

**Committee on the Judiciary
United States House of Representative**

Hearing

“America Invents Act”

Prepared Statement of

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Mr. Chairman and distinguished Members of the Subcommittee, thank you for the opportunity to testify on patent reform and the America Invents Act. Congress and the patent community have worked diligently to reform America's patent laws for the last six years.¹ Congress has scrutinized numerous bills and engaged in rigorous debate, making for a long process. Thanks to the extraordinary efforts of Chairmen Robert Goodlatte and Lamar Smith, Ranking Members John Conyers, Jr. and Melvin Watt, and Members Zoe Lofgren and Howard Berman, and of Undersecretary David Kappos, we have a chance to create patent legislation that will ensure some long-term fixes to our patent system. This legislation will address some issues that have tipped our patent system out of balance in recent years and have hindered innovation. While we were not ultimately able to support S. 23, we are grateful to Chairman Leahy and Ranking Member Grassley for helping to move this process forward. The draft House bill is a step forward. We appreciate the Committee's willingness to convene this hearing to examine the remaining issues that need to be addressed.

I. Introduction to Cisco and the Coalition for Patent Fairness

As Senior Vice President and General Counsel of Cisco, I am responsible for the intellectual property policies of the world's largest manufacturer of the telecommunications equipment that powers the Internet, with over \$40 billion in annual sales and over seventy thousand employees. Cisco's success as a company is a direct result of our ability to innovate. Our products originally were designed for communications within private or enterprise networks. When the public Internet emerged in the mid 1990s, our products found immediate application for worldwide use. Today's Cisco's networking equipment forms the core of the global Internet and most corporate and government networks. We have over 24,000 engineers, of which over 14,000 are here in the United States, as are the majority of our employees. We invest over \$5 billion each year in research and development to create the next generation of networking equipment.

Cisco is but one of the technology firms that form the Coalition of Patent Fairness. The coalition represents a large cross section of America's technology industry. It consists of hundreds of members, including Apple, Autodesk, Dell, Google, Intel, Micron Technology Inc., Oracle, RIM, SAP, and Symantec.

¹ See, e.g., Patent Reform Act of 2009, H.R. 1260, 111th Cong.; Patent Reform Act of 2007, H.R. 1098, 110th Cong.; Patent Reform Act of 2005, H.R. 2795, 109th Cong.

Together, we have more than 75,000 U.S. patents or pending patent applications. We are key users of the patent system, and we believe in it. Our companies invest billions of dollars into research and development and have helped create the innovative culture that drives the U.S. economy of today. I believe the Coalition's companies will allow the United States to maintain its competitive edge into the future.

II. Patent System Failures and Court Reform

The American technology industry's success depends on a functional patent system that produces and protects quality patents. In recent years, this system has become increasingly difficult to navigate. The number of annual patent grants has risen from fewer than 80,000 in the early 1980s to more than 240,000 in 2010.² Consequently, our products are surrounded by “‘patent thickets’ – densely overlapping patent rights held by multiple patent owners.”³ Far too many of these patents never should have been granted.⁴

This thicket of poor-quality patents has spawned an entire litigation industry and impeded innovation. In the past couple of decades, for example, we have seen a rising tide of non-practicing entities and other patent owners bring suit based on poor-quality patents. *See* John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants* 5 (Stanford Law School, John M. Olin Program in Law & Economics, Working Paper No. 398, Sept. 16, 2010) (finding that non-practicing entities acquire patents for the primary purpose of litigation); PriceWaterhouse Coopers, *2009 Patent Litigation Study* 4 (2009) (showing a tripling in the number of patent actions filed since 1991). These litigants have taken advantage of venue rules that encouraged forum shopping.⁵ They have also benefitted from damages rules that create massive uncertainty about how to measure infringement awards, leading to unmeritorious settlements that distort the value of patents.⁶ This litigation industry has enriched lawyers at the expense of

² *See* U.S. Patent & Trademark Office, *U.S. Patent Statistics Chart: Calendar Years 1963 - 2010* (2010).

³ Federal Trade Commission (“FTC”), *The Evolving IP Marketplace: Aligning Patent Notice & Remedies with Competition* 56 (Mar. 2011).

⁴ *See* John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 *AIPLA Q.J.* 185, 205-06 (1998).

⁵ *See, e.g.*, Mark A. Lemley, *Where to File Your Patent Case*, 38 *AIPLA Q.J.* 1, 3 (2010).

firms who provide Americans with real technology and quality jobs. This abuse must stop.

Fortunately, the courts have begun to address some of these issues. For example, the Supreme Court and the Federal Circuit have heightened the standards for willful infringement and injunctive relief. *See eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006) (requiring courts to balance the equities to justify ordering an injunction, rather than relying on the then-default rule of granting an injunction); *in re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007) (en banc) (increasing the legal standard for finding willful infringement). The Federal Circuit has recently issued rulings that have addressed the damages and venue issues. *See, e.g., Uniloc USA, Inc. v. Microsoft Corp.*, -- F.3d. --, Nos. 2010-35, 2010-1055, 2011 WL 9738 (Fed. Cir. Jan. 4, 2011) (eliminating the so-called 25 percent “rule of thumb” for calculating a reasonable royalty rate); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008) (ordering the transfer of a patent suit to a “far more convenient” venue). Although these issues were high on our agenda in earlier Congresses, these recent court decisions have improved the landscape for this country’s innovators. In contrast to years past, the Coalition for Patent Fairness is now comfortable that the current legislation does not attempt to address issues such as damages, venue, willfulness, and injunctive relief. We feel confident that the courts will continue to issue rulings that promote innovation and help consumers purchase innovative products at lower prices.

However, courts can only do so much to change how the patent system works. Only Congress can reform the laws on which the patent system rests. We applaud the provisions in the proposed House bill that will better fund the U.S. Patent and Trademark Office’s (“PTO”). The proposed bill will grant the PTO the authority to adjust its fees, ensuring that it has additional funding for processing, materials, and other services in an electronic age. A better funded and more efficient PTO will be able to better analyze patent applications and conduct reexaminations. We likewise support the proposed post-grant review system. Under current law, the PTO can reexamine patents based only on the basis of “patents or printed publications.” 35 U.S.C. §§ 301, 302, 312. The proposed post-grant review procedure would expand the bases on which the PTO can evaluate the validity of a patent for at least a short period after the patent has issued. This

⁶ *See, e.g., Imonex Servs., Inc. v. W.H. Munzprufer Dietmar Trenner GmbH*, 408 F.3d 1374, 1379 (Fed. Cir. 2005) (“The entire market value rule permits recovery of damages based on the value of the entire apparatus containing several features, where the patent related feature is the basis for customer demand.”) (internal quotation marks omitted).

expanded procedure will help weed out junk patents and allow America's innovators to produce technology at lower prices.

III. Improving the Patent System Through Legislation

The House's current patent reform bill has improved on the Senate bill, S.23. However, the House must go further in promoting innovation by making several additional changes that I will detail below. If these changes are made, Cisco would strongly endorse the bill. Moreover, we believe these changes will not disrupt the interests of other stakeholders. These changes largely track discussions between my counterpart from a company in a different coalition and me. The discussions were conducted with the help and engagement of the Administration. As we have expressed before, we are very grateful to Secretary Locke, Undersecretary Kappos, and General Counsel Kerry for leading discussions that arose out of the CEO Summit President Obama led last December. Based on these discussions, we offer comments and suggest necessary changes on three specific topics: prior user rights, inter partes review, and supplemental examination.

A. Prior User Rights

First, the House should ensure that prior user rights remain in any final legislation. Prior user rights are vital to a functional first-to-file system. These rights protect users who have already commercialized an invention, but were not the first to file a patent application. Every country in Europe, other than Cyprus, has a prior user right provision, as do Japan and Korea. The Senate bill, S.23, lacked such a provision. Fortunately, the current House draft provides for a prior user rights defense.

The House should ensure that this provision remains in the final legislation. Nearly all stakeholders agree that a first-to-file system must have a prior user defense. For example, in 1993, Gary Griswold, then-General Counsel of 3M and current Chairman of the Coalition for 21st Century Patent Reform, wrote a paper advocating prior user rights in a first-to-file system. *See* Gary L. Griswold & F. Andrew Ubel, *Prior User Rights – A Necessary Part of a First-to-File System*, 26 J. Marshall L. Rev. 567 (1993). Likewise, Robert Armitage of Eli Lilly has testified on behalf of the American Intellectual Property Law Association (“AIPLA”) in

support of prior user rights.⁷ As Undersecretary Kappos stated so well in his prepared statement for today's hearing, Expanding the prior user defense, I believe, is pro-manufacturer, pro-small business, and, on balance, good policy.

Notwithstanding the exemption of university patents from the scope of prior user rights, some university licensing organizations still oppose prior user rights

On the other hand, we understand some other groups oppose a first-to-file system regardless of how it is formulated. The Coalition for Patent Fairness would likewise oppose a first-to-file system if there were no prior user rights. We do not file patents on every aspect of our products, as many are specific to our products and are unlikely to be infringed by competitors. Without prior user rights, domestic opportunists and offshore adversaries will accelerate the patent mills they have today to file on every minor change in an American product, and then use our courts to try to extract damages from the true innovators here, or to block us from selling our own products. The effect would be to set off an enormous defensive patent filing race which our current system does not require and would divert the valuable resources of America's innovators.

In his testimony, Undersecretary Kappos refers to the Canadian patent system's shift to first-to-file in suggesting that an increase in the filing rate might not occur. Canada, however, has a prior user rights system. Section 56 of Canada's Patent Act provides, "Every person who, before the claim date of a claim in a patent has purchased, constructed or acquired the invention for which a patent is afterwards obtained under this Act, has the right to use and sell to others the specific article, machine, manufacture, or composition of material patented or so purchased, constructed or acquired without being liable to the patentee or the legal representatives of the patentee for doing so."

B. Inter Partes Review

Second, the House should amend the inter partes review section of the current bill. A long standing goal of patent reform has been to improve the PTO's administrative procedures for challenging poor quality patents through reexamination. This procedure, if effective, can be an important tool to avoid costly litigation and ensure the overall quality of patents, by encouraging

⁷ See *Patent System Harmonization: Hearing Before the H. Comm. on the Judiciary*, 109th Cong. 15 (2006) (statement of Robert Armitage, Senior Vice President and General Counsel for Eli Lilly & Co.).

resolution of complex questions of patent validity by the experts at the PTO instead of lay jurors. The proposed House bill improves on S.23's inter partes review (1) by retaining the "substantial new question of patentability" threshold necessary to institute a review; and (2) by extending the deadline from six months to nine months within which defendants in district court patent litigation may seek inter partes review. Despite these improvements, the proposed House bill still imposes standards on inter partes review that are more restrictive than current law. Several critical changes must be made to the bill's inter partes review provisions to ensure that the procedure is available as a viable, efficient alternative to litigation for weeding out bad patents.

1. Provide a Meaningful Period of Time for a Defendant to File a Reexamination

The proposed 35 U.S.C. § 315(b) from the draft bill bars defendants in a district court patent litigation from seeking inter partes reexamination after nine months after service of the complaint. This provision creates an extremely compressed schedule for defendants to review the patents, search for invalidating prior art documents, and prepare an inter partes petition to the PTO. Many cases that those in the technology industry face now involve multiple patents and multiple defendants. For example, in *In re Katz Interactive Call Processing Litigation*, Nos. 2009-1450, -1451, -1452, -1468, -1469, 2010-1017, 2011 WL 607381 (Fed. Cir. Feb. 18, 2011), thirty one patents were at issue with 1,975 claims in a case involving sixty five different defendants. In such complex litigation, time bars on reexamination petitions simply closes the door to inter partes reexamination. Recent studies show that such complex litigation is becoming more common such that longer timelines are needed for dealing with these complex cases.

Additionally, the proposed House bill creates tension with many district court scheduling orders in patent litigation. It is often difficult for defendants to determine the likelihood of success in an inter partes examination – or even the relevant prior art documents to present in a petition – before the claims of the patent at issue have been interpreted. District courts, however, routinely wait to interpret the patent claims until after considerable discovery has been made in a case. For example, the District Court for Eastern District of Texas's local rules provide for hearings on patent claim construction more than nine months after institution of the case. *See* Local P.R. 4-6 (E.D. Tex.).

2. Omit any Provision Limiting an Accused Infringer’s Ability to Petition for Inter Partes Reexamination

The proposed 35 U.S.C. § 315(a) in the draft bill would place strict limits on when an accused infringer could petition for inter partes review. Specifically, the provision would bar inter partes review whenever an accused infringer filed a declaratory judgment action of invalidity, even on a basis unavailable for inter partes review. Currently, a party may only request inter partes reexamination based on another patent, printed publication, or double patenting.⁸ This short list excludes many bases for challenging patent validity, such as prior public use, prior sale or offer for sale, indefiniteness of the patent’s claims, lack of written description, or lack of enablement. If proposed § 315(a) is passed, a party could file a “civil action challenging the validity of a claim of the patent” because the patent failed to describe the invention, only to later discover in good faith that another patent anticipates and that inter partes reexamination is foreclosed. Inter partes review should not trap litigants who act in good faith. Further, the patentee has the ability to avoid any such declaratory actions since the patentee can avoid declaratory jurisdiction by not accusing others of infringing its patent. The House should, therefore, strike this provision limiting an infringer’s action.

3. A Necessary Automatic Stay Provision

Today, defendants in district court or International Trade Commission patent infringement actions often choose not to petition for inter partes reexamination, even though the PTO may be in a better position to assess complex patent validity arguments. One reason is that defendants are concerned that they will be forced to fight the patent on two fronts simultaneously: before both the court and the PTO. To alleviate this concern, end the prospect of inconsistent results, and promote efficient, non-duplicative use of government resources, the House should provide for a mandatory stay of the district court litigation if requested by any party. At a minimum, the proposed four-factor test for a stay that appears in the draft bill should be modified to avoid exceptions related to “tactical advantage” which in many cases could obviate the case for a stay.

A mandatory stay provision should be modeled after 28 U.S.C. § 1659(a), which provides for mandatory stays of district court litigation when the parties also are engaged in an International Trade Commission investigation on the same patents. The rationales behind § 1659(a) – ending duplicative litigation and

⁸ See Manual of Patent Examining Procedure § 2658.

inconsistent results – apply equally to inter partes review. Additionally, any prejudice to the plaintiff from the stay during inter partes review is minimized. Section 316(a)(12) of the proposed House bill provides that a final determination in an inter partes review shall be issued within one year after institution, except for good cause. Thus, the delay to a multi-year patent case from a stay would be negligible.

C. Supplemental Examination

Third, the House should strike or substantially amend the supplemental examination section. Patent applicants “have a duty to prosecute patent applications in the Patent Office with candor, good faith, and honesty.”⁹ Under current case law, if a patent applicant breaches that duty by (1) failing to disclose material information or submitting materially false information to the PTO with (2) intent to mislead or deceive the examiner, then a court can hold a patent unenforceable.¹⁰ Some defendants have abused this defense by asserting frivolous claims of inequitable conduct. The Federal Circuit has already limited this abuse by requiring pleading of the facts with particularity. *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1328 (Fed. Cir. 2009) (“In sum, to plead the ‘circumstances’ of inequitable conduct with the requisite ‘particularity’ under Rule 9(b), the pleading must identify the specific who, what, when, where, and how of the material misrepresentation or omission committed before the PTO.”). In addition, the Federal Circuit is considering en banc the use of other measures to curb such abuse. *See Therasense, Inc. v. Becton, Dickinson & Co.*, 374 F. App’x 35 (Fed. Cir. 2010).

Instead of waiting for the courts to reform inequitable conduct, some have proposed a supplemental examination. The Coalition for Patent Fairness and other stakeholders across the spectrum believe that the Federal Circuit’s decision in *Therasense* will obviate the need for the supplemental examination system. The House bill would undermine judicial developments by providing for supplemental examination. As drafted, supplemental examination effectively nullifies a patent applicant’s duty of candor. Under this proposed examination, a “patent owner may request supplemental examination of a patent in the Office to consider, reconsider, or correct information believed to be relevant to the patent.” This provides a patent

⁹ *Honeywell Int’l Inc. v. Universal Avionics Sys. Corp.*, 488 F.3d 982, 999 (Fed. Cir. 2007).

¹⁰ *See, e.g., Advanced Magnetic Closures, Inc. v. Rome Fastener Corp.*, 607 F.3d 817, 829 (Fed. Cir. 2010).

applicant with an incentive to conceal material information and wait to disclose it to the PTO only once the applicant realizes that it has been caught. Thus, supplemental examination would give a patent owner a second chance of being candid with the PTO after deceiving the office the first time around. Congress should not provide patent applicants with an incentive to deceive and cure that inequitable conduct through supplemental examination. Thus, the provisions on supplemental examination should be struck.

Conclusion

We appreciate the opportunity to appear before the Committee today. With modifications detailed above, Cisco believes your bill will meet our minimum needs. The bill will not meet all of our aspirations, but it will reflect what is possible in a world with many stakeholders who have different interests.