THE SECRETARY OF COMMERCE
Washington, D.C. 20230

April 3, 2008

The Honorable Patrick Leahy
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for your continued work to craft a patent modernization bill that promotes the interests of innovators across all industry sectors and technologies. The Bush Administration shares that goal and appreciates your ongoing openness to our views and willingness to address our concerns. Together, we can make the greatest innovation system in the world even better.

As S. 1145 progresses toward floor consideration, I appreciate this opportunity to highlight and share our thoughts on what we believe are key elements of the bill. With respect to the first goal listed in the Committee report on S. 1145 – improving patent quality and the patent application process – I wish to emphasize the importance of section 11 of the bill, as reported, captioned "Applicant Quality Submissions (AQS)."

The Administration strongly supports the AQS provision in the bill in its current form and believes that enactment will prove to be the strongest step toward improved patent quality. By reducing the number of poor quality and imprecise applications, applicant quality standards will result in dramatic reductions in patent pendency and backlog, as well as reduce the likelihood of excessive litigation. The current misalignment of information incentives slows and degrades the patenting process.

Whether an application is approved as a patent is a function of the merits and quality of the application. There is no one who has greater opportunity, information, or incentive to explain why an application deserves a patent grant than the applicant. There has been a sharp decline in the percentage of patents allowed, due in part to comprehensive internal quality improvements. However, the USPTO is now applying more than 55 percent of its examination resources to examining applications that do not warrant a patent. In order for additional quality and efficiency gains to accrue, the system must focus on the quality of applications. Stated simply, our innovation system can no longer afford the time and the cost of heavily subsidizing poor quality patent applications, which crowd out our most important innovations. Applicant quality standards are essential to improving and expediting the process by which new and innovative ideas become reality.

The Administration also recognizes and supports statutory changes to the doctrine of inequitable conduct to support this provision. The inequitable conduct standard should more clearly target actual fraud affecting the examination process and preserve judicial discretion in application of appropriate sanctions. However, the Administration strongly opposes any statutory changes to the doctrine of inequitable conduct in the absence of a strong provision

requiring Applicant Quality Submissions. Applicant quality standards and inequitable conduct reform are inextricably linked. Diminishing the penalties for misrepresenting facts before the United States Patent and Trademark Office (USPTO) without also increasing the robustness of the process for eliciting quality information from applicants may lead to poorer quality applications, in turn increasing the difficulty of conducting accurate examinations. Inequitable conduct reform alone, without Applicant Quality Submissions, would merely invite fraud on the patent system.

To address patent validity considerations after patent issuance, the Administration continues to support establishment of an effective, efficient post-grant patent review process that truly functions as a lower-cost alternative to litigation for those who want to challenge a patent's validity. We support the structural approach to post-grant review as outlined in the bill (including a first window of opportunity to challenge a patent and a narrow second window throughout the patent life), provided that it has sufficient access requirements and estoppel effects to ensure that the review procedures are more efficient, manageable and timely. The Administration will oppose a post-grant structure that does not protect against frivolous harassment of patent holders.

The Administration's overriding concern continues to be proposed revisions to the law governing the appropriate assessment of damages in patent infringement cases. Most proposed changes offered thus far, and those in the reported bill, would, in our opinion, limit courts' discretion and lead to less than reasonable royalty calculations. The incentive to innovate must continue to be supported by an assurance to patent owners that they will be fully compensated for harm caused by infringement.

While the Administration opposes language that limit a court's discretion, we would support statutory changes to current damages law that have the effect of directing or guiding courts to clearly identify the factors and evidence relevant to the determination of damages and to consider only those factors when making their determinations. Such a "gatekeeper" function would promote transparency without limiting necessary discretion. We are aware of discussions to address other features of the litigation process, and we look forward to reviewing the language when it is finalized.

In legislation this comprehensive and consequential, there are clearly other issues of importance, and I would encourage you to review our earlier views letter (sent to the Senate Judiciary Committee on February 4, 2008) as you are drafting. The February 4th letter provides a more comprehensive analysis of the issues, highlighting other areas of agreement, such as fee-setting authority for the USPTO and the end of *inter partes* examination, and additional areas of concern, such as the need to make first-to-file provisions contingent on reaching agreement in international negotiations. The letter also highlights the Administration's opposition to certain

provisions, including providing mandatory budget treatment for the USPTO and limiting the remedies for infringement of check collection patents.

Thank you again for your commitment to effective patent reform and consideration of our views. The USPTO is available to provide you and your staff with any technical assistance you might need. I encourage you to contact Jon Dudas, Under Secretary of Commerce for Intellectual Property and Director of the USPTO, at (571) 272-8600.

Sincerely,

Carlos M. Gutierrez

cc: Senate Judiciary Committee

Identical letters sent to:

The Honorable Patrick J. Leahy
Ranking Member of the Senate Judiciary Committee

Courtesy copies sent to all 100 Senators