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Sent: Wednesday, February 29, 2012 7:55 PM
To: fee.setting
Cc: Kirsten Zewers; Vanessa Pierce Rollins; Jessica Landacre; Robin Muthig; Herbert C. Wamsley
Subject: IPO Letter on Patent Fees
Attachments: 2012 02 29_wamsley comment fee setting revised.pdf

TO: Patent Public Advisory Committee:

Attached is a letter that contains the substance of the testimony I presented orally at the committee's public hearing on February 15, on the proposed patent fee schedule. Please include this letter in the record of the proceedings.

Thank you.

Herbert C. Wamsley

Executive Director

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February 29, 2012

Patent Public Advisory Committee
U.S. Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22313

Submitted via: fee.setting@uspto.gov

Dear Committee Members:

I appreciated the opportunity to express preliminary views on behalf of Intellectual Property Owners Association (IPO) on the proposed patent fee schedule published by the PTO at your committee's public hearing on February 15, 2012. The purpose of this letter is to submit the substance of my testimony for inclusion in the record of the proceedings.

We 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. More than 12,000 people are involved in the activities of the association through their companies or law firms or as individual members. The 50-member IPO Board of Directors will consider the patent fee proposal at its next meeting. We will file detailed comments when the notice of proposed rulemaking is published in June. In this statement, I will not comment on the levels proposed for individual fees in the February 7 proposal, but I will make a number of general comments that we hope will be helpful to the PPAC in preparing its report for the PTO.

I. IPO CONTINUES TO SUPPORT THE PTO'S PENDENCY AND QUALITY GOALS

IPO has long supported and continues to support the PTO's goals for shorter patent application pendency time and high quality examination. We support reducing average pendency time to first action to 10 months and average pendency to disposal to 20 months by 2015/2016 as called for in the PTO's strategic plan and updated estimates. Short pendency time provides greater legal certainty for everyone affected by patents. In response to a recent survey conducted by IPO, a majority of companies said they monitor patents to competitors as they are granted most of the time and perform product clearance patent searches most of the time. Short pendency time also gives early information to applicants and owner 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. We need to regain that distinction. High quality examination, of

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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 administrative patent judges to achieve its pendency and quality goals and we support adequate funding to get the job done.

II. WE QUESTION WHETHER FEE INCREASES AS LARGE AS THOSE PROPOSED SHOULD BE ADOPTED

We strongly urge further analysis of whether fee increases as large as those proposed on February 7 are necessary in order to achieve the goals. As we understand it, the proposal would result in a 10 percent increase in fee revenue in the aggregate in 2013, followed by another 5 percent increase aggregate fee revenue in 2014. This would come after the 15 percent across the board fee increase imposed by the American Invents Act last September, which we supported. The proposal is for to 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 some companies, patent department budgets are frozen and PTO fee increases can be absorbed only by reducing the number of patent filings, issue fees, or maintenance fee payments. We believe the impact of higher fees would be different for different industries. Those that traditionally file more patent applications per million dollars of research or operate on the lowest profit margins probably would be affected more.

The PTO estimates that with a 47 percent increase in the total filing/search/exam fees, application filings could decrease up to 4 percent, and the 61 percent increase in third stage maintenance fees could lead to 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 higher fees will produce more revenue, the impact of lower patent filings on innovation incentives, even if only 4 percent lower, should be considered. The impact of additional fee increases must be evaluated together with the impact of the 15 percent across the board fee increase already put in place by Congress.

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 currently being considered. I am not commenting in this statement on which individual fees should be reduced or increased, but I will identify some actions that should be considered for containing fee increases.

III. WE QUESTION WHETHER 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 up an operating reserve of over \$700 million by 2015. The creation of

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an operating reserve of this magnitude within this time frame would add significantly to the fee burden that patent applicants and owners would have to bear.

Moreover, we are concerned that a substantial operating reserve would be a tempting target for congressional appropriators, who are under pressure to find funds for other government programs. 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 one billion dollars in fee collections. Denial of access to fees was 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 7 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 its losses. We believe congressional confiscation of an operating reserve is a real danger.

IV. WE URGE THE PTO TO TAKE ACTION TO REDUCE THE NUMBER OF RCEs

Congress enacted 35 U.S.C. 132(b) in the American Inventor Protection Act in 1999 to allow requests for continued examination, or RCEs, which were cousins of continuation applications that already existed in U.S. patent law. Congress thought it was streamlining patent examination with RCEs, but unintended consequences resulted.

By way of background, in the 1960's the head of the PTO, Edward J. Brenner, originated "compact prosecution." Before compact prosecution, the productivity of examiners had been judged by the number of examiner actions, not the number of applications disposed of, and the system rewarded inefficiency. Under compact prosecution, examiners were expected to make a thorough search of the prior art at the time of the first action, and to make the second action final in most cases. Supervisors had discretion to permit second actions that were not final. Productivity of examiners was based on the number of first actions and application disposals, which encouraged efficiency.

With the advent of RCEs, however, examiners were given productivity credit when RCEs were filed and examined, which incentivized inefficiency. The graph on page 34 of the detailed appendices published on February 7 shows that RCEs 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, RCEs are 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 an information disclosure statement after paying the issue fee in a manner other than through an RCE, and 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 RCE filings.

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By reducing RCEs, the PTO can reduce backlogs and improve efficiency. This will allow the PTO to achieve its pendency goals with lower fee increases.

V. WE SUPPORT REASONABLE SUBSIDIZATION OF SELECTED SERVICES WITH INCOME FROM MAINTENANCE FEES AND OTHER FEES

We support reasonable subsidization of selected PTO services with income from fees charged for other services, and especially subsidization of services with maintenance fee income. Maintenance fees income is important for subsidizing services that otherwise would require charging higher fees. That is the primary purpose of maintenance fees.

We support maintenance fees structured along the lines of existing maintenance fees, starting at a moderate level and with higher maintenance fees later in the life of the patent. It is fair for patent owners who are profiting from their patents years later to pay extra and it is useful for others in the industry to know that patent owners no longer have an interest in patents that lapsed for lack of maintenance fee payments.

Our Board of Directors may make recommendations on which PTO procedures and services deserve subsidization. For example, some of our members have expressed surprise at the levels of fees for ex parte reexamination and the new proceedings established by the AIA: post grant review, inter partes review, transitional proceedings for business method patents, and supplemental examination. An approach to controlling the levels of fees for those proceedings in addition to possible subsidization from other fees is to structure the implementing rules to minimize costs to the office as much as possible.

We are studying the rules published this month for the proceedings before the renamed Patent Trial and Appeal Board. In November, IPO in cooperation with the AIPLA and the American Bar Association IPL Section submitted preliminary suggestions for procedural rules that might be more efficient and less expensive for the PTO to administer. We suggest further study of those rules as a possible source of efficiencies in PTAB proceedings that could help contain costs.

VI. WE NOTE THE BURDEN PLACED ON LARGE ENTITY FEE PAYERS TO SUBSIDIZE SMALL ENTITIES AND THE NEW MICRO ENTITIES.

A 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 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

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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 funds.

We are grateful for the opportunity to present our view to the PPAC and stand ready to provide any assistance we can as the PPAC prepares its report and the PTO prepares for formal rulemaking on patent fees.

Sincerely,

A handwritten signature in black ink, reading "Herbert C. Wamsley". The signature is written in a cursive style with a large initial 'H' and a long, sweeping underline.

Herbert C. Wamsley
Executive Director