United States Patent and Trademark Office

Hearing

"America Invents Act"

Prepared Statement of

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On Behalf of
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Undersecretary Kappos and members of the U.S. Patent and Trademark Office, thank you for the opportunity to testify on the implementation of the America Invents Act. The Act is the culmination of six years of effort[1] by Congress and the patent community to reform the patent laws. The Act fixes several long-term problems with our patent system. However, in conducting the Act's mandated studies and in implementing new regulations, it is vitally important that the Office be mindful of Congress's intent in passing several of the Act's provisions. In particular, the Office should recognize that a robust prior user rights defense under 35 U.S.C. § 273 is a vital requirement of the Act that goes hand-in-hand with the switch to a first-to-file system.

I. Introduction to Cisco and the Coalition for Patent Fairness

I am proud to be the Vice President of Intellectual Property for Cisco, which is one of the world's largest manufacturer of telecommunications equipment that powers the Internet, with more than $40 billion in annual sales and more than 66,000 employees worldwide. Cisco's success as a company is a direct result of our ability to innovate. Our products originally were designed for communications within private or enterprise networks. When the public Internet emerged in the mid 1990s, our products found immediate application for worldwide use. Today's Cisco's networking equipment forms the core of the global Internet and most corporate and government networks. We have invested $5.8 billion in the 2011 fiscal year on researching and developing the next generation of networking equipment.

Cisco is but one of the technology firms that form the Coalition of Patent Fairness. The coalition represents a large cross-section of America's technology industry. It consists of hundreds of members, including Apple, Autodesk, Dell, Google, Intel, Oracle, RIM, SAP, and Symantec. Together, we employ millions of Americans and with more than 75,000 U.S. patents and patent applications, we are key users of the patent system, and we believe in it. Our companies invest billions of dollars into research and development and have helped create the innovative culture that drives the U.S. economy. I believe the coalition's companies will allow the United States to maintain its competitive edge into the future.

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[1] *See*, *e.g.*, Patent Reform Act of 2009, H.R. 1260, 111th Cong.; Patent Reform Act of 2007, H.R. 1908, 110th Cong.; Patent Reform Act of 2005, H.R. 2795, 109th Cong.

II. Prior User Rights and The First-To-File System

One of the Act's most significant changes is that it shifts America's patent system from a first-to-invent system to a first-to-file system. A first-to-file system rewards the party that wins the race to the Patent Office as opposed to the party that can show it first conceived the invention. For example, in a first-to-file system someone who *later* patents an invention can sue for infringement someone who *earlier* conceived the same invention. While there are benefits to a first-to-file system, there must exist a robust prior use defense for early innovators and prior users who do not obtain, or even file for, patent protection.

Not every American business can afford to file a patent on or publish every idea that it conceives, particularly if that idea is just one of thousands of components or functions comprising that business's product or services. Resources spent to assure priority on every potentially patentable advance in a complex product will not be available to fund the innovations themselves. Some American businesses may also determine that it is more beneficial to forego patent protection in the United States in favor of trade secret protection. To obtain patent protection for an innovation, an inventor must disclose that innovation to the public. However, while the disclosure is effectively world-wide, the patent protection is limited to the United States. Therefore, businesses competing against foreign companies, or in markets outside the United States, may be better served by keeping some innovations private.

Indeed, many companies – particularly small businesses and start-ups – require the protection of trade secrets to fully develop products that would otherwise be hijacked by companies developing products for foreign markets unhampered by the constraints of American patents. Without prior user rights, many such small businesses and start-ups would be forced to choose between risking patent infringement liability on the one hand and disclosing their innovations without the opportunity to fully develop their innovations into commercial products. Consider as an example Coca-Cola's position in the late 1800s. Had the formula or manufacturing process been patented when it was conceived in the late 1800s, the world's most prized "secret formula" would have been disclosed to all competitors long before Coca-Cola would have had the opportunity to develop the international business it has today. Robust prior user rights allow small businesses and start-ups – including the future Coca-Colas of the world – the freedom and safety to protect their "secret formulas" while developing their products.

In remarks on the Act, Congressman Lamar Smith (R-Tex) agreed that "[t]he inclusion of prior user rights is essential to ensure that those who have invented and used a technology but choose not to disclose that technology – generally to ensure that they not disclose their trade secrets to foreign competitors – are provided a defense against someone who later patents the technology." (Cong. Rec. Extension of Remarks, E1219, June 22, 2011).

Appreciating this potential problem, most countries with first-to-file patent systems have robust protections for prior users, including, for example, Austria, Denmark, Finland, Germany, the United Kingdom, Australia, Japan, and South Korea. Indeed, in Europe, only Cyprus does not have any prior user rights defense. The above countries all have in common at least two basic protections for prior users.

First, foreign patent systems' prior user defenses protect *all* forms of invention, including processes, products, and products of processes, recognizing that the concerns about wasteful filings and the undermining of needed trade secret protection are generally applicable. Furthermore, protecting only processes is insufficient because clever patentees could circumvent prior user protections by including only apparatus claims, thereby depriving prior users of their defense. As these countries recognize, it would be unfair to allow a patentee to attack a practicing company merely by switching the formalities of the claim.

Second, these foreign jurisdictions extend the prior user rights defense not only to products and processes already in commercial use, but also to substantial investments in the development or preparation of those products and processes. For companies that develop and manufacture products, the research, development, and testing process can often take years and costs millions of dollars. A prior user rights defense that does not fully protect this investment has the perverse effect of penalizing American businesses who spend more time and investment in perfecting their products and services for the marketplace. Particularly in this current economic climate, we need to encourage – and not create barriers that stifle – continued investments in U.S. industry.

American companies must be afforded these same basic prior user rights protections as our foreign competitors enjoy in their own countries. As Congressman Smith stated, we must "ensure that our most innovative companies who hold many of the keys to U.S. economic competitiveness are provided sufficient prior user right protections to put them on an even competitive field internationally." (Cong. Rec. Extension of Remarks, E1219, June 22, 2011). Without a robust prior user rights defense, the patent system will strip technology

away from Americans, punish independent inventors for filing second and put American companies at a disadvantage over foreign competition. With them, American businesses can compete on equal footing and put their technology to work at home.

We respectfully request that the Office strongly support robust prior user rights and confirm that the prior user rights provided by the Act have the breadth to fully address the concerns that we have noted.