

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 COMMERCE, JUSTICE, SCIENCE, AND RELATED
AGENCIES
COMMITTEE ON APPROPRIATIONS
U.S. House of Representatives**
“USPTO FY 2011 Budget Request”
MARCH 25, 2010

I. Introduction

Chairman Mollohan, Ranking Member Wolf, and Members of the Subcommittee:
Thank you for this opportunity to appear before you to discuss the United States Patent and Trademark Office's (USPTO) operations, programs and initiatives with the requirements outlined in the President's FY 2011 budget request to fund those efforts.

The USPTO plays a key role in fostering the innovation that drives job creation, investment in new technology and economic recovery. As we move into the second decade of the 21st Century, it has become increasingly clear that innovation is a principal driver of our economy as well as an engine of social advancement. It is also the only sustainable source of competitive advantage for world economies. And since intellectual property is the vehicle that facilitates the delivery of innovation to market, it follows that inventors who use intellectual property (IP) effectively will flourish.

As the currency of innovation, intellectual property fuels capital investment by decreasing price and improving quality and function of innumerable goods, including airliners, computers, telecommunications equipment, and machinery. Innovation also creates opportunities for investment in new kinds of goods and services. Innovation promotes efficiency by generating better ways of working, manufacturing, and selling, including electronic inventorying, e-commerce, and computer-driven manufacturing.

Stimulating economic growth, promoting innovation, and creating high-paying jobs are key priorities of the Obama Administration. The President's 2011 Budget clearly recognizes the importance of USPTO's role in addressing those priorities and invests further in initiatives we have already started at the USPTO to address a number of problems faced by the Office that have reached unacceptable levels in recent years.

II. President's FY 2011 Budget

I am pleased that this budget request provides the USPTO with the resources and flexibility needed to aggressively reduce its patent application backlog, shorten patent pendency, improve patent quality, and invest in rethinking our information technology (IT) infrastructure. These investments will support actions we have already taken and have underway at the USPTO to create a more efficient and effective Office – an office that fuels economic growth, strengthens the competitiveness of U.S. companies that bring new products to market, and hires employees to support those new products and services. The proposed budget also represents the first step toward establishing a sustainable funding model to finance USPTO's patent and trademark operations in support of the USPTO's strategic priorities and the Administration's goals.

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

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

Specifically, the President's Budget for the USPTO was formulated as a "requirements-based" budget at the request of the Subcommittee and supports a five-year plan designed to:

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

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

- Initiate targeted hiring to recruit and hire 1,000 patent examiners (projected to be a net increase of 400 to 500) annually during FY 2011 and FY 2012. This temporary hiring increase will begin with bringing on experienced former examiners and IP professionals, which will allow Patent Operations to reduce the time necessary for training, and realize benefits that will reduce the patent backlog and reach a targeted inventory level; and
- Achieve efficiency improvements brought about by reengineering many USPTO management and operational systems. Efforts to optimize examination capacity, compact prosecution initiatives, revisions to the patent examiner production system, prioritizing

incoming work, and increased international work sharing will contribute to yield efficiency gains to help achieve these goals.

An additional component of the USPTO's hiring strategy is to promote a nationwide workforce. While the Office's current array of telework programs serve as a model for the Federal government, we continue to review possible improvements and geographical expansion of telework opportunities for our employees. Under our existing authority, we recently adopted a new policy that will reduce the burden on telework employees who live within a 50 mile radius of the Office to report to headquarters every two weeks. We are exploring further enhancements to our telework programs that will allow the Office to attract and retain a highly skilled workforce. We are also studying ways to strengthen our organizational structure to support our strategic initiatives and look forward to working with the committee as these efforts progress.

The President's Budget will enable us to take aggressive steps to make the USPTO more efficient and reduce the unacceptably long pendency periods that hinder the creation of new businesses and new jobs.

III. Current Financial Situation

While FY 2011 looks promising, I want to take this opportunity to discuss our current financial situation. We recognize that we must take a multi-year approach to planning and implementing improvements at the USPTO. Our revenues from user fee collections declined substantially during FY 2009 and the Office was forced to cut spending sharply in many important operational areas – cuts that cannot be sustained over the long-term. Notably, without swift and decisive action from Congress in late FY 2009, the USPTO may have been forced to take even more drastic measures.

Our financial constraints carried over into FY 2010, forcing us to continue operating on a bare-bones budget. Because we are funded entirely from fee revenues, the reduction in user fee collections below our appropriations level that occurred in FY 2009 forced us to continue making hard choices including hiring less than the planned number of examiners, limiting overtime, and postponing critical upgrades to our information technology systems. During FY 2010, we have lost 115 patent examiners (through the end of March) and have only replaced six.

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

I would be remiss if I didn't update the Committee on USPTO's current estimates of its fee collections. Based on the first five months of FY 2010, we are seeing a rebound in user fee collections at the USPTO attributable to an improving economy and increased production that may be attributable to managerial initiatives. Last week, we shared an update of revised estimate and forecast assumptions with Subcommittee staff that projects USPTO will collect between \$146 and \$232 million more than its appropriated amount in FY 2010.

IV. Patent Initiatives

We have also sought to create a stronger partnership with our external stakeholders and our employees. We are in the midst of fine-tuning our strategic plan to address the backlog and focus on high-quality, efficient examination, and look forward to receiving Congressional input in that process within the next few months.

Our new leadership team at the USPTO has undertaken a broad array of efficiency initiatives to improve the speed and quality of patent processing. These initiatives include a “first in a generation” reform of the patent examiner count system. We expect this new system to create an environment where examiners efficiently review applications and work with practitioners to come to correct decisions more quickly.

At the end of last year, we announced a new program to provide accelerated examination for green technology innovations, reducing significantly the pendency of applications relevant to climate change mitigation. We also launched a program specifically designed for small and independent entities, enabling this important job creating segment of the innovation community to benefit from accelerated examination of one patent application in exchange for abandoning a second unexamined application. The USPTO will benefit from a smaller backlog as a result.

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

These patent related initiatives are described in more detail below:

Improving Patent Quality and Identifying New Ways to Measure It

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

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

Reformulating Performance Appraisal Plans (PAPs)

The USPTO established a task force with representation from all “technology centers” to craft new performance appraisal plans (PAPs) for supervising patent examiners (SPEs) to focus on enhanced examination quality, reduced application pendency, and improved stakeholder responsiveness. The new SPE PAP, which has been finalized and will be rolled out in early April

2010 for these critical managers, provides increased recognition of key SPE activities in coaching and mentoring examiners while also recognizing the importance of contributions to agency-wide initiatives. The task force also created an SPE award program to provide additional incentives to the achievement of these new SPE goals.

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

Increased International Work Sharing

Work sharing with other patent offices is a key priority in managing USPTO's workload. The Office has implemented the Patent Prosecution Highway (PPH) with other major patent offices worldwide. In PPH, after an office of first filing determines that an application is patentable, the applicant may request that the second office fast-track examination in its corresponding application. In the more than 2600 PPH applications processed at the USPTO to date, the number of office actions was nearly halved, the grant rate doubled, and the pendency period was reduced by between 8 and 18 months. The USPTO is now working cooperatively with the other patent offices and users to increase the usage of the PPH to maximize its benefits.

Further, the USPTO, in conjunction with the user community, is planning the implementation of a concept known as SHARE (or Strategic Handling of Applications for Rapid Examination). SHARE promotes the prioritization and balancing of examination work among patent offices. This initiative enables the office where an application is first filed to make available search and examination results for use in the other offices where a corresponding case is filed.

Revision to Patent Examiner Production System (Count System)

The USPTO and its patent professional employee union have implemented a new production crediting system that places its emphasis on providing examiners with more time up front to ensure a complete and thorough initial examination, decrease redundancy, and encourage quicker resolution of issues in the patent application process. This revision, which took effect in mid-February, is designed to improve quality and reduce rework, resulting in a decrease in the application backlog and pendency over the long term. We have already seen a decrease in the actions per disposal and an increase in the number of interviews being held between examiners and applicants -- both positive signs relative to efficiency and pendency.

Application Acceleration Pilot for Small Entities (Project Exchange)

Project Exchange, an application acceleration initiative open to small entities, empowers qualifying applicants having two or more pending patent applications to accelerate examination for one of the applications by abandoning a second unexamined application that may no longer be of value to them. This initiative, which gives applicants greater control over the processing speed of their applications, helps the USPTO prioritize its workload while reducing the backlog of unexamined patent applications. The program began as a pilot at the end of last year and more

than 30 applications have since been submitted to this pilot program.

Prioritizing Patent Applications—Green Technology

The USPTO is providing special handling of inventions involving green technology to promote innovation in this important area and focus on pendency of these applications that may be critical to climate change mitigation. More than 850 applications have been submitted to this program since it was announced at the end of last year. In most cases, these applications are picked up within 42 days after the petition for accelerated examination is filed.

Training of Examiners

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

PCT Processing

The Patent Cooperation Treaty (PCT) enables U.S. applicants to file a single international application in a standardized format, which is then received by PCT contracting foreign states. The USPTO is working to raise its PCT processing techniques to world-class levels to aid U.S. technology owners to obtain early and fair intellectual property protection internationally.

Transparency of USPTO Materials

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

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

Finally, we are also in the process of launching an on-line “dashboard” that will provide a snapshot of key pendency metrics, thereby making pendency more transparent to the general public. Additionally, speeches by USPTO officials are being published on the Internet, and USPTO officials have significantly increased their public speaking frequency.

Investing in IT Infrastructure

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

In FY 2011, the USPTO will fund the continued operations and maintenance of our existing IT systems. In parallel, we will begin the work of setting up new systems that will enable end to end

electronic processing of patent and trademark applications. By removing the constraint that the new system must interface significantly with our outdated, current systems, we allow the work to be driven by two guiding principles:

- (1) stakeholders needs lead the process; and
- (2) build small, build fast, and own the design.

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

Re-engineering the Classification System

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

Ombudsman Program

In October 2009, the USPTO published a *Federal Register* notice inviting public comment on a proposal to establish an ombudsman program. The program is intended to facilitate any complaints (within 10 business days) when applications become stalled in the examination process. The program would also provide feedback and early warning alerts to upper management regarding training needs based on complaint trends. We are currently reviewing the comments and suggestions received in response to our notice to help us design the most effective program.

Training of Supervisors

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

Stakeholder Survey

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

Reengineering the MPEP

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

V. Trademark Initiatives

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

Trademark Pendency

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

Trademark Quality

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

Public Roundtables on Trademark Issues

Finally, similar to other such activities we have started at the Office to stimulate public discussion on IP policy and developments, next month USPTO will be co-hosting a panel discussion with George Washington University Law School, titled “The Future of the Use-based Trademark Register.” The panel discussion will identify and discuss the possible effects of the recent decision in *In re Bose Corporation*.

Anti-Counterfeiting and Anti-Piracy

Trademark Operations officials will partner with appropriate entities to promote educational efforts to develop public awareness of the adverse effects of trademark counterfeiting. A partnering effort will also be made with Customs and Border Protection to develop an on-line system to permit Trademark owners to request Customs recordation when filing for a federal Trademark registration.

Investing in IT Infrastructure

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

VI. IP Policy and Enforcement

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

Creation of Office of the Chief Economist

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

Collection of Data on Role of IP in Innovation and Creativity

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

The USPTO is also co-leading a task force with a sister DOC agency, the National Telecommunications and Information Administration (NTIA), to gather data that will help the DOC formulate positions on digital copyright policy for the 21st century. Outputs will include a major policy symposium and whitepaper(s). The outputs on this process will assist the Administration in formulating digital copyright policies as well as the Administration's overall IP enforcement plan.

IP Attachés Program

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

IP Law Development

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

As the Executive Branch's statutory adviser on IP policy, the USPTO has been actively involved in developing the U.S. government's legal position on important court cases. In *Bilski v. Kappos*, which was argued in the Supreme Court last November, the U.S. argued that the USPTO appropriately denied patent claims for a business method patent involving a method for hedging risk. In the "Google Books" matter, we worked closely with the Department of Justice and other government agencies to craft a court filing explaining the many benefits of a settlement that would give consumers easy access to vast numbers of out-of-print works, while articulating a series of concerns about details of the proposed settlement. Likewise, we have helped in developing U.S. litigation positions in other cases involving the USPTO's rulemaking authority, the appropriate standard for considering allegations of collusive conduct in the context of reverse payments from brand name manufacturers to prospective generic competitors in the Hatch-Waxman context, among other important intellectual property matters.

Global IP Academy

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

intellectual property rights, and promoting discussion of intellectual property issues in a friendly and supportive environment. The Academy provides both multilateral programs and country-specific programs as needed. USPTO further envisions programs dedicated to specific legal issues or technologies as the Academy continues to develop. GIPA also delivers training to other stakeholders, including small business owners, U.S. Government officials, and the general public.

VII. Conclusion

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

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

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