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PTO Director Updates Senate Judiciary Committee on Implementation of the America Invents Act

Intellectual Property Client Alert

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David Kappos, the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office (PTO), appeared before the Senate Judiciary Committee on the Judiciary on June 20, 2012, to provide the Committee with an update on the implementation of the Leahy-Smith American Invents Act (AIA) signed into law on September 16, 2011. A copy of Director Kappos' prepared statement that accompanied his testimony is available here. The opening statement of Senator Leahy, the Chairman of the Committee and co-sponsor of the AIA, is available here.

The following statements from Kappos' testimony highlight the issues and concerns about the AIA:

- The new prioritization examination program (Track One) appears to be a success to date. Track One allows patent applications to be completed within 12 months and offers a significant cost discount to small businesses. Since its inception, the PTO has received more than 4,000 Track One patent applications, of which 2,300 have received a first office action within approximately 90 days. Of these, more than 500 applications have received a notice of allowance. At least 1/3 of the Track One applications are from small entities or inventors.

- Director Kappos indicated that the first satellite office in Detroit will be available in July, and a decision about the location of other satellite offices will be available later this summer. The Director stated he was unaware of any major obstacles or financial concerns that will hamper the AIA implementation.

- The PTO had conducted seven road shows to date, in which they had interfaced with approximately 1,300 people from various parts of the country. A second round of road shows was planned for late summer/early fall.

- Kappos indicated that a key PTO goal is to take steps to help harmonize U.S. patent law and practice with those of other countries by working with the foreign patent offices to persuade them to adopt a grace period for filing a new application. Additionally, the Director also noted that potential legislation may be required for the Patent Law Treaty (PLT) and the Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs (Hague Agreement), both of which were pro-American and would spur innovation.

- Senator Grassley requested additional information on the implementation of the AIA laws relating to tax strategy. Under the AIA, a patent application can no longer use a strategy for reducing, avoiding or deferring tax liability as a basis to distinguish the claims from another reference. Kappos noted that it was too early to tell if the PTO is still receiving tax strategy applications because many of these applications are still in pre-examination processing. Kappos also noted that he had ordered Director-Ordered reexaminations on two tax strategy patents, both of which have been rejected to date with no claims deemed allowable. Kappos further suggested that the PTO will consult

IRS guidelines in examining tax strategy patents, and these guidelines were the basis for his Director-Ordered reexaminations discussed above. Companies should carefully review their patent portfolio and review current IRS tax guidelines to ensure that any claims relating to potential tax strategy patents are rewritten to comply with the new law.

- Senator Feinstein inquired how the PTO planned to address the challenge of keeping their patent examiners up to date on the latest technology. Kappos noted that the PTO is meeting this challenge in three ways. First, the PTO has instituted a patent examiner training program, which invites companies from all over the country to lecture examiners on the latest innovations, resulting in thousands of training hours per year. Second, the PTO has reinstituted a program that sends examiners on low-cost trips to companies to learn about their latest technology. Third, Kappos indicated that he would like to restart a program that allowed examiners to pursue advanced level courses at local universities. Companies with complicated, less known technology, such as software companies and biotechnology companies, may wish to participate in some of these programs to ensure that the PTO examiners understand the technology sufficiently to render knowledgeable decisions on patentability.

- Senator Feinstein asked Kappos questions about the issuance and litigation of software patents. He replied that the AIA would have a positive impact by decreasing the number of invalid patents. Under § 18 of the AIA, the PTO has a venue to reexamine issued patents to find if they are patentable in light of new references. Additionally, the PTO has provided examiners with new guidelines for software patents to ensure clarity of their disclosure.

- Senator Feinstein also inquired about the increase in pendency of patent applications from 18.2 months in 1991 to an average of 35.3 months in FY 2010. Kappos responded that the PTO's goal by 2015 is to reduce the pendency of applications below 18 months by issuing a first action within 10 months and a final action within 20 months. The Director further noted that the total backlog at the PTO for applications was 627,000, one of the lowest rates to date.

- Kappos was also questioned on licensing obligations required by standard-setting organizations for companies that participate in the standard-setting process, known as RAND or FRAND obligations. Standard-setting is important in many industries to ensure devices manufactured by many different companies are compatible. Kappos indicated his concern about the practice of securing injunctions or International Trade Commission exclusion orders on patents that fall under the standard-essential category.

- Senator Hatch inquired about the significant costs of the Supplemental Examination Procedure fees. Kappos indicated that the PTO was looking at ways to simplify the procedures and reduced the costs for the Supplemental Examination Procedures, and with time the PTO was also amenable to making further changes as it acquired more experience with the procedures. The Director also testified that the fees were moderate for applications which required clarification and substantial for applications that required a more substantive examination.

- Senator Klobuchar inquired about the AIA pro bono program to be implemented in March 2013. In response, Kappos indicated that the PTO, in collaboration with the Legal Corp. in Minnesota, launched its first chapter of the AIA pro bono program in Minnesota, from which a patent had already issued. The second chapter was planned for Denver, Colorado later on this year. Thirteen additional chapters will be launched in 2013 and the pro bono program will provide complete coverage of the United

States by 2014. In preparation for the March 2013 deadline, the PTO is in the process of creating draft rules for comments and plans to hold a round table discussion for small business and inventor communities.

- Senator Coburn inquired about the PTO's fee setting authority and the diversion of USPTO fees. In response, Kappos said that there were fees paid to the PTO in advance of the fee changes, but those fees have been diverted. When setting fees, the PTO's goal was to set fees to recover the cost of performing services with a few exceptions, such as the PTO subsidizing the feels for the initial filing. The PTO made up the shortfall of the subsidized fees with maintenance fees, surcharges and extension of time fees.

- Director Kappos also indicated that the PTO acted as a technical advisor to Congress for making clerical edits to the AIA legislation but agreed with Senator Coburn that AIA legislation issues, such as discussions about the estoppel provision, prior user rights and the definition of prior art, required full consideration by all Congressional stakeholders.

- Senator Coons inquired about the PTO's challenges with training, paying and motivating examiners in light of the PTO fee diversion. In response, Kappos noted that retention was important and the USPTO had a 3.2 percent attrition rate. Retention had also been aided by the Detroit satellite office, which has provided the PTO with access to new demographics and areas with lower costs of living. Additionally, the PTO had sufficient authority to expand its hoteling and telework programs; however, the PTO required authority to adjust the salary caps for the highest qualified primary examiners.

- Finally, Senator Franken inquired about the standard for the AIA's administrative review process, which was broader than the standard used at the ITC or district court. Kappos replied that based on the PTO's interpretation of the AIA, the broadest reasonable interpretation is used because the PTO evaluates patents for patentability, not validity. Additionally, the PTO had applied that standard for decades, because an applicant has an opportunity to amend their claims before the PTO; therefore, the PTO has to look out for the public interest.

Patton Boggs will continue to monitor the implementation of the AIA and Congressional oversight of the PTO.