent on keeping the cost of the proceeding reasonable and enabling the USPTO to meet the requirement in S. 515 for making a final determination in every proceeding within 12 to 18 months after the proceeding is instituted. It should be understood by all concerned that this will require more administrative law judges and a significant budget increase for the USPTO, and may require budget increases for patent owners during a severe economic recession.

Any opposition or reexamination proceeding must be carefully balanced to protect the interests of patent owners and competitors in resolving disputes without opening opportunities for abuse. Section 5 moves in the right direction by eliminating a “second window” post grant proceeding and relying instead on an expanded version of the existing patent reexamination statute as the mechanism for reviewing a patent in the USPTO at any time during the life of the patent. We support expanding the existing *inter partes* reexamination proceeding by striking the “or could have raised” phrase from the estoppel provision that prevents a reexamination requester from subsequently litigating the same patent in court in grounds the party raised or could have raised in the USPTO. This change will encourage parties to use the PTO proceeding at an early date to resolve issues of patent invalidity relatively inexpensively without fear of being prevented from raising other grounds in court later. We also support having *inter partes* reexamination proceedings handled by administrative patent judges and guaranteeing an opportunity for an oral hearing.

We are concerned about the addition of language that permits challenges to patents in a reexamination proceeding on the basis of evidence that the invention was “in



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public use or on sale in the United States” more than a year before patent filing. Existing reexamination proceedings are conducted only to reexamine in light of patents and printed publications – documentary evidence that usually speaks for itself. Evidence of public use or on sale could be fabricated fraudulently by patent challengers. It would be difficult for patent owners to verify or challenge the legitimacy of such evidence, years later, and in a proceeding where discovery and cross examination of live witnesses would be unavailable. Further, the USPTO is relatively inexperienced in evaluating such evidence. In addition, limiting the public use and on sale clause to activities in the U.S. raises a question of whether nationals of the U.S. and other countries are treated equally as required by international agreements.<sup>6</sup> We are reviewing the public use or on sale clause, but tend to believe it makes *inter partes* reexamination the equivalent of a second window post grant review, which we oppose.

### Venue for Patent Infringement Suits

Section 8 of S. 515 makes extensive changes in the venue statute that governs where patent infringement suits can be filed. IPO has supported a simple activity-based approach to venue to define a location that has a logical connection to the activity at issue and prevent forum shopping and the filing of suits in districts that are not convenient to either party. Section 8 of the bill, however, is more complex and includes unwarranted exemptions for certain classes of plaintiffs.

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<sup>6</sup> Compare the definition of prior art in 35 U.S.C. 102(a) as amended by section 2 of S. 515. That section permits public use and on sale activities occurring outside the U.S. to be used to invalidate patents in court. A patent-barring public use or on sale more than a year before patent filing can be either the inventor’s own public use or on sale or another party’s public use or on sale.

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Very recently, the Fifth Circuit Court of Appeals in *In re Volkswagen*,<sup>7</sup> and the Federal Circuit, applying Fifth Circuit law in *In re TS Tech USA Corp.*,<sup>8</sup> ordered the transfer of cases from the popular Eastern District of Texas to districts more convenient for the parties. The U.S. Supreme Court denied a petition for review of the Volkswagen case on Feb. 23, 2009. Several commentators view these as watershed decisions that will make it easier to obtain transfers of cases filed in inappropriate districts for forum shopping or harassment purposes. We suggest a review of whether venue legislation should be enacted at this time or whether the courts should be given an opportunity to deal with transfer motions in patent cases on a case by case basis in light of the recent decisions.

### Interlocutory Appeals of Patent Claim Interpretations

Section 8 of the bill also creates a right for litigants to take an interlocutory appeal of a patent claim interpretation decision by a district court to the Federal Circuit whenever the district court approves the interlocutory appeal. Supporters believe this provision will reduce costs and speed up patent litigation. IPO opposes this provision because we believe it will have the opposite effect – more expense and delay and more work for the Federal Circuit. It has been a basic tenet of federal judicial procedure for generations that interlocutory appeals usually are unavailable because they would result in piecemeal litigation.<sup>9</sup> This general rule of jurisprudence should continue to apply to patent cases. Judges revise their claim interpretations with some frequency. Immediate review of claim interpretation already is available when a summary judgment motion is

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<sup>7</sup> 545 F.3d 304 (5<sup>th</sup> Cir. 2008).

<sup>8</sup> Misc. Docket No. 888 (Fed. Cir. Dec. 29, 2008).

<sup>9</sup> Interlocutory Appeal Act, Pub. L. 85-919 (1958), codified in 28 U.S.C. 1292(b).

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granted based on a claim interpretation that is dispositive of the case. The Federal Circuit has accepted interlocutory appeals of claim interpretations in a few cases.<sup>10</sup>

Interlocutory appeals of claim interpretation as a matter of right, however, would cause cases to be batted back and forth between the district court and the Federal Circuit, delaying the litigation process and increasing the cost of patent infringement trials.

This is not to say that the law of claim interpretation is without problems. A majority of the current judges of the Federal Circuit have said publicly that they would consider an *en banc* decision to change the law to give more deference to district court claim interpretations when the Federal Circuit is presented with a case where claim interpretation is based on district court fact-based findings and giving deference would make a difference in the outcome. Also, it has been suggested that judicial or USPTO clarification of claim interpretation rules and heightened attention by the USPTO to the statutory requirement for claim definiteness would reduce litigation over the meaning of claims. Some jurisdictions now are adopting local patent rules that might improve claim interpretation hearings.<sup>11</sup> We believe improvements can and should be made, but interlocutory appeals to the Federal Circuit as a matter of right are not the solution.

### Authority for the USPTO to Set Its Own Fees

Section 9 of the bill authorizes the USPTO Director to set or adjust by rule any of the user fees established by statute for patent and trademark cases. IPO opposes this

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<sup>10</sup>Regents of the University of California v. Dako North America, Inc. 477 F.3d 1335 (Fed. Cir. 2007) (Interlocutory Appeal Accepted When Claim Construction Intertwined With Other Issues); Regents of the University of California v. Dakocytomation California, Inc. 517F.3d 1364 (Fed. Cir. 2008) ( Interlocutory Appeal of Claim Construction Issues Accepted When Issues Overlapped With Other Issues on Appeal).

<sup>11</sup> IPO is drafting model local patent rules that it plans to publish this year.

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section and urges its deletion. The dollar amounts of most patent and trademark fees are fixed by statute, except that the Director has authority to make annual cost-of-living adjustments in the statutory fees commensurate with changes in the Consumer Price Index. For three reasons, we believe Congress should retain its authority to set and adjust patent and trademark fees whenever changes other than cost-of-living adjustments are needed:

(1) Congressional control of USPTO spending is critically important to ensure efficiency and prevent waste. An agency that is charged with providing incentives for innovation, not merely selling patents and trademark registrations as commodities, should be subject to strict oversight over the prices it charges.

(2) The relative levels of individual fees such as the patent filing fee, the patent issue fee, and the “maintenance” fees for keeping a patent in force after grant reflect policy decisions that have been made by Congress on how the system should operate. For example, Congress has intentionally kept the filing fee (a “front end” fee) relatively low and obtained more revenue for the USPTO through maintenance fees (a “back end” fee), in order to help patent applicants large and small afford the cost of applying for a patent.

(3) The easy adjustment of USPTO fees through regulation would invite diversion of fees to unrelated government programs, a practice that cost three-fourths of a billion dollars of USPTO fee revenue between 1992 and 2004. Government officials under pressure to find new sources of revenue would be more likely to siphon off USPTO revenues if the agency could simply double or triple fees to make up for the loss.

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### Apportionment of Damages

In addition to willful infringement, section 4 of the bill also covers the hotly-debated issue of patent damages, an issue on which IPO members are divided. The 50-member IPO Board of Directors in 2007 by majority vote passed a resolution supporting legislation that would codify the existing law on damages for calculating a reasonable royalty. Unfortunately we have been unable to develop any consensus language to recommend. The dispute involves the analysis used by courts to determine a reasonable royalty for patented inventions that are elements in combinations. In the often-relied-upon *Georgia-Pacific*<sup>12</sup> opinion, a 1970 district court opinion that lists 15 factors for determining a reasonable royalty, factor 13 is the “portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.”<sup>13</sup> Many of our members believe that patent code section 284(c)(1)(C) in S. 515, which was the language used in S. 1145 in the last Congress, is a substantial departure from factor 13 of *Georgia Pacific*. S. 515 limits a reasonable royalty to “the portion of the economic value of the infringing product or process properly attributable to the claimed invention’s specific contribution over the prior art,” which is interpreted to incorporate a concept of “prior art subtraction.” We will be happy to work with the Committee in its effort to find consensus language on patent damages.

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<sup>12</sup> *Georgia Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)

<sup>13</sup> See Report on S. 1145, Senate Judiciary Committee, 110<sup>th</sup> Cong., 2d Sess. at 11.

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### **PROVISIONS OMITTED FROM S. 515**

#### **Applicant Quality Submissions**

We are pleased that S. 515 does not contain the requirement for “Applicant Quality Submissions” recommended by the Bush Administration that was in section 11 of S.1145. That requirement for patent applicants to submit a search report and other information and analysis relevant to patentability was strongly opposed by IPO members and many others. It would have unnecessarily increased the cost of patent applications and would have further increased unwarranted charges of inequitable conduct against patent owners.

#### **Inequitable Conduct Before the USPTO**

S. 515 does not include any provision on inequitable conduct, but we understand from the Chairman’s remarks on introduction of the bill that this topic will receive further consideration. IPO supports adding a provision to S.515 to address inequitable conduct. We believe the requirements for establishing the defense of inequitable conduct in patent infringement litigation should be raised by appropriately defining the standards for materiality and intent. Such a provision should be carefully balanced. It should continue to aggressively guard against those who might commit fraud before the USPTO, but it should eliminate fears of patent applicants that they will be charged with inequitable conduct for innocent mistakes in citing or characterizing prior art in communications with the USPTO. Applicants need to feel it is safe to single out the most relevant prior art

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documents and other information known to them. Such a change would cause applicants to stop flooding the USPTO with unnecessary references. It would improve communications between applicants and examiners and improve patent quality. We also favor elimination of the statutory requirement for disclosing the best mode of carrying out an invention as recommended in the 2004 National Academies Report, which would remove a subjective issue that has caused unnecessary litigation.

### **Diversion of USPTO Fees to Unrelated Government Programs**

We are disappointed that S. 515 omits the USPTO funding proposal that was included in the bill during the last Congress as reported out of the committee. That section was designed to prohibit permanently the diversion of USPTO user fees to unrelated government programs. The section established a revolving fund called the “United States Patent and Trademark Office Enterprise Fund.” All user fees collected by the USPTO would have been deposited in the fund. Funds deposited would have been available only for paying the expenses of operating the USPTO, which currently are about \$2 billion a year. This section also included extensive annual reporting and notification requirements to the Appropriations Committees, in order to assure fiscal discipline, responsibility and accountability by the USPTO.

User fees paid to the USPTO by patent and trademark applicants and owners are paid with the expectation that the money will be used to examine their applications and provide other services to them. The \$750 million diverted to unrelated government programs between 1992 and 2004 was one of the major causes of the large backlog of unexamined patent applications that the USPTO is still struggling with today, according

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to a report of the National Academy of Public Administration.<sup>14</sup> While no money has been intentionally diverted since 2004, diversion will be a continuing threat to the agency until legislation is enacted to secure the funds paid to it by the public. We urge reinsertion of the revolving fund proposal into the patent reform legislation. This would achieve the goal of permanently ending the diversion of USPTO user fees while preserving the jurisdiction and prerogatives of the Appropriations Committees.

### **CONCLUSION**

IPO strongly supports enactment of patent reform legislation, which we believe will help provide higher patent quality and reduce litigation costs. Patent reform legislation is a critical step toward improving the operation of the U.S. patent system. To be successful, it must be coupled with improvements in USPTO administration to increase the quality of patent examination and speed up the processing of patent applications. We look forward to making suggestions to the Committee and the next USPTO Director for administrative improvements.

Patent reform is not just for information technology, pharmaceuticals, and biotechnology, important as they are. Patent reform is extremely important for innovation in traditional manufacturing industries such as automobiles, aircraft, and consumer products. According to a statement by the AFL-CIO Executive Council last week:

Today, the automobile industry accounts for fully one-quarter of all American manufacturing jobs and output. The industry represents a complex integration of

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<sup>14</sup> U.S. Patent and Trademark Office: Transforming to Meet the Challenges of the 21<sup>st</sup> Century. A Report by the National Academy of Public Administration (August 2005), [http://71.4.192.38/napa/napapubs.nsf/17bc036fe939efd685256951004e37f4/1b930c8f684de52e852570fc00636b70/\\$FILE/PTO8-25-05.pdf](http://71.4.192.38/napa/napapubs.nsf/17bc036fe939efd685256951004e37f4/1b930c8f684de52e852570fc00636b70/$FILE/PTO8-25-05.pdf) (Last visited March 8, 2009).



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advanced manufacturing processes, technologies and materials, and is a critical driver of innovation across every manufacturing subsector. . . .

It is vital that we maintain the strength of our intellectual property protections to ensure that innovation, production and jobs can be maintained and increased here at home. Patent protection is a manufacturing *and* a jobs issue.<sup>15</sup>

The key to renewing America's world leadership in traditional manufacturing is a leap forward in innovation. A more effective patent system can make enormous contributions to U.S innovation, leading to more jobs in U.S. industry and new strength in the economy.

I will be happy to answer any questions.

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<sup>15</sup> "America Needs a Program to Maintain and Grow Good Jobs," March 03, 2009, <http://www.aflcio.org/aboutus/thisistheaflcio/ecouncil/ec03032009a.cfm> (Last visited March 9, 2009).