

STATEMENT OF
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**UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE**

BEFORE THE

**COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES**

“Implementation of the Leahy-Smith America Invents Act”

MAY 16, 2012

Introduction

Chairman Smith, Ranking Member Conyers, and Members of the Committee:

Thank you for 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).

Mr. Chairman, before I do so, I want to again thank you and your colleagues for your efforts over several Congresses that led to enactment of this historic legislation. We would not be here today but for your tireless efforts on behalf of America's innovators.

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 have published proposed rules for nine more provisions. We remain on track to implement all of them on time.

Stakeholders have commented favorably on our transparent implementation process and the extent of our outreach. Our AIA Micro-site 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 more than 350 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 opposition 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 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 will respond to the comments in our Final Rules to be issued on or before August 16, 2012. The rules will then become effective on September 16, 2012, providing us with a window of time in which we can 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. Comments have been solicited and two hearings held on the issue of genetic testing; our report to Congress is due June 16, 2012.

Fee Setting

In early February, the USPTO published proposed fees for all of the patent services it provides, pursuant to the new fee setting authority under the AIA. The proposed fee schedule represents only an initial proposal and is far from final. 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 goals in terms of patent backlog and pendency.

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.

Track One

The USPTO has launched the AIA-mandated accelerated 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 3,500 Track One patent applications, and more than 1,300 entrepreneurs have taken advantage of those 50 percent discounts. We have completed more than 1,900 first actions on Track One examinations in an average of 43 days, mailed over 330 allowances, and issued more than 100 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 independent inventors. Programs have been launched in Minneapolis/St. Paul and Denver, and we anticipate adding five more cities this year and an additional 11 or more 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 getting their application back on track when there is a breakdown in the normal application process.

Satellite Offices

As a means of attracting and retaining qualified patent examiners and improving applicant-examiner interaction, the AIA directs the USPTO to establish, within three years, three satellite offices. The USPTO will open its first satellite office in Detroit this summer. The general public and city and state officials 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.

Ongoing Patent Programs and Initiatives

Mr. Chairman, while we are pleased with the progress we are making in the AIA implementation process, we are also proud of our ongoing, concurrent efforts to improve the patent examination process and more quickly move important innovations to the marketplace. For example, our backlog of utility patent applications has been reduced to 640,491, the lowest level in several years despite significant increases in filings last year and this year. Our total pendency is 33.9 months and our forward looking first action pendency down to 16.2 months.

Quality Assurance

We continue to focus on delivering high-quality patents to innovators. More than two years ago, we worked with our patent examiners' union to develop a new work credit system that gives examiners more time to review the merits of an application before making a decision. We have improved our hiring practices, recruiting experienced IP professionals as well as recent engineering graduates. Comprehensive training is provided for new as well as experienced examiners.

We implemented new performance standards that place a greater emphasis on examiners interacting with patent applicants earlier in the process to clarify claims and enhance the quality of patent reviews. Collaboration with our Patent Public Advisory Committee--and the entire patent community--led to the development of a comprehensive set of metrics that we use to monitor patent quality from start to finish. These quality metrics are reported to our stakeholders on a monthly basis via our website's performance dashboard.

Information Technology (IT) Initiatives

The USPTO is implementing a variety of IT initiatives to improve our patent operations.

Patents End to End (PE2E) is currently being used by examiners in our central reexamination unit (CRU) with more cases and examiners moving to PE2E every month. And, PE2E is scheduled to release major new functionality, such as Office Actions, to a pilot group at the end of FY 2012. PE2E will be released to incrementally larger segments of the examination corps, with full deployment targeted by the end of FY 2013.

PE2E's Patent Application Text Initiative (PATI) will convert 55 million image-based documents into structured text later this quarter (Q3 FY 2012). This effort will yield XML text versions of the key documents for the entire active patent backfile. Upon completion, legacy tools will provide the converted documents to all patent examiners for seamless use within the legacy examination tools. Furthermore, it lays the foundation for PE2E's content as PE2E grows to encompass the patent corps.

Universal Laptops have been deployed throughout 99 percent of the USPTO. This 18-month effort is on time and on budget, providing nearly 10,000 employees with state-of-the-art laptops and collaboration tools to improve productivity and facilitate telework and remote collaboration through video conferencing and Voice Over IP (VOIP) capabilities.

E-petitions allow applicants to obtain real-time decisions on their petitions by automating the handling of common electronically filed petitions. E-petitions now account for more than a third of petitions received by the USPTO.

The USPTO's network infrastructure has been upgraded with connectivity to the internet at 3GBps, providing ISP-grade network bandwidth to our examiners. This ensures that teleworkers have the highest quality remote access into their examination tools, and it substantially improves the USPTO's ability to support high definition video conferences between examiners and applicants.

Interviews

We have significantly increased our total number of interview hours – time spent working with patent applicants to understand their inventions and resolve issues. As of the end of April, we have logged more than 90,000 interview hours this fiscal year. This represents an increase of 19 percent over the comparable period in FY 2011. Our goal is to reach 160,000 hours this fiscal year, an all-time record for our agency.

After Final Practice and Quick Path IDS (QPIDS) Pilot

As another part of our on-going efforts toward compact prosecution and increased collaboration between examiners and stakeholders, we recently announced the start of the After Final Consideration Pilot (AFCP). The AFCP allows additional flexibility for applicants and examiners to work together in after final situations to move applications toward allowance.

Our QPIDS pilot provides consideration of an Information Disclosure Statement (IDS) submitted after the payment of the issue fee without requiring a Request for Continued Examination (RCE). The program will reduce the number of RCEs filed for consideration of an IDS after the issue fee is paid.

Patents for Humanity

At a White House event in February, the USPTO announced the Patents for Humanity pilot program. This program encourages patent owners to address humanitarian needs with their patented technology. The 12-month pilot advances the President's global development agenda by rewarding innovators who bring life-saving technologies to underserved regions of the world, while highlighting positive examples of humanitarian actions that are compatible with business interests and strong patent rights.

COPA

Clearing Our Oldest Patent Applications 2.0 (COPA 2.0) is a continuation of the original COPA effort to eliminate the "tail" of backlog applications. For COPA 2.0, the "tail" is applications that are 13 months and older as of October 1, 2011 – that have not received a first Office Action. The goal for FY 2012 is to complete a first Office Action on 260,000 applications. To date, we have addressed more than 176,000 COPA 2.0 applications, or 67 percent of the goal. We are working hard to surpass the goal, positioning the USPTO for significant further patent pendency reductions in 2013.

Outreach to Independent Inventors

Our independent inventor programs will reach thousands of independent inventors this year. Our latest regional independent inventors conference was held last month in Tampa, Florida. It was co-sponsored by Invent Now and the National Academy of Inventors. Our Deputy Director, senior USPTO officials, successful inventors, and intellectual property experts were on hand to provide practical advice and information for novice and seasoned inventors.

The USPTO continues to provide an array of resources, information and guidance to independent inventors via our USPTO Inventors Assistance Program. This program includes not only regional and headquarters-based independent inventor educational conferences but also: an Inventors Resource page and computer training modules on our web site; webcast presentations; a dedicated mailbox for receiving and responding to inventor questions (independentinventor@uspto.gov); a dedicated toll-free number for independent inventor inquiries (1-800-786-9199); a hotline staffed by attorneys with expertise in protection and enforcement of IP rights (1-866-999-HALT); and Patent and Trademark Resource Centers, a nationwide network of public, state and academic libraries.

Patent Prosecution Highway – Work Sharing

In recent years, the Patent Prosecution Highway (PPH) has proven to be a significant work sharing initiative for the USPTO, and a successful vehicle enabling faster and less expensive multi-country patent prosecution for the IP community.

Through a series of international work-sharing agreements, PPH has helped patent applicants receive IP protection in 22 different countries—faster and at a lower cost. This kind of international collaboration is especially important in breaking down the barriers that impede smaller companies trying to export their products into a global marketplace.

As of the end of the second quarter of FY 2012, a total of 10,322 applications at the USPTO had been received within the PPH program since its inception. This puts us well on our way to a greater than 100 percent increase in usage for three years running. Users benefit not only by fast portfolio-building, but also by enjoying the collective savings of millions of dollars in the process. A study by our user community demonstrated that—in a single application—anywhere from \$2,000 to \$13,000 in reduced prosecution costs can be realized through PPH. For international filers of all sizes, that level of savings adds up quickly.

And even while the PPH has grown tremendously in usage, we are working with our partner offices—which now total 21—to further improve the program. One of the first major steps was expansion of the PPH into the Patent Cooperation Treaty (PCT) system. This has opened up the advantages of PPH to an entire sector of international filers, while paving the way toward making PCT the work-sharing model it was originally intended to be. With the world's patent offices making productive use of each other's work, we can reduce the cost of doing business and help innovators move their products to market faster, with greater predictability and certainty.

International Harmonization

Mr. Chairman, with the adoption of the AIA, the U.S. is now able to implement an optimal 21st century harmonized patent system – one that international negotiations have anticipated for the last 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 is working to capture this opportunity, reaching out to our stakeholders and our counterparts in patent offices throughout the world, to work toward substantive patent law harmonization. During the first week of April, I visited several of our foreign counterparts to discuss this unrivaled opportunity for substantive patent law harmonization. During these conversations I stressed that a key issue to realizing international harmonization is European adoption of a modern grace period. The grace period has been adopted in many patent systems throughout the world and is recognized as a global best practice. We look forward to continuing these discussions.

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 to speed the deployment of innovative goods and services to the marketplace – thus promoting growth and creating jobs.

Conclusion

Mr. Chairman, as we continue to engage the IP user community on implementation of the America Invents Act, we are reminded, time and again, that the growth, job creation, and success of businesses of all shapes and sizes is highly contingent on the effectiveness of IP protection and the efficiency of the USPTO. I want to take this opportunity to thank Commerce Secretary Bryson and Deputy Secretary Blank 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 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 percent 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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