

**OVERSIGHT OF THE U.S. PATENT AND TRADE-
MARK OFFICE: IMPLEMENTATION OF THE
LEAHY-SMITH AMERICA INVENTS ACT AND
INTERNATIONAL HARMONIZATION EFFORTS**

HEARING

BEFORE THE

COMMITTEE ON THE JUDICIARY

UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

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OVERSIGHT OF THE U.S. PATENT AND TRADE-MARK OFFICE: IMPLEMENTATION OF THE LEAHY-SMITH AMERICA INVENTS ACT AND INTERNATIONAL HARMONIZATION EFFORTS

WEDNESDAY, JUNE 20, 2012

U.S. SENATE,
COMMITTEE ON THE JUDICIARY,
Washington, D.C.

The Committee met, pursuant to notice, at 10:07 a.m., in room SD-226, Dirksen Senate Office Building, Hon. Patrick J. Leahy, Chairman of the Committee, presiding.

Present: Senators Leahy, Feinstein, Whitehouse, Klobuchar, Coons, Grassley, Hatch, Lee, and Coburn.

OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Chairman LEAHY. Mr. Kappos, if you could take a seat there, I will explain what we are doing. Normally, I am one that likes to take pictures. I am more interested in taking them than being in them, but this is one where Mr. Kappos and I both were at the signing of the Leahy-Smith America Invents Act, and you can see both of us and, of course, the President. And I am standing there because I am trying to take a picture of the President's hand signing the bill. Over the years, I have been able to get pictures of Presidents Ford, Carter, Reagan, both Bushes, Clinton, and Obama, pictures of their hands, because no other photographer stands behind the President when he is signing a bill. But this particular picture, Mr. Kappos, as I mentioned to you, has special significance to me because it was taken by my son-in-law, who is one of the President's photographers, and we just wanted you to have it.

Nine months ago, the U.S. Congress did something that has become all too rare. It sent to the President bipartisan legislation that is going to unleash American innovation to create jobs and improve our economy. The Leahy-Smith America Invents Act, signed by the President last September, was the product of more than 6 years of hearings and markups, and I thank all the Senators on both sides of the aisle that came to all those hearings and markups. And we had countless hours of meetings and negotiations, Republicans and Democrats, Senate and House, sitting down together and working on legislation the way we used to, the old-fashioned way.

The patent reform process was bipartisan and bicameral effort right from the outset. Every member of this Committee made important contributions to the legislation. Director Kappos' leadership was also invaluable to this process. I had known him before from his days in the corporate world. He did not need a tutorial to know what was necessary. And Ambassador Locke, who was Secretary of Commerce when the Senate first passed the America Invents Act in March, I think of all the number of times that Gary Locke sat in long meetings with all of us, Republicans and Democrats, to work this out.

But the Act creates a more effective, efficient, and streamlined patent system that will get the highest-quality patents to issue from the PTO as quickly as possible. It required major structural changes to the system of granting and enforcing patents, and that will take the PTO time and work to implement.

But it has begun. So far, the PTO has initiated more than 10 different rulemakings and hired more than 800 examiners and 40 administrative patent judges. It has conducted seven road shows across the country to explain and receive feedback on proposed rules, and I appreciate this transparent manner where not just people in Washington but people in other parts of the country can have their input.

I am pleased that even before the Act is fully implemented the PTO has focused on reducing the backlog of patent applications. Over the last 2 years, the backlog has been reduced roughly 12 percent, and I want these numbers to continue to improve.

But speed is only one part of the equation. The patents that are issued need to be of high quality, because if they are not, instead of being an incentive to inventions, they are going to impede innovation. We have in the Leahy-Smith bill important quality controls.

We also need to do more to protect American investors in overseas markets. We should encourage other nations to adopt a grace period similar to in our law.

We can make it easier for American inventors to seek patent protection abroad by implementing the Patent Law Treaty and the Geneva Act Treaty on design patents. Those have been supported by both the Bush and the Obama administrations, so I hope, following the bipartisan example of President Bush and President Obama, that we can implement legislation in the same bipartisan and bicameral manner as we did on patent reform.

So I think this is an efficient and effective patent system, and this was one that had not been updated for half a century. This will unleash American innovation and improve the American economy.

So we have done our part in Congress, and I look forward to hearing from the Director about the steps the administration is taking to ensure the Leahy-Smith America Invents Act fulfills its potential as I believe we are creating the first truly 21st century patent system.

I will put my full statement in the record.

[The prepared statement of Chairman Leahy appears as a submission for the record.]

Chairman LEAHY. Senator Grassley.

**STATEMENT OF HON. CHUCK GRASSLEY, A U.S. SENATOR
FROM THE STATE OF IOWA**

Senator GRASSLEY. I will likewise put a full statement in the record and refer to a couple points.

First of all, Senators Leahy and Hatch and Members of the House who were involved in this, you need to be complimented for having the most comprehensive reform of patent law since the 1836 patent law. It is a product of 6 years. The America Invents Act makes the U.S. patent system more efficient and streamlined. It will eliminate or at least cut down on frivolous lawsuits. Transparency is very important. Patent quality is very important. That will be enhanced. These reforms contained in this law have helped the Patent Office to cut down on its backlog and process patent applications more expeditiously.

The law contained a number of provisions that required the Patent Office to promulgate rules and regulations, so holding this hearing is very important on our constitutional responsibility of oversight to make sure that regulations follow congressional intent.

We also want to determine whether the legislation has produced any discrepancies, difficulties, or unintended consequences that have been revealed during this implementation. So I believe it is appropriate to ask whether technical, clarifying, or other changes to the legislation are warranted. If so, I expect to work with my colleagues in a transparent and open manner to improve the America Invents process, and hopefully nobody will try to use technical or clarifying language to get something done that they could not get done during the 6 years that this process was being negotiated.

And also to point out, last, that in 2007 the Patent Law Treaty and the Geneva Act of the Hague Agreement concerning the International Registration of Industrial Designs, these were ratified by the Senate. The Senate now needs to pass implementing legislation, and I look forward to hearing more about these treaties and how they can help American patent holders.

That is only a part of my statement, so I will put the whole thing in the record.

[The prepared statement of Senator Grassley appears as a submission for the record.]

Chairman LEAHY. Thank you very much, and thank you for your help on this.

David Kappos is the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, and he was invaluable to me and others in providing counsel and guidance as we worked to pass the Leahy-Smith America Invents Act.

Before he joined USPTO in 2009, he was vice president and assistant general counsel for intellectual property at IBM; bachelor's from the University of California, Davis; law degree from the University of California at Berkeley; but, more importantly, somebody who not only understands this, but has a commitment to make the Patent Office work.

Director, it is all over to you. Go ahead.

STATEMENT OF THE HONORABLE DAVID J. KAPPOS, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY, AND DIRECTOR, U.S. PATENT AND TRADEMARK OFFICE, WASHINGTON, D.C.

Mr. KAPPOS. Well, Chairman Leahy, thank you very much; Ranking Member Grassley, Members of the Committee. Thank you for this opportunity to discuss the USPTO's ongoing efforts to implement the Leahy-Smith America Invents Act and our pathway to international patent law harmonization.

Mr. Chairman, you and your colleagues deserve special praise for making patent reform a reality. Our Nation's innovators and our economy are truly the beneficiaries of your hard work. Thank you, thank you, thank you.

Mr. Chairman, I am pleased to report that our AIA implementation efforts are indeed proceeding apace. We have implemented seven provisions of the AIA—all within the timeframes set by the Act. We have published proposed rules for nine additional provisions, and we are on schedule to implement all of them on time this summer.

While our stakeholders have expressed differing views on some of our proposals, all of them have commented quite favorably on the transparency of our implementation process and the extent of our public outreach. Our AIA implementation team continues to review hundreds of comments received from individuals, IP organizations, IP practitioners, innovators, government entities, and academic institutions. And our ultimate goal, of course, is to produce rules consistent with the language and intent of the AIA that will best serve the needs of America's entire innovation community.

We will issue the final rules on or before August 16th of this year. The rules will then become effective on September 16, 2012, to give us a window of a month or more to educate our personnel and the public regarding the final rules in advance of their implementation.

Now, in early February of this year, we published initial proposed fees, as authorized by the AIA, for our patent services, and we received substantial feedback and recommendations from the public on them. We will also be receiving a report from our Patent Public Advisory Committee on the proposed fee structure before we issue a final rule late this year or early next year.

Mr. Chairman, we should note that our stakeholders are indeed already benefiting from the AIA. We launched the prioritized examination program, known as Track One, that provides for patent application processing in less than 12 months and offers small businesses a substantial discount. Since its inception, we have received more than 4,000 Track One applications, and we have completed first examination on more than 2,300, an average of about 90 days, which is exactly what we had intended to implement.

Needless to say, Mr. Chairman, our Satellite Office Program has drawn quite a bit of interest. We will open our first satellite office in Detroit, Michigan, next month. With respect to additional offices, we are in the process of reviewing and analyzing more than 600 comments and suggestions we received in response to our Federal Register notice. We expect to announce the locations of additional offices this summer.

Mr. Chairman, this is an exciting time in the patent world. With the passage of the AIA and Europe's consideration of a unitary patent, we are positioned to make real progress toward the establishment of a more effective international patent system overall. Adoption of the AIA has enabled the USPTO to promote a new vision of an intellectual property world in which national and regional patent systems are coordinated to create an optimal environment for technologically innovative companies and individuals globally.

The AIA provides an opportunity to restart long-stalled discussions with our foreign counterparts toward substantive harmonization that will help U.S. businesses succeed in the global business environment. And a critical part of these discussions is adoption by other countries of a modern grace period. A grace period has been adopted in many patent systems throughout the world, and it is recognized as a global best practice. We look forward to continuing these discussions with our overseas counterparties.

It is clear that policies supporting high-quality intellectual property and a high-quality IP system are making a difference in our Nation's economic recovery. The recent IP jobs report "Industries in Focus" shows that America's core strength continues to lie in our ability to innovate. Sensible Government policies encouraging that spirit of innovation can demonstrably contribute to job creation and economic well-being.

So, Mr. Chairman, we look forward to working with you to ensure that the innovation-advancing, job-creating, deficit-neutral work conducted by the USPTO continues to best serve America's innovators, and we appreciate your continued support for the employees and operations of the USPTO.

[The prepared statement of Mr. Kappos appears as a submission for the record.]

Chairman LEAHY. Well, thank you very much, Director.

One of the things that I might mention, we had a grace period we included in the transition to a first inventor to file system. I have been told that has been essential to researchers at universities, independent vendors seeking venture financing. You said that you are working with other countries to see if they will provide similar protections.

How are we coming with these other countries and trying to get that kind of grace period?

Mr. KAPPOS. I think it is fair to say that we are making pretty solid progress. As a result of the recent free trade agreement between the U.S. and Korea, Korea now has a great grace period. Japan has a good grace period. We have got to work on a little bit of timing with them still. Other countries, including Canada, Australia, have excellent grace periods. We are working with folks over in Europe, the European Union and the major countries over there, in the direction to moving toward a grace period also. And I think it is fair to say that across the board people are receptive because they understand that a grace period is pro-innovation, it is pro-tech transfer, it is pro-opportunity.

Chairman LEAHY. In the European Union, they are probably a bit distracted these days on other matters, but keep on with them.

What are the biggest obstacles remaining as part of the implementation of the new law?

Mr. KAPPOS. Well, relative to implementation of the law overall, I actually do not see major obstacles. It is an excellent piece of legislation. We have got the tools to implement it. Financial resources are always a concern, understandably, but we have gotten great support from Congress. Our fee collections are running right about where we expected them to. Our expenses are right about where we expected. And we have got all the resources we need at this point to implement.

Chairman LEAHY. I mean it as a compliment and not as a pejorative when I talk about a roadshow, but have those worked out pretty well in your mind?

Mr. KAPPOS. Yes. So we ran seven roadshows all over the country—east coast, west coast, a number of places in between. I thought they were excellent, and the reason is because they gave an opportunity for people who do not often interact with the USPTO to get in a room and spend an entire day with our leadership team and understand the legislation, understand our implementation and tell us how we can improve it. So we touched over 1,300 people all over the country. We got tremendously positive feedback. We got great comments and suggestions, all the way from Sunnyvale to Boston and everywhere in between, so much so that we are going to run a second set of roadshows—

Chairman LEAHY. Mentioning that, there is one State that has the most number of patents per capita of any State in the country.

Senator FEINSTEIN. Where are you going with that?

Chairman LEAHY. I thought maybe we could go alphabetically, starting with Vermont.

[Laughter.]

Chairman LEAHY. I am sorry. Go ahead.

Mr. KAPPOS. Well, we will run a second set of roadshows late this summer and early into the fall when the final rules are out to touch, again, a many people as possible.

Chairman LEAHY. Fall is a beautiful time in Vermont.

[Laughter.]

Chairman LEAHY. I am concerned that standard essential patents are becoming the new front of the tech patent wars. Senator Kohl and I wrote to the administration expressing our concern that preventing the use of these patents by going to the International Trade Commission after promising to license them on reasonable terms could have anticompetitive effects. I think the Federal Trade Commission and I know other Members of Congress have expressed similar concerns.

Are there times, in your view, when enforcing these types of patents might harm consumers?

Mr. KAPPOS. Yes, I think that the situation is definitely cause for careful study at this point. So standard essential patents implicate a number of very important intellectual property and also competition issues. You are talking about situations where a number of competitors are agreeing to use the same technology. Once that occurs, they go off and they make commitments to manufacturing equipment and processes, and they put networks in place. There is a tremendous lock-in effect that creates extremely high value for the technology that is in the end implemented.

When competitors get together and make pledges of fair, reasonable, nondiscriminatory licensing, so-called FRAND pledges, in the context of standard setting, those pledges need to be kept, and what they mean is that licenses will be offered. If later folks who have offered their patents under FRAND terms then are able to get exclusion orders or injunctions, you can certainly have some tremendously negative side effects.

On the other hand, though, I think there is also a fair point to be made that a FRAND commitment does not stand for licensing under any terms and conditions, and you cannot wind up in a situation where FRAND means no opportunity to enforce a patent because what that will create is a situation where nobody will have any incentive to take a license. So finding the right balance is really the challenge.

Chairman LEAHY. Well, and I agree with you. You explored the poles on that, and I agree with you on both of them. But we have got to find a way—not so much bring both sides together, but find a way through this. And I do not begin to underestimate the difficulty of threading that needle, but please keep us posted on this, will you? Thank you.

Just one last thing. You mentioned the Patent Law Treaty and the Geneva Act and the Hague as treaties since ratified, but they require implementing legislation to be effective. I assume you feel those are going to be pretty effective, pretty helpful to this country if we get the implementing legislation through?

Mr. KAPPOS. Yes, I do, Chairman Leahy. Both of those treaties are pro-innovation. In the case of the Patent Law Treaty, you are talking about a straightforward instrument that will cut costs for U.S. patent filers and patent filers globally, streamline the system, reduce redundancies, you know, a very light lift. In the case of the Hague Act, you are talking about design innovation, which has become a major, major issue lately. Look at the corpus of innovation that Steve Jobs created which showed us all that there is tremendous action at the intersection between design and utility innovation. And the Hague Act is all about providing a streamlined single instrument that will enable American design creators to get global protections. Both of those treaties are pro-American innovation, pro-global innovation, pro-jobs, pro-opportunity, very light lifts, and I would love to see implementing legislation.

Chairman LEAHY. Thank you. I will submit my other questions for the record, especially one on the Patents for Humanity Program.

Chairman LEAHY. Senator Grassley.

Senator GRASSLEY. Director, I hope you will recall that I was instrumental in getting a provision dealing with tax strategy patents included in this Act so that all taxpayers would have equal access to strategy in complying with tax law. These patents encumber the ability of taxpayers and advisers to use the tax law freely, interfering with the voluntary tax compliance system and undermining the fairness. Tax patents provide windfalls to lawyers and patent attorneys by granting them exclusive rights to use tax loopholes, which could provide some businesses with unfair advantages. Some taxpayers could face fees simply for complying with the Tax Code. Because tax strategy patents are unlikely to be novel given the

public nature of the Tax Code, we included a provision in the law that expressly provided that a strategy for reducing, avoiding, or deferring tax liability cannot be considered a new or non-obvious idea and, therefore, a patent on tax strategy cannot be obtained.

So I am interested in hearing whether the tax patent provisions included in the law are working out as Congress intended. Specifically, is the Patent Office continuing to receive patent applications involving tax strategy? And, second, what procedures have been put in place to screen for tax strategies and ensure that the law's provisions are complied with?

Mr. KAPPOS. Well, right, thank you, Senator Grassley, for the question, and we are indeed intent on accurately and faithfully implementing that provision. It is an important part of the law.

A couple of comments. Number one, it is a little early to tell because patent applications that we have received since the law went into effect have been small numbers, but we received only small numbers ahead of that. We are talking like in the neighborhood of 20 applications. Very, very small numbers. We will examine them rigorously based on the strictures in the law. So I think the law will be very helpful for its intended purpose, but given the timelines of these things when they get received and when they get examined, it is too early for me to give you statistics on results yet.

The other thing I will say is that Section 18 of the AIA, the covered business method review provision, is also going to be extremely helpful, and with great guidance from Congress, we have written rules that will ensure that tax strategy patents will in, if not all cases, the very large majority of them be applicable for Section 18. So that will give us an opportunity at the request of third parties to take a close second look at those patents. Section 18 will be helpful also.

The other thing I would say is that I have initiated on my own signature Director-ordered re-examinations of two particular tax strategy patents that I felt strongly had serious validity problems with them. Both of them have been re-examined in the USPTO. Both have been rejected. One has been finally rejected and is on appeal. The other one is under rejection, no claims deemed allowable in them.

So I think the guidance from Congress has been extremely valuable to us. We are applying it as much as we can already, and there will be more to come.

Senator GRASSLEY. Would you be able to be consulting with the IRS if you need guidance on tax law?

Mr. KAPPOS. We certainly will. And, in fact, the basis that we have used for the Director-ordered re-exams that we have done so far have been highly based on IRS regulations and information. So their work is indeed seminal to our handling these cases.

Senator GRASSLEY. My next question involves some oversight work I have been doing, and if you feel that you can answer it in writing better than answering orally, I would give you that option. Since you are before the Judiciary Committee now, I want to take the opportunity to ask about my oversight inquiries of the Patent Office expenditure relative to international conferences. Preliminarily, I want to make clear that I understand it is important for the United States to do international outreach and training with

respect to protection of intellectual property rights, but we also need to know that we do it in a smart way using taxpayers' money.

Last September, I wrote to you regarding the U.S. Patent Office's sponsorship of a 2-day intellectual property conference in Tokyo. It is my understanding that \$180,000 was spent for four high-level Patent Office staff members, including yourself and six judges, and two staffers of the Federal Circuit Court of Appeals. However, in the meeting I had with Chief Judge Rader, he told me that Japan no longer has significant intellectual property problems that are prevalent elsewhere around the world. I asked the Patent Office and the Federal Circuit Court of Appeals for specific documentation about the amount of funding spent for this and other international conferences. The Patent Office response provided vague justification for the expenditures and no actual documentation.

So I still want to receive the documents that are requested in the September 2011 letter. I hope you would commit to providing me with the conference and travel expense documents that I requested. And I would like to have you explain why the Patent Office spent over \$180,000 for a conference in a country that has already addressed its significant intellectual property problems. Why was it necessary to send so many people, by my count at least 12 individuals, to that conference? The response that I received stated that the Patent Office would be sponsoring an intellectual property conference in China this year. I would like to know the status of that trip and who is scheduled to attend and how much is going to be spent for the sponsorship and travel expenses.

Again, the message I am trying to send to you is that in this day of extremely limited resources, we all should be looking for focus on our efforts where they need to be most, and we should be trying to find as many ways as possible to save money.

Mr. KAPPOS. Well, thank you for that question, Senator Grassley, and I would start by saying I could not agree more strongly with you that in this age—in fact, in any age but especially this one—we need to be extremely judicious about the way we spend money, especially travel money, because trips can get expensive. And that is why, in specific, for the conference in Japan, to my memory we took three people on that trip: myself; the solicitor of the USPTO, who is my senior-most litigators; and one staff person to help staff the trip.

I have ensured that USPTO pays only for coach class travel for all travel that I do and all other USPTO employees. So our travel is extremely cost-effective, even for extremely long trips like a trip to Japan.

That conference, in my view, was enormously important and was very successful. We were able to get together hundreds of Japanese practitioners with their judiciary. Indeed, they have got a great intellectual property system, respect the law there. They are leaders in Asia, and by holding that conference like we did, with a small U.S. Government footprint but helping to bring together all the folks over in Japan and, in fact, throughout Asia, we were able to get a first huge gathering of Japanese judiciary with their practitioners, leaders from other countries including the U.S. and other parts of Asia, and have what I thought was an extremely valuable discussion about the intellectual property system, the importance

of patent, trademark, copyright, trade secret enforcement all over Asia.

We did indeed, Senator Grassley—you correctly asked about the follow-on conference in China. We help that conference just a few weeks ago in Beijing. I attended that, again, along with just a few other USPTO people, again, if my memory serves, exactly two other folks: our solicitor and a staff person. It was an enormous and successful conference. About 1,200 people attended, including several hundred Chinese judges, members of their Supreme People's Court who hear their intellectual property-related cases, and it gave us a huge opportunity to talk all at the same time in person and through the media in China to literally hundreds and hundreds of people who we need to help get on board with understanding and championing a strong intellectual property rights system.

So in my job, as our administration's leader in intellectual property policy development and promulgation, I feel these were extremely valuable trips, lightly staffed by the USPTO; and while we are not going to go doing these all over the world, I think they clearly are the right things in the right places in order to help move the rule of law and respect for intellectual property forward.

Senator GRASSLEY. Will you give me the documents I requested, please?

Thank you, Mr. Chairman.

Chairman LEAHY. Thank you.

I commend you on flying coach. All of us around this table, when we fly overseas on Government business, usually fly either business class, first class, or on a Government airplane. So before we get too concerned about your flights, we want to make sure that we are not throwing stones at a glass house.

Senator Feinstein.

Senator FEINSTEIN. Thank you very much.

Welcome, Mr. Kappos. I wanted to talk to you a little bit about the length of time it takes to get a patent and recognizing that you now have funds to hire because you can now increase filing fees, which I think is a very positive development. The figure is that the average patent pendency has essentially doubled over the last 20 years, from 18.2 months in 1991 to a high of 35.3 months in Fiscal Year 2010.

Now, I am very pleased to see that this has begun to decline for the first time in 8 years to 33.7 months in Fiscal Year 2011. This is the latest figure my staff could get.

I can tell you that in discussions with Silicon Valley CEOs like Apple, this is their number one concern: the length of time it takes to obtain a patent.

Here is my question. I see your hiring numbers on this chart. I see how many applications come in, and I see really out of that how few right at this time are on board, how few have been made offers. The question comes. Are you setting a goal for a patent? Let us take for me it is a high-tech patent. How long can a company like Apple or Google expect for patent processing?

Mr. KAPPOS. OK. Well, Senator Feinstein, thank you very much for the question. As someone who came from the tech industry, in fact, from Silicon Valley, I am extremely attuned to the need for rapid processing by the tech sector. We do have very explicit, very

clear goals in this regard. We believe, based on input we have gotten from all sectors of the U.S. innovation economy that the optimal processing time for a patent application is indeed 18 months to completion, on average, and that you get to 18 months, on average, to completion by getting a first office action, a first substantive response in about 10 months. And that is why we have set targets of 10 months to first action and 20 months to final action which ensures that with a little bit of some cases coming out early, the early cases will come out at 18 months, the later cases will come out at about 22 months or so, and we will not be pre-publishing patent applications before 18 months but we will get them done very close to 18 months.

So the answer to your question is our target is first action in 10 months, final action on an average of 20 months, which, you know, gets you between 18 and 22 months, and we will reach those targets by 2015 and 2016, and we are well on our way to getting there.

Senator FEINSTEIN. The biotech industry has given me a question to ask you, and that is, patent examiners keeping up to date on new developments. You mentioned your very successful roadshows. I wonder if you could not do something like that with respect to new technology to keep examiners up to date.

Now, this came from a big biotech company, and that was their concern. What would your reaction to that be?

Mr. KAPPOS. Well, that is a very valid concern. Biotech as an example operates, you know, at the very, very leading edge of technological development, and it is challenging to keep examiners, and we have got great examiners. In the biotech area, we have got examiners who in general have Ph.D.s, very highly educated, very capable, but keeping up on the latest technology is a challenge. So we are doing two things to work on that, and there is a third thing that I would like to start doing in the future.

The first that we are doing is we have instituted a very vibrant patent examiner technical training program where we invite companies from all over the country—and it includes tech and bio companies from California—to come to USPTO, either in person or virtually, by teleconference or videoconference, and give lectures to our applicable examiners. They can be short or long. They can be 15 minutes or 2 hours. We have had tremendous success with that. The numbers are ramping up rapidly. Many thousands of hours of training a year we are getting from that program. It is working extraordinarily well. The examiners love it, and the companies that come in rave about how great it is to get to spend time with our examiners.

The second thing we are doing is we have reinstituted a program that we had in past years of sending examiners out on short, low-cost trips to actually spend a day or two with various companies, and it includes companies in California right there in the Valley. I know we have touched companies that are ones that I am sure you are hearing from and sending examiners to spend a day or two with them to understand their processes, to really absorb the leading edge technology that they are working on. So that is the second thing we are doing.

Of course, that becomes a financial issue because of the money involved, so we are gradually ramping that up. We are trying to be very, very cognizant of the travel cost, apropos of the previous question, but we will continue investing in that because, as you say, it is very, very valuable to get examiners out.

The third thing that I would like to start doing and hope to be able to institute in 2013 is to resume the USPTO supporting our examiners in receiving technical training post-graduation. So we have got examiners who are in the agency who want to take a graduate course in biotech at some school, hopefully here in the area, in some cost-effective way. I would like us to be willing to at least partially, if not wholly, pay the tuition expenses and help our examiners to continue to develop their technical education even after they are on board.

Senator FEINSTEIN. Could I just make one other comment? I appreciate this. This is on software patents. It is my understanding that studies, statistics, and companies show that the patent system drains resources from high-tech industries. Software and Internet patents are litigated about 8 times more often than other patents, and much of this litigation is brought by the so-called patent trolls, yet a quarter of all patents issued are software patents.

Are you undertaking any initiatives in the Patent Office to address this?

Mr. KAPPOS. Yes, absolutely. It is clearly a concern, and we are doing several things. First of all, the AIA is going to have and is starting to have an enormously positive impact. So the AIA put in place Section 18, the covered business method section, which touches on software patents because many business methods are claimed as being implemented in software. So that provision and our implementing rules will enable us to provide a venue to take a second look at many of these business method patents that have software concepts in them.

Second, inter partes review, post-grant opposition are all about providing a fast, clear, inexpensive route to take a second look at patents that we have granted, and I expect it will be extremely helpful in the software area. Now, those provisions, of course, go into place in September, so we have got a few months we will be starting to work on them.

The other thing that we have already done is put in place for the first time new guidelines that we put in place a little over a year ago that were especially directed to the software field to have our examiners spend more effort and be more precise in our examination of patent applications for the clarity of their disclosure, which is a key problem in the software area. We had a lot of that set of guidelines—they are called 112 guidelines. A lot of them were directed to issues that come up with software patents. We have baselined, we have done the statistics on changes that have occurred in the agency, and, indeed, our examiners have put out increasing effort and increasing objections and rejections in the areas that you are concerned about. So we clearly are making progress. We will be doing more there.

Chairman LEAHY. We are going to go to Senator Hatch, then Senator Klobuchar, Senator Coburn, Senator Coons, Senator Lee, Senator Franken, and Senator Whitehouse. I have just been ad-

vised we are going to have a vote at 11:30. I have tried to be as flexible possible in giving extra time, but we are going to have to keep it as close as we can because we will not come back after we leave for the vote.

Senator Hatch.

Senator HATCH. Well, thank you, Mr. Chairman.

I just want to tell you that I am pleased with your service. I think you are doing a very fine job, and I have very little to criticize you with. But let me just say this. I continue to follow closely how the USPTO plans to implement the supplemental examination provisions of the America Invents Act. By establishing the new process, USPTO would be asked to reconsider or correct information believed to be irrelevant to the patent, as I understand it.

As you know, the law enables patent holders to request a supplemental examination of a patent if information arrives after the initial examination. The goal, when crafting this provision, was to provide the patent owner the ability to take action to remedy any potential deficiencies, thus enhancing the quality and accuracy of the patent examination record.

However, since the USPTO published its proposed rules to implement the supplemental examination provisions, I have heard some concerns that the proceeding would be very expensive, if not cumbersome, to use. How do you respond to concerns that the cost for filing a supplemental examination is steep and will discourage patent owners from utilizing this procedure?

Mr. KAPPOS. Thanks for the question, Senator Hatch, and that is indeed something that we are concerned. We want the cost to be set at a level at which these processes are affordable.

We have taken a lot of input on both the cost and, I will say, the procedural difficulty issue that you raise, and we are indeed looking for ways to simplify the procedures. We are working on that right now. And we are looking for ways to moderate the cost. So messages received in both cases, and we are working on making improvements in both regards.

The one other thing I will say is that we are prepared to make further improvements as we go forward. We will all get some experience with these procedures once we put them in place soon, and we are very amenable to then learning and further simplifying as we learn what works.

Senator HATCH. Well, thank you. Would you mind commenting on the opportunity patent owners now have with the supplemental examination to improve the quality of their patents? It seems one would think the costs associated with strengthening one's patent may very well be worth the moneys that are invested up front.

Mr. KAPPOS. Well, yes, I think that is clearly right, and so the way we are trying to implement supplemental examination, we will charge a more moderate fee up front for those patents that just require the kind of clarification, Senator Hatch, that you are pointing to and then reserve for further work in re-examination as called for by the statute those cases that require really substantial additional work.

Senator HATCH. OK. During consideration of the America Invents Act, I joined 47 of my colleagues in supporting Senator Coburn's amendment in which user fees would go directly into a re-

volving fund for the USPTO, separate from annual appropriations. Even though the Coburn amendment failed, we were assured that the House compromise language, which created a reserve fund for fees collected, would be more than enough to provide the USPTO with the resources it needs to fulfill its mission.

Now, recognizing that the reserve fund is tied to the appropriations process, how does the continuing resolution affect your operations? And do you believe that the House agreement applies to continuing resolutions as well as appropriations bills?

Mr. KAPPOS. Well, the reserve fund is indeed a much less robust solution than the amendment that Dr. Coburn offered, and thank you for raising the issue, Senator Hatch.

What I would say is so far, so good relative to funding. We have not yet used the reserve fund because we have not had money yet to put into it. It is just going to be coming into effect next year.

During a continuing resolution period like we may be entering this fall, we will be subject to the appropriations process and the issues with CRs like we always have. In the past, they have been challenging. However, we have been able to plan for what could be a continuing resolution this fall that I believe will enable the agency to continue our operations seamlessly through the CR. And if the reserve fund works out the way that it looks like it will, I believe it will be helpful to us also in future periods because it will be a corpus that we can then tap into during those periods.

Senator HATCH. Well, thank you. My time has expired. I do have a few more questions, so I will submit them in writing.

Senator HATCH. Thank you so much. We appreciate the work you are doing. I think you are really, really accomplishing quite a bit down there. I appreciate it.

Mr. KAPPOS. Thank you, Senator Hatch.

Chairman LEAHY. Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much. Thank you, Director Kappos. Thanks for your good work in this area. This was an incredibly complex bill and something that I worked hard on, as did many members of this Committee, truly a bipartisan effort to get this done.

As you can imagine, our State, the State of Minnesota, has a great history of innovation. We have given the world everything from the Post-it Note to Scotch tape, water skis, pop-up toaster, and rollerblades, just to name a few. I do not know if you knew that, but it is true. And what we know is that one of the keys to innovation and economic growth is making sure a country's inventors that work for small businesses or even in their own garages can get patents for their inventions. And the America Invents Act directed the PTO to work with intellectual property lawyers to create pro bono programs that assist individual inventors and small businesses with applying for patents. I used to be at a law firm. I know how expensive patent lawyers can be, and that is one of the ideas here, is to try to get smaller inventors an easier way in.

I am pleased to see that you are collaborating with Legal Corps, which is a Minnesota nonprofit that connects IP lawyers with inventors to provide that kind of pro bono assistance and are taking the program to cities across America.

Can you provide an update on how that is working?

Mr. KAPPOS. Right. Well, Senator Klobuchar, thank you very much for the question. Indeed, the congressionally mandated pro bono initiative has gotten off to an extremely good start. We started the first chapter, as you mentioned, in the Twin Cities in Minnesota. It has been extremely effective. In fact, I just received an e-mail this morning indicating that the very first patent has now issued, so we have reached yet another milestone.

Inventors from the Minnesota area, that whole area of the Upper Midwest around the Twin Cities, are receiving legal advice and getting help preparing patent applications. The program is going extraordinarily well. We started the second chapter in the Denver, Colorado, area. We have got five more that we are working on. We will have as many as 13 additional up and running next year that are well in the pipeline, and we intend to have complete coverage for the U.S. by 2014.

So the program is going along extraordinarily well. The push from Congress in the AIA was exactly what we needed, and we are really making good use of it.

Senator KLOBUCHAR. Then also the America Invents Act included reduced fees for small businesses and micro entities. Do you think that will be a help to increase the number of patents filed by small businesses and individuals?

Mr. KAPPOS. Well, I think clearly. Now, the micro entity fees have not yet gone into effect. They are subject to the new rulemaking in AIA, so I put out the draft rules on those. They are in the clearance process right now, or if they have not already emerged from it. So we will be implementing the micro entity fees. But relative to small entities, another fact that I should mention is that the Track One Initiative enabling applicants to get very fast patent protection by paying a few, has been used in very high proportions by small entities. In fact, I think about a third of the usage of that program is by small entities, so that to me really stands for the proposition that small entities need patents quickly, that fee discounts work for them, and that they will go out and create opportunity by getting through the patent system promptly.

Senator KLOBUCHAR. One of the key provisions in the America Invents Act is moving from a first to invent to a first inventor to file system, as you are aware. Can you describe the preparations that are underway to make sure that the PTO is ready for this important switch in March 2013.

Mr. KAPPOS. Yes, there is a lot going on in that regard. We are in the process of preparing the draft rules or what is called the Notice of Proposed Rulemaking that will go out and begin getting comments. We plan to hold a roundtable, a special roundtable on just that provision in order to get input, especially from small entities and independent inventors. And we will go through the whole rulemaking process, make sure that we put out rules that are simple and that help especially the small inventor community to understand the change and to implement it effectively.

Senator KLOBUCHAR. Well, very good, and I will have some additional questions for the record.

Senator KLOBUCHAR. I want to thank you for your work and again stress how important this is to our country and especially my State, where at 3M we actually have the same number of patents

as we do employees. So, literally, we can say that every employee invented something. All right?

Mr. KAPPOS. Thank you, Senator Klobuchar.

Senator KLOBUCHAR. Thank you very much.

Chairman LEAHY. Thank you.

Senator Coburn.

Senator COBURN. Thank you, Mr. Chairman.

Director Kappos, thanks for being here. Thanks for the great job that you and your group are doing. One of the things I would hope you would consider no matter who wins this next election is staying on in your position. I will lobby for you no matter who the President is. I think the continuity is important for this office, and it is very important for our country and our economic growth.

I want to go back a little bit to your fees. First of all, talking about—we saw this big runup in filings prior to the end of September in anticipation of the new fees. And it looks like from Fiscal Year 2011 about \$210 million was diverted from the Patent Office. Have you seen any of that money come back?

Mr. KAPPOS. Yes, that is a great issue, Dr. Coburn. Indeed, there were a lot of fees paid at the very end of the financial year just in advance of the fee change, and it was very unfortunate. That money was diverted, has gone away, and it has not come back in the sense of somehow being, you know——

Senator COBURN. Redirected to the——

Mr. KAPPOS. Redirected. It has not.

However, our filings have rebounded, and fee collections have rebounded, and so we have been able to accommodate the loss of that revenue.

Senator COBURN. Just so the American people know, the fees for the Patent Office are meant to be directed for the processing and granting of patents. And, unfortunately, now over \$1 billion of applicant fees have never been given to the Patent Office, and, consequently, our frequency or our ability to respond to patent applications is much slower than what it would have been had that \$1 billion actually been directed to where individuals pay for it.

One other question on fees, if I might. In your setting of fees, is your goal to cover the costs associated with those fees? Or are you using fee setting to try to direct some policy or make some direction? Could you comment on that?

Mr. KAPPOS. Yes. Mostly we are setting the fees to recover the costs of performing the services. However, not across the board. So as an example, we are still fly subsidizing the cost of patent application filing and basic processing. We are not proposing to charge anywhere near the cost of examination in the fees that we charge for initial filings. So, obviously, you have to make that up somewhere else in the process. We are proposing to make it up largely through the renewal fees or what is called the maintenance fees and through some of the other surcharges like surcharges for late filing of documents and for extensions of time. So mostly we are trying to charge what the cost is, but with some modifications here and there.

Senator COBURN. Let me go to one other area. It is my understanding you have been working with certain Members of Congress in terms of technical corrections to the America Invents Act, and

I just want to be on record that I am fine with technical corrections, but things greater than technical corrections deserve a full and comprehensive hearing where all stakeholders have an opportunity to have input.

Could you discuss with us the areas other than true technicalities that you are working on with Members of Congress?

Mr. KAPPOS. Sure. So, you know, we are in the role of technical adviser in these kinds of things. There are a number of pure technicals, kind of clerical mistakes that we would like to correct. There are some issues beyond those. We talked about a couple of them already, you know, the PLT and the Hague Agreement.

There are also discussions that have gone on about one of the estoppel provisions as an example. There are discussions about prior user rights. There are discussions about a provision in Section 102, the basic definition of "prior art" that some folks want to modify. So there have been discussions about a number of things that I would readily agree are beyond technicals.

Senator COBURN. Well, I just want to be on the record that I am fine with a pure technical correction bill, but anything that significantly changes the estoppel provisions in the bill we passed needs to have the full consideration of all the stakeholders and all the members of this Committee before we would do that.

Mr. Chairman, I yield back.

Chairman LEAHY. Thank you very much, Dr. Coburn.

Senator Coons.

Senator COONS. Thank you, Chairman Leahy, and thank you, Director Kappos, for the very strong leadership you have provided to the Patent and Trademark Office. As someone who was in-house counsel to a materials-based science company that critically relied on its intellectual property, I heard for years bitter complaints about fee diversion, concerns about pendency, quality of examiners, and I think there is very broadly shared amongst members of this panel and the communities that we represent enthusiasm for your leadership and the direction you have taken.

I was encouraged by your testimony previously to Senator Feinstein about a goal to reduce pendency to 18 months. I was pleased to hear how you are doing with Track One and with its early implementation and the balance that you are striking with lower fees for those who are small or early-stage inventors.

I am interested in how you retain, train, motivate, and pay qualified examiners because the absence of a sufficient number of qualified examiners is an absolutely critical barrier to your success. Now that we have made, I think, significant progress toward dealing with fee diversion, do you feel that the fees you are able to set are likely to be necessary for you in order to be able to pay examiners appropriately? And what are the barriers to your being able to pay examiners sufficiently that you can retain and train the most qualified folks possible?

Mr. KAPPOS. Right, yes, that is a great question.

Chairman LEAHY. And before you answer it, just a housekeeping thing. I have to be at another matter. It is not that I am disinterested by any means. Senator Franken will take the gavel in my absence.

Mr. KAPPOS. Yes, so retention is incredibly important in any enterprise. As a leader, I am always extremely concerned and committed to the view that if we cannot retain our work force, we cannot succeed. So it is fundamental to success.

I am happy to report that our retention is actually quite strong these days. Our attrition rate is about 3.2 percent, which is very functional, very appropriate commercial grade. No problem right now.

We are helped by the Detroit satellite office where we have had tremendous success, having very qualified judges and new experienced examiners. So the satellite office program I think is going to be very helpful because it gets us access to a new demographic that we just do not have in the Washington, D.C., area.

Senator COONS. I presume it also gets you access to a lower cost of living since you are more competitive.

Mr. KAPPOS. Absolutely, yes.

Senator COONS. There are many other places that would serve as excellent locations for field offices, Minneapolis probably top of the list, and you are announcing two more.

Senator FRANKEN. Why, thank you.

Senator COONS. Recognizing that two Minnesotans sit to my right, which has a certain amount of wisdom, I hope, and that Delaware is close enough, frankly, that a field office in Delaware is probably not on the top of your list. You will announce two more field offices in July, I believe.

Mr. KAPPOS. We hope this summer.

Senator COONS. Do you have the authority you need to explore further initiatives? You are allowing some of your more senior examiners to work from home through a hoteling program. If you find some success in these field offices, which I am confident you will, is that something you have the authority and ability to move more aggressively to expand rapidly?

Mr. KAPPOS. Yes. Thanks, Senator Coons. For the most part, yes, we actually do have the authorities that we need. Our telework program has been extraordinarily successful. It enables examiners to live and work from literally every State in the continental U.S. It has been a great program. We will continue with that. The satellite office program, we have got all the authorities we need there.

The one area that we are a little bit challenged is on the salary cap for our highest qualified primary examiners. Unfortunately, they get cut off by the salary cap that we have for our workers and then literally have to stop working. And so we have done statistical work that shows that if we had statutory permission to relax that somewhat, even temporarily for short-term small amounts, the value of the work that those examiners do is extremely productive. It is much more cost-effective than hiring the like number of new people we would need.

Senator COONS. Well, given how long it takes for you to break in and develop the proficiency of examiners, that makes great sense to me.

My last question would be: Given that PTO is a predominantly user fee-funded agency at this point, I have done some outreach in the intellectual property community in my home State. I want to commend you for how much outreach you have been doing with the

roadshows, how open you have been to user community input. I have had more than one lawyer who represents a firm or individual who leads a company that relies critically on your office's services say if the fees are not being diverted, they would pay significantly more than the current fees. They would pay whatever it took in order to get the pendency down and the quality of the examiners up.

Do you think that is a widely held view? And do you think you could raise the fees significantly and get the pendency down below 18 months and the quality of the examiners up?

Mr. KAPPOS. Yes, I think it is a widely held view. I am cognizant that there are limits on everything, and that as we are getting the office in better shape and reducing pendency—in fact, the total backlog just dropped to 627,000, which is a new low point in many years. So we are continuing to whittle away and make progress. What I am finding is that the amount of money that we need and, therefore, the amount we need to increase the fees is by no means astronomical, is by no means mind-boggling. And so we will raise the fees as we need to. We are getting great support on that. But I do not think we need to do anything that anyone would consider outlandish.

So apropos some of the other questions, what we are trying to do now is tune our fee changes so that they are good policy, we are incenting use of these processes, and we are not either undercollecting or overcollecting.

Senator COONS. Well, as you move through the final rulemaking processes, I just want to close by urging you to be bold, striking a fair balance, that it respects small inventors and making sure that they have access to a fair and appropriate process as we work through technical amendments. But I am just grateful for your leadership and excited to see what the AIA is going to bring for our economy and for our country in the year ahead, and I look forward to working with you closely on this.

Mr. KAPPOS. Thank you very much, Senator Coons.

Senator COONS. Thank you.

Senator FRANKEN. [Presiding.] Senator Lee.

Senator LEE. Thank you very much for joining us, Director Kappos. A number of individuals and organizations, including some Members of Congress, the FTC, and industry groups, have expressed some concern to the International Trade Commission regarding the use of exclusion orders in cases involving standard essential patents. As you know from your work at the PTO as well as time prior to that that you spent in the private sector, the adoption of these internationally recognized standards has contributed quite significantly to competition, and in so doing has really contributed substantially to innovation and to consumer choice in the marketplace, particularly within the tech industry.

The standard-setting process that occurs relies for its existence and for its success on a commitment from companies that are contributing technology to license their standard essential patents to all the parties that happen to be implementing this agreed-upon standard and to do so on a reason and non-discriminatory basis, on RAND terms, as they say.

Yesterday, I along with several of my colleagues sent a letter to the ITC expressing some concern about the implications of granting an exclusion order in a case involving standard essential patents. Are you concerned at all about any negative consequences that might flow from an ITC exclusion order in cases like these, any implications they might have on consumers, on innovation, and on the standard-setting process as a whole?

Mr. KAPPOS. Yes, well, thanks, Senator Lee. I am. Senator Leahy asked a similar question earlier, and I share the concern. I think that the standard setting is extremely important in many industries, especially the tech industry. The network effects that result from standards are hugely beneficial, but can also be very dangerous if patents then that are pledged under FRAND terms are later enforced for exclusion orders or injunctions. And I think that the holdup power that a patent gains over whatever standard is chosen can actually be quite dangerous and debilitating to an industry if it is misused.

Now, by the same token, we need to come up with a solution here that acknowledges that FRAND does not and really has never stood for licensing under any terms and conditions, and what we need to send is the right messages to both sides of the equation, both the patent holders who want to enforce and the folks engaging in standard setting who would otherwise perhaps say, well, why should we bother taking a license at all when the worst thing that can happen is we will get sued and after litigation we will just pay whatever we were going to pay for the license.

Senator LEE. Right.

Mr. KAPPOS. So finding that balance is what is really key here.

Senator LEE. Right. And I guess that is significant because the ITC does not really—there is no process, as I understand it, whereby you can get the International Trade Commission to do anything other than issue an exclusion order. Is that right?

Mr. KAPPOS. That is correct. That is the only tool they have.

Senator LEE. You cannot get the ITC to decide what a reasonable non-discriminatory royalty for patent infringement might be. How does this contrast with the remedies that might be available in a Federal district court?

Mr. KAPPOS. Well, of course, district courts have the full range of remedies available. Damages, injunctions—everything is available to them.

Senator LEE. And would you agree with the overall assessment that some have made that allowing an order like this in this context could start to unravel this process or at least unravel the incentives that lead people into this process of negotiating these standard essential patents?

Mr. KAPPOS. Yes, I think I would accept that it could. This is why letters like the one you sent are helpful, in my view, to guiding everyone to reach the right balance.

Senator LEE. OK. Mr. Chairman, I see my time is about to expire. I yield my time back. Thank you.

Senator FRANKEN. Thank you, Senator Lee.

Under Secretary Kappos, I want to thank you for coming here to talk about the progress in implementing the Leahy-Smith America Invents Act. You have done a commendable job rolling out these re-

forms, and while there is a long way to go, you have put a noticeable dent into the staggering application backlog.

I would also like to thank you for mentioning the Minnesota pilot Pro Bono Inventor Assistance Program and congratulate them as well on securing their first patent for a small inventor just this week—or last week, I guess. I care a lot about small business and inventors, and I think we should be doing as much as possible to make sure that the guy inventing the next cool gadget in his or her garage has reasonable access to the patent system.

I would also like to thank Senator Coons for pitching the Twin Cities for the next satellite office. As you may remember, I have written you a letter suggesting the very same thing, and I believe so has Senator Klobuchar. And so it probably will not surprise you that I am not going to pass up this opportunity to make a pitch to you in person.

Minnesota, as you know, is home to some of the most innovative companies and research institutes in the world, like the Mayo Clinic and 3M and Medtronic. Minnesota is ranked among the top ten patent filers for the past 3 years, and the number of patents obtained by Minnesotans grew by 32 percent from 2008 to 2011.

My State is also fourth in the Nation in the percentage of population with college or advanced degrees, and more than 35 percent of those degrees are in science, engineering, or technology.

Is this impressing you?

[Laughter.]

Senator FRANKEN. Well, there is more. Minnesota is also ranked third for patent-intensive employment in the country, and there is really no place in the country that can boost the same level of affordability, which I think Senator Coons referenced. And my goodness, he is not from Minnesota. He is from Delaware. And so it is not just me saying it, is what I am saying.

Are you getting this?

Mr. KAPPOS. Yes, I have got it.

[Laughter.]

Senator FRANKEN. OK. I love Minnesota, but that is not the reason that you should locate your office there. It is because it makes a lot of good sense. And, again, retention will be important.

Let me ask you a question that is not a shameless pitch for Minnesota. I have been asked about this from Minnesota companies. The administrative review process that was created in the America Invents Act was designed to reduce the expense and time associated with filing a lawsuit in Federal court. In fact, it is supposed to serve as a substitute, but I am hearing from a number of prominent Minnesota companies that your proposed standard for reviewing patent applications in administrative proceedings and the broadest reasonable interpretation standard is much broader than standards used by courts and the International Trade Commission.

This seems a bit odd, especially since it can place a higher burden on patent holders to defend themselves in administrative proceedings. Why are these two standards not harmonized?

Mr. KAPPOS. OK. Well, a couple of reasons. One, the broadest reasonable interpretation standard is the standard called for by the AIA, so I believe that the correct reading of the legislation is that Congress has directed us to evaluate for patentability, not for valid-

ity, and an evaluation for patentability is an evaluation that applies the broadest reasonable interpretation standard. So we are implementing the legislation. That is sort of reason number one.

Reason number two is the USPTO has applied the broadest reasonable interpretation standard literally for decades. For all the time we have been running post-grant processes, we have uniformly used this one single standard, and it comes from good policy actually. The policy reasoning is that when you are in front of the PTO, you have the opportunity by statute to amend your claims, and these new post-grant processes continue to give patent holders the right to amend their claims. And in that context, it is the mission of the USPTO to look out for the public's best interest to apply the claims using their broadest reasonable interpretation so that the claims can be viewed clearly in the future, giving the applicant then an opportunity to narrow or add precision to their claims as they need to, generating patents that are as clear and defensible as possible.

So I think Congress really has got the policy right on this one, and we are implementing the law, and we are using a policy that I think on balance is the right approach.

Senator FRANKEN. Thank you. My time has expired, and I know Senator Grassley wants to say something, so I will pass it off to him, but not before I make a pitch for your next satellite office being in the Twin Cities.

Senator Grassley.

Senator GRASSLEY. I would say you answered my last question very lengthily, and I appreciate that, and I do not find fault with the answer you gave. But do not forget I did ask you were you going to supply the documents that we requested in our letter of last September.

Mr. KAPPOS. And, Senator Grassley, I will certainly go back and look at the request and make sure that we do everything we can to supply answers to your questions.

Senator GRASSLEY. Well, thank you. It is very necessary that we have the cooperation in order to do our job of constitutional oversight.

Thank you.

Senator FRANKEN. Thank you, Senator.

Well, we thank you again for testifying, Under Secretary, and we will keep the record of the hearing open for other questions for a week.

The hearing is adjourned.

[Whereupon, at 11:23 a.m., the Committee was adjourned.]

[Questions and answers and submissions for the record follow.]

QUESTIONS AND ANSWERS

*Questions for the Record from Senator Patrick Leahy (D-VT),
Chairman, Senate Judiciary Committee*

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
International Harmonization Efforts"*

June 20, 2012

1) I have long encouraged patent owners in the pharmaceutical and biologic industries to do more to provide affordable access to life saving medicines abroad. I am therefore interested in the PTO's patents-for-humanity initiative, which provides awards in the form of Acceleration Certificates to patent owners who have taken steps to use their inventions to further humanitarian needs.

In your view, would the program be more effective and attract more applicants if Congress authorized the certificates to be transferable?

Answer: Yes, the USPTO is very excited about Patents for Humanity, our pilot program that provides business incentives for humanitarian endeavors. Companies that apply their patented technology to improve the lives of the poor can enter the competition where up to 50 selected winners will receive a certificate for accelerated prosecution at the USPTO on another matter of their choice. The competition ensures that the best examples rise to the top, showcasing the incredible contributions that American patents make to improve people's lives.

Since the February launch, we've reached out through countless channels to let companies know about this exciting opportunity. The response has been overwhelmingly enthusiastic. But among the feedback we're getting, one request consistently stands out. Companies keep saying "This program would be even better if I could sell my certificate to someone who really needs it."

After much consideration, the USPTO recognizes the tremendous potential in voucher transferability. Recipients could directly convert their good deeds into operating capital, providing an even greater return on humanitarian investments. This would especially help small companies, for which additional capital is a much needed resource. Making vouchers transferable can help small companies stay afloat longer while they develop their revenue streams, simultaneously creating jobs and improving lives around the globe.

Patents for Humanity certificates are the first and only way to accelerate two USPTO procedures: ex parte reexaminations and appeals to the Board. Because these procedures are complex and expensive, they typically involve the most commercially valuable patents. This makes the prospective value of a transferable certificate quite large, attracting more applicants to the program.

2) The Leahy-Smith America Invents Act created a statutory Ombudsman for small business interests and a pro bono program designed to assist independent inventors and small businesses. Are you coordinating with small businesses across the country on the implementation of these programs to ensure the inventors who need them most have access?

Answer: Yes, the USPTO has an array of programs and initiatives to aid independent inventors and small businesses and coordinates with them to ensure the effectiveness of those programs and initiatives.

An America Invents Act (AIA) pro bono task force was formed within a few weeks of the signing of the AIA and is comprised of USPTO employees and other public and private sector intellectual property experts to develop ways to assist inventors who do not have access to patent counsel. The task force works on issues such as metrics, forms, standard practices, education and others. In order to have some uniformity in program description and function, the task force is readying a set of standard practices for future programs to follow. This manual should be ready for distribution in early October of 2012.

The AIA pro bono program is gaining traction across the country. Currently, there is one program that is open for business: the Minnesota LEGALCorps Inventor Assistance Program opened its doors on June 8, 2011, and signed its first client September 16, 2011. There are more than 50 trained attorneys and 18 active clients in this program, which serves as the pro bono pilot. One patent has already been issued and another application has received a Notice of Allowance. The latter application is from the first signed client.

The structure of the AIA pro bono program has evolved as implementation has become reality. Our current goal is to have the entire country covered through regional pro bono programs by the end of FY 2014. To provide a simple way for entry into a regional program, there will be a Nationwide Clearinghouse for all individuals or small businesses that want to enter the AIA pro bono program. The clearinghouse will function as a preliminary screening process that will include three screening checks: 1) a check for understanding of the patent system through a filing receipt for a pending application or a certificate of completion for a USPTO training course (web-based), 2) a patent search and 3) a check of financial income. Each level of screening will provide information regarding the intent and ability of the applicant to move forward in the patent process. The clearinghouse will forward eligible applicants to the appropriate regional program and non-eligible applicants to an affiliated law school pro bono clinic. It is anticipated that this part of the pro bono initiative should be operational by September 2012.

We expect that four to five regional pro bono programs will become active during 2012. The first program launched was in Denver, Colorado. This program opened its doors for clients in August and has already signed six clients. California opened its doors for clients with a soft launch, without public notice or advertisement, in early August 2012. Both Texas and the Washington, D.C., metro areas should have a regional pro bono program operational by early fall 2012. It is also anticipated that the metropolitan New York City regional program will launch in late fall or mid-winter 2012-2013. As each program launches, we will be making sure that inventors and small businesses are aware of the pro bono services available to them.

Work has commenced on the next round of regional programs. We anticipate that the eastern seaboard and the Midwest will be included in the regional programs for 2013. We also anticipate that both the Northwest and Southwest United States will have regional programs in 2013. By the end of September 2014 it is anticipated that all 50 states will be represented through regional programs spread across the United States.

To reach additional inventors and small businesses to inform them of these regional programs, we are expanding our webpages to include an interactive selection trail to make finding information easier.

Information will be written in plain English rather than legal language. The number of video tutorials will increase. There will be direct access to the AIA pro bono Nationwide Clearinghouse with an explanation of the necessary requirements for the AIA pro bono program.

Also, the USPTO launched a beta version of the IP Awareness Assessment Tool this spring. This tool allows small businesses and inventors to assess their intellectual property needs and learn what steps they should take to protect these valuable assets. We partnered with the National Institute of Science and Technology Manufacturing Extension Partnership in the development of the tool and subsequent outreach to small businesses. The tool is located on numerous government agency websites, including BusinessUSA, and has been introduced to its target audience at numerous small business conferences. There is a link included with this tool that directs small businesses to the small business ombudsman for further assistance. Additionally, the Office of Innovation Development routinely answers inquiries from small businesses and inventors on a proactive basis. Through this assistance, small businesses and inventors that have filed applications and are experiencing difficulty with their examinations are directed to the proper technology center for assistance.

3) The Uruguay Round Agreements Act, Pub. L. 103-465, enacted in 1994, changed the length of a patent term from 17 years after the USPTO grants a patent to 20 years after the application date. This change did not apply to pending applications. I understand that there remain hundreds of pre-1995 applications pending at the USPTO and that, in general, they are pending because of delaying tactics by the applicants. Would it be helpful for the patent system, and would it save USPTO resources, if Congress required those applications to either issue as patents or be abandoned in a specified amount of time?

Answer: The USPTO appreciates Congress's interest in the problem of still-pending pre-URAA patent applications. There are currently 491 such applications pending, with 381 of these being held by a single individual. These applications have been the source of some frustration within the Office; some of the cases involve hundreds of claims, which the applicant, after receiving thorough rejections from the examiner, simply replaces (as permitted under USPTO rules) with another set of hundreds of new claims that need to be examined afresh. This sort of delaying tactic has contributed to the long pendency of many of the applications at issue. Nevertheless, the USPTO has made significant progress in examining them in the last few years, and is continuing to work diligently to enter final rejections and/or allowances in the remaining cases.

The USPTO is certainly interested in exploring with Congress ways, including legislative change, that would help cause these applications to be processed through the system more quickly. However, the USPTO is also concerned that any legislation would be challenged in court and that this could potentially result in even greater delays. As to the specific suggestion of imposing a time limit for issuance or abandonment of these applications, we recognize that such a requirement could present challenges.

The USPTO welcomes the opportunity to explore legislative options for dealing with these applications, and more generally with the ways in which applicants (even beyond pre-URAA applicants) have been able to legally delay issuance of patent claims to the detriment of the public at large.

Questions for the Record from Senator Amy Klobuchar (D-MN)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
International Harmonization Efforts"*

June 20, 2012

1. I understand the Patent Office is planning to release its first-inventor-to-file rules in the near future. "Prior art" under the America Invents Act is defined, in part, as something "in public use, on sale, or otherwise available to the public." How will you anticipate addressing the scope of prior art in these areas? For example, will the Patent Office rely on any existing case law? Will there be definitions? Also, will the Patent Office treat all types of prior art as eligible for the grace period?

Answer: The USPTO has issued a notice of proposed rulemaking and a proposed guidance document, and conducted a public roundtable on September 6, 2012, to further the implementation of the first-inventor-to-file provisions of the AIA. The USPTO will also be conducting eight roadshows in September to share information about the AIA provisions that went into effect on September 16, 2012, and will discuss the USPTO's proposed implementation of the first-inventor-to-file provisions at these roadshows. The USPTO plans to keep the comment period for the first-inventor-to-file notices open until the end of these roadshows to give the public the maximum opportunity possible to provide input.

The proposed guidance document discusses the USPTO's interpretation of the scope of prior art under the AIA's 35 U.S.C. 102(a), the scope of the grace period provided for in the AIA's 35 U.S.C. 102(b), the definitions that are applicable under the first-inventor-to-file provisions of the AIA, and how the AIA affects the existing case law concerning 35 U.S.C. 102 and 103. The USPTO will issue a final rule and guidance document after considering the comments submitted by the public in response to the notices and the public roundtable.

2. There has been discussion of a technical corrections bill to revise the America Invents Act. How would the Patent Office view such a bill if it also included an amendment regarding claim construction in the new *inter partes* and post-grant review proceedings – specifically, as some have suggested that claims are to be given the same interpretation they are given by judges in district courts and the International Trade Commission?

Do you think the technical corrections bill being contemplated should be expanded to include any substantive, non-technical changes to the America Invents Act? If so, can you comment on whether it would make sense to wait for the law to be fully implemented and for all stakeholders to determine how it works before considering further substantive changes?

The USPTO supports making technical amendments to the AIA to clarify the statute and make other necessary corrections. Senate and House staff members have engaged the Office to discuss and review a number of items that could be addressed. One proposed amendment in these discussions that we were asked to review, drafted by Senate staff, seeks to address the estoppel standard to be used in appeals of post grant review (PGR) proceedings. In looking at the record, we believe a clerical error was made

between reporting the text out of the House Judiciary Committee and the version considered on the House floor. Committee discussions in both the Senate and House reflected a compromise that intended a lower estoppel effect for these appeals as a way to best balance the interests of parties engaged in patent disputes. Such an error, if divergent from the compromise struck and thus the intent of Congress, does not represent a substantive change under the circumstances and should be addressed.

The USPTO would not support an amendment that would change the claim construction standard in the new *inter partes* review (IPR) and PGR proceedings for a number of reasons.

First, patent claims serve an important public notice function. To ensure the highest possible level of patent quality, the USPTO has for decades employed the broadest reasonable interpretation (BRI) standard to construe claims before the USPTO. Absent a change in the law or binding judicial interpretation, the USPTO will continue to do so in IPR and PGR proceedings for construing challenged patent claims, as well as any amended or new claims submitted by the patent owner in these proceedings. Only through the use of the BRI standard can the USPTO ensure that uncertainties of claim scope are removed or clarified.

Second, this approach represents good policy and strikes a fair balance. It ensures that the public can clearly understand the outer limits patentees will attribute to their claims. Since patent owners will have the opportunity to amend their claims when working with the USPTO, they will be able to resolve ambiguities and overbreadth through this interpretive approach, producing clear and defensible patents at the lowest cost point in the system. An essential purpose of the BRI standard in the amendment process is to encourage a patent owner to fashion clear, unambiguous claims.

In contrast, inconsistent results would become a major issue if the USPTO adopted a standard of claim construction other than the BRI standard, *e.g.*, the higher standard used in district courts, construing claims more narrowly so as to preserve their validity. This higher standard comes about because patents before a district court are presumed valid with a heightened “clear and convincing” standard of proof to demonstrate invalidity. Consistent with this heightened presumption of validity—and as there is no opportunity to amend and resolve ambiguities—district courts construe claims to uphold validity.

As the AIA contemplates, there may be multiple proceedings involving related patents or patent applications in the USPTO at a particular time. For example, there may be an IPR of a patent that is also subject to an *ex parte* reexamination or reissue application, where the patent is part of a family of co-pending applications all employing the same claim terminology. The USPTO applies the BRI standard in those proceedings, and major difficulties would arise if the USPTO were to handle multiple proceedings with different applicable claim construction standards. In this world, the same amendment made in an IPR and a pending application could result in an allowance in one case and a rejection in the other; or, the introduction of narrower language in a pending application and broader language in an IPR could result in an allowance of the broader language and a rejection of the narrower language. Clearly, these examples and many others would produce anomalous results, unhelpful to patentees, applicants, the public, and the system.

To avoid the potential of having distinct alternative claim constructions for a claim term arising in various proceedings before the USPTO and the inconsistent results flowing therefrom, a single standard, the BRI standard, should continue to be employed for proceedings before the USPTO. Continued use of this standard will ensure that the USPTO serves the patent community and makes full use of its resources in processing patent claims efficiently, effectively, and consistently.

Questions for the Record Senator Richard Blumenthal (D-CT)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
International Harmonization Efforts"*

June 20, 2012

I would like to inquire about the progress that the United States Patent and Trademark Office (USPTO) has made in reducing the backlog of pending patent applications, and about the backlog of pending Requests for Continued Examination (RCE). I have heard from individuals who have spent years in the process without receiving a favorable result.

I wrote a letter to you earlier this month regarding the backlog of unexamined patent applications and RCEs. In recent years, the USPTO has made commendable progress in reducing the backlog of unexamined patent applications. While the backlog of total unexamined patent applications has dropped by about 10% over the past two years, the number of cases in the RCE backlog has more than doubled during the time. This the time that the application is considered unexamined only takes into account the RCE cases that are awaiting initial action. Once initial action is taken for these cases, an application which includes at least one RCE can expect to be pending for an average of 63.5 months – over five years. This long pendency for RCE filings creates uncertainty for American innovators and businesses.

With the passage of the Leahy-Smith America Invents Act, the USPTO has access to more resources to address the patent application backlog. I would appreciate your response to the following questions:

Question: How do you intend to utilize these resources to reduce the backlog of new patent applications and RCEs?

Answer: The USPTO intends to hire 1,500 examiners in FY2012 and a significant number in FY2013 as well in order to build the base of new examiners. In addition, the USPTO intends to authorize overtime production for all eligible examiners for the next four years. The combination of overtime and hiring increases our productivity and ability to reduce the backlog of our applications by approximately 40% by FY2015 compared to FY2011.

Question: What changes can be made to the RCE process so applicants who file RCEs in the future will have their application considered in a timely fashion?

Answer: The USPTO recognizes the growth of the Request for Continued Examination (RCE) backlog and has been working on finding ways to address the surge. For example, on December 19, 2011, the USPTO placed in effect the Prioritized Examination program for RCEs. In this program, an original nonprovisional utility or plant patent application filed under 35 U.S.C. 111, or having entered the national stage under 35 U.S.C. 371, in which a RCE has been filed, or is concurrently being filed, is eligible for Prioritized Examination.

The goal for handling applications under this prioritized examination program is to provide, on average, a final disposition within twelve months of prioritized status being granted. More information about this program can be found in http://www.uspto.gov/patents/init_events/Track_One.jsp.

With our After Final Consideration Pilot (AFCP) and Quick Path IDSs (QPIDS) programs, the need for filing subsequent RCEs will decrease. With this decrease, our resources can be utilized to examine other RCEs already pending, thus reducing the backlog of RCEs and increasing the speed at which new RCEs are picked up for examination.

Management, working with the Union, is developing a plan to move the RCE applications which have the oldest filing dates.

Question: Are there resources to which you can direct applicants who have been involved in the approval process for years, in order to ensure a more timely resolution of his patent application?

Answer: Yes. The USPTO has a number of programs and resources in place that applicants can use to ensure a timely resolution of their patent applications. These programs help accelerate patent prosecution so that the applicant finds out more quickly whether a patent will be granted, thus speeding opportunities for potential investment and/or bringing products to market. Some of the programs and resources are listed below:

- **Ombudsman Program.** Now in its second year, the Patents Ombudsman Program enhances the USPTO's ability to assist applicants or their representatives with issues that arise during patent application prosecution. More specifically, when there is a breakdown in the normal application process, including before and after prosecution, the Patents Ombudsman Program can assist in getting the application back on track.
- **After Final Consideration Pilot.** The After Final Consideration Pilot (AFCP) is part of the USPTO's on-going efforts toward compact prosecution and increased collaboration between examiners and stakeholders. The AFCP authorizes extra time for examiners to consider responses filed after a final rejection. If a response is filed under 37 CFR §1.116 and is up for consideration by the examiner in charge of the application between these dates, the examiner will determine whether he or she should take advantage of the time authorized by the pilot to consider the response. Examiners will use their professional judgment to decide whether the response can be fully considered, including whether any additional search is required, within a three hour time limit in order to determine whether the application can be allowed. A special request is not required for consideration of an amendment under this pilot program.
- **Quick Path Information Disclosure Statement.** The USPTO is implementing the Quick Path Information Disclosure Statement (QPIDS) pilot program as part of its on-going efforts toward compact prosecution and pendency reduction. In particular, the QPIDS pilot program will eliminate the requirement for processing of a RCE with an information disclosure statement (IDS) filed after payment of the issue fee in order for the IDS to be considered by the examiner. Where the examiner determines that no item of information in the IDS necessitates reopening the prosecution, the USPTO will issue a corrected notice of allowability.
- **Prioritized Examination.** Prioritized examination is a procedure for expedited review of a patent application for an additional fee. The Office's goal for prioritized examination is to provide a final disposition within twelve months of prioritized status being granted. Nonprovisional utility and plant patent applications filed under 35 U.S.C. 111(a), having no more than 4 independent

claims, 30 total claims, and no multiple dependent claims, and filed on or after September 26, 2011, are eligible for Prioritized Examination (Track One). Original nonprovisional utility and plant patent applications filed under 35 U.S.C. 111, or having entered the national stage under 35 U.S.C. 371, in which an RCE has been filed, or is concurrently being filed, are eligible for Prioritized Examination. A request for prioritized examination must be made before an Office action responsive to the RCE has been mailed. More information about this program can be found at http://www.uspto.gov/patents/init_events/Track_One.jsp.

- **Accelerated Examination.** The Accelerated Examination procedure is designed to give applicants quality patents in less time by guaranteeing a final action within one year. In exchange for quick examination, patent examiners will receive more focused and detailed information about the invention, as well as identification of the most relevant prior art from the applicants. This increased disclosure upfront by applicants will help examiners more quickly make the correct decision about whether a claimed invention deserves a patent. More information can be found at <http://www.uspto.gov/patents/process/file/accelerated/index.jsp>.
- **First Action Interview Pilot.** An applicant is entitled to an interview with the patent examiner prior to the first Office action on the merits in a new utility application. The program has shown that the patent process benefits when interaction between the applicant and the examiner is enhanced at the beginning of examination because patentability issues can be resolved early when the applicant and the examiner discuss them one-on-one. For the applications involved in the initial pilot, the First-Action Allowance rate increased six-fold when compared to applications from the same technology area not involved in the pilot. More information can be found at http://www.uspto.gov/patents/init_events/faipp_landing.jsp.
- **Interview Practice.** An applicant is also encouraged to contact the examiner of his/her application to request an interview about the rejection or the application. Having an interview can help bring any issue to a conclusion. Many times the interview will result in claim language that can move the application forward to a patent. Pro se applicants may request an interview in person or via telephone with the examiner and his/her supervisor if necessary. However, if the applicant has hired a patent professional to interact with the USPTO, then only that professional can request an interview. If an applicant feels that an interview may assist in getting a patent, he/she should discuss this with the patent attorney or agent. In some instances, the inventor may participate in the interview with his/her attorney or agent and the examiner. These interviews allow the inventor to better understand the patent process and offer suggestions as to the full nature of the invention.
- **EFS Legal Notice.** This change in procedure allows contractors rather than employees to submit the patent application documents via the EFS-Web electronic system. Since small entities are more likely to benefit from contract support (as they cannot dedicate staff resources to it), this will be particularly helpful to inventors and small entities.

Questions for the Record Senator Grassley (R-IA)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
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June 20, 2012

PLT and Hague Convention

Director Kappos, I appreciate your testimony about the need for implementing legislation for the Patent Law Treaty and the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs. It's important to do what we can to facilitate the international patent process for American entrepreneurs and inventors so that their intellectual property rights are protected abroad.

Can you elaborate on the benefits that American patent holders will see if we enact implementing legislation for these two treaties?

Hague Agreement on Industrial Designs

Answer: Design is an important form of innovation and an important means for establishing a competitive advantage in the marketplace. Protection of industrial designs is especially important for inventors and entities competing in market places for which functional elements may not differ significantly from product to product and where the appearance of products may serve as a key distinguisher in marketplace success. American designers have historically been among the most innovative designers, as shown by many of the products we use on a daily basis.

Participation in the Hague system provides a number of benefits to applicants from member states. The Hague system provides for lower transaction costs for applicants through creation of a single application in one language with one set of minimal filing requirements. Likewise, American applicants would experience reduced burdens by not having to apply directly at each member state patent office, which often requires local counsel in each of the jurisdictions in which protection is sought. Benefits for American patent holders would continue after initial filing, as the Hague system also provides for simplified case management of international registrations through the International Bureau (IB) of WIPO. By enacting implementing legislation that allows for U.S. membership in the Hague Agreement, U.S. enterprises will be given another tool to assist them in competing in an increasingly global marketplace. The home countries of many of the competitors to American businesses are either already members of the Hague system or have publicly indicated they are looking to join in the very near future. As such, membership in the Hague agreement would not only provide a benefit, but may also be seen as a "minimal step required" to help American patent holders to keep pace with our trading partners across the globe.

Patent Law Treaty

Answer: The Patent Law Treaty (PLT) is designed to harmonize and streamline the formal procedural requirements for national and regional patent applications. Therefore, the PLT will make it easier for U.S. patent applicants and patent owners to obtain and maintain patents throughout the world, as well as

in the United States, by simplifying and, to a large degree, merging national and international formal requirements. For example, under the PLT, the USPTO, like the Office of any member party, must accord a filing date to a patent application which meets three formal requirements: (1) an indication that the elements received by the Office are intended to be an application for a patent of an invention; (2) indications that would allow the Office to identify and/or contact the applicant; and (3) a part which appears to be a description of the invention. No additional elements can or will be required for a filing date to be accorded. Thus, U.S. applicants, whether domestically or in PLT member states, will have increased certainty that their filings satisfy the requirements for receiving a filing date associated with patent rights.

Further, implementation of the PLT provides reasonable relief in respect to time limits and reinstatement of rights when an applicant has unintentionally failed to comply with a time limit, resulting directly in a loss of rights. For example, the PLT provides a more forgiving mechanism for correcting or adding priority claims and restoring priority rights. Implementation of the PLT will aid American patent holders by making various standards and processes more “applicant friendly.” For example, it would make the process of granting a filing date for a patent application and reinstating substantive rights when an applicant has unintentionally failed to comply with a time limit easier. These less severe requirements will likely be especially beneficial for smaller patent holders (e.g., pro se applicants) who may not have the benefit of sophisticated legal counsel to assist them in navigating the complexities of patent prosecution here in the United States and/or abroad.

• Can you also elaborate on the benefits that smaller patent holders will enjoy if we enact the implementing legislation that you’ve proposed?

Answer: According to WIPO, despite the United States not being a member, two U.S. companies were on the 2011 list of “Top Hague applicants.” An applicant must be a national of a Contracting Party or member state, have a domicile in the territory of a Contracting Party, or have a “real and effective industrial commercial establishment” in the territory of a Contracting Party to avail itself of the Hague system. Despite the United States not being a member, in some instances larger enterprises with “real and effective industrial commercial establishments” in member states are able to use these ties to properly use the Hague system. However, small and medium size enterprises typically do not have as extensive a foreign presence such that they can avail themselves of the Hague agreement through this “back door” to the Hague system. As such, U.S. membership to the Hague system will allow small and medium size enterprises to take advantage of the Hague system that some larger enterprises are already using. Larger entities too will benefit from assured access to the system and ability to file based upon their American nationality, rather than relying on certain ties in a foreign member state.

The PLT will make it easier for U.S. patent applicants and patent owners, both small and large entities, to obtain and maintain patents throughout the world, as well as in the United States, by simplifying and, to a large degree, merging national and international formal requirements. This would be especially beneficial for independent inventors who may not have the benefit of sophisticated legal counsel to assist them in navigating the complexities of patent prosecution here in the United States and/or abroad.

General America Invents Act Implementation

Director Kappos, I’d like you to discuss how Patent Office users have been dealing with the changes to the patent system.

• How receptive have patent system users been with respect to the changes that have been implemented/are being implemented as a result of the passage of the America Invents Act?

- What do you see as being the biggest success of the America Invents Act so far? What about the biggest failure?
- Do you anticipate any problems with the transition from the first to invent to the first-inventor-to-file system? How are you making sure that the transition proceeds smoothly?
- How do you know that the “quality” of patents has improved? Can you tell that yet, or is it too soon to tell?

Answer: While only a few of the AIA’s changes have been fully implemented to date, we are pleased with the response thus far of our stakeholders in the implementation process. They have commented very favorably on the transparency of our implementation process and the extent of our outreach.

We believe that the biggest success of the AIA so far is the broad based understanding that the law presents a clear path to improving patent quality, reducing patent application backlog and pendency, reducing domestic and global patenting costs for U.S. innovators, providing greater certainty with respect to patent rights, and offering effective administrative alternatives to costly and complex litigation. We have not identified any “failure” of the AIA, other than the need to make some necessary technical corrections.

We do not anticipate any significant problems in the transition to a first-inventor-to-file system. We recently published a proposal to amend the rules of practice in patent cases to implement the transition. We also proposed examination guidelines to inform the public and patent examiners of our interpretation of the first-inventor-to-file provisions. The guidelines likewise are intended to advise the public and patent examiners how the changes introduced by the first-inventor-to-file provision impact the sections of the Manual of Patent Examining Procedure pertaining to novelty and obviousness.

In addition to soliciting stakeholder comments via publication in the *Federal Register*, we also look forward to discussing the proposed rules and guidance at a series of “roadshows” scheduled to occur in Alexandria, Va.; Atlanta, Ga.; Denver, Colo.; Detroit, Mich.; Houston, Texas; Los Angeles, Calif.; Minneapolis, Minn.; and New York, N.Y., this September.

Further information about the proposed rules and guidelines may be found in the Federal Register Notice: http://www.uspto.gov/aia_implementation/first-inventor-to-file_proposed_rules.pdf. Further information about the “roadshows” may be found on the AIA micro-site available at http://www.uspto.gov/aia_implementation/roadshow.jsp.

While we have an array of quality measurement programs and continue to see improvements in relevant statistics, it would be premature at this point to specifically attribute those improvements to enactment or implementation of the AIA.

Standard Essential Patents

Director Kappos, I appreciate your responses to questions at the Judiciary Committee hearing relative to standard essential patents or “SEPs.” I’d like you to elaborate on this subject.

- Does the Patent Office have an official position relative to SEPs? Please provide it. If the Patent Office does not have an official position, could you elaborate on your opinion on SEPs?

Answer: The USPTO does not have an official position relative to standards essential patents, but we are closely monitoring the issue. In my view, standards essential patents raise important questions that require balancing the rights of patent holders with those of organizations and companies that have implemented a standard. Standards, and particularly voluntary consensus standards set by standards

developing organizations (SDOs), have come to play an increasingly important role in our economy. Interoperability standards have paved the way for many important innovations, including the complex communications networks and sophisticated mobile computing devices that are hallmarks of the modern age.

However, collaborative standard-setting does not come without some risks. For example, it is common for a standard to incorporate patented technology owned by a participant in the standard-setting process. Once the standard becomes established, it can – depending upon circumstances – be difficult and expensive to switch to a different technology. As a result, the owner of that patented technology could potentially engage in activities that some commentators have characterized as “patent hold-up,” by asserting the patent to exclude a competitor from a market or obtain a higher price for its use than would have been possible before the standard was set, when alternative technologies could have been chosen.

In an effort to reduce this type of opportunistic conduct in relation to standards, some SDOs have relied on voluntary licensing commitments by their participants, including commitments to license the patents they own that are essential to the standard on reasonable and non-discriminatory (RAND) terms. SDOs and their members may rely on these RAND commitments to facilitate bilateral licensing negotiations necessary for successful widespread adoption of a standard, and to provide assurances to implementers of the standard that the patented technologies will be available to those parties willing and able to license them on RAND terms.

RAND commitments accordingly may affect the appropriate remedy for infringement of a standard essential patent. For example, depending upon the facts of a given case, an injunction or exclusion order based on a RAND-encumbered patent might be inappropriate where an alleged infringer has demonstrated that it is willing and able to abide by RAND licensing terms under the relevant SDO’s policies. By the same token, a RAND commitment does not stand for licensing under any terms and conditions. An alleged infringer could refuse to negotiate licenses on RAND terms, on the belief that, at worst, it would be sued, and after litigation would be required to pay the same royalty amount it would have been required to pay for a license before litigation. I believe that we collectively need to continue thinking about the issues surrounding RAND encumbered patents – including how to determine whether licensing negotiations satisfy RAND commitments.

• Has the Patent Office been engaged in discussions with the Federal Trade Commission and the Justice Department in their assessment of SEPs?

Answer: Our staff has engaged in discussions with both of these governmental units, and we hope to continue to coordinate with them on these issues. As an executive branch agency under the aegis of the Department of Commerce, the USPTO shares a reporting structure with the Department of Justice, which enhances our opportunities for collaboration with the Department.

• Has the Patent Office been following the ongoing litigation at the International Trade Commission and in federal court on SEPs? Has the Patent Office weighed in with the International Trade Commission regarding SEPs?

Answer: We have been monitoring the ongoing litigation on standard essential patents in both the U.S. International Trade Commission (ITC) and the federal courts. The USPTO has not weighed in to the ITC regarding standard essential patents at this date.

PTO Travel Investigation

At the Judiciary Committee hearing, I asked you about travel and conference related expenditures for the two day intellectual property conference in Tokyo, Japan. Specifically, I raised concerns about the lack of documentation for conference expenses contained in the Patent Office's October 2011 written response to my inquiry. I appreciate you taking the opportunity at the hearing to expand on that response and to assure me that you would make every effort to provide the documents I requested. As follow-up to our discussion at the hearing, I have a few more questions about the Patent Office's travel expenses for the Federal Circuit International Series conferences:

- It is my understanding that the Patent Office spent approximately \$181,000 to support the Tokyo conference. However, according to the response to Question 4 of my letter, the Patent Office had not yet processed the final actual expenses for this trip. Please provide a detailed list of all final conference costs and travel expenses paid for by the Patent Office.

Answer: The total cost borne by the USPTO for this conference for travel-related expenses was \$78,446.45. This cost supported the travel, room, and board for three USPTO employees and six sitting Federal Circuit Judges. A breakdown of these costs is as follows:

Travel	Hotel	Meals	Other	Total
\$50,347.30	\$9,316.00	\$9,778.75	\$9,004.40	\$78,446.45

In addition, the USPTO paid for \$97,310.73 in conference costs, for a total of \$175,757.18 related to this conference.

- At the hearing, you stated that the Patent Office recently sponsored an intellectual property conference in China. Please provide a detailed list of all final conference costs and travel expenses paid for by the Patent Office for the China conference.

Answer: The total estimated cost borne by the USPTO for this conference was \$67,981.08. This cost supported the travel, room, and board for four USPTO employees and seven sitting Federal Circuit Judges. Breakdown of these costs is as follows (estimates pending final expense reports):

Travel	Hotel	Meals	Other	Total
\$42,726.90	\$13,484.40	\$8,219.50	\$3,550.28	\$67,981.08

In addition to the above costs, the USPTO also covered a share of program costs for this conference, however, final conference costs are not yet available.

- Following the most recent conference in Beijing, China, has the Patent Office agreed to co-sponsor additional conferences during the next three years? If so, when and where are these conferences scheduled to take place?

Answer: No, at this time we have not agreed to co-sponsor any additional judicial conferences with the U.S. Court of Appeals for the Federal Circuit.

- In my September 2011 letter, I requested specific Patent Office conference and seminar sponsorship and travel documents which were not provided in your October 2011 response. Please provide the documents outlined in Questions 6 and 7 of my letter.

Answer: Questions 6 and 7 of your September 2011 letter requested detailed information regarding hundreds of programs that the USPTO either organized or participated in by sending USPTO employees to attend. USPTO conference activities are predominantly directed to international training and are critical to achieving our educational mission and consistent with various Congressional mandates. I share your concern about avoiding waste, fraud, and abuse at federal agencies. I can assure you that during my tenure, I have emphasized that we must maximize our outreach efforts with greater efficiency and in the most cost-effective manner, thus keeping costs to a minimum.

For the past three fiscal years, our Global Intellectual Property Academy (GIPA) increased both the number of training programs offered and total number of participants trained while reducing the total cost, as well as the average cost per program and average cost per participant. In FY2009, the average cost per program was \$46,992 and the average cost per participant was \$1,017. For FY2011, the average cost per program dropped to \$19,727 and the average cost per participant dropped to \$527 (see chart below).

Year	Average cost per program	Average cost per participant
FY2009	\$46,992	\$1,017
FY2010	\$33,734	\$786
FY2011	\$19,727	\$527

The USPTO will continue its focus on improving cost efficiency and maximizing resources while reducing costs as additional programs are planned. My staff is happy to brief you at a convenient time on the variety of programs, the individuals trained, the average costs of these events, and the cost savings achieved to date.

Questions for the Record from Senator Orrin Hatch (R-UT)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
International Harmonization Efforts"*

June 20, 2012

It is apparent that fairly settled areas of the law are no longer as they used to be. For example, the area of patent-eligible subject matter comes to mind.

- Going forward, what challenges do these changes create for the USPTO, as well as for our patent community and country?
- Do you see a role for Congress in further clarifying these areas of the law?

Answer: As Congress recognizes, there are areas of patent law that are clearly in a state of flux, especially subject matter eligibility, that pose challenges to the USPTO. One of the primary challenges involves providing clear guidance and training to the approximately 7,200 patent examiners to ensure consistent and accurate patent application examination results. Changes in the law also can increase pendency as more Office actions may be necessary to make adjustments during prosecution in light of those changes. Additionally, legal uncertainty promotes the development of prosecution tactics on the part of applicants and their attorneys designed to preserve the value of their inventions contingent on differing outcomes in the law's development. This contributes to backlog and pendency before the USPTO. For the public, uncertainty in the law disturbs settled expectations for issued patents and can affect enforceability when the changes raise questions regarding validity.

Despite these challenges, the USPTO is accustomed to adapting to changes in the law and regularly issues updated guidance and training when needed. As a case in point, the Office has adapted and trained examiners regarding the clarification on the standard of obviousness articulated by the Supreme Court in *KSR v. Teleflex* and, more recently, has issued interim guidance on subject matter eligibility of claims involving laws of nature in response to the Supreme Court's decision in *Prometheus v. Mayo*.

Regarding subject matter eligibility in particular, the USPTO anticipates that resolution of key cases at the Federal Circuit will provide additional guidance that can be used to refine the current examination procedure. However, the USPTO would welcome the opportunity to work with Congress in applying the relevant laws and implementing the clarifications anticipated from the Court. As these cases resolve, the USPTO looks forward to working together with Congress to determine whether additional legislative assistance will be needed.

You mentioned at the conclusion of your testimony that economic growth and job creation are dependent upon the effectiveness of intellectual property protection and the efficiency of the USPTO.

- **In your opinion, in the post-America Invents Act environment, what else can be done? In other words, what has the new law not fully addressed with regards to improving the efficiency of the USPTO and strengthening intellectual property protection?**

Other than technical corrections to the AIA, we do not believe that any substantive legislative changes to patent law are immediately necessary to improve USPTO efficiency or strengthen intellectual property protection. We look forward to working within the Administration and with the Congress to analyze the effects of AIA implementation and determine whether further improvements are warranted.

Questions for the Record Senator John Cornyn (R-TX)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
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• There have been reports of companies licensing technology to third-party “non-practicing entities” for the purpose of bringing an infringement claim and precluding a countersuit. Are you aware of these reports? Are they accurate? Does the practice they describe undermine innovation and competition? Do you have the tools to fight this kind of activity? If not, what would you need to deter this kind of conduct?

Answer: We are aware of such reports. We are in the process of trying to learn more about this practice, the extent to which it exists, and how it may affect the patent system. If the relevant patents are invalid, affected entities may bring them to the agency’s attention through one of the many administrative procedures that the USPTO currently has in place for challenging patent validity, or soon will have in place following the implementation of the procedures established by the America Invents Act. To the extent that these practices may undermine competition, we are interested in working with the competition agencies to explore and address the issue.

• There has been significant controversy recently about whether a reasonable and nondiscriminatory licensing obligation travels when a standard essential patent is sold or transferred by its owner. What impact would it have if RAND commitments did not travel with a patent transfer? In your opinion, should they? Why or why not?

Answer: Patent portfolios can be sold or otherwise transferred by their owners. The press has reported a number of high-profile patent portfolio transfers in the technology sector in the last several years. If RAND obligations do not travel with patent transfers, the potential for “hold-up” from the network effects of a standard could potentially be increased given the volume and ease of such transfers. In particular, in some circumstances, the new patent owner would be in the position to potentially exclude a competitor from a market or obtain a higher price for licensing the patent than would have been possible before the standard was set, when alternative technologies could have been chosen.

At least one district court has suggested that RAND obligations did not survive a transfer to a non-participant in a standards developing organization (SDO), where the SDO’s patent policy only expressly required “participants” to provide a written agreement to license on RAND terms. *Vizio, Inc. v. Funai Elec. Co. Ltd.*, 2010 WL 7762624 (C.D. Cal. 2010). Without expressing any opinion on the decision in that case, I believe that the policies of an SDO should be given weight in the determination of whether RAND obligations travel with patent transfers. SDOs also should be encouraged to provide clear guidance that RAND obligations travel with a patent transfer.

• The International Trade Commission has become an increasingly popular venue for patent infringement litigation. As you know, its processes and available remedies differ from federal courts. Please provide your view of the ITC as a patent infringement suit venue. If you feel it needs reform, please explain how.

Answer: The International Trade Commission is an important venue for holders of U.S. patent rights to assert claims for infringement where the requirements of its governing statute, 19 U.S.C. § 1337, are met. The USPTO does not have a position on whether the ITC needs reform.

Questions for the Record from Senator Mike Lee (R-UT)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
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June 20, 2012

1. A key feature of the America Invents Act is the new post-grant review system. When it takes effect, this new process will significantly expand the ability of third parties to challenge the validity of patents. Under the estoppel rules applied to such proceedings, a party will be estopped in any future proceedings—whether before the PTO, ITC, or a federal court—from raising any ground of invalidity that is raised or could have been raised in the post grant review proceeding. Some have noted concern with the breadth of these estoppel rules and have suggested that they may undermine the incentives of parties to use the process for fear that the consequence of the estoppel rules is too great.

a. Could you provide an update on where the agency is in the process of implementing the new post-grant review system and also comment on any reactions you are receiving with respect to the estoppel rules?

Answer: I am pleased to report that our efforts implementing the new post-grant review system are proceeding on schedule. We are also pleased that stakeholders have commented favorably on our transparent implementation process and the extent of our outreach. Our AIA microsite¹ contains all implementation-related materials including summary documents, legislative history, implementation-related events, announcements, and points of contact. In addition, the USPTO conducted a number of presentations before the comment period ended in an effort to educate the public on the proposed rules. Now that the final rules have published, the USPTO is conducting eight roadshows in September 2012 to share information about these post-grant procedures. From September 10th through the 28th, the USPTO will be holding these roadshows in Alexandria, Va.; Atlanta, Ga.; Denver, Colo.; Detroit, Mich.; Houston, Texas; Los Angeles, Calif.; Minneapolis, Minn.; and New York, N.Y. to share information about the AIA provisions that go into effect on September 16, 2012.

Similarly our efforts to increase the number of administrative patent judges and our internal capabilities consistent with the new processes continue to be successful. The Office's efforts at increasing the number of administrative patent judges are detailed in the monthly report to the Department of Commerce.

We appreciate the significant and helpful input on these issues we have received from our stakeholders, all of which are posted on the AIA microsite. Our AIA implementation team reviewed the 251 written submissions of comments received from individuals, IP organizations, IP practitioners, other government entities and academic institutions regarding the proposed rules for the new trial procedures, in connection with review of a number of pre-rule making comments. We received excellent input on the proposed rules enabling us to make many substantive improvements.

¹ USPTO's AIA Implementation Micro-site: http://www.uspto.gov/aia_implementation/index.jsp

The regulations for the new administrative trials are aimed at streamlining and converging issues for decision while giving flexibility to the parties to determine the manner of putting forward their case. In order for the new trial proceedings to serve as a quick and cost effective alternative to litigation, the rules will provide the parties with flexibility to tailor the scope and timing of discovery and other requests subject to the guidance of neutral, disinterested judges at the new Patent Trial and Appeal Board. By providing parties with these tools, it is anticipated that the current inefficiencies of *inter partes* reexamination will be reduced and potential future abuses of the *inter partes* review process will be avoided.

We responded to the public comments in our Final Rules which issued on August 14, 2012. The rules will become effective on September 16, 2012, giving us a window of time in which to educate our staff and the public on the final rules in advance of implementation. Our eight September roadshows are one example of our efforts in this regard. And, recognizing the importance of continuous improvement in this complex rulemaking process, we have made clear our intent to gather more input once users gain experience with the rules, with an eye toward further improvement and refinement.

The statutory estoppel provisions in 35 USC 325(e) extend to a petitioner's real party in interest and privies. The Office received conflicting public input on how broadly the rules should define the parties subject to the extension.

The Office has also received some input that the "reasonably could have raised" statutory estoppel provisions for subsequent civil actions provided in 35 U.S.C. 325(e)(2) may limit the desirability of the post-grant review provision for some potential petitioners.

b. In your view, would a subsequent Congressional act narrowing those estoppel rules upset the balance inherent in the post-grant review process as currently contemplated under the AIA?

Answer: While it is not clear why the heightened estoppel provisions were added to the post-grant review procedure, the legislative record including committee reports leading up to passage of the bill indicate that the drafters of the legislation intended to have a lower estoppel standard (that of merely "raised") for appeals of a final decision from a post grant review to the federal court. On substance, it is likely that removing those provisions will increase the chances that patents will be challenged. Discovering evidence of all of the grounds authorized by post-grant review (e.g., prior uses and on sale activities) within nine months of a patent grant will likely be a difficult task for a potential challenger. A party recognizing that it may be unaware of the best evidence of unpatentability, and that if it files a post-grant review it may be unable to raise the best evidence after it is discovered, may be unwilling to file a petition for post-grant review. Amending the estoppel provisions to eliminate the "could have raised" estoppel for subsequent civil actions for all or certain grounds would likely, and we believe on balance constructively encourage the use of the post-grant review provisions.

c. Do you share the concerns expressed by some commenters that the AIA's broad estoppel rules will lead to under-utilization of the post-grant review process?

Answer: We agree that some potential petitions for post-grant review may not be filed because of the current estoppel provisions. The statutory estoppel provisions put a high premium on completeness of both first post-grant review and *inter partes* review petition. For *inter partes* review, the estoppel provisions are consistent with the impact of similar provisions in *inter partes* reexamination. Requests for *inter partes* review or reexamination are limited to requests based on patents or printed publications. Petitioners conducting a high quality search and exercising appropriate diligence in the review of the search and preparation of the request or petition for review have a high likelihood of making the best

possible case of unpatentability. Post-grant review, however, adds prior uses and on sale activities as possible grounds. The additional grounds are often difficult to discover, particularly early in the process.

d. If the estoppel rules were narrowed, would you be concerned it would lead to undue opportunity for multiple challenges to the validity of patents?

Answer: The post grant review statutes encourage petitioners to set forth their best arguments and evidence in their petitions. Narrowing the estoppel rules would offset some of the risks inherent in challenging a patent at an early stage when all relevant information may not be readily available. This appears to be the intent of the drafters of the legislation and it is our understanding that a technical amendment has been proposed to narrow the estoppel rules.

2. In light of what is often at stake in patent disputes, it would seem that discovery disputes, and attempts to prolong and abuse the process might be a real threat to the effective functioning of the post-grant review process.

a. Can you provide a brief update on where you are in your determination of discovery rules for the post-grant review process, and whether you [are] leaning more in favor of a strong and detailed standing order regarding discovery or more flexible rules that would change case by case?

Answer: We are committed to providing a process that will timely complete review proceedings within one year following institution and that will lower the costs relative to litigation. Open ended, high cost discovery, as is often practiced in patent civil litigation, will not be available. Rather, where a party submits an affidavit or declaration of a witness, cross examination of that witness will be available. Consistent with 35 U.S.C. 316(a)(5) and 326(a)(5), any other discovery will be limited and will require a party to justify the additional discovery. This standard would not change, but would be applied based on the facts of each case. We recognize that some of the regulated public desire additional discovery. Where the parties agree to the additional discovery, our rules will permit that additional discovery.

b. What do you view as the most significant challenges the agency is facing in setting up the proper discovery framework for the post-grant review process?

Answer: Congress has provided significant guidance in how the discovery framework should be set up in 35 U.S.C. 316(a)(5) and 326(a)(5). Similarly, Congress provided guidance in the form of considerations to be used in proscribing regulations in 35 U.S.C. 316(b) and 326(b). We recognize that the standard for discovery is quite different from that used in most civil actions related to patents. Because of the differences between the discovery framework provided in the AIA and district court discovery, we recognize the rules that we prescribe and the guidance provided by the USPTO will differ from how discovery is typically conducted in civil action. Providing sufficient guidance to the public on how to conduct discovery is likely to be the most challenging part of setting up the framework.

Questions of Senator Tom Coburn, M.D. (R-OK)

*for David J. Kappos,
Under Secretary of Commerce for Intellectual Property
and the Director of the U.S. Patent and Trademark Office*

*Hearing on "Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
International Harmonization Efforts"*

June 20, 2012

Fee Diversion

1. For FY 2012, after two continuing resolutions, Congress finally appropriated approximately \$2.7 billion to the PTO, correct?

Answer: Correct, \$2.7 billion was appropriated.

a. Does the PTO anticipate collecting more than the \$2.7 billion it was appropriated? Why or why not?

Answer: The USPTO anticipates collecting less than \$2.7 billion during FY 2012. This is principally due to the surge in collections experienced at the end of FY 2011, as applicants and patent holders opted to make certain fee payments prior to the September 26 effective date of the 15 percent interim surcharge authorized in the America Invents Act. Many customers paid fees in FY 2011 that would otherwise have been paid in FY 2012. As is our usual practice, USPTO provided an updated fee projection number to the appropriations committees before the FY2012 bill was passed.

b. If yes, when do you expect to be able to submit a reprogramming request to the Appropriations Committee in order to ask for access to the Fee Reserve Fund?

Answer: The USPTO does not anticipate collecting more than the \$2.7 billion FY 2012 appropriation, and therefore a reprogramming from the Fund will not be necessary.

c. Will the requirement that PTO provide 15 days' advance notice to the Appropriations Committee prior to receipt of the funds pose any problems to the PTO as the end of the fiscal year draws to a close?

Answer: The advanced notice requirement has not been a problem for the USPTO in the past, and a reprogramming for this purpose during FY 2012 will likely not be necessary.

2. For FY 2011, Congress passed a series of continuing resolutions (CRs) beginning in September 2010. In fact, Congress had to pass a total of eight CRs to fund the government for FY 2011, and it was not until the eighth CR that the PTO finally received an actual appropriation that was an increase over 2010.

For FY 2012, Congress also had to pass a series of CRs before specifically funding various agencies. It was not until November 18th, after two CRs, that Congress provided funding to the PTO for 2012, almost 2 months into the fiscal year.

It appears continuing resolutions, in particular, pose a problem to the ability of the office to collect all of its fees. In fact, in the PTO section of the President's FY 2013 budget request, PTO notes the final FY 2011 appropriation forced the office to operate "at a level that was about 10 percent below its FY 2011 requirements, which resulted in the need to postpone the implementation of many strategic plan initiatives."

a. How did the uncertainty of the appropriations process during multiple CRs over the course of six months for FY 2011 and two months for FY 2012 affect the PTO's budget, operational planning and ability to access its fees collected during this time?

Answer: Uncertainties posed to the USPTO by CRs are comparable to those faced by other Federal agencies. The USPTO is bound to the same resource management policies guiding most other agencies, and CRs often set funding levels below the previous year.

This can present planning and execution challenges, particularly for those agencies that have been growing, such as the USPTO. As the USPTO grows in line with its strategic plan to reduce patent pendency, CRs make it highly likely that the agency will live at an artificially low funding level for part of the fiscal year. For instance, while the agency's FY12 spending authority is \$2.7 billion, and we anticipate collecting approximately \$2.5 billion this year, during the FY12 CR, the agency was held to the much lower FY11 level of \$2.09 billion. This, along with the uncertainty involved with not knowing the full year spending authority or the duration of the CR, makes it extremely difficult to support a growing examiner corps, and to move forward in an efficient manner with annual hiring plans and strategic investments. As has been done in the past, the USPTO managed its operations within the constraints of available fees and the CR funding level provided by the Congress. However, the uncertainty necessarily produces inefficiencies in our planning and operations.

3. While the AIA funding agreement with the appropriators did not go into effect until FY 2012, I remain concerned about whether that agreement will be honored during a CR.

a. Is it your understanding that the agreement with appropriators regarding the new Fee Reserve Fund is also applicable to continuing resolutions as well as regular appropriations bills? Why?

Answer: The USPTO cannot speak to the past or future position of the Appropriations Committees on this matter. In the event that funds are deposited into the Fund in the future and are needed to fund operations during the period covered by a CR, we are confident that those funds will be made available.

b. Have you had conversations with the appropriators about how CRs negatively affect your ability to operate effectively?

Answer: The USPTO has in the past discussed the challenges posed by CRs, and will discuss this matter again as the provisions of future CRs are assessed.

Fee Increases

4. Since the February publication of your proposed fee changes, there have been two Patent Public Advisory Committee (PPAC) hearings and a period of public comment. Based on these, does the PTO plan to revise any portion of its fee proposal prior to issuing a final rule? If so, what do you anticipate the most significant changes to be?

Answer: The USPTO received constructive feedback from stakeholders on proposed fee changes, including individual fee rates and the growth of the operating reserve. In response, the USPTO published

a notice of proposed rulemaking (NPRM) on September 6, 2012, seeking public input on proposed fees, including reduced fees for new procedures and programs under the AIA, as well as discounts to individual investors and small business. The NPRM also includes an explanation of changes from the February 2012 proposal. These revisions were guided by three important policy factors: fostering innovation, facilitating the effective administration of the patent system, and offering patent prosecution options to applicants.

5. Given the past history of Congress in this area and the over \$1 billion in diverted fees since 1992, I understand the desire of the PTO to establish an operating reserve fund to provide for years in which it does not receive all of the fees it collects, or even when it is allowed to keep all of its fees, to provide for years of overall low fee revenue. However, I also understand the concerns of those who use the PTO that the fees not increase too much too fast.

a. Has the PTO considered building up the operating reserve over a longer period of time and, as a result, imposing a more gradual implementation of fee increases or slowing the rate of those increases? Why?

Answer: The September 6, 2012, NPRM proposes fee rate adjustments leading to a gradual build-up of a sustainable funding model.

b. Do you believe this operating reserve could be a target for future congressional fee diversion? How do you plan to ensure that does not occur?

Answer: While the USPTO cannot predict the actions Congress--present or future--will take with respect to operating reserve funds, the most important thing USPTO can and will do is to fully justify such funds, the fee levels supporting reserve growth, and the costs underpinning need, all in a transparent and collaborative manner with stakeholders and the Congress.

Patent Cases Pilot Program

6. At the end of 2010, Congress passed H.R. 628, which would establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges. Specifically, the Administrative Office of the Courts designates at least 5 U.S. district courts in at least 3 different judicial circuits in which the pilot program is to operate.

a. Has the PTO been directly involved in any cases that have been a part of this pilot program?

Answer: No. We are aware of several patents that are in litigation that are also subject to a reexamination. The USPTO does not get directly involved in any of those co-pending litigations; we are not a party, nor do we provide any third-party opinions to the courts, as these are private disputes between two parties. However, the Office did hold a conference on May 16th at which over 50 district court judges in the pilot program attended. While specific cases were not discussed, the judges did receive training on the examination and reexamination processes in addition to the new proceedings created by the Leahy-Smith America Invents Act at the Board. There was also an open Q & A and general discussion session in which several of the judges participated.

b. Does the PTO have any opinion on this pilot program and its effect on increasing the patent expertise of district court judges, particularly in those districts that hear a large majority of patent-related cases?

Answer: The USPTO strongly believes the pilot program will improve the effectiveness and efficiency of patent litigation in the participating district courts. This improvement will flow not just from the voluntary reassignment of patent cases to the judges most willing to handle them, but through the ability to target judicial educational opportunities at the judges most likely to benefit from those opportunities. To that end, the USPTO supports any role it can have in assisting district court judges on procedural/technical matters attendant with patent cases. The conference discussed above was aimed directly at the pilot program judges. If that conference was any indication, the judges were very appreciative of being able to come to the USPTO and ask questions in a non-adversarial environment. That educational opportunity can only add to the expertise that district court judges bring to the bench.

SUBMISSIONS FOR THE RECORD

Statement of Senator Grassley on Hearing "Oversight of the United States Patent and Trademark Office: Implementation of the Leahy-Smith America Invents Act and International Harmonization Efforts," June 20, 2012

Mr. Chairman, thank you for holding this hearing. It's appropriate that the Committee conduct oversight on how the implementation of the Leahy-Smith America Invents Act is proceeding. Director Kappos, we're pleased to hear from you today. Welcome.

The United States is probably the most talented, creative country in the world, and a transparent and up-to-date patent system only enhances the innovative spark and entrepreneurship for which our country is known and admired. Without a top-notch patent system, entrepreneurs and inventors have fewer incentives to invest in, discover and develop new technologies and products, which in turn result in spurring growth in our economy and creating much needed jobs for Americans.

The Leahy-Smith America Invents Act is the most comprehensive reform to our patent laws since the 1836 Patent Act. This law is the product of over 6 years of intense negotiations between a bipartisan group of legislators – led here in the Senate by Chairman Leahy and Senator Hatch – and industry, academic and other stakeholders, all working with a common goal in mind – to bring our patent system up to the 21st century and to make it the best in the world.

The America Invents Act makes the U.S. patent system more efficient and streamlined. It cuts down on frivolous lawsuits, enhances transparency and patent quality, and improves certainty in the patent process. The reforms contained in this law have helped the Patent Office cut down its backlog and process patent applications in a more expeditious manner.

The America Invents Act contained a number of provisions that required the Patent Office to promulgate rules and regulations. So we're holding this hearing today to learn whether the legislation is being implemented in accordance with Congressional intent. We want to ensure that the legislation will do what we intended it to do – streamline and make the patent process more efficient, improve patent quality, and reduce the patent application backlog. We also want to determine whether the legislation has produced any discrepancies, difficulties, or unintended consequences that have been revealed during the implementation process. So I believe it's appropriate to ask whether technical, clarifying or other changes to the legislation are warranted at this time. If so, I expect to work with my colleagues in a transparent and open manner to improve the America Invents Act in hopefully a non-controversial, consensus fashion.

In addition, it's important that American patent holders enjoy the benefits of international treaties and harmonization. We should do what we can to help facilitate and simplify registration abroad and reduce costs for multinational patent protection. In 2007, the Patent Law Treaty and the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs were ratified by the Senate. The Senate now needs to pass implementing legislation in order for the United States to become a member to these treaties. I look forward to hearing more about these treaties and how they can help American patent holders.

I'm pleased to join with Chairman Leahy and my Senate Judiciary colleagues, our House Judiciary counterparts, and the Patent Office in making sure that the implementation of the America Invents Act proceeds in a timely fashion and in accordance with the intent of Congress. Thank you, Mr. Chairman.

STATEMENT OF
DAVID J. KAPPOS
**UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE**
BEFORE THE
**COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE**
**“Implementation of the Leahy-Smith America Invents Act and International
Harmonization Efforts”**
JUNE 20, 2012

Introduction

Chairman Leahy, Ranking Member Grassley, and Members of the Committee:

I appreciate this opportunity to discuss the United States Patent and Trademark Office's (USPTO) ongoing efforts to implement the provisions of the Leahy-Smith America Invents Act (AIA) and the law's contribution toward international patent law harmonization.

Mr. Chairman, you and your colleagues deserve special praise for your tireless efforts over several Congresses that led to enactment of this historic legislation.

AIA Implementation

Mr. Chairman, I am pleased to report that our AIA implementation efforts are proceeding on a timely basis. America's innovators are already seeing the benefits of this legislation.

We have implemented seven provisions of the AIA – all within the time frames prescribed by the Act – and we are working toward implementation of 13 additional provisions and two programs.

We are pleased that stakeholders have commented favorably on our transparent implementation process and the extent of our outreach. Our AIA microsite contains all implementation-related materials including summary documents, legislative history, implementation-related events, announcements, and points of contact.

Our AIA implementation team continues to review hundreds of comments received from individuals, IP organizations, IP practitioners, other government entities and academic institutions. We are identifying which aspects of the proposed rules are strong as proposed, as well as areas where improvements can be made. Importantly, we have received excellent input on rules ranging from post-grant review to *inter partes* review to oath and declaration, enabling us to make many substantive improvements to our proposed rules provisions across the board, and produce rules that will best meet the needs of America's innovation community.

Consistent with that approach, for example, the proposed regulations for the new administrative trials are aimed at streamlining and converging issues for decision while giving flexibility to the parties to determine the manner of putting forward their case. In order for the new trial proceedings to serve as a quick and cost effective alternative to litigation, the proposed rules provide the parties, subject to the guidance of neutral, disinterested judges at the new Patent Trial and Appeal Board, with flexibility to tailor the scope and timing of discovery and other requests as warranted by the positions taken by the parties and the facts of the case. By providing parties with these tools, it is anticipated that the current inefficiencies of *inter partes* reexamination will be reduced and potential future abuses of the *inter partes* review process will be avoided. We appreciate the significant and helpful input on these issues we have received from our stakeholders.

We will respond to the public comments in our Final Rules to be issued on or before August 16, 2012. The rules will then become effective on September 16, 2012, giving us a window of time in which to educate both examiners and the public on the final rules in advance of implementation. And, recognizing the importance of continuous improvement in this complex rulemaking process, we have made clear our intent to iterate on the rules even post implementation, taking more input once users gain experience with the rules, with an eye toward further improvement and refinement.

Reports

On January 16, 2012, we submitted two AIA-required studies to Congress: an analysis of the prior user rights defense, and a report on international patent protections for small businesses. We solicited comments and held two public hearings on the issue of genetic testing and are finalizing our report to Congress.

Fee Setting

In early February, the USPTO published initial proposed fees for all of the patent services we provide, pursuant to the new fee setting authority under the AIA. The proposed fee schedule represents only an initial proposal and is far from final; a formal proposal is forthcoming. We have invited feedback and recommendations from the public and have received substantial input. We anticipate a meaningful dialogue over the coming months as we attempt to set our fees at the most appropriate levels.

Throughout the fee setting process, the USPTO will be guided by two overriding principles. First, the agency must operate within a more sustainable funding model than it has in the past to avoid disruptions in agency operations caused by fluctuations in the economy. Doing so requires that the fees charged for services more closely reflect the actual cost of delivering those services. This cost must account for both planned expenses and unanticipated events, requiring the Office to build an operating reserve that ensures its long-term financial stability. Second, the USPTO is adhering to the strategic imperative set by its user community to dramatically reduce patent pendency and the backlog of unexamined patent applications in accord with the USPTO's 2010 – 2015 Strategic Plan. Doing so requires a significant increase of examination resources, which in turn dictates the necessary fee collections. We will of course reevaluate fee levels when we reach financial stability and meet our patent backlog and pendency goals.

The Patent Public Advisory Committee (PPAC) held two public hearings on the proposed fee schedule and will issue a report to the USPTO before we publish our Final Rule, detailing its comments, advice, and recommendations.

Roadshows

The USPTO conducted seven AIA roadshows, at locations across the country, to explain and receive feedback on our proposed rules for various new provisions required under the AIA, including supplemental examination, *inter partes* review, and post grant review. Our audiences, numbering a total of 1,300 attendees, included independent inventors, private practitioners, in-house counsel and IP academics. Informational slides and videos of the presentations are posted on our AIA micro-site. We are planning a special public roundtable for the first-inventor-to-file provision during the forthcoming public comment period. We likewise are planning for another series of cross-country roadshows in the fall to educate stakeholders about the final rules.

Track One

The USPTO has launched the AIA-mandated prioritized examination program (Track One) that allows patent applications to be processed to completion in 12 months and offers small businesses a discount on this option. Since its inception, we have received more than 4,000 Track One patent applications, and more than 1,500 entrepreneurs have taken advantage of those 50 % discounts. We have completed more than 2,300 first actions on Track One examinations in an average of approximately 90 days, mailed over 500 allowances, and issued more than 200 patents.

Pro Bono and Ombudsman Programs

Consistent with the directives in the AIA, we are working with intellectual property law associations across the country to expand the availability of *pro bono* patent services for under-resourced independent inventors and small businesses. Programs have been launched in Minneapolis/St. Paul and Denver, and we anticipate adding three more programs this year and an additional 11 programs in 2013. We intend to have regional coverage across the entire U.S. completed by 2014.

Our Ombudsman Program, now in its second year, has enhanced the USPTO's ability to assist applicants and their representatives in resolving breakdowns in the normal application process.

Satellite Offices

Finally, on AIA implementation, the USPTO is moving forward with opening satellite offices within three years of the AIA's enactment. These offices will allow the USPTO to attract and retain qualified patent examiners and improve applicant-examiner interaction. The USPTO will open its first satellite office in Detroit next month. At the end of last year, the general public and city and state officials across the country were invited via a *Federal Register* notice to submit comments and suggestions regarding the selection of additional offices. We are in the process of reviewing and analyzing the more than 600 responses received and expect to announce the locations of additional offices this summer.

International Harmonization

Mr. Chairman, with the adoption of the AIA, the U.S. is now able to pursue a 21st century globally harmonized patent system – one that international negotiations have anticipated for more than 25 years. Congress has enabled the USPTO to not only act, but to lead in realizing a vision of an IP world in which national and regional patent systems are coordinated to create an optimal environment for technological innovation and diffusion. Passage of the AIA has provided an opportunity to restart long-stalled discussions with our foreign counterparts toward substantive harmonization that will help U.S. businesses succeed in the global business environment.

The USPTO has been proactively working to capture this opportunity, reaching out to our stakeholders and our counterparts in patent offices throughout the world, to foster discussion on substantive patent law harmonization. Since enactment of the AIA, I have visited several of our foreign counterparts to discuss this opportunity. During these conversations, I stressed that a key requirement in realizing international harmonization is overseas adoption of a modern grace period. Grace periods have been adopted in many patent systems throughout the world and are recognized as a global best practice.

U.S. patent reform has set the scene for further harmonization to simplify the process of seeking international patent protection, reduce the cost and time it takes to obtain patent rights, and speed the deployment of innovative goods and services to the marketplace – thus promoting growth and creating jobs.

Patent Harmonization Groups

In an effort to re-energize discussions on substantive patent harmonization, the USPTO hosted the “Asia-Pacific Patent Cooperation (APPC) Forum for the 21st Century,” on March 7-8, 2011, in Alexandria, VA. The forum, led by Heads of Offices, included informal discussions among like-minded Asia-Pacific economies, including several interested developing countries as well as interested observers. At the close of the APPC Forum, the participants agreed upon a statement that concluded:

“The time for substantive harmonization is now. We are operating in a global economy, business innovation is happening across borders. The IP system needs to be supportive of this new reality.”

The so-called “Tegernsee Group” was formed in July 2011, following the APPC meeting, and is comprised of the heads of the European, Danish, French, German, UK, Japanese and United States patent offices. Over the course of the last year, patent law experts from these offices prepared a comparative analysis of substantive law applied in each jurisdiction. Earlier this year, the Group reconvened near Munich to consider the results of the experts’ work and, at the conclusion of the meeting, agreed to a statement outlining further specific work for the experts to undertake, with a view to identifying and studying issues for further convergence. The grace period was highlighted as one of four issues for near term focused effort. The Tegernsee Heads will meet again in October to consider progress made by the experts..

Earlier this month, we joined the officials of the European, Japanese, Korean and Chinese patents offices – collectively the “IP5” – to discuss and make commitments toward cooperative efforts on a range of issues including classification, translation and work sharing. The group also noted the importance of maintaining the momentum toward harmonization of patent laws and agreed to establish an expert panel to continue discussions.

Enhancement and Expansion of International Work Sharing

Work sharing continues to be a key feature in the USPTO’s approach to managing workload and reducing the examination backlog, and as such, we have been working to enhance and expand our work sharing cooperation efforts. A critical component of work sharing is the Patent Prosecution Highway (PPH). Under the PPH, an applicant can fast-track examination in one office after a finding by another office that one or more corresponding claims in a corresponding application are allowable. The PPH results in faster, more efficient and higher-quality processing, saving applicants and offices time and money.

From its inception in 2006 to the end of May 2012, the USPTO has received 11,056 PPH requests. In each of the past two years, the USPTO has received double the number of requests of all previous years combined, and is on pace to do the same by the end of CY 2012. Other key PPH metrics include:

- Processing efficiency—applications filed under the PPH require 20% fewer office actions to complete prosecution than the overall USPTO average (2.1 office actions/disposal for PPH vs. 2.6 overall); and
- Higher allowance rates—as compared to overall USPTO averages, PPH applications are allowed at a much higher rate at first action (24% vs. 14%) and at final disposition (88% vs. 49%).

The USPTO is currently partnering with 22 other patent offices around the world on the PPH, and is in discussions with several others about developing PPH pilot projects in the near future. The USPTO has also worked with partner offices to formulate enhancements to the existing PPH framework. One such enhancement, which was initiated as a pilot project in July 2011 is “MOTTAINAI,” a Japanese word referring to avoiding wasted resources. Under the MOTTAINAI model, PPH eligibility can be based on work done by any participating office on a corresponding application, regardless of whether that office was where the first application was filed. By “de-linking” priority from the eligibility requirement, the MOTTAINAI model provides applicants with greater flexibility and increased opportunity to participate, without impacting office-to-office work sharing efficiency.

The USPTO also developed and launched a pilot project in January 2012 on a next-generation PPH framework—PPH 2.0—which incorporates the MOTTAINAI model and makes a number of other user- and office-friendly enhancements to the basic PPH. The goal is to streamline requirements and processing and to move the PPH away from a network of bilateral partnerships toward a more centralized, and thus more consistently implemented and more easily navigated, international cooperation framework.

In addition, the USPTO has recently proposed an initiative known as the Global Dossier, which would establish an electronic, stakeholder-oriented environment in which applicants can plan and execute their global IP strategy and avoid the filing of duplicate documents in multiple offices. It also would provide an environment to maximize work sharing and collaboration among examiners world-wide. Remarkably, while the proposal was just introduced fully in April 2012, by June all of the IP5 offices had agreed to the Global Dossier as the vision needed to realign the IP5 technical cooperation.

PCT Processing

The Patent Cooperation Treaty (PCT) enables U.S. applicants to file a single international application in a standardized format, which is then received by PCT contracting foreign states. The USPTO has been working to raise its PCT processing techniques to world-best levels to aid U.S. technology owners to obtain early and fair IP protection internationally. We have taken concrete steps to improve our quality and timeliness. For instance, we modified the quality measures of PCT work products to be more aligned with those of U.S. national applications to maximize the potential for re-use of the international search and patentability opinion in the national phase. On timeliness, in 2011 our efforts resulted in issuance of 81% of international (PCT) search reports within 16 months from priority, and 92% within 18 months from priority. This represents a threefold improvement over our performance on these metrics three years ago.

Additionally, the USPTO, in conjunction with the UKIPO, has developed a plan to improve the PCT. This plan, referred to as “PCT 20/20”, is comprised of a series of improvements which will increase quality, enhance transparency and simplify the PCT system. The PCT 20/20 proposal was introduced to the PCT Offices at the fifth PCT working group at the World Intellectual Property Organization (WIPO) in May 2012. The USPTO will present the proposal more fully at the next meeting.

Patent Law Treaty and Hague Agreement on Designs

Mr. Chairman, as another step toward procedural harmonization, we look forward to working with you toward enactment of implementing legislation for two international treaties that will benefit U.S. applicants and innovators – the Patent Law Treaty (PLT) and the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs (Hague Agreement). Both treaties were ratified by the U.S. Senate in 2007 and require implementing legislation for the U.S. to become a member.

The PLT simplifies the formal requirements and reduces associated costs of obtaining and preserving patent rights in multiple countries of the world. The PLT complements our existing international obligations and the new provisions in the AIA. Implementation of the PLT will benefit U.S. patent applicants and patent owners by merging national and international formal requirements associated with patent applications and patents.

The Hague Agreement facilitates international design protection in member countries by streamlining the application process for multinational patent protection. Design rights, once considered an unsophisticated way to protect intellectual property, have become valuable tools for U.S. companies. And – as the considerable attention to the innovations of Steve Jobs has shown us – the relationship between design and function has grown closer in recent years.

Under this treaty, administered by the World Intellectual Property Organization (WIPO), a design owner will be able to apply for design protection in each country that is Party to the Act by filing a single standardized application at the USPTO. This is similar to the way the Madrid Protocol provides an option for multinational trademark protection. The Geneva Act was negotiated specifically to maintain substantive examination systems like that used in the U.S. while providing a globally streamlined design protection system for U.S. owners of industrial designs. This system will benefit innovative small and medium-sized businesses and sets the stage internationally to discuss other possible improvements to international design law.

Assistance for Small Entities

Another harmonization issue involves the assistance provided by governments to small entities and independent inventors who do not possess the resources and expertise necessary to effectively apply for global patent protection. Our recent report to Congress titled “International Patent Protections for Small Businesses,” highlighted the substantial differences in the accommodations made to small entities by foreign patent offices. The large majority of countries do not provide small entities with discounted patent processing fees on a nondiscriminatory and technology-neutral basis, as is currently the case in the U.S.

Additionally, a number of countries have pursued a policy of direct subsidization. China may be the most notable example. China has made concerted efforts to broaden its intellectual property system and increase both domestic and international patent filings. Direct government subsidization of Chinese citizens’ patent applications and maintenance fees has been a particularly notable mechanism for supporting that increase, although it is unclear if such subsidization has positive impacts on innovation or entrepreneurship. It should be noted that one effect of the Chinese subsidy is that their government is paying for Chinese applicants to obtain U.S. patents. A harmonized approach to providing assistance to small entities, based on the American system of small entity discounts, would help level the playing field for these innovators in the global marketplace.

Conclusion

Mr. Chairman, as we continue to engage the U.S. and global innovation community on implementation of the AIA, we are reminded, time and again, that growth, job creation, and success for businesses of all shapes and sizes is highly dependent on the effectiveness of IP protection and the efficiency of the USPTO. I want to take this opportunity to thank the leadership at the Department of Commerce for their continued support of the USPTO and as we implement this historic legislation.

It is clear that policies supporting a higher-quality IP system are making a difference in our nation's economic recovery. The Department of Commerce's recent report on IP and the U.S. economy "Industries in Focus" shows that America's core strength lies in our ability to experiment, innovate, and create. Sensible government policies that encourage and stimulate that spirit of innovation can demonstrably contribute to job creation and economic well-being. The end result is 40 million jobs in IP-intensive industries, representing 35 % of U.S. GDP.

Mr. Chairman, we look forward to working with you to ensure that the innovation-advancing, job-creating, deficit-neutral work conducted at the USPTO continues to best serve America's innovators.

We appreciate your continued support for the employees and operations of the USPTO.

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**Statement of Senator Patrick Leahy
Chairman, Senate Judiciary Committee
Hearing on “Oversight of the United States Patent and Trademark Office:
Implementation of the Leahy-Smith America Invents Act and
International Harmonization Efforts”
June 20, 2012**

Nine months ago, the United States Congress did something that has become all too rare. It sent to the President bipartisan legislation that will unleash American innovation to create jobs and improve our economy. The Leahy-Smith America Invents Act, signed by the President last September, was the product of more than six years of hearings and markups, as well as countless hours of meetings and negotiations.

The patent reform process was a bipartisan and bicameral effort from the outset. Every member of this Committee made important contributions to the legislation. Director Kappos’s leadership was also invaluable to this process, as was that of Ambassador Locke, who was Secretary of Commerce when the Senate first passed the America Invents Act in March.

The America Invents Act creates a more effective, efficient, and streamlined patent system, that will get the highest quality patents to issue from the PTO as quickly as possible. Accomplishing this goal required major structural changes to the system of granting and enforcing patents that will take the PTO time and work to implement.

That work has already begun. So far, the PTO has initiated more than 10 different rulemakings and hired more than 800 examiners and 40 Administrative Patent Judges. The PTO has also conducted seven road-shows across the country to explain and receive feedback on proposed rules. I appreciate the transparent manner in which the PTO has begun the implementation process.

I am also pleased that even before the Act is fully implemented the PTO has focused on reducing the backlog of patent applications. Over the last two years, the backlog has been reduced roughly 12 percent even as the number of incoming applications has increased. These numbers need to continue to improve, however. There are still over 640,000 applications that have not yet received a first action from the PTO.

Speed is only one part of the equation. The patents that the PTO issues need to be of high quality or, instead of incentivizing inventions, they will impede innovation. The Leahy-Smith American Invents Act includes important quality controls by allowing the public a greater role in the application process and a chance to challenge patents at the PTO that should not have been issued.

The Act did not include everything I had wanted. I am particularly concerned that while it includes quality control for new patent applications, many low quality patents issued years ago continue to infect the system and provide opportunities for patent trolls. I hope that as the PTO continues its implementation process, it does so in a manner that incentivizes the use of its reexamination processes, in order to weed out poor quality patents.

We also need to do more to protect American inventors in overseas markets. International harmonization is one element of that protection. The Leahy-Smith America Invents Act includes a very important grace period protection, which will particularly benefit inventors at universities and startups. We need to encourage other Nations to adopt a similar grace period, without which some American inventors may be unable to seek patent protection abroad.

We can also make it easier for American inventors to seek patent protection abroad by implementing the Patent Law Treaty and the Geneva Act treaty on design patents. These two treaties will reduce filing formalities in other countries. They have been supported by both the Bush and Obama administrations. I look forward to working on implementing legislation in the same bipartisan and bicameral manner as we did on patent reform.

An efficient and effective patent system will unleash American innovation and improve the American economy. Our system should be one that supports and rewards inventors with high quality patents and therefore remains true to the constitutional imperative of promoting the progress of science and the useful arts.

Congress has done its part, and I look forward to hearing from Director Kappos about the steps the administration is taking to ensure the Leahy-Smith America Invents Act fulfills its potential as we create the first truly 21st century patent system.

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