

**U.S. PATENT AND TRADEMARK OFFICE:
THE AMERICA INVENTS ACT AND BEYOND,
DOMESTIC AND INTERNATIONAL POLICY GOALS**

HEARING
BEFORE THE
SUBCOMMITTEE ON
COURTS, INTELLECTUAL PROPERTY,
AND THE INTERNET
OF THE
COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRTEENTH CONGRESS
SECOND SESSION

—————
JULY 30, 2014
—————

Serial No. 113-110

—————

Printed for the use of the Committee on the Judiciary



Available via the World Wide Web: <http://judiciary.house.gov>

—————
U.S. GOVERNMENT PRINTING OFFICE

88-922 PDF

WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2104 Mail: Stop IDCC, Washington, DC 20402-0001

COMMITTEE ON THE JUDICIARY

BOB GOODLATTE, Virginia, *Chairman*

F. JAMES SENSENBRENNER, Jr., Wisconsin	JOHN CONYERS, JR., Michigan
HOWARD COBLE, North Carolina	JERROLD NADLER, New York
LAMAR SMITH, Texas	ROBERT C. "BOBBY" SCOTT, Virginia
STEVE CHABOT, Ohio	ZOE LOFGREN, California
SPENCER BACHUS, Alabama	SHEILA JACKSON LEE, Texas
DARRELL E. ISSA, California	STEVE COHEN, Tennessee
J. RANDY FORBES, Virginia	HENRY C. "HANK" JOHNSON, JR., Georgia
STEVE KING, Iowa	PEDRO R. PIERLUISI, Puerto Rico
TRENT FRANKS, Arizona	JUDY CHU, California
LOUIE GOHMERT, Texas	TED DEUTCH, Florida
JIM JORDAN, Ohio	LUIS V. GUTIERREZ, Illinois
TED POE, Texas	KAREN BASS, California
JASON CHAFFETZ, Utah	CEDRIC RICHMOND, Louisiana
TOM MARINO, Pennsylvania	SUZAN DeLBENE, Washington
TREY GOWDY, South Carolina	JOE GARCIA, Florida
RAÚL LABRADOR, Idaho	HAKEEM JEFFRIES, New York
BLAKE FARENTHOLD, Texas	DAVID N. CICILLINE, Rhode Island
GEORGE HOLDING, North Carolina	
DOUG COLLINS, Georgia	
RON DeSANTIS, Florida	
JASON T. SMITH, Missouri	
[Vacant]	

SHELLEY HUSBAND, *Chief of Staff & General Counsel*
PERRY APELBAUM, *Minority Staff Director & Chief Counsel*

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET

HOWARD COBLE, North Carolina, *Chairman*
TOM MARINO, Pennsylvania, *Vice-Chairman*

F. JAMES SENSENBRENNER, Jr., Wisconsin	JERROLD NADLER, New York
LAMAR SMITH, Texas	JOHN CONYERS, JR., Michigan
STEVE CHABOT, Ohio	JUDY CHU, California
DARRELL E. ISSA, California	TED DEUTCH, Florida
TED POE, Texas	KAREN BASS, California
JASON CHAFFETZ, Utah	CEDRIC RICHMOND, Louisiana
BLAKE FARENTHOLD, Texas	SUZAN DeLBENE, Washington
GEORGE HOLDING, North Carolina	HAKEEM JEFFRIES, New York
DOUG COLLINS, Georgia	DAVID N. CICILLINE, Rhode Island
RON DeSANTIS, Florida	ZOE LOFGREN, California
JASON T. SMITH, Missouri	SHEILA JACKSON LEE, Texas
[Vacant]	STEVE COHEN, Tennessee

JOE KEELEY, *Chief Counsel*
HEATHER SAWYER, *Minority Counsel*

CONTENTS

JULY 30, 2014

	Page
OPENING STATEMENTS	
The Honorable Howard Coble, a Representative in Congress from the State of North Carolina, and Chairman, Subcommittee on Courts, Intellectual Property, and the Internet	1
The Honorable John Conyers, Jr., a Representative in Congress from the State of Michigan, Ranking Member, Committee on the Judiciary, and Member, Subcommittee on Courts, Intellectual Property, and the Internet ..	2
The Honorable Bob Goodlatte, a Representative in Congress from the State of Virginia, and Chairman, Committee on the Judiciary	4
The Honorable Jerrold Nadler, a Representative in Congress from the State of New York, and Ranking Member, Subcommittee on Courts, Intellectual Property, and the Internet	6
WITNESS	
The Honorable Michelle K. Lee, Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the United States Patent and Trademark Office, United States Department of Commerce	
Oral Testimony	8
Prepared Statement	11
LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING	
Prepared Statement of the Honorable John Conyers, Jr., a Representative in Congress from the State of Michigan, Ranking Member, Committee on the Judiciary, and Member, Subcommittee on Courts, Intellectual Property, and the Internet	3
APPENDIX	
MATERIAL SUBMITTED FOR THE HEARING RECORD	
Response to Questions for the Record from the Honorable Michelle K. Lee, Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the United States Patent and Trademark Office, United States Department of Commerce	44

**U.S. PATENT AND TRADEMARK OFFICE: THE
AMERICA INVENTS ACT AND BEYOND, DO-
MESTIC AND INTERNATIONAL POLICY
GOALS**

WEDNESDAY, JULY 30, 2014

HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY,
AND THE INTERNET

COMMITTEE ON THE JUDICIARY

Washington, DC.

The Subcommittee met, pursuant to call, at 3 p.m., in room 2141, Rayburn House Office Building, the Honorable Howard Coble (Chairman of the Subcommittee) presiding.

Present: Representatives Coble, Marino, Goodlatte, Chabot, Farenthold, Holding, Collins, Smith, Nadler, Conyers, Chu, DelBene, and Jeffries.

Staff Present: (Majority) Vishal Amin, Counsel; Olivia Lee, Clerk; (Minority) Jason Everett, Counsel; and Norberto Salinas, Counsel.

Mr. COBLE. Good afternoon, ladies and gentlemen. The Subcommittee on Courts, Intellectual Property, and the Internet will come to order.

Without objection, the Chair is authorized to declare a recess of the Subcommittee at any time. We welcome all the witnesses and those in the audience as well with us today. I'll give my opening statement, and then I'll recognize the gentleman from Michigan.

Intellectual property forms the foundation of our nation's innovation economy. The issues surrounding copyrights, copyrights—strike that—patents, copyrights, and trademarks affect nearly every business in America, both large and small. That is why today's oversight hearing over the office tasked with managing our nation's intellectual property laws is so vitally important.

Back in 2011, we passed the America Invents Act, the AIA, that was most substantial—the most substantial reform to U.S. patent law since the 1836 patent law, or Patent Act. The AIA re-established the U.S. point system as a global standard, and over the past 3 years the U.S. Patent and Trademark Office has worked to implement the various provisions of the AIA to ensure that the bill realizes its full potential to promote innovation and create jobs. Our priority is to ensure that the PTO's implementation of the AIA has been in line with congressional intent. While the AIA rewrote

the underlying patent law and procedures at the PTO, the dramatic rise in abusive patent litigation over the last several years necessitated our work to address abusive patent litigation. Through election year, patent—though in an election year, pandering and politics thwarted our efforts in the Senate. The fight goes on, and I'm certain that the Innovation Act, which passed the House last year with 325 votes and the support of the White House, will ultimately become law. We need to build on our work with the Innovation Act to ensure that the U.S. patent system operates fairly.

Abusive patent litigation is a scourge on our economy, and it is the product of those taking advantage of loopholes in the current system to engage in what amounts to litigation extortion. In that vein, I call on the USPTO to address the issues surrounding pre-GATT, or submarine, patent applications. Some of these applications have been sitting at the PTO longer than I've been in Congress. These are applications that, if issued, would receive 17-year terms of protection from the date that they issue—from the date they issue, not the date they were filed. But this is not the PTO's fault. This is a result of legal gamesmanship by applicants. Such dilatory behavior by these applicants reflects the serious abuse of PTO procedure, it seems to me. I called on the USPTO to use its—to use its—strike that—to use their existing authority under the law to start publishing these dilatory applications so that the public has notice if vital technologies like those that cover the personal computer or the Internet are to be ripped from the public domain.

American innovation cannot be held hostage to frivolous litigation from weak or overbroad patents. Companies are shutting down and folks are losing jobs. We need to work together to ensure that the American economy does not continue to suffer.

I hope to hear more today from our esteemed witness and the steps that need to be taken to promote America's innovation economy and create jobs.

I'm now pleased to recognize the gentleman from Michigan, the Ranking Member of the full Judiciary Committee, Mr. Conyers, for his opening statement.

Mr. CONYERS. Thank you, Chairman Coble.

Today's hearing provides a long overdue opportunity for us to review our ongoing efforts to strengthen our nation's intellectual property system, and so I'm pleased that the Honorable Michelle Lee, the Deputy Under Secretary, will be here with us to help us understand the overall strategy for us moving forward.

The health of our intellectual property system is integral to the health of our nation's economy. It provides critical incentives that foster innovation, which in turn creates jobs. For example, IP-intensive industries account for more than a third of the U.S. gross domestic product and support about 40 million jobs in the United States.

So as we examine the work of the Patent and Trademark Office, here's what I think we ought to be looking at carefully. The office, to be truly effective in protecting the integrity of our intellectual property system, we must ensure that the agency has sufficient resources, and I'm sure this is going to be seen as the most basic problem before us.

Unfortunately, the current funding mechanism has failed the patent system by allowing an estimated billion dollars in fees over the last two decades to be diverted to other agencies, and that's why many of my colleagues and myself have introduced H.R. 3349, the Innovation Protection Act. It's bipartisan legislation that establishes a permanent statutory funding mechanism for the United States Patent and Trademark Office. This legislation would ensure that the office receives a consistent stream of funding that would better enable the agency to address abusive patent litigation.

A major contributing factor to the problem of abusive patent litigation is the issuance of ambiguous or poor quality patents. Thus, the most effective step we can take is making sure that such patents are not issued to begin with, and by ensuring sufficient resources for USPTO would be a most important step in the right direction. With ample resources, the USPTO could hire and retain more examiners to increase patent examination quality and to issue strong patents. It would modernize the IT system to examiners—available to examiners to improve the speed and quality of the examiners' work product. And with more funding, it could provide examiners more technical training and expertise.

Accordingly, I'd like to hear from the Deputy Director about the impact the current funding mechanism has had on USPTO's past and future efforts to improve patent quality—patent examination quality.

Now, a strong U.S. intellectual property system also requires that the Patent and Trademark Office register trademarks worthy of the protection of such authority that conveys to trademark owners. Trademarks provide owners a legal right against unlawful infringers. They also incentivize owners to produce high quality products and services. Otherwise, the trademark owners' reputations suffer. The upward trend in trademark registration application reflects the increasing awareness of the importance of the trademark.

And so I will put the rest of my statement in the record, and yield back the balance of my time, Mr. Chair.

Mr. COBLE. I thank the gentleman from Michigan.

[The prepared statement of Mr. Conyers follows:]

Prepared Statement of the Honorable John Conyers, Jr., a Representative in Congress from the State of Michigan, Ranking Member, Committee on the Judiciary, and Member, Subcommittee on Courts, Intellectual Property, and the Internet

Today's hearing provides a long-overdue opportunity for us to review the ongoing efforts of the U.S. Patent and Trademark Office to strengthen our Nation's intellectual property system.

The health of our intellectual property system is integral to the health of our Nation's economy. It provides critical incentives that foster innovation, which, in turn, creates jobs. For example, IP-intensive industries account for more than one-third of the U.S. Gross Domestic Product and support about 40 million jobs in the United States.

So as we examine the work of the U.S. Patent and Trademark Office, there are several factors that should be considered.

To begin with, for the Office to be truly effective in protecting the integrity of our intellectual property system, Congress must ensure that the agency has sufficient resources.

Unfortunately, however, the current funding mechanism has failed the patent system by allowing an estimated \$1 billion in fees over the last two decades to be diverted to other agencies.

That is why I, along with many of my colleagues on this Committee, introduced H.R. 3349, the "Innovation Protection Act." It is bipartisan legislation that establishes a permanent, statutory funding mechanism for the USPTO.

This legislation would ensure that the Office receives a consistent stream of funding that would better enable the agency to address abusive patent litigation.

A major contributing factor to the problem of abusive patent litigation is the issuance of ambiguous or poor quality patents.

Thus, the most effective step we can take is making sure that such patents are not issued to begin with. By ensuring sufficient resources for the USPTO, this would be accomplished.

With ample resources, the USPTO could hire and retain more examiners to increase patent examination quality and to issue strong patents.

It could modernize the IT systems available to examiners to improve the speed and quality of the examiners' work product.

And with more funding the USPTO could provide examiners more technical training and expertise.

These all contribute to superior patent examination quality.

Accordingly, I would like to hear from Deputy Director Michelle Lee about the impact the current funding mechanism has had on the USPTO's past and future efforts to improve patent examination quality.

Second, a strong U.S. intellectual property system also requires the USPTO to register trademarks worthy of the protection such authority conveys to the trademark owners.

Trademarks provide owners a legal right against unlawful infringers. They also incentivize owners to produce high quality products and services, otherwise the trademark owners' reputations suffer.

The upward trend in trademark registration applications reflects the increasing awareness of the importance of trademark.

And, the Office has an important responsibility to ensure that the public interest is served well regarding the agency's trademark registration approval process.

Just last month, for example, a non-political, administrative tribunal within the USPTO cancelled the trademark of Washington's professional football team after having determined that the trademark was disparaging to Native Americans.

Section 2 of the Trademark Act specifically provides, in pertinent part, that a trademark is ineligible for registration if found to disparage an individual or group.

Accordingly, I would appreciate having our witness address whether this law needs to be further strengthened.

Finally, we must consider the challenges presented by international competitors.

Our intellectual property system is the envy of the world because it forms the foundation for our inventiveness and dynamic business culture. It is clear that the protection and enforcement of intellectual property is vital to maintaining our competitiveness globally.

Unfortunately, some other countries, particularly China and India, do not share our view of promoting and protecting intellectual property rights.

I would like the Deputy Director to discuss whether there are measures that Congress should consider to better equip her agency to prevent and deter international infringement of U.S. intellectual property rights.

I thank the Chairman for holding today's hearing and I look forward to hearing Ms. Lee's testimony.

Mr. COBLE. The gentleman from Virginia, the Chairman of the full House Judiciary Committee.

Mr. GOODLATTE. Thank you, Mr. Chairman.

And Deputy Director Lee, welcome.

When we look at the array of agencies and departments within the Federal Government, only a certain number carry out a mission that is explicitly called for in the Constitution. The U.S. Patent and Trademark Office is one of them. As the PTO carries out its constitutional mission, we need to conduct appropriate oversight to ensure that our IP laws are being implemented fairly and in line with congressional intent.

In recent years, the PTO has been tasked with implementing the America Invent Act. The AIA was the most significant reform to

U.S. patent law in my lifetime. I believe that it is imperative for this Committee to examine the rules and procedures that the PTO has adopted to implement this important law, in particular, the various post-grant proceedings called for in the AIA. The post-grant proceedings were designed to create a cost-effective alternative legal forum at the PTO to provide a simpler way to review questions of patentability, thus reducing the cost of frivolous litigation on job creators. It is important for the PTO to operate these proceedings as true alternatives to the courts. It is also important for the programs to operate fairly for both the patent owner and those accused of infringement.

It also appears that the business method transitional program has been implemented successfully by the PTO and is operating quite well. I hope to hear more from the Acting Director on this provision of the AIA.

With regard to frivolous patent litigation, I remain confident that the Innovation Act, which passed the House with 325 votes, will become law. Though some in the Senate caved to election year politics and special interests, this is a bill that truly puts our economy first. I appreciate the support of the White House for the Innovation Act and, in particular, the provisions that went directly to curtailing abusive patent litigation, specifically a modernized fee-shifting statute based on the Equal Access to Justice Act.

As we work to enact the Innovation Act, the PTO is also taking steps to improve patent quality internally with improved prior art searches and clearer guidelines. While I applaud these efforts, I also want to caution against attempting to simply implement provisions of the Innovation Act through rulemakings. In some instances, we have seen proposed rulemakings for issues like attributable owner disclosures that have Draconian penalties and little to no benefit in reducing frivolous patent litigation or improving patent quality. These kinds of rulemakings could impose an exorbitant tax on business and innovation. While we share the common goal of approving the patent process, we must tread carefully. Rulemakings are not a substitute for congressional action.

On the patent quality front, I strongly believe that the PTO should not simply be in the business of granting patents and leaving the mess created for the courts and Congress to fix, but rather, focus on tightening the requirements for patent eligibility to reduce the number of weak or overly broad patents from entering the system.

There are also some patent applications that have been pending for a very long time. These pre-GATT, or submarine patent applications, have in some cases been pending for 30 or 40 years. This long pendency is not the fault of the PTO, and I appreciate that the PTO provided Congress with a report detailing these several hundred pending submarine patent applications.

Apart from being a drain on PTO resources, I believe that the public has a right to know if widely adopted technology could suddenly be removed from the public domain. If such applications were to issue as a patent today, they would be entitled to a 17-year term and would not expire until the year 2030. Moreover, because these applications have not been published, the public has no notice that patents may issue that claim the invention in question, and the

public has no opportunity to provide the PTO with prior art that could directly apply to the overly broad claims in many of these applications. And so I call on you to exercise your authority under existing law to publish these applications immediately.

Patent and trademark quality are key components of the PTO's overall mission, but I also want to ensure that the PTO is properly spending the fees that it collects, that its employees are acting appropriately when it comes to hiring appropriately qualified individuals and that the PTO's IP attachés have appropriate resources and authority in our embassies abroad. When it comes to our efforts overseas, we need to ensure that our IP trade agenda, IP attaché program, and training and capability building programs are in line with compelling U.S. economic interests and job creation.

Intellectual property powers the engine of American innovation and creativity, it creates new jobs, and helps grow our economy. I look forward to hearing from Director Lee on these important issues.

Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentleman.

The distinguished gentleman from New York and the Ranking Member of the Subcommittee, Mr. Nadler, is recognized.

Mr. NADLER. Thank you, Mr. Chairman.

Today, we conduct an oversight hearing of the Patent and Trademark Office. A strong patent system is important to foster innovation. Patents serve as one the key drivers of the Nation's economy. I hope that today we will consider what steps we can take to continue to improve the patent system. To do this, we will examine the implementation of the Leahy-Smith America Invents Act of 2011, which was the largest modification to U.S. patent law in more than 50 years.

The America Invents Act was designed to help process patent applications faster, reduce the applications backlog, increase patent quality through expedited patent challenges, and to improve examiner recruitment and retention.

The PTO is a fee-funded agency and the America Invents Act provides a model for funding to ensure that the USPTO receives access to the user fees collected each year.

As we study these issues today, I want to stress that I believe that it's very important that the PTO continue to receive all of these funds so that it can continue to issue high quality patents.

The bill gave the PTO fee setting authority, which has allowed the PTO to develop an operating reserve. This enables it to launch new initiatives in response to the customer's needs. To date, the office has implemented most of the provisions of the America Invents Act. Of the 37 America Invents Act provisions, 28 were delivered on time. Though this implementation rate has been a success, I would like to hear today about the planning and implementation of the patent review processing system. This system was launched in a new Patent Trial and Appeal Board and is the board's e-filing and case management system for trial proceedings.

The America Invents Act required the office to establish three or more satellite offices by September 16, 2014. The PTO opened one satellite office in Detroit in July 2012 and recently opened another

one in Denver. I would like to hear how these offices are helping to reduce the patent backlog and how these operations—their operations have been running so far.

As we examine the continued implementation of the America Invents Act, we will study why changes are needed, if any, for the patent system as a whole. One of the key goals of the America Invents Act was to help the PTO quickly review patent applications, and another goal was to establish higher quality patents, and the PTO has worked to achieve that goal.

I'm happy the PTO has made improving patent quality a top priority. I would like to hear how the PTO plans to improve patent quality as it continues to implement the America Invents Act. Also, as quality continues to improve, we expect this will play a large role in curtailing abusive patent litigation. In recent years, there has been increasing awareness about abusive patent litigation. There's also been a public and private effort to combat it. We need to continue to develop other creative solutions to deal with instances of such litigation without diminishing the rights of legitimate patent holders. In particular, the House passed the Innovation Act last December with strong bipartisan support to address many of the concerns that have been raised about abusive patent litigation. During our work on the bill, we heard from many stakeholders about how the bill could be modified and improved, and we attempted to work with all interested parties. The Senate has continued to work on this important issue, but the bill has been put on hold as stakeholders continue to attempt to work out their differences. We must not become discouraged as we continue to attempt to find common ground to deal with this problem.

Last year, the Administration announced seven legislative recommendations designed to increase transparency of patent ownership information to curtail abusive litigation and ensure high quality patents. We should continue to study these recommendations as we continue to develop ways to improve the system.

I would also like to hear today about efforts, such as the intellectual property rights attaché program, that the PTO has taken to work with our trading partners to improve intellectual property rights and enforcement.

The Supreme Court has recently issued several opinions that impact some of the legislative issues we will discuss today. For example, in the *Octane* and *Highmark* cases, the court issued opinions lowering the standard for awarding attorney's fees in patent cases.

I would like to hear how the Patent Office is working on executive actions to address the question of overly broad patent claims, particularly in the context of software.

The Administration has called on the PTO to provide new targeting training toward examiners on the scrutiny of these types of claims. I commend the PTO for developing four training modules focused on functional claiming under Section 112(f), which is often used in software patents. This is an important step in taking the executive action to increase patent claim clarity seriously.

Finally, we should make sure that American companies continue to receive adequate patent protection in key overseas markets.

This hearing will provide us with an opportunity to evaluate the efforts of the PTO to implement the America Invents Act and pro-

vide suggestions of how we can improve the patent system going forward.

I look forward to hearing from the witness, and I yield back the balance of my time. Thank you.

Mr. COBLE. I thank the gentleman.

The statements of other Members of the Subcommittee will made part of the record without objection.

Before I introduce our distinguished witness today, Ms. Lee, I'd like you to stand and be sworn, if you will.

[Witness sworn.]

Mr. COBLE. Thank you. You may be seated. Let the record show that the Ms. Lee responded in the affirmative.

Our witness today is the Honorable Michelle Lee, Deputy Under Secretary of Commerce for Intellectual Property and Acting Director of the U.S. Patent and Trademark Office. In her position, Ms. Lee provides leadership, oversight and day-to-day management to one of the largest intellectual property offices in the world, which consists of 12,000 employees. She also serves as one of the principal advisors to the President on both domestic and international intellectual property matters. Prior to her role as Deputy Director, Ms. Lee served as the first Director of the Silicon Valley Patent and Trademark Office, where she established and led the new office. Her experience also includes being the first Head of Patent Strategy at Google, where serving as the company's Deputy General Counsel, she—while serving as the company's Deputy General Counsel. She received her J.D. from the Stanford Law School and her M.S. and B.S. in electrical engineering and computer science from the Massachusetts Institute of Technology.

Ms. Lee, we're delighted to have you with us.

I must advise all of you, we expect a vote on the Floor imminently, so at that time, we will declare a brief recess, should be no more than 35 or 40 minutes, I'm thinking.

Ms. Lee, there's a timer before you on your desk. When the green light becomes amber, you're being warned you have a minute to go. And if you can wrap up on or about 5 minutes. You won't be severely punished if you fail, but on or about 5 would be fine. We're pleased to have you with us today.

TESTIMONY OF THE HONORABLE MICHELLE K. LEE, DEPUTY UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DEPUTY DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE, UNITED STATES DEPARTMENT OF COMMERCE

Ms. LEE. Thank you, Chairman Coble.

Mr. COBLE. Put the mike on, Ms. Lee.

Ms. LEE. Okay. Thank you.

Chairman Coble, Chairman Goodlatte, Ranking Member Nadler and Ranking Member Conyers, and Members of the Subcommittee, thank you for this opportunity to discuss the USPTO's options, operations, programs and initiatives.

Mr. Chairman, promoting innovation, stimulating growth, and creating an environment that generates high-paying jobs continues to be a top priority of the Obama administration and vital to our country's long-term competitiveness. I'm honored to be a part of an

agency that directly serves America's entrepreneurs by providing the intellectual property protection they need to secure investment capital and allowing them to build their companies and bring cutting-edge products and services to the global marketplace.

I am also very proud to be a part of an agency that was ranked as the number one best place to work in the Federal Government out of 300 agency subcomponents by the Partnership for Public Service Survey. This ranking is a tribute to my predecessors, to the USPTO's management team, our employee unions and, most importantly, to our 12,000 dedicated employees.

Mr. Chairman, our business is thriving, and I believe that is a good sign for the economy. This fiscal year, we expect to receive nearly 600,000 patent applications and more than 450,000 trademark applications. We have reduced the patent application backlog by 24 percent since January of 2009, despite an on average 5 percent increase year over year in filings, and we continue to make progress in reducing the backlog and the pendency of applications. Our trademark team has long been at its optimal backlog and pendency targets. On average, it takes just 10.3 months to receive a final decision on a trademark application.

The USPTO and the American public continue to benefit from the legislative changes enacted by the Leahy-Smith America Invents Act. During the last 3 years, the USPTO has fully implemented these changes to modernize the U.S. patent system, transitioning from a first inventor to file system, establishing timely and cost-effective post-grant review proceedings, and taking advantage of new authority to enable sustainable funding.

Mr. Chairman, the Administration believes that additional legislative changes building on the AIA would further enhance patent quality and lessen abusive patent litigation. This Committee deserves substantial credit for moving forward a bill that addresses these goals. We continue to hope that a bill can reach the President's desk, and are committed to working with Congress and our stakeholders to build balanced and effective consensus legislation.

In the meantime, we are not waiting. We are implementing an array of initiatives to improve our patent system now and for the future. We have launched a multifaceted enhanced patent quality initiative to expand examiner training, both legal and technical; to collect more data to further improve our examination process and training; to harness the power of the crowd, or public, to find the best possible prior art during, and not after, examination; and to gather input from all of our stakeholders on how further to improve quality.

High quality patents reduce the potential for abusive litigation, permitting our companies to focus on innovation. For those who receive abusive demand letters or lawsuits, we have launched an on-line toolkit to help them know their rights and available resources before entering into costly litigation or settlement. We are committed to helping under-resourced applicants benefit from the patent system through our pro bono and pro se assistance programs and in increasing the transparency in our patent system.

Further, our Patent Trial Appeal Board is operating exactly as you, Congress, intended. We are providing a faster and lower-cost alternative to district court litigation in determining the validity of

patents. As required by the AIA, every one of our trials to date has completed with a high quality ruling within the statutorily-required 1-year deadline, despite an increasing volume of petitions, more than 1,600 per year, which is more than 200 percent of that originally predicted.

Moreover, as also required by the AIA, we have opened four satellite offices to increase our capacity to handle applications and to provide services and information to help entrepreneurs and inventors. Offices in Detroit and Denver are already up and running in permanent space and have patent examiners on the ground locally. Permanent offices in San Jose and Dallas will officially open next year. Patent Trial Appeal Board judges are working in all four locations on appeals and post-grant review proceedings. These satellite offices have been extremely well received by the local innovation communities and play a strategic role in helping the USPTO fulfill its mission.

Mr. Chairman, with our colleagues at the Department of Commerce, we issued a green paper last year that analyzed key copyright issues in the digital environment. We are currently engaging with our stakeholders and the copyright office to develop recommendations.

Finally, on the international front, the USPTO continues to play a significant role in promoting protection and enforcement of intellectual property rights for our innovative companies entering foreign markets.

Mr. Chairman, my written statement contains more detailed information about our many domestic and international intellectual property related activities, and I thank you for this opportunity and am pleased to answer any questions you or your Committee Members may have.

Mr. COBLE. Thank you, Director Lee, for being here and for your testimony.

[The prepared statement of Ms. Lee follows:]

STATEMENT OF
MICHELLE K. LEE
DEPUTY UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY
AND
DEPUTY DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE
SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY AND THE INTERNET
COMMITTEE ON THE JUDICIARY
U.S. House of Representatives
"U.S. Patent and Trademark Office: The America Invents Act and Beyond, Domestic and
International Policy Goals"
JULY 30, 2014

I. Introduction

Chairman Coble, Vice Chairman Marino, Ranking Member Nadler, and Members of the Subcommittee:

Thank you for this opportunity to appear before you to discuss the operations, programs and initiatives of the United States Patent and Trademark Office (USPTO).

Promoting innovation, stimulating economic growth and creating high-paying jobs continue to be top priorities of the Obama Administration and the Department of Commerce. I am very proud and honored to be part of an agency that serves America's innovators by helping to provide the intellectual property (IP) protection they need to secure investment capital, build their companies and bring their products and services to the global marketplace. Our work is more important than ever before because of the growing importance of intellectual property to the economic vitality of our country.

Also, I am very proud to be a part of an agency that was ranked #1 out of 300 agency subcomponents in the 2013 Best Places to Work in the Federal Government® report of the Partnership for Public Service. This success was accomplished while simultaneously achieving significant reductions to the patent backlog and pendency, as well as timely and effective implementation of the historic *Leahy-Smith America Invents Act* (P.L. 112-29).

II. Overview

Mr. Chairman, before I discuss our array of programs, initiatives and other efforts to serve America's innovators, I want to provide an overview of our financial posture and our strategic direction.

USPTO's FY 2015 Budget

We are very pleased that the House has passed, and the Senate Appropriations Committee has approved, a FY 2015 appropriation bill that provides USPTO with the authority to spend anticipated fee collections as estimated by the Congressional Budget Office. This will provide the USPTO with the resources and

flexibility needed to continue reducing the patent application backlog, shortening patent pendency, improving patent quality, enhancing patent administrative appeal and post-grant processes, fine tuning trademark operations, expanding our international efforts and investing in our information technology (IT) infrastructure.

Strategic Direction

Specifically, our FY 2015 appropriation will enable us to continue implementation of our 2014-2018 Strategic Plan which prioritizes efforts to:

- Continue to reduce patent pendency and the backlog of unexamined patent applications, while working with stakeholders to refine long-term pendency goals that will meet the needs of both the Office and the IP community.
- Maintain trademark pendency by continuing to align examination capacity with incoming workloads.
- Increase patent and trademark efficiencies and examination capacity, such as hiring and retaining a nationwide workforce.
- Enhance patent and trademark quality by evaluating and refining quality measurements, and maximizing their usage to improve the quality of patent and trademark examination.
- Maintain the Patent Trial and Appeal Board's (PTAB's) ability to provide timely and high quality decisions by hiring to meet increased demand and reduce inventory, updating its IT infrastructure and expanding outreach to stakeholders.
- Increase international cooperation and work sharing.
- Ensure optimal information technology (IT) service delivery to both employees and stakeholders by transitioning to next generation technology and services.
- Continue and enhance stakeholder and public outreach to promote the availability of educational resources and increase transparency of data on patents and trademarks for applicants and other users.
- Support a sustainable funding model, including using fee setting authority to adjust patent and trademark fees as appropriate.
- Implement White House Executive Actions to improve the environment for future innovation.

III. Patent Operations and Initiatives

Our patent application workload continues to increase at a healthy pace. In FY 2014, we expect to receive nearly 600,000 patent applications. That represents an increase of more than 5% as compared to FY 2013. Our backlog of unexamined patent applications is less than 620,000 which is down from more than 750,000 in 2009 (a 17.3 percent decrease). Our goal is to reduce the inventory of unexamined patent applications to a manageable level that will allow us to achieve optimal pendency by FY 2019.

In terms of processing applications, our first action pendency has been reduced to approximately 19 months and our average total pendency has fallen to approximately 28 months. Our plan is to reduce those periods to 11.3 and 21.0 months respectively by FY 2018.

The USPTO has benefited from recent legislative changes enacted in the 2011 *Leahy-Smith America Invents Act* (AIA). During the last three years, USPTO has fully implemented the changes made to modernize the U.S. patent system – transitioning to a first-inventor-to-file system, establishing new post-grant review proceedings at USPTO's PTAB and taking advantage of new authority to enable sustainable funding and other operational efficiencies.

Consistent with the President's call to strengthen the patent system and foster innovation, the USPTO believes that additional legislative changes to build upon the AIA are needed to further enhance patent quality and to lessen litigation abuses in the system. Although we had hoped that legislation would move forward this Congress, we will continue to work with the Committee and others in Congress to support efforts to develop consensus legislation.

In the meantime, USPTO has implemented a number of administrative actions using its existing authority to address these issues:

Enhancing Claim Clarity

The AIA reforms made important improvements to the patent examination process and overall patent quality, but certain stakeholders remained concerned about patents with potentially overly broad claims in certain high-tech fields. The USPTO has developed multiple initiatives to address the concerns.

First, an extensive, multi-phased training program for all examiners focused on evaluating functional claims and improving examination consistency and the clarity of the examination record. During the last year, we have implemented four training modules focused on functional claiming under section 112(f) of Title 35 – a type of claiming frequently used in software patents. The training also provides tools for examiners to clarify the examination record to positively affect the clarity of the claims. The clearer the patents, the clearer the path to innovation with less opportunity for abusive patent litigation.

Second, in addition to providing targeted training to our examiners, we also have conducted extensive stakeholder outreach and engagement to solicit ideas and collect feedback, experiences, and insights on enhancing claim clarity and improving overall patent quality.

Third, as another effort toward claim clarity, the USPTO has initiated a Glossary Pilot Program to study how the inclusion of a glossary section in a patent application might improve the clarity of the patent claims and facilitate examination of patent applications by enabling the USPTO and the public to more fully understand the meaning of the patent claims.

Increased Transparency in Patent System

At the beginning of this year, the USPTO proposed a rule requiring that owners and applicants report people or companies with ownership interests in a patent or application, called the "attributable owners." We are in the process of reviewing written comments from the public and feedback from stakeholders received at two public hearings on the proposal. As we evaluate opportunities for increasing transparency in our patent system, we look forward to working with Congress to ensure that any such enhancements are coordinated and meet the needs of our innovating companies.

Empowering Consumers and Main Street Retailers

Unsuspecting retailers, consumers, small businesses, and other users of products containing patented technology have increasingly found themselves targeted by letters alleging patent infringement and demanding money—even in instances where a small business is using an off-the-shelf product. To help level the playing field and ensure individuals and businesses know their rights and are aware of available resources before entering into costly litigation and/or settlements, the USPTO has launched a useful online toolkit of information, available at www.uspto.gov/patentlitigation. This new portal brings together for the first time in one place a wide-ranging, powerful set of tools and information, including answers to

commonly asked questions about patent demand letters and a catalog of third-party websites that users can access information about, for example, whether the patent has ever been asserted in litigation.

Expanding Outreach and Focused Study

The USPTO has significantly increased its already extensive public outreach efforts to more actively engage key stakeholders in the high-tech community, trade and bar associations, business and university groups, and advocacy organizations, resulting in a wealth of valuable input on patent clarity, transparency, and enhanced patent quality.

The USPTO has also expanded its Thomas Alva Edison Visiting Scholars Program and has selected three new scholars who will engage in focused study of various aspects of our patent system, to develop and make available to the public more robust data and research on the issues bearing on abusive litigation. This empirical research will help the USPTO better understand our current patent system and better inform the development of new ideas and consensus around improvements to patent policies and laws.

In addition, the USPTO has committed to sustaining the Patents for Humanity Program which aims to increase the accessibility of the patent system for innovators who are delivering game-changing technologies to address global humanitarian needs. Past award recipients have used their patent portfolios to decrease the price of anti-HIV and anti-malaria drugs, develop more nutritious food sources, bring solar energy to off-grid villages, combat toxic counterfeit drugs, and purify billions of liters of water using inexpensive chemical packets.

Crowdsourcing Prior Art

To determine whether an invention is novel, USPTO examiners must find and apply information about the state-of-the-art in the relevant technology. However, documents reflecting this state of knowledge can sometimes be difficult to find and incorporate into the patent-examination process. Accordingly, the USPTO is exploring a series of measures to make it easier for the public to provide information about relevant prior art in patent applications, including by refining its third-party submission program, exploring other ways for the public to submit prior art to the agency, and updating its guidance and training to empower examiners to more effectively use crowd-sourced prior art. This effort will focus on deriving valuable contributions to the patent process and to patent quality, strengthening a process that is vital to innovation and economic growth. The USPTO will seek public input on these efforts by calling on the public and expert stakeholders to partner with us to encourage the disclosure and sharing of prior art, particularly hard-to-find non-patent references.

More Robust Technical Training and Expertise

Patent examiners must be skilled in determining whether a particular application should be granted based on the state of the art. Building on its existing "Patent Examiner Technical Training Program," the USPTO is taking steps to make it easier for technologists and engineers from industry and academia to provide relevant, technical training and expertise to patent examiners regarding the state of the art. We are calling on volunteers to assist in this training effort and to help ensure that our examiners are up-to-speed on the latest, fast-moving technological development so they can issue the highest quality patents possible. In addition the USPTO is making permanent each of its four regional satellite offices, which will make it even easier for stakeholders and other volunteers to contribute in-person or virtually from these locations nationwide.

Patent Pro Bono and Pro Se Assistance

Due to a lack of resources, independent inventors and small businesses sometimes struggle with how to file and prosecute a patent application to protect their invention. The USPTO will be providing dedicated educational and practical resources to those who lack legal representation (i.e., pro se applicants) and will work with the America Invents Act (AIA) Pro Bono Advisory Council—and through a newly appointed full-time Pro Bono Coordinator—to expand the existing pro bono program established under the AIA to cover all 50 States. The USPTO will be calling on members of the patent bar to participate in the program.

Patent Quality

Improving patent quality is a top priority for the USPTO. Issuing high-quality patents not only improves the overall vitality of our patent system but also can play a significant role in curtailing abusive patent litigation now and over the long run.

The *America Invents Act* gave the USPTO fee-setting authority, which in turn allowed us to work closely with our stakeholders to develop an operating reserve. This means we are now able to launch new initiatives in response to our customers' needs, with the confidence that we can sustain these efforts even during fluctuations in funding.

As previously mentioned, we have redoubled our efforts to train our patent examiners, to ensure they stay abreast of the latest developments in the law. We have expanded our Patent Examiner Technical Training Program that brings outside experts to the PTO to train our examiners so they may stay abreast of the latest technological changes. Keeping our examiners up to date on the technology and the law is a core part of our mission.

In addition, the USPTO is also evaluating and refining our current patent quality measures, and we plan to hold a series of road shows through the end of the year to gather stakeholder input on improving our quality measures to achieve even better patent quality.

Cooperative Patent Classification (CPC)

The USPTO continues to implement the Cooperative Patent Classification (CPC) system launched in January 2013. CPC is a joint patent classification system between the USPTO and the European Patent Office that enables patent examiners and patent system users worldwide to conduct more efficient prior-art searches. Compared with the current U.S. Patent Classification System, CPC offers more targeted searches with more focused results.

Implementation of CPC requires extensive patent examiner training (approximately 1.1 million hours total, with about 868,000 hour already used). The patent examining transition began in November 2013 and will be completed by the end of this year. Training focuses on enabling patent examiners to effectively search in CPC and accurately categorize applications and granted patents. The transition to CPC is an investment in the future of IP. Through the implementation of CPC, applicants and the IP community will derive many benefits, including: enhanced examination efficiency and quality; improved access to more documents from patent offices around the world; improved navigation and understanding of a single classification system; facilitated work sharing on patent applications filed in multiple IP offices; improved consistency of classified search results across IP Offices; and adaptive and actively maintained classification schemes.

IV. Post-Grant Review Proceedings

Since September of 2012, the number of filings of petitions for administrative patent trials, created by the AIA, has grown from zero to nearly 2000. While we initially predicted that the Patent Trial and Appeal Board (PTAB) would receive, roughly, about 400 to 500 new filings per year, PTAB is on track to receive filings of approximately 1600-1900 cases per year, over 200 percent more than predicted. Recently, the Court of Appeals for the Federal Circuit overturned a district court's failure to grant a stay in favor of the PTAB, citing the great value in resolving the parties' dispute and rendering its expert decision on validity issues in advance of the district court opinion.

The number of Administrative Patent Judges (APJs) now exceeds 210, a 121% increase since the enactment of the AIA. This increase has permitted the PTAB (1) to meet its deadlines under the AIA, which requires trials to be completed in a year absent good cause; (2) to continue to handle special (reexamination) appeals in an expedited manner, as required by statute; and (3) to reduce the ex parte appeals backlog, which crested at 27,200 appeals in mid-2012, and now has fallen to below 25,750 appeals (a 5.3% decrease from the peak) – and continues to decline.

The USPTO now has permanent satellite offices in Detroit and Denver, and temporary offices – set to move to permanent space in 2015 – in Dallas and Silicon Valley. While I will provide more details about these offices later, the PTAB currently has judges at each of these sites. In fact, the first USPTO employees (10 of them) in Detroit were APJs. Dallas and Silicon Valley do not yet have any Patent Examiners, but each location has approximately a dozen judges. The APJs in these all of these offices have made significant contributions to the quality and quantity of the PTAB's decisional output. And we continue to leverage the ability to expand the recruitment effort beyond the DC area to the maximum extent possible in the satellite cities.

V. Trademark Operations

Trademark application filings continue an upward trend, increasing by more than 4 percent compared to a year ago. New applications are expected to increase by nearly 5 percent this fiscal year to 455,000 classes.

Trademark Quality & Pendency

Our Trademark Operation has made great progress toward setting and achieving high quality standards. Quality results are evidence that the specialized training, online tools, and enhanced communication efforts we are using are proving effective. The results for our newest quality standard for assessing efforts that go beyond procedural and statutory correctness continue to exceed our expectations. They demonstrate exceptional results preparing a first action.

First action pendency—the time from filing to the initial examination—has been consistently maintained within the target range to issue a first action between 2.5 and 3.5 months from filing. Disposal pendency—the time from when an application is filed until a trademark is registered or abandoned or a notice of allowance is issued for applications that are not in use—averages 10.3 months, under the 12-month target as of the end of June, and remains at historically low levels.

These results are due in part to the progress made from greater acceptance of electronic filing. Electronic filing and communications promote more efficient and cost-effective processing. In fact, more than 99 percent of applications are now filed electronically and more than 80 percent of all applications are processed electronically from filing to disposal.

Proposal to Reduce TM Fees

In the second quarter of FY2015, our Trademark Operation plans to begin to offer reduced fees for certain products. Proposed fee reductions include lowering of the filing fee where applicants agree: (a) to certain additional filing requirements, (b) to conduct all business with the office electronically and (c) to file their renewal applications electronically.

Expanding Outreach and Study

Our Trademarks Operation has also significantly expanded its public outreach in the last few years by updating and expanding its basic educational materials – including translating materials into Spanish, appointing a Managing Attorney specifically for outreach to entrepreneurs, small businesses, universities and business students among others, and conducting a series of roundtables throughout the country to gather stakeholder input.

As part of its outreach, our trademark team has also developed new explanatory videos targeted at potential applicants without counsel. For example, one 45 minute video directed to entrepreneurs has had more than 127,000 hits since it was launched last August.

VI. Intellectual Property Policy and Enforcement

The USPTO plays a significant leadership role in promoting effective domestic and international protection and enforcement of IP rights. We advise Executive Branch agencies on national and international IP policy matters, advocate for the establishment of global IP norms, and conduct technical assistance and capacity-building programs for foreign governments seeking to develop or improve their IP regulatory and enforcement mechanisms.

Key domestic-focused efforts include the following:

IP Law Development

The USPTO continues to work with Congress and the courts to improve the state of U.S. IP law. We have been actively engaged within the Administration and with Congress to enact patent reform legislation that fairly balances the interests of innovators across all industries and technologies. We are supportive of legislative changes that will streamline the patent process, address abusive litigation practices and reduce litigation costs, and improve patent quality and fairness, while preserving the rights of legitimate patent holders to enforce if needed. In addition, USPTO advocates for strong and balanced intellectual property policies in trademark, copyright and trade secret related matters.

Trade Secret Protection

The USPTO actively works to promote the importance of trade secret protection to our domestic industries. In coordination with DOC's International Trade Administration (ITA), USPTO includes discussion of trade secrets in the "STOPfakes" road shows and IP awareness campaigns that ITA conducts. Small and medium-sized enterprise outreach programs conducted by the USPTO Global Intellectual Property Academy also include trade secret components and the role that trade secret protection plays as part of an intellectual property strategy. USPTO IP Attachés stress the importance of effective trade secret protection and enforcement in their regular discussions with appropriate host-country officials (including judges, prosecutors, and policy makers) in prioritized countries.

Copyright Policy

In July 2013, the Department of Commerce's Internet Policy Task Force ("IPTF"), led by the USPTO and National Telecommunications and Information Administration ("NTIA"), issued a Green Paper titled *Copyright Policy, Creativity and Innovation in the Digital Economy* ("Green Paper"). The Green Paper is the most thorough and comprehensive analysis of digital copyright policy issued by any Administration since 1995. In issuing the Green Paper, the IPTF sought to provide an objective analysis of copyright in the digital environment to help move beyond the polarized discussions of the recent past and to set the stage for productive engagement going forward.

Within this broad framework, the Green Paper identified the following three policy issues that call for attention and the development of solutions: (1) the legal framework for the creation of remixes, (2) the relevance and scope of the first sale doctrine in the digital age, and (3) the appropriate calibration of statutory damages in the context of both individual file sharers and secondary liability for large-scale infringement. USPTO and NTIA are currently conducting roundtables around the country to solicit further public input on these policy issues and to ensure a complete record upon which the task force can make recommendations. We believe this initiative is complementary to the comprehensive review of the U.S. Copyright Act the House Judiciary Committee is conducting, and we are collaborating with the U.S. Copyright Office to ensure that our discussions in this policy area are coordinated and complementary.

Key international-focused efforts include the following:

Intellectual Property (IP) Attaché Program

In partnership with the Department of Commerce's International Trade Administration/U.S. Commercial Service, the USPTO posts IP experts as Attachés around the world to improve intellectual property systems internationally. IP Attachés have assisted a broad base of U.S. industry associations and businesses in the protection and enforcement of their IP rights abroad. The primary goals and objectives of the IP Attaché Program are to promote U.S. government IPR policy internationally; help secure strong and balanced IP provisions in international agreements and host country laws; and encourage strong and balanced IP protection and enforcement by U.S. trading partners. IP Attachés seek improvements in foreign policies, laws, and regulations; educate host government officials on IP matters; and build grassroots support for U.S. policy positions by conducting public awareness programs on IP. They serve at posts in Brazil, Russia, India, China, Mexico, Kuwait, Thailand, and the U.S. Missions in Geneva.

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.

GIPA provides both multilateral programs and country-specific programs as needed. GIPA also delivers training to other stakeholders, including small business owners, U.S. Government officials, and the general public.

VII. IT Modernization

With escalating demand for patents and trademarks, the USPTO's IT professionals are continuously looking for ways to operate more nimbly and deliver services rapidly. This year, they are working to modernize the systems that support patent and trademark examination and fee processing by using "agile" development. Many successful technology companies use "agile," an IT development method which emphasizes user involvement and ongoing feedback throughout the development process. By providing our examiners with enhanced examination tools, we are helping to improve the speed and quality of their work.

One new system, Patents End to End (PE2E), is already in beta use by some examiners and is targeted for a wide introduction to the examiner corps late this year. PE2E creates a more streamlined way for examiners to process patent applications, enhancing the way they view documents, search, take notes, and complete tasks. Another landmark project is Trademarks Next Generation, a faster, more feature-rich trademarks system for both examiners and the public to use.

Systems such as PE2E and Trademarks Next Generation follow industry best practices which include efforts to:

- Build shared IT services and tools to support global customers and maximize cost effectiveness;
- Use web-based systems with open technology standards that scale;
- Write code and deploy it everywhere for more stable, portable, and cost effective tools; and
- Provide easily searchable IP information by converting all information into searchable technology formats which will enable us to make more data available to the public.

Two weeks ago, our IT operations hit a significant milestone toward continuous, automated deployment of new software across USPTO IT systems. This advancement reflects a significant cultural and technology shift and moves the USPTO closer to what's known in industry as "DevOps." It will provide the agency with the continuous integration and release of tested software right into production (aka the hands of our customers) at a pace only seen in the private sector.

VIII. USPTO Satellite Offices

The Leahy-Smith America Invents Act of 2011 (AIA) requires the USPTO to establish regional satellite locations as part of a larger effort to modernize the U.S. patent system. These offices are important to inventors, entrepreneurs, and small and large businesses in the surrounding regions—and to accomplishing our core mission of fostering American innovation and competitiveness.

On June 30, 2014, we opened our permanent satellite office in Denver, Colorado. Located in the Byron G. Rogers Federal Building in the city's central business district, the new office will serve as a hub of innovation, education and outreach to the region to enable companies and cutting-edge entrepreneurs in the region to more efficiently navigate the world's strongest intellectual property system.

The Elijah J. McCoy Satellite Office in Detroit opened for business in July 2012 and continues to play a vital role for the agency and the local innovation community. We have hired and trained 100 patent examiners who are processing patent applications in one of our nation's historic innovation hubs. Our eight administrative patent judges are managing appeal cases and America Invents Act trials, and this summer, will move into a new space that includes a hearing room.

In April, the San Jose City Council unanimously approved the terms and conditions for our permanent facility in the San Jose City Hall to serve the Silicon Valley and the surrounding region. It will include a

large outreach center on the first floor that is on track to open in the spring of 2015 and office space that will open a few months later. A wide range of outreach activities is already underway in the Silicon Valley. Nearly 20 PTAB judges, appointed in Silicon Valley, are already participating in trials.

Finally, our Dallas satellite office is scheduled to open in the fall of 2015 in the Terminal Annex Federal Building in downtown Dallas. We currently have 11 Administrative Patent Judges who are operating out of the Santa Fe Federal Building. We continue to engage with local partners such as the Dallas Entrepreneur Center to support the innovation community, start-ups, and entrepreneurs.

We continue to appoint Patent Trial and Appeal Board judges for all of our satellite office locations. Our goal is to have at least 20 in each office who will work to reduce the inventory of trial and appeal cases. In addition, we expect to recruit patent examiners for Silicon Valley and Dallas offices closer to the dates when their respective permanent spaces near completion. We believe that these satellite offices are critical to our efforts to support innovation and creativity, help protect and foster American innovation in the global marketplace, help businesses cut through red tape, and create new economic opportunities locally.

IX. Telework

Telework at the USPTO supports mission achievement and goal fulfillment via a distributed workforce and our relevant numbers are impressive. At the end of the second quarter of 2014, 9,300 employees, agency-wide, were working from home at least 1 day per week; of these, nearly 4,800 employees work from home between four and five days per week and are distributed across 45 states.

Our telework programs have a significant impact on our real estate footprint, air quality, and traffic congestion in the Washington metropolitan area. Our full-time telework programs enable an annual rent cost avoidance of \$34 million and reduce emissions in the region by 27,095 tons.

The USPTO is considered a model for telework in the Federal Government. The flexible work arrangement and work schedules associated with our telework programs have resulted in improvements in the overall efficiency of the agency. Intangible benefits such as increased employee satisfaction and enhanced morale, have had a positive impact on retention. In fact, our telework programs contributed significantly to the USPTO's #1 rank in the 2013 Best Places to Work in the Federal Government® report of the Partnership for Public Service.

X. Conclusion

Mr. Chairman, we appreciate your continued support of the goals, priorities, operations and employees of the USPTO. We look forward to working with you to promote the strong and balanced protection of intellectual property rights both home and abroad for our country's innovators.

#

Mr. COBLE. We try to confine ourselves to the 5-minute rule as well, so I will start with a quick question to you, Ms. Lee.

The USPTO IP attaché program has been an important part of the United States international IP advocacy. The two countries of highest priority have been China and India. If you would, Ms. Lee, speak more to the key issue that the PTO's attachés are working on in those countries, particularly on the issue of trade secret theft in China and in India, the changes that we are seeing or hope to see in regards to patents protection. And market access under the newly elected pro-reform prime minister.

Ms. LEE. Thank you, Mr. Chairman, for your question about the IP attaché program. That program is designed to have IP experts on the ground. We currently have IP experts on the ground in just under a dozen countries, including three in China and one in the U.S. Embassy in India.

And what our IP attachés do is they serve multiple purposes. One is they advise American companies who are entering that country on the IP landscape on a range of issues, including patents, trade secrets and copyrights, and how to protect their intellectual property. In addition, our IP attachés work closely with the host government. They work with judicial officials to make sure that the country has rules that are in compliance with and we can influence and share similarities and values on IP. So we work with judicial officials, we work with law enforcement officials there, we work with policy makers there. Really we're trying to create an environment that is favorable for American businesses to export their products and services overseas.

Specifically, in terms of what we are doing in China, I mentioned we have three IP attachés on the ground there. We also have a team of dedicated China experts at the USPTO. I co-chair the U.S.-China Joint Commission of Commerce and Trade, and we will be meeting—on the IP working group—earlier this fall to discuss important topics, including trade secrets and other intellectual property matters. And we provide training to American companies in the United States through what we call our China IP road show. We go to multiple cities throughout the country advising companies on the IP landscape in China.

And on the front—on the Indian front—we are working together, of course, through our IP attaché program and also through our Global IP Academy to train policymakers, judicial officials and law enforcement officials. The same is true for representatives from other countries as well besides India and China.

Mr. COBLE. I thank you for that. Director Lee, I want to commend you for your stewardship at the PTO and thank you as well for working closely with us on the Innovation Act. I appreciate that. There are a good number of people who are intellectual property advocates who believe you would be a rock solid Director of the agency. Now, my record for endorsements is dismal, so I won't dare call this an endorsement, because it might end up being a liability, but you've been very—we appreciate very much the exchange we have enjoyed with you during your tenure there.

If you would, with that in mind, what are some of the key challenges that you've faced as Acting Director?

Ms. LEE. So I have to say I'm blessed to be the current leader of an agency that, for the most part, Mr. Chairman, is exceedingly well run. I've got an extremely talented and capable senior executive team and advisors by my side, and none of the good work that I'll describe to you over the course of the day could be accomplished without the help of that team, but as we look ahead, certainly one of the challenges we face is that our Patent Trial and Appeal Board proceedings have been extremely popular.

Members of Congress, with their foresight, created these AIA trials. There are three new post-grant proceedings, including post-grant review, inter partes review, and covered business method review. And I have to say, the public's interest in and appetite for these proceedings is significant.

As I mentioned in my opening comments, there have been about 1,600 petitions filed per year, and that's 200 percent more than we originally projected. So a goal—or a challenge of the agency, a challenge that I think we are absolutely up for, is to ensure that we continue to issue high quality rulings from our Patent Trial and Appeal Board within our very strict 1-year statutory requirement. We have hit all of our deadlines so far, and I'm optimistic that we are—we can meet the challenge going forward, but it's something we will need to keep our eye on.

Mr. COBLE. I thank you.

I see my red light has illuminated. Let me try to get one more question in.

How is the Patent Trial and Appeal Board handling the backlog pending appeals?

Ms. LEE. So we have a backlog of our ex parte appeals, and the backlog with the AIA trials is just beginning to build. So I guess the key is that with the AIA trials, we've been hitting our 1-year statutory deadline. So we need a little bit of backlog, because we want to make sure that our Patent Trial and Appeal Board judges are fully engaged and they're not sitting around waiting for cases to be filed, but the backlog of the AIA trials is something that we need to keep an eye on, but I'm—I mean, the good news is that we seem to be hitting our deadline.

Mr. COBLE. I thank you for that. I see my time has expired.

The gentleman from New York, Mr. Nadler.

Mr. NADLER. Thank you, Mr. Chairman.

Ms. Lee, do you think that the USPTO currently has the resources and flexibility to continue to reduce the patent application backlog, to shorten patent pendency, improve patent quality, and enhance the administrative appeal and post-grant processes? Do you have enough resources?

Ms. LEE. So thank you for the question, Congressman Nadler. That's a very important question. And I have to say, with the implementation of the AIA, right, and the ability to keep our user fees, that has been a tremendous improvement over past years. We now have, working with our stakeholders, an operating reserve, which also very favorably impacts our ability to deliver in terms of reducing backlog and pendency, and improving quality. I mean, prior to the implementation of the AIA, we were on a year-to-year budget, and if there were fluctuations in fees, important projects

like patents quality or even, for example, IT investment, IT investment was oftentimes the first thing to go.

So now that we're able to set our fees, which we engaged in a very comprehensive outreach to our stakeholders to set it at an appropriate level, now that we have an operating reserve, which provides a little cushion for fluctuations in terms of filings or what have you, I think we are very much able to focus on further reductions on the backlog and pendency, and I'm very excited to be giving an enhanced emphasis on patent quality. We're really at a point in our history where, like no time in the recent past, we're truly able to focus on—

Mr. NADLER. So your testimony is that not only is it a great improvement, but it's adequate at this point?

Ms. LEE. Yeah. I think we set our fees based upon what we think it costs us to provide—

Mr. NADLER. Okay.

Ms. LEE [continuing]. The service. So as long as we can keep it—

Mr. NADLER. Yes. Thank you.

Ms. LEE. Yes.

Mr. NADLER. Now—thank you. How have you improved on your efforts to train the patent examiners to ensure they stay abreast of the latest developments in the law?

Ms. LEE. So we have initiatives underway to—we give them—when the Supreme Court comes out with rulings, we take a look at those rulings, and if they affect examination processes, then what we will do is we will issue guidance to our examiners on how to examine in light of the new case law.

In addition, we are constantly training our examiners on the new developments in the case law, not just through the guidance, but through training in person on video. Much of that training material is available on our Web site for the public to see. And we also have technical experts from outside the walls of the PTO come into the PTO. They are the experts in perhaps the latest in computer vision technology or artificial intelligence or semiconductor manufacturing, and they have the ability to come into our office through our patent examiner technical program to train our examiners, and that's been tremendously helpful in terms of keeping our examiners up-to-date.

Mr. NADLER. Good. That was my next question, which you already answered.

Do you believe that the fiscal year 2015 appropriation bill that the House has passed and the Senate Appropriations Committee has approved will provide the office with the adequate authority to spend anticipated fee collections as estimated by the Congressional Budget Office?

Ms. LEE. So, for the fiscal year 2015, the House approved—the House passed and the Senate approved the USPTO keeping and spending all that we predict that we will collect in 2015. And any amount in excess of that—any amount in excess of our projected fee collections will go into a fee reserve fund. So to answer—

Mr. NADLER. For the office? For the office?

Ms. LEE. Into a fee reserve fund. And then the way we can access that fee reserve fund is by submitting a reprogramming re-

quest to our appropriators to access that fund. So it's our hope that—and we anticipate a slight overage there, and some amounts of money arriving into that fee reserve fund, we hope to be able to access those funds as well.

Mr. NADLER. That sounds good. Thank you. As the number of filings continues to grow, does the PTO plan to provide a full text searchable database of Patent Trial and Appeal Board filings? We have heard these filings are in the patent review processing system site, and there's often very limited searchability. Do you have any plans to manage these PTAB filings differently in the future?

Ms. LEE. Thank you for your question on that one. And the answer is yes. We had a lot to implement when the AIA came out, including a lot of IT systems to go along with, so it was no minor feat to get all the processes, the rules implemented and the IT systems up and running. So, as a first matter, we stuck to the basic functionality, but it is clearly our goal to add additional functionality and make it more user friendly to use, and that includes things like being able to search the text of our documents. So the answer is yes. And we are looking to phase out our current system by fiscal year 2015 with hopefully a next generation system that will be much improved.

Mr. NADLER. Thank you. My last question is really twofold. Is there any way to predict the number filings for a given case, and do you have any metrics on which patent review processing system documents users want to access most often?

Ms. LEE. So let me answer your second question as far as access to documents. We don't actually currently track which of the documents are accessed more frequently than others or the number of accesses, but it is entirely possible that in our next generation IT systems, that is something we can add, that's a feature we can add.

And your first question about the number of documents in any given case—

Mr. NADLER. Number of filings, yeah.

Ms. LEE. Yeah. In any given Patent Trial and Appeal Board filing, a litigation before the Patent Trial and Appeal Board is much like the litigation in district court, and I think the number of documents filed depends upon the number of motions that the parties may have. So there's always a variable, and at this point, it's hard to predict the number, given the newness of the proceedings, but I imagine over time, perhaps we can gather more data on averages and such, but it depends a lot on the number of motions filed by the litigants and the number of opinions that then need to be written afterwards.

Mr. NADLER. Thank you very much.

I've exceeded my time. And I want to thank the Chairman for his indulgence.

Mr. COBLE. Thank you. I appreciate the gentleman.

Thank you, Ms. Lee.

The gentleman from North Carolina.

Mr. HOLDING. Thank you, Mr. Chairman.

I'm delighted to now of your expertise in international intellectual property matters and your focus on ensuring that our companies, you know, have access to foreign markets and our intellectual property is protected.

I'm concerned about countries that have embarked on some trademark destruction when it comes to tobacco products and plain packaging of tobacco. Australia was the first country to prohibit the use of trademarks on tobacco products in 2011, and other countries, like Ireland and the United Kingdom, seem to be taking a similar path toward destruction of intellectual property rights vis-à-vis trademarks on tobacco products.

So I'd like for you to describe what USPTO's position is on these proposals and these laws that encumber the use of trademarks, and specifically, what will USPTO do to defend the intellectual property system vis-à-vis these trademarks of our companies?

Ms. LEE. Thank you, Congressman. So are you talking about the bad faith filing of trademarks in certain countries? So, for example, if the U.S. has a trademark that they filed for or registered for in the United States, that other bad faith actors overseas then go out and file for trademarks?

Mr. HOLDING. No. I'm talking about when a country enacts a law, vis-à-vis tobacco products, and says that the company cannot use their trademarks on a tobacco product. So you have the plain—you have a pack of cigarettes, and it is a plain package with no trademarks allowed to be used on there.

Ms. LEE. You know, this is the first time I'm hearing about this.

Mr. HOLDING. I'm very surprised it's the first time you're hearing about it, because it's—

Ms. LEE. So I appreciate the question.

Mr. HOLDING. It's a—

Ms. LEE. Sounds like it's an important issue. And if you don't mind, let me discuss with my team, and we will get back to you with an answer on the record, but that sounds like a very important issue, and I could see it might be of concern to some of our stakeholders.

Mr. HOLDING. Sure. Well, I would appreciate that. I'm concerned that it's a matter of first impression, because it has been—you know, obviously it's an important matter involving, you know, a great deal of resources.

Switching gears a little bit, as you know, in the inter partes proceedings provisions that were included in the AIA, a new—you know, as a new, expeditious way to challenge validity of patents, the basis for invalidating these patents is strictly limited to Section 102 and Section 103 challenges, and the tradeoff for the limitation is that a third party can include all challenge claims of a patent within a petition seeking an inter partes review and as long as the position—the petition, excuse me, doesn't exceed the PTO's specified page limitation.

And assuming that the threshold level has been met by the petitioner, I'd like for you to tell me why is it that the Patent Trial and Appeal Board is not instituting review on all of the alleged claims in a petition but on only some of them?

Ms. LEE. So thank you for your question. And when we review the petitions, it's my understanding that we do look on a claim-by-claim basis, and we do indicate whether or not the petition is granted on a claim-by-claim basis.

Mr. HOLDING. Okay. What do you think the PTAB's authority to institute proceedings on less than all of the claims in the petition is? Do you have—where is the authority for that in the AIA?

Ms. LEE. My guess is that when the statute came out, it was not clear as to whether or not the proceedings would be instituted on all claims or partial claims, but that the USPTO then had to interpret the rules, and we've done so.

I will say, though, that now that we've had some amount of experience with these Patent Trial and Appeal Board proceedings, quite frankly, we are engaging in an eight-city—and we already engaged in an eight-city road tour where we got the public's input on ways we can improve the procedures and the programs by the PTAB so that it can be even more effective. And if this an issue of concern—and I think we heard some comments on this issue in our road show—this is absolutely an issue that we can consider and discuss and re-evaluate.

Mr. HOLDING. Following up on the road show, you know, I've heard from stakeholders that the PTO's interpretation of these proceedings, you know, is adding to the cost, complexity, burden to the patent system without any gains in efficiency, economy or clarity. Did you get some responses like that during the road show?

Ms. LEE. Thanks for sharing that. Actually, we heard quite the opposite.

Mr. HOLDING. Okay. Well, good. Good.

Ms. LEE. We heard that these proceedings are providing a cost-efficient and more timely manner in which to adjudicate the validity of the patents with the expertise of a technically trained panel of three judges. And based upon the increase in our petitions filings, they seem to be very popular.

Of course, that said, I'm sure there's plenty of room for improvement, and we are, as I said, eager to engage the public in that conversation to make those proceedings even more effective and even more useful to the—

Mr. HOLDING. Good. Well, I'll share the input from some of my stakeholders and you can share some of the other input, and we'll compare notes.

Ms. LEE. Appreciate it.

Mr. HOLDING. Thank you.

Ms. LEE. Thank you.

Mr. HOLDING. Thank you, Mr. Chairman.

Mr. COBLE. I thank the gentleman.

The distinguished gentleman from Michigan, Mr. Conyers.

Mr. CONYERS. Thank you very much.

Deputy Under Secretary Lee, we have a sequester. I think there has been some kind of an agreement worked out with appropriators about how much of your fees that you collect are kept back. And it seems to me that with all the creative strategies that you've discussed, we have a problem of our own. And I'm not sure if maybe new appropriators may work out something with you that would be better than the present situation, but most of your progress, or much of it, is going to be obstructed by the appropriation processes in the legislative body.

Do you have any words of wisdom or a view about how we might deal with this matter, which seems to be to me at the heart of our relationship right now that's creating the problem?

Ms. LEE. So, Congressman, are you talking about the \$148 million that we lost in sequestration and the impact that it had on the agency, because, you know, as a result of the sequester, we had to cut a number of our critical IT projects, right? We were well underway, we were implementing those, and we had to make some very expensive and costly cuts to the investment in our IT program. In addition, we had to stop the hiring that was occurring and we had to stop the expansion of our satellite offices in certain cities. Fortunately, Detroit was already up and running, so Detroit was not affected, but we couldn't hire more patent examiners.

So when we talk about our goals of reducing backlog and pendency times, right, due to the sequester, we had to slow down our reductions on those fronts, and our timelines of achieving, for example, 10 months until a first office action, or a total pendency of 20 months, got bumped out further because of the sequester.

Mr. CONYERS. Absolutely. And we're proud of our Detroit office, and we're pleased that it was selected. I'd like to go out there and visit, but I've been informed that we don't have a director of that office yet. And so I know you're probably looking for it, so you can't promise me that we're going to get one right away.

How can you be working with so many people in one location and there's no director in about the second year almost of its existence?

Ms. LEE. Right. So I'm happy to share with you the progress we've made in terms of the hiring of the director in the Detroit office. I'll share with you what information I can, and that is we put up a job posting. And I have to say, there was incredible interest, and we've seen a number of very talented candidates who have submitted applications. So we've reviewed those applications and we've ranked them, and we are in the process of selecting a handful of candidates to come back to our office in the next couple of weeks for interviews, and we are very excited about the prospects there.

That said, in the meantime, we've also been engaging in—you know, you've got the examiners on the ground there doing the work of the agency, and we have Patent Trial and Appeal Board judges there working on appeal cases, and we engage in a variety of outreach and education efforts, but with our director, we hope to do even more.

Mr. CONYERS. Well, that is encouraging. I'm glad to hear that.

Now, has it occurred to you that there may be a need for even further transparency in the patent system?

Ms. LEE. What sort of transparency are you referring to?

Mr. CONYERS. Well, that it's clearly understood by those that are seeking patents that the way to get there is more easily accessible and determinable by them through a little bit more transparency. Don't you think it's a pretty complicated process, without it being anybody's fault? It's just the nature of the beast here.

Ms. LEE. Right. So I—the USPTO has a number of efforts underway, and the satellite offices help us tremendously in terms of increasing the transparency of the patent system to our stakeholders. So everything from, you know, how do you file a patent, how do you

register your trademark, what issues might I consider in terms of trade secrets to protect my business, right, just the general training and education and background on intellectual property and intellectual property awareness, we're using our satellite offices to, and our Alexandria office, to provide greater transparency there.

Also, with our satellite offices and through Alexandria, we're also looking to provide more transparency on our goals and our metrics and our programs and procedures. And we're always seeking public input on them, such as the Patent Quality Initiative.

Also, we are going to be engaging in outreach to our stakeholders on what they view as patent quality and what the agency can better do or do more of to increase the quality of patents.

So, as far as transparency goes, we have metrics on our Web site. But I agree with you, Congressman. I mean, the more transparency on the work of the PTO, how you navigate the system and what we provide, I think the better for the innovation economy in our companies and our innovators.

Mr. CONYERS. Ms. Lee, I thank you.

And I thank the Chairman.

Mr. COBLE. You're indeed welcome.

Mr. Farenthold, the gentleman from Texas.

Mr. FARENTHOLD. Thank you very much, Mr. Chairman.

Ms. Lee, I appreciate you coming to talk to us today.

First and foremost, I want to put in a plug for the patent reform bill that Mr. Jeffries and I authored, along with the remainder of the House-passed Innovation Act. It sure would be nice if the Senate would pick that up.

I want to go on to some recent problems that came out of an Inspector General's report from the Department of Commerce recently talking about the Patent Trial and Appeal Board, or PTAB, and the Office of the Commissioner of Trademarks. Their findings demand immediate attention and hands-on corrective action, with PTAB fraud, waste and mismanagement resulting in, and I'm quoting from the IG report, "more than \$5 million in wages and bonuses," being paid to employees from 2009 to 2013 who were not actually doing any productive work. According to the IG, some of the 20—I'm sorry—30 to 50 paralegals involved spent more than half their time that way over multiple consecutive years. Despite PTAB managers being fully aware of this, it appears that little corrective action was taken until they noticed the Inspector General's investigation last year.

Worse still, the report details how PTAB paralegals, supervisory paralegals, specialists and senior management involved received more than three quarters of a million dollars in bonuses, and appallingly, 95 percent of the paralegals received the absolute highest performance rating.

Now, we did have three whistleblowers out of this group of paralegals who reported this, so I think that's outstanding that we have a Federal workforce saying, "Hey, we're doing nothing, why are we getting paid for it?" But it did go on for a long time.

And in the case of the trademark offices, we've seen violations of Federal law, regulations and ethical standards that go directly to the top of the organization, to the commissioner of trademarks herself. According to the review, Commissioner Cohen was personally,

repeatedly and substantially involved in hiring of an obviously unqualified and repeatedly rejected applicant, who just happened to be the live-in boyfriends of her daughter.

In addition to the allegations involving Commissioner Cohen, the OIG reported that the hiring practices at the USPTO regularly involve the use of “preferences,” that are, if not illegal, are at the very least, they show some unreasonable favoritism.

Regarding the PTAB IG report, I have several questions. And, Ms. Lee, have you met with the IG to discuss these reports?

Ms. LEE. Yes, I have.

Mr. FARENTHOLD. And what’s your view of the recommendations of the OIG?

Ms. LEE. Yeah. Well, thank you, Congressman, for the opportunity to address these two very, very important issues.

Let me just say that the USPTO takes the allegation and the work of the OIG very seriously and view it with utmost importance. And we are carefully reviewing the Patent Trial and Appeal Board matter, the report, which just came out yesterday, and we are reviewing it in terms of evaluating appropriate next steps. We will provide a full response within 60 days, as required, and will include in there details of our intended next steps with regards to each of the allegation—or the allegations and with regards to each of the recommendations made in the report.

Let me just say, though, that much of what the OIG recommended in terms of management and organizational improvements is already underway or already completed at the USPTO, including the elimination of the paralegal timekeeping issue, which is at heart in the report. This is because as soon as the IG identified this issue in February of 2013, the USPTO conducted its own investigation and confirmed the problem. We further commissioned a second independent investigation by Grant Thornton, a third-party expert group, which recommended structural improvements to the PTAB program.

And as I said, therefore, many of the recommendations in the IG report are already completed or are in the process of being completed.

Mr. FARENTHOLD. All right. Well, the IG expressed some concerns that one of the reasons this was allowed to continue was fear of angering some of the unions. His recommendations specifically call for a review of the labor agreement to ensure that the PTAB can implement policies or even modify terms that is needed to prevent waste and abuse of government resources.

If you generally are following up on the report, can this Committee assume that you will do everything you can to review these labor agreements and make sure that managers are held accountable?

Ms. LEE. Absolutely. Absolutely.

Mr. FARENTHOLD. All right. Well, listen, I appreciate this. Let’s talk about the commissioner. I’m out of time. We’ll talk about the commissioner of trademarks in my second round of questioning. Thank you.

Ms. LEE. Okay.

Mr. COBLE. I’ll give you 1 more minute, the gentleman from Texas.

Mr. FARENTHOLD. Thank you very much.

When did you first become aware of the issue with the commissioner?

Ms. LEE. I think our office first became aware of it about 3 weeks ago when the OIG met with us.

Mr. FARENTHOLD. Do you agree that the Commissioner of Trademarks is an at-will employee?

Ms. LEE. I believe she is.

Mr. FARENTHOLD. Okay. Well, I understand you have until September 7th to comply with the requirement that you respond in 60 days. Do you think you'll be able to take any action with respect to Ms. Cohen before then?

Ms. LEE. So we've already taken actions. I mean, basically, as soon as we received the IG's report on this issue, we immediately conducted a review of the hiring for the position that was at issue in this case. We also created a task force, which is composed of high-level officials in the PTO as well as an independent outside third-party expert in this area to look at the USPTO's hiring practices.

I mean, the USPTO values impartial, fair, and transparent hiring processes, and we intend to reply fully to all of the allegations within 60 days, but we're just evaluating the facts now. We received the report 3 weeks ago, and we will follow up and take the appropriate—

Mr. FARENTHOLD. My final request is you keep us apprised of both of these matters as they develop.

Ms. LEE. Absolutely.

Mr. COBLE. The gentleman's time has expired.

Ms. Chu, let's try to get—we have a vote on, but the gentlelady from California, Ms. Chu.

Ms. CHU. Thank you so much. First, congratulations, Director Lee, on your appointment as Deputy Director and Acting Director. I'm so glad to see such a well qualified person in this position.

Ms. LEE. Thank you.

Ms. CHU. Director Lee, in June, the Supreme Court issued its decision on *Alice Corporation v. CLS Bank International*. The court ruled that the patent claims in question in the case, which involved the claims to a computerized scheme for mitigating settlement risk, were ineligible to be patented. How does this decision impact the Patent Office and how are you responding to the case?

Ms. LEE. Well, thank you for the question, Congresswoman Chu. It does affect the examination of cases before us, and as soon as the ruling came down, we are in a position at the PTO where we have to offer guidance to our examiners on how to examine cases, right, if the case law has implications on the examination process. So, within days of the ruling coming down, our Deputy Commissioner for Patent Examination Policy issued initial guidance on examination of these types of claims, and we have published that. It's posted on our Web site, and we are seeking public input on our preliminary guidance. We welcome that input from everybody, and we look forward to receiving that input. We also receive input from our examination corps, and if there are further changes to the case law, we are always willing to and looking to improve our guidance and

eventually making it final until there are further changes in the case law development.

So, then, after that, we will then train our examiners to ensure that they're examining in compliance with the guidance, and for those cases that are still pending that have not yet been issued a final patent number, we think it's incumbent upon us to take a look at those cases in light of the new developments in the case law to make sure that they are still in a position for allowance or if there needs to be further change.

Ms. CHU. Thank you. Let me ask about another issue that I'm very concerned about, and that is patent assertion entities. Many times, they can be individual consumers or small- to mid-sized businesses, customers of public safety units in local governments, and of course, they receive demand letters alleging patent infringement. For Main Street businesses, it's certainly difficult to figure out how to react to a demand letter, especially if they can't afford a lawyer. I understand the PTO uploaded an online tool kit on its Web site to help these individuals and businesses. How has the tool kit helped level the playing field, and have you received feedback from those who have used it?

Ms. LEE. Thank you very much for the question. We're very pleased with our patent litigation online tool kit. Basically, you can go to the USPTO Web site, and if you look under patent litigation, there are a set of tools that are very useful to particularly unsophisticated small businesses who are on the receiving end of these demand letters. You know, what is a patent? Just because I get a demand letter, does that mean I need to write a check? Or what are my options if I decide that I do want to fight this? And on that Web site, they can pull up information about the litigation history of the patent. They can pull up information about who else that patent has been asserted against so that if they want to collaborate with other defendants in the defense of infringement with others, they can do so, and this is the kind of information that previously patent lawyers and litigating attorneys had access to, but if you were a small business and you're just trying to make a quick assessment of what are your options, it's really handy to have these tools, and we've provided that, working with a number of partners, for free to the stakeholder community, so we're very excited about that.

Ms. CHU. Well, I think it's a great program. And finally, let me ask about the pro bono program of the America Invents Act. I am very interested in this because I was the sponsor of the amendment in Committee and also a member of the PTO's Pro Bono Task Force. Many inventors, individual inventors may not have the resources to get legal assistance, and so this pro bono program is so important to them, and I was glad to see that a new charter was signed last fall and an advisory council was formed. When the charter was signed, it was anticipated that all 50 States would have a pro bono program by the end of 2015. How many States are currently covered, and is it expected that the pro bono program will cover all 50 States by 2015?

Ms. LEE. Yes, thank you for the question, and I need to get you the precise statistics about the number of States that have pro bono programs in them. I think it's a handful of States, but it in-

cludes Minnesota, California, and a number of others, but let me get you the answer, and we'll submit it on the record. Let me just say, though, that pursuant to an administrative action and a priority, it is our goal to offer the pro bono program in all 50 States, and we're going to hire a pro bono coordinator, and we're going to look forward to working with the members of the patent bar so that we can provide pro bono services to innovators regardless of their financial resources or those who are underresourced, I should say.

Ms. CHU. Thank you.

I yield back.

Mr. COBLE. I thank the lady.

The gentleman from Georgia, Mr. Collins, can we do it tersely?

Mr. COLLINS. We can do it tersely, efficiently, and get it over with.

Mr. CHABOT. Would the gentleman yield for a moment?

Mr. COLLINS. For a moment.

Mr. CHABOT. Thank you. I appreciate that. I would ask, Mr. Chairman, for the record, if I could submit some questions in writing relative to intellectual property rights in India?

Mr. COBLE. Without objection.

Thank you very much.

Mr. COLLINS. Real quickly as we get ready for a vote series, I'm interested in the transitional program for covered business methods patents, and it's a special review created by PTO that came through the AIA. The purpose of the program is to re-review already issued patents in the field of computer implemented inventions or software. The reason this program concerns me is it discriminates against one type of technology, computer-implemented inventions, over all others. I don't think that we should really be treating one person's property rights differently because they made their innovation using software rather than hardware. CBM proponents have touted the program as a tool for fighting patent trolls, however the latest statistics that we've been able to see show that the program has been overwhelmingly used against operating companies. Has the PTO performed any research on how the program is affecting operating companies?

Ms. LEE. Operating versus nonoperating?

Mr. COLLINS. Yes.

Ms. LEE. That's something that we can look into but we have not looked into.

Mr. COLLINS. So you have not—we have not researched this?

Ms. LEE. The petitioners come before us, they have their cases, we adjudicate their cases, and oftentimes it's unclear whether they are operating or nonoperating. You have to do some investigations on that issue.

Mr. COLLINS. But it is important to the program, and I think that is something that needs possibly to be looked at as we go forward.

Ms. LEE. We can look into that.

Mr. COLLINS. It is also my understanding that the PTO is pulling back patent applications that have already been allowed as a result of the Supreme Court's recent decision in *Alice v. CLS Bank* which related to the question of whether software inventions are patent-

able. While the Supreme Court has invalidated the patents at issue in the case, the decision reaffirmed what I've always believed, that software is just like any other technology, it deserves patent protection when it is the true invention. How widespread is the impact of the Supreme Court decision, and how many patent applications at the PTO will be impacted?

Ms. LEE. So thank you for the question, and we're not pulling back patents that have already issued. What we have in our pipeline is a number of cases that may or are affected by the changes in law by the *Alice-CLS Bank* case, and in that instance, before a patent number has been provided, it's incumbent upon us before the patent leaves the office to apply the current law. So for cases that have not left our office, we are taking a look at them, we've reached out to our applicants and said we are taking a look at that in light—

Mr. COLLINS. About how many are those?

Ms. LEE. I would have to get numbers, the precise numbers.

Mr. COLLINS. Can you get those in writing back to us?

Ms. LEE. Absolutely.

Mr. COLLINS. Thank you. As you know, abusive patent litigation is also a concern here, and will the PTO's actions as a result of *Alice* help ease abusive patent litigations? If so, how, and can you provide us with data on that or what you project it will be?

Ms. LEE. So CLS Bank goes to the issue of patent eligibility and what is patentable subject matter.

Mr. COLLINS. Right.

Ms. LEE. And abusive patent litigation occurs and exists for a variety of reasons, including some litigation related or—but some of them also patent related. I would say that our initiatives to enhance the scrutiny of functional claiming and to our efforts to train examiners to put statements on the record so that if they've considered an issue, right, and there's a reason for a certain action, that they make the statement on the record. I think those steps more closely target the issue of reducing and curtailing abusive patent litigation. Basically, the clearer the patent, the clearer the boundaries, the clearer the statements in the record, the less the opportunity for abuse.

Mr. COLLINS. Okay. And I appreciate that, and I think the concern, you know, especially in my previous question of pulling back patents, and you said is really the—it might harm that could be if it was for legitimate and innovative patent applications, you know, look at it from the disadvantage if it's on a global scale, and you assured me that's not happening or won't happen.

Ms. LEE. We wouldn't want to issue patents that are not in compliance with the current case law.

Mr. COLLINS. Okay. That is good. I think myself and other colleagues are going to be visiting China. I appreciate the work that has been done there. We're going there, in fact as early as this next week, looking at this from an IP perspective. It is something, as those who follow this Committee know, that is very close to my heart and something that I've worked on a great deal.

And on that note, it is tragic that the United States Senate cannot figure out how to do their job in this area, and I would love to see them do that. I appreciate the work that you are doing, and

I'm sure you'll be back before us on many occasions, and I do appreciate your testimony.

Mr. Chairman, I yield back and give you 19 seconds.

Mr. COBLE. Tersely done.

Ms. Lee and ladies and gentlemen, we will return imminently.

Ms. LEE. Thank you.

[Recess.]

Mr. COBLE. Mr. Jeffries is recognized for 5 minutes.

Mr. JEFFRIES. Thank you, Mr. Chair, for yielding.

And thank you, Director Lee, for your presence and for your service to the country. I wanted to speak for a moment about the USPTO's law school pilot certification program. It's my understanding that the program was initially jump started and piloted in 2008. Is that correct?

Ms. LEE. I think that sounds about right.

Mr. JEFFRIES. Okay. And can you just describe for us, you know, how the program works in its current form, what some of the benefits are, particularly as it relates to law students as well as clients as well as the innovation community.

Ms. LEE. Yes, thank you very much for the question, Congressman, and I'm very excited to say that just this morning, we announced an expansion of our law school certification program. And to your question, let me explain what it is for those who may not be familiar with it. I mean, basically, what we do at the USPTO is we provide temporary registration numbers to law students so that they can prosecute patent applications on behalf of clients who otherwise could not afford to hire an attorney, and they are supervised by law school professors, so it's really a win-win for both the students in terms of developing valuable, practical patent skills, and they may one day become patent examiners or patent prosecutors or patent litigators, and it's also a benefit to our innovation community because they get the advantage of these pro bono services that complement our pro bono program, so we're very excited to be expanding that program. We announced it today, and I believe that a law school in your district, the Brooklyn Law School—

Mr. JEFFRIES. Yes.

Ms. LEE [continuing]. Has been added to the list I think as of today.

Mr. JEFFRIES. No, that's fantastic. Now, as you may know, Mr. Chabot and I have introduced legislation relative to this program that would sort of enable the removal of its pilot status and authorize further the expansion as you move forward and also ask for a report to the Congress moving forward just so that we can be informed about the good work that the program continues to do.

Now, as you expand the program, potentially being able to offer it as you've done with the announcement today and moving forward to additional law students, to additional law schools, will there be an additional cost that will necessitate an additional appropriation, or am I correct in my understanding that you have the capacity, at least as of the present moment, to absorb the expansion internally?

Ms. LEE. So thank you for the question. I'm sure my CFO will correct me if I'm wrong on this, but my understanding is that the

beauty of this program is that it doesn't involve a lot of resources on behalf of the PTO. It's the volunteer students. It's the volunteer professors who agree to oversee those students, so I think we pretty much have, maybe with a plus or minus, the resources that we need to expand the program. If it gets to be so tremendously successful that we really have to keep, you know, every law school across the country, then perhaps we might have to revisit the issue in terms of we want to maintain the quality, but I think, at this point, given the rate at which we're moving and the law schools that we carefully select for eligibility in the program, we're able to manage it.

Mr. JEFFRIES. Thank you very much. I want to switch topics for a moment. You have indicated in prior testimony as well as I think today in an exchange that you support the notion of patent litigation reform done in a balanced way and saluted the efforts that the Chairman and many of us on the Committee undertook last year to try and advance patent litigation forward.

After that litigation or legislation moved out of the House, there were two Supreme Court decisions, I believe, earlier this year that were decided upon relative to the Section 285 provision. One I believe related to the standard of review; the other related to the actual substance of Section 285. Can you comment at all as to how you think that may change the landscape moving forward in terms of where our focus should be?

Ms. LEE. So thank you very much for the question, Congressman. I think you're referring to two cases in particular from the Supreme Court, the Octane Fitness case and the Highmark case handed down from the Supreme Court on the issue of fee shifting. And those cases increased the discretion that the district courts have to award fees to the prevailing party in a patent litigation dispute. That said, there's still a requirement that it has to be an exceptional case, and I think there's still room for legislative reform because I think companies could benefit from greater certainty about when fees would be shifted and when they would not, so, right now, with the current case law of exceptional, there's going to be a lot of litigation, a lot of motions brought on these issues, but I think there's room for legislative clarification on that issue.

Mr. JEFFRIES. Thank you very much.

I yield back.

Mr. COBLE. I thank the gentleman.

The distinguished gentleman from Pennsylvania, Mr. Marino, is recognized for 5 minutes.

Mr. MARINO. Thank you, Chairman.

Welcome, Director. It's a pleasure to talk with you. I see by your credentials you have an extraordinary background and that you actually worked in private industry as counsel.

I would like to talk with you and get your insight on the report from the Office of Inspector General concerning the overpay, if you would, please. Now, I know that you were not there during that time. You've been in your position for how long, your present position for how long?

Ms. LEE. I was sworn in on January 13, 2014. So 7 months.

Mr. MARINO. Fourteen, okay. When you were sworn in or even before you were sworn in, were you brought up to speed on the report?

Ms. LEE. I was informed of the report. It wasn't a report yet because it had not issued, but the facts and circumstances surrounding the Patent Trial and Appeal Board paralegal matter because as I explained earlier today, I mean, the USPTO had itself been investigating that matter when it first came to our attention in 2013, so the office was well aware of that issue as early as 2013 and undertook some efforts.

Mr. MARINO. Can you tell me, is there, are there any plans to hold those responsible that collected the overpay, for the managers or the supervisors who knew that there was overpay and no work being done? Is there going to be any retribution, is someone going to be fired?

Ms. LEE. So thank you for the question. It's a good question, and what we're doing is we are reviewing the details of that report, which we just got I think yesterday, and there's some discussion of that in the OIG's report, and we will evaluate all options, including the one you mention.

Mr. MARINO. Okay. Because the report is very clear. I mean, you know from your work in private industry, how long would someone be employed in the company you worked for under those circumstances?

Ms. LEE. I don't have an answer for that, but I hear your point.

Mr. MARINO. I do. They wouldn't be employed very long at all, and we have a report from the OIG's office that people knew that—in fact, they categorized their time sheet, for a matter of fact, into a completely different area. It was called “other time,” very general, other time. And people, through investigations, it was learned that they were watching television, surfing the Internet, used social media, such as Facebook, performed volunteer work for charity from home, washed laundry, exercised at home, read books, the news, and magazines, shopped online, cleaned dishes, et cetera. Now, this is theft from the hardworking taxpayer, and quite honestly, I'm getting tired of hearing about this. You're not responsible for this, but it's very frustrating for me because we constantly hear about this.

And then what adds insult to injury is we hear that people like this are put on administrative leave with pay. Now, this is nauseating. This is frustrating, and the people in my district are fed up with it. So I am asking you that if the facts you find as the Office of Inspector General states them, and people were doing these things and lying on their time sheets, why would they not be fired?

Ms. LEE. So I appreciate your concern, and as I said earlier, we do take these allegations—and I personally take these allegations very seriously.

Mr. MARINO. Good.

Ms. LEE. And we will get back to you on those issues.

Mr. MARINO. I appreciate that, but even more so with the managers and the supervisors that oversaw this, I just—this is a perfect example of how large this government has grown, and the left hand doesn't even know what the right hand is doing, and we're hiring people who just believe that I don't have any work to do, so

I'm going to collect pay. And we have supervisors and managers in charge of these people who are not reporting to you or other individuals that there is something drastically wrong with the system, but yet we're paying people for doing—not just doing nothing and sitting at their desk—but staying at home and reading books and shopping online and doing laundry. This is just—it's unbelievable what takes place anymore.

The government needs to be downsized straight across the board by 50 percent, and then maybe we'll get control on people that are cheating the taxpayer and not giving the taxpayer a hard day's work. So I'm asking you once more, you're giving me your commitment that if these allegations are true and these facts are accurate, that these people will be fired?

Ms. LEE. We'll take appropriate action.

Mr. MARINO. What's "appropriate action"?

Ms. LEE. We'll have to look at the facts, we'll have to consider—

Mr. MARINO. So do you think the Office of Inspector General is making these things up?

Ms. LEE. No.

Mr. MARINO. Do you think the whistleblowers that came forward are making these things up? Because what I'm getting from you now is they probably will not be fired. This is a real easy, simple question.

I was in industry and worked in a factory for 13 years and worked my way up to management, and if anything like this happened in private industry, these people not only would be prosecuted—fired, but they would be prosecuted as well.

Ms. LEE. I will say, Congressman, that as I mentioned earlier, our Patent Trial and Appeal Board proceedings are exceedingly busy now, so I understand—

Mr. MARINO. There's no question that you have been.

Ms. LEE. And so they are now fully—

Mr. MARINO. You folks are doing a great job.

Ms. LEE. They are now fully engaged.

Mr. MARINO. You are doing a great job as director, but there is no excuse for this. Please do not use the excuse that you're very busy, because apparently, there was a bunch of people who collected over \$5 million that weren't very busy.

Ms. LEE. I understand.

Mr. MARINO. Thank you.

I yield back.

Mr. COBLE. I thank the gentleman.

The gentlelady from Washington is recognized for 5 minutes.

Ms. DELBENE. Thank you, Mr. Chair.

Thank you, Director Lee, for being here today. I know that Representative Chu spoke earlier about the Supreme Court's decision in the *Alice v. CLS Bank* case, which addressed the scope of patent eligibility for software-related inventions, and I was pleased to learn that the PTO was able to issue preliminary guidance very quickly to patent examiners on how to interpret that Supreme Court decision, and you mentioned that the PTO is now accepting comments on the guidance as it helps draft more detailed guidelines, and thank you for doing that. I appreciate it. But I do think

it's very important that patent examiners are consistently applying the new case law, and—because it's complicated, and while the feedback I've heard on this initial guidance has been that it's clear and thoughtful, I've also unfortunately heard that, despite this guidance, a good number of examiners are rejecting some software patent applications based on a possible misinterpretation of the *Alice* case, so I'm concerned about this and am hopeful that we aren't in a situation where true inventions are being denied patents based on a misinterpretation of the law, and I'm also worried that this could lead to an increased number of appeals to the PTO, and you'll see an increased number, and it can become a widespread problem if this is allowed to continue. So I wondered if you could explain what types of quality control the PTO is putting in place and implementing to make sure that there's consistency in how the patent applications are being treated in light of the decision.

Ms. LEE. Yes, thank you very much for your question, Congresswoman.

We absolutely strive to have consistency in our examination that complies with our guidance and the case law, and if there are instances where an applicant thinks that an examiner is not applying the case law properly, they can't come to an agreement, they can't see eye to eye on an issue, we have a patent ombudsman program where the applicant can, without ruffling the feathers of an examiner, without sort of jeopardizing that kind of relationship, can escalate it to a patent ombudsman person so we have another person looking at the issues to see what the issue is, to see if the case has been, the rules are being appropriately applied, so I would just refer you to that. But we have a lot of initiatives in the agency to ensure consistency. When we issue the final guidance on the *Alice* case, we will train all of our examiners. We've already trained the supervisory patent examiners. We've already given guidance to our examiners. We already have our technical directors instructed on the preliminary guidance, but once the guidance becomes final, we will provide the appropriate level of training to everybody across the board in much greater detail, and that information will be posted on the Web site, so the public can see what our examiners have been directed to examine toward or to follow.

Ms. DELBENE. Do you have a sense of when final guidance might be coming out?

Ms. LEE. We're targeting September and October, but we—I think the deadline for receipt of comments is July 31st. We want to be careful in terms of evaluating and reading and reviewing all the comments, and we understand that we want to issue it promptly, but we also want to be accurate about our guidance.

Ms. DELBENE. So what types of things do you use to measure whether or not you have consistency out there? So you'll train the examiners on the guidance?

Ms. LEE. Yes.

Ms. DELBENE. And how do you know it's being applied consistently, what checks and balances?

Ms. LEE. We have a quality assurance team that selects applications at random or per technology area to test it for accuracy and prosecution, and where there is, you know, evidence that it's not

being applied properly, we will definitely go back and that input will be fed back into both our examiner training as well as our examination processes, what can we do to improve the process so that examiners are able to examine more accurately.

Ms. DELBENE. And if it is true that you see an increased number of appeals, do you then have a mechanism to try to figure out why you're seeing more appeals and understand?

Ms. LEE. That would certainly be a factor that we would look to.

Ms. DELBENE. Uh-huh. So you check all of that kind of consistently across—

Ms. LEE. I don't—we should, and I'll have to check with you to see if we currently do, but I wouldn't be surprised if we do.

Ms. DELBENE. Okay.

Ms. LEE. So let me get back to you on that.

Ms. DELBENE. Okay, thank you.

Thank you, Mr. Chair, I yield back.

Mr. COBLE. I thank the gentlelady.

The gentleman from Missouri, Mr. Smith.

Mr. SMITH OF MISSOURI. Thank you, Mr. Chairman.

Mr. Chairman, thank you for holding a hearing on this important subject. Also I want to reiterate what a lot of my colleagues have said about how unfortunate it has been that the Senate has refused to take up and work with and pass the bipartisan patent reform bill that we've worked on in this Committee for quite some time. I hope that maybe they'll figure out how the legislative process works and decide to govern for the people of the United States.

So my question, Ms. Lee, thank you for being here, first off, and talking to us. I'm sure we've all heard that Amazon's application for .amazon's top level domain was rejected by the board of directors at ICANN. They're a California nonprofit which is supposed to operate by contract with the U.S. Government for the public at large. And my question is, absent a separate negotiated treaty or other national law, does the USPTO believe that a foreign country can claim a sovereign right to a term and prevent use of a mark that the U.S. and other countries have otherwise granted trademark rights in?

Ms. LEE. So could you repeat the question one more time?

Mr. SMITH OF MISSOURI. Okay. Does the USPTO believe that a foreign country can claim a sovereign right to a term and prevent use of a mark that the U.S. and other countries have otherwise granted trademark rights in?

Ms. LEE. You know, I think I need to get back to you on the record, and I will do so. I appreciate the question, but I want to make sure that we understand it, and we get to you an accurate answer, so let me get back to you.

Mr. SMITH OF MISSOURI. I appreciate that. Thank you.

Ms. LEE. Thanks for the question.

Mr. SMITH OF MISSOURI. One other question. What are the three key problems that American companies face in China and India regarding patent and trade secret protection?

Ms. LEE. So our companies work hard. I mean, when they export their products and services overseas, there's always a risk and a vulnerability in terms of misappropriation of their trade secrets or infringement of their patents or copyrights. I mean, it can be in

China; it can be in other countries. We are working very, very hard with our companies that do business in China to increase or improve the environment in which they're operating. We give trade secret training to government officials in China to create an environment that is more favorable for our companies, we work with the leaders there, we bring them to the United States to receive training at our Global IP Academy so that they share the same values that we do with regard to trade secrets, patents, and copyrights. And we have a STOPfakes program, which goal is to curtail piracy and counterfeiting of U.S. intellectual property matters, so we have a number of initiatives underway, and we are constantly striving to improve the environment.

Mr. SMITH OF MISSOURI. Do you think that China and India are in compliance with the international obligations under the TRIPS agreement?

Ms. LEE. So are you referring to—which aspect of the TRIPS agreement are you referring to?

Mr. SMITH OF MISSOURI. In regards to the patent and trade secret protections.

Ms. LEE. So there's a lot of patent and trade secret provisions even under the TRIPS agreement, but—

Mr. SMITH OF MISSOURI. Do you think that they're noncompliant in any provision within the TRIPS agreement?

Ms. LEE. I know there's been some discussion in the area of compulsory licenses in connection with India, and there have been certain circumstances where perhaps that may have been triggered or applied or granted where some might argue was not in compliance, and that's an issue of concern to us. I mean, critically, it is important that innovators have the incentive to innovate, and if compulsory licenses are granted in circumstances that are beyond the requirements of our TRIPS agreement, that's an issue of concern for us, and that's what we work with, with our IP attachés, that's what we work with in our conversations in our trade negotiations with our partners, with officials in the Indian Patent Office. We are focused on that issue to make sure that a compulsory license is granted where it should be and not granted where it shouldn't be and therefore jeopardizing of innovation and investment in innovation.

Mr. SMITH OF MISSOURI. Thank you, Mr. Chairman. I yield back.

Mr. COBLE. I thank the gentleman.

The gentleman is recognized for 5 minutes.

Mr. MARINO. Thank you, Chairman.

Director, do you have enough personnel to examine newly submitted patent applications and compare those to already established patents to avoid future litigation? Do you understand my question?

Ms. LEE. Do we have enough personnel?

Mr. MARINO. To review patents that are newly submitted to see if those patents already exist or if there is any conflict between the two?

Ms. LEE. Oh. So that is what we normally do. When an application comes in, it's the job of the patent examiner to search what we call the relevant prior art, so they look at databases of patents that have previously been issued, they search the literature.

Mr. MARINO. I understand the process. What I'm asking you is do you have enough personnel to adequately do those examinations?

Ms. LEE. So we're looking to expand the examiner force. We are using—we're targeting a hire of a thousand examiners in 2014. In 2015, we're targeting roughly 750. We have to see.

Mr. MARINO. Good.

Ms. LEE. And also we're using our satellite offices to tap into for the first time previously untapped talent pools, so we're very excited about that, and we're looking to expand the production capacity of the USPTO.

Mr. MARINO. I'm glad to hear that. Do you think that hiring these experts, these additional experts would curtail, I know it's not going to eliminate, but would curtail frivolous litigation, particularly when we're talking about patent trolls?

Ms. LEE. I think hiring additional examiners so that we have the capacity to examine the patent applications will ensure that patents issue more quickly, and for our businesses, right, who create innovations and inventions, it's important that they be able to have the protection that they need to enter the marketplace. So the patents need to be examined properly, and I think the addition of the examiners will help us reduce our backlog and pendency. So really it's pro-business.

Mr. MARINO. Is there anywhere else in the office that you're short of personnel?

Ms. LEE. We are hiring on the Patent Trial and Appeal Board front for administrative patent judges. I mentioned earlier in the first session that we've experienced record number of petitions, and there seems to be a tremendous appetite for the services offered by the Patent Trial and Appeal Board, and again, we're recruiting nationwide, including through our satellite offices, and we're getting some outstanding candidates.

Mr. MARINO. Is that the bottleneck at this point? Is that where things are jamming and then perhaps people are waiting to do something?

Ms. LEE. So I wouldn't say that things are jamming. I mean, we're still issuing our final opinions in these Patent Trial and Appeal Board trials within the 1-year statutory time frame. We can outdo ourselves and perhaps lower, get it out even more quickly, but I think we're well within statute, and our goal is to keep it that way.

Mr. MARINO. Well, I know it takes some time to hire a thousand people, but I hope you do that as expeditiously as possible.

Ms. LEE. We will, thank you.

Mr. MARINO. Thank you.

I yield back.

Mr. COBLE. We're about to wind down, Director Lee. Thank you for being here. Let me put a final question to you. As Federal agencies have faced budgetary issues, departments have looked to creative ways to stretch their budgetary dollars. Does the PTO fund any trade missions or trips for the Secretary of Commerce or other officials at the Commerce Department or other agencies?

Ms. LEE. Thank you for your question, Mr. Chairman. I'm not aware of the PTO funding individuals from the Department of

Commerce on trade missions. I believe the funding comes from elsewhere, but if my statement is incorrect, we will correct it, but I'm not aware of our funding of Department of Commerce officials.

Mr. COBLE. And I appreciate that. Let me give you a more detailed question. Do you have a requirement that the PTO will only fund trips that are IP focused and would PTO staff be the primary points of contact or does another agency with less expertise, such as the ITA, take the lead on the Secretary's IP-focused trade visits or participation in bilateral forums, such as the U.S.-India strategic dialogue currently taking place in New Delhi? If so, does it not make sense for the IP experts at PTO to take the lead on such trade missions, especially if PTO resources are being used?

Ms. LEE. So we fund matters that are in line with our mission, and I'm not sure I understand your question, but is the question, are we funding travel of ITA members who are advising the Administration on intellectual property issues?

Mr. COBLE. ITA as an example; ITA, yes.

Ms. LEE. So do we fund travel of other individuals outside of PTO on PTO—on IP-related matters, is that your question?

Mr. COBLE. Yeah.

Ms. LEE. Let me get back to you on that.

Mr. COBLE. That will be fine. In the same vein, I think that we need to make sure that the IP attachés in our embassies have sufficient authority in terms of diplomatic rights and access to resources. What has the Commerce Department done to elevate the position of the IP attachés in our embassies?

Ms. LEE. So thank you for the question. Our IP attachés are a tremendous resource for American companies and the innovation community. I will say that this is an issue that we've been working with through the Department of Commerce and others is that the rank of our IP attachés could be at a higher level. If you think about it, right, these IP attachés are, you know, on the ground in the foreign countries; they're working with the IP leaders in the host country discussing very important issues, like compulsory licensing and, you know, trade secret policy and so forth. And in foreign countries perhaps even more so than the United States, your rank has a lot to do with the access that you have to appropriate people who can effect change, so that is one issue that we are looking at to increase the effectiveness of our IP attachés. They're already doing a great job, but if you look at ways to further improve, that's one way.

Mr. COBLE. Well, Director Lee, thank you, and thank you in the audience for your patience. We apologize again for the delayed hearing, but it's been very worthwhile, and this concludes today's hearing. Thanks to all for attending.

Without objection, all Members will have 5 legislative days to submit additional written questions for the witnesses or additional materials for the record. The hearing stands adjourned.

Ms. LEE. Thank you.

[Whereupon, at 5:11 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

**Responses to Questions for the Record for
Deputy Under Secretary of Commerce for Intellectual Property and
Deputy Director of the U.S. Patent and Trademark Office (USPTO)
Michelle K. Lee**

Submitted October 30, 2014

To the Subcommittee on Courts, Intellectual Property and the Internet,
Committee on the Judiciary,
U.S. House of Representatives

Hearing on:

"The U.S. Patent and Trademark Office:
The America Invents Act and Beyond, Domestic and International Policy Goals"
Wednesday, July 30, 2014

Questions from Rep. Steve Chabot:

1) India backslid considerably on IPR under the previous government. Nearly a quarter of books in India are pirated. Illegal downloads in India now cost the music and entertainment industry approximately \$4 billion dollars per year, but the previous government failed to reform laws or boost enforcement despite repeated requests to do so. India is also home to numerous "notorious markets" that deal in large volumes of pirated and counterfeit goods. India has also refused to grant or revoked patents or data protection for numerous medicines and agricultural chemicals that are patented in scores of other countries around the world, and it has issued one and threatened to issue several more compulsory licenses of medicines in circumstances not contemplated by international rules governing such licenses. Does your agency have a role in trying to improve India's IP policies?

USPTO response:

One of the key priorities in global policy for the USPTO is to address the significant challenges in the areas of intellectual property (IP) rights protection and enforcement in India. USPTO's Office of Policy and International Affairs has a team of IP attorneys who engage with India's government and other stakeholders. The team includes experts in patent, trademark, and copyright law, as well as members who focus on enforcement issues.

Our Intellectual Property Attaché, based at the U.S. Embassy in New Delhi, serves as a primary contact within the embassy on intellectual property issues for the Indian government and works closely with the USPTO headquarters team to provide up-to-date information and expertise on related activities in India. Working with the IP attaché, the team formulates policy, advises other U.S. government agencies on IP matters in India, and engages with the Indian government on cooperative activities including joint IP training workshops.

USPTO's technical assistance has proven a successful tool to encourage India to make certain changes to its IPR regime. For example, the USPTO worked with U.S. Customs and Border Protection on a series of programs with India's customs authorities. As a result of these activities, India established a customs recordation system that permits rights holders to record their rights with customs so that Indian officials at the border have easy access to information about legitimate goods and can contact the rights holder when they identify suspicious goods.

2) U.S. exporters have faced increasing IPR challenges in India in recent years, from patent denials and revocations to at least one compulsory license and threats of more. But the historic election of Prime Minister Modi gives the new Indian government a chance to break with counterproductive and self-defeating economic policies of the last government. Does the USPTO have a role in encouraging India to embrace a pro-IP growth agenda?

USPTO Response:

The USPTO continues to encourage India to establish and maintain effective intellectual property protections. The Agency has built strong partnerships with Indian industry organizations to identify and address concerns. In addition, the USPTO has worked with a variety of stakeholders throughout India to help raise awareness of the value of IP both as a strategic business asset and as a tool to strengthen the overall economy. We have conducted capacity-building and awareness events for university science and engineering students and faculty, for small-to-medium sized entrepreneurs, and for the creative industries. For example, we worked with an Indian law school to develop a proposed Indian trade secret law.

3) The Modi government has created a lot of optimism that it will work to unlock India's economic growth potential. I know that many of my colleagues share my view that dynamic economic growth is not possible without strong IPR. What are your views on how the Administration can encourage the Modi Administration to boost protections for copyrights and patents?

USPTO Response:

U.S. stakeholders have significant concerns about IP protection and enforcement in India. The USPTO takes part in ongoing interagency efforts to seek opportunities for meaningful, sustained, and effective engagement on IP-related matters with the new government. While the USPTO plays a key role in our diplomatic and trade talks on IP issues, the agency also brings unique expertise to bear in our relationship with India. The USPTO plans to further strengthen ties with counterpart intellectual property officials in India to counter any misunderstanding or mistrust that may exist in the bilateral relationship.

For example, India recently became an International Searching and Preliminary Examining Authority under the World Intellectual Property Organization Patent Cooperation Treaty (PCT). The PCT permits inventors in seeking patent protection internationally to file a single international patent application and simultaneously seek protection for an invention in 148 countries throughout the world. As a PCT authority, India's Patent Office will be required to meet the same high standards prescribed in the PCT for patent offices around the world, and must have qualified staff that follows internationally uniform search methods. The USPTO has previously provided and will redouble efforts to provide technical assistance and capacity building to enable India to join other patent offices around the world in this rigorous system. These kinds of technical exchanges are frequently most effective in building a strong relationship and shared interests with other countries on IP matters.

4) The IP Attaché program does important work around the world, but I'd like an update on their work advocating U.S. government IPR policy in India, which has refused to grant or revoked patents or data protection for numerous medicines and agricultural chemicals that are patented in scores of other countries around the world. Can you speak to the work of the attaches on policy advocacy in India?

USPTO Response:

The primary function of USPTO IP Attachés including the India Attaché, is to engage in dialogue with the host country government to improve the systems of IP protection and enforcement. In India, this is accomplished through regular interactions with relevant Ministries in the Indian Government and by participating as subject matter experts in existing US-India bilateral dialogues. The IP Attaché conveys the U.S. Government position on IP matters of concern and identifies opportunities to provide technical assistance and capacity building programs to achieve U.S. IP policy objectives.

We continue to monitor legal and policy developments in India and use our position to encourage the Government of India to develop IP policies and practices which respect IP rights and create an environment that will stimulate creativity and innovation. When appropriate, the IP Attaché works with an U.S. Government interagency group to submit official comments to the Indian government on pending IP legislation or policy. Many of the IP Attaché's activities in India are focused on addressing gaps in the existing legal framework and responding to specific concerns raised by U.S. companies operating in India.

The USPTO also works closely with local industry chambers and other partners to advocate for new laws and provide training to Indian law enforcement officials. For example, in this regard, the USPTO has been able to advance U.S. interests in relation to priority copyright, trademark, patent, trade secret and enforcement concerns. As regards copyright, we were successful in 2013 in advocating for the inclusion of specific anti-camcording provisions into the draft Cinematographic Bill. This draft legislation has been endorsed by the new Modi government and is expected to be introduced in the next legislative session when Parliament reconvenes in December.

Regarding trade secrets, the IP Attaché is currently working with one of the national law schools and Government of India officials to develop a draft trade secret law that can be adopted at the central (federal) level. (Note: India does not currently have a specific intellectual property statute protecting trade secret information). USPTO IP Attaché engagement with the Government of India on improving trade secret protection is a significant component of implementing the Administration's Strategy to Mitigate the Theft of U.S. Trade Secrets. The IP Attaché also works closely with DHS, DOJ and FBI to conduct regular IP sensitization programs for Indian customs, police and the judiciary. For example, our judicial exchange programs focusing on copyright and trademark enforcement have been particularly useful in sharing information on case management, the use of electronic systems and the need for deterrent level penalties. These awareness and capacity building programs are designed to develop best practices within the area of IP enforcement which will ultimately benefit right holders.

Finally, we note that the sustained efforts of the IP Attaché in coordination with USTR and the U.S. Government Interagency group recently led to the announcement of a new high-level IP Working Group which will meet under the Trade Policy Forum. This IP-focused dialogue will allow us to more effectively engage with the Indian government on IP concerns and challenges and could help foster an IP environment which will allow U.S. companies to effectively create, obtain and enforce their IP rights in India.

Questions from Rep. Doug Collins:

1) My understanding is that PTO is pulling back patent applications that already have been allowed as a result of the Supreme Court's decision in *Alice Corp. v. CLS Bank*. How widespread is the impact of the Supreme Court decision? How many patent applications have been impacted?

USPTO Response:

Immediately following the *Alice Corp.* decision, there were a number of applications indicated as allowable prior to *Alice Corp.*, but that were not yet issued due to normal processing queues of the patent publication process. Given the USPTO's duty to issue patents in compliance with existing law, we took steps to avoid granting patents on those applications containing patent ineligible claims in view of *Alice Corp.* There were 1,181 applications that were withdrawn from allowance for further prosecution.

2) As you know, abusive patent litigation has been a concern. Will the PTO's actions as a result of *Alice* help ease abusive patent litigation? If so, how? Can you provide any data on that? I am also concerned that this pullback of applications not harm legitimate/innovative patent applications or disadvantage businesses that keep America globally competitive.

USPTO Response:

Based on *Alice Corp.*, any claim(s) in a patent application that merely implements an abstract idea on a generic computer is no longer patent eligible. To the extent that any future patent litigation would have relied upon the issuance of patents that have these types of claims, the USPTO's rejection of these types of claims in view of *Alice Corp.* may help ease abusive patent litigation.

Currently, the USPTO does not have any data on the correlation between rejections based on *Alice Corp.* and abusive patent litigation.

3) How will inconsistencies among the courts and examiners in implementing the Supreme Court's decision get worked out? Is the PTO aware of a case working its way to the courts that might bring more clarity?

USPTO Response:

Patent-related decisions issued by district courts can be appealed to the Federal Circuit, so any inconsistencies among the district courts should be resolved at the appellate level.

Based on public feedback, the USPTO is developing additional guidance for the Patent Examining Corps that is designed to promote uniformity in subject matter eligibility determinations. The USPTO is planning to issue this additional guidance within the next month.

There are a number of cases pending before the courts that will ultimately add clarity to the standards for patent eligibility. As always, the USPTO will continue to monitor developments in the case law to ensure that examiner guidance reflects the most current state of the law.

4) IPR: Does the technology distribution of patents involved in Inter Partes Reviews (IPRs), (especially when compared to the technology distribution for issued patents overall), demonstrate that any particular area is more or less prone to challenges? If no area is more (or less) prone to IPR challenges, doesn't this indicate that no technology is particularly problematic for the public, or has higher or lower quality than any other area?

USPTO Response:

The USPTO has received fewer than 2,000 total IPR petitions in the two years since inception of these review proceedings. By contrast, the USPTO issues approximately 1,000 patents per business day, and millions of U.S. patents are currently in force. Further, of those IPR proceedings that reached a final written decision by the end of FY 2014, only 20% of the claims challenged were determined to be unpatentable by the PTAB.

The IPR petitions by technology center as compared to the patents issued overall by technology center tend to show that the technology distribution of patents involved in IPR challenges is similar to that of issued patents overall. The IPR petition filings in the areas of computer architecture and software and communications are slightly higher than the patents issued overall in these technology areas. The differences, however, are not so significant as to suggest any conclusion regarding quality or whether a technology is considered by the public to be particularly problematic.

Questions from Rep. George Holding:

1) Deputy Director Lee, thank you for your responses regarding partial institutions of inter partes review during the hearing. I want to clarify my comments and get your specific responses. Indeed, as they relate to courtroom litigation, the inter partes review processes created and envisioned by the America Invents Act absolutely is a more efficient and economical proceeding. My constituents would fully concur with that theoretical framework. However, the problem that I am hearing is with respect to the PTO's *implementation* of the inter partes review processes. Because the PTAB is not taking and considering entire petitions, as required by the AIA, it is leading to more uncertainty, confusion, time and cost with respect to ongoing court litigation-which is what the IPR was supposed to reduce. The decision to institute on fewer than all challenged claims is leading to inconsistent decisions about staying underlying litigation, and in some cases actually creating more work for the district judges who cannot rely on estoppel on challenged claims not heard in the IPR to help ameliorate rising workloads. In all likelihood, those same claims are being challenged in litigation and it is most likely the assumption of the trial judge in issuing a stay that those claims will be resolved by the PTO. In fact, they are not, which is adding to the district court and litigant burden.

How do you square the clear intent of the AIA-to either institute reviews on all challenged claims in a petition, or to not institute at all-with the actual practice of the PTAB, which is to institute on only certain challenged claims? In my view, this creates a new class-challenged versus unchallenged claims, which is not contemplated by the AIA.

What assurances can you provide that you will take this feedback, as well as that received in the roundtables and the open comments, to reform the practice to reduce the unintended burdens that are now being created and to more adequately adhere to the statutory language?

Although the AIA is unambiguous that if one of the claims in an IPR petition meets the requisite threshold, review should be conducted on the entire petition, are there clarifying or technical corrections that can be made to the statute to ensure that the PTO's practice conforms to statutory language and congressional intent?

USPTO Response:

The USPTO is pleased that the AIA's *Inter Partes* Review (IPR) proceedings have provided a quicker, cheaper alternative to patent litigation in United States District Court and that the public has recognized their value by filing more than 1,300 IPR petitions last fiscal year alone.

The Office is committed to revisiting the rules and procedures used to implement the AIA review proceedings. Consistent with this commitment, we have sought public input on the review proceedings, including a series of public roundtables and a Federal Register notice seeking public comment. We will consider and analyze the received comments thoroughly and expect to make appropriate modifications to provide further clarity for the AIA review proceedings. In doing so, we will take into account the interests of the public, patent owners, petitioners, and other interested parties, in the manner prescribed by the AIA. In particular, the AIA required consideration of the effects of regulations on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the proceedings timely.

The USPTO created AIA review rules and procedures in accordance with the statutory framework. For example, the relevant *inter partes* review statute states that the Director may not authorize a review unless the Director determines that the information presented in the petition shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition. The statutory language itself does not expressly require the Director to institute a review of all challenged claims. Instead, it requires that at least one challenged claim meet the applicable standard for institution. Furthermore, the statute requires the Office to consider the impact a regulation would have upon the ability of the Office to complete the proceedings timely and the efficient operation of the Office.

The AIA's legislative history indicates that Congress intended the proceedings to be less expensive than District Court litigation and completed in one year, and thus gave the Director broad discretion to deny petitions that threaten to cause the Office to expend undue amounts of effort and detract from this mission. The experience of the Office with other proceedings, such as *inter partes* reexamination, suggests that always proceeding on all challenged claims would not be advisable if the legislative goals are to be met. Accordingly, in formulating the rules for AIA reviews, including IPR, the Office sought to ensure that the legislative goals would be met by not proceeding automatically on all claims challenged, but instead allowing each challenged claim to be evaluated individually to determine whether a review for that claim was warranted under the applicable standard for institution.

This approach may help District Court Judges considering action they face in parallel litigation for a number of reasons. Normally, the decision whether to institute a review occurs approximately 6 months after filing of the petition. At that point, the decision on institution indicates the relative merits of the challenge against each claim by going forward only with those claims meeting the applicable threshold standard for institution. Those claims failing to meet the standard for institution are not included in the trial. This approach provides the District Judge with an early indication of the strength of the challenges on a claim-by-claim basis. If the Office were to proceed on all challenged claims and all asserted grounds once any claim was determined to meet the threshold, that claim-by-claim assessment would not be available to the District Judge until much later, possibly as much as a year and one half later. By contrast, in reaching a decision on some claims earlier in the process, rather than waiting until the end of the trial, the Office gives the District Judge more information about the strength of the claims and asserted grounds

sooner in the process. This is an advantage of not proceeding on all challenged claims and all asserted grounds simply on the basis that one challenged claim meets the threshold standard for institution.

Proceeding on every challenged claim and every asserted ground, whether or not the challenge against each claim is meritorious, would not be an efficient use of Office resources, and would increase the cost and burden on the patent owner. Instead of eliminating weak challenges early in the proceeding, those challenges would be carried through the trial for an additional 12 months or more, requiring further briefing by the parties and attention by the judges handling the trial. As a result, this would increase the cost and burden on the patent owner as well as on the Office. Experience with *inter partes* reexamination proceedings suggests that this is not an efficient model. Hence, consistent with the legislative intent of resolving patent disputes quickly and completing the proceedings timely, the Office considers each claim individually before an IPR proceeding is instituted.

We appreciate the concern about the overlap between claims involved in District Court proceedings and those involved in IPR proceedings before the Office. But just as there is no requirement that proceedings must be instituted on all challenged claims, there is also no requirement that a petitioner challenge all claims in a patent. Therefore, even if the Office were to institute a review of all challenged claims, there is no guarantee that all claims in the litigation would be included in the IPR.

The Office will consider all feedback received from the public, from the request for public comment mentioned earlier, as well as the recent roundtables. The Office is eager to hear from the public regarding suggested improvements to AIA review proceedings, and will work with the public to ensure that the legislative goals are met.

2) Follow up on Plain Packaging: in light of Director Lee's unfamiliarity with the issue and promise to follow up on the issue, I'm restating my question. "Related to your international policy goals, I am concerned about countries who have embarked on trademark destruction. Australia was the first country to prohibit the use of trademarks on tobacco products in 2011 and other countries, like Ireland, seem to be taking a similar path toward destruction of intellectual property of companies. Can you describe US PTO's position on proposals that encumber the use of trademarks? Specifically, what will US PTO do to defend the intellectual property system, and the IP of US companies?"

USPTO Response:

For many years, the USPTO has been monitoring the developments in Australia and other countries that are considering this particular approach to regulating tobacco products. Since 1998, subject to provisions of appropriations laws (e.g., Section 509 of Division B of Pub. L. 113-76, Consolidated Appropriations Act, 2014) the USPTO has been prohibited from using appropriated funds to advocate for the reduction or removal of restrictions on tobacco marketing in foreign countries unless there is discriminatory treatment of U.S. products vis-à-vis foreign origin goods.

Questions from Rep. Hakeem Jeffries:

The U.S. Patent and Trademark Office (USPTO) has a proud history of providing the best data available in the intellectual property (IP) world. The richness of data tagging currently in place at the USPTO brings significant benefit to any area of technology, but is especially important in the chemical and pharmaceutical fields.

- 1) I understand the USPTO has plans in the future to have its 35,000 or so applicants do more to provide text and do tagging. How does the USPTO plan to ensure consistency in tagging from 35,000 different applicants, many of whom file fewer than ten applications per year or less?

USPTO Response:

The USPTO plans to continue the improvement of data being received from its applicants and processed by its examiners. Such improvements benefit both the USPTO and its applicants at many steps throughout the process. The USPTO successfully collaborated with 35,000 registered IP attorneys when the USPTO moved from paper filing to an electronic on-line submission of PDF files. This process change was accomplished through exhaustive feedback and outreach with the IP community; currently 95% of all submissions are sent electronically. The USPTO implemented a program to convert these electronic files from image to tagged text through OCR (Optical Character Recognition); however, that process reduces fidelity and introduces error. Today, all pending patent application file wrappers have tagged text for examiners to use to assist in their examination.

- 2) Wouldn't a single, controlled source of data flowing into the USPTO as exists today provide far more consistent and accurate representation of data than a collection of 35,000 sources of registered IP attorneys and agents? How could the USPTO continue to implement control over tagging, possibly by merely reworking the current system, moving forward?

USPTO Response:

Fortified with this successful baseline, the next step in improving our data flow is to improve in the quality of the tagged text. The highest quality text is text that the applicant sends the USPTO and not what is interpreted by a human or a computer. More than 40% of the PDFs received today contain text that the applicant has created. We are currently considering a few options to address this. One approach is to convert these PDF files to a single standard tagged text. This would allow for a high level of adoption immediately without any impact to end users; all the while using repetitive feedback cycles and outreach to the IP community mentioned above to further increase adoption. Another approach is to allow applicants to submit files using their current word processing tools (e.g., Microsoft Word and OpenDoc) according to open standards (file format .docx) and converting that text. By moving toward XML, the agency can reduce errors, improve quality and save the Agency significant conversion costs. Again, the USPTO would use an effective feedback and outreach campaign to ensure a proper business case decision is leveraged to increase success.

At the beginning of the Patents End-to-End (PE2E) investment, the Agency piloted a third-party, single controlled source of data. The pilot results yielded an inefficiency of government resources with prohibitive costs that, if implemented, would have significantly increased applicant user fees. Any one, single controlled source of data would require a computer or person interpreting the intent of the applicant and thus would lessen the quality. The applicant-submitted approach is in the beginning phase of its evolution and will be measured against the baseline quality level and tagging structure that was established with OCR implementation. We believe that choosing the applicant-submitted approach, rather than converting PDF files to a single standard tagged text, is a more effective and cost efficient process and will result in higher quality data.

Questions from Rep. Suzan DelBene:

1) Deputy Director Lee, thank you for your comments on the impact of the Supreme Court's decision in the Alice case and the impact on patent applications that were under review at the time the decision was handed down. Commissioner Focarino's recent blog (below) was helpful to clarify the actions the PTO took with respect to those cases. However, I have heard continued concerns that Alice itself provides a very uncertain standard to determine patentability of computer-implemented inventions, with the potential to be applied inconsistently by patent examiners. In light of the recent request for comments on the Alice guidance, and the concerns I've heard that examiners are essentially being asked to reject outright all such applications on subject matter eligibility grounds, what steps will the PTO take to ensure that the standards are clear, unambiguous, logical, and do not discriminate on eligibility grounds, against particular types of technologies?

USPTO Response:

Examiners have not been asked to reject all applications relating to computer-implemented inventions based on subject matter eligibility grounds. In fact, our *Alice Corp.* Preliminary Examination Instructions that were issued on June 25, 2014, specifically state that "*Alice Corp.* neither creates a *per se* excluded category of subject matter, such as software or business methods, nor imposes any special requirements for eligibility of software or business methods."

Based on public feedback, the USPTO is developing additional guidance for the Patent Examining Corps that is designed to promote uniformity in subject matter eligibility determinations across all technology areas. The USPTO is planning to issue this additional guidance within the next month. The USPTO will continue to seek public feedback and work with our stakeholders in refining our examination guidance and we will continue to make all of our guidance material public.

2) What steps is the PTO going to take to ensure that examiners apply the final standards consistently, and how specifically will the PTO assess consistency?

USPTO Response:

Once additional subject matter eligibility guidance is issued, the Patent Examining Corps will be trained on the guidance to ensure that examiners apply the guidance correctly and consistently. The consistency in which the guidance is applied will be assessed by the Office of Patent Quality Assurance (OPQA), which maintains a staff of examination experts to conduct in-depth reviews of examiner work products, to evaluate findings, and to assist the Patent Examining Corps in the development and implementation of data-driven quality improvement initiatives.

3) Does PTO have any recommendations for amending Section 101 to help in this area?

USPTO Response:

While the USPTO does not have any specific recommendations for amendments at this time, we will continue to actively engage within the Administration and with Congress and our stakeholders to identify and review possible legislative alternatives that would effectively serve to clarify patentability issues and otherwise benefit our patent system.