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CROSSING THE FINISH LINE ON PATENT REFORM: WHAT CAN AND SHOULD BE DONE

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COMPETITION, AND THE INTERNET

OF THE

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C O N T E N T S

FEBRUARY 11, 2011

CROSSING THE FINISH LINE ON PATENT REFORM: WHAT CAN AND SHOULD BE DONE

FRIDAY, FEBRUARY 11, 2011

House of Representatives,
Subcommittee on Intellectual Property,
Competition, and the Internet,
Committee on the Judiciary,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:30 a.m., in room 2141, Rayburn House Office Building, the Honorable Bob Goodlatte (Chairman of the Subcommittee) presiding.

Present: Representatives Goodlatte, Smith, Coble, Chabot, Pence, Poe, Jordan, Chaffetz, Reed, Griffin, Marino, Adams, Quayle, Watt, Conyers, Chu, Deutch, Wasserman Schultz, Nadler, Lofgren, Jackson Lee, and Waters.

Staff Present: (Majority) Blaine Merritt, Subcommittee Chief Counsel; Vishal Amin, Counsel; Olivia Lee, Clerk; and Stephanie Moore, Minority Counsel.

Mr. Goodlatte. The Subcommittee will come to order, and I will recognize myself for an opening statement.

Nearly 60 years ago, Congress tackled the challenge of how to structure our patent laws for what was then the modern economy. Over those decades, we have gone from room-size computers with vacuum tubes to hand-held tablets, and black and white television to 3-D TV, and from wax cylinders and record players to digital downloads and streaming. Our patent laws have served us well, but as our industries have changed and new areas of the economy have emerged, our patent laws are beginning to show their age. That doesn't mean that we need to start from scratch, but there are areas where we need to make some reforms.

Modernizing our patent system is necessary to meet the needs of our 21st century economy and necessary to create jobs and economic growth. When an inventor or startup is able to take their idea from the garage or the lab to the Patent Office, it gives them the exclusive right to make use of that invention. This right then enables them to raise capital and get their business off the ground.

When improving our patent system, we need to take into consideration the work the Federal Government has done in addressing patent reform. Since we began debating comprehensive patent reform over a half decade ago, the Federal courts have issued numerous opinions that have touched on some of the very reforms we have been working on, including injunctions, willfulness, damages, and others. We need to assess those decisions carefully and factor them into any legislation we move.

I hope that in today's hearing we will talk more about what can and should be done to achieve the meaningful patent reform legislation that has eluded prior Congresses. Reform means

putting forward commonsense ideas and not simply blanket opposition. Our goal is a patent system that allows for increased certainty, higher quality patents being issued, and reducing frivolous litigation.

In the past few years, frivolous lawsuits against high-technology companies have doubled, costing on average $5 million to defeat each one of these questionable suits. These costs take money away from worthwhile R&D that leads directly to job creation. These costs discourage entrepreneurs from even taking that first plunge toward establishing a business. And, inevitably, these costs discourage overall innovation, hindering our Nation's progress and future economic prosperity.

Some may say that this is just the cost of doing business. If that is the case, then the cost of inaction is way too high. Congress has a constitutional duty here to ensure that we have an effective patent system.

We also need to make sure that the PTO has the resources it needs to accomplish the tasks we will ask of it. Fee aversion is an unacceptable tax on our Nation's innovators, and it diverts funds the PTO needs to other unrelated government programs. We must address this issue.

I look forward to hearing from our distinguished panel today. They represent a variety of perspectives and industries. And I look forward to working with my fellow colleagues in the House and Senate and the stakeholder community to take the steps necessary to ensure that meaningful patent reform is completed during this Congress.

It is now my pleasure to recognize our Ranking Member, the gentleman from North Carolina, Mr. Watt.

Mr. Watt. Thank you, Mr. Chairman; and thank you for convening this hearing on patent reform.

The patent reform debate has percolated through Congress for several sessions now. We have seen several iterations of a patent reform bill in both Chambers, most recently S. 23, which passed out of the Senate Judiciary Committee last week.

At the core of the debate lay at least two truths: one, discovery and innovation is the engine of economic growth and development domestically and throughout the world; and, two, the U.S. Patent and Trade Office, this Nation's primary mode of encouraging inventors and protecting their intellectual property, is overburdened and in need of adequate resources to perform its functions.

The interplay between innovation, economic competitiveness and recovery and job creation has never been more widely acknowledged and supported than it is today. In fact, our very first hearing on the oversight of the PTO focused on the connection between job creation and innovation and showcased the increasingly important role of ideas in the global economy.

The President's State of the Union address later that same evening reemphasized the Administration's commitment to encouraging and protecting innovators and their intellectual property.

And just this week the Administration issued an executive order implementing provisions of the PRO-IP Act, the Conyers-Smith--also co-sponsored by Goodlatte-Watt--bill, signaling to the world and the community of innovators that intellectual property stimulation and protection are at the top of the Nation's agenda.

Against this backdrop of consensus on the need to shore up the PTO and provide robust incentives and protections to our innovators, however, is the ongoing talk of deep, across-the-board budget cuts. I hope that we will all step back and make rational decisions about how the taxpayers' money should be spent in a way that continues, rather than retards, our course of economic recovery.

Let me just say a word or two about our witnesses. I am pleased that we have a panel of witnesses who have been active participants in this debate over the years. These stakeholders possess intimate knowledge of where we have been and have informed perspectives on where we should be going. The 21st Century Coalition and the Coalition for Patent Reform both represent members that have skin in the game, while Judge Michel comes from a vantage point of adjudicating patent cases for decades. Each witness provides useful knowledge as we consider how best to fashion policy choices for intellectual-property-driven industries consistent with the needs of the country.

I know that I speak for both myself and Chairman Goodlatte when I say that the importance of developing a complete record reflecting a full scope of views is at the heart of the panel assembled today and necessary for our Committee's work. Indeed, some of the laws and practices that prompted the effort to take on patent reform in earnest several years ago have changed. Hearing from these witnesses about what changes are adequate or inadequate, how they have affected their prior positions and current outlook is essential for us to understand the current landscape and to resist the urge to simply hold firm to positions that may no longer be constructive.

Mr. Chairman, that is my prepared statement. I want to go off the reservation here a little bit. I don't get this opportunity to have industry people that I can send a shot over the bow very often. And I am new here, so I am going to take the luxury here, I think.

I have been kind of assessing this against a backdrop where I come from focusing most of my attention in the financial services industry. I watched the financial services industry fail to do some things, fail to come together on some things until we were in an absolute chaotic disaster. And only then could our Committee, the Financial Services Committee, and Congress really take steps that were really necessary.

I think we are approaching in this situation not the kind of crisis that we faced in the financial industry, but we are approaching something that is very serious. Because we have been holding the PTO and its funding hostage to this whole discussion about patent reform. And nobody has been willing to kind of run over the industries because they are too powerful, just like in the financial services industry, and because we really think the industries ought to get together.

I am kind of sending the shot over the bow that it is really time, after 6 or 8 years, for the industries to get together and sit down and work out their differences on these issues so that we can move patent reform forward, so that we can move PTO funding forward and not hold those two things hostage to each other before we get to a crisis situation. We are approaching that in the backlog of patent applications we have at the PTO. And so I am earnestly suggesting to the industries that they come back to the table and try to roll up their sleeves and find common ground on a patent reform bill so that we can move this process forward.

I know that is gratuitous. It wasn't in my prepared statements, but I hope it is taken constructively.

Thank you, Mr. Chairman. I yield back.

Mr. Goodlatte. I thank the gentleman. I know it will be.

It is now my pleasure to recognize the Chairman of the full Committee, someone who has worked long and diligently on this issue, the gentleman from Texas, Mr. Smith.

Mr. Smith. Thank you, Mr. Chairman.

Mr. Chairman, let me say at the outset that I think this is one of the most important Subcommittee hearings that the full Judiciary Committee will have this year, and I am particularly pleased with the Members who serve on this Subcommittee because they are all knowledgeable, they are all interested, and many of them have district interests as well that will be important as we move forward in the process.

And I would only say to the Ranking Member, whose comments I appreciated, that I am not sure this is a shot across the bow, because I don't think that warning is necessarily needed. I think everybody, as the gentleman concluded, is eager to move forward in a bipartisan process and try to accomplish the task so that we don't end up with a situation as we did with some of the financial regulatory reform as well. So I thought his comments were very appropriate, and I think that we all would agree with what the gentleman said. And it is nice to have him as Ranking Member.

Mr. Chairman, the foresight of the Founders to create an intellectual property system demonstrates their understanding of how patent rights ultimately benefit the American people. In January, our Subcommittee touched on this theme when we conducted our first hearing of the year on the importance of the Patent and Trademark Office. We learned that the technological innovation derived from our intellectual property is linked to three-quarters of America's post-World War II economic growth.

A recent study valued U.S. intellectual property at approximately $5 trillion, or about half of the U.S. gross domestic product. American IP industries now account for over half of all U.S. exports and represent 40 percent of our economic growth.

Just a digression here, these companies, the intellectual property companies--many of whom are high-tech companies--actually represent about 5 percent of all the companies in America, and yet they account for 40 percent of our economic growth. So if we are going to have a healthy economy, we are going to have to have a healthy high-tech sector, intellectual property sector as well. These industries provide millions of Americans with well-paying jobs.

By any set of metrics, intellectual property is a driver in our national economy, one that creates wealth and jobs. And our patent laws, which provide a time-limited monopoly to inventors in exchange for their creative talents, are the key to perpetuating this prosperity. The original Patent Act was written in 1790 and has been amended multiple times over the past 220 years, and it is time for further change. We can't act like disinterested spectators as frivolous lawsuits that typically cost $5 million each to defend prevent true inventors and industrious companies from creating amazing products and generating high-paying jobs. So we need to update our patent laws.

We must work with the Senate to enact a bill that enhances patent quality, discourages frivolous litigation, harmonizes international patent principles, and enforces core rights.

Our Committee undertook this initiative more than 5 years ago because patent changes are necessary to bolster the American economy and our Nation's global competitiveness. Every industry directly or indirectly affected by patents, including finance, automotive, manufacturing, high tech and pharmaceuticals will benefit if we do our job correctly.

The purpose of today's hearing is not to recycle and recite each argument made by every stakeholder who participated in the debate. We don't have time for this. Instead, we must identify common ground and establish priorities. That is why today's hearing will focus on the doable, the practical, and ultimately achievable patent reform.

We have all followed the recent developments in the Senate Judiciary Committee which reported their bill on February 3; and I am pleased that Chairman Leahy, Ranking Member Grassley, and other interested Senators are working to develop further revisions in advance of floor consideration. I met at some length with Senator Leahy a couple of weeks ago, and I am absolutely convinced that we are going to be able to find

common ground.

We have been developing a bill on the House side for our Committee as well. While the Senate vehicle is a good start, I am hoping we can work together with the other body to make additional improvements. We need a few more tweaks to inhibit the abuses that gave rise to the project back in 2005.

Politics is the art of the possible. I supported stronger language on such issues as apportionment of damages, willful infringement, and venue, but we have reached a point where no one member, industry, company, trade association, or advocacy group is going to be completely happy with the outcome, though I do hope they will be, say, 60 or 65 percent happy.

All of us should maintain a holistic perspective as we develop a bipartisan, bicameral bill; and we must keep our common goal in mind: Better patents increase productivity and lead to economic prosperity. A modernized patent system will rev the engine of American competitiveness, put inventors and innovators in gear, and drive economic growth and job creation.

I look forward to hearing from our witnesses today, Mr. Chairman, and once again appreciate the Subcommittee having a hearing on this subject. I yield back.

Mr. Goodlatte. I thank the Chairman.

Now it is my pleasure to recognize the Ranking Member of the full Committee, the gentleman from Michigan, Mr. Conyers.

Mr. Conyers. Thank you, Mr. Chairman and Members.

I just wanted to particularly thank former Judge Michel for being with us today. He has a distinguished background. I welcome all our witnesses, but Judge Michel's commitment to public service is extraordinary to me, and I am glad he is here.

The only thing I would like to say with this opportunity that comes to me is that somewhere in the appropriations process the funds that are paid into the Patent and Trademark Office never get back to the Patent and Trademark Office. I think this is something that this distinguished Committee ought to look at and see what we can do about right away, because they are hurting.

I know that there are conservative Members in the body in the 112th Congress that want to cut $100 billion from the budget, and then some want to cut $32 billion from the budget, and then now I think the figure has gone up to $64 billion in the budget, so I am glad that we are going out this afternoon. I will be holding my breath when we come back on Monday.

But this doesn't involve those kind of breath-taking reductions from the Federal budget. This involves giving the Patent and Trademark Office funds that they have already collected. They go into the mysterious Byzantine process of the Appropriations Committee behind closed doors; and, lo and behold, they never get the funds they have already raised. This is creating a serious negative impact on the whole concept of patents and trademarks; and, to me, that is the number one issue that this Committee and these distinguished witnesses can assist us in trying to resolve.

Thank you for your generosity, Mr. Chairman.

Mr. Goodlatte. I thank the gentleman. And, without objection, other Members' opening statements will be made a part of the record.

It is now my pleasure to introduce the very distinguished panel of witnesses we have today. Each of the witnesses' written statements will be entered into the record in its entirety, and I ask that each witness summarize his testimony in 5 minutes or less. To help you stay within that time, there is a timing light on your table. When the light switches from green to yellow, you will have 1 minute to conclude your testimony. When the light turns red, it signals that the witness' 5 minutes have expired.

Before I introduce the witnesses, I would like to ask them to stand and be sworn in.

[Witnesses sworn.]

Mr. Goodlatte. Thank you, and you may be seated.

Our first witness is David Simon, Intel Corporation's Associate General Counsel for Intellectual Property Policy. He will be testifying on behalf of the Coalition for Patent Fairness.

Prior to joining Intel in 1997, David was in private practice in Los Angeles for 15 years and specialized in intellectual property matters, including licensing and high-technology law. He has been a featured speaker at a number of intellectual property seminars. He holds a B.S. In electrical engineering from MIT and a J.D. From Georgetown University.

Mr. Simon has testified before the House and Senate IP Committees on the need for patent reform and has been an active participant in the industry and bar group negotiations to arrive at a compromised bill. He currently is a member of the Board of Directors of the Intellectual Property Owners Association and the Coalition for Patent Fairness.

Our next witness is Carl Horton, Chief IP Counsel for General Electric. He will be testifying on behalf of the Coalition for 21st Century Patent Reform.

Earlier in his career, Mr. Horton served as the lead IP counsel for GE's health care business, its electrical distribution and control business, and its industrial systems business. He has also worked as an IP counsel for several of GE's plastic and advanced materials divisions.

Prior to joining GE, Mr. Horton worked at the IP law firm of Burns, Doane, Swecker, & Mathis in Alexandria, Virginia. He received a chemical engineering degree with honors from the University of Utah and a J.D. Cum laude from George Washington University.

Our final witness is Paul Michel, who was appointed to the

United States Court of Appeals for the Federal Circuit in 1988 and assumed the duties of chief judge in 2004 before retiring last May. During his career as a jurist, Judge Michel handled thousands of appeals and wrote more than 800 opinions, approximately one-third of which were patent cases.

Prior to his appointment to the bench, Judge Michel served in the executive and legislative branches for 22 years. His work experience includes stints as an Assistant District Attorney, an assistant special Watergate prosecutor, an assistant counsel for the Senate Select Committee on Intelligence, Acting Deputy Attorney General, and counsel and chief of staff to former Senator Arlen Specter. Judge Michel is a graduate of Williams College and the Virginia School of Law.

Welcome to you all, and we will begin with Mr. Simon's opening statement.

Mr. Watt. Mr. Chairman, before you do that, I practiced law for 22 years and never mispronounced a judge's name, so I want to just apologize to the judge.

Mr. Goodlatte. Thank you for emphasizing that.

Mr. Watt. I know how important that is. I may have to go back into the practice of law one day.

TESTIMONY OF DAVID SIMON, ASSOCIATE GENERAL COUNSEL, INTELLECTUAL PROPERTY POLICY, INTEL CORPORATION, ON BEHALF OF THE COALITION FOR PATENT FAIRNESS

Mr. Simon. Thank you, Mr. Chairman and Ranking Member Watt.

I am here on behalf of Intel Corporation and the Coalition for Patent Fairness.

For Intel, innovation is our lifeblood. Every 18 months, what was our state-of-the-art product is now obsolete; and, as a result, we have to constantly continue to innovate. And in doing that we also have to literally invest billions of dollars to design the products, get the process ready, build the factories--of which every year for the last few years we have been investing about $5 billion a year in our factories in this country to make mostly processors. And that is really important for us.

As the Chairman recognized in his opening comments and Chairman Smith recognized in an op-ed piece, patents do help protect innovation when they are the right patents; and when they are the wrong patents, they actually hurt innovation. And it is very important for us to make sure this does not continue.

Since we started this effort on patent reform several years ago, there were a number of issues that at that time were very critical to us. Thanks in part to the leadership of this Committee and the courts, many of those issues have now gone away, and I think many of them will contribute to those issues having gone away--if not in the bill will contribute to reaching an accommodation between all concerned on patent reform.

On the other hand, what we still face is people recognize that they can use patents as a way to hold up industry. These are patents, many of which, when we read them, they are on very esoteric subjects, but for those who are experts in the field recognize that they should not have issued. For that reason, this remains an important issue for us; and to us we think that the way to deal with this is primarily through the Patent and Trademark Office.

As both the Chairman and the Ranking Member said, get the patent office its money--we are very open to you even giving it more money if the office is going to get that money--and to use that to modernize the office systems, but not merely to modernize the computer systems so that they can send each other e-mail. But also the systems that the Patent and Trademark Office, unfortunately, uses today in the examination of patents do not take advantage of the technology to actually affirmatively do that examination.

Just by way of example, and as outlined in more detail in my testimony, one of the things that the Patent and Trademark Office is supposed to do is to read through the patent application and make sure that the claims--which are these run-on sentences, as you all know, at the end of the patent--actually are supported by the specification. That is a difficult task to do when you have many other things to do as an examiner, and computers can really help that. And to us that is where we think the efforts should really be devoted first and foremost before we start hiring additional staff.

It is not that the office doesn't need the additional staff, as Chief Judge Michel points out, but they need the right tools to do the job. Because just hiring additional staff and having relatively inexperienced examiners turned loose on applications is not going to help issue good-quality patents, and that is what we really need. When we have good-quality patents, industry understands what is a good quality patent. We are willing to pay, if we happen to be using somebody else's patent, when it is a good-quality patent, but we are not willing to be held up by people who think that the patent system is a method of being a business lottery.

As the Chairman rightly pointed out, this litigation is expensive. We frequently find ourselves being told that we ought to settle because the cost of the settlement is going to be much less than the cost of litigation, and a system that encourages people to do that is not right. What it needs to do is focus on let's get the resources to the examining office.

In addition to getting those resources to the examining office initially, it is also important that patents be examined when they issue. If they are invalid, that there be methodologies to get back to the office and that those

methodologies remain open. Inter partes re-exam has worked very well for us in that, and we are very concerned that some people's proposals for that would limit access to the inter partes re-exam, so that concerns us.

And, finally, one final note on the idea of moving toward harmonization, we think that is really important. On the other hand, we also think it is important that a harmonization be full harmonization, and that includes prior user rights. Those rights are important to us because they both ensure that we can file patents on the things that we think we should patent and not file patents on the things that we don't think we should patent because we want to be able to continue to use them. But a system without that, if it switches, will cause us problems.

Thank you.

[The prepared statement of Mr. Simon follows:]

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Mr. Goodlatte. Thank you, Mr. Simon.

Mr. Horton, welcome.

TESTIMONY OF CARL HORTON, CHIEF INTELLECTUAL PROPERTY COUNSEL, GENERAL ELECTRIC, ON BEHALF OF THE COALITION FOR 21ST CENTURY PATENT REFORM

Mr. Horton. Mr. Chairman, Members of the Subcommittee, I very much appreciate the opportunity to testify today in my capacity as chair of the 21st Century Patent Coalition.

As Chief IP Counsel of GE and a practicing patent attorney for 20 years, this subject is near and dear to my heart. The 21st century Coalition is a diverse group of nearly 50 innovative companies that employ millions of Americans in well-paying jobs. These companies represent over 18 different industry sectors and thus bring the type of balanced perspective that is essential to assuring that improvements to the patent laws maximize the benefits to all industry sectors.

GE also represents multiple industries. In fact, given that the various GE businesses have very different views on the issues involved in the patent reform debate, I can assure you that almost no one has been forced to seek a more balanced and holistic solution to these issues than I have.

Moving from a first-to-invent to a first-inventor-to-file system is long overdue. The fact is most American companies already operate as if the U.S. had adopted a first-inventor-to-file system. Why, you ask? Because our export markets hang in the balance. U.S. inventors have lost patent rights to foreign companies because they unwisely relied upon the possibility that they could prove that they were first to invent something rather than acknowledging that the global patents go to those inventors who are not only first to invent but who are also first to reach the patent office steps. Exporting products made in America to these non-U.S. markets is crucial to the growth and prosperity of U.S. manufacturers.

Both pre-issuance submission of prior art and post-grant review are perfectly suited to help the U.S. PTO separate valid patents that drive innovation and growth from invalid patents that do not. Pre-issuance submission of art will allow technical experts outside the office to assist the U.S. PTO by submitting relevant prior art and explaining to the examiner why the applicant is attempting to patent something that is already known in the art.

Post-grant review would also provide a workable process to third parties to promptly and affordably challenge the validity of a patent. The benefits of this system do not require a leap of faith on our part as workable post-grant review proceedings exist all over the world. The post-grant review procedures in S. 23, as unanimously reported out of the Senate Judiciary Committee last week, represent a workable compromise that I, as a practitioner, would love to have as an alternative to litigation to challenge the arguably invalid patents that occasionally issue. And if I can prove my case of invalidity, I can invalidate the patent, thereby releasing resources that have been reserved awaiting determination of the validity of the patent. Even if I am wrong and the patent is valid, then I can report to my management that we must either license the IP or design around it. Either way, I have certainty of action at a cost I can afford.

I won't belabor the issue of adequately funding the U.S. PTO as I know that Director Kappos already made that case before this Subcommittee. However, users are prepared to pay what it costs to promptly issue patents after a full and thorough examination, but as some of the largest customers of the U.S. PTO, our Coalition members believe it fair to ask that we receive $100 worth of service for every $100 we pay to the Patent Office. Any diversion of such funding is, in reality, a tax on the innovation that might otherwise be creating jobs.

False marking is undoubtedly one of the most antiquated components of the patent system. Unfortunately, there has been an explosion of false patent marking cases in just the past 15 months, 800 or so, to be precise. That mandates that we take immediate action. These plaintiffs, virtually none of which have suffered any competitive injury, are exploiting the qui tam provisions of section 292 to chase mass-produced products where old, expired patent markings have yet to be removed. This is arguably the worst recent example of truly wasteful litigation.

Let me conclude with three issues that don't necessarily need to be redressed through patent reform legislation, namely, venue, willfulness, and patent damages. The Federal Circuit is already reining in inappropriate forum shopping by requiring

transfer of venue when the transferee venue is clearly more convenient than the venue chosen by the plaintiff. Similarly, the Federal Circuit has clarified the standard of willful infringement to require proof of objective recklessness by the infringer before trouble damages may be awarded. Given that the current legislative proposals are attempting little more than the codification of the In Re Seagate decision, legislation pertaining to willfulness is likewise unnecessary.

Finally, the Federal Circuit's decision in Lucent v. Gateway is now requiring judges to act as gatekeepers in challenging the sufficiency of evidence supporting patent damage theories. Also, in Uniloc v. Microsoft, the Federal Circuit eliminated as inflexible and unreliable the 25 percent rule of thumb for calculating reasonable royalty damages. These cases and others like it have obviated the need to legislatively address patent damages.

Again, the Coalition appreciates the opportu9nity to offer our views on what can and should be done on patent reform and stand ready to assist Congress in identifying achievable patent reform which can cross the finish line in the 112th Congress.

I would be pleased to answer any questions you may have. Thank you.

[The prepared statement of Mr. Horton follows:]

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Mr. Goodlatte. Thank you, Mr. Horton.

Judge Michel, do I have that right now? I have a former employee by the same name and the same pronunciation and a former minority leader of the other pronunciation that I use. I think highly of both of them as I do of you, so welcome.

TESTIMONY OF THE HONORABLE PAUL MICHEL (RET.), FORMER CHIEF JUDGE, U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Mr. Michel. Chairman Goodlatte, Ranking Member Watt, Chairman Smith, and Ranking Member of the full Committee Conyers, it is certainly understandable that there would be confusion about the pronunciation of my name----

Mr. Watt. Is your mic on?

Mr. Michel. Yes, I think it is. The confusion about the pronunciation of my name is so understandable in the House of Representatives because of the long tenure of Congressman Bob Michel from Illinois. We may actually be distantly related, but I am not sure. And I want to assure you, Mr. Chairman, that as someone who used to enforce red lights, I will be sure not to be an offender over the time limit.

I would like to very briefly address five general points.

First, in my judgment, the principal problem in the American patent system, in the Patent Office, and in the courts can be summarized in a single phrase, ``excessive delay.'' The delays in examination average 3 years; and often it takes applicants 5, 6, 8, 9 years to get a patent issued. The reexamination process also is taking years and years and years to conclude, and very often the reexamination going on in the Patent Office holds up court cases and causes further delay there as well. Harmful results follow, including the drying up of investment capital from venture capitalists and equity funds and other sources of risk capital that is needed for the growth and for the job creation and the technological advance of so many companies and industries.

Just consider this: Of the 1.2 million applications pending today, we know, based on historical grant rates, that over 700,000 will result in granted patents. So you really could say that trapped in the Patent Office today are private-sector business assets that will produce economic growth and job creation if only they can get out of the Patent Office. So, in my judgment, fixing the funding problem is overwhelmingly the greatest need of patent reform from where we are today.

I think the Patent Office has made many internal improvements and it continues to do so within the limit of its resources, but I don't see any way that it can get where it needs to get on speed. And Edison, as I recall, got his patent in 6 week, not 6 years, which is common today.

They can't get there without substantial new resources. They do need more examiners. On this, I have to disagree with Mr. Simon. They also need a great many more board judges. The board is swamped. Its inventory went from 3,000-some to 20,000 over the last couple of years. The delays there are also years and years and getting worse, just like the re-exam delays and the delays in initial examinations. And the resource gap, the difference between the workload and the resources, has grown every single year for nearly a decade. So fixing the funding is the overwhelming need. I would say it is 80 percent of patent reform, given where we are today.

As to post-issuance procedures, I want to make clear I am not against patent reform; I am in favor of patent reform. I am not against post-issuance procedures; I am in favor of them.

I do think that because delay is so harmful and so ubiquitous in the PTO and in the courts that great care would have to be taken in crafting the provisions so that post-issuance procedures, whether they are the same as we have now, additional ones, substitute ones, or however you end up choosing to do it, must contain sufficiently strong safeguards, things like a clear threshold, a meaningful threshold, or else you will have frivolous PTO proceedings. When frivolous court cases are a great concern, frivolity in either place, obviously is quite harmful and must be avoided. So strong safeguards are needed, a threshold, a clear burden of proof, estoppel effects, and a ban on serial attacks on the same patent are examples of

those safeguards.

Next, I want to say that I agree with Mr. Horton--and Mr. Simon agrees, at least to an extent--that the court-related provisions in recent patent reform bills are no longer needed. Now you could say, well, what is the harm if they just sort of codify current practice? But, in my view, there is harm because they will add uncertainty, they will add complexity, and, therefore, costs will go up instead of down and delay will go up instead of down. So I urge the Committee to be very cautious about anything relating to the courts; and, in my view, it would be better to leave out all of the court-related provisions.

We have such an unusual situation here where industry, represented by these two distinguished gentlemen at the table with me, are eager to pay higher fees if they can get faster, better work from the Patent Office. And they can get faster and better work if, as has been said, the fees collected are adequate, number one, and, number two, can be accessed in their entirety by the Patent Office and don't go off to support other governmental activities.

And, of course, no taxpayer money is involved. So we are really not talking about Federal spending. We are really not talking about the Federal deficit. This is private money for a private purpose to achieve a private property right that ends up having huge public benefits if we can keep the system on the tracks.

And I would like to stress, finally, that the benefits of much greater speed--and quality will go along with more resources as well as speed--will be all companies, all industries, all technologies at all stages of growth, from little startups to emerging companies that are growing fast, to companies that are ready to go into the public stock market to get even further funding, so everyone will benefit if we can solve the problem of speed. No one will be hurt. But those who will benefit the most are the smaller, newer, technology-driven, patent-dependent companies.

And it turns out--and the Commerce Department approves this. The Kauffman Foundation approves this. The President is saying this, experts everywhere are saying this, most of the new jobs, most of the new wealth, most of the new technologies come from these emerging companies. They are the Intels of the future, but they need to be able to grow, and that is what speeding the work in the Patent Office and the courts will allow.

Thank you very much.

[The prepared statement of Mr. Michel follows:]

Mr. Goodlatte. Thank you, Judge.

Let me ask both Mr. Simon and Mr. Horton, apart from patent pendency, about which you have all testified being a priority for you, and I think there is uniformity of agreement up here as well, apart from that, what is the one big worry that keeps you up at night regarding our patent system?

Mr. Simon.

Mr. Simon. Well, I will try to go to the biggest one, but there are many worries that keep me up at night. The biggest one to me is making sure that what the Patent Office does is in fact quality work. It is all too often we get a lawsuit where it is the first time we have heard about this patent--which is years after the patent issued, never heard of the company. We greet the patent and we go, look, this was not examined right; it should never have gotten through the system. And the problem then is we have to deal with it frequently through the litigation system, and that is an immensely expensive process.

We recently had a case where we got a patent invalidated because the claims literally didn't make sense, but it cost us $8.5 million to get there.

Mr. Goodlatte. We are with you on that, too. And since my time is limited, let me just ask you to refine that and tell me what would be the one thing you would do to improve that patent quality.

Mr. Simon. I think the biggest thing to improve patent quality--and I think the office really wants to do it in my discussions with them--is to start using computer technology to do a better job examining patents. I have been practicing for about 30 years. The Patent Office is always saying we are going to get it faster. We are going to hire more examiners to get it faster. Unfortunately, I think they need more examiners, but I don't think that is going to solve the problem.

Mr. Goodlatte. Mr. Horton.

Mr. Horton. I would say I agree with what Mr. Simon says. And one of the ways I think to help that as well would be to move to a first-inventor-to-file system to speed things up and reduce the complexity.

But I would say the companion thing that also concerns me is the ability to effectively challenge some of those invalid patents, shall we say. So to lead your question I guess would be, what do we do about it? I think the current post-grant structure is a good compromise between trying to allow rights holders the chance to get clear title to their inventions promptly and affordably while at the same time preserving the ability for those who disagree with the ruling of the Patent Office the chance and meaningful opportunity, again, on an affordable basis, to challenge the validity of that patent and clear up the issue once and for all so that you can have an actionable property right at the end of that.

Mr. Goodlatte. Okay.

Mr. Simon, Mr. Horton agrees with your top suggestion. What is your opinion of his top suggestion?

Mr. Simon. His top suggestion is a very good one. I think we have some disagreements about the implementation of that top suggestion, though.

Mr. Goodlatte. Can we close that gap?

Mr. Simon. We will work on it, Mr. Chairman.

Mr. Goodlatte. Turning to you now, Judge, my question for you is a little different.

As a Judge, we hope that you don't have to stay up late at night, but we would ask you this: If you were still on the bench, and apart from the issue of funding and pendency, what would be your greatest concern? And you can elaborate on both of their comments as well.

Mr. Michel. Mr. Chairman, I think that, in addition to more examiners, it is important to focus on the quality of the examiners themselves, their experience level, their expertise level. Too large a proportion of the current examining corps are rather young and inexperienced. It will take resources to hire quality people of greater experience and expertise. So that is part of the package, and it will help quite a lot.

I think the courts, like the Patent Office, in recent years have been moving rapidly to make improvements. For example, now it is much more common for a patent to be invalidated early in the litigation on summary judgment without having to go through full discovery and trial, which is certainly expensive. And there are also cases now where costs are being imposed for bringing weak or frivolous lawsuits against those who do so. I think the courts have ample tools, and they are beginning to use them much more aggressively in recent years than in the past. And I think that will continue and will greatly limit any court-level abuses.

Mr. Goodlatte. Thank you.

Mr. Simon, you state in your testimony that there shouldn't be any limitations placed on a post-grant review system. Do you think this position compromises the rights of legitimate patent holders by placing a perpetual cloud over their patents, something that Judge Michel alluded to in his remarks?

Mr. Simon. Well, under our system, patents have always been--whether a patent is valid or not has always been an open question. There is no quiet title process by which you can acquire title to a patent, for many reasons. Even if the Patent Office does the best job it can do--because they are pretty much limited to prior art that is in the Patent Office and publications and can't see what happened in industry--that is a big limitation. In addition to which, we have actually done a study. There are about 90,000 patents a year that issue in the tech industry. For us to have to go through 90,000 patents a year as to our products and then think through we have a pipeline of products that is 10 years long where we have started working on design and try to figure out which patents may impact that 90,000 every year, that means as a result we are very rarely going to be able to use it if it is a closed system.

Mr. Goodlatte. Mr. Horton, do you want to respond to that?

Mr. Horton. Actually, yes, I would.

I would argue two things. First, I would say that the current proposals that seem to have garnered the greatest amount of support--granted, we haven't satisfied the people on either end of the extreme, but we have a very large center around this kind of compromise proposal about having an all-issues post-grant review for a limited period of time. Again, anything you want to challenge, bring it in. You get the benefits of a level playing field across the board. That is the time, that is the opportunity to get those issues resolved.

But there is a fail-safe mechanism as well. The inter partes still does allow you to go forward and challenge those rights for the life of the patent provided you can come forward with the right prior art. And so I think that is a good--the way I analogize this is to purchasing a home. If some point I want to put an addition on my home, I want to know that this property is mine, that I am free to build on it, that I am free to expand upon it, and that someone is not going to come along 5 years later and say, oh, you know what? My uncle told me that he left me that in a deed, in a will. And if I ask to try and get it, they can't produce it, but he is sure that it happened, I can't live with that. I would have to sacrifice that.

So there needs to be a process by which you can resolve the title to that property. Because the thing that is different about intellectual property, it is an actionable property right. We get them with the intention of doing something with them--investing in them, building with them, manufacturing. So we need to have quiet title at some point in time. It is only fair.

Mr. Goodlatte. And, finally, Judge Michel, you earlier on this subject said that there must be a clear threshold, a clear burden of proof, and an effective estoppel system. Anything you want to add to that or comment on what they have said?

Mr. Michel. Mr. Chairman, I think that those safeguards would be adequate. I think a post-grant system, including the two procedures that Mr. Horton described, can be made to work effectively. But the key thing to remember is that the patent isn't self-enforcing. It is not self-executing. Unless you can go to court and get enforcement of the patent, it actually has no value. It is something like a prize at a high school science fair. It is a piece of paper that recognizes an achievement, but economically, in terms of industry growing, it is nothing unless and until it can be enforced.

So the problem is how to balance--as courts often have to do and now Congress will have to do the same--the need for

certainty, the need for clear title, the need for things to not be forever challenged and rechallenged and rechallenged in the PTO before you can even get a court decision against the rights to have adequate challenges.

I think that the compromises that have been worked out are pretty good and maybe need a little more refinement but are on the right track. But, at the end of the day, you have got to be able to go to court sooner than 5 or 10 years after issuance of your patent or the patent system will have no effect to drive the economy forward.

Mr. Goodlatte. Thank you.

The gentleman from North Carolina, Mr. Watt.

Mr. Watt. Thank you, Mr. Chairman.

I think the Chairman has been gently nudging you all to identify your differences so we can see if they can be reconciled. I am going to be a little bit more aggressive, I think, in trying to nudge you in that direction.

I think I heard Judge Michel say that the court-related provisions in legislation are no longer needed and would in fact be harmful--or could in fact be harmful. I think I heard Mr. Horton say that there is no need for legislation on damages. I assume those two things are saying essentially the same thing. Where are you on that, Mr. Simon?

Mr. Simon. I am in agreement with them.

Mr. Watt. Okay. You are speaking for a bunch of people here. They are in the audience. I didn't see any frowns on many faces back there.

All right. This process has been going on for quite a while, and the two parties here at the table have been involved in it. What do you see, Mr. Simon and Mr. Horton, as the major--just tell me two major issues that divide you. Don't elaborate on them yet. I will give you a chance to come back and do that. But just tell me what the issues are first. Mr. Simon, you give me one. Then Mr. Horton give me one, and then Mr. Simon give me one, and Mr. Horton give me one. I am giving everybody equal chance here. Go ahead.

Mr. Simon. One of the issues that still divides us is what limitations, if any, are placed around inter partes re-examination and post-grant oppositions.

Mr. Watt. Okay. Mr. Horton.

Mr. Horton. Prior to today, I would have said venue would have divided it--damages----

Mr. Watt. Hey, don't go there. We got that one cleared up.

Mr. Horton. Honestly, I would have to say number one is how we optimize the post-grant review proceedings for both parties. I can't think of any other--the judicial ones have always been the real thorny, complex problems we have been dealing with.

Mr. Watt. So we are close here. There is not a second one then.

Have you got a second one to identify, Mr. Simon.

Mr. Simon. Well, I am not sure it is appropriate to identify it as an issue that separates Mr. Horton and I, but another issue that we are concerned about is prior user rights. I don't think Mr. Horton's Coalition is opposed to them, but there are apparently others who may be.

Mr. Watt. Okay. Well, let's talk about the one that got the wlimitations on--tell me what the issue is. Identify it again so I am sure I understand what I am talking about.

Mr. Simon. This is on inter partes re-examination and post-grant opposition.

Mr. Watt. Okay. Re-exams and post-grant opposition. And describe for me, if you can, what the differences are in the various positions so I am clear on what we are arguing about.

Mr. Simon. So the differences are when you can use them. So, for example--and I believe Mr. Horton's coalition is supportive of the provision in S. 23--there are limitations of when you can use an inter partes re-exam if you are involved in litigation. So from our company's standpoint--and there are similar ones on post-grant opposition in addition to the time limitation after the patent issues.

So in our industry, frequently the patents come out of the woodwork as complete surprises. We have never heard of them before we got sued, we have never heard of the company before we got sued, and we have no meaningful way of knowing about it. And if you have--from the time you get the complaint, if you have only a limited time in which to decide whether it is appropriate to use inter partes review or post-grant opposition before the time window closes and to find the art, it is totally inappropriate, in our view.

Mr. Watt. How would you solve that problem?

Mr. Simon. Well, under the current system on inter partes, for example, there is no time limit currently. You can file an inter partes re-examination----

Mr. Watt. Would you leave it like that?

Mr. Simon. I think that that is an appropriate way.

Mr. Watt. How do you address Judge Michel's concern that that leaves this open forever and a day and never gets resolved? I don't know how you can do that.

Mr. Simon. Well, in the current statute, there are actually res judicata provisions about the effect of inter partes re-exam. From our standpoint, we think, with a couple of minor issues, those work.

The whole point is that frequently it is very difficult to argue to a jury why a patent is invalid. We think the Patent Office is the better place to deal with it. And we have had issues where what the interpretation of what the patent means is decided for us literally in the middle of the trial, sometimes even at the end of the trial; and that can have a dramatic effect as to whether the patent claims, in our view, is valid or not.

Mr. Watt. Judge Michel, just give me your perspective on this. My time is up.

Judge Michel. What's happening already is that court proceedings that are ongoing are being stalled by things going back to the Patent Office for reexamination under the current system because the threshold to get there is meaningless. Ninety-five percent of the times that meaningless threshold of a so-called ``substantial new question'' is readily met. Any patent lawyer worth his salt can raise a substantial new question in virtually every case. So there has to be some kind of meaningful threshold for this procedure back in the Patent Office or a pending litigation is subject to severe and unlimited abuse.

So I think the big difference between Mr. Simon and Mr. Horton is Mr. Simon wants the right to be able to be in the Patent Office virtually forever, no matter what's happening in the courthouse, and Mr. Horton wants limits. And since patents can only be enforced in the courthouse and not in the Patent Office, it seems to me that a meaningful threshold for all post-grant procedures is absolutely critical.

Mr. Watt. My time has expired.

I would let you respond to that, Mr. Simon, but I am out of time. If you want to respond--I mean I would be interested in hearing a response.

Mr. Simon. Thank you.

So, a couple of things. First of all, if you look at the statistics of the inter partes reexams that have actually gone through the system, the judge is correct that 94 and 95 percent of them have been granted. But the other thing is in 90 percent of them, at least one claim--or just about 90 percent of them--at least one claim was changed because of apparently the art that was found.

So, A, it is having an effect, and B, it doesn't appear that frivolous inter partes reexams is a big problem. So that's one issue.

The second issue is when you decide to pull out the inter partes reexam, you have to be really careful because if you lose it, you basically have the Patent Office now reconfirm the validity of the patent over your opposition, and you've dug yourself a huge hole. So it is something you have to think long and hard about before you use it.

Mr. Watt. I appreciate it. This has been helpful.

I apologize to the Chair for abusing the time.

Mr. Goodlatte. No, not at all. I did the same thing.

The gentleman from Utah is now recognized. And we will remind the Members that under the Chairman's new process, we recognize Members in order of seniority based upon being here at the time of the start of the hearing; and then after that, based upon their time of arrival.

So the gentleman from Utah is recognized.

Mr. Chaffetz. Thank you, Mr. Chairman. Thank you all for being here. We do all appreciate it.

Perhaps we can start with the judge.

My question is about the transition to first-to-file, what the ramifications of that are from your standpoint. And particularly as it relates to small businesses and independent inventors and whatnot who aren't necessarily represented here at the table. What are the implications, pros and cons?

Judge Michel. Congressman, it's a very good question and I think actually the answer is ``no one knows.'' As far as I've been able to discern, there isn't an adequate factual record based on careful study to be able to assess whether--I don't know the answer--but whether there would be undue negative effects on smaller companies, individual inventors, some universities and others at that end of the size scale, with Intel, of course, at the other end.

So it seems to me that until Congress could satisfy itself that there wouldn't be significant negative effects, it should be cautious about moving to a first-to-file system. It would have certain advantages. There's no question about that, particularly for certain companies like ones that do lots of international business. And again, I am not against moving to first-to-file, but it seems to me that you might want to have a delay before it kicks in, and before you made that decision, you'd want to know that it doesn't have undue negative effects on small business.

Mr. Chaffetz. Thank you.

Mr. Horton. If I may.

I look at the small, medium-sized enterprise individual inventors, and I break them into two different groups. As a practicing practitioner, that's my perspective. Group one is that group who's hoping at some point to be able to export their products outside the United States. In my mind, that group clearly benefits because now they are playing on a level playing field. They're playing the way everybody else in the world plays. And so they're playing to win the same game. They're not playing a different game, where they were relying unwisely on the potential to delay getting to the Patent Office only to find out they lost everywhere but the U.S.

Group number two is the group where they're never going to export outside the United States. It is solely a U.S. Market question. And for that one, I take one step back first in this analysis; and that is, remember the patent is the best friend of the small guy. It is one of the few and only tools that would allow Joe Inventor to take on a company the size of GE and win.

But there is one huge caveat. In the first-to-invent system we have today, the only way Joe Inventor wins is if he can duke it out in court in the Patent Office, in the interference proceeding, and prove that he was first to invent.

Let us give a hypothetical. For example, Joe Inventor invents the idea, but he delays slightly in getting to the Patent Office. In the meantime, foreign company X comes along, files the patent in country X, whatever country they reside in, ahead of Joe Inventor. Then you come to the U.S. Patent Office where Joe eventually does file his patent application and they have to fight it out.

The problem Joe Inventor faces is--and Gerald Mossinghoff, the ex-commissioner of the Patent Office--ran some studies to prove this, Joe Inventor loses more times than he wins because he has to come up with the necessary proofs. And the burden is on him to prove that he was first to invent because the other party, the foreign party, will be presumed to be the first to invent because he was first to file.

Mr. Chaffetz. Thank you.

Mr. Simon, I am going to change the equation just a little bit on you, but be happy to address that portion of the question.

Let's talk about trolls. How do we limit the trolls that are out there and the problems that companies like yours deal with with the trolls that are out there that cause undue headaches that are slow, bog us down? How do we deal with that?

Mr. Simon. Well, thank you. And I just want to point out, just so the Committee appreciates it, that Mr. Horton and I also agree on that point.

Mr. Chaffetz. Duly noted.

Mr. Simon. By the way, just to give you an idea of how small an issue I think this actually works out to be, Intel has filed over its history something like 25,000 to 30,000 patents in the United States. We've been involved in one interference in that amongst those 25,000 to 30,000 patents over a 40-plus year history.

But turning to the issue of people who are in the business of using patents basically as a legal form of, quite frankly, extortion, you know I think the best thing we can do at this point is--I mean, the courts have done some things that have been very helpful. And then I think the other thing that we can do is I think we need to work on the office and make sure that the number of patents that get out, that are bad, is very, very small. It is impossible for them to be perfect. No one is.

On the other hand, right now, given how underresourced they are and given the antiquated systems that they have, it is a real problem.

Mr. Chaffetz. Thank you. Yield back. Thank you.

Mr. Goodlatte. Thank the gentleman.

I am now pleased to recognize the Ranking Member, the gentleman from Michigan, Mr. Conyers.

Mr. Conyers. Thank you, Chairman Goodlatte. This has been a very useful discussion here today. I commend all of the witnesses.

Let's go back to what I consider a key problem is that instead of the funds that are paid to the PTO going directly to the PTO--I would like to find who the legislator or legislators were that invented this process--that it goes back to the Appropriations Committee and they'll get it over to you for us. And therein lies a lot of difficulty.

Not only are we--are the applicants paying for this, but they'd be willing to pay more if we could all get what they're actually paying in.

And so without assessing blame too readily, the appropriators seem to not come up in a very favorable light the way I am describing this.

And then we happen to have found out that, as we call them, ``the other body,'' they don't seem to like the idea of eliminating the appropriators from this process.

To me, this is a very key problem, central to everything else we're discussing.

Could you all comment on that, starting with the judge?

Judge Michel. Chairman Conyers, I think that the harm caused by lack of access to all of the fees collected is actually quite substantial. I've seen many figures and they all exceed $800 million in collected fees that didn't end up supporting operations in the Patent Office. That's a lot of money; given the Patent Office scale of spending, it could have done a lot of good if they had gotten it.

The second thing is that I think it is an issue of fairness. People don't pay user fees for patents as a gift to the society. They're making an investment to get a property right, and they're required by law to pay the fee. They have no choice. They're forced to pay the fee and they pay it so that the Patent Office can examine their patent carefully and quickly.

So I think it's an issue of fairness to private industry who pay these fees under the compulsion of law, as well as a serious drain on the Patent Office. And it really ought to be stopped, and it is long overdue to stop it, in my judgment.

Mr. Horton. If I may, Chairman Conyers.

I couldn't agree more, both with what you articulated as well as the judge. And to that I will add I believe this is a unique moment in time for us. We have a director at the U.S. Patent and Trademark Office that enjoys widespread acclaim. Amongst the user groups we trust him, we respect him. He comes from the industry so he knows what he's doing, and I think people are generally quite pleased with all of the progress he's made as well as the ambitious plans they've laid down. So I think it is an opportunity for us to grab this moment in time to see if we can't change that paradigm and get it fixed.

Mr. Conyers. Thank you.

Mr. Simon. I couldn't agree more with both Judge Michel and Mr. Horton. So I will just leave it at that.

Mr. Conyers. Well now, I think this gets inside this mania for deficit reduction that seems to be driving this new Congress, because we're not talking about adding to the deficit or creating more obligations. And so it is a win-win-win.

Now, you should ask me after the hearing that, if everybody's in so much agreement, why don't we do it? And so I'll ask you since we're at the hearing--I mean, what's holding this up? Maybe I should----

Mr. Watt. Do you want me to attempt it?

Mr. Conyers. I am always afraid when Watt volunteers to help me out. That's a very dangerous position for any questioner to get in. But that seems to be underlying the first steps toward the corrections that you all articulated so well. So I'm sure not going to yield to him. So I'll turn back the balance of my time.

Mr. Goodlatte. I thank the gentleman.

And it is now my pleasure to recognize the gentleman from New York, Mr. Reed.

Mr. Reed. Well, thank you very much, Mr. Chairman. I appreciate all of the testimony I've heard here today.

And I am just a country lawyer, and a lot of times I'll say a lot of the problems here, blame it on the lawyers. And one thing that's been brought to my attention that I am greatly concerned about is law firms, such as a group called the Patent Assassins. I don't know if you've heard of them. But some advertising came into my office where they specialize in going through and attacking legitimate patents, in my opinion, through the reexamination post-grant review process.

And I'm concerned about that because in their materials they talk a lot about, well, we have the expertise, we have the specialty to tie these legitimate patents up. They don't use the term ``legitimate patents,'' obviously, but tie these up and we can attack it through the PTO Office. And to me that's just a symbol of something that demonstrates commitment to frivolous action that's going to abuse the process.

So I am concerned about, in particular, the post-grant review proposals that are in the Senate bill or the House bill. And, Judge, with all due respect, you're the gentleman I was most eager to listen to today--with respect to these folks, too, over here--because you're 22 years on the bench. What are your thoughts on that?

Judge Michel. Congressman, the challenger is always going to say, ``the patent is obviously bad. My people told me so. This is not an abusive challenge. This is a solid challenge and I think I'm going to win.'' The other side is going to say ``no, this is a frivolous challenge that's needlessly delaying court litigation and keeping things open in terms of do I own a right or not,'' as Mr. Horton said.

So obviously what you need is some kind of mechanism in trying to separate the wheat from the chaff. That's why I think it's so important to have a meaningful threshold. And the threshold suggested in some of the recent proposals--and I believe it's still in the current Senate proposal--is that there has to be a likelihood shown in order to start the proceeding that at least one claim of the patent is invalid. That seems to me to be a pretty good threshold. But if you've no threshold, it is wide open to abuse and I think it will happen.

Look, the reality is lawyers, litigators, get paid to get advantage for their client any way they can, and they're very tempted to press the limits. That's the nature of the litigation system. It's true in the courthouse, it's true in the Patent Office. So in both the courthouse and the Patent Office, you have to have meaningful thresholds to prevent abuse; because otherwise, sure as can be, it will happen.

Mr. Reed. And because I was also interested in your testimony about in the courts. You seem to be comfortable that the courts are using tools to sanction frivolous behavior. Are any of those tools available to the administrative process to the Patent Office that may be applicable to be applied there to make sure this abuse doesn't occur in the administrative process?

Judge Michel. I don't think so. The Patent Office is quite handicapped. They don't have subpoena power, so you can't force the production of witnesses or documents, except what's pretty much volunteered by the parties. And they, of course, can disbar lawyers if they lie, cheat, and steal or do something blatant and prevent them from practicing in the Patent Office in the future. But realistically, their power to prevent frivolous filings is nil.

So the question then is can they screen them out by declining to move forward with the proceeding because the threshold is not met?

Mr. Reed. I appreciate that. Mr. Horton.

Mr. Horton. Yes. I think part of what is so attractive about the current compromise that has been reached is the fact that it tries to address both these dynamics that have been brought forward. The first is to address your very concern: We need a narrow window for an all-issues post-grant review. It doesn't have to have a high threshold because you want to keep a level playing field in the event the Patent Office didn't do something right. So provide a narrow window, again, a very short period to get that resolved quickly and allow litigants the chance to make their case once and for all.

But once that's done, you need a point in time where you can draw a line in the sand and say it's time to invest. I deserve my presumption of validity on this patent, and now to the extent that any one wants to challenge me going forward, there ought to be a higher threshold, there ought to be a limitation on the types of evidence that be can brought in to

make a challenge against a patent like that. That's precisely what the current compromise language is attempting to do.

Mr. Reed. Mr. Simon, your thoughts.

Mr. Simon. Well, unfortunately, as we all know, lawyers advertise interesting things. Anybody who suffers from insomnia gets to see plenty of questionably tasteful--tasteless ads.

But the point that I have to make is one, you know, if you look at the statistics, the statistics are a very small percentage of either inter partes reexam or ex-parte reexam actually end up where nothing happened. So that means that it's a relatively small and confined problem.

The second thing is it's a much less expensive problem than the opposite of when you're in court litigating one of these patents with a presumption of clear and convincing evidence that the patent is valid.

And as to the delay, I think possibly one thing that the Committee could look at is whether--I know that the Patent Office has been complaining in inter partes reexam of largely the patent owners filing what are really frivolous petitions which delay the proceeding and keep the proceeding advancing through the Patent Office. And that may be one place where you could put limitations, because I don't believe--at least my current reading of the rules--is they're not permitted to do that.

Thank you.

Mr. Reed. Thank you. I see my time has expired. Thank you, Mr. Chairman.

Mr. Coble. [Presiding.] The gentleman's time has expired. I'm told the next witness, Ms. Chu from California, is recognized for 5 minutes.

If you will delay. I want to apologize to my colleagues and to the panel. I have been involved in a hearing regarding the oil spill of last fall, so I missed all of the testimony and I regret that. But I know the panelists contributed very favorably. It is good to be here even though belatedly.

Ms. Chu, you're recognized for 5 minutes.

Ms. Chu. Thank you, Mr. Chair.

Well, I believe that we in Congress have to be focused on jobs, jobs, jobs. And it caught my eye, Judge Michel, when you argued that fully funding the PTO and relieving the backlog would create up to 2.25 million new jobs. It sounds like a great investment, but I am wondering whether simply appropriating $1 billion to the Patent Office, without doing more, would truly reform the system.

Do you truly think that no additional reforms are necessary?

Judge Michel. Congresswoman, I think lots of efficiency measures are needed in the Patent Office. A great many have already been put in place in the 18 months under the new director, David Kappos. New ones are being hatched practically by the week. So of course they need to continue to improve efficiency.

With respect to--I think you're alluding to an editorial that I co-authored last summer, in which I said in the ideal world, there ought to be an investment on behalf of the country's future of public money, not the user fee money, but taxpayer money, in the order of magnitude of a billion dollars because the Patent Office is so far behind, so badly backlogged. But given the current fiscal situation, I'm no longer making that suggestion because I don't think it's realistic. It's not going to happen.

So second best is raise the fees and let the Patent Office keep every dollar of the fees collected to be used in the current year, and in future fiscal years as well, so they can plan ahead and operate more like an efficient business than in the past.

Ms. Chu. So, Mr. Simon, and Mr. Horton, do you agree with that assessment?

Mr. Simon. Well, I certainly think that having patents delayed in the Patent Office unnecessarily is a bad thing for innovation. On the other hand, I just need to reflect again that, you know, what we want is good patents to issue, valid patents to issue, properly examined patents to issue. And I think providing the office with the tools--I think I agree wholeheartedly with Mr. Horton's and Judge Michel's comments about the current leadership at the office. If we do that, we have a much better chance of getting to that point.

Ms. Chu. Mr. Horton.

Mr. Horton. You know, in my mind you've got two things working simultaneously. And you have to optimize them both to get the optimal result. We need not only adequate funding for the PTO, but we also need the right system in place. So it's the combination of systems and tools together with the adequate funding.

The best analogy I can come up with is a sports car. Right now, poor Director Kappos is having to drive a 1979 Dodge Aspen. I know what that's like. I drove one in law school. You don't want to be there. But if we were to get the system upgraded pursuant to the legislation we're pursuing, we could be putting him behind the wheel of a new Cadillac CPS V coup and that would do wonders.

Now, if you're curious whether I drive that today, let me be clear. I don't. I can't afford it. And my wife wouldn't let me even if I could.

But the combination of those two things really would give us the maximum efficiency. Together, the money and the system and tools.

Ms. Chu. I see.

Judge Michel, it seems to me that you're assuming that all patents are created equal and there is no economic value being

created by any of the ideas that are waiting for review at the Patent Office. But one of the key differences between some of the parties to this debate is that they rely on different technologies and business models. For example, the companies in the biotech community and the high-tech community rely on patents in different ways.

How does your analysis change when you consider these differences?

Judge Michel. Congresswoman, I think it's very important for the patent system to work for every industry, to be fair to every industry. So it's a little bit of a balancing act. It's not going to be perfect from Mr. Simon's standpoint unless it's terrible for lots of other people. So it's going to have to be somewhere in the middle. And finding the optimal balance, of course, is challenging.

But I think that Mr. Horton has us on the right track when he talks about adequate provisions to prevent abuses, as well as greater resources, having the right systems in place.

You know, we can't afford to not get this problem solved because the word you used is the most important word uttered in this room today, which is ``jobs.'' We've got 16 million people unemployed or underemployed in this country, as you all know, and we have new workers joining the workforce in large numbers every year. So to just stay even, we have to create a very large number of new jobs every month.

The patent system can play a great role in this. Now, it's true there are lots of important companies that don't depend very much on patents. Fine. They're doing well without patents. There's no requirement that you use patents, but it needs to be there for those companies that do need it, and there are many.

And it is not only the pharmaceutical industry or biotech industry, it is a broad range of companies. Most of them are members of Mr. Horton's very diverse coalition.

So it would not be right to say this is a battle between big PhRMA and the California high-tech companies like Intel. I think that's a very misleading description that you sometimes see in the press. It is a question of finding what would work pretty well for everybody, even if imperfectly, for any particular company or industry.

So it is finding the balance, and I think we're getting closer and closer.

Ms. Chu. Thank you. I yield back.

Mr. Coble. The gentlelady's time has expired.

Mr. Griffin, the gentleman from Arkansas, is recognized for 5 minutes.

Mr. Griffin. Thank you, Mr. Chairman.

I want to follow up, Mr. Horton, on your testimony. You mentioned the studies that deal with first-to-invent versus first-to-file. And I think you mentioned Mr. Mossinghoff's study.

In your testimony, you refer to Professor Linley's study as well, and you indicate that it suggests that the current first-to-invent contest, more often used by large entities, challenge the priority of small entities, and not the reverse. And I see that you're citing a Hastings Law Journal article.

Could you talk a little--could you talk a little bit about that data, or are you familiar?

Mr. Horton. I don't believe I cited the Linley study in my testimony. That's the reason I raised my eyebrows. We did speak in my oral testimony about the Mossinghoff study.

Mr. Griffin. Okay. In your statement. I am sorry.

Mr. Horton. So the question?

Mr. Griffin. If you could talk a little bit about, if you're able, if you're familiar with that data, if you could talk a little bit about the Linley study and maybe that data versus the Mossinghoff study. What sort of data was used to write that Hastings Law Journal article?

Mr. Horton. I am most familiar with the Mossinghoff study. Do you want me to comment on that?

Mr. Griffin. Sure. Sure.

Mr. Horton. What Gerald Mossinghoff was attempting to look at is the frequency where the small inventor really did in fact--was successful in the Patent Office in a challenge contest over who was first to invent; the interference proceeding, essentially. And I think one of the things they were keyed in on--it's not simply big versus small--it's a question of who was first to invent, obviously, but it's a big question of proofs.

An interference proceeding, if you haven't been in one, it's very akin to a litigation. It takes a great deal of time. It is worse, as Judge Michel would say. It's very lengthy, very expensive, and in all intents and purposes, the same. So the small inventor is at a significant disadvantage financially and otherwise to go up against the bigger companies. Not surprisingly, therefore, they win less than 50 percent of the time.

Mr. Griffin. To a large degree it's simply a matter of who can fund the litigation and who can't.

Mr. Horton. Yes, because you're looking at proofs, who can come up with the proofs and substantiate it. It's not whether I invented it first; it's can I prove that I invented it first.

Mr. Griffin. The judge mentioned the concept of balance here, and from what you've written and from the testimony I've heard, the first-to-file, a change to the first-to-file system may benefit small businesses or smaller inventors.

What impact, if any, would it have other than maybe balancing things; what impact would it have on the bigger companies? Is it a more balanced approach, or does it just turn the advantage the other way?

Mr. Horton. You know, it's funny you should ask that

because Dave can comment on this as well. I am sure he feels very similar.

We've been operating for years as if that were the system that the U.S. was using, because we have to. We're global companies, so big companies that export, we have to play that way because it's all about who gets to the office first. We stop thinking about who was first to invent and keeping detailed, you know, recording inventor notebooks that they keep. We stopped playing that game because we figured the safest way to win every single time everywhere is to get to the office first.

Judge Michel. Congressman, if I can add, I don't think it is so much a question of who wins these long complicated interference proceedings. I don't challenge the statistics that have been mentioned. But from what I understand it's more a question of who can fund early filing. And apparently there's some evidence--I don't purport to be able to weigh it because it is not all on the table in front of me--but there is some evidence that some universities, some smaller entities, have difficulty in funding the early filing of the patent.

So I'm simply saying--I'm not against first-to-invent--pardon me, first to file--and I'm not for it either because I don't know enough about it. My only pitch is that the Congress, before it makes the final decision, should assure itself that it doesn't unduly hurt some of those universities and smaller entities. I'm not saying it does. I'm not saying it doesn't. But it's worth finding out.

Mr. Horton. I'll just mention one caveat. That to the extent that it is a question of cost, obviously the S-23 is looking at that issue and creating even a microentity status that gives them a full 75 percent cost reduction to make it even more affordable for them to afford that early filing.

Mr. Griffin. Sure. Just one--you had something to say.

Mr. Simon. Yes. The statistics I've seen are similar to the study that Mr. Horton refers.

The only caveat I would say is I think it's important for small businesses that have a prior user right, because if you actually can show that you used it first, the fact that somebody else patented it before you did, you're still protected.

Mr. Griffin. One quick follow-up, if I've got a second.

If there is additional data and additional empirical studies that aren't mentioned in your statement, or you didn't mention in your testimony, that would help us and fill in some of the gaps maybe that the judge was referring to, if you could get us that information, the citations would be real helpful.

Thank you, Mr. Chairman.

Mr. Coble. Time's expired. I'm told that we're applying the Chairman's first-come-first-serve rule, Mr. Marino, and I inadvertently bypassed you, and I didn't mean to do that.

The Chair now recognizes the gentlelady from California, Ms. Waters, for 5 minutes. Ms. Waters is recognized for 5 minutes.

Ms. Waters. Thank you very much, Mr. Chairman.

I've been listening to this discussion of our witnesses, and as Mel Watt indicated, we have a lot to learn in a short period of time, trying to understand the issues that are important to those who are seeking using and protecting their patents.

But I'm really drawn to the testimony of Judge Michel because he seems so fair, so balanced, and so completely understanding of what's happening with our Patent Office. And I agree. I am not so sure I agree that the taxpayers should fund the operation, but I do agree that through fees, they should be able to use all of the money that they can collect in order to have a system that works.

But I'm really drawn to where he finally took us in talking about jobs, and that what we're hearing is that the reason this discussion is so important is because we're all interested in innovation and job creation, and that's what patents represent. But I am not so sure that I understand whether or not our country is benefiting from the patents that are being sought and utilized by some of the biggest operations in the country.

Let me just ask a few questions.

In the quarter ending September 30, 2010, GE's corporate profits reached an all-time high of 1.66 trillion on an annual basis, according to the Commerce Department. This is in contrast to the fear and uncertainty in 2008 that led Mr. Immelt to seek participation in the Federal Government economic stabilization efforts.

In 2008, GE and its subsidiary, GE Capital, accessed nearly 100 billion through programs created by the Federal Reserve and Federal Deposit Insurance Corporation to combat frozen credit markets. This includes 16 billion from the Federal Reserve while Mr. Immelt was at the time on the board of the Federal Reserve Bank.

In 2009, GE received over 20 million in stimulus money to help stimulate U.S. economic development, yet continued to ship jobs overseas. In that same year, GE paid no income taxes in the U.S. As its homeland operations were operating at a loss compared to its overseas businesses.

Since Mr. Immelt took over in 2001, GE has shed 34,000 jobs in the U.S., according to its most recent annual filing with the Securities and Exchange Commission, but you've added 25,000 jobs overseas. In 2009, GE employed 36,000 more people abroad than it did in the U.S., and in 2000 it was nearly the opposite.

Foreign work has proven lucrative to GE. In 2007 it derived half of its global sales from work abroad. In 2009, that share increased to 54 percent. U.S. sales have shrunk. And the

investment was not in the U.S. The company has decided to look elsewhere.

In 2008 and 2009, GE decided to indefinitely reinvest prior years' earnings outside the country according to SEC filings. That helped the firm lower its tax rate. In 2009 the Connecticut-based firm effectively had a negative tax rate thanks to the 498 million loss it booked on U.S. operations versus the 10.8 billion in earnings it booked abroad, and GE realized a 1 point billion tax benefit in 2009.

Now, I am pointing this out--and I could talk about Intel, too. I have some facts and data here.

Why should we be so concerned to make sure that you can receive your patents abroad and maybe even imfringe on small inventors and folks who maybe got the patent but didn't have the resources to pursue development or anything else related to it? And I don't see your effort resulting in job creation and innovation, which is what this is supposed to be all about.

Now, maybe I am on the wrong track here. But, Mr. Simon, what do you say about that?

Mr. Simon. Well, I obviously, Congresswoman Waters, can't answer questions on behalf of GE. I'll leave that to Mr. Horton.

Ms. Waters. Okay.

Mr. Simon. But maybe I should ask him for some tax advice.

Ms. Waters. Mr. Horton, what do you say to that?

Mr. Horton. Look. It is a good question. Are we investing overseas? Absolutely. Fifty percent of global growth is overseas. We would be an unwise company if we weren't investing where the growth is.

At the same time, however--and this is I think critical to this hearing--is that intellectual property is one of those tools that allows us to compete globally with jobs in the United States. It levels the playing field because we're not having to chase simply cost of labor, which is very often the case when you're manufacturing very labor-intensive, very commodity-intensive resources. You go where the cost is the cheapest.

But I'll give you an example. We've got technology today that we're trying to scale up in the United States around, let's say, green technology batteries. We're trying to replace the old lead-based batteries with sodium or lithium ion type batteries that last 10 times as long and deliver enough power. That's key. We're putting a plant--we spent, I would say, $150 million in the U.S. On developing that Next Generation technology. We're spending a hundred million dollars this year to put a plant in the State of New York where we will put 350 new jobs in play, hopefully to grow that to a billion-dollar business over the duration, and that came from two sources of R&D--not only what we're spending on jobs in the research and development on the technology here in the U.S.

Mr. Coble. The gentlelady's time has expired. If you could wrap up.

Mr. Horton. But the other is we've invested $70 million in a venture capital group, also here in the U.S., that has complementary technology to what we have invested solely so that we can manufacture the stuff in the U.S. and keep foreign manufacturers from beating us on price.

Ms. Waters. Thank you, Mr. Chairman. I appreciate that.

But you know, this is going to be an issue as we take a look at where you invest to where you're creating the jobs and what you are doing in the United States. This is going to be an issue because everybody is supposedly so focused on job creation, helping small businesses, and innovation. So look out.

Mr. Coble. The gentlelady's time has expired.

The gentleman from Indiana is recognized for 5 minutes.

Mr. Pence. Thank you, Mr. Chairman. Thank you for filling in so graciously on this hearing for Chairman Goodlatte. And all I know is that I want to patent Howard Coble. If I could get a round of applause on that it probably wouldn't offend him.

Mr. Watt. Can we patent him without cloning him?

Mr. Pence. I knew that would be your request.

Let me say I am intrigued at the written testimony. I want to appreciate this panel. You're serious. These are serious minds that are coming before this Committee. This is the beginning of a conversation that I hope will be more fruitful in this Congress than it is been in previous Congresses.

Let me commend the modeling of bipartisanship that shows up at this table, showing that Patent Fairness and the 21st Century Coalition can sit next to one another civilly. And Judge Michel, thank you for your written testimony which I reviewed and your remarks today.

I do think this is about jobs. I think that intellectual property, like other forms of private property, is a pillar of economic prosperity, and whether it be with regard to protecting intellectual property overseas or creating pro-growth environment in this country, we have to modernize our laws with regard to intellectual property. And I have been committed to that and attempted to be a constructive force as a Member of this Committee in years past, and as I return to the Committee, I intend to be active in this.

I also want to associate myself strongly with Judge Michel, your comment about this isn't about winners or losers. I am paraphrasing now. But it's about developing a comprehensive reform that works pretty well for everybody. We can't have a zero-sum game. The varied interests in this debate represent bulwarks in the American economy and we want everybody to win. We want everybody to prosper. And so I want to associate myself with those remarks.

Speaking specifically about the PTO, Judge Michel, you make some interesting comments that--particularly that the classic story of thousands of foreign engineers sitting, not doing research, but rather at computer screens reading U.S. patent applications. When you marry that with the extraordinary delays that we're faced with, we start to figure out why America is losing the battle on innovation--exporting our best ideas inadvertently because we aren't meeting that 2-year time frame.

But you call in your testimony, Judge Michel, for several thousand additional examiners, dozens of additional board of appeals members.

Now I know that this is a fee-based system, or at least it is supposed to be, that former Chairman Conyers I thought made some very useful comments today about this business of ending fee diversion. And Congress is a place where we love to find money that really wasn't supposed to be there. And it does strike me as we think about reform, we ought to think about ensuring that what are effectively user fees here being paid out of the industry don't end up subsidizing other priorities within the national government.

I guess my question in that vein is, as we think about addressing this extraordinary backlog which seems to be the enemy of our prosperity, is there a role--and I would be open to the panel speaking to this--is there a role for the private sector in this process? Can we in effect talk about outsourcing the role of examiners, at least in the first instance? Or is that fraught too much with peril because of the specific interests that are associated thereto? It does seem to me it warms the cockles of this conservative's heart to think about maybe further invigorating the private sector in this country without expanding the size and scope of government.

Could we address this backlog in a way where we at least conduct some of the modernization by utilizing outsourcing and private sector as a way of expediting this examination; or is it the judgment of this panel that it has to involve government employees?

Judge Michel. Congressman Pence, I understand that some outsourcing to private contractors is already done with respect to certain PTO operations and that the continuation of that program, like the hiring of new examiners and modernizing the information technology systems, has been badly crimped by the funding problem. So they do some and they're trying to do more, but the money problem is limiting what they can do in every direction.

The other thing I would say is that, in a way, hiring a thousand or two or three unemployed scientists and engineers and other intellectual property professionals in a way would be its own jobs programs. These are highly trained, expert, talented people, many of whom who are now unemployed in cities all around America.

So in a way, it is not like taking government workers who are permanent from one agency and putting them in some other agency. It would be hiring scientists and engineers from the private sector, who are now unemployed, to beat this backlog down so that we can create a million or two or three jobs just out of the current backlog. And every year there's another 500,000 new patent applications that come in, and staying current on them every year going forward will continue to create more jobs.

So I think it is very important to get the right number and the right level of examiners. And it would also provide jobs for deserving people as well. And of course they're taxpayers and voters, and it benefits the communities they're in and spreads benefits widely.

Mr. Pence. Mr. Chairman, by your forbearance if they can't answer the question, I would welcome a written statement. But the Chairman can call the ball here.

Mr. Griffin. The time has expired.

You need a few more seconds.

Mr. Pence. If the panel is permitted to give an answer or two, and I would welcome any thoughts about outsourcing or expanding existing outsourcing of which I was not aware of the PTO from our panel.

Mr. Horton. I would differentiate two things. One would be operations, as Judge Michel talked about. There are things that they could, I think, outsource effectively. What I think would be difficult to outsource and probably unwise is the examination itself. The real intellectual horsepowers ought to come from an objective, independent third party. We as users would like to see a stamp of approval from some objective body. And I think the government does that well.

If I were going to hire someone to run this private enterprise, it would be Director Kappos. So key is getting somebody in there who can run it efficiently and run the operations and know where to do it most effectively and efficiently.

Mr. Simon. I am not going to quite break out into kumbayah but I would agree with Mr. Horton's comments.

Mr. Griffin. [Presiding.] Thank you.

Ms. Lofgren, you are recognized for 5 minutes.

Ms. Lofgren. Thank you very much.

My apologies for my brief absence. I had a meeting I had to attend, I could not get out of. But I am very pleased that we are having this hearing.

And as the witnesses know, this is something I've been working on for many, many years. And it is an area where we've had a bipartisan effort to address the deficiencies in the Patent Office as well as patent law.

I've come to the conclusion over the years that the differences of opinion that exist are really based on different

business models more than anything else, and that finding common ground in certain areas is very difficult just because of that fact.

Having said that, though, I know, because we have actually crafted some measures, that there can be consensus on certain items and that would be helpful.

I am interested and I wanted a chance--obviously, the testimony of all of the witnesses is very important. I wanted to specifically thank David Simon because he's from my neck of the woods in Santa Clara County, ground central for innovation in America.

It seems that there's at least this consensus, that the one thing that the Congress can do that the courts cannot do is to provide resources, to provide oversight to our new director who is committed to modernizing the office. That's something that, as the cases get decided and clean up problems, the courts can't possibly do that.

So would you agree that that is one thing, that ought to be job one of the Congress to focus on that issue?

Mr. Simon. Yes. I think that making sure that the office has the resources to do the job properly is key both to reducing the backlog and making sure that the patents that come out are valid patents.

Ms. Lofgren. As well as modernization of the computer systems and the like.

Mr. Horton. To that I would add also it is not just a matter of funds, because you need a better system as well. So as long as you provide those two parts together, I think you will optimize them.

Ms. Lofgren. If we just hire more people but don't change the technology, we're never going to get caught up.

Mr. Horton. Precisely.

Ms. Lofgren. Let me ask this. I think it is very helpful to hear about all of the Federal court decisions that have made measurable progress against some of the problems in the patent system, especially abusive litigation.

Could more of these decisions be on the way, Mr. Simon, do you know? What are some of the other issues that are currently making their way up through the system that we ought to be keeping our eyes on?

Mr. Simon. Well, one decisions that's currently before the Supreme Court actually is in the I4I case where the question is the presumption of validity, whether it should be clear and convincing or whether it should be something else in at least some set of circumstances. That's one example.

There are a number of other cases winding through on further refinements on damages and some of the other issues that have proven difficult. Some of the--they're continuing to be a series of venue decisions eliminating some of the arbitrariness that was going on with venue.

So those are just some of the things that are happening today.

Ms. Lofgren. I remember years ago, maybe about 5 or 6 years ago, somebody in the valley, in Silicon Valley, saying well, the courts ultimately will get to this, but it will be so slow, so we're looking to the Congress. And actually the courts have ended up moving a little bit faster than we have on this subject matter.

I am thinking, in addition to resources, what the courts will not be able to address. Obviously, I thought we had a great venue statute in our bill that really everybody on both the coalition supported and that we worked very carefully on. The court's decision left some holes. They've got to circle back and fix that. I have confidence they will.

But it seems to me an additional item that the court can't really fix is third-party submission of prior art that I think is an important element.

Do you have a comment on that, whether we should also, right after resources, be addressing that issue?

Judge Michel. I don't see any argument against allowing anyone who has helpful information to put it on the table at the Patent Office. It certainly seems like a sensible thing to do. I don't think there's opposition to it. How much it would help, who knows, but it would help some. That's in some of the bills and it seems to me like it is a good provision. I think it's fairly minor compared to the post-issuance procedures, which also would have to be done legislatively; can't be done by the courts, or by the Patent Office.

Ms. Lofgren. We may have to go step by step into this.

But I remember about, again, half a decade ago, maybe more than that, going out to a major technology company in Silicon Valley, and instead of the general counsel and the patent lawyers, they had the engineers there talking to me. And they thought the most important thing was third-party submission of prior art. And I thought, well, nobody else is talking about that. And they really thought about it as sort of the wickifying patent submissions.

And it got me thinking that, although the lawyers weren't looking at that, the engineers in this case might actually have a very good point on that, and that it would get a lot of bad patents out of the way.

I mean, the worst thing that can happen, worse even then pendency is the issuance of bad patents that just mess up the system.

I think my time has expired. I thank the gentleman for yielding.

Mr. Griffin. Mr. Nadler, you're recognized for 5 minutes.

Mr. Nadler. Thank you.

Judge Michel, you said that 80 percent of the patent issue is in increased funding levels. Everything else is 20 percent,

but 80 percent of the problems that we have would be satisfied with increased funding levels. And we've heard about that from all of the witnesses. In the continuing resolution for fiscal year 2011 that we're going to be considering, I think next week, the Republican majority plans to reduce funding in general to 2008 levels. We haven't seen the text, so we're not sure, but we suspect that this may reduce the Patent Office to 2008 funding levels as well. At our oversight hearing last month, Director Kappos said that doing this would be a disaster.

What is your assessment of what such a decision would do to the Patent Office and to jobs?

Judge Michel. Well, it could be catastrophic. The Patent Office can't function at the level of resources it has now in an effective way. And if it were reduced even lower than the current level, everything would get worse. Delays would go up, quality would go down. The system would melt down.

So I hope that that's not what comes out of whatever the Congress has to do to address the fiscal problems of the country, because the Patent Office really is a different kind of operation. It is really not a government regulatory agency. It deals with private property rights, not governmental programs in the normal sense. It seems to me it shouldn't really be counted as part of the budget. It shouldn't have anything to do with a spending reduction, because it is not spending taxpayer money in the first place.

Mr. Nadler. So in other words, it deals with private property rights, as does something like the Securities and Exchange Commission, which we know is going to take a funding hit, presumably. But it is financed independently, which the SEC is not. That's what you're saying.

Judge Michel. Yes.

Mr. Nadler. But it would be catastrophic if it were reduced substantially. Thank you.

Now, you also said--we talked about perhaps codifying some of the court decisions that have been rendered that have solved some of the ambiguities that we have had. And you said, I think, that codifying the court decisions would be an unfortunate course of action for Congress to take because it would add to uncertainty.

Why would codifying court decisions add to uncertainty?

Judge Michel. Congressman, the reason is that the bills use different language than the court decisions do. That gives lawyers a field day to fight over exactly what does the new language mean. So it really does add, I think, uncertainty and complexity.

Mr. Nadler. Excuse me, but don't the lawyers have a field day arguing over what the court decision means? Why would they have a greater field day over what Congress meant?

Judge Michel. It gives them more to fight over. It is certainly true that they disagree often about what a sentence in a court decision means.

But, you know, the other thing is this is a very dynamic process. The Federal Circuit decides 3 or 400 patent-related cases every single year. Every month, every judge has patent cases on their desk. So they have endless opportunities to keep adjusting and refining the law in the face of new litigation tactics, in the face of new economic developments, new technology and so forth.

So the courts have a huge advantage, because for them it's not a one-time thing, it's every day, every month, every year. So they keep making improvements.

If you legislatively codify what they did last year, that's going to bar them from doing even better next year by freezing them in place. So they have to follow the statute.

Mr. Nadler. That's an argument in favor of common law against any statutory law.

Judge Michel. Well, it's in favor of letting a broad statute have sufficient common-law development which can continue because it is not then frozen in place by a later statute.

Mr. Nadler. Okay. Thank you.

Before my time expires, let me ask Mr. Horton, you talked about the first-to-file problem for Joe inventor, for the little guy, and how he files a patent and someone comes in and the big corporation says, no, no, you weren't the first to invent it. Then he's got to defend, and the burden of proof is on him and it's very expensive and difficult. Presumably, you think the solution to that is to go to a first-to-file rather than a first-to-invent standard, which raises other problems.

Let me ask you this; what would happen if we kept the first-to-file, the first-to-invent standard but shifted the burden of proof?

Mr. Horton. So I if I understand correctly, you are saying that, even though a party was first to file for a patent, you wouldn't give them the presumption.

Mr. Nadler. No.

Mr. Horton. That's why they have the presumption, is because they were the first one to come forward and say----

Mr. Nadler. Well, they have the presumption, but, as I understand what you said, if someone contests them, they have the burden to prove that they were first to invent, no?

Mr. Horton. Well, the party who is not the first to file is the one who faces the uphill battle to prove that they were first to----

Mr. Nadler. Then I don't understand your contention, or your statement. It makes sense that the challenger of the first to file should have the burden of proof, intuitively and intellectually, but if that's the case, then Joe inventor, the little guy, he files his patent, how does he get the burden to

prove that he was first?
Mr. Horton. Well, in my hypothetical I gave, he was, let's just say, using the U.S. crutch, you know, the fact that he could prove he was first to invent at some point in time. So he wasn't quick in getting to the office. He didn't race down there in an expeditious manner. Others around the world are accustomed to doing that. That's how they think, and so they tend to run to the office faster. So that would put him at a disadvantage, because he was not first to file because they filed ahead of him. And that's the concern. That's why we as global companies always run to the office first, because we know that----
Mr. Nadler. So you're saying it's a problem because of--let me just ask one last question as I see the red light is on. This is a problem because of a difference of culture between the United States and foreigners, where foreigners run to file faster. Well, could you solve that by saying, okay, somebody who filed a patent abroad has the burden of proving first?
Mr. Horton. I think we would face the WTO in that regard.
Mr. Nadler. Okay. Thank you.
Mr. Griffin. Ms. Jackson Lee is recognized for 5 minutes.
Ms. Jackson Lee. Thank you very much, Mr. Chairman; and I thank the Ranking Member.
This is an important hearing, and I thank the witnesses that are here. Some of you are wise enough to place behind you friends that we have worked with for a very long period of time, maybe you orchestrated that, and they will tell you that I'm still a good person and will maintain our friendship.
We are on the floor of the House debating a regulatory scheme that would call on this body to exert itself over every regulatory--major regulation that would come out of the executive. And I only say that because what I see here are some crucially important issues that want me to rush toward patent reform for the ability to create jobs, and I would offer to say in the United States.
I am going to ask a question and then a series of quickly moving questions, but you can weave this particular answer in because I'm excited about the brilliance of this country. I served 12 years on the Science Committee, and I would always say that science is the work of the 21st century, and here we are. It's amazing to be in the 21st century.
My general question is, is there a genius factor in America? Do we still have it? Is it a genius factor of inventiveness and invention? And let me go now to my questions. Please weave in your answers as to whether or not we've abandoned it, whether we don't have any more abilities.
Judge, let me say that I agree wholeheartedly with you on a thousand, several thousand more examiners, dozens of additional Board of Appeal members, major modernization of the IT systems. I don't see why we can do any less. Inventions create jobs. And I'll go back to Thomas Edison, who I believe was a United States citizen, and the light bulb.
In addition, I would like to stop fee diversion. And, frankly, you are dependent on fees. I don't know whether there's something in our CR that is going to cut patent operations even further since that is the mindset of cut and grow--wrongly so, I believe.
But, Mr. Simon, let me quickly move. We have an 18-month period of display. All of your Intel is shown for about 18 months. Tell me whether or not we could shorten that time frame. You've already debated the question of first to file. Do we need to use first to use? And since you're so large--and, Mr. Horton, I want this question to you. Let me ask you first. How many people do you employ here in the United States, Mr. Simon?
Mr. Simon. Something over 40,000.
Ms. Jackson Lee. And how many around the world?
Mr. Simon. Less than that.
Ms. Jackson Lee. Somewhere around----
Mr. Simon. I'm not sure of the exact number. I know that's over half----
Ms. Jackson Lee. And that's 40. And so you may do 20 or 30 around the world?
Mr. Simon. It would probably be something in that area.
Ms. Jackson Lee. Mr. Horton, how many are in the United States?
Mr. Horton. I'd have to ask Congresswoman Waters to give me those numbers. I think she read them earlier. But 300,000 globally, and my last recollection is we were somewhere around 50/50. I know revenue-wise we're more outside the U.S., but I think employee-wise we're still more in the U.S.
Ms. Jackson Lee. Alright, thank you.
Mr. Simon, I want to go to the 18-month structure. Do we do well to pull that back? Do we do first to file, first to use?
Mr. Simon. So, in terms of, first----
Ms. Jackson Lee. Your mic is not on, and I still have a green light, but I'm going to ask you to speak in bionic speed.
Mr. Simon. I'm from New York. I'll do it really fast.
I think the country still has genius. We're investing over $5 billion in our latest generation manufacturing plants in this country just because of that, so I don't think that's the problem.
In terms of publication, we've long ago come to the conclusion that there is a certain amount of information. If you want to get a patent, part of the price you pay is you're going to disclose information to the public.
Ms. Jackson Lee. Can we shorten it?
Mr. Simon. The only way you could shorten it is actually speeding up the Patent Office. And I would rather have the Patent Office do its job right than----

Ms. Jackson Lee. Speed up the process, but leave the 18 months?

Mr. Simon. Yes.

Ms. Jackson Lee. What about first to file, first to use?

Mr. Simon. First to file, first to use, the concern that I have there, if we go to a first-to-file system, if you don't have prior user rights there, you're forcing companies like Intel, who normally do not want to file because we don't want to disclose, for example, how we test and validate our products, we would be forced to file much more in that area. And we know, as Judge Michel said in his testimony, that people will be reading those patents. So we actually would really think having a prior user right so we can avoid that problem would be really important to us.

Ms. Jackson Lee. Mr. Horton, we live in a hackers' paradise. And I have a lot of good friends around the world, in China, and so I want to preface it by saying they're good friends--I want you to answer what he said--they are good friends, but I understand they are genius in hacking. So my question is, if you would answer that and finish--and when I say answer, answer the same question but also finish in terms of how you, being so large, hamper the little guys that I hope hold the genius that can help to create jobs even more than some of your larger companies? And how will you use your patent to build jobs in America versus around the world? Patents plural.

Mr. Horton. For one, I would say we're absolutely bullish on America and we are bullish on working with small inventors. Just recently, you may have seen in the press, we issued an Ecoimagination challenge where we put $100 million out there for no other purpose than to reach out to the small guys and find out who's inventing in our space.

I would like to think we're fairly good at inventing ourselves. We're one of the biggest patent holders in the world because we've been doing this for 120 years. So we're just as bullish on investing in our own researchers in Niskayuna and Atlanta and elsewhere within the U.S. But I think there's a place to come together, particularly on these new and nascent technologies where they have yet to be developed, which is why we both invest in VC money in trying to find those, but also these problems like the Ecoimagination challenge where we're trying to flush them out of the woodwork. This is the place we want to invent. The patent system helps us afford to do that and then bring the manufacturing behind that and also do it in the U.S. and be able to compete effectively with the lower cost of labor elsewhere.

Ms. Jackson Lee. Well, we want to give you an effective patent system; we want you to give us jobs. It is not so attractive to me to see the peaking number of GE jobs--or anyone else--and not have the same jobs here in the United States.

I yield back. Thank you.

Mr. Griffin. I thank our witnesses for their testimony today.

Without objection, all Members will have 5 legislative days to submit to the Chair additional written questions for the witnesses, which we will forward and ask the witnesses to respond as promptly as they can so that their answers may be made part of the record.

Without objection, all Members will have 5 legislative days to submit any additional materials for inclusion in the record. With that, again, I thank the witnesses.

The hearing is adjourned.

[Whereupon, at 12:50 p.m., the Subcommittee was adjourned.]