

**TESTIMONY OF
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BEFORE THE
HOUSE JUDICIARY COMMITTEE
SUBCOMMITTEE ON INTELLECTUAL PROPERTY, COMPETITION, AND THE INTERNET
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Chairman Goodlatte, Ranking Member Watt, and members of the committee, thank-you for the opportunity to testify today on the important issue of patent quality and what Congress can and should do to improve quality. My name is David Simon and I am the Associate General Counsel of Intel Corporation for IP Policy and am testifying on behalf of the Coalition for Patent Fairness. The Coalition is a group of high technology companies which believe we need to return balance to the patent system to protect our ability to innovate.

Intel is the leading manufacturer of computer, networking, and communications products. Intel has over 80,000 employees, with more than half of those in the U.S. In 2010, Intel had over \$43 billion in revenue from sales to customers in over 120 countries. While approximately 75% of our revenue is generated overseas, over 75% of our manufacturing capacity, including our research & development, remains in the U.S. This is because Intel is driven by the innovation principle that every eighteen months, what was once state of the art becomes obsolete. This principle comes from Moore's law, which was named after one of Intel's founders Gordon Moore. This principle has held true since Intel entered the microprocessor business in 1974 and it continues to drive our investments today. To support this pace of innovation, in 2010 alone, Intel invested over \$7.3 billion in research & development of our latest technologies. As our technologies grow and evolve, so do our facilities, resulting in continuous domestic investments in manufacturing, such as the \$5-7 billion Intel announced in 2010 to build a new factory in Oregon and upgrade several factories in Oregon and Arizona. To protect these investments, we received over 1600 US patents in addition to the countless trade secrets

that we developed and the billions of lines of copyrighted code that we have written. Thus, a properly functioning, world-wide intellectual property system is vital for our business.

When we started these efforts many years ago, we faced a grim landscape where patent lawsuits threatened to stifle the pace of innovation and shut down our factories. The threat of injunctions often forced Intel and others to settle to keep their factories open. Questionable patents could not be invalidated because common sense could not be used in justifying obviousness determinations; only written documents explaining why a given combination was obvious could be used. A standard of willfulness requiring mere knowledge of the existence of a patent led many companies to be threatened with treble damages from almost each claim of patent infringement. Defendants could expect to be hauled into an inconvenient court bearing no connection to the case other than the tactical advantages plaintiffs' counsel believed the forum had. Damages could be trumped up on the slimmest of reeds using supposed "rules of thumb" and a version of the entire market value rule for damages that hinged on the meaning of the word "the." As a result, non-practicing entities demanded upwards of a third of the expected profits on all products for the most trivial of patents.

Today, the scenario has changed drastically, primarily as a result of the Supreme Court and Court of Appeals for the Federal Circuit turning a focused eye on the current state of patent law. Non-practicing entities who once repeatedly threatened our business with injunctions now must satisfy a four part test weighing the equities of the claim for such an injunction to be granted. Venue determinations now are dictated by general principles of law instead of arbitrary rules regarding where a shell corporation was incorporated or has a mail drop. Common sense drives obviousness determinations. Willfulness can only be found if the infringer's conduct was at least objectively

reckless. Finally, rules of thumb have been rejected by the courts as junk science and the entire market value rule has been cabined.

Looking at the current state of the patent system, the need to address this set of issues as part of a larger comprehensive, substantive patent reform has passed. Thanks to the leadership and actions of the members of this committee, the courts and Patent and Trademark Office, to the extent possible, have reacted and addressed, in the short term, some of our most fundamental concerns. Therefore, we ask that the committee not address substantive provisions in earlier bills, such as the standard for granting damages in reasonable royalty cases, treble damages for willfulness, or where venue is proper. Instead, we ask that the Committee focus on improving the Patent and Trademark Office.

Unfortunately, owners of bad patents issued by the Office still threaten our member companies and that problem remains acute. In addition to an onslaught of false marking cases, we now face a substantial increase in non-practicing entity lawsuits using dubious patents issued under the wrong standard for obviousness where the characteristics of those lawsuits have changed dramatically. Instead of suing one or two defendants with closely related products or offerings, non-practicing entities or NPE's often sue many more defendants in one lawsuit at once—often as many as three dozen with widely divergent products where the case may be tried in only a week or two. This amplifies the problems faced by the technology industry from dubious patents as each individual company faces many more lawsuits. Unquestionably, invalid patents stifle innovation and threaten our industries. Ultimately, the only solution to this problem is to improve the quality of the patents issued by the Patent and Trademark Office and to continue to provide it with the tools so that it can eliminate invalid patents that studies show deprive Americans of jobs.

Now, I want to be careful to point out that I have the utmost respect and sympathy for both the examiners and the administration of the Patent and Trademark Office as they face a daunting task. In

the fifteen to twenty hours that an examiner has to review a patent application, which may be a hundred pages long and may be on the cutting edge of the state of the art, the examiner needs to review and understand the application. After reading what is often dozens of run on sentences that patent attorneys call claims, the examiner needs to conduct a search for prior art and decide whether each of the claims is: definite and clear; both new and non-obvious; enabled and supported by a written description; and, in compliance with dozens of other statutory and regulatory requirements. Absent proof to the contrary, the examiner is compelled to issue the patent that will be invested with a heightened presumption of validity. In other words, the current statutory scheme leads the office to issue many dubious patents because it does not have the resources to properly examine the patents.

These problems are compounded by the fact that, despite the efforts of this committee, the PTO cannot engage a long term strategic plan, due to their inability to know whether they will be able to retain their fees at the end of each year. Also contributing to the problem is the flood of patents being filed, the vast majority of which will end up having no significance to their owners or the economy. We need systems that allow the office to focus its attention on those patents that truly do matter to both their owners and to those accused of infringing them.

The current backlog, which has the Office facing 1.2 million applications, makes the situation worse. The thousands of examiners hired recently by the Office has resulted in about half of the examining corps in many art units having less than five years experience. Thus, we have inexpert examiners issuing patents—a process that simply does not promote quality. Every study of these hiring actions shows that hiring more examiners to deal with the backlog will not succeed, particularly if the developing world starts filing here at the rate that they now file in their home countries.

Our agenda is simple: give the Office the tools so that it may do its job properly and robustly. Those tools include:

Computerization of Examination: Today, patent examination differs little from techniques used in the last century. Computers can and do provide tools for improved examination, including ensuring that there is an adequate and enabling written description for each term used in those run on sentences we call claims. Computers permit advanced semantic searching of the prior art that lead to uncovering key art that uses different terminology but discloses the same concepts in English and in foreign languages through new translation techniques. We know that the current Office management is looking at how it can update its antediluvian computer systems that require the wasteful printing out and then scanning of each electronically filed patent application. This committee should authorize and work with the appropriators to ensure that the Office can use twenty-first century technology to examine twenty-first century applications.

Reexamination: Although providing the Patent and Trademark Office with the tools that they need will avoid issuing more bad patents, the Office needs to continue to use the current reexamination system without limitations. That is the most useful and efficient tool that allows us to invalidate the patents that the Office should have never issued with an almost ninety percent success rate to date. And that tool makes sense because it allows the Office to focus its resources on the patents that matter to their owners and the rest of industry. Rather than cutting back on these efforts as some propose, we ask that the committee foster reexamination by providing the Office with the personnel and the budget to improve the process.

Prior User Rights: We understand that the Office wishes to convert from a first-to-invent system to a first-to-file system so that the Office can make better use of examination resources around the world. If such a conversion takes place, we also need prior user rights to be included in the system. Prior user rights in the form of section 102(g) have long protected our patent system from races to the Office and we need to keep this key feature of the law. Otherwise, companies will be forced to flood

the Office with pointless and quickly (and presumably poorly) written patent applications to ensure that they have the right to continue practicing their technology. If one of the purported goals of patent reform is harmonization, then we should not strip a long established provision of our laws that most other countries have seen fit to adopt.

Funding: The Office needs fee setting authority to ensure that it will be able to charge its true costs to provide the technology and personnel that it needs to deal with the current backlog and to do its job right. Further, those fees should not be diverted so that the office retains those funds and use them for the very purposes that the office decided it needed the money for in the first place. From the beginning of the patent reform debate six years ago, almost to the date, this has been one of the few provisions all of the stakeholders have been able to agree to and we are hopeful that a compromise may be reached between the members of the Committee and the appropriators enabling the PTO to plan strategically for how to handle its current backlog.

Post Grant Opposition: While this procedure will have limited use in many business segments, it can serve, in limited circumstances, to remove bad patents from the system. However, to be effective, a post grant system needs always to be available. The whole point of a post grant opposition system is to keep bad patents out of the system. Placing limitations on its use as some propose means that the opposition system will encourage immediate lawsuits on bad patents to avoid the expertise of the Office invalidating these patents. Similarly, no limitations should be placed on the existing inter partes and ex partes reexamination systems.

Transparency: Prior Patent Office administrations routinely released claims of outstanding quality with low error rates that practitioners around the country generally disregarded. While the current Office management has made great strides in transparency, this Committee should ensure that

this transparency is made permanent and truly open. We would suggest that Congress should mandate three areas of transparency to ensure a truly open Patent Office for all. These areas are:

1. Petitions: All petition decisions should be available to the public in an accessible database instead of being buried amongst over a million applications on Public Pair.
2. Quality: While the Office has finally disclosed how it will calculate quality, by not disclosing the specific applications that it is sampling and its judgment on whether a specific application was properly handled, these statistics will be meaningless and disregarded by a jaundiced patent bar. All of this data needs to be made public too.
3. PAIR Data: Today, if anyone besides the Office wants to investigate the data regarding US patent applications statistically to see what is really happening, you have to download case after case in the PAIR system which limits transparency of what is happening in the Office. All of the PAIR data should be available to the public so all can see what is happening in the Office.

I want to thank the members of the House Judiciary Committee again for the opportunity to testify before you today. We hope that, although this is hardly the first time we have sat before you to discuss necessary reforms to the patent system, you will look at any proposed legislative changes through the lens of the current state of the patent system, bearing in mind recent court decisions, and not how the system was six years ago. We believe that the steps outlined in my testimony will help improve patent quality and hope that committee will consider our suggestions. We welcome any questions that you may have and look forward to working with you on this fundamentally important topic. Thank you.