

STATEMENT OF

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

BEFORE THE

**SUBCOMMITTEE ON COURTS, THE INTERNET, AND INTELLECTUAL PROPERTY
COMMITTEE ON THE JUDICIARY
United States House of Representatives**

Oversight Hearing

on

“Patent Quality Enhancement in the Information-Based Economy”

APRIL 5, 2006

Introduction

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

Thank you for inviting me to testify today on this important issue. Patent quality is our top priority at the United States Patent and Trademark Office (USPTO) and is the central focus in everything from our day-to-day operations to our strategic planning. We have already implemented several initiatives to improve quality, and will continue to evaluate and implement additional initiatives. We also have proposed changes to our rules of procedure, and we plan to propose more in the future – that will have a positive impact on patent quality.

Background

The importance of intellectual property (IP) is growing -- within the business community, the United States economy, and around the world. According to a recent USA for Innovation Report, U.S. intellectual property today is now worth between \$5 trillion and \$5.5 trillion, equivalent to about 45 percent of the U.S. GDP -- and greater than the GDP

of any other nation in the world. And, U.S. IP industries contribute nearly 40 percent of the growth achieved by all U.S. private industry -- and nearly 60 percent of the growth of U.S. exports.

Patent applications have increased every year -- a good sign that innovation and competitiveness are alive and well in America.

In fiscal year 2005, we received over 400,000 patent applications -- an eight percent increase over the previous year. Of equal significance, the complexity of patent applications is growing. A greater percentage is now filed in more complex areas such as biotech and telecommunications. These require many more hours to examine than traditional areas, such as general mechanical and chemical. So, our number of hours needed to examine the average application filed is increasing as well.

That volume and growth rate present significant operational challenges as does the increasing complexity of those applications.

It is now taking our Office an average of 21.1 months to take first action on a patent application, and 29.1 months to issue a final decision. The vast majority of that time does not represent actual examination but rather a waiting-in-line status. Without policy and operational changes, our backlog would have continued to grow to unacceptable proportions.

So, the USPTO is taking many steps to address the backlog and improve quality. We hired nearly 1,000 patent examiners last year, and we will hire more than another 1,000 in fiscal year 2006. Before this hiring, we had fewer than 4,000 examiners, so this will represent hiring more than 50 percent of the current professional staff within two years. We are also piloting a Patents' Hoteling Program, which will allow hundreds of patent employees to do their jobs from home.

Quality of the Patent Examination Process

At the USPTO, we have a strict definition of quality. "Patent quality" means that the application examination has been conducted to conform with current law and Office procedure.

The USPTO reviews randomly sampled patent applications -- both during the examination process and when the examiner believes the application is ready to be allowed. We check those applications for any type of error. If there is even one allowed claim that our quality reviewers believe should have been rejected or one significant deficiency that would negatively impact the proper advancement of prosecution in the case -- that counts as an error.

We have a tremendously dedicated, knowledgeable workforce. Our patent examiners are professionals, and they hate making mistakes. Because of their expertise, we have a very rigorous error standard. Using that standard, in fiscal year 2005, our overall error rate was 4.6 percent. Those are errors we caught on all patent examinations before they were

issued. Significant progress has been made since the midpoint of fiscal year 2005. Over the past 12 months, our allowance error rate has dropped from 5.6% to less than 4%.

In the past two years the USPTO has instituted a number of measures to improve patent quality and also has implemented new metrics to measure the results. Results indicate that quality is improving. The percentage of patent examiners certified for promotion to full performance level increased from 59% in FY 2004 to 70% in FY 2005. The number of preliminary stage office actions complying with applicable laws and rules during examination improved to 86.2% from 82% the previous year. We continue to show significant improvement in this area, with 89% of these office actions currently complying with applicable laws and rules. The compliance rate for allowances improved from 94.7% to 95.4% from FY 2004 to FY 2005.

Initiatives to Improve Patent Quality

The USPTO is working diligently to address quality throughout the patent application review process to ensure the best possible results.

Patent Reviews

We currently have two levels of review for a sample of applications for each examiner. Allowed applications are reviewed as an end-check. Applications are also reviewed at various stages of prosecution. Further, individual technology centers review a sample of allowed and in-process applications.

The USPTO has determined that providing end-check reviews only is not the most accurate and efficient way of assessing quality. We are working this year to place more of our resources into building quality into examiner work product by enhancing the review during the various stages of prosecution. We are exploring ways to leverage the expertise of our quality reviewers so as to use their expertise up front in the examination process rather than using them primarily as end-checkers.

Our concept is to team our current technology center quality reviewers with the Office of Patent Quality Review (OPQR -- an office independent from the patent examination corps) reviewers to do an in-depth assessment of the work product within all art units of a technology center. On a biweekly basis, this team would review sample cases from a particular art unit (a limited group of examiners: 15-20), assess the results, and develop/deliver specific training using examples from the reviews from the unit. This will more specifically tailor the development of training to effectively treat issues at the art unit level, as opposed to a one-size-fits-all training model. Also, we are making better use of the OPQR reviewer experience through the sharing of best practices with the technology centers in an effort to improve the quality of examiners' work product.

Customer Panel Quality Survey

As part of our effort to build quality into examiner work product, we are considering an effort to broaden customer input by conducting quarterly customer surveys on patent examination quality. The surveys would be administered to a representative customer panel and would focus on key examination quality issues.

New USPTO Patent Training Academy

This year our patent organization has implemented a new university-style training program for almost two-thirds of the 1,000 new hires expected this year. This training program is intended to not only provide more intensive technology-based training following an aggressive curriculum, but also free supervisors from this responsibility so they can focus more of their time to mentor and train the junior employees already in their units.

This training program will last for eight months and is intended to return new hires to the examining corps who are capable of writing complete office actions for supervisory review. It is our intention to increase this training program to cover all incoming employees in fiscal year 2007. This new training model will create a higher quality, better-trained new examiner who will be able to examine applications more accurately and thoroughly than our traditional one-on-one training model provides.

Examiner Certification and Recertification

The USPTO has implemented a thorough certification process for any employee seeking to be promoted from the GS-12 level to the GS-13 level. This process includes a review of the work product of the examiner and a certification exam similar to the patent bar exam that patent attorneys and agents must pass. In order to help examiners prepare for the certification exam, we offer a one-week patent law and evidence class, which also assists them in their day-to-day examination practice. In 2004, 178 examiners passed the certification exam; in 2005 we improved, with 275 examiners passing the exam. The promotion to GS-13 represents a level of independence in which the supervisor is no longer responsible for day-to-day intensive review of the examiner's work product. In order for the examiner to achieve this level of independence, we are ensuring that they have the skills required to perform their job requirements with a high level of quality.

In addition to the certification process, we are also currently recertifying our primary examiners. Every three years, we assess the quality of our most senior employees by a thorough review of their written work. This process involves a detailed review of both allowances and rejections written by the examiner and continuing education on patent practice and procedure. By the end of FY 2006, over 1200 primary examiners will have undergone recertification. About 95% of examiners have been successfully recertified in each of 2004 and 2005. The 5% of examiners who were not recertified were subject to an

improvement period and repetition of the recertification review process the following year.

These two programs ensure that those employees who are ready to be promoted are promoted, while others who may require additional coaching and training are provided that opportunity.

Proposed Rules Changes to Improve Patent Quality

Patent applications that are complete, clear, well-drafted with well-identified and pertinent references take less time to properly examine. Better application input contributes directly to more efficient processing and to quality, thereby benefiting both the examiner and the applicant.

We have proposed a new patent rules package that encourages patent applicants to be more open and rigorous throughout the application process. Specifically, our rules package proposes to instill more discipline in filing continuations on patent applications and to focus examiners on representative claims in complex patent applications.

Continuations

In today's legal system, parties in a dispute do not have an infinite number of appeals. Currently, our patent system allows for almost unlimited reworking of applications through "continuations."

In fiscal year 2005, more than 85,000 of the USPTO's 400,000 new patent applications were a continued prosecution of an application that had previously been before an examiner in the examination process. That is, almost one-quarter of the applications that examiners had to review were ones they had previously rejected, that the applicant had then changed in the hope that they now would be acceptable. Our proposed changes will not limit the ability of an applicant to file one continuation. However, second and subsequent requests for continuations would be subject to a more stringent review process before the requests are granted. It is the second and subsequent continuations that account for about 20,000 of the 85,000 total continuations we receive each year.

Representative Claims

Another critical part of the patent application is "the claims," which of course define what is being patented. Every year, a small number of applications are filed with an extraordinary number of claims.

We have proposed rules that will help us find the right balance between allowing inventors to submit such applications when needed, while making it feasible for examiners to effectively examine such a high volume of claims. We have proposed a system in which the applicant and examiner can focus on a set of representative claims initially. In other words, if we received an application with 50 claims, we might look

only at the first 10 claims throughout the process of rejections and amendments. Then, assuming the representative claims were accepted – but before the final patent was issued -- we would examine **all** the claims. We think this approach will improve efficiency and quality.

Legislative Initiatives

There are two proposals pending before the Subcommittee that are widely supported throughout the intellectual property community and would directly improve patent quality: a post-grant review procedure and a new procedure for submission of prior art. The USPTO continues to review other proposals before the Subcommittee.

Post-Grant Review Procedure

A new post-grant review procedure, recommended by the USPTO and under consideration in this Subcommittee, is intended to improve upon existing administrative reexamination alternatives. It would serve as a quicker, lower cost alternative to expensive litigation in reviewing patent validity questions. Such a procedure would complement rather than displace ongoing quality-focused initiatives at USPTO, which include measures to address the hiring, training, certification and retention of an adequate number of examiners.

We look forward to working with the Subcommittee in developing a post-grant review procedure that effectively serves the interests of the patent community.

Submission of Prior Art

While the USPTO currently has a procedure for submission of prior art after publication, which allows submission by third parties within two months of publication, the procedure does not allow explanations or other information about the patents or publications. This Subcommittee is examining a procedure for the submission of third-party prior art as part of H.R. 2795, the Patent Reform Act of 2005.

We encourage consideration of a change to the statute governing this procedure to allow protests or oppositions by third parties after pre-grant publication. Such a change would allow those interested parties to explain why the prior art would have a negative impact on the patentability of the claims. This process, which would provide the examiner with information he or she might not otherwise obtain, should result in a higher quality, more reliable patent.

We look forward to working with the Subcommittee to develop a submission procedure that effectively and fairly balances the interests of the patent applicant, interested third parties and the general public.

Business Methods Patents

An area of particular concern in terms of quality is business methods patents. There has been some suggestion that these patents have less stringent standards than those for other patents.

In fact, last year, the USPTO allowed 11 percent of all business methods applications (those in our Class 705 Data Processing: Financial, Business Practice, Management, or Cost/Price Determination). All business methods allowances go through a review process that involves either a patentability conference or a “second pair of eyes” review process. We focus on allowance conferences. However, we conduct a “second pair of eyes” review for those senior examiners who do not participate in allowance conferences.

In fiscal year 2005, we hired 34 examiners for a total of 132 examiners in the business methods area. In fiscal year 2006, our hiring goal is 26 new examiners. So we anticipate having 150 examiners in the business methods area by the end of the year, including attritions.

Further, the USPTO is continuing our partnership efforts with industry and the patent community on business methods patents, and these partnerships have historically been very productive.

Conclusion

The ever-increasing importance of IP in today’s economy is putting greater pressures on the patent examination system. The USPTO has taken important steps to improve patent quality and is considering and planning more initiatives to keep up with future demands.

We know that a more quality-focused, efficient patent system benefits everyone and is vital to the American economy. We appreciate this opportunity to discuss with the Subcommittee our efforts to help ensure that our patent system will continue to serve innovation in the 21st century.

Thank you.