UNITED STATES PATENT AND TRADEMARK OFFICE

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BEFORE THE

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HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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UNITED STATES PATENT AND TRADEMARK OFFICE

WEDNESDAY, MAY 5, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to notice, at 10:36 a.m., in room 2141, Rayburn House Office Building, the Honorable John Conyers, Jr. (Chairman of the Committee) presiding.

Present: Representatives Conyers, Watt, Lofgren, Johnson, Quigley, Schiff, Maffei, Smith, Sensenbrenner, Lungren, Issa, King, Franks, Jordan, and Poe.

Staff present: (Majority) Perry Apelbaum, Staff Director and Chief Counsel; Christal Sheppard, Counsel; (Minority) Sean McLaughlin, Chief of Staff and General Counsel; and Allison Halatei, Counsel.

Mr. CONYERS. Good morning. The Committee will come to order. We always welcome everyone for coming to this hearing today, an oversight hearing on United States Patent and Treatment Office. And our objective this morning is to review the operations and plans of Patent and Trademark Office under the leadership of Director David Kappos.

There are several questions that I think will dominate our discussion today. How is the office performing with respect to the patent examination backlog, and what plans are in place to reduce the backlog going forward? What steps has the office taken and will take to ensure that the United States patents are and remain at the highest quality possible? What are the funding needs of the office, and how can these needs be best met and realistically met?

Now, the patent and trademark protection is increasingly important to the U.S. economy. Our studies indicate that intellectual property accounts for as much as 60 percent of the total United States exports and generates millions of high-paying jobs.

So without a doubt, the role of the Patent and Trademark Office is critical to the success of us coming out of the downturn in the economy that we are now experiencing. It is also critical to that success that the office filter out bad patents and trademarks, while strengthening deserving patents.

So funding, of course, is the key to improving quality and bringing down the backlog. The heart of the matter is that the lack of adequate and dependable funding for the agency has prevented us reducing the backlog, maintaining the high quality of patents approved, and being more generally overall effective.

And so, to me, the Patent and Trademark Office needs reliable and sustainable funding, which means that fee setting authority—is important and that there needs to be an end to the fee diversion that has plagued us across the years.

Our Chairman emeritus, Jim Sensenbrenner, knows about this first hand. Even his predecessor, Henry Hyde, worked with us in a bipartisan way on this Committee, to try to remove the roadblocks. Currently, Lamar Smith, Zoe Lofgren, and Howard Berman have all played major roles in trying to grapple with this problem.

So the question is, how do we do it? And what might we do? Patent and Trademark expects to make between $146 million and $232 million in fees. Some would say this is great, but the problem here is that, while the agency runs on user fees, it relies on congressional appropriations to get the fees back. And so far, the Congress hasn't taken any action to ensure that Patent and Trademark receives those unanticipated new fees.

Without action, these fees are likely to be diverted as they always have been. And so, to ensure that this organization has access to this funding, I intend—that the number of us on the Committee work directly with the Appropriations Committee and its Chair, the Honorable David Obey, to try to correct this problem that has been going on for so long.

Now, to address the longer-term funding challenges, there has been increasing discussion about giving the patent and trade office fee-making authority, as was posed in the President's 2011 budget. While the current fee structure was meant to encourage the filing of patent applications, the fact that fees are back-loaded means the agency may not even have enough money to cover examination costs, and the backlog builds up, and the months turn into years, and I think I will hear from our witnesses today what that means in the real world.

In the past, appropriation bills allowed the trade of—patent and trademark to use up to $100 million above their appropriation if the agency collected more fees than it planned on. I would like to make sure that they have such a buffer against diversion in the next budget coming up.

And a number of us plan to bring this directly to the attention of our friend, Chairman David Obey.

Now, the other issue is reducing patient pendency, how long it takes, and going along with it, increasing quality. I understand that Undersecretary Kappos and Deputy Director Sharon Barner's efforts at increasing quality of patents and in reducing patent pendency is regarded as their number-one objective.

However, it seems impossible that you are going to, within 10 months, support your goals of 10 months to first action and 20 months to total patent pendency. I think you folks are great, but I don't think you are miracle workers.

I have talked to those who say that if everything goes well, it often takes as long as 51 months. And so I doubt that efficiencies can cut patent pendency by half, unless we do something far more drastic. And so, I support the examiner count system, giving patent professionals more time to do quality examination. By giving them more time, we will actually make pendency longer, as well.

So we need to discuss this, how your hiring experienced examiners is going, and how will it reduce the backlog, and I think improvements to the system is a big goal, and it is a necessity should not be delayed.

I salute your goals, and we want to help you get there with them. And so I thank you very much, and I would like now to listen to Lamar Smith, who has worked with us carefully on this matter over the years.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Chairman, as part of the Judiciary Committee's oversight responsibilities, we are here to examine the operations of the United States Patent and Trademark Office, or PTO.

Director David Kappos' job is difficult, but he is working hard to reform and modernize the agency. The importance of PTO to inventors, trademark-holders, and the American economy is widely acknowledged.

Our hearing this morning complements other efforts to pass meaningful patent reform in the 111th Congress. We are working hard with the Senate to develop necessary changes to their bill that will improve patent quality and discourage frivolous lawsuits. I am hopeful about that outcome.

That said, the PTO is one of the most important agencies of the Federal Government, but it is not often regarded as such. Its work affects the productivity and economic growth of our Nation, as well as the standard of living for all Americans.

For over 200 years, the PTO has been responsible for issuing U.S. patents and trademarks. The PTO also advises the secretary of commerce and the President on patent, trademark, and copyright protection, as well as trade-related aspects of intellectual property.

In recent years, Congress worked with the Bush administration to provide full funding for PTO operations. Following this trend, the Obama Administration recommends that we authorize PTO to collect and spend more than $2.3 billion in the upcoming fiscal year, subject to appropriations.

Observers estimate that more than $700 million have been diverted from PTO coffers since 1991, funds that could have been put to good use by the agency.

Like you, Mr. Chairman, I support ending this fee diversion. And I support the Committee's efforts to provide the agency with more control over its fee schedule and related funding.

This doesn't mean we won't exercise necessary oversight as appropriate, but PTO will solve more of its problems if it is able to respond more nimbly to its financial needs as they arise. This change, coupled with our ongoing push to end fee diversion, will position PTO as a first-tier 21st-century agency.

But if Congress does provide PTO with 100 percent funding, the agency will have a greater responsibility to explain any of its shortcomings and correct them.

Specifically, the Committee and PTO must explore the patent application backlog, the state of the agency's I.T. infrastructure, hiring and retention of patent examiners, the relationships between management and examiners, and the amount of time examiners require to process patents.

Mr. Chairman, I would like to conclude by recounting an event that illustrates the importance of the PTO. This involves Dr. William Thornton, architect of the Capitol, who was appointed by Thomas Jefferson as the first superintendent of the agency.

During the War of 1812, British redcoats marched on Washington to burn the city. Thornton realized they would eventually get to the Blodgett Hotel, which housed hundreds of patent models. Hurrying to the scene, he argued to the commanding British officer that burning the hotel and all of its contents would serve no purpose.

In an impassioned speech, Thornton said the models were useful to all mankind, not just to Americans. Anyone who burned them would be condemned by future generations, as were the Turks who burned the Library at Alexandria.

Thornton proved convincing, and the Blodgett Hotel was spared; in fact, it was the only government building not damaged during the attack. Disappointingly, Thornton's reward was a congressional order to vacate the premises. Since the Capitol building had been burned, Congress needed a new meeting place, and the Blodgett was the most suitable venue.

Nearly 200 years later, the PTO is no less valuable. Everyone here understands the importance of the patent system to our knowledge-based economy.

Mr. Chairman, I look forward to working with the Committee and Director Kappos to make the PTO even stronger and more productive and responsive to the needs of the inventor community and our country so we can enhance our international competitiveness and strengthen our economy.

Thank you, Mr. Chairman. Yield back.

Mr. CONYERS. Thanks, Lamar, for that little-known piece of American history.

Mr. SMITH. History lesson.

Mr. CONYERS. I would like to invite Mel Watt to make any welcoming or opening remarks that he may share.

Mr. WATT. Mr. Chairman, I appreciate the offer. I am happy to welcome the witnesses, but don't have an opening statement, so I will pass and await the wonderful wisdom of our panelists.

Mr. CONYERS. Before I recognize Chairman Emeritus Sensenbrenner, let me yield to Zoe Lofgren of California.

Ms. LOFGREN. Well, thank you, Mr. Chairman. And thank you for having this hearing. I think it is a very important one.

As we all know, we have worked on reform of patent law for many years, going back to H.R. 400 in 1995. And these things can get contentious, and I think at this point we have contention once again. And, therefore, it is especially important that we are having this hearing to focus on what we can agree on, how we can help the office in its pendency problem.

You know, although the parties are often sharply divided here in Congress, this is one of those items where we have had marvelous bipartisan communication and effort. It has really been very rewarding to work across the aisle as a team on these issues that are so important to our country, so I am very interested in hearing from the witnesses about the idea of allowing the office to set its own fees, even on a temporary basis. Let's see how it works, as well

as, you know, not having enough money, but also having some certainty as to what you are going to have to use and how that would work to bring down the pendency.

I wanted to raise another issue, as well, that I think might have usefulness in the office. I understand that there is a question or reform, the possibility of field offices that would help in recruiting and also might help in terms of telecommuting as work stations, and I was recently—actually yesterday—in Silicon Valley at home, and I was told that 49 percent of all the patents issued in the United States come from Silicon Valley. So that might be a good place for a pilot.

I know that the representative from the professional association will want to make sure that the amenities are good enough. That is exactly the role he should play, but let me tell you that starting at an average of 75 degree temperature in the summer and 65 in the winter, it only gets better from that, so I think members would be happy with the amenities in the valley, and I am hopeful that I can work with both the association and the management as we pursue that.

It is absolutely essential that we do something on pendency and quality. Our patent examiners are overwhelmed with volume. And that has to affect their productivity. It is just there is no other way around it.

So this is very important. I think we will be able to work together collaboratively to come up with solutions.

And, Mr. Chairman, I want to commend you for holding this hearing and yield back.

Mr. CONYERS. Did I hear in your comments an invitation to Silicon Valley?

Ms. LOFGREN. Sure. We should review the potential satellite site sometime maybe in August or January, either one.

Mr. CONYERS. Thank you.

I now turn to the former Chairman of this Committee, Jim Sensenbrenner, whose experience in this subject is as deep and wide as anybody on the Committee, and thank him for all the work he has done on the—over the years on the subject matter.

Mr. SENSENBRENNER. Well, thank you very much for the compliment, Mr. Chairman. And let me return it by saying that this is an issue that we all agree on.

The enemy is not in the Committee. The enemy is in the Appropriations Committee and over on the other side of the Capitol.

I spent about 2½ years during my chairmanship to try to convince the appropriators that what they were doing was really hurting American productivity. And I wasn't able to do that by myself, and I had to enlist the then-leadership of the House of Representatives to do that, and we were able to prevent a fee diversion from fiscal years 2005 to fiscal year 2009.

However, fiscal 2010 is another story. And we may have a fee diversion of as much as $116 million. And this is completely unacceptable, because as the economy gets better, we are going to have more patent applications go in and take the money away to process those applications promptly, it's certainly a step backwards.

I want to make two points. You know, one is, is that I don't have a problem having the patent office set its own fees, but the quid

pro quo on that has to be able to prevent the appropriators from diverting the fees, because if the fees go up and the patent office can't use those fees, then we are full-speed reverse, rather than reverse a step at a time.

The other thing that I think is most important is that, with a fee diversion, the patent office can't do what it needs to do in order to reduce the backlog and improve the quality. And this Committee is hamstrung in being able to do proper oversight over the patent office to make sure that the taxpayers' money is being spent properly.

Now, if the additional money from fees isn't being used by the patent office, then it can't be spent either properly or improperly, and we are stuck in catch-22.

So what I would like to say is, we are in this together. You need the additional money to be able to cut the backlog. You need the additional money in order to provide the improved quality that is necessary so that a patent is less likely to be attacked, should there be litigation on infringement.

And, you know, in my opinion, we need to have, you know, a much better attitude nationally, not just here on Capitol Hill, on the importance of patents in terms of preserving our lifestyle, because our lifestyle is dependent upon increased productivity.

So, Mr. Kappos, we are from the government, and we are hear to help, so tell us how.

Mr. CONYERS. Thank you, Jim.

Judge Hank Johnson?

Mr. JOHNSON OF GEORGIA. Thank you, Mr. Chairman. I want to thank you for holding this very important hearing.

And for some time now, the USPTO has struggled with timeliness and quality in reviewing patent applications. Currently, there are over 750,000 patents representing inventions and innovations which is stuck in line at the USPTO, and this number is growing.

We have to fix the pendency problem, and I salute Director Kappos for setting an aggressive goal of reducing pendency by half. At the same time, the USPTO has struggled with getting quality right, first by issuing patents on so-called inventions that should never have been granted, and more recently by significantly cutting back on the number of patent applications that are approved.

Both these problems—timeliness and quality—has a direct impact on jobs, innovation, and the economy. This is not an esoteric discussion, ladies and gentlemen. This is about getting new drugs, new technologies, and new innovations out into the world.

What if there was an invention just sitting on the shelf at the USPTO that could have been used to prevent or ameliorate or clean up oil spills, such as the one that we are suffering from down in the Gulf of Mexico?

Another problem underlying the entire system is the agency's information technology infrastructure. Lack of adequate funding for the last several years has put the agency's I.T. in a precarious position. Its aging systems are crashing and are not meeting the needs of examiners.

This is impacting the agency's ability to deal with the backlog and quality problems. Since Director Kappos has taken the helm at USPTO, the agency has announced several new initiatives to ad-

dress the backlog, patent quality, and the I.T. infrastructure challenges. I commend him for that effort.

I look forward to hearing about the USPTO's new programs, particularly efforts to get to patentability decisions early in the examination process, changes to how examiners are rewarded, and greater use of international partnerships that share patent examination burdens.

I am also interested in hearing about the relationship between these initiatives and the USPTO's funding situation. In particular, the USPTO makes the case that the current fee structure is not capable of meeting the USPTO's needs. That office needs flexibility, in my opinion, to adjust its fees and expenditures according to circumstances that arise.

The current economic slump and rebound is a perfect example. In fiscal year 2009, the office fell behind its fee collection due to the economic downturn, and Congress had to step in to protect examiner jobs. In fiscal year 2010, filings rebounded, and revenues have outpaced the USPTO's projections, so Congress will have to step in yet again if the USPTO is to have access to all the funds it collects.

Fee-setting authority would no doubt give the USPTO more flexibility, which I support, but I also want to be sure any additional fees go to worthwhile purposes. I hope Director Kappos can explain how the agency plans to use any additional fees collected and how the money spent will address the backlog, patent quality, and I.T. infrastructure.

I also want to remind everyone that Article I, Section 8 of the Constitution of the United States states that Congress shall have power to promote the progress of science and useful arts by securing for limiting times to authors and inventors the exclusive right to their respective writings and discoveries. I tell you, those founding fathers were on top of things, and I wonder how they would look at us at this time with the state of our USPTO being challenges as it is today.

So I thank you, and I look forward to all of the witnesses' testimony. Thank you.

Mr. CONYERS. Dan Lungren is a senior Member of the Judiciary Committee, and we yield to him this time.

Mr. LUNGREN. Thank you very much, Mr. Chairman.

I am here to listen to our guests. And after hearing both the Chairman and the Ranking Member, I think the issues that I am concerned about have been fully articulated, and I await their hearing.

Mr. CONYERS. Steve King, do you want to greet the witnesses or make any opening comments?

Mr. KING. Mr. Chairman, I would greet the witnesses and thank you very much. And I pass on my opening comment and yield back the balance of my time temporarily. Thank you, Mr. Chairman.

Mr. CONYERS. Well, that rarely happens around here. Thank you, sir.

Trent Franks, good morning.

Mr. FRANKS. Mr. Chairman, I am just glad to be here.

Mr. CONYERS. Okay.

Mr. Quigley?

Mr. QUIGLEY. Mr. Chairman, I am always just glad to be here. I am anxious to listen to our witnesses.

Mr. CONYERS. Well, I am glad you didn't say that you were glad to be here and hope to be back, but we are always glad to have you here, as well.

Adam Schiff, could I yield to you at this time?

Mr. SCHIFF. Thank you, Mr. Chairman. I just wanted to mention that I think the most important part of the patent reform legislation in either house, frankly, will be whatever we can include to deal with the backlog at the Patent Office and make sure the Patent Office has the fees and revenues necessary to eliminate that backlog for all intents and purposes. I think we need to develop a 5-year plan to get that done.

We are working on some proposals to help try to structure that and encourage that, that we hope will be part of any legislative effort, and I look forward to hearing what you all have to say today.

Thank you, Mr. Chairman.

Mr. CONYERS. Thank you.

We welcome our witnesses, James Johnson, Damon Matteo, Robert Budens, and first witness, David Kappos, undersecretary of commerce for intellectual property and director of the United States Patent and Trademark Office.

We will put your distinguished bio in the record. And you were not responsible for IBM pulling out of this agreement, although you have worked with them in the past. But we welcome you here and know of what you have been doing with this new responsibility that is yours.

We met—a few of us met, Lofgren and myself and—met with the secretary of commerce and yourself about matters relating to this office, particularly the patent bill that seems to be stalled somewhere between the House and the Senate. But we appreciate what you are doing, and we invite you to make your statement before the Committee now.

Welcome.

TESTIMONY OF THE HONORABLE DAVID J. KAPPOS, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

Mr. KAPPOS. Well, good morning, Mr. Chairman. And I will start by saying, I am very glad to be here, and I do hope to be back.

To Chairman Conyers, Ranking Member Smith, Members of the Committee, thank you for the opportunity to appear here before you today and to discuss the United States Patent and Trademark Office's operations and our various new programs and initiatives.

As you know, the USPTO currently faces a number of significant challenges and difficult budgetary environment. We have made process improvements, and we have made progress in recent months to address a number of these challenges, which I have detailed in my written testimony. Reducing patent pendency and improving patent quality are our top challenges, and America's competitive advantage in the innovation economy depends in very large measure on our ability to meet these challenges.

Mr. Chairman, innovation is a principal driver of the U.S. economy. It is an engine of economic growth, and it is a creator of jobs. Promoting innovation, stimulating economic growth, creating high-paying jobs are key priorities of the Obama administration and of the USPTO. We are proud of the role that the USPTO plays in serving America's innovators and providing the intellectual property protection they need to secure investment capital and to bring their products and services to the marketplace.

Yet today, we face a huge backlog of patent applications, long pendency rates, and an outdated I.T. infrastructure. Our ability to effectively address these challenges is limited by our current budgetary constraints, and we propose significant changes to our 2011 budget and our budget process.

We have developed our fiscal year 2011 budget based on the resources needed to achieve our goals. The good news is that we have begun to see a rebound in user fee collections in recent months, a trend that reflects both an upward-bound economy and success we have had in increasing production at the United States Patent and Trademark Office.

We currently project that the USPTO will collect between $146 million and $232 million more than its appropriation for fiscal year 2010. Without access to these additional fee collections in fiscal year 2010, we will be unable to achieve our goal of reducing first-action pendency to 10 months until 2014, and our goal of 20-month total pendency is now unlikely to be achieved until 2015.

While our funding constraints are very real, our new leadership team has developed and implemented a broad array of initiatives to improve the speed, efficiency and quality of patent processing and improved the overall operations of the office. We have taken steps to improve the examination process by encouraging more interaction between examiners, applicants earlier in the process.

We have made the USPTO an employer of choice by offering workplace benefits, including telework opportunities, provided enhanced training of examiners and supervisors to ensure consistency in examination, promoted work-sharing efforts with foreign patent offices to better manage our common workloads, and developed customer-friendly initiatives, including our ombudsman program, project exchange, and our green tech pilot.

These initiatives and positive results we have seen to date are described in more detail in my written statement.

Mr. Chairman, progress toward our strategic goals is dependent on a number of important elements. Among them are providing the agency with authority to set appropriate fees, authorizing an interim fee adjustment on patent fees, and creating an operating reserve to ensure adequate reserves to address multi-year budget plans.

As you know, Mr. Chairman, pending patent reform legislation contains a number of provisions that will improve USPTO operations and the patent system in general. Over the last four Congresses, the House and the Senate have weighed possible reforms to the patent system. In that time, many of the difficult legal issues related to the intellectual property system have been addressed by the courts.

I personally witnessed the House lead much of the discussion around the proposals being considered now in Senate 515 as far back as the year 2000. The USPTO and the Administration support your efforts and those of your colleagues in the Senate to enact a fair and balanced bill this Congress, and we will continue to support your efforts going forward.

We appreciate your continued support of the USPTO, and we look forward to working closely with you and the Members of this Committee to meet the challenges before us. Thank you.

[The prepared statement of Mr. Kappos follows:]

PREPARED STATEMENT OF THE HONORABLE DAVID J. KAPPOS

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
U.S. House of Representatives

"USPTO Oversight"

MAY 5, 2010

I. Introduction

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

Thank you for this opportunity to appear before you to discuss the United States Patent and Trademark Office's (USPTO) operations, programs and initiatives.

As we move into the second decade of the 21st Century, it has become increasingly clear that innovation is a principal driver of our economy. Promoting innovation, stimulating economic growth and creating high-paying jobs are key priorities of the Obama Administration. Because intellectual property (IP) delivers innovation to the marketplace, a well-run and appropriately funded USPTO is critical to supporting those priorities.

We at the USPTO are proud of the role we play in serving America's innovators and providing the IP protection they need to secure investment capital and bring their products and services to the marketplace. And, to support the changes taking place at the USPTO, the Administration has strongly supported the work of the House and Senate to reform U.S. patent laws as reflected in currently pending legislation.

II. Overview

Mr. Chairman, before I discuss the array of our programs, initiatives and other efforts to serve America's innovators, I want to provide an overview of our funding situation and our strategic direction.

Our FY 2011 Budget

I am pleased that the President's FY 2011 budget request provides the USPTO with the resources and flexibility needed to aggressively reduce the patent application backlog, shorten patent pendency, improve patent quality, enhance patent appeal and post-grant processes and invest in rethinking our information technology (IT) infrastructure. These investments will support actions

we have already taken and have underway at the USPTO to create a more efficient and effective Office – an office that fuels economic growth, strengthens the competitiveness of U.S. companies that bring new products to market, and hires employees to support those new products and services. The proposed budget also represents the first step toward establishing a sustainable funding model to finance the USPTO's patent and trademark operations in support of the USPTO's strategic priorities and the Administration's goals.

We are working closely with the Department of Commerce in planning and preparing our strategic priorities and budget requirements to ensure our goals and initiatives are aligned with and support the goals of the Department and those of the Administration.

The President's budget requests $2.322 billion for the USPTO, and it projects that fee collections of $2.098 billion will be yielded by the current fee schedule. The estimated additional $224 million would be generated by an interim patent fee increase. To help put the USPTO on a path towards a sustainable funding model, the budget proposes legislation for fee setting authority to permit the USPTO to work with its external partners to better align fees with the actual cost to the USPTO of its services. It also emphasizes business tools, such as creating an operating reserve to ensure that the Agency can execute multi-year plans and can continue to serve the public without disruption during periods of economic downturn.

Specifically, the President's Budget supports a five-year plan designed to:

- Reduce the average time to first office action on the merits for patent applications to 10 months by 2014;
- Reduce total average pendency for patent applications to 20 months by 2015;
- Invest in IT infrastructure and tools to achieve a 21st Century system that permits end-to-end electronic processing in patent and trademark IT systems.

In addition, we are developing an option to provide end-to-end processing within 12 months for those patent applicants who desire it. To achieve these performance commitments, the USPTO plans to:

- Conduct targeted hiring to recruit and hire 1,000 patent examiners (projected to be a net increase of 400 to 500) annually during FY 2011 and FY 2012. This temporary hiring increase will begin with bringing on experienced former examiners and IP professionals, which will allow Patent Operations to reduce the time necessary for training, and realize benefits that will reduce the patent backlog and reach a targeted inventory level; and
- Achieve efficiency improvements as a result of reengineering many USPTO management and operational processes. Our current efforts to optimize examination capacity, pursue compact prosecution, revise the patent examiner production system ("count system"), prioritize incoming work, and increase international work sharing will contribute to yield efficiency gains to help achieve these goals.

The USPTO's aggressive pendency reduction goals of 10-month first office action and 20-month total pendency set forth in its FY 2011 budget are based on our analysis of factors related to international filings, patent term adjustment considerations, publication of patent applications,

patent application docket management and international best practices, with an overall objective of providing optimal service for our innovators.

Hiring and Promoting a Nationwide Workforce

An additional component of the USPTO's hiring strategy is to promote a nationwide workforce. While the Office's current array of telework programs serve as a model for the Federal government, we continue to review possible improvements and geographical expansion of telework opportunities for our employees to attract and retain a highly skilled workforce.

The USPTO has demonstrated its strong commitment to teleworking by expanding its telework programs Office-wide. At this time, telework programs are available for almost all USPTO staff who have served at the Office for at least two years. The USPTO now has 5,518 employees teleworking at least one day a week. In a very competitive job market, the USPTO's decision to incorporate telework as a corporate business strategy, where appropriate, will enable the USPTO to hire and retain quality employees.

Update on User Fee Collections and Current Fiscal Situation

Mr. Chairman, as the Committee is aware, the USPTO's revenues from user fee collections declined substantially during FY 2009 and the Office was forced to cut spending sharply in many important operational areas – cuts that cannot be sustained over the long-term. Notably, without swift and decisive action from Congress in late FY 2009, the USPTO may have been forced to take even more drastic measures.

Our financial constraints carried over into FY 2010, forcing us to continue operating on a bare-bones budget. Because we are funded entirely from fee revenues, the reduction in user fee collections below our appropriations level that occurred in FY 2009 forced us to continue making hard choices including hiring less than the planned number of examiners, limiting overtime, and postponing critical upgrades to our information technology systems. So far during FY 2010, we have lost 127 patent examiners and have only replaced nine.

In total for FY 2010, we project that nearly 300 examiners will leave USPTO and that we will be able to hire 250 examiners. After a complete halt in hiring for many months, the USPTO recently began to implement a limited and targeted hiring initiative designed to attract experienced former patent examiners and other experienced IP professionals. These professionals, who will require less training and therefore be productive earlier, will help us turn the tide on the mounting backlog of unprocessed applications.

With respect to our fee collections, I am pleased to report that, based on the first seven months of FY 2010, we are seeing a rebound in user fee collections at the USPTO attributable to an improving economy and increased production that also may be attributable to managerial initiatives. Our most recent estimate is that USPTO will collect between $146 and $232 million more than its appropriated amount in FY 2010. While the rebound in user fee collections is very positive, it does not, however, lessen the need for an interim fee adjustment.

Finally, Mr. Chairman, we are studying ways to strengthen our organizational structure to support our strategic initiatives and operational programs and look forward to working with you as we move forward with this process.

III. Patent Initiatives

We are in the midst of fine-tuning our strategic plan to address the patent application backlog and focus on high-quality, efficient examination. As we do so, we have sought to create a stronger partnership with our external stakeholders, advisory committees, unions and our employees. We look forward to even more collaboration with these important groups to address a great number of issues facing the Office.

Our new leadership team at the USPTO has undertaken a broad array of efficiency initiatives to improve the speed and quality of patent processing. These initiatives include a "first in a generation" reform of the patent examiner count system. We expect this new system to create an environment where examiners efficiently review applications and work with practitioners to come to correct decisions more quickly. Our first action interview pilot has led to an increased percent of first action allowances. Also, we are pleased to see a sustained decrease in actions per disposal which is an indication that issues are being resolved more efficiently. While the average number has ranged from 2.8 to more than 2.9 in the past few years, we are now seeing a sustained level of approximately 2.3 in FY 2010. Importantly, these accomplishments have been made without any sacrifice in quality. In fact, our non-final in-process compliance rate and our allowance/final compliance rate are at their highest levels in several years. As indicated below, we are working to reengineer our quality programs and measurements.

At the end of last year, the USPTO announced a new program to provide accelerated examination for green technology innovations. We also launched a program specifically designed for small and independent entities to allow for accelerated examination of one patent application in exchange for abandoning a second unexamined application. If successful, we will consider whether to expand this pilot to other applicants as well. With this program, while the applicant benefits from faster service, the USPTO benefits from a smaller backlog.

We are actively engaging overseas patent offices and our user community to obtain substantial benefit from work done by other patent offices on applications filed both overseas and in the USPTO, an effort that can significantly improve the USPTO's efficiency.

Our patent related initiatives are critical elements an important component in the road map for the USPTO to achieve 10-months First Action patent pendency and reduce the application backlog. These initiatives are described in more detail below:

Hiring Initiative

In FY 2010, the USPTO initiated a new hiring model, supported by strong publicity and expanded "nationwide" recruitment, to encourage individuals with previous IP experience to apply for a position as a patent examiner. This new model places more emphasis on recruiting candidates with significant IP experience while previous hiring focused on scientific background and experience. Individuals with significant IP experience will require reduced training time so that they can examine applications sooner than a new hire with little or no IP experience. The new model concentrates on: (1) hiring experienced professionals such as registered patent attorneys and patent agents, as well as skilled technologists having experience with the USPTO as inventors, and (2) developing a nationwide workforce using telework which will allow us to hire experienced IP professionals interested in joining the USPTO, but who do not want to relocate to the Washington Capital region. It is expected that this different hiring demographic will provide a more productive and balanced workforce, lower attrition, and faster transition to productivity for new hires.

Retention Initiatives

The USPTO's mission requires the recruitment and retention of highly skilled individuals in a highly competitive employment market. As a result, the USPTO must continually improve and enhance its recruitment and retention strategies to make the Office an employer of choice.

The USPTO analyzes patent examiner hiring and attrition, down to the smallest business unit. As part of this analysis, Deputy Under Secretary Barner has instituted bi-weekly meetings with Technology Center (TC) Directors. These meetings are focused on developing better methods to manage and stem attrition and ways to retain our highly skilled examiner workforce. Utilizing employee exit data and employee satisfaction surveys, the USPTO is addressing examiner-specific areas of job satisfaction concerns. For example, based on this information the Office has developed and enhanced "best practices" for retaining examiners and Supervisory Patent Examiners (SPE) which includes front-line, active management, mentoring, detail appointments, an improved wage structure and other proactive management efforts to enhance employment.

Patent examiner attrition is tracked on a monthly basis to allow Technology Center Directors to address retention and set measurable retention targets. The Deputy Director will continually monitor the effectiveness of retention initiatives and seek to uncover developing trends from exit data.

The USPTO's retention initiatives, in combination with current economic conditions, have helped reduce the Patent examiner attrition rate to 5.5% in FY 2009 from levels as high as 8.8% in FYs 2005 and 2006. Current projections are approximately 5%.

Revision to Patent Examiner Production System (Count System)

In February 2010, in collaboration with the Patent Office Professional Association (POPA), the USPTO established a new examination count system that was reengineered to recognize patent examiner effort at various stages of the examination process. The changes increase the overall time examiners have for examination to improve their ability to do quality work. The new system provides incentives and modified work-credits which provide more time up-front for the First Office Action to allow any issues to be addressed early in the examination process. These changes provide real time compensation based on the effort involved in preparing the office action and which will reduce examiner frustration by curtailing rework. Implementation of the new count system is a primary reason our patent application backlog was reduced by approximately 10,000 cases in March 2010. While we only have one month worth of data and it is too early to tell, we believe that the revision will serve the Office well. We are carefully monitoring the performance indicators, and will work with POPA to fine tune the system so that it serves to achieve the USPTO's goals and objectives.

Improving Patent Quality and Identifying New Ways to Measure It

The USPTO is reengineering its quality management program from top to bottom to focus on improving the process for obtaining the best prior art, as well as improving the quality of the initial application and the entire examination and prosecution process. We have sought comments from IP professionals on methods to enhance the quality of issued patents (for both applicants and the USPTO), to identify appropriate indicia of quality, and to establish metrics for the measurement of the indicia. We have engaged our external partners in a very public discussion through comment, with our Patent Public Advisory Committee and upcoming

roundtable discussions on the best way to address patent process inefficiencies, while also improving patent quality and reducing overall application pendency.

We are committed to being fully transparent with respect to pendency. To that end, we have developed and are fine-tuning an online "dashboard" that will show pendency from many perspectives (including pendency from the first filing dates and Requests for Continuing Examination (RCEs)) and other key metrics of patent pendency and quality. We intend to publish and update the dashboard monthly so that the public can have access to this important information about how the USPTO is doing its job.

Reformulating Performance Appraisal Plans (PAPs)

The USPTO established a task force with representation from all TCs to craft new performance appraisal plans (PAPs) for supervisory patent examiners (SPEs) to focus on enhanced examination quality, reduced application pendency, and improved stakeholder responsiveness. The new SPE PAP, finalized and rolled out in early April 2010 for these critical managers, provides increased recognition of key SPE activities in coaching and mentoring examiners while also recognizing the importance of contributions to agency-wide initiatives. The task force also created an SPE award program to provide additional incentives to the achievement of these new SPE goals.

In addition, a new joint labor and management task force is completing its work to update the patent examiner performance appraisal plan (PAP) and to evaluate the existing processes for addressing performance and conduct issues at the USPTO. The focus of this effort is to align the patent examiner PAP to organizational goals, and ensure strategic alignment at all levels. A strong emphasis will be placed on clearly defining objective measures that will be universally applied during the performance appraisal process, as well as developing a framework that focuses on coaching, mentoring, and training. The task force will be looking to modify the PAP to ensure transparency, educate employees on their responsibilities, and enable managers to set clear expectations and objectives for the achievement of organizational goals.

Training of Examiners

The USPTO is giving all of its patent examiners detailed training in efficient interview techniques, compact prosecution, and negotiations -- all targeted to streamline the examination process by working with applicants to identify and correctly resolve issues early in the process, thereby reducing patent application backlog and pendency.

Training of Supervisors

In addition to the required supervisor training certificate program, patent managers and supervisors are participating in a newly developed, state of the art leadership development program. This program is designed to help managers and supervisors hone their skills so they can enable all employees to reach their full potential.

First Action Interview Pilot Program

This recently expanded program has effectively served to improve prosecution by enabling applicants and examiners to identify issues and come to agreement more quickly. The success of the program is reflected in an increased percent of first action allowances and at least some initial

reduction in RCE filings. The total number of hours of interview time for patent examiners in FY 2010 is projected to exceed the FY 2009 level by more than 60%.

Stakeholder Survey

In January 2010, the USPTO expanded its survey methodology to better measure the quality of services provided by the patent examining staff. This survey will give applicants an opportunity to provide feedback on the patent process on a semi-annual basis. The survey design ensures each data-collection period covers a representative sample of patent filers, and that survey findings can be extrapolated to the applicant population as a whole. The survey provides a valuable complement to other initiatives, such as enhancing interview practice. The survey results, along with customer outreach efforts and other initiatives, will enable the USPTO to improve service quality based on the input collected through the survey process.

Re-engineering the Classification System

To improve quality, reduce pendency and reduce costs, the USPTO is reviewing its patent classification system. An improved system will allow effective assignment of applications for examination and is critical to enable examiners to effectively locate prior art relevant to determining patentability. The USPTO is also learning from and building upon best practices of our partners in foreign IP offices to provide our examiners with the best prior art available. This initiative will improve pendency and patent quality and reduce cost by putting the best prior art in the hands of examiners efficiently, and by partnering with our international counterparts to leverage resources.

Ombudsman Program

The USPTO recently established a new "Ombudsman" Pilot Program designed to provide patent applicants with more assistance in handling application-processing problems if the normal channels have not been successful. This one-year pilot program is intended to provide applicants with additional resources to ensure application-processing problems are handled in a more efficient way, thereby saving applicants and the Agency both time and resources and improving patent quality.

Under this new program, applicants, attorneys or agents who have application-processing concerns, and haven't been able to get the assistance they need through normal channels in the Technology Center (TC), can contact the ombudsman representative for the TC through the USPTO Web site. The applicant will receive a phone call within one business day for a discussion of the specifics of the issue. From there, the ombudsman representative will work with TC staff to address the concerns expressed by the applicant and try to get the application back on track. Each TC will have one ombudsman representative and a back-up, both of whom are selected based on their experience. The program is supported by senior supervisors and TC staff, including supervisory patent examiners, training quality assurance specialists, and subject matter experts.

The program is a direct response to feedback received from members of the patent community who have suggested the need for a dedicated resource they can turn to when they have concerns about the prosecution of their application.

Increased International Work Sharing

A large percentage of applications received in the major global patent offices are filed in more than one national or regional jurisdiction. To the extent that each national or regional jurisdiction conducts its search and examination entirely independently of the search and examination done in other jurisdictions, there is significant potential for redundancy and duplication. Accordingly, he USPTO has, for several years, been proactively pursuing work-sharing as a means for avoiding duplication of work among offices and for reducing its own pendency and backlog.

The Patent Prosecution Highway (PPH), which was jointly developed by the USPTO and the Japan Patent Office (JPO), is the first concrete implementation of a work-sharing framework among patent offices. The objective of the PPH is to promote work-sharing while at the same time allowing applicants to obtain patentability determinations faster in multiple jurisdictions. The concept is fairly straightforward—when an office determines that one or more claims are patentable in one application, the applicant may request fast-track examination of the same or similar claims in the second, related application filed with the second office. To have the request for fast-tracking accepted, the applicant must make available to the second office the relevant work of the first office as well as any necessary translations. By restricting the scope of claims presented to the second office, and by requiring the applicant to make the relevant work from the first office available to the second office, the PPH promotes a high degree of reutilization of first office work. The PPH also respects the principle of sovereignty noted above because each office maintains responsibility for the final determination of patentability in accordance with applicable law.

The first PPH was launched between the USPTO and the JPO in 2006 as a pilot project. Since then, the USPTO has established bilateral PPHs with nine other patent offices, including the offices of major trading partners such as Korea, Canada, the United Kingdom, Australia and Germany, and those and other offices have established PPHs of their own.

The PPH has proven to be a useful work-sharing vehicle, as shown by the following statistics (as of the beginning of April 2010):

- 2,713 total PPH requests received by USPTO since 2006
- First action allowance rate for PPH applications (i.e., the rate at which an application is allowed the first time the examiner considers the merits of the claims) is approximately 25% - about double the first action allowance rate for all applications
- Overall allowance rate for PPH applications is about 93%, also about double the allowance rate for all applications
- The number of actions per disposal (a critical productivity metric) for PPH applications is about 1.7 vs. about 2.7 for non-PPH applications
- Observed reduction in the number of claims in PPH applications of 15-20% compared to the number of claims that would have been examined in the same application.

While the PPH has been successful, it can be improved. The USPTO has taken a number of steps, in concert with the JPO and other PPH partners, to enhance the PPH framework to make it

more user-friendly and encourage more participation. In January 2010, the USPTO, EPO and JPO (Trilateral Offices) agreed to expand PPH on a pilot basis to include Patent Cooperation Treaty ("PCT") work products (search and examination results). This expansion has the potential to dramatically increase the number of applications eligible for PPH processing.
The efficiencies realizable through work-sharing are likely to be maximized to the extent that the office of second filing (OSF) does not begin its work until after the office of first filing (OFF) has provided initial results. Although the PPH process can be used to mitigate such timing imbalances, the scale of a voluntary process like PPH is likely to be smaller than that of an office-driven process. Accordingly, at the November 2006 Trilateral Conference, the USPTO introduced a proposal for office-drive work-sharing known as "SHARE"—Strategic Handling of Applications for Rapid Examination. According to the SHARE proposal, when corresponding applications were filed in multiple offices, the first-filed application would be given precedence in examination in the OFF. Further, each office would await the search and examination results for which it was the OSF until results were available in the corresponding application from the OFF.

The USPTO, in cooperation with its stakeholders and taken into consideration its rules and regulations, is committed to mitigating these timing imbalances and implementing SHARE in an effort to optimize work-sharing on a global scale.

Towards that end, the USPTO and the Korean Intellectual Property Office (KIPO) are currently conducting a small scale pilot to gather empirical data and test the feasibility of the SHARE concept. During fiscal year 2010, approximately 360 commonly filed applications in the semiconductor and fuel cell technologies have been identified for prioritized examination and enhanced collaboration on search and examination results between the two offices.

Finally, on March 10, 2010, the USPTO and the United Kingdom Intellectual Property Office (UKIPO) committed to develop within one year a plan that would optimize reutilization of work in all patent applications jointly filed at the USPTO and the UKIPO. This plan will, to the maximum extent possible, utilize elements of the SHARE concept.

Application Acceleration Pilot for Small Entities (Project Exchange)

Project Exchange, an application acceleration pilot program open to small entities, allows qualifying applicants with more than one application pending at the office to accelerate examination of one application if they abandon a second unexamined application that may no longer be of value to them. This initiative, which began last year, also helps the USPTO prioritize its workload while reducing the backlog of unexamined patent applications.

Green Technology Pilot Program

The USPTO has implemented a pilot program in which a qualifying green technology application may be accorded special status. Applications pertaining to green technologies including greenhouse gas reduction, environmental quality, energy conservation, development of renewable energy resources or greenhouse gas emission reduction qualify for accelerated consideration under this pilot program.

Outside of this program, such an application could not be advanced for examination unless it meets the additional requirements of the USPTO's accelerated examination program (e.g., submission of an examination support document). The USPTO will accept only the first 3,000

petitions to "make special" in previously filed new applications, provided that the petitions meet the requirements set forth in the notice published on December 8, 2009, in the Federal Register.

More than 900 applications have been submitted to this program since it was announced and approximately one-third have been found qualified for advanced status. We look forward to working with interested parties to expand participation in the program.

Reengineering the MPEP

Stakeholder input also is being sought on reengineering of the USPTO's Manual of Patent Examining Procedure (MPEP). In addition to expediting updates to the MPEP, we will establish a more collaborative process involving contributions by our stakeholders; provide more examples and greater integration of guidelines; and include links to related USPTO online examiner education materials. The objective is to create a new MPEP that will enable practitioners and examiners to find information quickly, get accurate and complete guidance, and ensure that the examination and prosecution of all patent applications complies with the laws and regulations governing the patent system.

Transparency of USPTO Materials

The USPTO is promoting transparency by increasing the availability of its public information and by providing patent examiner training materials on the Internet for reference by the innovation community. The USPTO has launched a public "Directors Forum" blog, especially designed to improve the exchange of information between the USPTO and the public, and is establishing dedicated "Feedback Channels" to solicit public input on important initiatives like the count system changes, the application exchange pilot for small entities, and the Green Technology pilot.

The USPTO is working to release all patent and published patent application data to enable applicants and the entire innovation community to better understand trends in USPTO application handling. In particular, we will be publishing decisions on petitions and full-text, searchable application file histories.

Finally, as mentioned above, the USPTO will be launching an on-line "dashboard" providing key pendency metrics publicly available. Additionally, speeches by USPTO officials are being published on the Internet, and USPTO officials have significantly increased their public speaking frequency.

Investing in IT Infrastructure

It is critical to innovators, job growth and the American people that high quality patents and trademarks are issued in a timely manner. Intelligent investment in our IT infrastructure holds the potential to dramatically accelerate the USPTO towards those goals.

In FY 2011, the USPTO will fund the continued operations and maintenance of its existing IT systems. In parallel, we will begin the work of setting up new systems that will enable end-to-end electronic processing of patent and trademark applications. By removing the constraint that the new system must interface significantly with our outdated, current systems, we allow the work to be driven by these guiding principles:

(1) stakeholders' (internal and external) needs drive the process;
(2) build lean, build fast, and own the design.

We will be moving quickly to get an end-to-end system built that demonstrates basic functionality and meets core needs of our stakeholders, while at the same time re-engineering our business processes to modernize and streamline them.

IV. Trademark Initiatives

Our Trademark Operation continues to meet or exceed its performance goals. The decade-old telework program in our Trademark operation has expanded over the years to include 87% of all eligible trademark examiners in its voluntary program, and has served as the model for the successful hoteling program in our Patents Operation. Other Trademark initiatives include the following:

Trademark Pendency

In FY 2011, the Trademark operation will continue to maintain first action pendency at optimal levels, on average between 2.5 – 3.5 months with 13 months final pendency.

Trademark Quality

While current metrics show that the quality of decision making is at high levels, to further enhance quality, the Trademark Operation is establishing a new measure that focuses on the comprehensive excellence of the entire Office Action. They have sought input from stakeholders in determining how to define excellence, and last month completed focused excellence training for all trademark examining attorneys.

Public Roundtables on Trademark Issues

Consistent with our outreach efforts to stimulate public discussion on IP policy and developments, in April the USPTO co-hosted, with George Washington University Law School, a panel discussion titled "The Future of the Use-based Trademark Register." The discussion focused on the vitality of our used-based trademark register in the wake of the recent decision by the Court of Appeals for the Federal Circuit in *In re Bose Corporation.* In *Bose,* the Court held that cancelling a trademark registration on the ground of fraud on the USPTO requires proof of a false, material representation made with the intent to deceive the USPTO.
The panel discussed whether, as a result of the *Bose* case, trademark applicants and registrants will be more likely to claim use or intent to use on overly broad or inaccurate lists of goods and services, leading to a significant erosion of the use-based registration system.

Panel members considered a number of ideas for ensuring accurate lists of goods and services, including fee-based incentives, requirements for more comprehensive proof of use during the application or registration maintenance processes, and a truncated non-use expungement procedure. The Trademark Operation will continue discussions with user groups on whether to implement these ideas.

Anti-Counterfeiting and Anti-Piracy

Trademark Operations officials continue to partner with appropriate entities to promote educational efforts to develop public awareness of the adverse effects of trademark counterfeiting. The USPTO and Customs and Border Patrol (CBP) are assessing the feasibility of establishing electronic links between the Trademark Registration System and CBP's recordation

system.

Investing in IT Infrastructure

The USPTO is upgrading its Trademark IT infrastructure to improve the stability, availability, and performance of the systems that support trademark examination and the public. As part of this effort, the USPTO will re-architect its Trademark systems to provide scalable, redundant, and virtually hosted systems based on current technologies. This will make the trademark process more efficient and more transparent, and reduce trademark portfolio costs for the innovation community. The Trademark Operation has launched an organized outreach effort for internal and public users to ensure that the new system design best meets the needs of its stakeholders.

V. IP Policy and Enforcement

The USPTO plays a significant leadership role in promoting effective domestic and international protection and enforcement of IP rights and are endeavoring to formulate a data-driven U.S. government IP policy, working to develop unified standards for international IP, and providing policy guidance on domestic IP issues. The USPTO advises Executive Branch agencies on national and international IP policy matters, advocates for the establishment of global IP norms, and conducts technical assistance and capacity-building programs for foreign governments seeking to develop or improve their IP regulatory and enforcement mechanisms. The Office is working closely with the White House's U.S. intellectual Property Enforcement Coordinator to help formulate a robust and effective Administration IP enforcement plan. Related efforts include:

Creation of Office of the Chief Economist

To assist the USPTO in generating economic analyses of the IP system and to better grasp the economic impact of proposed and actual changes to the system, the Office has designed and filled the position of Chief Economist. The incumbent conducts studies for presentations to Congress, the Administration, and at public stakeholder events hosted by the USPTO.

Collection of Data on Role of IP in Innovation and Creativity

In conjunction with the creation of an Office of the Chief Economist, the USPTO has launched an initiative to collect and analyze data on the role IP plays in the promotion of innovation and creativity. More empirical work on precisely how IP operates in different innovation contexts needs to be done. The USPTO will sponsor various symposia and roundtable discussions, and otherwise solicit input from stakeholders, to prepare relevant and informative studies and reports. Several of these symposia will be conducted in conjunction with other agencies (e.g. the DOJ and the FTC) as well as with leading academic institutions.

Recognizing the vital importance of the Internet to U.S. innovation, prosperity, education and political and cultural life, the Department of Commerce has made it a top priority to ensure that the Internet remains open for innovation. The Department has created an Internet Policy Task Force whose mission is to identify leading public policy and operational challenges in the Internet environment. As a component of the Task Force, the USPTO is co-leading an initiative with a sister DOC agency, the National Telecommunications and Information Administration (NTIA), to gather data that will help the DOC formulate positions on digital copyright policy for the 21st century. Outputs may include a major policy symposium and whitepapers. The outputs on this

process may assist the Administration in formulating digital copyright policies as well as the Administration's overall IP enforcement plan. The Task Force is conducting similar reviews of privacy, cybersecurity, and the global free flow of information goods and services, and may explore additional areas in the future.

IP Attachés Program

The USPTO's Attaché Program was formally instituted in 2006 to promote the value and importance of strong IP protection and enforcement in selected, high-profile countries where U.S. IP challenges are greatest. Since that time, IP attaches have played a critically important role in sharing relevant information about international developments with various parts of the U.S. Government and providing critical input to enable the U.S. to more effectively participate in international discussions regarding the development of IP laws. In partnership with the Commerce Department's Foreign Commercial Service (FCS) and the Department of State, the current team of IP attachés is working to improve global IP protection and enforcement overseas. These experts support U.S. embassies and consulates on IP issues, including devising strategies to stop counterfeiting and piracy, and supporting U.S. Government efforts to improve the protection and enforcement of IP. The attachés also advocate U.S. IP policies, coordinate training on IP matters, and assist U.S. businesses that rely on IP protection abroad. They serve at posts in Brazil, Russia, India, China, Thailand, and the U.S. Missions in Geneva. The Office is also employing its expertise in the overseas deployment of IP enforcement personnel as part of a White House task force headed by the White House's U.S. Intellectual Property Enforcement Coordinator which was established to improve the effectiveness of IP enforcement personnel in countries where strong IP enforcement is needed.

IP Law Development

The USPTO continues to work with Congress and the courts to improve the state of U.S. IP law. We are actively engaged with Congress to enact patent reform legislation that fairly balances the interests of innovators across all industries and technologies. We are supporting legislative changes that will simplify the patent process, reduce legal costs, improve quality and fairness, and make significant progress towards a more harmonized international patent system, while continuing to protect intellectual property.

As the Executive Branch's statutory adviser on IP policy, the USPTO has been actively involved in developing the U.S. government's legal position on important court cases. In *Bilski v. Kappos*, which was argued in the Supreme Court last November, the U.S. argued that the USPTO appropriately denied patent claims for a business method patent involving a method for hedging risk. In the "Google Books" matter, we worked closely with the Department of Justice and other government agencies to craft a court filing explaining the many benefits of a settlement that would give consumers easy access to vast numbers of out-of-print works, while articulating a series of concerns about details of the proposed settlement.

Global IP Academy

Since 2005, the USPTO Global Intellectual Property Academy (GIPA) has provided high-level intellectual property rights training, capacity building programs and technical assistance training to foreign judges, prosecutors, customs officials, IP enforcement personnel, as well as officials from copyright, trademark and patent offices from around the world. Those individuals come to the United States to learn, discuss and strategize about global IP protection and enforcement. The program's goals include fostering a better understanding of international intellectual property

obligations and norms, exposing participants to the U.S. model of protecting and enforcing intellectual property rights, and promoting discussion of intellectual property issues in a friendly and supportive environment.

The Academy provides both multilateral programs and country-specific programs as needed. USPTO further envisions programs dedicated to specific legal issues or technologies as the Academy continues to develop. GIPA also delivers training to other stakeholders, including small business owners, U.S. Government officials, and the general public.

VI. Conclusion

The success of the initiatives described above and progress toward USPTO's strategic goals of improved quality and reduced pendency and backlog are dependent on a number of elements. These include establishment of a sustainable funding model; authority to set fees in a manner to better reflect the actual cost of operations; an interim fee adjustment on patent fees to provide resources in the intermediate term; and an operating reserve to ensure adequate reserves to address multi-year budget plans and fluctuations in revenues. Our FY 2011 budget provides the framework for continuing the work we have started to make critical changes at the USPTO so that the Office is supporting innovation, enabling investment and contributing to U.S. economic recovery.

Mr. Chairman, we appreciate your continued support of the USPTO and we look forward to working closely with you, the members of the Committee and your staff in the weeks and months ahead.

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Mr. CONYERS. Thank you for starting us off.

We now turn to Mr. Robert Budens, who is U.S. Patent and Trademark Office, Department of Commerce for many years, going back to 1990. He has had a lot to do with the Patent Office Professional Association, has been on the executive committee. This is the employee organization.

And we know that you have some issues that you are hoping will be fairly addressed and resolved in the pending legislation. We welcome you here today, sir.

TESTIMONY OF ROBERT D. BUDENS, PRESIDENT, PATENT OFFICE PROFESSIONAL ASSOCIATION

Mr. BUDENS. Thank you, sir.

Chairman Conyers, Ranking Member Smith, Members of the Committee, POPA represents more than 6,200 patent professionals at the USPTO, including more than 6,000 patent examiners who determine patentability.

When I addressed the Oversight Subcommittee in February 2008, the relationship between the USPTO and its examiners was particularly strained. Attrition was high; morale was low; and the agency and POPA were in the midst of a contentious negotiation over a new collective bargaining agreement.

Today, I believe POPA and the USPTO are in the midst of a revolutionary and, I hope, long-lasting change in our relationship. Under the leadership of Mr. Kappos, the parties have agreed to solve problems through less adversarial and more collaborative and interest-based methods.

Since August 2009, the USPTO and POPA have had a joint task force in place, led by Deputy Commissioner for Patents Peggy Focarino and myself, that has addressed several issues regarding time for examination. Among other things, these count system initiatives provided for the first increase in time since 1976, time for examiner-initiated interviews, realignment of examiner work credit to better reflect when work is done, and an improved awards system.

In recent months, POPA and USPTO have addressed many other issues, including telework, patent applications on green technologies, and expansion of the first action interview pilot. These and other changes we have worked on together have led to a decrease in attrition and a new level of morale that is noticeable within the examining corps. Allowance rates are starting to go up, while the backlog of applications has gone down.

Nevertheless, a number of issues remain of concern to POPA. While the count system initiatives have provided some additional time for examiners, more work needs to be done to address the question of whether examiners in each particular technology have sufficient time to do a quality job.

To address this issue, the agency and POPA have been working together with an outside contractor to do a more in-depth study of examination time. POPA has no doubt that the study will show that further increases in time are needed to provide quality work. Obviously, increases in examining time will necessarily require hiring more examiners if the USPTO is to meet the pendency goals of Secretary Locke.

Recently, there has been increasing interest in work-sharing between the world's patent offices as a means of increasing efficiency. Examiners, however, already use search results performed in other countries, so there is no room for efficiency gains by this approach. To truly increase efficiency and reduce pendency, a work-sharing program must reduce the number of issues and examiner needs to address, and it must do so early in prosecution.

POPA believes that work-sharing must be done as soon as an applicant becomes aware of prior art and/or relevant rejections from a first patent office. At that point, the applicant should amend or cancel claims or otherwise constructively address the prior art and rejections from the first patent office in accordance with the laws of the other patent offices in which the applicant has filed a similar application. Thus, the issues facing examiners in those other offices will be reduced, and there will be a real increase in efficiency.

Several issues concerning patent reform continue to concern POPA. We are dismayed that the 1-year grace period for inventors and the requirement for examination to be performed by U.S. examiners have both been lost in the proposals developed by the Senate. We encourage this Committee to ensure that these provisions are included in any final patent reform legislation.

POPA continues to have serious concerns with the proposed post-grant review process. We believe this process will siphon considerable resources away from initial examination while providing little benefit to the intellectual property community. Post-grant review will not decrease the cost of owning a patent; it will only serve to provide one more expensive and time-consuming process that a party may use to protract litigation.

With respect to the budget, POPA recognizes that the agency needs agility in adjusting its fees in responding to changing economic conditions. Therefore, POPA supports the creation of a reserve fund that will allow carryover of unused fee income from year to year and limited fee-setting authority for the agency.

POPA does not, however, support giving the agency the authority to create new fees or eliminate existing fees with respect to basic filing, search and examination activities. We believe that the authority to create such new fees or terminate existing fees should remain in the hands of Congress.

In addition, the agency's access to its fees should not be obtained at the expense of the oversight responsibilities of Congress. Our experience is that congressional oversight has been very valuable.

Finally, since the future of patent reform legislation remains in question, we encourage the Committee to consider a standalone bill to address the agency's long-term funding and fee-setting authority.

Thank you for this opportunity to present our views.

[The prepared statement of Mr. Budens follows:]

PREPARED STATEMENT OF ROBERT D. BUDENS

STATEMENT OF

ROBERT D. BUDENS

PRESIDENT

PATENT OFFICE PROFESSIONAL ASSOCIATION

Submitted to the

COMMITTEE ON THE JUDICIARY
U.S. HOUSE OF REPRESENTATIVES

On The Subject Of

"Oversight Hearing On The U.S. Patent and Trademark Office"

May 5, 2010

Professional Representation for Patent Professionals

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

Thank you very much for this opportunity to present the views of the Patent Office Professional Association (POPA) on issues facing the U.S. Patent and Trademark Office (USPTO) and POPA.

POPA represents more than 6,200 patent professionals at the USPTO. The vast majority of these are the agency's patent examiners – the engineers, scientists and attorneys who determine the patentability of the hundreds of thousands of patent applications received in the USPTO each year. POPA's members are diligent, highly skilled, hard working professionals. They take great pride in the work they do and are committed to maintaining the quality and integrity of America's patent system.

America's current economic problems have once again highlighted the importance of stimulating innovation and protecting intellectual property in the United States and the world. Throughout its history, America's ability to innovate has been a key driver in reversing economic downturns such as we have experienced recently.

The U.S. patent system is a powerful engine driving innovation in America. It has been the foundation upon which America has built the most powerful and robust economy in history. The vital role of patents to the U.S. and global economies is clearly evidenced by the rapidly expanding efforts of inventors and companies to protect intellectual property throughout the world.

Today, I wish to share with the Committee POPA's views on areas where we see significant improvement at the USPTO as well as some areas that continue to concern our patent professionals.

SIGNIFICANT IMPROVEMENTS IN LABOR RELATIONS AT THE USPTO

When I addressed the Subcommittee on Courts, the Internet and Intellectual Property in February, 2008, the relationship between the USPTO and its patent examiners was particularly strained. Attrition was high, morale was low and the agency and POPA were in the midst of a contentious negotiation of a new collective bargaining agreement.

Today, I come before this Committee to tell you that I believe POPA and the USPTO are in the midst of a revolutionary, and I hope long-lasting, change in our labor-management

relationship. Under the leadership of Under Secretary David Kappos, the parties have agreed to place our collective bargaining negotiations in hiatus and have worked very hard in recent months to solve problems facing us through less adversarial and more collaborative and interest-based methods of problem solving. Working together, we have begun addressing significant issues that have plagued the parties for decades.

Since August, 2009, the USPTO and POPA have had a joint Task Force in place led by Deputy Commissioner for Patents Peggy Focarino and myself that has successfully – some would say miraculously – addressed several issues regarding the time examiners have for patent examination. These "Count System Initiatives" provided the most profound changes to the USPTO's current performance system since its inception in the 1960s. Among other things, the Count System Initiatives provide for:

- the first increase in time for examination since 1976 and the most significant change in time since creation of the "count" system more than forty years ago;
- non-examining time for examiner-initiated interviews to incentivize compact prosecution and reaching allowable subject matter early in prosecution;
- realignment of examiner work credit to more accurately reflect when work is actually performed by examiners;
- an improved award system to stimulate reductions in pendency by putting monetary awards within the reach of more examiners, thereby increasing their productivity;
- reducing pendency by creating disincentives for applicants and examiners to pursue Requests for Continued Examination (RCEs) so as to reach allowable subject matter early in patent prosecution;
- removing agency-created obstacles to appropriate allowance of patent applications; and
- continuous monitoring by the Task Force of the effectiveness of the Initiatives and a commitment to make adjustments to the Initiatives if necessary.

Since implementation of the Count System Initiatives between November, 2009 and February, 2010, hardly a day goes by when an examiner doesn't stop me in the hallways and thank POPA for negotiating these changes with the USPTO. Under Secretary Kappos has repeatedly stated that he is being told by applicants' representatives that they, too, are noticing the difference in the culture at the USPTO. The Task Force will be reevaluating the Count System Initiatives in August, 2010, but I believe the agency and POPA will find few, if any, issues that need changing. So far, from all appearances, the Initiatives are having a positive effect.

In view of the success of the Task Force in addressing the Count System Initiatives, Under Secretary Kappos requested that the Task Force continue working together and address the problems surrounding the examiner Performance Appraisal Plan (PAP) as well as disciplinary issues at the USPTO. Lack of agreement on these issues has plagued the parties for years and represents a major source of frustration and animosity driving the adversarial relationship of the USPTO and POPA. Now, since March, 2010, the Task Force has been working diligently and appears very close to reaching an agreement on a new performance appraisal system to go along with the Count System Initiatives. If the Task Force is successful, it will represent the first time in history that POPA and the USPTO have reached a negotiated agreement on performance appraisal.

POPA and the USPTO have also reached agreements on stimulating innovation by accelerating examination of patent applications involving "Green" technologies, allowing small entities to accelerate examination of one application by abandoning another, and expanding the First Action Interview Pilot, currently underway at the agency, to more technology areas. In addition, a more comprehensive study of examiner production goals is currently being undertaken that will allow the agency and POPA to better address the issue of time for examination.

A source of great frustration for many teleworking employees participating in the agency's Patents Hoteling Program (PHP) has been the requirement for examiners to report back to the agency headquarters in Alexandria, Virginia at least two times per pay period. Recently, POPA and the USPTO reached agreement to remove that requirement for PHP participants working within the local commuting area of the USPTO headquarters (a 50 mile radius around Alexandria). This agreement has significantly reduced the time and travel burden on teleworking examiners living within the metropolitan Washington area. While more changes are needed to address this requirement for those outside the local commuting area, POPA believes that this agreement represents a significant step forward in creating a nationwide work force of patent examiners. We look forward to working with the agency to remove the reporting requirement for all teleworking employees.

These and other changes that POPA and the USPTO have recently worked on together have led to a decrease in attrition and, a new level of morale that is noticeable within the

examining corps. Allowance rates are starting to go up while the backlog of pending applications has gone down. These are definite trends in the right direction for the U.S. Patent System.

On behalf of POPA's bargaining unit members, I wish to commend Under Secretary Kappos, Deputy Undersecretary Sharon Barner, Commissioner of Patents Robert Stolle and Deputy Commissioner for Patents Peggy Focarino for their visionary leadership that has allowed POPA and the USPTO to work together collaboratively in addressing the issues discussed above. I sincerely hope that these agreements represent a quantum change in labor-management relations at the USPTO that will continue to serve the parties well into the future.

ISSUES OF CONCERN TO POPA

Examination Time

Patent examination is a labor-intensive job – mentally and physically. While improvements in automation can accelerate some processes such as searching large databases of information, it cannot make the examiner read and understand the results of those searches any faster. To do the job right requires a serious investment, not just in resources such as automated search tools, but in real time for examiners to use those tools, examine applications and determine the patentability of inventions.

While the USPTO and POPA have made some strides in providing more time for examination of patent applications through the Count System Initiatives, these efforts represented a broad-brush approach that provided an increase in time for examiners across the board. The Task Force did not have sufficient time or resources to look more closely at the amount of examining time for specific technologies, Much more work needs to be done to address the question of whether examiners in a particular technology area have sufficient time to do a quality examination of patent applications in their respective technologies.

To address this issue, the agency and POPA have been working together with an outside contractor to do a more in-depth study of examination time in the many different technologies examined at the USPTO. POPA commends the Congress for championing a comprehensive study of examiner goals.

It is hoped that the results of this comprehensive goal study will be available within the year. Once these results are reviewed, POPA expects that the parties will once again get together and determine an appropriate course of action to address the findings of the goal study. POPA has no doubt that the study will show that examiners still need further increases in examining time in order to provide quality examination of inventors' patent applications. POPA recognizes, however, that increases in examining time for examiners will necessarily require hiring more examiners if the USPTO is to meet the goal of Secretary of Commerce Locke to reduce pendency.

Adequate agency funding is essential to pendency reduction.

Examination Tools

Examiners' automation tools continue to be a concern for POPA's bargaining unit members. Examiners remain frustrated by inadequate and/or dysfunctional systems that slow the examination process. Years of neglect of the U.S. classification system is a hindrance to examiners in technologies that do not lend themselves to keyword searching. This is a particular problem in many of the mechanical technologies.

Recently, the IP 5 countries set forth a list of foundation projects to improve patent examination throughout the world. One of the IP 5 Foundation projects involves development of a global classification system. POPA supports this concept provided that the system incorporates sufficient granularity in the classification of technologies so as to allow quality searching by classification within the time constraints faced by examiners. We also support the USPTO's recent proposal to accelerate this particular IP 5 foundation project.

Efforts are also underway to upgrade the USPTO network and improve or completely rewrite the automation tools in use at the agency. POPA supports these initiatives. Unfortunately, work on these initiatives has been severely restricted by the recent funding problems at the USPTO and are several years away from completion.

Adequate agency funding is essential to quality search and examination.

Work Sharing at the USPTO

Recently, there has been increasing interest in the concept of work sharing between the world's patent offices as a means of increasing efficiency and reducing the worldwide backlog of

unexamined patent applications. Ideally, where an applicant has filed a patent application in multiple countries, many in the intellectual property community would like to see a single search done in one of the major patent offices and then have those search results relied upon by the other offices for purposes of determining patentability. POPA does not believe such an approach is currently feasible in the real world of patent examining.

A feasible work sharing program must satisfactorily address several issues to be truly successful in gaining efficiencies in the examination process. It must:

- address differences in the world's patent laws;
- recognize the sovereign nature of granting patents; and
- provide for a process that ultimately reduces issues facing an examiner throughout the examination process.

Following is a discussion of each of these points.

Even amongst the largest patent offices, the U.S., China, Japan, EPO and Korea (the so-called IP 5 countries), there exist numerous differences in patent laws. Some laws such as 35 U.S.C. § 102(e) in the U.S. are unique. In the U.S., 35 U.S.C. § 102(e) allows U.S. examiners to use U.S. patents as prior art based on the effective filing date of the U.S. application. All other countries rely solely upon the publication date of a reference to determine its relevance as prior art. Thus, the result of these differing laws is that different countries will rely upon different references as relevant prior art.

The one-year grace period accorded applicants under U.S. patent law is also unique to the U.S. Therefore, a reference that may be usable as prior art in the European Patent Office may not be a relevant prior art reference in the United States. While there has been much discussion on harmonizing worldwide patent laws for decades, the plain fact is that harmonization remains an elusive goal and it is difficult to see it happening any time soon.

Issuance of a patent is the creation of a property right within the country issuing the patent. A successful work sharing program must recognize the sovereign and inherently governmental function of determining patentability in each country. For example, certain business methods as well as software are considered patentable subject matter in the U.S. while the European Patent Office does not consider such subject matter to be patent eligible. The failure of harmonization over the years is a manifestation of the strong national interests of

nations around the world that protect their intellectual property with patents. Work sharing is a possible mechanism for increasing quality of examination by placing the best prior art in front of an examiner prior to examination, but it should not prevent examiners from performing their own search and making their own patentability determinations.

POPA has and continues to oppose any work sharing proposal that would attempt to gain efficiency by removing from a U.S. examiner the ability to independently search and examine a U.S. patent application and determine patentability in accordance with U.S. patent law and regulation. We oppose work sharing where an examiner would be required to give "full faith and credit" to the work of another patent office – not because the work of other offices lack quality – but because different offices examine patent applications under different laws and fundamental philosophies. We firmly believe that this is as much an issue of sovereignty as it is an issue of efficiency. We believe that examiners in the other major patent offices have similar feelings.

To truly increase efficiency and reduce pendency, a work sharing program must ultimately reduce the number of issues that an examiner needs to address during the examination process – and it must do so early in prosecution. A fundamental weakness of the Patent Prosecution Highway program (PPH) is that, to gain efficiency, most patent offices would need to sit on pending applications until allowable subject matter had been identified in the patent office doing the first examination and applicant had appropriately amended the remaining pending applications to correspond with the allowed application. Thus, while the PPH program may increase efficiency, it may do so at the cost of pendency.

Instead, POPA believes that work sharing must be done much sooner in prosecution to both increase efficiency and reduce pendency. In other words, when an applicant becomes aware of prior art and/or relevant rejections from examination in one patent office, the applicant should amend or cancel claims or otherwise constructively address the prior art and rejections from one patent office in accordance with the laws of the other patent offices in which the applicant has filed a similar application. Only by reducing the issues facing examiners, can work sharing result in efficiency gains.

In a USPTO Roundtable discussion on work sharing held at the USPTO on November 18, 2009, POPA proposed an alternative to the several existing work sharing programs. POPA proposed that an applicant would receive an initial examination and office action from an "Office

of First Filing" (OFF, perhaps the IP 5 office closest to applicant's/assignee's home country to insure a distribution of work worldwide). Once applicant had received the office action from the OFF and prepared an appropriate response under the laws of the OFF, the applicant would then also submit copies of the prior art and office action along with an appropriate response and/or amendment in the Offices of Second Filing (OSF, all the other patent offices where applicant had filed patent applications). The response to each OSF would be preliminary to examination in the OSF and would be appropriate for the laws of the particular OSF country. This way, when an examiner in an OSF picks up the case for action, the issues in the case would be reduced/simplified/eliminated because the applicant would have already responded to the art/issues cited by the OFF and their responses in the OSF would take into account the applicable patent laws of the OSF, thus reducing or eliminating the problems associated with the lack of harmonization of laws. POPA's proposal also addresses concerns over countries having to rely on a search from another country which may have different laws and issues arising in examination (such as the 35 U.S.C. 102(e) issue here in the U.S.). The examiner in the OSF would then only have to search/examine the claims still remaining in the OSF application. Each OSF examiner would still be permitted to do their own searches and examination in accordance with their own laws but there would hopefully be fewer claims and issues to deal with in the OSF applications. The requirement to address issues in each OSF would also serve to focus applicant's attentions on where he/she really wants patent protection since the costs of responding to all those OSFs could be significant. This proposal would become a bit of a control on applicants filing a PCT with all countries checked when, for example, they may only really want or need protection in the IP 5 countries.

While our proposal may not solve all the problems of work sharing, the above proposal is the only one POPA sees that would provide efficiency gains in the OSFs while not impinging on the sovereignty of each country's decision on patent property rights in that country.

Patent Reform

During the course of the last three Congresses, there has been much effort and debate on the subject of patent reform in both houses of Congress. Recent compromises in the Senate have attempted to overcome some of the major hurdles of the patent reform process such as the

provision on damages. Nevertheless, several issues in the patent reform legislation remain of concern to POPA.

The proposed Manager's Amendment to S.515 does not contain a provision to maintain the one-year grace period for inventors filing in the U.S. POPA believes the elimination of this grace period will adversely impact America's small inventors and, in particular, those inventors associated with colleges and universities. American academic inventors operate in a "publish or perish" environment where promotions and tenure may well depend on the number of publications and presentations researchers have made in a particular time frame or in their careers. Elimination of the existing one-year grace period would force these inventors to withhold disclosure of their scientific or technical discoveries until such time as a proper patent application has been filed. This could have the unintended consequence of delaying public awareness of new drugs or treatments for diseases or the application of newly engineered technologies to meet long felt needs in society.

POPA encourages the Committee to support inclusion of language maintaining the one-year grace period as patent reform legislation moves forward.

As discussed above in POPA's proposal regarding work sharing among nations, we believe that the grant of a patent is a sovereign and inherently governmental function and should be reserved solely to the patent examiners in each country. POPA is dismayed to note that language requiring search and examination of U.S. patent applications to be performed in the U.S. by U.S. citizens who are employees of the Federal government has been deleted from the proposed Manager's Amendment to S. 515. By deleting this language from the bill, USPTO management will be free to require U.S. examiners to give full faith and credit to a search from a foreign office, effectively transferring patentability determinations and, hence, creation of U.S. property rights, to a foreign government entity.

POPA encourages the Committee to insure that language requiring search and examination to be performed in the U.S. by U.S. citizens who are employees of the Federal government to be included in any final version of the patent reform legislation.

One of the largest issues regarding patent reform has been the creation of a "post-grant review" process (PGR) whereby a party could request review of an issued patent based on the

submission of new evidence. POPA continues to have serious concerns regarding the proposed post-grant review process.

A major concern of PGR is that is will ultimately siphon resources away from initial patent examination. POPA does not believe that this will be good for the U.S. Patent System. Quality should be built into the patent examination process from the beginning, not months or years after a patent has issued. The resources that will be expended on PGR would be better spent hiring and training examiners and improving the search tools available to them.

PGR will not decrease the costs of owning a patent. Rather, it will just result in additional litigation expense and uncertainty that will negatively impact the patent system. It is highly unlikely that a patent holder or a potential infringer will enter into the post-grant process or any other venue for patent litigation unless and until someone decides that there is serious money at stake in the fight. History suggests that, where there is serious money at stake, the losing party in litigation will generally pursue additional appeal routes until all appeals are exhausted or until one of the parties has been essentially bankrupted by the litigation process. Thus, PGR will only serve to provide one more expensive and time-consuming process that a party may use for the purpose of protracted litigation. This may well be particularly frustrating to small inventors who may not have sufficient resources for an extended legal battle over the validity of their patent. They will be no match for a large multi-national organization bent on obtaining the use of the small inventor's invention without proper compensation.

Recently, the agency committed to handling PGR cases within a year of filing. It is difficult to see this goal being reached without throwing considerable funding and resources commensurate with the level of filing of PGR cases. POPA has serious concerns that the USPTO's commitment to the one-year goal for PGR will drain needed resources away from initial patent examination, reduce the quality of issued patents due to the transfer of resources to PGR and ultimately weaken the entire U.S. Patent System.

Finally, if a PGR process must be implemented, POPA believes that the level of the bar for entering the process must be significant to avoid undue harassment of a patent holder. POPA would support a standard whereby a party must establish a *prima facie* case of non-patentability to successfully institute a post-grant review. Such a standard would limit the ability of large entities to force smaller entities into the PGR process.

USPTO Budget and Fee-setting Authority

The recent economic downturn has dramatically highlighted the need to adequately fund the USPTO. It has also highlighted the need for agility in responding to such downturns in the future.

Except for the current Fiscal Year, Congress and the Executive have permitted the agency to retain and use all of its fee income since 2005. POPA commends the Congress and the President for continuing to support the agency's mission by allowing the agency full access to its fee collections.

In recent years, the agency's appropriations provided for access to fee income above the appropriated levels where the fee income exceeded agency projections. This provision, however, was omitted from the Fiscal Year 2010 appropriation. Currently, the agency is on track to bring in substantial fee income above and beyond the FY 2010 appropriations. Without some form of supplemental authorization, this fee income would be unavailable to meet agency needs. POPA wholeheartedly supports the request of the USPTO for Congress to provide access to these additional fees. POPA respectfully requests that this Committee work with the appropriators to free up the agency's additional fee income.

While a supplemental FY 2010 appropriation will address our current excess fee income situation, POPA recognizes that the agency also requires more agility in adjusting its fees in response to changing economic conditions. To create this agility, POPA supports the creation of a reserve fund that will allow carry-over of unused fee income from one year to another. POPA also supports limited fee setting authority for the agency.

POPA is somewhat at odds with the agency regarding the proposed fee setting authority incorporated in the pending patent reform legislation. POPA has consistently maintained that the agency should have access to all of its fee income and have the authority to adjust existing fees through the rule-making process. POPA does not, however, support giving the agency the authority to create new fees or eliminate existing fees with respect to basic filing, search and examination activities. We believe that the authority to create such new fees or terminate an existing statutory fee should remain in the hands of Congress. Only when Congress has created a fee, should the agency be allowed to subsequently adjust it through rule-making. We also do

not believe that the agency's access to its fees should be obtained at the expense of the oversight responsibilities of the both the Judiciary and Appropriations Committees of both houses of Congress. We believe that this oversight responsibility is critical in providing guidance too – and in some cases redirecting – the USPTO in the appropriate uses of its fee income and other resources.

POPA recognize that the future of the patent reform legislation remains in question. Therefore, we encourage the Committee to consider legislation separate and apart from the existing patent reform legislation in order to address the agency's long-term funding and fee setting authority.

Mr. Chairman, Ranking Member Smith, and Members of the Committee, on behalf of all the patent professionals represented by POPA, I thank you for this opportunity to share with you their concerns. I look forward to working with you to ensure that the USPTO and its employees have the resources they need to maintain the U.S. Patent System as the "gold standard" for protecting intellectual property throughout the world.

Mr. CONYERS. Thank you very much.

We are going to carefully review some of the points that you have emphasized in your presentation. We are grateful that you are here today.

Our third witness is Mr. Damon Matteo of the Patent Public Advisory Committee. I am going to put his biography in the record. He has won more awards in intellectual property than anybody I know of and also speaks frequently, writes frequently, and has a very extensive management background in intellectual property matters.

And we welcome you warmly to the Committee today.

TESTIMONY OF DAMON C. MATTEO, CHAIR, PATENT PUBLIC ADVISORY COMMITTEE, VICE PRESIDENT AND CHIEF IP OFFICER, PALO ALTO RESEARCH CENTER

Mr. MATTEO. Thank you. Good morning, Chairman Conyers, Ranking Member Smith, Members of the Committee.

It is my great pleasure to be here on behalf of the Patent Public Advisory Committee of the United States Patent and Trademark Office, more commonly known as PPAC. Again, my name is Damon Matteo. I am the chairman of PPAC.

I am particularly grateful for the opportunity, because this testimony comes at a pivotal time, one of transitions in the world economy, the innovation ecosystems, the intellectual property landscape, and certainly at the USPTO itself. And now perhaps more than ever, we find all of these factors linked and essential in achieving economic success.

Yet a key link in that chain, the USPTO, is laboring under infrastructure and funding challenges that threaten its progress on many important initiatives, challenges——

Mr. CONYERS. Pull your mic up a little closer, please.

Mr. MATTEO. Oh, certainly. Is that better? Great.

But challenges inevitably create opportunity, and ours is to ensure and enhance the U.S. patent system's ability to support U.S. innovation, job creation, and economic success. In order to keep the USPTO the premiere intellectual property office in the world, PPAC believes a series of high-level issues need to be addressed and recommends focused efforts and measured objectives for pendency and backlog reduction.

As a first step, we understand the USPTO is targeting 10-month pendency to first action on the merits, 20 months total pendency, and also to shrinking the backlog which currently stands at over 700,000 patent applications.

With regard to patent quality, improving the patent process and the product itself, attendant information search and work processes is key in providing greater certainty around the timing, scope and validity of patents. And in support of these initiatives, I will echo perhaps Mr. Conyers' notions about the budget, recognizing both the residual impact of the recent economic downturn and constraints imposed by limited financial vehicles at its disposal.

PPAC supports the prudent application of several novel mechanisms to help and enhance and support the USPTO's operations. The first is to give the USPTO time to limit its administrative fee-setting authority to better accommodate funding needs and also to better align costs and incentives with fees.

PPAC suggests setting the bounds of this fee-setting authority, its duration, measurement against agreed metrics for success, the

scope of the fees, for example, as a percentage increase, and with possible oversight by Congress and/or PPAC.

PPAC also supports legislation to permanently end fee diversion and/or earmarks which sideline USPTO revenues that should be directed at its operations, in particular now when the PTO is facing such difficult financial situations.

In addition, PPAC encourages the USPTO to expand its modeling of revenue and operational scenarios with an emphasis on identifying priorities, as well as contingency planning, to support and inform optimal strategy developments and tactical execution. PPAC also supports allowing the USPTO to employ more flexible financial tools such as establishing operating reserves.

Infrastructure: Extended periods of inadequate funding have left much of the USPTO's I.T. infrastructure aging, unstable and barely able to meet the tasks at hand. PPAC sees investment and provision of attendant incremental funding in these I.T. infrastructure as on the critical path to success for the USPTO realizing many of its key objectives.

PPAC also enthusiastically supports the USPTO's recent efforts to totally revisit in a fundamental fashion its I.T. infrastructure. Process, a common thread that binds many of the USPTO's other initiatives, enhanced process understanding and optimization will figure prominently in the USPTO's ability to realize benefits from many other initiatives and to expanding the work exemplified by the count system, work share, among others.

Organizational and hiring: At the core of any organization or its people, culture, and work practices, PPAC encourages the USPTO to continue its outstanding working in hiring, retention, training, to explore new ways to embrace a truly nationwide workforce and to foster a culture that inspires and rewards performance and initiative.

PPAC supports and applauds the broader trajectory of the USPTO, but also encourages vigilance to ensure that visibly articulated goals, such as pendency reduction, are not accomplished at the expense of other PTO objectives or its resources.

The USPTO clearly faces many significant challenges, but it is also poised to make significant progress against many of them. In our short time together, I have done my best to articulate the challenges, opportunities and requisites for success from a PPAC perspective.

PPAC stands ready to work with the USPTO, with Congress in support of the U.S. patent system, the innovation economy. And in closing, on behalf of myself and the PPAC, I would like again to express my appreciation for this opportunity to speak with you about these important issues relating to the United States Patent Office.

Many thanks.

[The prepared statement of Mr. Matteo follows:]

PREPARED STATEMENT OF DAMON C. MATTEO

Judiciary Committee Testimony
Hearing On The United States Patent & Trademark Office
5 May 2010

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Introduction & PPAC Background:

Good Morning. Chairman Conyers, Ranking Member Smith, members of the Committee, it is my great pleasure to be here today on behalf of the Patent Public Advisory Committee of the United States Patent & Trademark Office, often referred to as the "PPAC". My name is Damon Matteo, and I am Chairman of the PPAC.

As you may be aware, the PPAC was established by this Committee (*via* 35 U.S.C. §5) just over 10 years ago as part of the American Inventors Protection Act. PPAC is comprised of nine members representing a broad range of constituencies (IP practice, industry/manufacturing, research & development, academia, and individual inventors) and are appointed to three year terms by the Secretary of Commerce. As part of our service in PPAC, we "review the policies, goals, performance, budget and user fees of the USPTO with respect to patents" and prepare an annual report on these matters that is submitted to this Committee, in addition to the Secretary of Commerce and the President.

Summary:

I am particularly grateful for this opportunity as this testimony comes at a pivotal time, one of transitions in the world economy, the innovation eco-system, the intellectual property landscape and at the USPTO itself. And now, perhaps more than ever, we find all of these factors linked and essential in achieving economic success. Yet, a key link in that chain, the USPTO, currently faces serious funding and infrastructure challenges that threaten its progress on several important initiatives, including improving patent quality and reducing pendency.

Challenges inevitably create opportunity, ours is to ensure and enhance the U.S. patent system's ability to support U.S. innovation and economic success. PPAC is dedicated to achieving the promise this opportunity holds, and to working collaboratively in support of the U.S. innovation economy, which by its nature embraces and reflects the interests of small inventors, large corporations, academia, R&D and patent practitioners.

Under Secretary of Commerce and Director of The United States Patent & Trademark Office, David J. Kappos inherited an organization challenged by funding, infrastructure, process and human capital issues, among others. In order to address these challenges, keep the USPTO the premier intellectual property office in the world and enhance its operations, a series of high-level issues need to be addressed. PPAC fully supports these high level objectives of the USPTO and recommends focused efforts and measured objectives for:

- **Pendency & Backlog Reduction** – As a first step, we understand the USPTO is targeting ten month pendency to first action on the merits (2014), twenty months total pendency (2015), as well as shrinking the overall backlog which currently stands at approximately 700,000 applications.
- **Patent Quality** – Improving the quality of the patent product and attendant patenting process (information, search, duration, work-flow, *etc*…) is key in providing greater certainty around the timing, scope and validity of patents.

Just as addressing issues like Pendency and Quality support the plan to make the USPTO an exemplary intellectual property office, so too do these objectives require the support of appropriate resourcing and infrastructure capabilities. Long-term underfunding and legacy strategic decisions have left many of these enabling resources in short supply or in disrepair. PPAC sees the following resources and tools as among the most important employed in service of the USPTO's objectives, and those upon which I would like to focus in my testimony:

- **Budget & Fee-Setting Authority** – Recognizing that the USPTO is facing continued budget shortfalls arising from both the residual impact of the economic downturn and constraints imposed by the limited financial tools at its disposal, PPAC supports the prudent application of several approaches to remedy the situation.
  - Fee-Setting Authority: The first is to give the USPTO temporary administrative fee-setting authority to better accommodate funding needs, and also to better align costs and incentives with fees. PPAC believes this fee-setting authority must remain consistent with both the mission of the USPTO to foster and facilitate innovation as well as support the restored and enhanced operations of the USPTO. Setting the bounds of fee-setting authority, both in its duration and the scope of fees (perhaps as a function of percentage increases, aggregate percentage of operating revenue, etc…) with possible oversight or guidance by Congress and/or PPAC may be one way to ensure both objectives are best served.
  - Fee-Diversion: PPAC also supports legislation to permanently end fee diversion and/or earmarks that sideline USPTO revenues that should be directed at its operations. The applicant and patent holder communities are also likely to expect their fees to be directed at supporting the services they receive, not some other government programs – in particular given the current financial hardships of the USPTO.
  - Financial Modeling & Tools: In addition, PPAC encourages the USPTO to employ and expand its modeling of revenue and operational scenarios with an emphasis on identifying priorities as well as contingency planning to support and inform optimal strategy development and tactical execution. This expertise can also be employed in establishing appropriate fee-setting parameters. PPAC also supports allowing the USPTO to employ more flexible financial tools like establishing operating reserves.
- **Infrastructure** – Extended periods of inadequate funding and strategic neglect have left many of the USPTO's information technology and computer systems aging, unstable and barely adequate to support the tasks at hand. PPAC sees investment (and provision of attendant incremental funding) in this infrastructure on the critical path to supporting success in support of the USPTO's objectives. PPAC further endorses the USPTO's new efforts to fundamentally revisit the architecture of its IT infrastructure to capture performance and efficiency gains.
- **Process** – As a thread that runs through and binds many of the USPTO's other initiatives, process understanding and optimization should figure prominently in the USPTO's going-forward plans to achieve efficiencies and to increase productivity and quality. A particular instance of this is the 3% year-over-year efficiency gains the USPTO projects it will capture. Accordingly, PPAC continues to feel the still vacant Chief Process Improvement Officer ("CPIO") position and attendant process

understanding/optimization exercises are crucial to the USPTO fully realizing the benefits from many of its other initiatives.

- **Organizational & Hiring** – At the core of any organization are its people, culture and work processes. PPAC encourages the USPTO to continue and expand its efforts to align hiring, retention and training with requisite skills, to explore new ways to embrace a truly nation-wide workforce, and to foster a culture that inspires and rewards performance and initiative.

As Quality and Pendency are already both rather visible and broadly accepted goals, I would like to spend much of my time commenting upon the requisites for success in achieving these important objectives – in particular those most closely aligned with the direct impact of Congressional authority: budget & fees. By way of a cautionary preamble, however, PPAC is ever conscious of the interplay between the many linked aspects of USPTO operation, and encourages diligence to ensure that visibly articulated goals, such as Pendency reduction, not be accomplished by reducing the quality of the final product, or at the expense of other equally worthy objectives of the USPTO. That said, let me share some of PPAC's thoughts and observations on the operations, challenges, and opportunities now facing the US Patent & Trademark Office:

Budget & Fees

Background: As you know, the USPTO derives its entire budgetary authority from anticipated user fees. The decline of patent application and maintenance fee renewal rates experienced during the recent economic recession highlighted a vulnerability in the overall approach to funding the USPTO. The current fee structure establishes relatively low filing fees to encourage entry into the patent process, with the cost of examination heavily subsidized by downstream patent issuance and maintenance fees. So, the issue is two-fold: the cost of rendering the actual services does not correlate with the attendant fee, and changes in the business climate leave the USPTO open to large and unanticipated swings in revenue collection – with few, if any, meaningful financial tools at their disposal to deal with these revenue shortfalls. The USPTO ended FY 2009 with patent fee collections approximately $170 million less than estimated in the FY 2009 President's Budget. In response to the FY 2009 decline in fee revenues the USPTO implemented almost $200 million in budget reductions and cost-savings measures, slowing progress on important initiatives and further neglecting its aging infrastructure.

In addition to the vulnerabilities there is the effect of legacy budgetary shortfalls that over time impact infrastructure and other mission critical resources. So, in a very real way, the USPTO is playing catch-up at the same time it is forging ahead with new and important initiatives – including Quality and Pendency initiatives. Reliable access to these resources, improved infrastructure and funding are inextricably bound up in the success of the USPTO success in realizing many of its new goals.

Fee-Diversion: Given the import of both the level of, and visibility into, funding for the USPTO, PPAC firmly believes that the fees paid by patent holders and applicants for USPTO services should remain at the USPTO to support and enhance its operations. PPAC, and we believe much of the patent community, are alarmed to hear that in fiscal year 2010, up to $230 million in USPTO fee collections may be diverted from USPTO operations. The USPTO originally requested, via the President's budget in February 2009, $1.930 billion for fiscal year 2010. In September, 2009, the USPTO updated the Appropriations Committee with a new fee collection estimate of $1.877 billion and at the same time, renewed its request for up to $100 million in additional spending authority should the USPTO collect more than $1.877 billion – a $100 million "buffer", so to speak. Congress eventually enacted the budget at the $1.877 billion figure but did not provide the $100 million buffer.

It is our understanding that the Congressional Budget Office ("CBO") actually projected that the USPTO would collect $1.980 billion in fiscal year 2010. So, the Appropriations Committee was able to give the USPTO a number that matched the USPTO's estimate while at the same time the overall appropriations "pot" reflected the higher CBO estimate, thus giving Congress the difference between the two figures to spend on other government and programs. The USPTO is seeking legislation to provide use of the additional user fees it is now projecting to collect in fiscal year 2010, and is being told it must find an offset for the "new spending" because in essence, these additional fee collections have already been allocated outside of the USPTO. While we profess to have only a rudimentary understanding of the specific mechanics of the federal budgeting process, it seems clear that USPTO is forecast to collect more money in user fees than they are currently permitted to spend in fiscal year 2010 to deliver their services. We believe the applicant and patent holder community at large would see this as sub-optimal – particularly in light of the challenges presented by the legacy effects of previous budget shortfalls and the promise of the new initiatives in process at the USPTO.

Accordingly, PPAC strongly recommends the enactment of legislation to permanently end the diversion of USPTO fee collections to other government functions. Now that fee collections are trending back up, the USPTO should be able to access the full amounts in order to execute against strategic priorities, hiring, improve the IT infrastructure and pursue other initiatives necessary to for quality and timely processing of patent applications. A permanent end to diversion will provide the USPTO with the greater levels of certainty in planning that a performance based organization needs.

Fee-Setting: The current patent fee structure created in the 1980's established relatively low filing fees to encourage entry into the patent process, with the cost of examination heavily subsidized by issuance and maintenance fees paid by successful applicants who wish to maintain rights for the full patent term. Under current statutory authority, the USPTO is not at liberty to adjust its primary fees without legislation. This limits the USPTO's ability to adjust its fees in response to changes in market demand for patent services, processing costs, or other factors. We believe that to assure adequate funding levels for the long term, the USPTO needs authority to set and adjust fees administratively, so that it can properly establish and align fees in a timely, fair and consistent manner to recover the actual costs of USPTO operations and without going through the inherently long delays in the legislative process. This will afford the USPTO the opportunity to reform its funding model holistically to operate in a more businesslike fashion. After a period of time, or once the USPTO is on firmer fiscal footing, the fee-setting authority can be revisited.

We recommend providing the USPTO with temporary (time-delimited) authority to administratively set and adjust patent fees to more accurately reflect the actual costs of providing services to applicants, and to institute structural incentives consistent with the goals and mission of the USPTO. This may involve bounds set in advance for a range or aggregate of fees, potentially with advice or oversight by Congress and/or PPAC, and its success/direction/necessity should be revisited after a pre-determined time.

Financial Tools: PPAC believes that the USPTO should be given the tools needed to adjust for volatility in the economy and/or demand for its services without putting the USPTO in an operational crisis. Such tools should include the ability to establish and employ and operating reserve, and be directed at permitting the USPTO to reliably undertake long-term strategies for improvement in a financially reasonable way.

PPAC recommends exploring such financial tools, and providing the USPTO with fiscally responsible access to those mechanisms consistent with improving its operations, such as an operating reserve.

Infrastructure

Background: For some time, the IT infrastructure and attendant hardware and software systems at the USPTO have languished from a resourcing perspective (funding, human capital, upgrades *etc…*) and also suffered from a lack of holistic strategic attention and execution. Over the course of eight years leading up to 2009, funding for the Office Of The Chief Information Officer ("OCIO") as a percentage of the total USPTO budget fell from approximately 21% in 2001 to about 12% of the total spending by the close of 2009. This reduction was the direct result of declining fee revenue, resulting in reduced spending throughout the USPTO.

The USPTO initiated the OCIO "Road Map" plan in 2008 to address the IT infrastructure needs and made the decisive move to fully support that effort with $209.91 million incremental funding over five years. The Road Map initiatives focused on both the "remediation" of existing issues, but also forward-looking strategies for taking the USPTO into the next decade. Despite having a well considered and approved plan in place to effect this much needed remediation, declining fee revenues hampered progress on many aspects of the Road Map. In FY 2009, the OCIO took a $66M reduction in funding *vis-à-vis* planned levels. To put this in perspective, one of the projects on hold was the Fire Suppression Upgrade in the Data Center putting the USPTO at risk that any fire regardless of scale (or even a false alarm) might render its Data Center completely inoperable, since the current fire suppression system is a water sprinkler system. Clearly this is not a sustainable situation – especially for an organization straining under legacy funding shortfalls. It is important to note that although it faced significant resource challenges, the OCIO was still able to make significant progress against its principal objectives.

PPAC is pleased to see that the USPTO recently began to roll out a fundamental architecture revisit of its IT infrastructure and brought in a Chief IT Strategy Officer to help guide this process. This process promises to replace the current architecture with a platform that can sustain and extend operations and capabilities well beyond what the current systems could support.

Summary Recommendations: PPAC recommends that any budget formulated for the USPTO contain sufficient incremental funding (or direct appropriation) for the USPTO to execute against the Road Map at its original five-year pace and pursue with all speed its new initiatives to re-architect the broader IT infrastructure. PPAC also recommends that the OCIO continue to explore and implement new technologies and business models in search of efficiencies and productivity gains e.g. external hosting and no-cost contracting.

Process Efficiencies & Effectiveness

Since its 2008 Annual Report, PPAC recognized the need for a process improvement at the USPTO and supported the USPTO's creation of the Chief Performance Improvement Office (CPIO). This need is only highlighted and amplified by the USPTO's recent announcement that it plans to achieve 3% year-over-year efficiency gains in its operations, and its recent Pendency objectives. Certainly, rigorous and empirically-based process improvement will play a pivotal role in achieving and sustaining these performance improvements.

The current situation has dictated a need, but also created the opportunity for the USPTO to explore and implement new business practices and models for achieving its goals e.g. no-cost contracts, external collaboration, outsourcing, *etc…* to either complement and/or supplant internal efforts. PPAC also

encourages the USPTO to continue to develop objective measures and metrics to support and inform execution against these objectives, as well as progress against them.

Summary Recommendations: PPAC continues to believe that the USPTO must continue to elevate the effectiveness of its programs by implementing systematic and standardized evaluations in a consistent and proactive manner. To that end, PPAC makes the following specific recommendations:

- Take action to fill the permanent CPIO position and associated staff positions with highly qualified individuals as soon as possible.
- Press forward with full and effective deployment of the USPTO Strategic Management Process ("SMP") – facilitated by the CPIO – as a disciplined, fact-based process to drive sustained performance improvement through clear ownership and accountability coupled with effective decision-making and priority-setting.
- The PPAC encourages business process re-invention and experimentation by the USPTO in exploring new models, practices, capabilities and resources for achieving superior outcomes e.g. no-cost contracting, and improved "experimental design" for testing ideas and piloting new programs.

Quality:

It is critically important to patent applicants and the public that patents granted by the USPTO be of the highest quality and that decisions to allow or deny applications be conducted expeditiously. Although other measures of quality may prevail outside the USPTO, Quality is being defined for this purpose in terms of the likelihood that granted patents are of the proper scope, provide clear public notice, are likely to be upheld as valid by courts, and that those claims denied patent protection are affirmed on appeal – reducing both the issuance of invalid claims, and the rejection of valid claims.

The USPTO, in conjunction with the PPAC, is currently engaged in a data-driven Quality initiative to identify the measure and metrics of Quality that the USPTO can use internally, and its external constituencies can also use as objective indicia of quality.

PPAC recommends continued support of this Quality initiative, and the collaboration with PPAC in establishing objective measures that can be used to improve both the process and product of patent prosecution. In recognition to the interrelation of Quality and Pendency, however, PPAC cautions that improving patent quality in a manner that leads to increased application pendency is not a satisfactory solution.

Pendency

Patent applicants need to know as soon as possible whether their applications for a patent will be granted in order to make investment and product commercialization plans. Currently, average total pendency hovers over 34 months and pendency to first action on the merits ("FAOM") only slightly lower at just over 27 months. Pendency on that order has the potential to seriously diminish the value of patent protection itself, or in the worst case render patent protection meaningless. PPAC is pleased that Secretary Locke and Under Secretary Kappos have trained their sights on pendency. With what PPAC hopes is the first in a series of pendency objectives, the USPTO is targeting ten month pendency to first action on the merits (2014), and twenty months total pendency (2015), as well as shrinking the overall backlog currently at approximately 700,000 applications. In addition, there has been a substantial increase in requests for continuing

Judiciary Committee Hearing On The United States Patent & Trademark Office – Continued
Damon C. Matteo: Chairman, PPAC

examination (refiling of applications under 35 U.S.C. §120) and PPAC understands that this will be among the future Pendency phenomenon monitored and addressed by the USPTO.

PPAC supports and applauds these Pendency goals articulated by both the Department Of Commerce and the USPTO. These are significant and positive goals and will require substantial evaluation and modification of the current process. Further and again, PPAC urges Congress to provide the USPTO with ample funding (and authority) to ensure these goals are accomplished.

Closing Remarks

As I mentioned in my opening remarks, now is a pivotal time for the US Patent & Trademark Office. It faces many significant challenges, but is also poised to make significant progress against them. In our short time together, I've done my best to outline both the challenges and the requisites for success in meeting them from a PPAC perspective. I speak for all of PPAC in telling you that we stand ready to work with the USPTO, Congress and other institutions in any way that we can to help realize the goals of the USPTO and in service of the US innovation economy which we serve.

In closing, on behalf of myself and the entire Patent Public Advisory Committee, I would again like to express my appreciation for your kind attention to these important issues relating to the US Patent & Trademark Office. I would be delighted to answer any questions you might have, either now or in the future.

Thank you, once again!

Damon C. Matteo
Chairman
Patent Public Advisory Committee
United States Patent & Trademark Office

Note: For additional detail on these and other topics relevant to the USPTO, please see the Patent Public Advisory Committee's 2009 Annual Report, which may be found at:
http://www.uspto.gov/about/advisory/ppac/ppac_2009annualrpt.pdf

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Mr. CONYERS. Attorney James Johnson manages the international enforcement of the trademark and copyrights of many of the most famous and valuable brands. And this includes filing oppositions and lawsuits to protect valuable intellectual property rights. He also focuses on unfair competition and domain name disputes.

And so we are happy to have you here as our final witness, sir.

TESTIMONY OF JAMES H. JOHNSON, BOARD MEMBER, TRADEMARK PUBLIC ADVISORY COMMITTEE, SOUTHERLAND ASBILL & BRENNAN, LLP

Mr. JOHNSON. Good morning, Mr. Chairman and Members of the Committee.

My name is Jim Johnson. I am with the Atlanta office of Sutherland Asbill & Brennan. I am here today representing the Trademark Public Advisory Committee.

My entire professional life has been committed to trademarks. I started out working in the trademark office as an examiner, then as trademark counsel for Kellogg's, then Coca-Cola, and now with Sutherland Asbill & Brennan.

I want to thank you for this opportunity to speak with the Committee and to share the concerns of the trademark community with the trademark office operations. As you, Mr. Chairman, correctly noted at the beginning of this hearing, the intellectual property protects and promotes the economic engine that this—that runs this country, and the founding fathers recognized the importance of intellectual property from the very beginning.

Our job is to, therefore, protect and nurture this system so that it can continue to protect and nurture this great economic country.

I want to talk about the breach of the fence. As you know, there is a law that prevents the use of trademark dollars for patent matters. Recently, due to the economic crisis, the patent office got the authorization to borrow up to $70 million until June 30, 2010, to use for patent matters.

The director has assured us that, based on current projections, such borrowing won't be necessary, but our plea to you and plea to the Committee from the TPAC is: Keep the fence intact now and forever.

We have had ample discussions on the issue of fee diversions. And we agree and we are pleased to note that the Committee supports the view that fee diversion is very bad for the patent and trademark system.

A couple other issues I would like to bring to your attention. One is the unauthorized practice of trademark law before the office. We are hearing anecdotal reports from examiners and from other PTO officials that there are parties that are representing others before the trademark office when they are not authorized to do so. In other words, they are not lawyers.

We are in process of assessing how big this situation is, and we will address it when we figure that out. But potentially the problem is that parties who don't know how to handle applications and things for parties are going to take unnecessary resources from the office. And as Abraham Lincoln said, when you represent yourself—even a lawyer who represents himself will have a fool for a client.

We also want to take this opportunity to issue kudos to the trademark operation and the director. The trademark office has performed in an outstanding manner in a very difficult economic environment. They have created a surplus even when filings were down.

We also applaud the director's decision to maintain pendency at 2½ months to 3½ months from the filing of the application.

To put matters in perspective, when I was an examiner back when there were 13 colonies, it often took a year from the time an application was filed to when an examiner first looked at it. So to be at 2½ months is a tremendous accomplishment. I don't want to suggest that the office got better once I left, but those are the facts.

We also would like to note that the trademark manual of examining procedure—it is the manual in which the examiners and the outside public relies—needs to be updated more often and continually, so for the obvious reason that you need a good resource material review.

We have also heard talk about the funding for the new computer system, and that has to occur in that—and everyone seems to be in agreement on that issue.

The Trademark Trial and Appeal Board is also working well, and the only issues we note there is, their manual of examining procedure needs to be updated continually, and we understand that they are working toward that.

The chairman of the Trademark Trial and Appeal Board needs to be finally appointed. We have had acting chairmen since October of last year. And we need a better structure there, so to whatever you can do to promote that or make that happen, that would be good.

And finally—and we would note that TPAC needs to be restructured. And we have outlined in detail the—in written materials what has to happen, but what we have now is the terms aren't aligned properly, so you have gaps in membership.

And the chairman of the TPAC comes from outside of the Committee, so he has a large transition period. He also doesn't need to be chairman for 3 years, because the job of chairman is tremendously demanding, so we need to have a more appropriate succession plan.

So thank you again for this opportunity to speak to the Committee. We are very pleased with trademark operations, Lynne Beresford and her management staff, Debbie Cohn and Sharon Marsh, have done a tremendous job, and under the leadership of Director Kappos, so we are very happy, we are very proud, and we just need a few things to work on.

Thank you again.

[The prepared statement of Mr. Johnson follows:]

THE COMMITTEE ON THE JUDICIARY
MAY 5, 2010, HEARING

PRESENTED BY JAMES H. JOHNSON
INTELLECTUAL PROPERTY COUNSEL
SUTHERLAND ASBILL & BRENNAN LLP
ON BEHALF OF THE TRADEMARK
PUBLIC ADVISORY COMMITTEE

CONCERNS AND COMMENTS BY THE TRADEMARK PUBLIC ADVISORY COMMITTEE

OVERVIEW OF TOPICS

- Breach of the Trademark Fence
- Unintentional Fee Diversion from the USPTO
- Unauthorized Practice of Trademark Law
- Kudos to the Trademark Operation and its Director
- Funding for New Computer Systems for the Trademark Operation
- Update on the Trademark Trial and Appeal Board's Performance
- Necessary Structural Reform for the Trademark Public Advisory Committee

I. Breach of the Trademark Fence:

a. Background: The Trademark Fence is a statutory provision that states that trademark fees will only be used to pay for the Trademark Operation and its proportionate share of USPTO overhead.
b. Issue: Former leadership of the USPTO pushed a new law to pass where the Patent Operation could borrow up to $70 million from the Trademark Operation, with the borrowing authority remaining open until June 30, 2010.
c. TPAC Thoughts: TPAC feels that this decision was handled poorly by the former leadership at the USPTO because it waited until other financial rescue options became unavailable before pushing for this loan authority. However, TPAC has been pleased with statements and actions made by the new USPTO Director, David J. Kappos, which indicate that the USPTO has secured enough cost savings to help the Patent Operation through the recession without having to borrow from the Trademark Operation, implement furloughs, or layoff of any Patent Operation personnel. This is based on current financial reports, however, and if the economy performs worse than expected, trademark funds might be borrowed rather than used for the purpose for which they were paid.

II. Unintentional Fee Diversion from the USPTO:

a. Background/Issue: If the USPTO receives more in fee payments than forecasted and consequentially appropriated to the USPTO, the excess is currently diverted to the Treasury unless affirmative action is taken to grant those funds to the USPTO.

b. TPAC Thoughts: TPAC feels that Congress currently expects the USPTO to look to its own financial resources to solve its financial problems before relief will be provided from other governmental sources. With this in mind, TPAC feels that fee diversion should cease so that the USPTO automatically receives and keeps every dollar paid in fees.

III. Unauthorized Practice of Trademark Law:

a. Issue: We have received anecdotal reports that the unauthorized practice of law in trademark matters and filings before the Office may be a problem.
b. TPAC Thoughts: TPAC and members of the IP community feel that the unauthorized practice of trademark law should be assessed and then addressed immediately to protect applicants from poor legal advice to the extent possible. Also, poorly drafted and prosecuted applications affect the efficiencies of the Office.

IV. Kudos to the Trademark Operation and its Director:

a. TPAC Thoughts: The Trademark Operation continues its excellent performance despite the recession. The average pendency of trademark filings is low, and the quality is high. The Trademark Operation managed to increase its surplus through prudent financial management even though trademark filings were down more than patent filings. Furthermore, the Trademark Operation has been receptive to TPAC's and the trademark community's suggestions for improvement. We feel that we have an administration that is striving to serve our needs
b. Specifics:
    i. TPAC is pleased with the decision made by Mr. Kappos to restore the goal for the Trademark Operation's first-action pendency to 2.5-3.5 months.
    ii. The Trademark Operation's total average pendency is also down. TPAC believes that with better electronic processes, it can decrease even more. For example, TPAC advocates moving to electronic records of a trademark's registration with an option for the registrant to obtain a paper registration certificate. TPAC also hopes that the Trademark Operation will be able to process applications electronically from application to issuance. These improvements would increase productivity and conserve resources without the need for a staff increase.
    iii. TPAC approves of the new registration certificates and the option to receive notices of publication via email as effective resource conservation methods.

    iv. TPAC feels that the Trademark Manual of Examining Procedure ("TMEP") should be updated at least annually, if not continually. The Trademark Operation agrees and is planning on updating it more frequently.

V. Funding for New Computer Systems for the Trademark Operation:

a. Background: TPAC recognizes that the USPTO still needs to update and correct its poor computer systems in order for the Trademark Operation to be able to implement all suggestions for improvement.
b. TPAC Thoughts: TPAC applauds the decision to use the Trademark Operation's surplus to create a separate, new computer infrastructure for the Trademark Operation. Specifically, TPAC feels that the USPTO should embrace "cloud computing" technology as part of its efforts to revamp the Trademark IT system. TPAC and members of the IP community believe that with proper IT systems in place, the Trademark Operation's productivity will be greatly increased as well as applicant satisfaction.

VI. Update on the Trademark Trial and Appeal Board's Performance:

a. Background: TPAC was previously concerned about the pendency times for matters before the Trademark Trial and Appeal Board ("TTAB").
b. TPAC Thoughts: TPAC is pleased with the improvement in the TTAB's pendency times. While the improvement may be due in part to the recession's effects on trademark proceedings generally, TPAC recognizes the TTAB's efforts to improve productivity and is hopeful that it will be able to maintain this pace when the recession's effects subside. Additionally, because opposition and cancellation proceedings are slow by design, TPAC is considering whether a "fast track" system should be implemented for these types of proceedings.
c. The Trademark Trial and Appeal Board Manual of Procedure (TBMP) similarly needs to be updated annually, if not continually. We understand that the TTAB is working towards this end.

VII. Necessary Structural Reform for the TPAC:

a. Background: TPAC is currently structured in an inefficient way which must be remedied through legislation.
    i. Currently, there are no common end dates for TPAC terms. The end dates fall at various times of the year—June, October, and December. This creates problems. TPAC is organized around the federal fiscal year. It creates hardships when TPAC membership changes during the course of the fiscal year or in the 60-day period afterward during which TPAC must create and submit its annual report.
    ii. The TPAC chair currently sits for three years and may be chosen from outside of TPAC's membership.
b. TPAC Thoughts:
    i. TPAC should be reformed to avoid gaps between terms of members and to allow for efficiency in creating the annual report. TPAC recommends that appointments be based around the calendar year because this will unify terms and avoid gaps. It also coincides with the work load required by the annual report.

ii. TPAC also recommends shortening the length of the TPAC chair's term because the term is too long for a job which requires so much work. Furthermore, the chair should not be selected from outside of TPAC's membership because an unproven, new chair may not work as hard or as well at the job.

iii. To address the issues of gaps in terms and reducing the chair's workload, TPAC recommends increasing membership to eleven members - nine regular members and two officers. The officers would be the secretary/chair-elect and the chair. Each year, the secretary would appoint three new members to three-year terms on the TPAC. Both the secretary and the chair would serve one-year terms. Once the chair's term has ended, the secretary would automatically be appointed as the chair. The new secretary would then be drawn from one of the three TPAC members finishing the third year of their terms. This would allow the secretary and chair to serve one-year terms with an easy chain of command in place to keep things running smoothly. However, TPAC notes that election outside of the TPAC for the secretary and chair positions should be allowed in order to preserve flexibility should extenuating circumstances arise that require it. Furthermore, if an individual is unable to complete his or her three-year term, whomever is appointed as the replacement should be appointed for the balance of the original member's term to keep things on schedule. The legislation should also require that terms last for the appointed amount of time or until a replacement can be found to avoid gaps in membership.

VIII. Questions.

LINKS:

You can find James Johnson's bio at:
http://www.sutherland.com/lawyers/results.aspx?LastName=johnson&FirstName=james&Keyword=Keyword&=&FromSearchPage=lawyers

Trademark Public Advisory Committee:

http://www.uspto.gov/about/advisory/tpac/index.jsp

Mr. CONYERS. Thank you all for opening us up to some of the nuance that goes on.

Mr. Kappos, can you make Attorney Johnson feel more comfortable about all these people practicing without a license before you? Have you heard about that before?

Mr. KAPPOS. Yes, I have, Chairman Conyers. Thank you for that question. And as Mr. Johnson pointed out, we are looking into that now. The issue was first raised, in fact, by trademark office examiners, and so we are working with the TPAC to look into that issue now and do the fact-finding that we need in order to determine what actions need to be taken.

Mr. CONYERS. Mr. Budens, I notice nobody else mentioned much about the concerns that you listed. I think there were five or six of them maybe. Is there any friendly advice you want to share with your other three witnesses this morning while we are all in the room together?

Mr. BUDENS. Other than they should always listen to POPA, because, you know, we are in the trenches right there, I think some of our concerns are unique to the association, because we are internal to the agency, we are dealing with the day-to-day work of the agency.

But I think some of our concerns also look to the outside. Now, I don't—for example, our concerns with the post-grant review process proposed in the patent reform legislation. I have a rather simplistic view of it, Mr. Chairman. I don't have the business acumen of my colleagues here on the panel.

But it seems in the 20 years that I have been looking at patent examination and, you know, patents working their way through the system, it seems that, no matter what happens, if a patent—we issue about 150,000-plus patents a year. Only a handful of them ever get into litigation and get real serious.

But it seems to me, you know, patents that are important go through the process. If one party somewhere determines that there is some serious money at stake here, that patent is going to make its way into the courts and through the litigation process one way or the other.

And what I see as that, when there is serious money at stake, the losing party isn't going to stop, you know, because the patent office said no in a re-exam or says no in a post-grant opposition. They are going to go onto the next level of the appeal process and continue on.

So my view of post-grant opposition right now, my concerns with it, is that it will simply interject another level or step of litigation that will prolong the uncertainty, the period of uncertainty of that patent, and will increase the expense of the patent holder of maintaining that patent.

And I think ultimately in the long term I am concerned that that will weaken the system and, you know, perhaps make our innovators think of other possibilities or other directions to protect their intellectual property. That is a serious concern that I think we have.

I am also concerned that it will—there has been some talk about being able to accomplish this in, you know, a 1-year period. I have not seen us actually accomplish too many things in a 1-year period before, so I am a little concerned that that will happen. And if it

does happen, I am worried that it will come at the expense of initial examination.

And I am a firm believer that the job we do is important, and we really need to be doing the job right the first time, when an examiner picks up the case and do a quality examination, and put the strength in the patent, you know, up front, and that, I believe, will in the long term, you know, diminish litigation and create a stronger patent system.

Mr. CONYERS. Mr. Matteo, do you think standalone legislation may be our final resort, if we can't really reach agreement? And do you have any hopes or fears about such legislation?

Mr. MATTEO. I am sorry, Chairman Conyers. Do you mean with respect to post-grant opposition?

Mr. CONYERS. No, I mean with respect—if we can't work out a patent bill, that we just write a single bill continuing the patent office and giving them the power and the money and the authority that they need to keep going on.

Mr. MATTEO. Extension of status quo, in other words? I think my initial reaction to that is, once you take the pressure off, you are much less likely to get an end result that I think we are all hoping to achieve on a number of fronts, fee diversion, for example. So I would—while it may be an expedient solution, I suspect that having done so would probably, again, relieve the pressure and keep us from ultimately getting where we want to go.

Ms. LOFGREN. Would the gentlemen yield? I want to make sure I understand. I didn't understand your comment that it would take the pressure off on fee diversion, because the idea is to end fee diversion, was what the Chairman is proposing. Did I understand your comment?

Mr. MATTEO. No, I actually I believe I must have misunderstood the question.

Ms. LOFGREN. I see.

Mr. MATTEO. I wasn't aware that it was relevant to fee diversion. If the question is, in the absence of being able to pass the patent bill in aggregate, would a standalone bill vis-a-vis fee diversion be something palatable? Then the answer is an unequivocal yes.

Ms. LOFGREN. Thank you.

Mr. MATTEO. Sorry if I misunderstood the question.

Mr. CONYERS. David Kappos, what say you?

Mr. KAPPOS. Well, thank you, Mr. Chairman. So, relative to keeping the bill together versus taking a fee setting and other issues, I think that we have a heritage opportunity here on the part of the intellectual property system overall to pass legislation that is generations in the making and that is badly needed.

And I think we should take advantage of that opportunity and press on and get comprehensive patent reform done that includes all of the changes needed for the PTO, including fee-setting authority and the others, but also all the other important changes that will move the U.S. patent system back to the gold standard of patent systems and will advantage U.S. innovators for many, many years, and hopefully generations to come.

So I applaud the work that the House has done, the leadership the House has taken in getting the bill to where it is now. And the Administration would like to continue to support the House and

the Senate in moving this legislation to completion, comprehensive patent reform legislation.

Mr. CONYERS. But we are in this period of intransigence. We are intransigent now. We seem to be stuck. Someone asked me where we are since we met with you and the secretary. And I said, quite frankly, I don't know.

But at least you come to the table optimistic. That is a good sign. Well, I will match my optimism with your optimism, we still are stuck. I don't know what is the holdup.

Ms. LOFGREN. Would the gentleman yield? And I appreciate our colleagues on the other side of the aisle for indulging me, but are you saying, Mr. Kappos, that if our diligent efforts to do a comprehensive bill falls short—and I have been working on this since 1995, along with the Chairman—that no thanks to the fee-setting increase? You would rather not have that and the end of diversion?

Mr. KAPPOS. Yes, my view is that we can get this legislation done.

Ms. LOFGREN. Yes, but if you are wrong—you are not a legislator. Mr. Conyers has been here a number of decades that I have learned to respect and admire his legislative savvy. You are saying no thanks to fee authority?

Mr. KAPPOS. I would like to continue to work with this Committee and with both houses of Congress to get complete, comprehensive——

Ms. LOFGREN. No, we got that. And if that fails, you don't want the ability to set fees? Is that what you are saying?

Mr. KAPPOS. I truly think it would be preliminary for me to make a comment on that now.

Ms. LOFGREN. I think that is stunningly disappointing that you would rather not have the money, but certainly the advocacy groups, the patent holders, and the technology sector feels quite differently.

Mr. CONYERS. Well, you tried, Lofgren. [Laughter.]

We will now—let's see if Trent Franks can do any better.

Mr. FRANKS. Now the Chairman is being optimistic.

I think all of us understand that one of the great elements of America is this idea of free enterprise and someone launching out to do something that they think can not only serve their fellow human beings, but also serve themselves and their families. And I want you to know, as it happens, I am a patent-holder, and so I understand that dream.

And I believe that there is a tremendous advantage to our system in that, if there is anything that seems to be the product, the outcome of our system, it is this word "innovation." And I think it is almost impossible to overemphasize the importance of innovation.

I mean, it is—in every area of human endeavor, it seems like innovation is a really big deal. And so I—like all of you—want to do everything that we can to maintain and protect that process.

And it seems like one of the great challenges, Director Kappos—and this is not a criticism, it is just an observation—is that it takes—the time that a person has to spend gaining the patent, through the process application and then, of course, the pending

application, is one of the big challenges. It is one of the big backlogs.

And I would think that, in a sense, that could spell an equation where government is standing in the way of innovation, and that is, you know, a significant impact on our economy and our jobs and a great deal of things. That seems to me, you know, that could be or should be one of our number-one priorities, is to get rid of the backlog.

But there is a concern I have about patent legislation pending in the House. It is H.R. 1260. It seems to me like it could worsen that issue rather than improve it. It could make the process more complex and more cumbersome.

In fact, the Manufacturing Alliance for Patent Policy released a study by Dr. Scott Shane of Case Western University. And Dr. Shane found that the House patent bill, according—you know, this is his opinion, his conclusions—would result in a reduction in U.S. patent value of around $85 billion.

Now, again, we will have to see how time underscores his conclusion. He also concluded that a reduction in the value of U.S. public companies by as much as $225 billion, a reduction in R&D of up to $66 billion, and as many as—nearly 300,000 manufacturing jobs would be put at risk.

Now, I guess my question to you, Director Kappos, how do you respond to these findings? What are your conclusions? And what specific problems do you have with the House version of the patent reform, as it is at this moment?

Mr. KAPPOS. Okay, well, thank you for that question, Congressman Franks. So I recall having seen that study; it has been months, though. So I will give you general responses.

My view, I completely agree that the backlog is a major, if not the major problem that faces the agency. And every one of those 700,000-plus applications that is sitting in our agency is potentially tens, hundreds or even thousands, probably, in some cases of jobs that aren't being created, products and services that aren't going on the marketplace.

And so fixing the backlog, if you will, addressing the backlog is clearly job one. I believe that if we can take the backlog from where it is—over 700,000 applications—to its optimal level, which is somewhere a little bit over 300,000 applications, which produces a steady workflow through the agency—we will unleash many new innovations into the U.S. economy.

We will improve the U.S. trade balance, because there are so many innovations that come from Americans. We will help put Americans to work. We will help make Americans more healthy. We will help save American lives. There is all upside in it.

I see absolutely no risk of doing damage to our economy. In fact, we will do enormous net benefit to our economy.

Mr. FRANKS. Well, thank you.

Mr. Chairman, I will just ask one more question, and I will yield back here. The post-grant review system envisioned in H.R. 1260 is very different than the current vision in the Senate compromise bill, S. 515. In fact, as I understand it, the differences are so profound that some former opponents of the patent reform bill have

now been able to embrace S. 515, since it seems to largely satisfy at least their primary concerns.

So, Director Kappos, I will direct a question to you again. Do you recognize these differences? Can you give us a little analysis of some of those differences? And do you prefer the version now being put forward by Senators Leahy and Sessions over the one that is before the House?

Mr. KAPPOS. Okay. Well, thank you very much for that question about post-grant.

So, yes, there are some differences between Senate 515 and the House version of the legislation. The differences come in several places, including the threshold that it takes to get into post-grant challenge, the level of later estoppel that is given, once a post-grant challenge is completed, some of the time limits that are involved. There are a number of differences.

The USPTO in its technical advisory capacity is trying to support your team here on—the staff on the Judiciary Committee to work with their counterparts in the Senate in order to bridge those gaps and make the compromises that are needed in order to address the issues of parts of the innovation community that still need to be accounted for.

Mr. FRANKS. Well, thank you, Mr. Chairman.

I guess, Mr. Chairman, I would just suggest that this process, this patent process that is essentially wedded to one of the most unique essences of America, I think, is vitally important to our society, and I don't ever want to diminish the incalculable complexity of the job that Director Kappos has to deal with.

And I am hoping that there will be an effort to pull everyone together on this thing, because while I have emphasized the need and the importance of protecting the integrity and the value of patents because of all the reasons I have just stated, I have to believe that there is somehow a way for industry to come together on this one. And it is vital that we do, rather than just try to cram a square peg in a round hole, as it were.

And so I guess that would be my thought on it. I understand Mr. Issa has come into the room. It seems he and I are the only two people in the Congress that have patents. He has around 30; I have only 2. But mine are a lot, lot better than his. [Laughter.]

And so I just wanted to go ahead and leave that on the record and yield back.

Mr. CONYERS. Well, that is a modest statement if I ever heard one.

Magistrate Hank Johnson?

Ms. LOFGREN. Mr. Chairman?

Mr. CONYERS. Wait, excuse me. Zoe Lofgren, excuse me.

Ms. LOFGREN. I appreciate being recognized, Mr. Chairman. I do have to run off and chair the California Democratic delegation meeting.

But before I do, I just want to explore two quick items. One has to do with the possibility of satellite offices and how that might help. And we had an office that really—it was a virtual office, and it is not really what I think we have in mind on this.

And I understand that the professional association—disabuse me if I am wrong—wants to be reassured as to amenities and workspace and the like for patent examiners. And I think that is legit.

But I am wondering if, as we move forward, it would be possible to invite the professional association or key people out to San Jose to take a look at my district, and I think you will love what you see. I mean, people love living in San Jose. You know, it is the weather, it is the technology, it is everything. And I think that we could reassure you tremendously if as we move forward we were able to do that kind of trip.

So is it fair to ask you in public whether you would be willing to do it?

Mr. BUDENS. I have no problems with that, Congresswoman Lofgren. I actually suspect that the concerns of whether people would want to go to a satellite office in San Jose are probably limited.

I think we would have very limited getting people to volunteer to go back west of the Mississippi, including possibly myself. I am from west of the Mississippi.

Ms. LOFGREN. I would welcome a new constituent.

Mr. BUDENS. And so I don't think that is—I actually honestly don't think that is as big a concern. I think more of a concern to us would be, you know, from an association point of view, are they going to have similar office space, similar computer space, amenities and stuff?

And is distance going to affect our I.T. infrastructure and, frankly, how do we—some of our major concerns are going to be representational. How do we represent somebody foreign? Not foreign, but away from—foreign to Washington.

Ms. LOFGREN. Some in the valley might say that is good, but——

Mr. BUDENS. We haven't had to do that before, so for us, it is a growing pain.

Ms. LOFGREN. Right.

Mr. BUDENS. I intend to actually—I have intentions of consulting with some of our other labor leaders in Commerce who have, you know, nationwide situations, to get some of the fees for that. But I think your concern is actually probably not nearly as grave as it needs to be. I think we will probably have little problem finding people willing to go—you know, move back out west.

Ms. LOFGREN. Thank you very much. And that is good to know. And we will keep in touch on that.

The second question—and I will throw it out to whoever wants to answer—obviously, you know, we have been trying to do legislative fixes to various elements of patent law. And as we have, the courts have moved ahead, I mean, with the eBay case.

I mean, you know, we were told it would be the end of the world if we did anything with injunctive relief, and the world did not end. You know, it is fascinating.

We have the Bilski case coming up, and we don't know what the court is going to decide, but, you know, you listen to the arguments, you have some ideas. And, of course, they could surprise us. It is going to be soon.

It is possible—or is it possible, I guess is the question—that Bilski will be clear enough that will make adjudication of patent

applications simpler and relieve the burden going forward on the office. Who wants to answer that, or no one?

Mr. Kappos?

Mr. KAPPOS. Thank you, Congresswoman Lofgren. So without speculating about the Supreme Court's decision in the Bilski case, I think it is quite possible that it could be very helpful to clarifying standards to—for the first time in many years—providing direction to the USPTO and to the entire Federal court system underneath the Supreme Court that will enable us to put new, strong, clear guidelines in place for our examiners to do a really solid job of examining patent applications relative to statutory subject matter and the courts to give us guidance and to take a lot of tension out of what has developed into stated law that has become difficult to navigate over time.

Ms. LOFGREN. Right.

Well, Mr. Chairman, I am going to yield back because of my other obligation, but I want to thank you again for this excellent hearing, and I look forward to working with you, trying to get resources into the office, and I am sure that will be a bipartisan effort.

Mr. CONYERS. Darrell Issa, top patent-holder in the Congress, is recognized.

Mr. ISSA. Thank you, Mr. Chairman.

And what would make the gentlelady from San Jose presume that San Diego wouldn't work equally hard and prevail? After all, we do have beach volleyball, better fresh air, stunning views, and a lower cost of living, and, of course, Telecom Gulch is in San Diego. So do what you want. We are united on movement west. But after west, it could be southwest.

And may the gentlelady give my regards to our colleagues.

Now, onto less serious matters, look, getting a West Coast opportunity for us to get the best and the brightest to help with our side of the problem, to me, is essential. If you are in telecom, if you are in some of the new health sciences, or if you are in, if you will, just high tech in general—now that the gentlelady has left, I could say Silicon Valley; I just couldn't say it with her in the room—it is very clear that it is awful hard to get people to move back, particularly if they are in a senior status, if they end up commuting, and I see them on the aircraft coming back, working the week in Washington and heading back, or telecommuting.

But either way, it is less than it would be if we could have an office. And I think certainly for professionals, if this is a choice between being forced to work out of one's home only or be in Washington, that doesn't really give them the opportunity to work in a collaborative fashion.

And this Committee has held numerous hearings on the idea of telework. And I would say to Mr. Budens, you already have a problem of people who are seldom in Washington that you oversee their well-being, and they do come on our video screens and show us that they are in their flip-flops, and they seem quite comfortable with their basements. So we think we can do that.

I have a couple of questions that are only sort of tangentially on task for today, but, Mr. Kappos, we don't get you very often, so I am going to take full advantage.

For three—really, into the fourth Congress, I have been trying to get patent pilot, as we call it, the patent reform education act, if you will, through. It has left the House repeatedly. It died in the Senate with no opposition.

It finally found opposition, which apparently it costs money to have judges and clerks be better at prosecuting patents, even though it is only a few million dollars.

I want to approach one thing for the PTO. If the training element of providing judges who decide to specialize or who, in fact, simply are going to be facing cases, if their ability to get up to speed on patents, both old law and hopefully new law, if within our fee setting of your fees we were able to set a fee and earmark it, that you were able to collect against either new patents or reexams or all of your other renewals, would that be acceptable to you?

And I ask this because, as you know, I have been out to your facility. I realize you have foreign dignitaries coming through all the time for various trainings that—and I found it incongruous that we train people from outside the country, but not our own judges to any great extent. Would that be something that you would be interested if the funds were provided?

Mr. KAPPOS. Well, thank you for that question, Congressman Issa. And I will answer it in just a second.

I would start by saying, as a California native who was in both San Diego and the Bay Area, as well as Los Angeles——

Mr. ISSA. You know the desirability of San Diego.

Mr. KAPPOS. That is right. As recently as last week, I could tell you that all three of those areas would be wonderful places to have West Coast operations for the PTO, not the least of which is my home area of the Los Angeles area, in addition to the two that have already been mentioned.

Now, relative to the question——

Mr. ISSA. Oh, do you have a particular part of Los Angeles? We don't want to just say "Los Angeles," because that lets you get a pass on too much. Are we talking about the valley? Are we talking about Simi Valley?

Mr. KAPPOS. We are talking about Orange County.

Mr. ISSA. Orange County, okay. You know, that is a whole different group. You have now alienated all the Los Angeles downtown. [Laughter.]

Please.

Mr. KAPPOS. So relative to training judges, the USPTO would be very supportive of taking a role in training judges. As you point out, we have a wonderful facility, truly state-of-the-art. We do train a lot of overseas judges, as well as patent office officials. We think we can play a valuable role.

We do not think that it is extraordinarily expensive. You know, the space is already there, and it is already completely outfitted. And without talking about details or dollars, from a principle base level, I would have no issue with working out a mechanism for funding that kind of training.

I think it is absolutely the right thing to do for our country. It is absolutely the right thing to do for our Federal judges, mag-

istrates, and all others who are involved in the intellectual property system.

Mr. ISSA. Excellent. The second one is one near and dear to my heart, which is this new problem we have of false marking. As you know, coming out of what is yet not a final decision, but a three-judge panel of the Fed circuit, we have a broad decision that essentially everyone has standing to claim that a patent is either false marketing because it doesn't apply to the product it is on, or that it has expired and thus deceptive, and hundreds and hundreds of cases have been brought strictly on that one part.

I think there is approaching 100 just in the Chairman's area of Michigan. You have a specialist in your area, Mr. Chairman.

Those cases, obviously, have a cost. Hundreds of cases have a cost to the court. And yet we have an oddity, and I would like you to comment on it. That is that the "revenue that might be received by the Federal Government as a portion of these false marketing claims is calculated as a loss if we eliminate those cases," even though it is not yet a final decision, but the cost to the court for having hundreds of cases is not counted.

Can you reconcile how we would bring that, just knowing what patent cases are like in the courts? And I know it is outside your jurisdiction a little bit, but maybe you can understand what I can't understand, why there is a PAYGO problem there.

Mr. KAPPOS. Well, thanks for that question, Congressman. I would be happy to comment on it, both from my role advising the Administration, but also, you know, generally knowing how the industry works.

But, first of all, there is a cottage industry that has rapidly developed around false marking suits. The last I knew, there were well over 100 filed, all in, of course, Federal district courts, to my knowledge, anyway.

And the cost related to those in terms of the administration of justice on the court system is going to be high. You are talking about, you know, Federal lawsuits.

The cost to the litigants on both sides, both especially the parties who are being sued on this, you know, sort of brand-new area of the law, frankly, windfall area of the law could be expected to be very high. It costs at least in the hundreds of thousands of dollars, if not into the millions of dollars, to defend patent-related suits. And given the possible damages, I would expect that those who are sued would have to mount pretty significant defenses.

And the other thing that to me is very speculative right now is the availability of awards, because there has been very little jurisprudence developed in this area, essentially one case that sort of caused this cottage industry to form.

So, unfortunately, I can't reconcile, you know, how there could be a PAYGO kind of a problem right now. I think there is tremendous speculation occurring in the area of false marking.

Mr. ISSA. Well, the CBO has scored that there could be $4 million to $12 million of revenue to the Federal Government, could be kind of a guess, but they defend that, as well they should, that they were asked to guess, they guessed.

A hundred cases defended—let's say 50 of them defended vigorously. What would you guess that is to the court, not the litigants,

but to the court? Would it be more than $4 million to $12 million on balance?

Mr. KAPPOS. Well, you know, we are both guessing now a bit, but my guess is that it would be somewhere certainly in that range, and that doesn't even count the cost on the side of defending the litigation, that is, you know, deadweight drag.

Mr. ISSA. Okay, so we will assume that our guess on the other side is as good as the CBO's guess.

Lastly, I would like you to comment on the real question. I heard earlier the request for fee setting capability. And in the long run, I actually think that we should transition to that.

But what if this Committee had the legislation and the inclination to allow you to build a true line of credit not from excesses achieved that were unanticipated, but against revenues that are historically inevitable based on your renewals and other fees?

Is there any reason that you could find that that wouldn't be the most logical? Since we lose money on the applicant, and we make money down the road, wouldn't that be the more logical—just I am leading you—but wouldn't that be the more logical thing for us to do, is to allow you to essentially have a line of credit against revenue that is historically predictable?

Mr. KAPPOS. Okay, so thank you for that question, and it really goes to having financial tools available for the USPTO to run its operations in a more businesslike and sustainable fashion. And while we haven't asked for a line of credit, it certainly would be something that we would be happy to work with——

Mr. ISSA. Right, and I use the line of credit. In government, it is not truly that, but it is fee anticipation, I think is the term I have been told to you.

Mr. KAPPOS. Right. So what we have requested is the ability to form a reserve, because one thing we don't have a problem with at the USPTO right now is collecting revenues. We are actually, as I point out, collecting much more than we have the authorization, the appropriation to use this year.

And so if we could have access to those collections, one of the things that we would be doing is forming a reserve, which is sort of the flipside of a line of credit——

Mr. ISSA. Select and retain.

Mr. KAPPOS. Right, to be able to use money that we are collecting this year in the future and build up a buffer so that we can operate the USPTO in a more business-like fashion.

Mr. ISSA. Okay. I want to thank you for that answer, because, Mr. Chairman, I do believe that in the years that we have worked together on eliminating fee diversion, we really haven't done the second part, which is the fee retention of the fee anticipation.

And I do believe that, around the appropriators, it is within our jurisdiction to do those two, recognizing that they may still feel that to use it requires them—but to use it versus to have it seem to be two different things. And if we can make sure that they have it, then I suspect that the appropriates will always allow them to use it for good cause.

And I thank the Chairman. Mr. Chairman, I yield back.

Mr. CONYERS. Thank you, Darrell.

Magistrate Hank Johnson?

Mr. JOHNSON OF GEORGIA. Thank you, Mr. Chairman.

Mr. Kappos, I am concerned about fees, pendency, quality, all of those kinds of issues, and I am also concerned about diversity in the workplace.

I wanted to—and before I do that, I will say that Mr. Johnson and I—if anyone was concerned or alarmed in any way—we are not related. He is much smarter and good-looking than I, but it is good to have you here, sir.

And I am glad to know that you were a former patent examiner, as well. I did not know that.

Mr. JOHNSON. Trademark examiner.

Mr. JOHNSON OF GEORGIA. Hmm?

Mr. JOHNSON. Trademark examiner. I was on the trademark side of the aisle.

Mr. JOHNSON OF GEORGIA. Oh, okay. You are on the trademark side, okay. Kind of right there in the mix, but let me ask Mr. Kappos, I understand that, as part of your recruitment program, you have been reaching out to historically Black colleges and universities. And I certainly want to applaud you for that.

Can you specifically describe those efforts? And in particular, how does the agency reach out to Black colleges and universities or colleges that are designated as Hispanic-serving institutions?

And also, there still remains some work to be done to increase diversity among top-level staff and management in USPTO. What percentage of your GS-13, 14s and 15s, and SCCs—SCSs, I am sorry—are minorities?

Mr. KAPPOS. Okay, well, thanks, Congressman Johnson. That is a great question and something that I feel very, very passionately about, and I will try and answer as many facets as I can.

Obviously, the statistics we will need to supply after the hearing. I don't have those at my fingertips in terms of GS-12s,-13s, et cetera.

So we take diversity extremely seriously at the USPTO in all of its forms. We are, indeed, trying to recruit new examiners, and we are trying to do that with an eye toward diversity.

One way to get to universities that have a high proportion of diverse students is simply to go there and speak there, which I have personally done and personally spent time with students trying to encourage them to come and apply for opportunities at the USPTO.

Relative to the leadership corps, I agree with you that the leadership corps of the USPTO can be more diverse and needs to be more diverse. And the way you get a leadership corps to be more diverse is pipeline. You have to go into the people who are being considered for promotion and being developed into the leadership corps, and that is exactly what we are doing at the USPTO, to try and develop a more diverse pipeline for future promotion into leadership at the PTO.

The last thing I would mention is that we actually have a terrific—in general, the agency has got a terrific track record, including being officially recognized by—as one of the best agencies in the Federal Government relative to diversity and actually inaugurating as many as five new affinity groups during fiscal year 2010.

So just, you know, in the time that Deputy Director Barner and I have been at the USPTO, we have made very definitive steps to move diversity to center stage at the USPTO.

Mr. JOHNSON OF GEORGIA. Thank you, Director Kappos.

In the recent past, there have been some patent examiners who have alleged that there was racial bias by their supervisors in performance evaluations. And, of course, that is crucial to this pipeline effort, which I definitely understand is the way to go with creating more diversity in the workplace.

What are the procedures that the USPTO uses to address such allegations? And has the USPTO ever identified instances of racial bias?

Mr. KAPPOS. Okay, well, thank you for that question. Like other Federal agencies, we have an office of civil rights at the USPTO that we charge with investigating issues regarding racial bias and the like.

We are in the process of recommending or coming into Congress with some recommended reorganizational initiatives that will include making sure that that office of civil rights gains attention at the very top of the USPTO management, and meaning myself and Deputy Director Barner personally taking charge of that office, to ensure that any allegations are handled and are investigated in the most careful and appropriate manner.

So we take diversity, as I said, very, very seriously. We take allegations of bias of any sort, especially race-based bias, extremely seriously. And we are actually literally in the process of coming into Congress with recommendations to make moves that will strengthen our ability to deal with those matters.

Mr. JOHNSON OF GEORGIA. And as I understand it, you are going to be looking at hiring about 1,000 patent examiners over—each year for over a 3-year period. And that creates opportunities—significant opportunities to correct any imbalances that may exist with respect to diversity, and that includes African-Americans, Latinos, women. It includes Asians and what have you.

And so I look forward to seeing the results of your initiatives, which I applaud you for.

Mr.—is it "Budens" or "Budens"?

Mr. BUDENS. "Budens."

Mr. JOHNSON OF GEORGIA. "Budens." Okay, Mr. Budens, what support services does POPA provide employees who feel that they have been discriminated against?

Mr. BUDENS. I thank you.

Mr. JOHNSON OF GEORGIA. And after that, I want you to explain to me how patent examiners are rewarded or incentivized—and I guess I would want to hear from both of you all on that. And also if you could elaborate on your concerns about the transfer of fee-setting power to the agency as opposed to Congress retaining that authority and whether or not perhaps a sunset provision and any relinquishment of our fee-setting authority to the agency would make you fee more comfortable.

Mr. BUDENS. Okay, thank you. That is a handful there.

On the first question——

Mr. JOHNSON OF GEORGIA. I just didn't want to bog us down too far on the workplace diversity, which, of course, is very important, but there have been some other issues raised, well.

Mr. BUDENS. On your first issue, POPA is the exclusive representative under the Federal labor management statute of patent professionals at the USPTO, both the examiners, and we also have other professionals—we have some librarians, accountants, et cetera.

As the exclusive representative, we have the statutory responsibility of representing all, you know, members of our bargaining unit, regardless of race, creed, color, sexual orientation, et cetera. That is in our Constitution, and it is also required by law.

So when someone, you know, gets in trouble with management or whatever, they have the right and the opportunity to come to POPA, and we will, you know, look into their case, and we will represent them before management, if we have looked at their case and believe that they have a justifiable grievance before the agency.

We have a negotiated grievance procedure that covers most aspects of an employee's work life. And we use that fairly aggressively. I am happy to say that over the course of the last year or so that we are working together much better.

And, in fact, I am happy to say that in the last year, we have not had to run—take a single case to arbitration against the agency. And I commend Director Kappos for the fact that we are working much better together in resolving employee issues and coming to resolution to those.

But we will handle employee issues, anything that is covered by the fair labor, you know—not the fair labor side, the Federal labor management statute and our grievance procedure, we take a very serious look at, and we represent a lot of employees. They have to come to us, you know, for us to be aware of what their issues are, but most of them do, and we try and fix the problems wherever we can.

Mr. JOHNSON OF GEORGIA. Now, on that point, if you could provide me with some numbers in terms of complaints of racial discrimination and over, say, the last 3 or 4 years, 3 to 5 years, and how those were resolved, I would greatly appreciate it.

Mr. BUDENS. I will see what I can do. We generally don't keep track of those numbers. And our numbers, I would point out, are not—would not necessarily be reflective of problems at the agency, because the only ones we are going to see are the people who come to us.

A lot more people go out the door of the agency than will necessarily come to POPA. Many people, if they get—you know, if they get into a conflict with the agency, either choose to just resign and leave the office or go their route.

So while I will see what we can do about getting—you know, looking back at, you know, the cases we have handled over the last several years on our grievance side, I would caution you that there are anecdotal and, you know, may not necessarily accurately reflect the overall situation at the agency.

Okay, I think your second question—let's see. You had a question—oh, you want to know about the awards. We have had an

award structure in place for a number of years that basically was directed at production of the examiners and only awarded examiners at three distinct increments, 110 percent, 120 percent, and 130 percent production above their requirements of their performance appraisal plan.

Recently, as part of these count system initiatives, we have put in more granularity to that award system and put in awards at 105 percent and 115 percent and 125 percent and 135 percent, as a means of trying to put, you know, awards within the range of more people. Prior to this change, if somebody, you know, was doing 113 percent, 114 percent, they had no motivation to try and get to 120 percent if they didn't feel like they could do it, so they could drop back to 110 percent.

Now we have—by increasing the granularity of the award structure, we are hoping to see more examiners who are at that level, for example, go for the 115 percent award, even though they might not be able to make 120 percent. And, therefore—and by doing so, we are hoping to bring a large number of examiners, you know, maybe a little smaller way.

But if we are doing it with a large number of examiners, the productivity of the examining corps is going to go up. And I am hoping you will see that in a reduction of the backlog.

Your third question was on the——

Mr. JOHNSON OF GEORGIA. Does that have anything to do with quality of the reviews?

Mr. BUDENS. There is a quality element in the existing structure right now, where if you—you have to maintain either commendable or fully successful performance in all the other elements of the performance appraisal plan, which includes quality elements and work flow.

So there is a quality built in. We do not have at this time an actual quality award for quality performance as opposed to the productivity award. Happy to consider doing that, you know, as soon as David and I can have a chance to sit down and talk.

The problem we have had in the past with a quality award is determining how you measure the quality. One of the concerns we have is that we need to have an objective standard, you know, for employees, as objective as quality can be, and that is not very objective, unfortunately, but to figure out, as objective a standard as we can come up with, so that we don't have a situation where, you know, a particular supervisor, you know, likes examiner Kappos and will make sure they have good quality and give them award, and they don't like, you know, examiner Matteo and, you know, don't give them awards.

So that has really been one of the problems in trying to create an award system, just based on quality.

Your third question goes to our concerns about fees. We are all in favor of the agency getting a reserve fund, as Mr. Kappos mentioned, and we think that is a great idea, and we should have—you know, we hope you all will find a way to institute it and allow us when we have carryover money to put it in a rainy day fund.

The concerns we have with the fee-setting authority actually evolves from something basically totally separate, and that was—

some of you will painfully remember the adventures where you had with the rules-making packages for claims and continuations.

And the concern really arises out of what I think was a total refusal to listen to the comments of the public when we went through that rulemaking procedure. That rulemaking procedure gained an incredible—you know, had the largest negative response from—in comments I think of any rulemaking package in the history of the PTO.

And so what our concern is, is if the agency was willing to—you know, and I am not looking at this current Administration, but if an Administration is in place that would be willing to just look at the rulemaking and just listen to the comments and then ignore them completely, I get real concerned when that turns into some serious money in reference to raising fees and stuff.

So while I believe that the—I want the agency to have fee-setting authority, I want to make sure Congress keeps its fingers in determining what fees are created. Once you all have decided that there should be a fee created for a particular, you know, aspect, statutory process like examination search or filing fees, excess claims, stuff like that, then I think the agency—you know, would like the agency to have fee-setting authority. But I am leery of having it have fee-creation authority.

Another problem we saw was in 2005 with the initial attempts to outsource searching. They tried to do that with creating the fee structure that we currently have. We found that, and thanks to the hard work of, at that time, the Subcommittee on Courts, the Internet and, you know, Intellectual Property, we kind of got that circumvented a little bit, but that is another major concern we have.

We do want the agency to keep all of its fees and have access to it. That we agree totally with. How we do that, I am not exactly sure. I don't see an easy answer to it.

We don't want to see the Congress—you know, the ability to oversee the agency's actions lost in the process of trying to solve the fee diversion problem, but I don't—I wish I had an easy answer, you know, to suggest.

I think one of the issues is, is there a way to get us out from under the scoring process? You know, because I think that is a big headache, but I don't even begin to claim to be an expert on the scoring process. It boggles my brain.

Mr. JOHNSON OF GEORGIA. Thank you.

Mr. Kappos, anything you want to say about it? And either Mr. Matteo or Mr. Johnson, if you choose to weigh in on any of the issues that I have raised or that have been discussed? With the Chairman's consent, I would like for you to.

Mr. KAPPOS. Well, thank you, Congressman Johnson. I would just add to what Mr. Budens has said, that I believe our examiners are also highly incented by the ability to contribute, the ability to know that they are doing something important, and to have the time they need in order to do a good job, to do a high-quality job in examining patent applications.

And in that regard, I will read a very brief quote from an e-mail that I received no less recently than last night from an examiner. I get literally hundreds of e-mails from USPTO examiners, and this particular person—who, by the way, I don't know and have never

met—says, "I am supremely grateful for the work you have done through the revamping of the count system and now through the production goal study."

Mr. Budens mentioned both of those.

"The quarter more I get for new cases and the quarter for finals have made the difference between sink or swim. The 2 more hours we received has also been extremely helpful in writing quality office actions."

So this is a person who is writing an e-mail, not to talk about salary or awards or bonuses or any of that stuff, but to talk about doing a good job. It is really, really important, right? It is a key driver to morale. It is a key driver to retention. It is a key driver to job satisfaction. It is a key driver to everything that makes an effective workforce. It is a key driver to leadership, right? And that is what I am here to bring.

And it is enabling people to know that they are contributing that I think is a major, major incentive to USPTO examiners.

Mr. JOHNSON OF GEORGIA. Thank you all.

Mr. CONYERS. We now recognize our Ranking Member, who has returned, Lamar Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Director Kappos, I have a couple of questions to direct to you. And I was gone for a few minutes, and if you answered these questions, let me know or give me a truncated answer, one or the other.

The first question is, in regard to PTO having fee-making authority, if you did have fee-making authority, what fees would you consider increasing? And by how much?

A corollary of that is—one proposal has been made that there be a 15 percent surcharge, 15 percent increase across the board. If you were to do that or increase the other fees that you might mention now, would that succeed in reducing the backlog in months from, say, 35, 37 to the 20-months goal that you have set for 2014?

Mr. KAPPOS. Right, well, thank you for those questions, Ranking Member Smith.

So a number of components to how we think that the fees would need to be adjusted, one is short term, and that is the 15 percent surcharge. And we gave consideration—before making that recommendation, we gave consideration to whether it might be better to recommend an interim or short-term adjustment of different levels to different fees, and we decided in the end that it was probably better to make a simple adjustment to all fees of 15 percent that would enable us to collect money that we need in order to get going immediately on reducing the backlog, so——

Mr. SMITH. My questions were a little bit more specific than that. As far as what fees, how much, and would they reduce the backlog and achieve your goal?

Mr. KAPPOS. Right, okay. So that is the second part of the answer, right? Finish with the 15 percent surcharge for short term. Longer term——

Mr. SMITH. Okay, how long is short term?

Mr. KAPPOS. Short term is between a year and 18 months, and the reason for that is that, even if we had fee-setting authority today, we have to go through a comment process, notice and comment rulemaking, et cetera, et cetera. It takes at least a year to

get that done, okay? So that is why a 15 percent surcharge short term.

Mr. SMITH. Okay.

Mr. KAPPOS. Long term—now, your question, how would we change fees? There are some fees at the USPTO that are just a small fraction of the cost to actually do the work.

Re-examination fees, right, as an example, in that part of the office, fees related to appeals, also. Those fees are a tiny, tiny fraction—those fees run into the—in most cases, in to the few thousands of dollars. And the actual cost to perform the work is in the tens of thousands of dollars. So those fees, I believe, would need to be raised substantially.

Other fees we would raise potentially not at all, including some of the fees related to publications, where we want to incent parties to publish or permit the USPTO to publish——

Mr. SMITH. You anticipate that those fees that you propose raising would allow you to reduce the backlog to the 20-month goal within 3 or 4 years?

Mr. KAPPOS. Yes, they will be extremely helpful for us to get there.

Mr. SMITH. Okay, great. My next question goes to something you mentioned briefly in your prepared remarks, and that is the perception survey results from individuals who are teleworking. I have never heard of a perception survey before. It doesn't sound to me like it is particularly credible. When you ask individuals if they enjoy working from their home, you can probably guess the response that you are going to get.

My question is this. Are there any metrics available showing whether or not those individuals who telework from their homes or elsewhere actually approve as many patents as those who don't telework? Is there any kind of an evaluation that has been made showing whether those individuals are as productive or possibly more productive or less productive than individuals who don't telework?

Mr. KAPPOS. Okay, well, thank you for that question, Ranking Member Smith.

The answer is, there are some factual indications, and I will tell you about them. I have give you a couple of examples.

One is that we track statistics regarding sick leave. And statistically——

Mr. SMITH. I am not interested in that. I am interested in metrics that would show whether those individuals are more productive or less productive. I would expect them—because as I understand it, you are not offered the opportunity to telework until you have worked for USPTO for at least 2 years, so these individuals will have more experience than the more junior members. I would expect them to be more productive.

And I am just looking for any kind of a study or evaluation that has been done showing and comparing work productivity with those who telework or at least the days they telework compared to those who don't.

Mr. KAPPOS. Okay. Well, I guess I am a little confused. People who are sick aren't working at all, right? So we——

Mr. SMITH. And I know—yes, my question, again—and maybe your answer is there is no such study, and if so, we can discuss whether or not there should be. But individual metrics that would have been evaluated comparing the productivity of those who telework versus those who don't telework, a part of that might well be more days taken for sick leave versus not.

But I am still looking for the overused word "bottom line," as far as productivity goes. One way to measure that, it seems to me, would be by the number of patents that are approved. I don't know if that is a legitimate metric or not, but that strikes me as possibly being one. But have any studies or evaluations been conducted getting at that answer?

Mr. KAPPOS. Right, okay. So, yes, the kind of study I think that you are looking for would probably be measuring things like balance disposals. And we are actually working on that now to take us—a very cold statistical look at, as you say, allowance or balance disposals for employees who are on telework versus those who aren't.

Mr. SMITH. But that is a study that you have initiated or that is about to begin?

Mr. KAPPOS. It is about to begin, yes, yes. We are just starting on it.

Mr. SMITH. Okay, when would you think that that would be completed?

Mr. KAPPOS. I would say a few months, speaking generally.

Mr. SMITH. A few months, all right. And I would be interested in the results when you get them in.

Mr. KAPPOS. Sure.

Mr. SMITH. I would also like to discuss with you, before you commence that study, if you are interested in discussing the methodology and questions and some of the metrics that might be used.

Mr. KAPPOS. Sure, we would be happy to do that.

Mr. SMITH. If that is something that we can discuss sometime after this hearing, I would appreciate that.

Mr. KAPPOS. Okay, sure.

Mr. SMITH. Thank you, Director Kappos.

Thank you, Mr. Chairman.

Mr. CONYERS. You are welcome.

Hank Johnson wanted to add one more question to our discussion today.

Mr. JOHNSON OF GEORGIA. Yes, thank you, Mr. Chairman.

Mr. Budens, at page 10 of your testimony, first paragraph, it says, "The proposed manager's amendment to S. 515 does not contain a provision to maintain the 1-year grace period for inventors filing in the U.S."

Is that a fact that the manager's amendment in the Senate leaves that provision out?

Mr. BUDENS. It is my understanding, unless I missed it somewhere, you know, in the 100-and-some pages of that bill, I thought they had moved away from it as they moved toward the first to file process, and they were looking at more of a situation where—if I understand the process correctly—where a particular inventor, his prior art or her prior art references could not be used against them by the examiner.

However, if somebody else published something in that same 1-year period that was along the same—was related or disclosed—their invention, you know, through—because they went to a scientific conference or something, that that could be used as prior art against them, whereas I think right now the situation is under 102(a) that the publications would not be able to be used against the inventor, so that basically the inventors would have that 1-year period.

And the reason we are concerned about it is because we think, you know, particularly in the academic communities and stuff, there is a—you know, in America, we have kind of a publish-or-perish mentality for people in the academic communities, and we want to make sure that they can go to scientific, you know, conferences and disclose their discoveries and start working—you know, get the information out to people or go to different technical meetings, you know, or publish their papers in the science or technical journals and not be—find themselves having, you know, in a situation where they suddenly have a body of prior art out against them, you know, within that 1-year period.

If I have missed it somewhere in the manager's amendment, I will happily stand corrected. But it was a concern that——

Mr. JOHNSON OF GEORGIA. If you would, just simply get back with my office and let us know. If you would clarify that statement in your testimony, I would greatly appreciate it.

Mr. BUDENS. We will.

Mr. JOHNSON OF GEORGIA. Thank you.

And thank you, Mr. Chairman.

Mr. CONYERS. You are more than welcome.

My thanks to all of the witnesses. This has been a very informative hearing. I am going to go through the transcript with my three staffers back here, and then I am going to take the liberty with the Members that participated on the Committee, invite you for just an informal discussion about some of the issues that have been raised.

And your time and comments have been very valuable. And with that, the hearing is adjourned.

[Whereupon, at 12:41 p.m., the Committee was adjourned.]

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