DAVID KAPPOS

Insights From Intellectual Property Expert David Kappos

David J. Kappos is widely recognized as one of the world's foremost leaders in the field of intellectual property (IP). His areas of expertise include: IP management and strategy; the development of global IP norms, laws, and practices; commercialization and enforcement of innovation based assets; and blockchain and financial technology.

From August 2009 to January 2013, David served as Under Secretary of Commerce and Director of the United States Patent and Trademark Office (USPTO). In that role, he advised the President, the Secretary of Commerce, and the Administration on IP policy matters. He was instrumental in the passage and implementation of the Leahy Smith America Invents Act (AIA). Prior to leading the USPTO, David served in a variety of roles for more than 25 years at IBM, most recently as the company's Vice President and Assistant General Counsel for Intellectual Property.

David has received numerous accolades for his contributions to the field of IP, serves on numerous public service and IP-related boards, and is an adjunct professor at two Ivy League law schools. We recently spoke with David – currently a Partner at law firm Cravath, Swaine & Moore – to discuss what drove his initial interest in IP, his experience leading the USPTO, and his thoughts on current IP issues.

Can you tell us where you grew up?

I grew up in a combination of places, but mostly in Orange County in Southern California.

When you were growing up, was there anything that would have predicted an interest in IP?

Starting in elementary school, I was pretty good at math and science, and I did well in writing classes. So, I was a little bit unique in that I had a combined set of skills that comes together professionally in only a few places, one of them being IP law.

How did you initially get involved in IP?

Initially, I got involved in IP when I was still an engineer at IBM. I participated in a short program in which I shadowed an IP attorney to learn more about what that job was like. That was my first experience in the field as a non-lawyer technical person.

If you were at a karaoke bar, what song would you sing, and why?

I think a Johnny Cash song, like, "I Built It One Piece at a Time." And the reasons are twofold: One, because Johnny Cash songs are in a vocal range that someone like me can hit, and two, they're just kind of fun.

You may be most well-known as having worked as the Under Secretary of Commerce and Director of USPTO under President Obama from 2009 to 2013. After spending the first 25 years of your career at IBM, how difficult was it to take the position at USPTO?

It wasn't difficult at all. It was like going from one large enterprise, IBM, into another large enterprise, the U.S. government. I felt like it required the same basic skills – teamwork, clear communication, leadership, strong management, and discipline – that had been instilled at IBM, and were very readily translated to, and applied in, the government.

During your time at the USPTO, what were the accomplishments that you feel most proud of?

In terms of major accomplishments, one that I definitely would have to point to would be the AIA. My team at the USPTO was central in facilitating the largest reform of the patent system since 1836. I think it's fair to say that because everything between 1836 and 2011 was codification of judge-made law. In 2011, the AIA was a very, very ambitious piece of work. We think of legislation as coming from Congress, but particularly highly technical legislation requires significant work in many different respects from the expert agency.

I'm also very proud of the work we did to implement the AIA after the legislation was passed. I'll never forget because the president signed the legislation on a Friday morning, and immediately after that, we all went to the White House to meet with the president. After that, there was a party at the White House with many people interested in the legislation and the IP community. And then I can remember going home finally at around midnight, and it suddenly occurred to me: Someone's now got to go off and implement this, and they're expecting us to do it at the USPTO. None of the people at the party were going to be there to help us. It's all on us. Implementing the AIA was a gigantic piece of work, and the fact that we did it, and that we did it on time, counts as a major accomplishment.

Is there anything else particularly notable about your time at the USPTO that you'd like to share?

Something you're not even aware of is that every year the U.S. government conducts a survey called the Employee Value Survey (EVS) of all 2 million or so federal workers. Every agency, sub-agency, commission, and department of the government gets scored. So, you get to see how your agency stacks up against more than 300 other agencies in the federal government. The year before I took over at the USPTO, the agency was ranked in the bottom quartile. During the time I was there, we took the agency to being ranked the very top agency in the entire federal government for employee values – the measure for what employees actually think of the environment at the agency. Those who know the government well have said that was the biggest accomplishment of the USPTO because if you can change the self-image of an agency of that many people who are on such a challenging and lonely mission as examining patent and trademark applications (which really doesn't lend itself to teamwork very much), it's rather remarkable – and we did it. And, of course, once you get morale in a good place, then there's nothing you can't accomplish. That's when you can implement something like the AIA, and then you can dramatically re-engineer lots of other processes.

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How did you end up at Cravath Swaine & Moore after the USPTO?

Most people find another job before they announce that they're leaving the government. I decided not to. I wanted to put my full energy into the USPTO until I resigned. Going this route caused Cravath to actually reach out to me. I would've never thought to reach out in the opposite direction, because Cravath is a 200-year-old firm that is almost entirely composed of self-grown partners. There are very occasional exceptions made – just a few of them in living memory. I'm one, and Christine Varney, the antitrust partner here, is the other one who comes to mind. I didn't bother talking to anybody else once I was called by Cravath, because my wife,

who has a long history as a law firm lawyer, very quickly told me, "You don't want to go to another firm."

Could you tell us a little bit about the nature of your practice at Cravath? What types of work are you doing for your clients?

I've been here now six-and-a-half years, and I'm the corporate IP partner. With a team of now seven associates and two summer associates, we support the entire firm in all corporate, and even some litigation, IP-related work. An example in recent history that I can talk about is The Walt Disney Company's acquisition of the film and television assets of 20th Century Fox. That was, I think, the biggest IP deal in history. It was a $72 billion deal. And when it was all said and done, it involved the transfer of more than 100,000 IP assets: film, television shows, music, copyrights, domain names, etc. An enormous deal that was also enormously complicated. It involved many countries, many entities, and many, many, many IP issues. We also do IP policy work at Cravath. We're asked by clients to write and speak on policy issues all over the world. That's probably a byproduct of my background running a government agency.

> "WE'RE TRYING TO VINDICATE THE RIGHTS AND PROTECT THE INTERESTS OF THE PEOPLE WHO ACTUALLY CREATE THINGS, IN THIS CASE, COPYRIGHT-PROTECTED THINGS."

Can you share an example that is particularly interesting or meaningful of pro bono work that you've recently performed?

I teach, along with my litigation partner at Cravath, David Marriott, a course at Columbia Law School on copyright litigation. We take on pro bono cases, and actually then go out and resolve disputes on behalf of creatives. We're not representing those who take and use other people's IP without paying for it. We're trying to vindicate the rights and protect the interests of the people who actually create things, in this case, copyright-protected things. In the auspices of that program on a pro bono basis, we've got two major lawsuits pending. In both cases, we're representing fine art photographers who've had their work appropriated by an appropriation artist and haven't yet been able to resolve the matter amicably. So, we filed lawsuits for them. It's something that I think is great – that the firm supports us in taking on projects that are, frankly, pretty expensive in terms of the amount of energy required from us and from associates, over a sustained period of time.

We understand that you're also currently the U.S. chair of the U.S.-China IP Experts Cooperation Dialogue. What do you believe are the one or two most important changes related to IP in China over the past few years?

Well, one that came about just recently, several months ago, was the introduction of a trade secret regime. China never previously had trade secret law. The closest they came was unfair competition, which only partially covers some issues related to trade secrets. But now they have a national trade secret law. That's a major positive change that has occurred. Similarly, another major change that I would put at the top of the list is the creation of IP specialty courts, which happened several years ago. Also, earlier this year, China created a new tribunal as part of the Supreme Court that hears IP cases. All of these are major moves that create more of a national structure that has the expertise needed to decide IP disputes.

Switching back to U.S. patent law, since inter partes reviews (IPRs) became available at the USPTO in 2012, many in the IP world have developed strong feelings about the strengths or weaknesses of the IPR regime. What are your general thoughts about the IPR regime during the almost seven years since the passage of the AIA?

Well, I think the IPR system has been hugely successful. That's why it's been used about three times as much as we estimated it was going to be used when we were doing the government-required estimates before the AIA was passed. It's been hugely popular. I think the USPTO, and particularly the first chief judge of the Patent Trial and Appeal Board (PTAB), James Smith, did a superb job of hiring highly qualified administrative law judges (ALJs), and then putting in place a robust set of procedures that's enabled the PTAB to operate as effectively as it has. That being said, we knew from the beginning that there was no way we were going to be able to get it perfect. In fact, we were aiming for a 70% solution with the intention of iterating quickly. Although some of those iterations did not occur right away, you've seen in

the last year that things have settled down significantly with the PTAB, and you no longer hear all the shrill complaints that you were hearing three and four years ago. So, I think it's been very successful. You have to remember the world we were living in pre-AIA. It was a world in which there really were problems with many abusive lawsuits. And there was an arbitrage going on, because of the cost to defend patent infringement lawsuits – abusers were taking advantage of that. The AIA definitely fixed that in a very big way. And what became clear was that in our focus on the congressional requirement to get these procedures finished within 18 months, we wired the process very tightly. So tightly, in fact, that in some ways it turned out to be unfair to patentees. It's just great to see that the current administration has gone about fixing those issues.

One of the big lightning rods over the past couple of years has been this question of patent eligibility guidelines and efforts to revise them. Do you believe that the current interpretations of *Alice** have stifled innovation or resulted in other unintended consequences?

Oh, definitely. I mean, just look at what's gone on with the Cleveland Clinic having important diagnostics patents invalidated, and that's just one example. The current state of Section 101 related to patent eligibility, and interpretation of that area of the law, is a complete mess. The Federal Circuit itself has repeatedly had judges call that section out regarding its interpretation. It is definitely stifling innovation because innovators and those who fund them put their efforts in places where they can gain a competitive advantage, and they don't put their efforts in areas where they won't be able to capture a competitive advantage. We've now put our thumb on the scales in favor of a patent system that can't protect major areas of innovation, like diagnostics and aspects of computer software. It should be no surprise then that investment patterns change, and there's less investment in the areas that aren't subject to protection.

What advice would you give Congress in its efforts to revise patent eligibility guidelines?

Well, I think they have a very solid proposal in the one that Senators Thom Tillis and Chris Coons recently made. All they really need to do is take the input that they've received from parties that have had good refined suggestions, and modify the proposal accordingly. They would then have an extremely solid bill to pass into law, and that, in one action, fixes the problem.

"POLICYMAKERS NEED TO REALLY STEP BACK AND ASK WHAT IMPACT THE HEAVY HAND OF ANTITRUST ENFORCEMENT IS HAVING ON INNOVATION."

Do you have any final thoughts that you'd like to share on any particular issues that are important to you as they relate to IP, or any follow up comments on things we've discussed?

Another issue is that significant thought needs to be given to the IP antitrust interface. I think that policymakers need to really step back and ask what impact the heavy hand of antitrust enforcement is having on innovation through the IP system. That's a question that, in my mind, hasn't been asked nearly enough, particularly by the innovation or IP community. So that's something that needs to be dealt with, and it will probably require several years of energy and thought. Another interesting trend relates to the advent of data as an asset class and dealing with that somehow through the IP system. This is an area where we have not at all come to grips with how data should be treated under IP. There's no protection for data through the patent system, the copyright system, or the trademark system. The only protection for data is if it's kept secret through the trade secret system and nondisclosure agreements. I don't know whether that's the right policy paradigm because you are effectively taking an important asset class and requiring that it be kept confidential if it's going to have competitive value, but you're not encouraging or creating a situation that's apt to engender transactions, efficiency, and specialization. So, I worry about the treatment of data. It's become an incredibly important asset. People call it the new gold, and it really is. But the IP law system doesn't know how to treat it.

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