



Statement of

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**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.

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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

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Patents set forth in Section 18 of the AIA,<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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

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<sup>1</sup> 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).

<sup>2</sup> See [http://www.uspto.gov/patents/law/comments/x\\_aia-a\\_abaaiplaipo\\_20111118.pdf](http://www.uspto.gov/patents/law/comments/x_aia-a_abaaiplaipo_20111118.pdf)

<sup>3</sup> See [http://www.uspto.gov/aia\\_implementation/comment-aba-aipla-ipo.pdf](http://www.uspto.gov/aia_implementation/comment-aba-aipla-ipo.pdf)

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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.<sup>4</sup> 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

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<sup>4</sup> 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.

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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

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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.<sup>5</sup> 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.<sup>6</sup> In contrast, the patent owner’s ability to

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<sup>5</sup> 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).

<sup>6</sup> *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.<sup>7</sup> 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

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<sup>7</sup> 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).

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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.

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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

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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

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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

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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.<sup>8</sup> 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

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<sup>8</sup> IPO's letters are on the PTO website, along with the other public comments, accessible at [http://www.uspto.gov/aia\\_implementation/comments.jsp](http://www.uspto.gov/aia_implementation/comments.jsp).

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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

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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.<sup>9</sup> 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.

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<sup>9</sup> 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.

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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 that 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

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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.

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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.