

UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT PUBLIC ADVISORY COMMITTEE
FEE SETTING HEARING

Alexandria, Virginia
Tuesday, February 15, 2012

PARTICIPANTS:

PPAC Members:

DAMON C. MATTEO, Chair

D. BENJAMIN BORSON

LOUIS J. FOREMAN

ESTHER KEPPLINGER

MICHELLE LEE

WAYNE SOBON

STEVEN MILLER

VALERIE L. McDEVITT

CLINTON H. HALLMAN JR.

Union Members:

ROBERT D. BUDENS

CATHERINE FAINT

Also Present:

DAVID KAPPOS
Under Secretary and Director

MICHELLE PICARD
Office of the Chief Financial Officer

Other Participants:

HERB WAMSLEY

Q. TODD DICKINSON

ROBERT A. ARMITAGE

PETER G. THURLOW

P R O C E E D I N G S

(8:04 a.m.)

MR. MATTEO: I think we're about ready to begin. Good morning and welcome, everyone, to the first of two hearings on the new PTO fee proposed changes. I'd like to provide some introductions, myself, Damon Matteo, Chair of the USPTO Patent Public Advisory Committee. To my right on the dais, we have the PPAC Subcommittee for Finance led ably by Esther Keplinger, and to her left Ben Borson, Wayne Sobon. And if I may introduce the balance of the PPAC, we have Steven Miller, Clinton Hallman, Michelle Lee, and Lewis Foreman joining us.

Now, as you may know, among its other provisions, the AIA -- America Invents Act -- has provided the USPTO with limited fee setting authority. In addition to doing so, it layered on several new duties to the PPAC, the first of which is to gather public input on any proposal for fees by the USPTO, and the second is to provide a report to the USPTO on that public input, which we plan to do in early July of this year.

Our purpose and objective here is to do

two things, to provide an overview of that proposal proper, and again, to solicit and gather public input from all of you. In terms of the format, so you know what to expect, we'll have some opening remarks. Michelle Picard of the USPTO will provide us with an overview of the proposal, the attendant process, and I think speak briefly about next steps. After that, we'll have scheduled witness testimony and unscheduled witness testimony, to the extent that we have others who wish to make testimony, and then we'll have some wrap-up.

In terms of protocol, our charter here and our intent is to be in listening mode, so we'll not be making any presentments, rendering any opinions. This is your time. This is for the public to provide input to the fee setting process. So we're very eager to hear what you have to say.

One thing I will ask, though, is, with respect to the witnesses in particular, be attentive to the time allowed, and if you would, please wait for the chair to recognize you and keep your remarks confined, please, if you would,

to the fee setting proposal and fees generally. So with that, what I'd like to do is, turn it over to Esther Kepplinger, Chair of the Subcommittee on Finance, for a few brief opening remarks.

MS. KEPPLINGER: Good morning.

MR. MATTEO: Good morning.

MS. KEPPLINGER: Good morning and welcome. Thank you very much. We really appreciate your participation today. I want to add to what Damon said with the members of the PPAC.

MR. MATTEO: Esther.

MS. KEPPLINGER: Okay. I want to add to -- a few members of the PPAC that are also here, Valerie McDermott, one of our new additions to the PPAC, and also Robert Budens from the Union. Catherine Faint is also a member of the PPAC, but I don't think she's here today or at least I didn't see her. Oh, there's Catherine, great, thank you.

So welcome, and I really appreciate the participation today. The PPAC values the comments that you have in order for us to write our report, so we really appreciate you coming and

being a part of this today. We will encourage you to submit comments both to the PPAC and to the USPTO on the proposed fees, so thank you very much.

MR. MATTEO: And by way of follow-up, for those interested in submitting any comments on the PPAC and the AIA, America Invents Act micro site on the PTO website, you'll find a vehicle for doing so. And for those of you who want, it's fee.setting@uspto.gov. So without further ado, let me introduce the Under Secretary and Director of the USPTO, David Kappos, who will make some opening remarks for the PTO. Dave, if you would, please.

MR. KAPPOS: Okay, Damon, thank you very much. Good morning everyone. Thank you so much for coming over to USPTO. It is, for us, just a thrill to be able to have this meeting and undertake this brand new stewardship that we have at PTO of talking about setting fees, working with our user community in doing so. So I just wanted to make a few brief opening remarks. The first thing you will notice that is, to me, very important, and I hope to those in the room, is that

the entire senior leadership team of the USPTO is in the room today, starting with Deputy Director Rea; Commissioner Focarino; our CFO, Tony Scardino, is here in the second row; our general counsel, Bernie Knight, is here, our chief economist; Stuart Graham is here, our chief litigator/solicitor; Ray Chen is here, our lead of Policy and Patent; Drew Hirshfeld is here; and I could go right down the line and talk about the entire senior leadership team being in the room.

And there's reason for that, because we're serious when we say that we are interested in hearing from our community, we are listening intently, and we are going to take into account very, very carefully the comments that are made by the public in this hearing and in the other hearing and in culminating in the report that the PPAC will create.

As I've mentioned already, but it's worth repeating, we view the initial draft that the USPTO put out last week as a starting point and just a starting point. There are no sacred cows, there are no assumptions that can't be tested or revisited, there's nothing we're not

willing to talk about. So we're very -- we come into this meeting very anxious to hear from our community and to learn from it.

The one other thing I would mention at the outset is that I feel that a key part of this discussion needs to be the realization on all of our parts together that, like anything in life, with the United States Patent system, you get what you pay for. And depending on what the U.S. intellectual property community, the U.S. business community, the U.S. innovation community, and the American people want from their patent granting authority, that is going to affect the way fees get set and it's going to affect the way operations are run around here.

And that's why we presented a couple of options in the initial proposal we came out with. That is, in effect, to present different approaches and to be able to have an intelligent conversation about what those approaches will mean in terms of the performance of the agency.

So we do believe, and I certainly strongly believe, that any discussion about fees needs to actually start with a discussion about

what do the American people want from the USPTO. Do they want the 2010/2015 strategic plan that we put in place with tremendous consultation from our user community now about a couple of years ago? If they want that plan, it's going to have a certain cost associated with it and that's going to flow through to a certain level of fees in aggregate.

If the American people want to do something different, we can talk about that and we can do something different, and that will produce a different profile relative to fees. The other thing that is worth mentioning for me at the outset is that once we determine as a country what we want this agency to accomplish, we then will be able to pretty clearly know how much money is going to be required in aggregate to do that. Within that profile, we can adjust fees in virtually any way. We can subsidize fees even more than we do today.

Personally, I don't think that's the right thing for the system because I think subsidies are unstable. I think that there's no business that subsidizes product lines to any

serious extent and stays in business very long. But I'm certainly happy to have that discussion. People want us to conduct more subsidization than we have in the past.

What we all have to realize is that we're in a zero-sum situation. Once we know how much it's going to cost to run the agency based on what we want to get done, if we want to subsidize some of the work processes that we do here, we have to charge more than the cost for other work processes because we're in a zero-sum environment.

So we just all need to realize that as we talk about individual fees, if we feel strongly about this fee or that fee and we want to reduce this fee or that fee, we're all going to have to have also the honest conversation about what fee do we raise in order to get the aggregate amount of income that's required in order to do what the United States of America wants the agency to do. So that, to me, sets the parameters for the discussion.

With that, I will do two more things, one is to return to the start and thank everyone

for coming today, particularly thank our witnesses for testifying, and especially thank our PPAC for so diligently undertaking this process. We are going to be listening very intently.

The second thing I wanted to do is just to mention something that is on a document that you'll see being handed out here, and you'll see lots of places around the agency. It's got a map of the U.S. on it, and it's labeled America Invents Act Implementation Road Show and Hearing Schedule, and it's got a whole list of road show dates and hearings that we're going to be conducting actually starting with the meeting that we're currently conducting today and going on to meetings tomorrow right here at USPTO, Thursday on genetic testing, and then a meeting again on Friday. The first of our road shows talking about the America Invents Act and listening to issues of substance about the legislation, which will also be here at USPTO on Friday, and then there's a long list after that.

We want the IP community to be aware of the wide range of meetings we're conducting, the

many road shows, the hearings. We're anxious to have as much public participation and comment as possible.

And with that, Damon and team, I'll turn it back over to you.

MR. MATTEO: Thank you very much, Dave. I appreciate your comments.

And with that, I would like to turn it over to Michelle Picard to give us an overview of the fee setting proposal.

MS. PICARD: Thank you very much, Damon and Dave. I'm very happy to be here today because I'll follow on with the introductions that are already there. I think my role in this is to give a little more detail of our proposal so that when you're providing your comments and providing and submitting the feedback to the PPAC and the USPTO, that they're in a manner that they're actual information for us. Because for us, as Dave said, this is just an initial proposal, and when we go through the Notice of Proposed Rulemaking, we want to make sure that we're able to consider them thoughtfully and make the changes where they need to happen.

So I'll just go through -- actually, let me figure out why this isn't moving. So somebody asked me if I needed a clicker, and I said no because I was told I could just -- so it's not me. Maybe a clicker would be useful. Thank you. So that's not working either. Let's just make sure -- okay.

I'm going to start with an overview of the process. And we can walk through where we are today compared to where we're going to get at the end. So as Damon had mentioned, Section 10 of the AIA provided us with fee setting authority. The mandate within that is that our aggregate revenue recovers the aggregate cost of the organization. And there isn't a mandate for individual fees to recover costs, but from a policy perspective, we believe that there are some areas that maybe that is necessary.

So what I wanted to do from the process is, if you look at the circle there down at the bottom, that's where we are today, at the public hearing, and from a timeline perspective, the Federal Register Notice that went out said that all formal comments are due by the 29th of

February, and I just wanted to mention that through the following month after that, we're going to be looking at all the comments that come in as PPAC does their report and prepares to issue that in July.

You'll see in April is when we set the Notice of Proposed Rulemaking into the review process, so that's when we'll be making some of our final decisions on the proposed fee structure.

So I encourage comments in the month of March so that we're able to see them too, and incorporate them into the proposal as it goes forward. So that's -- where we are today is the first opportunity for formal comment. As you know, on the AIA website, you can give comments throughout the process. We've encouraged them from the beginning. Then in the months of June and July through August is when the formal Notice of Proposed Rulemaking comment period will be out. So that's when we will issue the proposed fee, our next stage of the proposal, receive the comment back, and our final rulemaking we plan to issue in about December, with fees going into

effect in February, most of them.

So PPAC is planning on issuing their report in the middle of the notice of public comment period, so that will hopefully give you tools to see how they evaluated the fee structure as you're formulating your comments back to the agency.

So I think I'm going to spend a little time starting from the aggregate and then getting into a little more of the detail fee structure. And this is talking a little bit about what Dave said with us proposing two options.

I'm actually going to start with the baseline and put us in a frame of reference from a context perspective where the agency would be if we chose to leave the fee schedule basically as is, at the current 15 percent surcharge level, but go ahead and establish and set the new micro entity fees under Section 10.

So if we were to do that, we would estimate the agency would bring in about \$2.4 billion in patent fees. This is during 2013. So with those -- that is about 100 million more than what we anticipate collecting in 2012. So with

that, if you put in perspective, in 2012, we planned on hiring about 1,500 patent examiners as we're continuing to aggressively reduce the patent backlog. All of those folks do not come on at the beginning of the year. That \$100 million in 2013 barely covers the cost to pay their full-year salary. So from a perspective kind of frame of reference, we would continue doing what we're doing, we would be able to reap the benefits of those hires we're making in 2012.

You'll see on the chart below, in the shaded bars is the application filing levels which we anticipate continuing to increase into the out years. The dark purple bar is our backlog. The red line is the number of examiners we would anticipate having on board with those 1,500 hires in 2012. And you'll see that through 2015, we continue making progress.

So we definitely are continuing to reduce the backlog. The numbers above are pendency numbers, top one first action, bottom one total. So we would get to the point of about 12 months first action pendency in 2015, and that's really good progress for the agency, we're

making it there.

But the dynamic that's happening here is, we're not able to keep pace with the applications coming in. So in those out years, we begin to start growing again. So I think what this is showing is, if we were to just stay the same, we could continue making the progress, we would continue doing some of our IT initiatives, continue opening the satellite office in Detroit, start planning for the other ones. Everything that's in our plans, some of it may have to slow down at a slower pace. The examiner hires in the out years are estimated at attrition replacement, so just trying to keep it about steady state. So that just gives a frame of reference for what would happen if we kept things as is.

The next slide is the fee proposal that's out there. As Dave said, the information that framed this proposal is the strategic plan and trying to reduce backlog and pendency by 2015 and 2016.

In the strategic plan, our original goals were 2014 and 2015, and those had to shift a year because in 2011, all of that was predicated

on the 15 percent surcharge going into account in 2011. As we all know, that happened at the end of fiscal year 2011. So some people may say, your budgets that you've produced in the past said at 15 percent surcharge, you guys were meeting your 10 and 20 goals. How come you're not doing it under the option that you just talked about?

And the reason is, that was under the assumption that in 2011, we would have that 15 percent surcharge for the full year, and then as AIA was implemented and the 15 percent surcharge went into effect at the end of fiscal year 2011, we had the bubble. I think most of you have heard about that, which is everybody paid in advance the surcharge -- normal reaction, as to be expected. We received about \$200 million in 2011 above what our spending authority is. So when you look at those and put them in perspective, it's probably between \$300 and \$400 million that was in those original plans in the budget that we didn't get as going forward. This is why the fee increase is out there, to try to keep with the aggressive plans.

The purpose of this information is to

put things in context. This is where, in your comments, if 10 in 2015, and 20 in 2016, you're thinking, wow, that's too pricy, too much to do too fast. We welcome that information, we really want to hear that from the public and open that up.

So I think overall, the message to put here is, in the aggregate, the goal of the Office was to continue with the aggressive pendency backlog reduction plans, and under this plan we're continuing with our end-to-end patent system requirements and implementation and our IT infrastructure, rolling out the satellite offices, all of the major initiatives that are there, and you can see all the details in some of the appendices of the information that's out there on the website.

The one thing -- sorry, I skipped over, not intentionally, on that previous slide, we had talked about of the \$2.6 billion in fees, 2.5 of it was going to go to known operating requirements, and then 137 million into the operating reserve. This is kind of transitioning me to here. Let's talk about the

operating reserve. Why the operating reserve? One of the things that the Office has realized and learned from lessons learned in past years is, we need the balance of these funds to absorb any unanticipated shocks, temporary changes in our environment.

A prime example is what happened in 2009. In 2009, with our application filings, we had negative growth for the first time in years. Had we had an operating reserve in place during that time, we could have continued with our production plans, because it was a temporary shock, we could have made a bigger dent in the backlog in pendency, we could have continued with where things were going.

Instead, we had to shut down everything we could to just keep our heads above water, which leads us to the cash flow stress. You know, most agencies have funds to be able to deal with the balance between your fees and revenue, so that you're not making expensive short-term decisions that are impacting your long-term goals.

And so the operating reserve as proposed in this fee structure, we

estimate -- we've done a lot of analysis and looked at a lot of literature out there, and it seems like, in general, about three months of operating reserve is the starting point for risk mitigation. And there is some literature that says depending on your risk factors with expenses and revenue, which we have quite a few of them, you can grow it to up to six months. As an organization, we decided the three month minimum was sufficient to mitigate the risk. So this is -- the first line of that chart there is talking about what three months of operating expenses would look like for the agency in each of those fiscal years.

And you see in fiscal year 2012, that's about \$560 million. We are continuing to carry over funds. You know, today we have a small operating reserve. We expect it to end somewhere around 100 million at the end of fiscal year 2012. And the goal with the new fee structure is to continue to gradually build that.

I think some when you look at this may say, wow, that's pretty fast. So when you look at the growth from '12 to '13 and '13 to '14, it's

not that significant, it's about the same amount each year. The real jump is to 2015. In 2015, that is when our operating expenses start leveling off a little bit, after we've kind of reached our backlog and pendency goals, and that's also where our maintenance fees are starting to reap some of the benefits of all the production that we're having in past years.

So we know that as an organization on this proposed fee structure that if all of our assumptions continue, we continue going forward with plan, in 2015 and 2016, there needs to be a realignment and a readjustment, recalibration of the fee structure and look at where things are. And we're going to keep an eye on where things go. But this is another thing that we welcome your input on from the public -- in the direction and our plans on where to go.

So this is -- and my problem is, I'm not exactly sure I know how to go back. Okay. This is a really busy slide. And I'm not going to go through everything in it, but I think what I want to be able to convey with this is context and complexity in what we're dealing with.

So in the organization, there are many things that fit together when it comes to our fees and funding. If you look at the slide and you look at the left hand side, there's a funny little picture there of applications. We have a backlog; we continue to have new applications coming in the door at an increasing pace each year. And to the right hand side are our performance goals and measures.

So our goal as of right now in this fee structure is to get backlog and pendency down, first action by 10 months in 2015 in total, 20 months in 2016. To do that, we have taken the production capacity, if you look in the right -- the red boxes on the left-hand side in the middle of our aggregate cost, we know how much it's going to cost us to work that off, to get to that level, to get to that backlog.

I wanted to use this slide a little bit to talk about the data, the methodology, the information we have at our disposal to figure out this balance. If you look in the middle, what we're trying to do is balance our aggregate revenue to aggregate cost, but there are many

competing factors to get there.

So when we look at our examination capacity, at the PTO, given that -- I mean we have over 70 percent, maybe 75 percent of our costs are in compensation, and most of it's in patent examination.

So we have models that go through and look at the compensation cost into the out years based on production, grade levels, pay raises, promotions, as to every single person at the PTO. It's by individual. So we're pretty confident in the cost numbers as to how we calculate them and how to go forward. And then on top of that, there are support costs that feed into this, the IT cost, you know, rent, utilities, all the normal stuff, so that's easy to calculate.

Well, at the same time, it's almost like an iterative thing. The fees that are coming in the door are related to our application filings, right, in the beginning, that's one stage of the fees, which we all know do not recover the cost to do the work. So as those increase, our costs could increase if they're higher than planned, and the revenue is increasing also, but it's

increasing and bringing us out of balance, because as we know, the application filings do not recover the cost of the organization. If maintenance fees down there, the third box down, or issues remain at plan level, we are already off balance to be able to bring our revenue and costs in line.

So this is where the operating reserve is really helping. While we are -- part of our funding requirements for the earlier years is to help build that operating reserve so that if you kind of look down in the bottle in the scale, but balancing these multiyear costs, remember, as of right now, it's taken us almost three years to get a patent out the door. When we reach our goals, it'll be over two years. This isn't a single year set of services.

So we're looking at this over multiple years, and our revenue that's coming in is based on actions that happened 3-1/2, 7-1/2, 11-1/2 years ago, and the current year. So we're trying to balance all of that together. And to keep on this steady state, once we overcome this deficit that we're working with in the backlog, the

operating reserve is going to help us get there.

So I think the only purpose of this slide is to help you understand all the different pieces that are in there and all the competing priorities and the complexity and balancing it and the thought process that we went through on some of this.

So I think this will lead me to talking to some of the individual fee changes which I think are of interest to a lot of folks. The first thing I want to start off with saying is that the proposed fees to set or adjust under Section 10 are included in the table of patent fee changes. Those are posted on our website. So it's a complete list of all fee changes. In there, you'll also see all the fees that we are proposing the new micro entity fee for.

The one thing I do want to say when we go through this fee structure is, any place that there's a fee increase, even though we do have increases for micro entities in all cases, they are still paying less than they would do today as a small entity.

The workload associated with micro

entity, it's not a huge part of our applicant base, but it is important to see that we're taking the Section 10 authority responsibly in doing that.

So I think I want to jump to the bottom first. Our fees are intended so all of our aggregate workload projections and revenue -- projections assume that in 2013 -- in February 2013, these new fees will go into place, except for the issue in PG Pub fee changes.

We are assuming that those would go in place in January of 2014, and that's a decrease. The reason that there's a difference in those effective dates is, in decreasing the PG Pub and issue fee in 2013, we actually had some imbalance in the aggregate cost and revenue. It was bringing us too close to our cost structure to try to meet our goals. And we also -- so when we looked at the decrease to delay and implementation, we felt like the PG Pub and issue fee was fair, because most of the folks who will be paying the increased filing search and exam fees in February will be the ones getting the decreased PG Pub and issue fees in the out years.

So in 2013, when those fees increase and you go to issue and you pay your issue and PG Pub fee, most of those folks will have paid the lower filing search and exam fee. So we're trying to make sure that it's fair in that way.

So I'm going to just spend a little time going through each of the fee changes. The first one I'm going to talk about is filing, search, and exam. And I think the most important aspect of this is, today, our filing, search, and exam fees in total recover about 30 percent of the cost to do the work. We all know that's a good thing from a policy perspective, that we do want low entry into the innovation system, but it's also a little bit unstable.

So what we're trying to do is look at this as we first look at the fee structure overall and start with a cost recovery model. Our first goal was to look at how much does it cost to do these processes, should these fees be a cost recovery, and if not, which ones should be subsidized and which ones should do the subsidizing? This one, when you look at the examination fee, you see that it's the most

expensive part of the process, and it's the smallest amount of fees. So that was why we chose to increase that one by the most, to bring that ratio back in balance, because we wanted to make sure that at least the fees for the individual components are in line. While they're not full cost recovery for each, they're recovering about the same amount of cost for each portion of the process. So the proposal brings the cost recovery to about 47 percent or so, it just happens to be the same amount as the fee increase, not intentionally.

So that was our reason for the changes there. The prioritized examination fee, we're choosing to set at the cost recovery for large entity. For those of you who may have followed the Notice of Proposed Rulemaking earlier that we did on track 1 and 3-track fees, you'll see that the fees were originally proposed at 4,800 for large entity and 2,400 for small.

The reason for that is, in total, we wanted to make sure that the prioritized examination process was recovering costs. We decided to move the fee to \$4,000, which is the

cost for the process so that a large entity is not subsidizing the small entity for this particular process and micro. The subsidization for that is going to be elsewhere in the fee structure. The next two are application size and excess claim fees. Those were also proposing to increase by larger percentages, but by slight dollar amounts. Our focus on a lot of this was making sure, when we look at pendency, compact prosecution, trying to get applications in so that they are more efficient for the examination core and the application together as a whole as we're going through the information. So the application size fee increases and excess claims fee increases follow that same premise.

The extension of time fee increase also follows that premise. So when you're looking at trying to reduce pendency and the amount of time it takes to get a patent or an invention to market, we wanted to encourage prosecution and conclusion of the application, which is why we are proposing to increase the extension of time fees.

The request for continued examination fees, these are ones when we looked at the cost

of the Office to do an RCE, we chose to propose at cost recovery. So if you look at the cost of an RCE, as we've calculated, this is the additional cost of the Office to process one -- an application with one RCE compared to an application with no RCEs.

So we're proposing to make sure that when somebody is doing a request for a continued examination, that we're doing cost recovery, and when you look at it, because it is so significantly under cost today, looking at our aggregate fee structure, it means that other processes are subsidizing an RCE today. And so we thought that it might be best that that process pays for itself.

With that being said, we're also concurrently going through some process improvements with RCEs within the Office. We understand that the public has some concern relating to their interactions with the examiners, and they feel like sometimes they have to go to an RCE to be able to submit IDS prior art after the rejection.

So I think what we're trying to do here

is concurrently improve those processes. You'll see some more information coming out from the Office related to that. So we're not trying to just increase fees, put our head in the sand, that there isn't other things going on from a process implementation perspective in the Office, we're trying to walk down all of those paths together.

These changes are a little more complex. PG Pub and issue fee, this change also relates to maintenance fees, so I'll talk a little bit about it here and then a little bit about it on the next slide. If you look -- we recognize that you pay your PG Pub and issue fee at the same time. So there was no reason to have two fees, so we combined them to simplify a little bit.

And we also recognize that one of the premises as we were going through our fee structure is, we want to make sure that our fees kind of followed the line of when an applicant has information to make decisions through the prosecution process. And we realize that today our issue and PG Pub fee amount combined at \$2,000 is actually more than our first stage maintenance fee, which just didn't seem right from a process

perspective.

At the time that you're getting ready to pay your issue fee, you don't know very much about the value of your invention, the marketability of it, so what we wanted to make sure that we did is, bring that fee lower when there is higher uncertainty about the product, and then start gradually increasing it with the maintenance fees. We didn't really want to bring it down to cost recovery because we're starting to recover some of the subsidy of the filing, search, and exam fee at this point.

The appeals fees are something that, as you know, we have a large backlog in our appeals and we're trying to get to this on all fronts. And when we look at the amount of the appeal fee today, it's \$1,240 in total for the notice of the appeal and filing a brief, and the cost to the Office is almost \$5,000. So we decided that it was better to bring those fees a little closer to cost recovery.

In doing that, though, we also recognize that there's a process that happens going back and forth with the examiner before you

actually get to the appeal phase, and we wanted to recognize that process. So the proposal includes a notice of appeal fee of \$1,500, which is more than you pay in total today, a filing a brief fee of zero. So when you go ahead and file your brief, we're not going to be asking for an additional fee. And then after the examiner's response is when we will charge the additional fee to bring us closer to cost recovery.

If you decide to go all the way to the appeal process and do what we've kind of been terming docketing the appeal, you will have an appeal fee for \$2,500. If through the process you are not taking it all the way to appeal, and the examiner happens to withdraw their final rejection as they're going through and reviewing the information, we're also proposing to include a zero-dollar PG Pub fee if there are claims that are allowed and they make it all the way, too.

So in net, you would be paying for those that are allowed through that process as you're going back and forth with the examiner, you would be paying about \$540, so that is less than the amount that you're paying today.

So we're trying to recognize the communication that goes back and forth and make sure that we're putting more information, setting the fees as you're going down the pipeline. It's a little more granular, but we're hoping that it helps the process.

The last fee I wanted to talk about is maintenance fees. So maintenance fees, obviously today, don't cost us anything but the amount to process them, which is \$1. The current large entity fee, when you look at the maintenance fees compared to issue fees, that's the blue slope there, you see that it's kind of interesting that they pay more, and then it kind of increases as a slow slope.

What our goal was is to try to let the issue fee and maintenance fee follow kind of the information trail that the applicant or the patent owner at this point has. So at the point that their product is -- you're just getting ready to put it out there in the public, the issue fee is lower.

First stage maintenance fee, you'll see we're not increasing it significantly, but we're

at a point that three and a half years down the road, they about -- you know a little more, seven and a half years down the road, we left it about where the fee is today, to try to bring that information more in line. The most significant increase is at 11-1/2 years down the road. And on a future slide, we'll kind of talk about what that means in the aggregate.

So I think the last two fees that I'm going to talk about, one of them is supplemental examination, of which you're all aware of the Notice of Proposed Rulemaking that's out there now. The cost for us to do a supplemental examination is about -- a little over \$5,000 for evaluating the request and about \$16,000 to actually do the supplemental examination. This is something that our estimates are that it's not going to affect a huge number in the applicant community, and we wanted to -- back to our goals of encouraging efficient patent prosecution, this is one that we are choosing to set a little above cost in making sure that -- trying to just encourage that all the information is submitted up front when you have it. So this is one of those

things that we're interested in hearing your comments on, however, this is a decision that we've put forward in the proposal.

The oath and declaration fees that are in this proposal, we have to admit they're somewhat of a placeholder. Going through the process for the Notice of Proposed Rulemaking that's out there right now in the inventor's oath, our initial feedback is that the public would like to be able to submit the oath and declaration later in the process, and we're still evaluating whether or not that's going to cost us to do anything additionally or have to go back to because all of the information wasn't available at once in the inventorship.

So what we're doing is, proposing a fee out there as we're evaluating the comments under that Notice of Proposed Rulemaking. So we encourage you to give us your feedback related to this fee in concert with the public comments that are coming out with the Notice of Proposed Rulemaking on the oath and declaration. I just wanted to take kind of a step back at a summary view. So what we are doing with the fee structure

is, today, obviously this is a very basic patent. So if you pay your filing, search and exam, issue and PG Pub fee today, it costs you -- a large entity would cost you a total of \$3,290. Under the proposed fee structure, if you pay those same fees, it will cost you \$2,800.

So by decreasing the issue fee by significantly more than we're increasing the filing, search, and exam fee is trying to still bring a little bit more fees to the front of the process to better align and stabilize the fee structure, but at the same time recognizing that the cost for early entry and the cost to get a patent we want to keep relatively low for a basic patent.

This starts bringing maintenance fees. If you look at this, this is the same information on the other side, the bottom two stacks are the same. The green bar is adding maintenance fees to the mix. So if you were to add first stage maintenance fee, it's basically the same as it is today. So an applicant would pay the same today through a first stage maintenance fee.

If you were to pay your second stage

maintenance fee, it's about \$730 more in total. Now, we recognize also that's seven years down the road, after you already have your invention in the marketplace, you understand the value of the patent a little more, and you're able to make those renewal decisions.

This chart doesn't show the third stage maintenance fee because it got really busy and hard to read. But obviously a third stage maintenance fee is the biggest increase. We estimate about 50 to 60 percent of those who pay second stage maintenance fees actually renew all the way to third stage, so again, it's not affecting as many of the patent owners.

And if you were to go all the way to third stage, it would be an additional \$2,870 that you'll pay under the new fee structure, that, again, being 11-1/2 years down the road. At the point in time that you're making that payment, we're assuming that that patent is valuable to you and that it's not a big chunk of money compared to the money you're making through it, the return on investment is worth it.

So that summarizes some of the changes

as a whole. I think that walking through this, you'll see that the aggregate revenue that we're proposing under this fee structure is helping us meet the goals that we've heard through the strategic planning process. We are definitely open to hearing from you if they're different, if you want changes, if we should be doing something or focusing in a different way in our planning, or if our assumptions should be a little different.

The other thing we are considering as we're looking at this is that we recognize that as pendency begins to fall, we think application filings might grow a little more. So we're keeping an eye on that, too, making sure that we can keep pace with the new applications coming in the door.

Then if I look at this slide, I wanted to summarize what we've talked about through here about the benefits to the IP community as we see this proposed fee structure. We believe that they'll deliver quality patents on time and within timeframes that are beneficial to the IP community, both domestically and abroad. And we

think that the fee structure changes also help to enhance the applicant choice as to how we're going to make decisions through the prosecution process.

There wasn't really enough time to talk about all of the benefits we're getting as to what we're spending our money on in the Office, but one that I think is really notable here, if you go through the aggregate cost information in the appendices or the President's budget that was issued on Monday, you'll see that we're continuing with our initiatives on the patent IT system and the end-to-end automation, and that will definitely bring value to the public in the way that you communicate with the Office electronically.

The path forward is where I wanted to summarize, and I think that the introductory remarks also set the stage for this. I echo that this is the initial proposal; it's far from final because we're waiting for the feedback from PPAC. I know PPAC is waiting for your comments to do their final report, and we are going to be following that information, too.

I just want to reiterate that the Federal Register Notice does say comments need to be submitted by February 29th. There's the e-mail address at fee.setting@uspto.gov. So send your comments in. We're distributing them to the PPAC as we get them so that they can include them in the final report. And we will also look at what's coming in as we're creating our final proposal in the Notice of Proposed Rulemaking.

So I think that that's -- I'll turn it over to you, Damon. Thank you very much.

MR. MATTEO: Michelle, thank you very much for your comments. Just by way of an aside with respect to the February 29th date, in order to have your comments fully contemplated and comprehended in the report, the 29th certainly is the hard stop. We would welcome comments thereafter, and we'll incorporate them and consider them as we can. Bare in mind that the due date for our report is early July, so we'll need some time to factor them in.

With that, I'd like to move to our scheduled testimony. The first speaker will be Herb Wamsley from the Intellectual Property

Owners Association. And what I'll do here, as you're allowed 15 minutes, I'll give you an ever so subtle five-minute warning sign here to let you know. Thank you.

MR. WAMSLEY: Well, thank you very much. Where to start? I'm very happy to be here, even though I had to pay an outrageous, exorbitant fee for a one day extension of time to my wife in order to postpone the celebration of Valentine's Day.

I'm the Executive Director of Intellectual Property Owners Association, and I want to express some preliminary views of the Association on the Patent Fee Proposals published by the PTO on February 7.

First of all, I want to commend the members of the PPAC on their hard work and their commitment to help the PTO improve its operations. IPO is a trade association representing its members who are owners of IP rights and others interested in IP. We have more than 200 corporate members, we have more than 12,000 people involved in the activities of the Association through their companies or law firms

or as individual members.

The 50 member Board of Directors of IPO will consider the Patent Fee Proposal in more detail at its next meeting and we plan to file detailed comments when the Notice of Proposed Rulemaking is published in June.

Today I will not comment on the levels proposed for individual fees in the February 7th proposal, but I will make a number of general comments that we hope will be helpful to the PPAC in preparing its report to the PTO. IPO has long supported and continues to support the PTO's goals for shorter patent pendency time and high quality examination. We support reducing average pendency time to first action to 10 months and average pendency time to disposal to 20 months by 2015/'16 as called for in the PTO's strategic plan and updated estimates.

Short pendency time provides greater legal certainty for everyone affected by patents and gives early information to applicants and owners to help in making decisions on overseas filing.

For decades, the U.S. Patent and

Trademark Office performed the fastest examination of any major patent office in the world. We need to regain that distinction. High quality examination, of course, provides legal certainty for patent owners and competitors and reduces litigation. Without high quality, patent examination is not worth doing.

We realize the PTO must hire and train more examiners and administration patent judges to achieve its pendency and quality goals, and we support adequate funding to get that job done.

We question, however, whether fee increases as large as those proposed should be adopted. We strongly urge further analysis of whether the fee increases proposed and the levels in the February 7 notice are necessary in order to achieve the Office's goals. As we understand it, the proposal would result in a 10 percent increase in patent revenue in the aggregate in 2013, followed by another 5 percent aggregate increase in 2014. This comes after the 15 percent across the board increase imposed by the America Invents Act last September, which we supported.

The proposal now is for an aggregate 30 percent fee increase in less than 3 years. In current economic conditions, many IPO member companies are operating with very tight spending controls. In many companies, patent department's budgets are frozen, and patent fee increases can be absorbed only by reducing the number of patent filings, issue fees or maintenance fee payments.

The impact of higher fees may be different for different industries, for filings at least. Those industries that traditionally file more patent applications per million dollars of research or operate on the lowest profit margins may be the ones most affected.

The PTO materials contain an estimate that with a 47 percent increase in the total filing search exam fees, application filings could decrease up to 4 percent. And with a 61 percent increase and third stage maintenance fees, there could be a 23 percent decrease in renewals. We cannot say whether these estimates are accurate, but we feel certain that in some industries, patent filings and other demands for

PTO services would decline with the fee levels being discussed. Even assuming the PTO's elasticity assumptions are correct and that higher fees will produce more revenue, the impact of lower patent filings on innovation incentives, even if only 4 percent lower filings, should be considered. The impact of additional fee increases must be evaluated together with the impact of the 15 percent across the board increase that's already been put in place.

Now, we believe the PTO can take actions that will enable it to achieve its pendency and quality goals with smaller increases in many fees than those that were published on February 7th. As I noted, I'm not commenting today on which individual fees should be reduced or increased, but I will identify some actions that should be considered for containing fee increases.

We question whether substantial revenues or substantial funds should be set aside for an operating reserve at this time. The proposal calls for amounts to be set aside ranging from \$156 million in 2013 to over 200 million in 2015 to build an operating reserve of over 700

million by 2015. The creation of an operating reserve of this magnitude within this timeframe will add significantly to the fee burden that applicants and owners will have to bear.

Moreover, we're concerned that a substantial operating reserve would be a tempting target for congressional appropriators who are under pressure to find funds for other government agencies. Section 22 of the AIA created a new reserve fund in which excess fee collections are deposited, but the PTO cannot obtain access to the reserve fund except through the appropriations process. For 2012, the PTO has been assured of access to fee collections by language in the Appropriations Act, but appropriations legislation is enacted one year at a time.

Between 1992 and 2011, Congress denied the PTO access to more than \$1 billion in fee collections. Denial of access to fees has been a major factor in creating the application backlogs that now exist. The fee setting authority that has been entrusted to the PTO for the next seven years has the disadvantage that Congress may be more likely to confiscate PTO

fees, believing the PTO can easily reset fees the next year to cover the losses. So we believe congressional confiscation of an operating reserve is a real danger.

We urge the PTO to take action to reduce the number of RCEs. Congress enacted 35 UCS 132(B) in the America Inventor Protection Act back in 1999 to allow a request for a continued examination, which were cousins of continuation applications that already existed. We believe Congress thought it was streamlining patent examination at that time, but unintended consequences occurred. The graph on page 34 of the detailed appendices published on February 7 shows that RCE's have exploded since 2000. In 2010, the more than 400,000 patent applications filed included 150,000 RCEs. While the number leveled off in 2011, we believe RCEs are still out of control. The expense to the PTO to examine RCEs is in the hundreds of millions of dollars a year.

We appreciate that the PTO may be planning to allow applicants to submit IDS's after paying the issue fee in a manner other than

through an RCE, and we understand that the PTO is looking at incentivizing examiners to give more consideration to amendments after final rejection. But we believe additional steps must be taken to reduce the number of RCEs. By reducing RCEs, the PTO can reduce backlogs and improve efficiency.

In the 1960s, then head of the Patent Office, Edward J. Brenner, invented compact prosecution, and at the time that was a new concept of doing a very thorough search on the first action and making the second action final in most cases, with some flexibility to work things out after the final rejection.

That system worked pretty well for a long time. Brenner introduced compact prosecution because before that time, the examiner count system had been broken. Before compact prosecution, examiners were evaluated according to the number of actions that they generated in each case. And in an earlier life, when I was a patent examiner, I came on shortly after compact prosecution, and I inherited some of the old cases that had four actions, six

actions, eight actions, new art sited multiple times, extremely inefficient. Under the Brenner system, the Office started evaluating examiners according to the number of disposals and later according to the number of disposals in first actions, and that worked better.

Now, we appreciate that some changes were made in the examiner count system about two years ago, to reform it, but our members have the impression that further changes are needed in the examiner count system to get it back on track. The way the system works now, examiners are getting a substantial part of a full count for 150,000 RCEs a year.

How am I doing on time?

MR. MATTEO: You're doing okay on time, but I think if you focus on the fees, that would be much appreciated.

MR. WAMSLEY: Well, the RCEs are the heart of what we think can be done to reduce costs, reduce the backlog, and avoid fees as high as those now being proposed. I would say that might be the greatest single step that could be taken. Now, we support reasonable subsidization of

selected services with income from maintenance fees and other fees. Maintenance fee income, of course, is important for subsidizing services that otherwise would require charging fees. That's the primary purpose of maintenance fees. It may be appropriate to subsidize fees with -- higher fees from other fees in addition to maintenance fees. Our Board of Directors may make recommendations on IPO procedures and services that deserve subsidization.

For example, some of our members have expressed surprise at the levels of fees for ex parte re-examination, the new proceedings established in the AIA post-grant review, inter partes review, transitional proceedings for business method patents, and supplemental examination.

Now, one approach to those IP's would be subsidization. We recommend also looking at controlling the levels of those fees by making the procedures, the new procedures as simple and efficient as possible. In this regard, the IPO, in cooperation with the AIPLA and the ABA, which will be speaking momentarily, submitted some

preliminary suggestions for procedural rules that might be more efficient and less expensive for the PTO to administer. We suggest further study of those rule suggestions as possible sources of efficiency in the PTAB proceedings that could help contain costs.

Finally, I'd like to note the burden placed on large entity fee payers to subsidize small entities and the new micro entities under the AIA. In IPO, the majority of our corporate members are large entity fee payers. Under the AIA funding scheme, large entity fee payers will subsidize not only small entities, but the new micro entities. Using the aggregate revenue calculations published on February 7, we have calculated that large entity fee payers could have their fees reduced by roughly 13 percent if they did not have to subsidize other fee payers.

While innovative small businesses, independent inventors, and universities certainly are a critical part of the innovation based economy, so are large businesses. We note that AIA Section 10 gives the PTO director authority to impose limits on who may qualify as

a micro entity, if reasonably necessary to avoid an undue impact on other patent applicants or owners.

Also, when subsidies are necessary for small and micro entities, we believe it would be better public policy for Congress to appropriate money for those subsidies from general government revenues. Again, I appreciate the opportunity to be here today, and that concludes my prepared remarks.

MR. MATTEO: Herb, thank you very much. I do truly appreciate your comments. Next up we have Q. Todd Dickinson of AIPLA.

MR. DICKINSON: Thank you, Mr. Chairman, members of the PPAC. My name is Todd Dickinson. I'm the Executive Director of the AIPLA, the American Intellectual Property Law Association, and we thank you for the opportunity to testify before you today. I think most folks probably know who we are, but just to recap briefly, we're a national Bar Association with approximately 15,000 members that cover the spectrum in terms of practice from government service to private practice and academics. We

run a full spectrum of individual companies and institutions involved directly in the patent process. Our members obviously have a very keen interest in the efficient and effective Patent Office operation and the IP system generally.

As I mentioned, we appreciate the opportunity to comment on the fee proposal before the PPAC, and congratulate the PTO itself and its drafting process in what was obviously a prodigious effort under a very short period of time.

We would, however, note that, like the PPAC, the public has only had these comments for about a week. Our oral comments today should be taken in that light. We also pride ourselves on being a grass roots organization, and we're in the process of hearing from our members on the fee proposals, and so, in some ways my remarks today are preliminary.

We look forward to filing written comments at the end of the month, and we'll also, in all likelihood, file comments on the final package when it's published later this year. Also, as a caveat note, some of my opinions today

may moderate as we hear from more members. The comments today were drafted in large part by a committee that was headed by former Deputy Commissioner Mike Kirk. It included a number of former senior PTO officials with intimate and detailed knowledge of the PTO and its budgeting processes. They were also approved by our board.

Let me reflect briefly on the context within which this fee setting process is occurring. As an integral part of the overall reform of the patent system incorporated in the Leahy-Smith America Invents Act, it's critical to remember that the principal driving philosophy by these reforms was the widely held concern about overall quality of patents, both real and perceived.

As the Federal Register Notice says, the purpose of the Leahy-Smith America Invents Act and the proposed regulations is to establish a more efficient streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.

Moreover, it's important to remember that many stakeholders, either opposed granting

PTO fee setting authority or, as with the AIPPLA, supported it only as a function of the ability of the Office to retain its fees. The concern for eliminating congressional oversight of the fee setting process stem from a variety of sources: concerns that the fees would rise capriciously or without sufficient data, concern that there would be too focused and attention on general overall revenue generation as opposed to an appropriate balance of interest. So there is -- I think in this first fee setting opportunity, I think we are interested in taking particular care as to both how the process is done and what the ultimate result is.

For example, we still have some uncertainty, I would note just parenthetically, the President's budget as published the other day proposes revenue of \$2.95 billion. In one of Ms. Picard's slides, she showed a revenue of \$2.4 billion. In a subsequent slide, she showed a revenue of \$2.68 billion. So I think additional clarity around some of these numbers is appropriate.

As Director Kappos's statements and his

proposal itself made clear, a significant focus, however, is placed on the administration's goal of pendency reduction. Now, a pendency reduction is certainly an important and laudatory goal. It's also long sought by the user community. It must be balanced with the cost of entering into and participating in a system, and should not interfere, however, with the primary goal of reform, again, the pursuit of quality improvement, looking at perception and fact.

In other words, a pendency reduction results in either keeping the inventors from using the system or decreases the quality of the rights they receive. The value of that pendency reduction may be undermined. Consequently, when overall fee setting occurs, or perhaps, more importantly, when fees are targeted or adjusted to incent or retard certain behaviors, we believe the nature and magnitude of those fees should lean towards quality enhancement as a first principal.

We believe this is why Congress, for the first time, also directed the Office to change from the individual action cost recovery model to one in which the fees must only be the aggregate

add up the cost of managing the functions of the Office.

What are some fee setting principals? That said, we agree, in principal, with the foundational cost recovery approach proposed by the Office. We believe that the fees in aggregate should recover 100 percent of the costs borne by the PTO, and the relationship between so called front-end fees, filing, search, examination, et cetera, and back-end fees, maintenance, renewal, et cetera, should be maintained. That is to say, for example, that search and examination fees for patents should not necessarily be set to recover the entire cost of front-end processing, as was noted in the proposal, and that a portion of those costs should continue to be borne by maintenance and renewal fees.

Now, I don't know if that's a subsidy or not. Sometimes we see the subsidies as good, sometimes we don't see them as good, but I think this is -- we believe this is the appropriate balance to be struck, at least on the initial processing fees. This approach assures that

front-end fees remain low enough to allow a wide range of inventors and businesses to seek protection while making up the shortfall with back-end maintenance fees. The current fee schedule was built on this core philosophy.

AIPLA is concerned, however, particularly with the fees for new services being proposed, that the Office may be overly conservative in its cost analysis and overestimating like costs, particularly for new processes. Such overestimation could in certain cases result in fees, which may be difficult to justify on an individual basis.

We believe that the productive dialogue initiated by the Office and by the PPAC should be based on more detailed discussions of the assumptions, modeling, and estimation of those costs. Towards this end, we recommend clear goal on costs, and that is transparency.

The ABI model that was used in the past is a very good one. But for new fees in particular, there is no track record, and so the assumptions that go into those costs should be scrutinized with particular care. Revenues seem

to be a particular focus, but as I say, the disclosed cost estimates should still be more specific and defined. It may be that these conservative assumptions might yield to appropriate reductions in those cost estimates greater efficiencies and the possibility of maintaining the current pendency goals while reducing the fees that are proposed.

That said, AIPLA is also willing to discuss easing the trajectory towards the current pendency goals, which could reduce some of the overall costs being borne by the applicants over the next several years. As Mr. Wamsley noted, applicants have already absorbed a 15 percent across the board fee increase, are now being asked to deal with another challenging set of fee changes, which, in the aggregate, could amount to a significant additional burden.

AIPLA also believes that there may be additional opportunities to charge separate fees for some of the processing activities to provide more flexible, more efficient operations and prosecutions, setting both applicant and PTO resources, especially in the case of RCEs and

appeals, which I'll talk briefly about later.

Some specific concerns, first of all, some members have suggested, and this was suggested in Mr. Wamsley's comments, that overall, the fees in general, and the associated revenue appear to be too high to meet the pendency goals, or at least they're concerned about whether -- they seem to be costed out at maximum levels. As I said above, we're willing to consider a less steep trajectory for pendency targets. I note that 10 months is an extraordinary ambitious target, especially at the time that the implementations of all the other aspects of the AIA are occurring. We should look for more -- as I said, look for more cost cutting or longer pendency. There is some skepticism at least in the folks that preliminarily made comments at AIPLA about the elasticity issue, which was mentioned by Mr. Wamsley.

Also, Congress gave the authority to the PTO to use the fees to incent or retard behavior. Now, we've traditionally had concerns about doing that. To reduce, PTO should specifically identify -- we would request that

the PTO should specifically identify which of these fees they identify as having the behavior inducement and which were done pure cost recovery individually, fee by fee by fee by fee. And for those behavior inducing fees, a careful analysis of the factors which went into that decision and the cost in benefits should be provided.

We should also recommend that you look for more staging opportunities for fees to reduce the overall cost to applicants and patent holders. What the PTO refers to, I think in the proposal as processing options, for example, filing fees separate from search and exam, notice of appeal separate from the appeal brief, petition for supplemental examination separate from the substantive re-examination itself.

Let me try and comment a little bit on the reserve fund. We agree in principal with the establishment of a three month operating reserve fund. We believe it allows for continuity in the event of a shut down and better cash flow management and long-term planning for things like IT. The initial reaction, however, was -- at AIPLA -- was concern that the rapid growth of such

a reserve on the backs of the current applicants at a time when the Office is already reworking fees to address foreseeable costs may not be prudent or even politically expedient. This is one area, though, where we still have to hear from our members, and we will be eager to hear from them and understand a little more about their concerns.

The rate at which the Office proposes to grow the reserve fund is obviously inexorably tied to these ambitious dependency goals. A balance must be struck, and perhaps the rate of funding the reserve reduced. Perhaps we start off with two or three weeks as an initial phase.

Another question is -- that has been asked, is clarification about how this fund is authorized in the first place. We note that there is a reserve fund authorized in the statute for what we call the spill over from the appropriation each year. We're not sure whether the specific authorization comes from establishing this fund, even though I know its -- I would note -- its title is operating fund. The question to where that authorization comes

from is -- some people have asked. And then why is it separate from that statutory reserve fund? Is there some way to link the two that might shield it from the kind of political winds that Mr. Wamsley mentioned?

Finally, particularly with respect to how that is authorized, budgeted, and maintained, it's paramount that every precaution, as was said, should be taken to ensure that the fees that users have paid into that fund are not diverted. It could become, indeed, a very tempting target.

Now, while we don't like bubbles -- one person suggested while we don't like bubbles, perhaps the bubbles that will come in various times during the implementation, those bubble funds might be used to fund the reserve fund, as well, is one possible idea.

Shifting to talking about RCEs and the relationship to fees, I think my colleague, Mr. Wamsley, covered that in great detail, and I won't go into quite as much detail as he did. We note that they are a necessary practice on many occasions. Even though they were originally intended many years ago just to basically capture

term adjustment, they have turned into something much different today.

There is a strong concern that the fees as proposed, and the discussion about RCEs from the Office, perceives this as primarily an applicant generated problem and has proposed fees accordingly. Many believe, however, that there is also a significant examiner behavior involved, as much driven as applicant driven behavior. The phrase that procures is, "examiners keep kicking the can down the road." Other major causes: previous attempts to reduce allowance rates, and as was mentioned, the possible unintended consequences of the recently established performance agreement.

Now, neither pendency goals nor the reported backlog numbers seem to include RCEs. This creates a hidden backlog which is growing, as was noted, very substantially. Doubling that fee penalizes applicants, and in many ways, may fund a failed model.

One proposal, perhaps a single review RCE, which some are calling, with some portion of account, especially when it involves a late

review of art during the prosecution.

Turning to appeals fees, there is some concern about combining the notice of appeal fee with the fee to the appeal brief that may mean that the applicant may be -- that the appellant may be -- bearing too much of the burden of those fees.

We would applaud the continuing push and would suggest even more push on pre-appeal conferences, making them more universal, weed out appeals that shouldn't have been made it in the first place, and making sure that examiners have sufficient time, always a key issue, to prepare for pre-appeal and appeal conferences. We understand the need to fund the PTAB associated with costs. Perhaps there should be a three-part fee notice of appeal, the filing appeal with the appeal brief, and the newly proposed fee to go to the board.

As also will be discussed a little bit later with regard to PGR, if we're to take the board's funding as a whole and to cost it out as a whole, that appeals costs and interference costs and derivation costs should also be subject to this cost fee analysis. Why are interferences

still free basically when PGRs may run as much as a quarter of a million dollars?

Turning to supplemental examination fees, the underlining cost analysis provided with the 41(d) package is illustrative, I think, of our current concerns regarding transparency, as I mentioned. PTO's estimating cost for supplemental exam and ensuing ex parte re-exam, as was noted, to be around \$5,000 plus another \$16,000. But at the same time, the PTO estimates the fully burdened cost for utility examination at a little under \$2,000.

Now, even if you double the estimated utility exam estimate to \$4,000 to account for 4 Office actions, for example, estimated at the PTO, the difference is very, very striking. Equally challenging is the requirement to file two supplement exam requests at a total of \$42,000 when the number of references cited exceeds 10. So it's 10, it's \$26,000, but suddenly if it's an 11, that's \$42,000. While there is a difference in the processes, both fees were presumably developed into the cost recovery model and raise some questions and concerns.

We also have specific concerns about the 20 percent number used by the PTO to estimate the relative impact of supplemental examination compared with prior ex parte examination on which it's basing its estimates. Where does that come from, one member questioned?

Further, with many of the items the Office is using under consideration, the PTO is also proposing surcharges to address many of these same differentials. So again, the full justification to change the base number is not clear if it's going to be partially accounted for otherwise.

In fact, some have questioned whether you are confident -- the Office is confident that supplemental examination will actually be significantly harder to examine. I can envision many instances, in fact, when it may be easier than ex parte examination given the more likely reasons it will be used by applicants to self-lease their own potential mistakes.

It would appear that the PTO is using all ex parte re-examinations, third party requested and patentee requested for the

analysis. While on many instances, the third party requested re-examines would provide more challenging art to deal with and thereby be potentially more expensive. Finally, with regard to supplemental exam, the Office is clearly defining two stages, the request and the ex parte exam, which may or may not be triggered by the request. Much of the costs are obviously associated with the second stage.

As we understand it, the PTO intends to require this combined payment up front, however, the cost out of the stages pre-supposes that there will be some return of the later fee if the second stage is not reached. For reasons identified above, the desirability of stage fees, particularly for smaller entities, we would request consideration of separate fees for these stages rather than a combined fee where, in many instances, the second stage may never be reached.

Post-grant review fees, I mentioned a minute ago, this is, the magnitude of them in particular has been a source of significant controversy. For many members who were looking at these fees initially, particularly the upper

end when they reach into the quarter million dollar range, they seem significantly, maybe even incredibly out of line.

Going back to the first principals that were mentioned, quality needs to be addressed by these reforms, and to the extent that the PGR system is an intended -- maybe the intended by the various studies that were done over the years and by congressional intent -- the magnitude of the fees should not serve necessarily as a road block to the quality enhancements that's the principal intention of the PGR in the first place.

Now, we do acknowledge and understand that there may be -- that lower fees; if you get too low, may create a neutral type problem, where people are abusing the system by bringing these unnecessarily. However, Congress intended PGR to be a quick, relatively inexpensive process for weeding these out. As I said, we're concerned that the high fees that are currently proposed will discourage appropriate behavior.

We would also note that Congress raised the threshold of that re-examination and gave the director broad gatekeeper authority to manage the

process. We would question whether more effective management at the outset is far preferable to setting high fees as the weeding out mechanism.

Again, we would ask in this area in particular for much greater transparency about the cost estimates, particularly because there's little or no historic data on which they could be based.

Other problems with the high fees in PGR, they actually may incent the PTO to accept more PGR's than they should. Again, Congress intentionally raised the threshold. The use of the threshold, the use of the mechanism to get into the process in the first place should be the first place in which concerns about abuses should be addressed. The PTO needs to be mindful of only allowing appropriate cases in the first instance. There's some concern even that with a high fee, there may be potentially an incentive to the Office to actually allow more PGRs to come into the process in the first place because that revenue may be seen as necessary for other aspects of the process.

We had one corporate member concerned that these were, indeed, originally intended as a quality control tool, but with the size of the fees, that may not happen. PGR will be cost effective only as an alternative to litigation and will involve hopefully far fewer patents.

Now, ordinarily a large patent filer might think that's fine as the high cost would deter challenges. But if PGR turns out to be used so infrequently that it doesn't fulfill this promise of weeding out bad patents, it may be cited as a failed experiment and we could be right back on Capitol Hill.

As Mr. Wamsley noted, as well, there was an enormous effort made by the three primary organizations, who will testify today, -- three of the primary organizations that will testify today to bring forward a set of detailed rules and procedures at the board for governing PGR. Our concern is, at least in the first review, this is a very preliminary review. They are not nearly as streamlined in discovery, protective orders, motion practices and the like as they could be, and that they're costed out as a function of those

heavily weighted processes. This may be why the driving cost estimates are in the order of half a million dollars.

Now, one would think that the cost of the magnitude would also deter many of the so-called trolls. Again, while the opposite may be true, it maybe just like litigation, because the asymmetrical burden on the parties may generate settlement leverage disproportionate to its merits. The troll will have to pay the filing fee, but thereafter will run the PGA as cheaply as possible.

If it cuts corners and then loses, who cares? On the other hand, for an important patent, the patent owner won't want to cut any corners, and its cost will mount. If they go to, say a half a million dollars win or lose, a rational patent holder will say \$250,000 as a nuisance value to settle, regardless of the merits.

The amount of potential return may, indeed, fuel a PGR troll problem. On the other hand, if the procedures are streamlined to cost say \$100,000, the going rate for a nuisance value

settlement, independent of the merits, may be more like \$50,000, and this may make them less attractive.

More importantly, the costs are inextricably bound, as I said, with the PGR process. Early analysis of the proposed process suggests numerous places where the burdensome nature may be reworked to result in fees that are more appropriate. We need to work closely together on those fee processes, getting away from board intensive requirements, many of which appear to be residue from current burdened rules, and reduce the complexity and the timing.

Finally, and only parenthetically, I would -- we are still curious about one aspect of the timing of our work together. Our understanding is that it currently calls for you -- for the rule on the fees to be published in June, but to be published ahead of the report from the PPAC. We would hope or question whether the order shouldn't be reversed so the Office has the full advantage of the complete PPAC report prior to its issuing its fees.

I thank the PPAC for giving us the

opportunity to appear today and will look forward to rebutting our written comments later this month. Thank you very much.

MR. MATTEO: Thank you, Mr. Dickinson. Next up we have Robert Armitage of ABA Intellectual Property Section, please.

MR. ARMITAGE: It's a pleasure to be here this morning. And I want to thank the PPAC for holding this hearing and also listening to the private sector, and particularly the patent bar community on this, I think, critically important issue. I think as many of you probably know, if you know me well, I've probably for the last 20 years been a vocal advocate of providing the Patent and Trademark Office fee setting authority. And I'm here today to speak on behalf of an organization that actually opposed granting the Patent and Trademark Office fee setting authority. But I'm in good company because I understand that perhaps the first two speakers also were part of organizations that were opposed to granting the PTO fee setting authority.

But I must say, just as a personal matter, I'm delighted that the efforts of the

organized Patent Bar in this regard were unsuccessful because I believe, and I think it's now the view of the Intellectual Property Section of the American Bar Association, that we have an opportunity now with the Office having this new fee setting authority to actually resource the Office in a way that we can provide quality examination of patent applications and also address some of the issues the Office has had; particularly over the last 10 to 15 years about providing a timely disposition of patent application filings.

I think also this fee setting authority did not incur in isolation. The America Invents Act also contains provisions that, in many respects, will simplify substantive patentability determinations; and therefore, this fee setting authority should allow the Office to have resources available so that it can, indeed, optimize the quality, efficiency and duration of the process for obtaining a patent. Now, we as a section intend to provide more detailed comments before the February 29th deadline. And so today what I'd like to do

perhaps is have oral testimony that, by and large, addresses some of the principals that the section believes should apply to the fee setting process.

First of all, we are largely aligned with Michelle's presentation earlier this morning that the Office set fees and set a fee structure that has the ability to undertake the task of eliminating the Office's backlog of unexamined patent applications over the next several years. While at the same time provides for a more adequate level of capitalization of the Office. And in particular, the Office has the resources that will be needed to enhance its information technology capabilities.

And also, I think, in agreement with perhaps what the first two speakers have said, the Office needs to have financial stability. Part of having financial stability means that some measure of a reserve fund or some measure of contingency funding needs to be available to the office and built into the Office's budget each fiscal year.

Also, gain, staying at the level of principals that we think ought to govern this

process, we believe that the Office needs to take full account of congressional intent, at least where that's clear in the America Invents Act. Just as one example, Congress specifically reenacted maintenance fees as part of the America Invents Act with the notion that the Office should derive a significant part of its continuing revenue from patents already in force. That would then allow the Office to subsidize other congressionally mandated activities that the Office undertake, including, for example, reduced fees for small entities and micro entities. And thus, the section believes that where the intent is clear, that intent should be reflected in all the fee setting that the Office undertakes.

Now, it's clear that the Office has the ability to set fees either above or below its projected costs and do so on the basis of sound public policy considerations. The section's view, however, that this fee setting flexibility ought to be used quite sparingly, and indeed, is probably most applicable where there's a consensus among stakeholders on the applicable

policy considerations of when a surcharge -- when a subsidy ought to be built into a fee relative to the cost of providing the fee.

Our starting point, particularly for the new fees that will be set, is that those new fees ought to be projected to recover their aggregate costs. And in any event, we agree, I think, with what you've heard from the two earlier speakers this morning. Setting fees prohibitively high, particularly for the new procedures authorized under the America Invents Act, may clearly negate clear intent of Congress, that these new procedures be available and be able to be used by applicants and by members of the public as the case may be.

Let me just give you one example, and this, again, is one I think where Michelle indicated that input would be desired. Congress affirmatively determined that it would simplify the burden on patent applicants to provide a set of required statements from the inventor at any time, up to the notice of allowance of an application for patent. This, of course, is the new provision in Section 115 of the Patent Code

relating to an inventor's oath or declaration.

The Office, were it to charge a fee for exercising this type of flexibility -- in other words, the ability to provide such a statement any time up to the notice of allowance-- would be negating a clear policy objective and a clear intent of Congress.

We think that this same principal applies to other fees, such as fees for numbers of claims in a patent application, or number of claims in a post-grant review. All that said, the section realizes that a very small number of patent applicants engage, what perhaps could be most charitably described as, highly unusual patent procurement practices in the course of obtaining a patent. That may, indeed, impose a disproportionate burden on the examination process and require the Office to undertake a disproportionate allocation of resources in order to examine the applications of such a minority.

Obviously, the majority of patent owners and patent applicants shouldn't be expected to subsidize those few, whose demands on

the Office may be extreme. Therefore, we do support setting fees that do tune the charges made on individual patent applicants in a way that reflects the quantity of effort, that must be devoted to assure that their applications receive a complete and quality patent examination.

And by way of a fairly trivial example, if the Office can show it's disproportionately burdensome, for example, to examine a claim with 500 -- a patent application with 500 or more claims, then we're prepared to support fee setting efforts, for example, that would have a disproportionate charge.

However, we're unaware of any data, for example, that would support that. We believe that any fees set substantially above or below, what would appear to be nominal costs, include a reason analysis of how the fee not only advances congressional intent, but also reflects the burden imposed on the Office providing the service corresponding to the fee.

Clearly, I think as every speaker this morning has said, there is no free lunch. The aggregate costs for services the Office will be

provided need to be matched by the aggregate fees that will be collected from users of the patent system. We believe that the Office needs to be investing in improved capabilities for enhancing patent quality, reducing pendency, and assuring year-to-year financial stability. What this means over the next few years is that patent applicants in the years ahead will actually be paying more than what one might consider the nominal costs for operating the patent system.

And we're prepared as a section to support that, even though for the next few years patent applicants will be paying more than what may prove to be the steady state of cost to providing these services. But let me just underscore what the previous two speakers have said.

The burdens on patent applicants are significant. If I listen to what I hear from those in the patent community, it reaffirms what Herb said. There's not great elasticity in the budgets that many companies have, many, universities have, many individuals have in what they're willing to pay for fees; making it

extremely incumbent on the Office to operate itself with the greatest efficiency possible, to assure that fees being paid are being paid for the most frugally and efficiently operated Office, that the new director and deputy director can manage to implement.

We are concerned, for example, that some fees that have been proposed simply defy rationality in terms of a relationship to the services being provided. I would note that a post-grant review proceeding against a patent containing 200 claims has a fee set at \$590,000. The section would submit that unless some substantial rationale can be provided to suggest that the burden imposed on the Office in conducting a PGR for a patent with 200 claims. The magnitude of this fee would actually discourage bringing post-grant review against a patent that, indeed, it may have been the type of patent that is most deserving of scrutiny by members of the public.

Congress also mandated that post-grant reviews presumably be used against patents that have the most prolixity in claiming. And indeed,

may be most problematic if the only alternative to a post-grant review is trying to defend in court by making invalidity challenges to such a myriad of claims.

The section is also aware that the fees for filing a supplemental examination with 10 items of information would be \$27,000, assuming all the items were 20 pages in length or less. If they were 100 pages, the fee would be \$31,600. If multiple supplemental examinations were needed because the Office has elected to have a 10 item limit, and 50 items were to be considered with 100 pages, the fee would be \$158,000. Again, the section is concerned that fees of this magnitude do not appear to have the requisite justification and can be viewed, to some degree, as negating the provision that Congress enacted specifically to benefit patent owners. What all of this suggests is that there ought to be full and transparent disclosures regarding costs and costing assumptions relied upon the Office to determine fees.

Indeed, assuming this is not a one-time enterprise fee setting, those types of costs

should be annually updated and re-evaluated as the Office gains experience with these procedures, once implemented.

The section also has historically and reaffirms today, its support of the Patent Office's approach of providing a fee discount to small and micro entities for most services. And what we have seen in the publications on this issue of the Office, suggests that the Offices appropriately exercising its discretion that Congress has entrusted to us.

We also encourage the Office, as I indicated earlier, to focus on building efficiency and minimizing costs as the Office moves toward financial sustainability. Indeed, the investments being made and the fees to be charged over the next several years to fund these investments can only be justified if they result in downstream returns to the patent community. Namely improve quality, greater productivity and shorter pendency times. And the section clearly hopes that, as part of the fee setting process, as it goes on from year to year, that, indeed, the Office will be able to demonstrate that the

investment the user community is making in these fees is, indeed, returning the value in terms of quality, pendency and efficiency.

Now, I know that at least two speakers have been cautioned to stick to comments on fee setting authority. Let me be perhaps the third speaker to suggest that one cannot look at this fee setting exercise in isolation from the other rulemaking efforts. And, indeed, the America Invents Act provided authority for the Office to drive greater simplicity into the patenting process and simplify basically the patent procurement process, both for applicants and for the Office.

I must say that I have not made a detailed study of the proposed rules, but I think it's worthwhile for me to relate some of what I've heard from individuals in the user community, whom I regard as some of the most knowledgeable about obtaining patents and the patent process. Those comments suggest that certain of the proposed rules have provisions that are too complicated, more than they need to be, requiring more work not only of patent applicants than they

need to require, but also for the Office.

And to the extent that the Office does not use the authority it has under the America Invents Act to streamline its work and make it simpler, it simply builds those costs into the costing model you've seen this morning and charges those costs back to applicants. And in a way, this can't be a free lunch to have a patent system any more complicated than it absolutely positively needs to be. Among the concerns I've heard from members of the applicant community are that the new ASINI filing provisions are unduly complicated, both for the Office and applicants. The reforms to the inventor's oath or declaration are inadequate, and again, impose costs and burdens on patent applicants that they need not.

In terms of the new PGR and RPI proceedings, I'll say no more than to echo what you've perhaps heard from the earlier speakers. They appear, at least from some who've studied them, to have more complexity and greater demands for the new Patent Trial and Appeal Board than are necessary, and therefore, the fee structure presumably reflects that.

New supplemental examination appears to have far more requirements for preparing and submitting information than would appear to be necessary, may well be reflected in the costs that appear there.

And so I would urge the PPAC, as part of any report, not, therefore, to look at fee setting and isolation from other rulemaking. And I would urge the Office to the extent possible to use the opportunity of feedback from the user community on ways to simplify and streamline. Not only for the benefit of lower fees that it might allow applicants to be charged, but also, to be perfectly honest from the user applicant community. Any time the burden on the applicant is less and the costs of the applicant are less to use the patenting process, it's more money. Potentially the applicants have to pay in fees to the Office. In other words, potentially a win-win situation where efficiencies are driven on both sides.

And with that, let me just conclude by saying I do want to deeply congratulate the Office. I think any of you who are here this

morning and sat through the presentation that Michelle gave realize that an enormous amount of careful thought has been given to this process. And I think to the extent that we can use this as the beginning, it's been a very good beginning, and hopefully the best is yet to come. Thank you.

MR. MATTEO: Thank you very much, Mr. Armitage. If I may by way of an aside, please, have a seat, the Committee understands and is in agreement with you, and I suspect the balance of the speakers today, about the linkages and dependencies between fee setting and the balance of AIA, among other things. The cautionary tale was simply that we keep the testimony relevant and explicitly tied back to fee setting in the interest of the exercise before us and the audience.

So with that, I'd like to introduce the next speaker, our final scheduled speaker, Mr. Peter Thurlow of the New York IP Law Association.

MR. THURLOW: Good morning, everyone. It's very nice to be here today. Members of the PPAC, the U.S. Patent and Trademark Office, including, of course, Mr. Kappos and Ms. Rea,

thank you very much for having me here today to provide comments about this very important issue with the proposed fee schedule under the America Invents Act.

I am the current co-chair of the New York Intellectual Property Law Associations Patent Law Committee. I'm a partner at Jones Day law firm part in the New York office.

At Jones Day, we have a significant patent prosecution practice with more than 50,000 matters. I'm actively involved in all of the prosecution. Fees are a key issue. So for myself personally, for the NYIPO members, and the IP community in general, this is a critical issue, getting the fee schedule right and so on.

In preparation for today's testimony, I have reviewed the helpful information available on the USPTO website relating to the fee proposal, including: the letter from Director Kappos to PPAC, the executive summary, the detailed appendices, the revenue calculations and the recent PTO fee setting opinion provided by Mr. Knight. I say this because when I -- before I reviewed all the information you come into

with -- you hear the scuttlebutt going on in the IP community about the fees, about the high costs of the IPR fees and so on. I recommend everyone on the web cast and for the few of you at least in this room who have not read those materials to hold your judgment until you read those materials, I'm sure your views will change.

In addition, I have reviewed the proposed fee schedule with my clients and colleagues in the office to get some of their initial feedback, like the other speakers in front of me or before me. I can't speak for the Jones Day, the Bar Association or members. We'll be providing more detailed comments in the next coming weeks.

Initially I could comment the PTO for providing a wealth of information on their website. We may disagree on certain issues as far as the level of the fees, the approach and so on. I think one thing we could all agree on is the transparency and the amount of information we provided in such programs like this are invaluable to us and invaluable, of course, to PPAC. They have to review all this information,

as well.

All the views provided today advance the discussion between PPAC, the USPTO and the user community. My views have been broken down into 10 comments. It seems like I can't make a list without having a top 10 list or so, so it came out to 10 comments. My views are not -- there's a few views that are high level, but my day to day business, I do a significant amount of post-grant work. I also have a docket of several thousand matters and have a couple excellent associates that work for me on that. So my views, as I reviewed all these materials, are somewhat more detailed than some of the very accomplished high level reviews given earlier today.

After reviewing all the information, I think one of the best things, my first comment that I came back to is -- what I'm going to call as slide 12 in the executive summary. That is a slide that Michelle referenced during her presentation where, after all the shifting and everything going on, the overall cost of prosecuting a basic application, to the extent there is a basic application.

One of the things I noticed and I highlight is that fees are \$3,290 under the existing system compared to \$2,800 under the proposed system. I think this is a very positive development. And as I discussed with my clients, as I work at the Bar Association, I think that's something that can't be emphasized enough.

The second point of the shifting of fees from later in prosecution to early in prosecution, it appears to make perfect sense to do that. The access claims, the application size fee, the extension of time increases, no one likes any increases, of course, but the approach itself seems more than reasonable. Of course, we always like when fees are reduced. Reducing the combined publication issue fee from \$2,040 to \$960 and reducing the very popular track one examination fees from \$4,800 to \$4,000 are very positive developments. Comment three, for using the fees to encourage or discourage users from using a particular service, that, of course, has to be done in certain situations, that is understandable.

As we discuss this, one of the things

I hope the PTO can consider is just not raising fees. It's obvious from the presentations given today and the discussions and earlier comments is that they are well aware of this. I would recommend that instead of raising a fee, continue revising, consider looking at the system and seeing ways that the system can be reasonably amended, revised, improved to better the system.

The example that comes out, it came out from materials, is the IDS being submitted after receiving a notice of allowance. In the past, we've always had to submit the RCE's to have the IDS considered. And it's a very positive development to see the PTO consider a small thing like that has practical implications for all applications around the country. That's a very important development.

I think it's always -- everyone in this room is well aware of after final practice-- during prosecution, it's considered that you get to after final way too quickly, so there's a lot of concern with the bubble I guess at the board and all the issues. The thoughts there are to continue to consider changing the process to

maybe delay the advance to after final, getting to after final so that you don't have to deal with board issues and so on. I recall a recent webcast before Bob Sole (Stoll?) retired that he mentioned he was working with the union on that. Such examples are the change in the process to a better system rather than just increasing the fees make perfect sense.

From the appeal prospective, Michelle's discussion helped clarify some of the issues there. The \$2,500 fee has raised a significant amount of concerns because, in many -- many times when you're prosecuting applications, it's just difficult sometimes if you're not -- if you don't believe the examiner is getting the point and you need a second set of eyes to review the application.

So after hearing a discussion and getting some clarity, again, it points out the benefit of this. Where this \$2,500 fee will not be due at least until the examiner finds to correct, the examiner's answer was provided.

One of the things that came out for a medical device partnership meeting that we had

recently, last -- a couple months at the Patent Office, it was well attended. There seemed to be a favorable view of the pre-appeal brief pilot program, to the extent it's still a pilot program. What I would recommend there for the people that practice, they know that notice of appeal has to be submitted with the pre-appeal brief. The appeal brief fee or the notice of appeal has gone up from \$620 to \$1,500. To the extent that the PPAC could consider when the notice of appeal is being filed with the pre-appeal brief, since, in essence, you're not going directly to the appeal. Maybe there can be a lower fee for the notice of appeal because, quite frankly, that's a situation where you want to encourage people to use the pre-appeal program maybe, instead of going directly to the board for certain issues.

Again, a very specific issue, but something, when I spoke to some clients and colleagues about were the maintenance fee issues raised in the first one, 500, the second one -- second maintenance fees, 750, and the last one almost \$3,000. The last one seemed to raise a lot of concern, and the concern actually came

to -- it's well known that the Patent Office has used maintenance fees for revenue generation over the years, and I understand they're trying to change that-- but by raising that last fee by such a significant amount is concern that there will be a drop off in revenue for the Patent Office. To the extent that people decide, because of the increased fee, they don't want to pay.

So right now where you're getting \$4,300 -- around \$4,300 for that, if you raise it by 3,000, people don't get it, the Patent Office is going to be losing out on that \$4,300 times by all those matters. I believe 60 percent of applicants last year paid the wealthier fee. So, just from a revenue generation, if you raise the fees too much, you have to be concerned to how that's going to affect the bottom line.

As I read through the materials, I give credit to the Patent Office for giving the user community two options to consider. One is obviously the preferred and one is the alternative. In my opinion, the alternative option is not really a viable option because it does not allow the USPTO to operate within a more

sustainable funding model and does not reduce the backlog of unexamined patent applications and patent application pendency, something that Director Kappos mentioned in the letter to PPAC. I think something that is critical to what the mission of the Patent Office is.

So, since that second option may not be viable, the question for PPAC and for the Patent Offices, are there other considerations out there. We are well aware, and by no means am I recommending any other considerations, but we are well aware of the annuity practice in foreign jurisdictions and the EPO. To the extent that PPAC or the Patent Office is considering other models, there are other opportunities to consider funding, and that's just something to consider.

From the extent of fairness and equity, and again, I'm not recommending any new fees, but for some reason over the years the design and the planned patents have been -- shall I say the utility patents have shared the burden of funding the Patent Office. I completely understand that the designed patents and planned patents are very -- there's just a minority of them; we're a

very small percentage. But to the extent we're looking at this process as a fresh approach, the first time the PTO has been given fee authority, and looking at the overall system and the best approach, some have mentioned that from an equity standpoint, the burdens should be shared. Maybe not necessarily equally, but should be shared at least across the board.

An important issue that's come up in many discussions is refunds. As the gentlemen before me have mentioned, when we're looking at some of the -- what the patent user community considers is extremely high fees for 50- to 100,000 or several hundred thousand dollars for a post-grant or an IPR or so on-- the issue that's come up is to the extent these fees are being used to cover costs based on Patent Office work. If that work is not being done, in the discussions and in the rules that come out, can there be a discussion of refunds?

The example is, as I mentioned, for a post-grant review, if you submit one that costs \$100,000 now, and credit to new procedures, is settlement provisions in there? A month after

the IPR is submitted, or a PGR, there is a settlement reached. You can terminate the proceeding, and that one month is before the general two-month timeframe that the patent officer responds to determine whether it's going to grant it or not. From that standpoint, the clients want to say, okay, the Patent Office has not done anything up to that point, so is it reasonable to consider a refund of a certain amount of those proceeds, and how that works. To the extent PPAC consider refunds and the Patent Office rules and explain that, I believe that would be very helpful.

The sufficient operating reserve has raised significant concerns; the three gentlemen before me have articulated it very well. It's just not clear. Based on the history of Congress and so on, this reserve fund, I know there was a great deal of work done leading up to the AIA to make sure the Patent Office keeps all its money, and I give credit to the Patent Office for that. But there are concerns with the money being diverted, how that works and so on.

I think since we're looking at a

timeframe of several years down the line, the thought has come up that the Patent Office -- it makes perfect sense to have a reserve fund in place for -- during the downturn and so on. However, the question has come up, if in years to come it's clear that, unfortunately, if the Patent Office does not get that money, will they decrease their fees to actually decrease the operating reserve so that it's not used for other purposes?

And then the last comment I have is, this is a challenging task, implementing this new fee schedule, especially for the new provisions, the IPR and supplemental examination. It's just -- it's challenging to the extent because of the issues with demand. As I review all these issues, and I work with the litigators in my practice, litigators and the Bar Association, when you first discuss, for example, the supplemental examination, people say, yes, that's a great approach, we like this program, let's do it before we go into litigation. When you get into the provisions and you become more aware of the litigation issues, the

post -- matters and research that we've done, the feedback after they learn about these provisions is that they don't believe it's necessary.

So I think Michelle -- I think others have mentioned that some of these provisions may be used not -- rarely, in rare circumstances. So to the extent that PPAC and the USPTO are projecting out certain revenues based on these programs being used, there's a real question of whether they will be. Post-grant, as we know, will not take effect for several years.

The IPR and post-grant, many of you know, has significant estoppel provisions that many believe will make applicants question whether they're going to use them as much as the existing re-examination proceedings are going to be used. So I just keep that in mind, that any numbers used for those and any expected fees from these new provisions may not be as high as you expect.

That is my comments. And again, I thank you for this opportunity, and I thank the PTO for giving me information, and PPAC for the work that they're doing.

MR. MATTEO: Thank you, Mr. Thurlow. Jennifer or Janet, did we have anyone -- no unscheduled speakers? I suspect that's a no -- no, all right.

What I'd like to do at this point is thank all of our presenters, our PTO presenters, and in particular, our esteemed panel of private sector contributors.

I think you have as an aggregate managed to highlight the complexity and attendant uncertainty around it. Harkening back to the cautionary tale, the linkages and dependency is not just between fee setting authority and AIA, but additional exogenous factors, as well, and, frankly, the requisite balancing act between the disparate of the equally valid positions and perspectives that have been represented today. And I can assure you that myself and PPAC will do our level best to provide an objective and measured rendering of this information as we pull it together in our report.

And by the way, I don't recall who mentioned it, but the unfortunate timing between at least the targeted report and some of the

public comment, we're going to do our level best to make sure that report is out as quickly as possible, sooner than July if we can, although we're not in a position to make promises in advance of having received the comments.

The one other group I would like to thank is the future public contributors because I would like to encourage all of you who have not yet to make a contribution have your comments heard. This is, in fact, your moment, as I said before. For those of you interested in doing so, you can send an e-mail to fee.setting@uspto.org, not gov. I'm never going to get that, am I? And also reference on the AIA micro site and the PPAC website, the document to which Mr. Kappos referred, indicating the AIA road shows, and in particular, the next fee setting hearing which will be on February 23rd, in Sunnyvale at the public library, where we invite everyone who can to attend.

So with that, I'd like to draw this hearing to a close and thank you all very much for your attendance.

(Whereupon, at 10:13 a.m., the
PROCEEDINGS were adjourned.)

CERTIFICATE OF NOTARY PUBLIC

COMMONWEALTH OF VIRGINIA

I, Stephen K. Garland, notary public in and for the Commonwealth of Virginia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

**Notary Public, in and for the Commonwealth of
Virginia**

My Commission Expires: July 31, 2015

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