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Before the

Committee on Small Business
United States House of Representatives

On

“Patent Reform Implementation and New Challenges for Small Businesses”
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Mr. Chairman and distinguished Members of the Committee: Thank you for the opportunity to testify on the subject of patent reform implementation and new challenges for small business. I testify today in my personal capacity.

The Small Business Administration recently found that small businesses that patent regularly obtain 16 times more patents per employee than larger firms. Because patents matter to small businesses, this Committee deserves congratulations for participating in the enactment of the America Invents Act and subsequent technical corrections legislation. As someone whose principal occupational task is to teach patent law, I am grateful that I no longer need to describe internationally adopted rules reflecting best patent practices—and then have to explain how the U.S. patent system operates differently. The Committee should also take pride both in maintaining the small entity discount at the USPTO, and in engineering even steeper discounts on filing fees for micro entities. For example, the fee assessed against a micro entity for filing a patent application is a modest \$70. These measures will surely inure to the benefit of small businesses.

Consideration of patent reform implementation in large measure involves an assessment of the efforts of the USPTO. As a legal academic who has observed that agency for many years—and on occasion been critical of it—I wish to report my highly favorable impression of its implementation efforts. In my personal opinion, the USPTO has persistently met its obligations under the AIA in a timely and professional manner. Particular accomplishments for the agency include:

- Leading a transparent rule-making process with due regard to public commentary.

- Staffing the Patent Trial and Appeal Board with experienced lawyers of exceptional quality.
- Educating its staff of 8000 patent examiners about the new provisions of the AIA.
- Making great strides towards full operation of four satellite offices across the United States.

I further observe that the USPTO has reduced its First Office Action pendency to 18.7 months and decreased its inventory of unexamined applications to 600,000 cases—two notable achievements in view of the agency’s contemporaneous implementation of the AIA.

The efforts of the USPTO to contribute towards small business and independent inventors should also be acknowledged. Agency programs that are of particular benefit to these constituents include:

- An Office of Innovation of Development that oversees the agency’s efforts to assist independent inventors and small businesses. These efforts include outreach programs for independent inventors, women, small business concerns, minorities, and other underserved constituencies.
- An Inventors Assistance Center (IAC) that provides patent information and services to the public. The IAC is staffed in part by retired, experienced examiners who answer general questions concerning patent examining policy and procedure.
- An Ombudsman who assists in getting stalled patent applications back on track.
- Independent Inventors Conferences, conducted around the country, which deal not just with the patent application process, but also entrepreneurship and marketing.
- A Global Intellectual Property Academy that conducts a number of programs for U.S. small businesses; one recent program was titled “What Every Small Business Must Know About Intellectual Property.”

Although the efforts of the USPTO have been exemplary, issues remain for small businesses. First and foremost is the potential impact of sequestration. One of the primary points of concern during the pendency of the AIA was USPTO fee diversion. To that end Section 22 of the AIA established a Patent and Trademark Fee Reserve Fund that was intended to allow the agency to retain the fees it received for services provided. While I am no expert on sequestration, to my understanding the Office of Management and Budget has reportedly reasoned that fee payments to the USPTO are not “voluntary” within the meaning of the Budget Control Act—with the result that USPTO fees are not exempt from sequestration. Understandably, loss of substantial revenues from the USPTO budget could have a significant deleterious impact upon the agency’s ability to protect the nation’s environment for innovation.

The cost of certain USPTO post-grant procedures is also a potential issue for small firms and independent inventors. The new *inter partes* review proceeding costs at least \$9,000, while the minimum fee for post-grant review is \$12,000. These relatively high rates are based upon the congressional decision in the AIA to allow the USPTO to assess fees designed to recover the aggregate estimated costs of the proceeding to the agency. Given that the AIA requires post-grant proceedings to be conducted by at least three administrative patent judges of the Patent Trial and Appeal Board, one would expect the fees to be substantial—and indeed I believe that the agency faithfully complied with the statute in setting its rates. Nonetheless the fees are very costly and may contribute to a pricing out of small entities from robust administrative challenges to patent validity.

Patent trolling remains a significant concern for U.S. enterprises of all sizes. In my opinion, trolling results from systematic problems within the U.S. patent system and is not amenable to a quick fix. In the 113th Congress, two bills are directed towards patent trolling issues. The SHIELD Act mandates an attorney’s fee award in favor of any party that prevails on either validity or noninfringement, with exceptions for initial assignees of a patent, universities, and companies that spend substantial resources on the production or sale of the patented invention. Further, unexempted litigants must post a bond for these fees before they could even commence litigation. Fee shifting certainly holds the potential to deter non-practicing entities from asserting weak patents. Yet it might also discourage small businesses from bringing meritorious cases in an often unpredictable litigation environment. In particular, the SHIELD Act would cause certain types of patent proprietors to pay fees if they lose infringement cases, no matter how close the issues in the case may have been.

Another bill, the Patent Quality Improvement Act of 2013, would make two changes to the Transitional Program for Covered Business Method Patents. First, the sunset provision associated with that post-grant proceeding would be eliminated. Second, the post-grant proceeding would be expanded in order to cover virtually any sort of business method patent. Augmentation of the transitional program would potentially enlist the expertise of the USPTO to weed out improvidently granted patents in a timely manner. Nonetheless, patents that survive a second round of review may actually become more robust and troublesome—after all, advocates may assert that they withstood USPTO scrutiny twice and ought to be readily enforced by the courts.

In closing, I appreciate the invitation to provide my views to the Committee on these and other patent reform proposals, and looks forward to working with Members of the Committee as it continues to consider these issues.