



November 26, 2008

Dear President-elect Obama,

Congratulations on your historic election. From the outset, you have recognized that innovation and technology are essential to economic growth and job creation in today's digital age. As you begin work in this challenging economic climate, we urge you to keep in mind that the cornerstone of American innovation has been, and continues to be, a strong patent system.

As your technology plan so rightly states, policies that improve predictability and clarity in our patent system will foster innovation and competitiveness. In contrast, measures that weaken and destabilize patent rights will deter capital investments in the development and commercialization of new technologies and ultimately hinder our ability to weather this economic storm. With the US economy under severe stress, it is imperative that we refrain from short-sighted policies that could do permanent damage to our system of innovation.

The Innovation Alliance (IA) is a coalition of entrepreneurial companies seeking to enhance America's environment for innovation and competitiveness through improved patent quality. As outlined in the attached, our members, which range from early stage innovators to advanced manufacturers, strongly support improvements to the quality and efficiency of patent examination procedures. However, we oppose measures that would undermine the patent rights and remedies so critical to America's economic well-being.

The US patent system has fueled economic growth for over two centuries. A strong and predictable patent system fosters the collaborative development and funding required to transform basic research into commercially viable technologies and stable, high-paying jobs. According to a study by the Federal Reserve Bank of Cleveland, those states with the greatest percentage of patent ownership also enjoy the highest levels of income and economic prosperity.

Despite the importance of patents to our economy, Congress may consider bills next year that would weaken the foundation of our patent regime by making it cheaper to infringe and challenge legitimate patent rights. Measures of this type would discourage investment in innovative technologies and inflict serious collateral damage on the many thousands of legitimate patentees that drive job growth in today's economy. Changes to our patent system should, instead, aim to heighten the fairness, predictability and efficiency of patent prosecution and litigation for all stakeholders. In the midst of what could be a long and painful economic downturn, preserving the strength and stability of US patent rights has never been more critical.

It is also important to consider the likely domino effect of US patent legislation on intellectual property rights worldwide. The US economy has long benefited from the strongest intellectual property laws in the world. America's patent system is universally recognized as the gold standard, and, as such, it has given us the moral authority and credibility to fight for stronger protection of US innovations in other markets. If the United States weakens patent rights and remedies at home, we will embolden other countries to adopt damaging IP policies that could jeopardize the continued preeminence of America's most productive industries.

Attached is a summary of IA's views on patent policy, including proposals to improve the quality, efficiency and predictability of the patent system. We greatly appreciate your attention to this critically important matter and look forward to working with you and your Administration.



Respectfully submitted,

The Innovation Alliance



INNOVATION ALLIANCE  
RECOMMENDATIONS FOR THE NEW ADMINISTRATION

The patent system can be improved through measures designed to enhance the quality, efficiency and procedural predictability of USPTO examination. Patent quality is best achieved through pre-grant measures that provide examiners with the resources and training needed to assess whether an invention is, in fact, novel, non-obvious and useful.

***IA supports measures that would promote patent quality without undermining patent rights:*** The following measures would enhance patent quality by devoting greater examination resources to complex applications, increasing access to prior art, facilitating communication between examiners and applicants, and tying compensation incentives to quality examination:

- Permanently end fee diversion.
- Define and categorize patent applications according to their complexity (e.g., based on subject matter and number of claims) and adjust examination review times and resources accordingly.
- Mandate higher application fees for more complex applications.
- Improve and expand the process by which third parties submit relevant information to the USPTO.
- Implement within the USPTO a web-based unitary search system for all patents and non-patent documents, including English translations of foreign-language patents and patent applications.
- For all complex and highly complex applications, permit applicants to convene an examiner interview before a first office action.
- Expand the USPTO's quality review program to include at least 10 percent of all allowed applications and 10 percent of complex and highly complex applications.
- Adjust examiner compensation structures and production goals to encourage maximum efficiency of examination and simultaneously reduce both erroneous rejections and erroneous allowances.

Claims that patent litigation is out of control or inherently unfair to defendants are simply unfounded. Patent litigation rates and median damage awards have remained relatively static over the past several years. Moreover, recent decisions by the US Supreme Court and Federal Circuit have dramatically shifted the balance of power between patent plaintiffs and defendants, making it far more difficult for patent owners to defend their rights against invalidity challenges and virtually impossible for patent speculators to obtain injunctive relief. When viewed as a whole, these judicial decisions represent the most comprehensive package of court-made patent reforms in decades, eliminating any need for sweeping legislative changes to remedies or other fundamental underpinnings of the patent system.

***IA opposes legislative proposals that would mandate apportionment of damages and prior art subtraction; establish an open-ended post-grant opposition system; or require patent applicants to file a prior art search report and patentability analysis.*** These measures are unwarranted and ill-advised in today's challenging economic climate.

- **Damages:** *IA supports a fair and principled approach to patent damages, consistent with the legal standards articulated in Georgia Pacific. Amendments that would require "apportionment" of damages in accordance with formulaic and unprecedented "prior art subtraction" rules would undervalue patents and increase the cost, complexity and uncertainty of patent litigation.*



The overarching objective of patent damages law is to compensate the patent holder fully for any losses or harm caused by the infringing activity. Under the existing patent statute, compensatory damages may be no less than a “reasonable royalty” for the infringer’s unlawful use of the invention. As reflected in the seminal *Georgia Pacific* case, US courts have historically endorsed a flexible, market approach to reasonable royalty damages in order to achieve an equitable result. In particular, to determine the amount of reasonable royalty damages, the court must consider the full array of relevant factors that would have influenced the patent’s fair market value, had the infringer agreed to pay a royalty in lieu of infringement.

House and Senate patent bills are expected to eliminate the historical deference given market principles when calculating compensatory damages. Instead, courts would be required to apply a novel, rigid and complex “apportionment” test in virtually all cases, which would reduce a patent’s value to its “specific contribution over the prior art” - a method of valuation that has no basis in patent jurisprudence or damages law generally. Not only would mandatory apportionment lead to tremendous uncertainty and increased costs at trial, it would encourage unfair and artificially-low damage awards. Reasonable royalty damages would no longer aim to make the patentee whole (the historical objective of all compensatory damages), but instead to minimize the infringer’s liability.

- **Post-Grant Opposition:** *IA supports carefully-tailored improvements to the existing system of inter partes reexamination in lieu of a new, duplicative and potentially burdensome post-grant opposition process. An open-ended post-grant opposition system would expose patent holders, particularly smaller firms and start-ups, to serial administrative challenges by deep-pocketed rivals.*

Although characterized as a check on patent quality and a means of reducing patent litigation, the proposed post-grant opposition system would fail to accomplish either goal. Post-grant opposition would encompass a quasi-judicial proceeding with judges, experts, discovery, cross-examination and other costly aspects of litigation. However, it would lack the many safeguards of existing judicial and administrative reexamination procedures that protect patent owners against unwarranted, duplicative and abusive invalidity challenges. If broad opposition rights were available throughout a patent’s life, the never-ending threat of a post-grant challenge would significantly undermine a patent’s value and enforceability. Additionally, the surge in complex post-grant proceedings would further strain the resources of an already over-burdened and under-funded USPTO.

- **Mandatory Prior Art Search and Patentability Analysis:** *IA believes that the quality and efficiency of USPTO examination practice can be improved through the types of operational changes identified above. In contrast, a requirement that applicants submit to the USPTO a prior art search report and patentability analysis would significantly increase the costs and litigation risks of obtaining patent protection without any commensurate increase in pre-grant quality or efficiency.*

A mandatory prior art search and analysis requirement, as proposed in previous patent bills, would force patent applicants to bear even higher pre-grant prosecution costs and post-grant litigation risks, without any commensurate increase in the quality and efficiency of USPTO examination procedures. Requiring patent applicants to perform a comprehensive prior art search that satisfies USPTO guidelines would shift to applicants functions that are most cost-effectively performed by examiners. Not only would this requirement result in tremendous inefficiencies and even higher prosecution costs for applicants, it would, when combined with a mandatory patentability analysis, force applicants to make disclosures that could be used against them in litigation, most notably as the basis for inequitable conduct claims.