



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 6, 2007
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 1908 – Patent Reform Act of 2007
(Rep. Berman (D) California and 23 cosponsors)

The Administration strongly supports the passage of patent modernization legislation that fairly balances the interests of all innovators by improving patent quality and reducing patent litigation costs. In addition, the Administration appreciates that the House Judiciary Committee addressed many of the issues raised in the Department of Commerce views letter of May 16, 2007. However, the Administration continues to oppose H.R. 1908's limits on the discretion of a court in determining damages adequate to compensate for an infringement. Making this change to a reasonably well-functioning patent legal system is unwarranted and risks reducing the rewards from innovation -- a result that would undercut the other useful reforms in this bill. The Administration therefore opposes H.R. 1908 unless it is appropriately revised to address this concern. The Administration will work with Congress to address these concerns as the legislative process continues.

Assessment of Damages

The Administration does not believe that a convincing basis has been established to justify H.R. 1908's statutory change regarding the assessment of damages in patent infringement cases. While the Administration believes that it is important to provide greater certainty in patent litigation and remains interested in exploring options that do so, section 5 of the bill would introduce new complications and risks reducing incentives to innovate. The Administration also does not believe it advisable to create a statutory directive to courts to rigidly apply in all cases only one of the several broadly accepted factors now evaluated by the courts -- a patent's specific contribution over the prior art. Further, the Administration advises against retention of the comparable provisions regarding combination inventions. The Administration will work with Congress to enact an acceptable statutory clarification.

Other Issues

With respect to the bill's provisions on willful patent infringement, the Administration is pleased that the Court of Appeals for the Federal Circuit, sitting *en banc*, in *In re Seagate Technology*, has raised the standard for willfulness determinations. The Federal Circuit Court eliminated the "duty of care" and held that enhanced damages are only appropriate where the infringer acts with reckless disregard of the patentee's rights. The decision in this case is consistent with the bill's intent and makes the proposed statutory revisions unnecessary.

The Administration supports the bill's provisions to promote higher quality applicant submissions by including language on micro-entity status, third-party submissions of prior art, and inequitable conduct reform. Though recognizing that some adjustments to the current proposals may be needed, the Administration supports provisions addressing these issues

because they will help ensure that the patent examination process is focused on the most relevant information available, leading to efficiency and quality improvements. The Administration will work with Congress to address necessary technical adjustments.

The Administration supports the bill's provisions that affirm the authority of the United States Patent and Trademark Office (USPTO) to promulgate regulations to ensure the quality and timeliness of applications and their examination. The Administration believes that these provisions would be improved by the addition of specific authority for the USPTO to eliminate, set, or otherwise adjust patent filing and processing fees subject to appropriate oversight and comment by the Patent Public Advisory Committee, stakeholders, and Congress.

The Administration supports the establishment of a post-grant review procedure to serve as a lower cost alternative to costly litigation as a means of reviewing questions of patent validity. While the Administration generally supports the bill's provisions on a first window of opportunity to challenge a patent within one year after grant, the Administration has some concerns with the proposed *inter partes* reexamination adjustments, which are intended to serve as a replacement for a second window of opportunity to challenge an issued patent. The Administration continues to support post-grant review provisions, including a narrowly drawn second window. The Administration wishes to work with Congress to assure that the process enacted is efficient and manageable.

The Administration is also pleased that the bill advances efforts to transition the U.S. patent system to a first-inventor-to-file system. However, the Administration wishes to work with Congress to address and clarify a number of continuing concerns regarding the scope and application of this transition, specifically with regard to provisions relating to prior art and grace period.

The Administration understands the concerns surrounding patent protection for tax planning methods and will work with Congress to address those concerns.

The Administration is concerned with the bill's provision to limit the use of the best mode requirement as a possible basis for challenging the validity of a patent. While a failure to disclose the best mode would remain as a ground for inequitable conduct defenses, weakening this particular defense by eliminating it from grounds of invalidity discourages applicants from fully disclosing important information to the USPTO.

The Administration will also work with Congress to address our concerns with the provision permitting interlocutory appeals from claim construction decisions. The Administration believes the current proposal may burden appellate courts with issues on particular claims that need not be resolved in order to determine whether a patent has been infringed.

Lastly, the Administration has identified a number of technical concerns. For example, the Administration has technical suggestions on the provisions related to the inventor's oath and declaration. Additionally, the Administration is concerned with the appropriateness of the scope and application of several effective date provisions contained in the bill.

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