

**Statement of**  
**David J. Kappos**  
**Under Secretary of Commerce for Intellectual Property**  
**and**  
**Director of the United States Patent and Trademark Office**  
**before the**  
**Subcommittee on Intellectual Property,**  
**Competition and the Internet**  
**Committee on the judiciary**  
**U.S. House of Representatives**  
**H.R. \_\_\_\_, the “America Invents Act”**  
**March 30, 2011**

**Introduction**

Chairman Goodlatte, Ranking Member Watt, and Members of the Subcommittee:

Thank you for this opportunity to discuss the Department of Commerce’s and the United States Patent and Trademark Office’s (USPTO) views on patent reform legislation. The Administration supported the recent passage of S.23 and we look forward to working with the House to support moving your version of this important legislation forward. Patent reform will support and encourage innovation that improves American competitiveness, economic prosperity, and job growth. It is past due.

Innovation continues to be a principal driver of our nation’s economic growth and job creation. Effective and efficient patent procedures and strong patent protection help deliver innovation to the marketplace. We at the USPTO are proud of the role we play in serving America’s innovators and granting the patent rights they need to secure investment capital, build companies, and bring their products and services to the global marketplace. Our efforts support Secretary Locke and the Department of Commerce’s mission to help make American businesses more innovative at home and more competitive abroad.

Mr. Chairman, we believe that enactment of the legislation currently under consideration will significantly improve our patent processes – namely, evaluating patent applications more quickly and improving the quality of issued patents -- reduce litigation uncertainties and costs, and increase the value of patent rights for American innovators. Many of the provisions in this legislation have been discussed over the course of four Congresses by a variety of stakeholders in our intellectual property system. Enactment of a fair and balanced bill is an important part of the Administration’s goal of “out-innovating” our economic competitors – without adding to the deficit.

Our views on a few of the most critical patent reform proposals under discussion are as follows:

## **First-Inventor-to-File**

We view the proposed transition of the U.S. to a first-inventor-to-file system as an essential feature of any patent reform legislation. The transition will simplify the process of acquiring rights while maintaining a one-year grace period that protects innovators. It will reduce legal costs, improve fairness, objectivity and transparency, and support U.S. innovators seeking to market their products and services in other countries. While more and more commerce is being conducted on a global basis, the U.S. remains alone today among industrialized countries – indeed all countries -- in maintaining a subjective first-to-invent patent system.

Some contend that the proposed transition will only benefit large patent owners, to the disadvantage of independent inventors, and would encourage a rush to the patent office with hastily drafted patent applications. This fear is unfounded, and inconsistent with the facts.

It is clear that the current first-to-invent system almost never benefits the independent inventor, especially in the one case where the independent inventor would be expecting a benefit where he or she is the first to invent but not first to file. In the past seven years, of over three million applications filed, only 25 patents were granted to small entities that were the second inventor to file but were able to prove they were first to invent. Of those 25, only one patent was granted to an individual inventor. Thus, in the last seven years, only one independent inventor's filing out of more than three million total patent filings would have received a different outcome under the first-inventor-to-file system.

Further, the cost of proving who was first to invent, under the current system, is prohibitive to small businesses and independent inventors. It costs an average of \$400,000 to \$500,000 in legal fees to engage in interference proceedings to determine who invented first. Those costs can double if a case is appealed. Most independent inventors simply do not have the resources to participate in these proceedings. So the facts demonstrate that the current system actually favors those with deep pockets and works to the disadvantage of small companies and independent inventors with limited resources. By contrast, under the legislation, a \$110 provisional application will establish effective rights to an invention, securing first-inventor-to-file status with no risk of subsequent disputes.

Finally, those who oppose this provision suggest that the change will create a "race to the patent office" with hastily drafted applications, citing experience in Canada when it moved to first-inventor-to file. But Canada's adoption of a first-inventor-to-file system gives no support to this fear, and indeed supports the opposite view – that the transition will result in no substantial change in filing behavior by patent applicants. We recently confirmed with the Canadian Intellectual Property Office (CIPO) that the reaction to the adoption of a first-inventor-to-file system in Canada in 1990 was a moderate 5% increase in filings, which was consistent with a normal annual increase.

We believe that the certainty, predictability, and reduced costs of the first-inventor-to-file system will benefit all stakeholders, both small and large entities, regardless of the area of technology.

## **USPTO Fee Setting and Funding**

We are pleased that legislative proposals include authority for the USPTO to establish and adjust its fees, as needed, to reflect changes in costs, demand, and workload, and to ensure full cost recovery at no taxpayer expense.

Fee setting authority will permit the USPTO to better address operational funding needs, and provide high quality, timely examination of patent applications. This authority is especially important in light of continuing financial challenges and unacceptable levels of pendency and backlog.

The fee setting authority as specified in the proposed legislation includes strong and fulsome oversight: a deliberative and transparent review process, input and oversight by the Patent and Trademark Public

Advisory Committees, by stakeholders through public hearings and Federal Register notices with comment periods, and by Congress in a 45-day comment period. This oversight is in addition to the oversight the USPTO receives from the Office of Management and Budget, and from the Department of Commerce. Finally, as required by the proposed legislation, any proposal for a change in fees must be accompanied by the specific purpose for the change including benefits expected to result from the change. We support this package of oversight for USPTO fee-setting, as a comprehensive and appropriate set of mechanisms to ensure all fee changes are well-considered and well-calibrated.

USPTO's stakeholders pay fees for patent examination and maintenance and trademark registrations. USPTO is a 100% fee-funded operation. Under the existing funding system, however, USPTO only has access to the portion of its fee collections provided for in annual appropriations bills. Where actual fee collections have exceeded the level of spending authority provided, the additional fees have gone to other government programs and not to the processing of patents and trademarks. The establishment of a public enterprise revolving fund in the U.S. Treasury for USPTO will ensure that all fees collected support the processing efforts of the agency without fiscal year limitation.

Fee setting authority coupled with the availability of fee collections will permit the USPTO to engage in multi-year budget planning and achieve a stable funding model that supports future investments and improvements in operations that will significantly reduce pendency and backlog levels.

### **Post-Grant Review Proceedings**

The Administration supports the establishment of a new post-grant review proceeding and the retooling of an existing post-grant reexamination procedure – *inter partes* reexamination. These review proceedings will serve to minimize costs and increase certainty by offering efficient and fast alternatives to litigation as a means of reviewing questions of patent validity. Such proceedings also will provide a check on patent examination, ultimately resulting in higher quality patents.

We understand that some question the ability of the USPTO to implement these procedures as proposed. However, we have considered their operational impact and we are confident they can be effectively implemented in a timely manner, and appropriately managed. Several factors will help ensure manageable implementation of these new procedures, including: the delayed effective dates, the authority to set fees and issue administrative and procedural regulations, the authority for the USPTO to retain and use all fees paid by users of the patent and trademark system (as described above) to ensure adequate resources are in place to administer the new and modified post grant processes, and the authority to impose limits on the number of *inter partes* reviews and post-grant reviews that may be instituted during each of the first four years after the effective date.

It is important that post-grant review proceedings be designed to prevent delay and abusive challenges but still enable valid challenges based on meritorious grounds. We believe the

provisions contained in the proposed legislation – including those covering regulatory authority, threshold, and estoppel issues – will adequately address these concerns.

### **Pre-issuance Submissions**

As a quality-focused measure, we support provisions that increase the opportunity for third parties to submit potentially relevant prior art after publication of an application and before examination. The provisions require a concise description of the relevance of any submitted document along with a fee prescribed by the Director. These provisions will assist in ensuring that our examiners have before them the best available prior art for consideration.

### **Litigation-Related Issues**

In light of a number of recent court decisions relating to assessment of damages in patent infringement cases, determination of willfulness and appropriate venue considerations, we support removal of related provisions in patent reform legislation. It is our understanding that such removal is supported by most stakeholders. We are pleased to see that the legislative process has refocused to specifically address patent quality and patent operations improvements that can be implemented by the USPTO.

Another issue raised in the House version of patent reform is whether the current prior user defense available under the statute should be expanded to all areas of technology. The House bill includes an exemption for when this defense is raised in litigation against a university to address concerns the university community has raised. Expanding the prior user defense, I believe, is pro-manufacturer, pro-small business, and, on balance, good policy. I am also aware of the university community's concerns and would like to work with you and the university community to address their concerns. I am happy to discuss my views on this issue further.

### **Conclusion**

Mr. Chairman, thank you again for this opportunity to provide the USPTO's and the Department of Commerce's views on patent reform legislation. We commend you for introducing H.R. \_\_\_\_\_, the "America Invents Act," as a bipartisan bill. We look forward to working with you toward final enactment of meaningful patent reform legislation that supports America's innovators and spurs economic growth and job creation.

# # #