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2138 RAYBURN HOUSE OFFICE BUILDING

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April 13, 2011

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The Honorable David Kappos
Undersecretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
600 Dulany Street
Madison West Building, 10-D-44
Alexandria, VA 22314

Dear Director Kappos,

I am writing to request that you respond to the following questions, submitted by Rep. F. James Sensenbrenner, Jr., for inclusion in the March 30 hearing record on the "America Invents Act."

Section 2 (Grace period and first-to-file)

In page 2 of your prepared statement, you say that "the proposed transition of the U.S. to a first-inventor-to-file system [is] an essential feature of any patent reform legislation," while stressing how rare interferences are.

- (a) If, as you assert, the number of cases affected by this proposed change is so small (number of interferences are only 0.01 % of the number of applications), how could such a legislative change be so important so as to become "an *essential* feature of any patent reform legislation"?

Having seen the specific explanations of groups of small businesses, startups and individual inventors making up the Small Business Coalition on Patent Legislation from whom you received a letter explaining that their concern is the loss of the grace period and not interferences, you nevertheless appear to dismiss their concerns by stating on page 2 that "[s]ome contend that the proposed transition will only benefit large patent owners, to the disadvantage of independent inventors, and would encourage a rush to the patent office with hastily drafted patent applications. This fear is unfounded, and inconsistent with the facts."

- (b) What “facts” does the Office have which are “inconsistent” with small business, startups and individual inventors assertions that the weakening of the grace period will disadvantage them by harming their development process and their ability to raise funding for developing their inventions?
- (c) What evidence does the Office have to show that this “fear is unfounded”? Please provide any studies or evidence collected by the Office that characterize the processes that small business and startups go through in developing their inventions, disclosing to strategic partners and raising money before filing their patent applications that shows that the “fear is unfounded.”

During your testimony, you suggested that the reason for a transition to the first-to-file system is to “reduce legal costs, improve fairness, objectivity and transparency,” referring to the evidentiary complexity and costs of interference, while at the same time you also argue for adoption of prior user rights. The prior user right system, however, requires a determination of prior use and first-inventorship, which is merely a recharacterization of interference practice; it will impose many of the same evidentiary burdens and complexities that are characteristic of interference practice and that disproportionately create more burdens on small businesses, startups, independent inventors, and non-profits.

- (d) Can you explain why it is so important to eliminate such evidentiary burdens and complexities in interferences only to adopt them in administering prior user rights proceedings?

Section 4 (Prior user rights)

On page 4 of your prepared statement, you testified that “Expanding the prior user defense, I believe, is pro-manufacturer, pro-small business, and, on balance, good policy.” You have also said in your testimony that “prior user rights have the advantage of being very pro-American manufacturing” as it would end the “incentive for American businesses to locate their factories overseas” because the proposed U.S. prior user rights in the legislation would permit them to move their factories to the U.S. under this new shield from infringement liability. But prior user rights under this bill also confer benefits to prior use anywhere in the world with no advantages to domestic users. Why then would anybody move their manufacturing facilities to the U.S. when they can escape liability under a U.S. law that recognizes prior use in their existing foreign facilities? In fact, there are significant disincentives for moving or building such facilities in the U.S. because doing so would kill the current protections these manufacturers enjoy under foreign prior user rights laws – laws which only protect them for prior use within their respective jurisdictions.

- (a) Please provide the data and reasoned analysis that supports your testimony that “prior user rights have the advantage of being very pro-American manufacturing.”
- (b) Please provide an analysis of foreign prior user rights laws, indicate whether these laws are harmonized, and provide an analysis of how Section 4 of H.R. 1249 compares to these laws.
- (c) Is it the position of this Administration that the prior user rights proposed in this legislation is “pro- manufacturer, pro-small business, and, on balance, good policy”?

Section 9 (Fee Setting Authority)

Among other provisions, this section of the bill would grant you authority to adjust or set patent user fees authorized or charged under 35 U.S.C. § 41. However, this week I learned that you believe that the authority contemplated by the bill may be unnecessary somehow. You have just promulgated a new rule published in the Federal Register that increases patent examination fees in certain instances by \$4,000, where Congress authorized under 35 U.S.C. § 41(a)(3) and 35 U.S.C. § 41(f) that patent examination fees be set to \$220 (\$110 small entity) in all instances.

The published rule seems to have discovered the authority of the PTO to set different fees for examination in 35 U.S.C. § 41(d)(2). However, this section merely provides as follows:

41(d)(2) “OTHER FEES. - The Director shall establish fees *for all other* processing, services, or materials relating to patents *not specified in this section* to recover the estimated average cost to the Office of such processing, services; or materials...” (emphasis added).

But examination fees *are* “specified in this section” (in § 41(a)(3)). Current law simply commands that “[t]he Director shall cause an examination to be made of the application and the alleged new invention,” and that for doing so, the “[t]he Director *shall* charge the following fees: (3) examination fees...”

In order that the Committee better understand your views regarding the contours of the fee-setting authority you believe the PTO Director already has under *current* law, please provide the following:

- (a) The analysis and reasoning the Office relied on in promulgating the Track I examination fees under this new rule, showing how it derived an existence of PTO fee-setting authority to set examination fees in variance with those specified in § 41(a)(3).

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- (b) The analysis and reasoning that the Office relied on in concluding that it has the authority to divert resources (at least in FY 2011) and delay timely examination of applications of those who could not afford the higher fees of Track I in order to accelerate out-of-turn examination of applications of those who can afford to pay the extra \$4,000 for Track I.
- (c) The financial analysis under standard cost-accounting practices that shows that the *cost* of examining an application that is selected out of turn for Track I processing is \$4,000 more than that for an application that was left in the standard queue for examination, even though the average examination times expended on applications in either tracks are no different.
- (d) An explanation of why the cost-accounting rationale and reasoning relied on in (c) above to explain the higher costs when PTO hires and trains an increased number of new examiners would not also compel the PTO to *reduce* the fees whenever it reduces or halts the hiring and training of new examiners.

I would appreciate receiving your responses by May 13. Thank you for participating in the March 30 hearing and for your hard work at the USPTO.

Sincerely,



Lamar Smith
Judiciary Committee Chairman

LS/bsm