THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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Broad-Based Coalition Weighs in During Senate Hearing on Patent Reform

Principal objective of patent reform should be on changes that will stimulate research and development investment

Washington, D.C. – Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson, was one of six witnesses today to testify before the Senate Judiciary Committee on S. 515, The Patent Reform Act of 2009. Johnson represented the views of the Coalition for 21st Century Patent Reform.

Johnson oversees about 100 patent and trademark attorneys in the U.S. and Europe, and advises Johnson & Johnson's management on patent matters relating to its 200 plus operating companies worldwide. He has served as trial counsel in over 100 patent cases, including over 50 resulting in reported decisions of the federal district courts and/or of the Court of Appeals for the Federal Circuit.

Below are excerpts from his written testimony and an Executive Summary.

"The primary focus of patent reform should be job growth," Johnson stated. "Congress should change our patent laws to ensure that meritorious inventions are uniformly accorded patent protection. The resulting patents should be promptly and reliably enforceable against infringers, and result in damages awards that fairly compensate for the unauthorized uses made of the patented inventions. Because the research and development investments made in reliance on the patents dwarf the costs associated with their filing, maintenance and enforcement, the principle objective of patent reform should not be on saving administrative costs, but on changes that will stimulate research and development investment. Collectively, these changes will stimulate job growth."

Regarding reasonable royalty patent damages, Johnson said that the 21st Century Coalition believes that the case for remedial legislation has not been made. The sizes of patent damages awards have been relatively stable for many years, and typically barely cover the costs of litigation. In addition, with *Lucent v. Gateway* currently before the Federal Circuit, Congress may benefit from studying the outcome of the decision and its impact on damages awards.

A PricewaterhouseCoopers report stated the number of patent litigations in the US is at least leveling-off, if not declining. The PWC report found that patentees have had an overall success rate of only 36 percent over the last 13 years and when they do win, median patent verdicts have been fairly constant since 1995, even trending downward in 2008. http://www.ftc.gov/bc/workshops/ipmarketplace/feb11/docs/alevko.pdf

"Recent experience shows that of the 2,700 cases filed each year, fewer than five led to verdicts in excess of $100 million," Johnson said. "Experience also shows that few if any of these verdicts survive post judgment review and appeal. A prime example is the *Alcatel-Lucent v Microsoft* verdict of $1.5 billion that was touted in the last Congress as *the* reason for patent damages reform, even though it was later promptly and finally vacated."

The Coalition believes any approach to reasonable royalty damages that would redefine the invention to be less than that to which the inventor has proven he/she is entitled, such as an "essential elements" approach, would amount to just another version of "prior art subtraction," and would be grossly unfair to inventors.

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The coalition has 50 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The coalition's steering committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble. The coalition has members in a variety of industry sectors including: Aerospace and Defense, Chemical, Computers, Diversified Financials, Diversified Technology, Energy, Food Production, Forest & Paper Products, Health Care, Household & Personal Products, Industrial Equipment, Medical Equipment & Devices, Network & Communications, Payroll Services, Pharmaceutical, Biotechnology, Semiconductors & Electronic Components, and Transportation Equipment.

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Coalition for 21st Century Patent Reform

Executive Summary
Philip S. Johnson, Chief Intellectual Property Counsel, Johnson & Johnson
Committee on Judiciary Testimony, March 10, 2009

The primary focus of patent reform should be job growth. Congress should change our patent laws to ensure that meritorious inventions are uniformly accorded patent protection. The resulting patents should be promptly and reliably enforceable against infringers, and result in damages awards that fairly compensate for the unauthorized uses made of the patented inventions. Because the R&D investments made in reliance on the patents dwarf the costs associated with their filing, maintenance and enforcement, the principal objective of patent reform should not be on saving administrative costs, but on changes that will stimulate R&D investment. Collectively, these changes will stimulate job growth.

S. 515 is an excellent first step towards achieving these goals. The 21st Century Coalition supports, subject to certain technical amendments, the provisions in S. 515 that would: adopt the first-inventor-to-file principle (Section 2); expand the grounds for inter partes reexamination to include statements of the patent owner in prior proceedings – but not challenges on the basis of prior use and sale (Section 5); expand the opportunity for the public to submit publications to the USPTO (Section 7); and, permit interlocutory appeals – but only from denied, dispositive summary judgment motions where not duplicative of earlier appeals (Section 8); and permit the Director to set fees if accompanied by statutory protection limiting their use to the USPTO (Section 9).

The Coalition opposes the provisions relating to willful infringement as unnecessarily retarding, and perhaps disrupting, the orderly case law development of the objective recklessness standard as contemplated by In re Seagate (Section 4), and the provisions relating to venue as unnecessary in view of recent judicial developments facilitating the transfer of cases to districts with substantial contacts with the cause of action and as unfair to patent owners (Section 8).

As to reasonable royalty patent damages, the 21st Century Coalition believes that the case for remedial legislation has not been made. The sizes of patent damages awards have been relatively stable for many years, and typically barely cover the costs of litigation. At the very least, the Coalition believes it would be best to await the anticipated decision in Lucent v. Gateway, and/or the outcome of the study proposed in Section 18 of H.R. 1260, before considering such changes to our patent laws.

As Chairman Leahy has suggested, one promising future approach may be to enact appropriate “gate keeper” language. Any approach to reasonable royalty damages that would redefine the invention to be less than that to which the inventor has proven he/she is entitled, such as an “essential elements” approach, would amount to just another version of “prior art subtraction,” and would be grossly unfair to inventors.
