

Prepared Statement of Philip S. Johnson,  
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On Behalf of the  
Coalition for 21<sup>st</sup> Century Patent Reform

Before the

United States House  
Committee on the Judiciary

On

“Patent Reform Act of 2009”  
H.R. 1260

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**Executive Summary**  
**Statement of Philip S. Johnson,**  
**Chief Intellectual Property Counsel,**  
**Johnson & Johnson**

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

In the last Congress, this Committee led the way towards meaningful patent quality improvement by bringing a broad spectrum of stakeholders together to compromise on the proper procedures for and scope of post-grant review. Fortunately, additional compromises have now been reached in the Senate Judiciary Committee on the thorny issues of patent damages, best mode reform, venue and interlocutory appeals. As a result, our Coalition believes that consensus legislation is finally within reach.

H.R. 1260 already contains many of the key elements of such consensus legislation. Subject to several needed technical amendments, the heart of such legislation is H.R. 1260's adoption of the first-inventor-to-file principle (Section 3); expansion of the grounds for *inter partes* reexamination to include statements of the patent owner in prior proceedings (excluding challenges based prior use and sale) (Section 6); expansion of the opportunity for the public to submit publications to the USPTO (Section 9); authorization of interlocutory appeals (if limited to certain final determinations) (Section 10); and permission for the Director to set fees if accompanied by statutory protection limiting their use to the USPTO (Section 11).

The other substantive amendments needed to reach consensus may be found in S. 515 as amended, where they have already garnered widespread support. For example, while the Coalition for 21<sup>st</sup> Century Patent Reform previously opposed the provisions S. 515/H.R. 1260 relating to willful infringement and venue, it now supports the Senate's amended provisions as part of an overall compromise package. As to reasonable royalty patent damages, our Coalition similarly supports inclusion in H.R. 1260 of the patent damages language from S. 515, as ordered reported.

The time has come to enact consensus patent reform. While considerable work remains to be done on certain technical aspects of the bill (such as more nuanced transition provisions) the conceptual underpinnings of this achievable compromise are sound. Our Coalition urges this Committee to seize this opportunity. We remain committed to working with the Committee so that H.R. 1260 can be quickly enacted into law.

## **Prepared Statement of Philip S. Johnson**

Mr. Chairman and distinguished Members of the Committee: Thank you for the opportunity to testify on various aspects of patent law reform. Although I am active in a number of professional organizations with interests in patent law reform, including Advamed, the American Intellectual Property Law Association, PhRMA, BIO and the Intellectual Property Owners Association, I am appearing today in my capacity as Chief Intellectual Property Counsel of Johnson & Johnson, and as a representative of the Coalition for 21<sup>st</sup> Century Patent Reform (the "21<sup>st</sup> Century Coalition").

### **I. Personal/Corporate/Coalition Introduction**

By way of introduction, I am a registered patent attorney with 35 years of experience in all aspects of patent law. In addition to drafting and prosecuting patent applications, I have tried patent cases to both judges and juries, and have advised a wide variety of clients, both plaintiffs and defendants, in many industries ranging from semiconductor fabrication to biotechnology. Over the course of my career, I have represented individual inventors, universities, start-ups, and companies of all sizes. In January of 2000, I left private practice to join Johnson & Johnson as its Chief Patent Counsel.

Johnson & Johnson is a family of more than 200 companies, and is the largest broad-based manufacturer of health and personal care products in the world. Collectively, Johnson & Johnson companies represent this country's largest medical device business, its third largest biotechnology business, its fourth largest pharmaceutical business, and very substantial consumer, nutritional, and personal care businesses. Johnson & Johnson companies employ approximately 118,000 people. Johnson & Johnson's companies are research-based businesses that rely heavily on the U.S. patent system and its counterpart systems around the world.

The 21st Century Coalition is a broad and diverse group of nearly 50 corporations including 3M, Caterpillar Inc., Eli Lilly, General Electric, Procter & Gamble and Johnson & Johnson. For more than 100 years, our Coalition's companies have played a critical role in fostering innovation. We invest billions of dollars annually on research and development to create American jobs and improve lives. Representing 18 different industry sectors including manufacturing, information technology, consumer products, energy, financial services, medical device, pharmaceutical, and biotechnology, our Coalition advocates for patent reforms that will foster investment in innovation and job creation.

As the manufacturers and marketers of thousands of products, the freedom to make and sell products in view of the patents of others is always a concern to our Coalition's members. We therefore routinely review thousands of patents during their product development processes, make appropriate design changes to avoid the patents of others and/or obtain appropriate licenses or legal opinions prior to launching their products. Our member companies also become involved in patent litigation. Most of these litigations involve competitors or would-be competitors, although some involve non-manufacturing patentees. Johnson & Johnson's companies, for example, find themselves to be defendants about as often as plaintiffs.

The 21<sup>st</sup> Century Coalition's interest in patent law reform is to insure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient and reliable patent system will continue to stimulate the investment in innovation that is necessary in today's technologically complex world to create the new products and processes that will lead to better lives for Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimulate U.S. investment in research-based industries.

## **II. The Primary Focus of Patent Reform Should Be Job Creation**

There is bipartisan agreement that the principal focus of patent reform should be the creation of jobs. As Senator Leahy explained upon the introduction of this bicameral legislation on behalf of the co-sponsors,

Patent reform is ultimately about economic development. It is about jobs, it is about innovation, and it is about consumers. All benefit under a system that reduces unnecessary costs, removes inefficiencies, and holds true to the vision of our Founders that Congress should establish a national policy that promotes the progress of science and the useful arts.

As Ranking Member Smith further explained,

Part of stimulating the economy means encouraging growth in industries that are job generators. Intellectual property supports millions of American jobs. The technological and creative materials produced by IP companies are estimated \$5 trillion annually, approximately 17% of the GDP.

Protecting the ideas and inventions of individuals and businesses is critical to restoring American prosperity and creating jobs.

This focus on jobs is the correct one. If done right, patent reform will stimulate the private sector to invest in economic development and job growth. All other considerations should be secondary

Johnson & Johnson's companies are good examples of the relationship of the patent system, and patents, to jobs and job growth. Johnson & Johnson conservatively estimates that 60,000 of its full time jobs depend on the patent portfolios of its companies' 8,000+ U.S. patents (and their foreign counterparts). **Stated differently, we estimate that, on average, each U.S. patent results in, preserves and protects the jobs of 7.5 employees per year, or, over its 20-year life, 150 job-years.** This estimate does not take into account the jobs of countless others at suppliers, distributors and retailers involved in the research, manufacture, distribution and sale of our products that indirectly depend in whole or in part on our patent rights.

Over the past three years, Johnson & Johnson companies' patent filings have averaged about 1,200 original applications each year. During that time, our companies have been awarded approximately 500 U.S. patents per year by the United States Patent

and Trademark Office (“USPTO”). This 42% rate is very close to the current USPTO allowance rate, which is down from over 70% just a few years ago. During these same years, Johnson & Johnson companies have invested \$22.4 billion in R&D, averaging about \$7.5 billion per year, or \$6.2 million in R&D for each patent application filed, and \$15 million for each patent granted. Needless to say, these research and development expenditures have resulted in the direct employment of thousands of people throughout the United States in very good jobs with excellent benefits.

As these numbers reflect, the R&D investments stimulated by the patent system dwarf the costs directly associated with the filing, maintenance and enforcement of patents. Accordingly, in considering changes to the patent system, the primary concern should not only be on the costs of filing or enforcing patents, but also what effect changes to the system might have on R&D investment, and thus jobs and job growth.

As explained below, Johnson & Johnson and the 21<sup>st</sup> Century Coalition believe that appropriate patent reforms will maintain current jobs and create new jobs by continuing to encourage private sector R&D investment. Proposed changes that increase the likelihood that meritorious inventions will receive patent protection, and that resulting patents may be reliably enforced against infringers to promptly recover fair compensation should be favored, as these changes will have the greatest impact on stimulating R&D investment and job growth.

#### **A. The Causal Relationship Between Patent Protection and R&D Investment**

Johnson & Johnson companies are rational decision makers when it comes to deciding whether and how much to invest in R&D. When deciding whether or not to make, or to continue making, an investment in any given project, many factors are taken into account, including the cost of the project, the technical risk and likelihood of success of the project, the expected cost saving or product enhancement to be achieved, and the expected return on investment. In determining the expected return on investment, a critical element is the likelihood that meaningful patent protection will be accorded to deserving inventions resulting from the project, the degree and duration of exclusivity that resulting products or processes will enjoy, and the likelihood that the involved patents will either be respected by competitors, or promptly and successfully enforced in the event of infringement. When such projections indicate that the return on investment exceeds a threshold commensurate with the risk involved, the investment is, or continues to be, made. When it does not, the project is not begun, or is cancelled.

Johnson & Johnson’s companies, and many other manufacturing companies like it, are now finding that the current economic crisis is reducing the likelihood that reasonable returns on investment can be achieved for many of their ongoing R&D projects. For that reason, our companies, and many others like us, have made the painful decision to lay off thousands of employees involved in R&D and other product-related areas.

Simply put, rational business people cannot justify investing in R&D unless the size of the “carrot” and the likelihood of getting the carrot justify the cost of trying to get the carrot. Unfortunately, since the economic crisis is shrinking the size of the carrot, so too are the amounts being spent to get the carrot.

The patent system has a direct effect on both the size of the carrot and the likelihood of getting the carrot. Changes in the patent system that will increase the size of the carrot and/or the likelihood of getting the carrot will cause business planners to invest more in R&D, while those that result in decreases will have the opposite result.

## **B. How H.R. 1260 May Impact Jobs**

Whether the net effect of H.R. 1260 will be to stimulate or retard job growth will depend largely upon its evolution as it is considered by Congress and enacted into law. The provisions of H.R. 1260 supported by the 21<sup>st</sup> Century Coalition will either be neutral to, or tend to stimulate job growth. With further work, the remaining provisions may be drafted to do the same. Accordingly, there is an historic opportunity for H.R. 1260 to enhance the value of patents and stimulate investment to produce immediate and long lasting job growth.

The 21<sup>st</sup> Century Coalition members view our current economic conditions as analogous to the economic malaise of the 1970's. Begun as Carter administration initiatives, in the early 1980's Congress passed several bipartisan bills to enhance the value and enforceability of patents, including the Bayh-Dole Act<sup>1</sup> and the Federal Courts Improvement Act of 1982, which created the Court of Appeals for the Federal Circuit.<sup>2</sup> The reaction of the private sector was immediate and dramatic – investment in R&D substantially increased, and a sustained period of prosperity followed. In the 21<sup>st</sup> Century Coalition's view, the 111<sup>th</sup> Congress now has a similar opportunity....and its timing couldn't be better.

As in the 1980's, the focus of H.R. 1260 should be on making changes that will encourage R&D investment. Were they able to justify to themselves, and to their investors, that such additional expenditures would make sound business sense, the 21<sup>st</sup> Century's companies have both the wherewithal and the desire to hire back thousands of laid-off workers, and many more. To do this in this economic environment, however, will require legislation that will ensure these companies that deserving inventions stemming from their R&D expenditures will receive prompt, high quality examination by the USPTO, and that the patents that the USPTO issues will provide a firm foundation on which to build a growing business. Just as no one would build a house on land whose title could be challenged over and over again, businesses need to be able to count on an extended period of quiet title to their patents if they are to make the kinds of investments in them on which future growth is to be founded.

Many of the provisions already contained in H.R. 1260, such as those relating to the adoption of a first-inventor-to-file system and improved patent examination procedures, should prove to be beneficial to long-term investment and job growth. Additional progress has been made in the Senate on a number of other provisions, including those related to patent damages, best mode reform, venue and interlocutory appeals, which if adopted by this Committee, would further enhance this bill. While work on technical amendments remains, given the progress thus far, the 21<sup>st</sup> Century Coalition is optimistic that consensus legislation is now within reach.

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<sup>1</sup> University and Small Business Patent Procedures Act, Pub. L. No. 96-517 (1980)

<sup>2</sup> P.L. 97-164 §165, 96 Stat. 50 (1982)

### **III. Improving the United States Patent and Trademark Office**

The first priority of patent reform should be to improve the completeness of patent examination and the quality of patents that issue. These reforms focus on properly financing the United States Patent and Trademark Office (USPTO), simplifying the patentability standards and their application, and expanding public input in the decision to grant a patent. They have garnered broad support from stakeholders and represent an achievable core of needed reforms to improve the operation of the USPTO. While these reforms may not immediately create jobs, they directly address the twin problems of an unacceptably large backlog of pending applications and the public's perception that some patents granted by the USPTO are of low quality. Improvements in patent quality should also improve the reliability of patent protection and the downstream efficiency of enforcement proceedings.

#### **A. Improvements to Guarantee the USPTO Financial Resources**

Section 11 of H.R. 1260 would give the USPTO the authority to set its fees by regulation, tailoring the fees to better reflect the extent of the effort needed to thoroughly examine patent applications. A necessary corollary, missing from H.R. 1260, is a mechanism to ensure that the USPTO could retain and use the fees that it collects to fund the work for which those fees were paid. Such a mechanism would permit the USPTO to engage in strategic planning over the course of multiple fiscal years secure in the knowledge that it had a predictable source of funding.

This Committee has long recognized the imperative of the USPTO retaining for its use all of the fee revenues it collects. As far back as the 104<sup>th</sup> Congress, the then Chair of the IP Subcommittee, Mr. Moorhead, introduced H.R. 3460, the "Inventor Rights Protection and Patent Reform Act of 1996," which would have mandated that all fees paid for services performed by the USPTO be paid to the Office and be used for processing patent and trademark applications. In the 106<sup>th</sup> Congress, Mr. Coble, introduced H.R. 4034, the "Patent and Trademark Office Reauthorization Act," to achieve the same goal. In the 109<sup>th</sup> Congress, Mr. Sensenbrenner introduced H.R. 2791, the "United States Patent and Trademark Fee Modernization Act of 2005," to discourage fee diversion by providing for the refund of fees collected in excess of the amount appropriated to the USPTO. In the last Congress, Mr. Berman introduced H.R. 2336 to allow the USPTO to receive and use all of its fee income. Chairman Conyers and many of the members of this Committee joined in most of these efforts.

Indeed, many of the quality and pendency problems confronting the USPTO, and the subsequent litigation that the grant of questionable patents can generate, can be directly traced to the diversion of USPTO fee revenues from 1992 through 2004 to fund other, unrelated government operations. Cumulatively, this diversion resulted in a loss of more than \$750 million in fees paid by patent and trademark applicants for the processing of their applications. As a result, the USPTO was unable to hire the examiners it needed for a decade and has therefore had enormous difficulty hiring, training, and retaining the number of skilled examiners needed to catch-up and cope with the ever increasing number of patent application filings.

While the Congress has permitted the USPTO to retain essentially all of its user fees for the last four fiscal years, users of the patent system recognize that there is