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

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

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

June 20, 2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Ombudsman Program. Now in its second year, the Patents Ombudsman Program enhances the USPTO's ability to assist applicants or their representatives with issues that arise during patent application prosecution. More specifically, when there is a breakdown in the normal application process, including before and after prosecution, the Patents Ombudsman Program can assist in getting the application back on track.

- After Final Consideration Pilot. The After Final Consideration Pilot (AFCP) is part of the USPTO's on-going efforts toward compact prosecution and increased collaboration between examiners and stakeholders. The AFCP authorizes extra time for examiners to consider responses filed after a final rejection. If a response is filed under 37 CFR §1.116 and is up for consideration by the examiner in charge of the application between these dates, the examiner will determine whether he or she should take advantage of the time authorized by the pilot to consider the response. Examiners will use their professional judgment to decide whether the response can be fully considered, including whether any additional search is required, within a three hour time limit in order to determine whether the application can be allowed. A special request is not required for consideration of an amendment under this pilot program.

- Quick Path Information Disclosure Statement. The USPTO is implementing the Quick Path Information Disclosure Statement (QPIDS) pilot program as part of its on-going efforts toward compact prosecution and pendency reduction. In particular, the QPIDS pilot program will eliminate the requirement for processing of a RCE with an information disclosure statement (IDS) filed after payment of the issue fee in order for the IDS to be considered by the examiner. Where the examiner determines that no item of information in the IDS necessitates reopening the prosecution, the USPTO will issue a corrected notice of allowability.

- Prioritized Examination. Prioritized examination is a procedure for expedited review of a patent application for an additional fee. The Office's goal for prioritized examination is to provide a final disposition within twelve months of prioritized status being granted. Nonprovisional utility and plant patent applications filed under 35 U.S.C. 111(a), having no more than 4 independent

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

- Accelerated Examination. The Accelerated Examination procedure is designed to give applicants quality patents in less time by guaranteeing a final action within one year. In exchange for quick examination, patent examiners will receive more focused and detailed information about the invention, as well as identification of the most relevant prior art from the applicants. This increased disclosure upfront by applicants will help examiners more quickly make the correct decision about whether a claimed invention deserves a patent. More information can be found at http://www.uspto.gov/patents/process/file/accelerated/index.jsp.

- First Action Interview Pilot. An applicant is entitled to an interview with the patent examiner prior to the first Office action on the merits in a new utility application. The program has shown that the patent process benefits when interaction between the applicant and the examiner is enhanced at the beginning of examination because patentability issues can be resolved early when the applicant and the examiner discuss them one-on-one. For the applications involved in the initial pilot, the First-Action Allowance rate increased six-fold when compared to applications from the same technology area not involved in the pilot. More information can be found at http://www.uspto.gov/patents/init_events/faipp_landing.jsp.

- Interview Practice. An applicant is also encouraged to contact the examiner of his/her application to request an interview about the rejection or the application. Having an interview can help bring any issue to a conclusion. Many times the interview will result in claim language that can move the application forward to a patent. Pro se applicants may request an interview in person or via telephone with the examiner and his/her supervisor if necessary. However, if the applicant has hired a patent professional to interact with the USPTO, then only that professional can request an interview. If an applicant feels that an interview may assist in getting a patent, he/she should discuss this with the patent attorney or agent. In some instances, the inventor may participate in the interview with his/her attorney or agent and the examiner. These interviews allow the inventor to better understand the patent process and offer suggestions as to the full nature of the invention.

- EFS Legal Notice. This change in procedure allows contractors rather than employees to submit the patent application documents via the EFS-Web electronic system. Since small entities are more likely to benefit from contract support (as they cannot dedicate staff resources to it), this will be particularly helpful to inventors and small entities.

Questions for the Record Senator Grassley (R-IA)

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

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PLT and Hague Convention

Director Kappos, I appreciate your testimony about the need for implementing legislation for the Patent Law Treaty and the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs. It's important to do what we can to facilitate the international patent process for American entrepreneurs and inventors so that their intellectual property rights are protected abroad.
Can you elaborate on the benefits that American patent holders will see if we enact implementing legislation for these two treaties?

Hague Agreement on Industrial Designs

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

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

Patent Law Treaty

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

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

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

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

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

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

<u>General America Invents Act Implementation</u>

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

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

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

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

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

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

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

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

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

Standard Essential Patents

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

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

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

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

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

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

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

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

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

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

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

PTO Travel Investigation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• Going forward, what challenges do these changes create for the USPTO, as well as for our patent community and country?

• Do you see a role for Congress in further clarifying these areas of the law?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Answer: I am pleased to report that our efforts implementing the new post-grant review system are proceeding on schedule. We are also pleased that stakeholders have commented favorably on our transparent implementation process and the extent of our outreach. Our AIA microsite[1] contains all implementation-related materials including summary documents, legislative history, implementation-related events, announcements, and points of contact. In addition, the USPTO conducted a number of presentations before the comment period ended in an effort to educate the public on the proposed rules. Now that the final rules have published, the USPTO is conducting eight roadshows in September 2012 to share information about these post-grant procedures. From September 10th through the 28th, the USPTO will be holding these roadshows in Alexandria, Va.; Atlanta, Ga.; Denver, Colo.; Detroit, Mich.; Houston, Texas; Los Angeles, Calif.; Minneapolis, Minn.; and New York, N.Y. to share information about the AIA provisions that go into effect on September 16, 2012.

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

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

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

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

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

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

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

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

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

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

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

possible case of unpatentability. Post-grant review, however, adds prior uses and on sale activities as possible grounds. The additional grounds are often difficult to discover, particularly early in the process.
d. If the estoppel rules were narrowed, would you be concerned it would lead to undue opportunity for multiple challenges to the validity of patents?

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

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

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

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

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

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

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

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

Hearing on "Oversight of the United States Patent and Trademark Office:
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Fee Diversion

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

Answer: Correct, $2.7 billion was appropriated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Fee Increases</u>

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

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

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

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

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

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

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

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

Patent Cases Pilot Program

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

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

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

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

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