

PATENT PUBLIC ADVISORY COMMITTEE FEE SETTING REPORT



**UNITED STATES PATENT AND
TRADEMARK OFFICE**

24 SEPTEMBER 2012

PATENT PUBLIC ADVISORY COMMITTEE MEMBERS

VOTING MEMBERS

Damon C. Matteo
Chairman
Palo Alto Research Center
Palo Alto, CA 94304

Ben Borson
Borson Law Group, PC
Lafayette, CA 94549

Clinton H. Hallman, Jr.
Kraft Foods
Northfield, IL 60093

Michelle Lee
Mountain View, CA 94043

Steven W. Miller
Procter & Gamble
Cincinnati, OH 45232

Louis J. Foreman
Eventys
Charlotte, NC 28202

Esther Kepplinger
Wilson, Sonsini, Goodrich & Rosati
Washington, DC 20006

Valerie L. McDevitt
University of South Florida
Tampa, FL 33620

Wayne Sobon
Rambus
Mountain View, CA 94043

NON-VOTING MEMBERS

Robert D. Budens
President
Patent Office Professional Association (POPA)
USPTO
Alexandria, Virginia

Catherine Faint
Vice President
National Treasury Employees Union (NTEU), Local 245
USPTO
Alexandria, Virginia

Vernon Ako Towler
Vice President
National Treasury Employees Union (NTEU), Local 243
USPTO
Alexandria, VA 22314

Table of Contents

I.	Executive Summary.....	1
A.	Positive Aspects of the September NPRM.....	1
B.	Areas For Further Consideration and Change.....	2
C.	Conclusions.....	3
II.	Background.....	4
A.	Public Comments.....	4
B.	PPAC Finance Sub-Committee.....	5
C.	General Considerations and Approaches.....	5
D.	Behavioral Incentives.....	6
E.	Fee Setting Assumptions of Elasticity.....	6
F.	Finance Sub-Committee Feedback.....	7
III.	Key Initial Sub-Committee Suggestions (between February 2012 Proposal and September 2012 NPRM) .	8
A.	Basic Examination Fees.....	8
B.	RCE Fees.....	9
C.	Claims, Oaths, and Notices of Appeal.....	9
D.	Contested Cases.....	9
E.	Supplemental Examination.....	10
IV.	USPTO Notice of Proposed Rule Making <i>re</i> Fees.....	11
A.	Operating Reserve.....	11
B.	Pendency Goals.....	12
C.	Specific Fees in the Notice of Proposed Rule Making (NPRM).....	13
1.	<i>Filing, Search, Examination, Issue, Publication and Maintenance Fees</i>	13
2.	<i>RCEs</i>	14
3.	<i>Prioritized Examination</i>	17
4.	<i>Excess Claims Fees</i>	17
5.	<i>Appeal Fees</i>	17
6.	<i>Oath/Declaration Fees</i>	18
7.	<i>Correction of Inventorship</i>	19
8.	<i>Supplemental Examination</i>	19
9.	<i>Contested Cases</i>	20
10.	<i>Ex Parte Reexamination</i>	20
11.	<i>Inter Partes Review</i>	20
12.	<i>Post Grant Review/Covered Business Methods</i>	22

V. CONCLUSION 23
A. Areas of Commendation 23
B. Areas For Improvement..... 24

I. Executive Summary

The America Invents Act (AIA) authorizes the United States Patent and Trademark Office (USPTO) to set fees for their services and requires the Patent Public Advisory Committee (PPAC) to review the fee proposals, hold public hearings on the proposals, provide comments and suggestions to the USPTO on the proposed fees, and publish a report outlining these comments and suggestions. The USPTO published a preliminary fee proposal on February 7, 2012. Upon review of these proposals and consideration of the public comments, the PPAC identified concerns and verbally relayed these to the USPTO.

Taking these comments into consideration, on September 6, 2012, the USPTO published a Notice of Proposed Rule-Making (NPRM) setting forth new proposed fees, which represent a reduction from the originally proposed fees. The PPAC commends the USPTO for seriously considering the public and PPAC comments and responding with reductions in the proposed fees.

A. Positive Aspects of the September NPRM

Compared to the first proposal of February 2012, the NPRM proposes reduced fees in almost all areas.

In response to criticism about the Request for Continued Examination (RCE) growth and backlog, the USPTO has responded with the creation of two programs, an After-Final pilot and a program for the consideration of prior art following the payment of the issue fee, both aimed at a reduction of RCE filing. These are an excellent step in efforts to curb the escalation of RCE growth and backlog.

The fee for submitting a Track 1 application has been reduced which should increase the usage of this valuable program. The program provides increased cooperative efforts in identifying allowable subject matter and offers an avenue for speedy examination of important applications.

The elimination of the large fee for late provision of an oath/declaration is excellent and will be well received by practitioners. The changes mandated by the AIA allow better harmonization with the international community.

The NPRM eliminates the fee for filing an appeal brief and moves this fee to a point at which the appeal actually moves forward to the PTAB. In this way, payment is not necessary if following submission of the appeal brief, the prosecution is reopened, making it more efficient for both applicant and the Office.

Changes in both the *Inter Partes* Review (IPR) and Post Grant Review (PGR) create graduated fees for increasing numbers of claims, reduce the overall cost of the programs and establish step-wise fees for services rendered. These are positive changes in the programs reflected in lowering of the costs.

B. Areas For Further Consideration and Change

The proposed fees for RCEs are still increased above a regular utility application or a Continuation. This is not understood as they cost less to administratively handle and to examine. Additionally, while the fee was reduced for the first RCE, the fee for second and subsequent RCEs remains at the originally high proposed level. RCEs remain a concern for both the Office and applicants but increasing their fees only aggravates applicants and likely will not decrease their filing. It is believed that if an RCE is needed, one will be filed. It must be noted also that the large backlog of RCEs represents an “iceberg” of future pendency increases and a large amount of Patent Term Adjustment (PTA) given for the delays experienced in picking them up again for examination. From a public policy view, these are undesirable.

Excess claims fees, while reduced from the February proposal, still are quite high. This does not seem to be justified by costs for examining the claims and represents a move toward the high fees of other patent offices, without the ability to have multiple dependent claims examined or unity of invention applied.

Utilization of the new programs for contested applications depends upon the implementing rules and the costs associated with these programs. A coordinated effort was expended by the patent bar associations, ABA, IPO and AIPLA, to provide suggestions for implementing these programs. However, the rules seem more complicated than necessary and do not adopt a more structured or automatic discovery protocol.

Supplemental Examination provides a beneficial new avenue for a patentee to present additional prior art to the USPTO for consideration following grant of the patent. However, the steep fees proposed and the limited number of references that may be considered may diminish the usefulness of this program.

The fees for *Ex Parte* Reexamination remain very high in the September NPRM and appear inconsistent with the necessary work to be completed. The examination of these applications will not involve testimony or interaction with a third party so the underlying cost assumptions are not understood. Also, unlike other programs, there is no provision for separate fees for individual services.

C. Conclusions

Overall, the September NPRM represents an improvement over the February proposals but in general the increased fees compared to current fees, which already represent a 15% surcharge over last year, are deemed to be higher than expected for an initial fee-setting effort.

The fees have been set to accomplish the mandates of the USPTO, establish an Operating Reserve and achieve laudable reductions in patent pendency. It is suggested that both the Operating Reserve and pendency reduction might be reached at a slower pace, allowing a further reduction in the proposed fees. For many reasons, a reduction of pendency is a necessary step, but it is not certain that the goal of 10 months to first office action is absolutely required. The pendency goals must be established to create a backlog of unexamined applications that provides a distribution of the applications across the Patent Examining Corps that ensures the desired “soft landing”.

However, the Office is commended for this first fee-setting endeavor. Throughout the process, the Office has demonstrated excellent transparency, openness to public and PPAC comments and adaptability to changing circumstances. Exceptional efforts have been advanced by the USPTO with exceptional results in meeting the deadlines, with demonstrated flexibility in developing the implementing rules.

These actions are clear evidence of a very well-run agency, a competent and dedicated staff and an exceptional leader, the Under Secretary of Commerce, Mr. David Kappos. The PPAC strongly endorses the process undertaken in this fee-setting activity and appreciates the commitment to task and cooperation of the USPTO shown to the PPAC and public throughout the process.

While the proposed fees still raise some concerns, the PPAC applauds the efforts and endorses the fees in general with some reservations noted in this report. It is hoped that this report will be helpful to the public in assessing the September NPRM and to the USPTO in finalizing the fees.

II. Background

In 2012, in accordance with the newly delegated authority to set fees via Section 10 of the America Invents Act (AIA), The United States Patent and Trademark Office (USPTO or Office) notified the PPAC of the Office's intent to set or adjust patent fees and submitted a preliminary patent fee proposal with supporting materials on February 7, 2012 (February 2012 Proposal). As a part of our statutory obligations to gather public reaction and comments on the proposed fees, the Patent Public Advisory Committee (PPAC) held two public hearings, one on February 15, 2012 at the USPTO in Alexandria and a second on February 23, 2012 in Sunnyvale, California.

Subsequent to the fee setting hearings and in preparation of the Notice of Proposed Rulemaking (NPRM) published in the Federal Register, the PPAC provided verbal feedback to the USPTO regarding comments on the proposed fees and suggestions for potential changes to the fees. The USPTO considered these comments in its revised NPRM for Setting or Adjusting Patent Fees (September 2012 NPRM). Also as a part of our statutory obligations, the PPAC must make a written report available to the public of the comments, advice, and recommendations of the committee regarding the proposed fees before the Office issues any final fees. The Office will consider and analyze any comments, advice, or recommendations received from the PPAC before finally setting or adjusting fees.

As has been a consistent feature since Director Kappos took the helm of the USPTO, working with the USPTO in considering the new proposed fees has been a very positive experience. All employees at the USPTO have been extremely helpful, timely and forth-coming with any and all information needed to complete the task. They demonstrated a sincere effort to assist the PPAC and provide a transparent view of their analysis and the fees they deemed necessary for the funding of the Office and improvement in pendency and reduction of the backlog of unexamined applications.

A. Public Comments

Written copies of the oral testimony provided at the public hearings are available at <http://www.uspto.gov/about/advisory/ppac/fee-setting-comments.jsp#heading-4>.

Copies of the written public comments on the February 2012 Proposal submitted to the PPAC via the USPTO may be found at <http://www.uspto.gov/about/advisory/ppac/fee-setting-comments.jsp>.

B. PPAC Finance Sub-Committee

The PPAC created a Finance Sub-Committee to take the lead in organizing the hearings, working with USPTO personnel, and preparing an initial draft of the Fee-Setting Report. PPAC Sub-Committees allow the members to efficiently complete the necessary work on the various topics while staying within the allocated amount of time that members may spend on USPTO matters.

Almost all members of the PPAC attended both public hearings. However, the initial evaluation of comments made by the public, communications with the USPTO regarding the February 2012 Proposal, the September 2012 NPRM, and the drafting of this fee-setting report were completed by the finance sub-committee of the PPAC. The members of this sub-committee are Esther Keplinger, Wayne Sobon, Damon Matteo, and Ben Borson. After considering the testimony given at the two fee-setting hearings and the written comments sent in to the USPTO, the Finance Sub-Committee of the PPAC provided verbal feedback to the USPTO regarding comments on the proposed fees and suggestions for potential changes to the fees. These comments and feedback were provided to the USPTO on April 11, 2012. Subsequent to receiving the comments from the public during the public hearings, and to receiving the initial feedback of the PPAC Finance Sub-Committee, the USPTO has revised its initial fee proposals in a number of respects. The following report of the PPAC, initially drafted by the Sub-Committee and provided by the full PPAC, will describe the feedback given to the USPTO regarding the February 2012 Proposal, and with respect to the September 2012 NPRM, where we approve of changes that have been made to the fee schedule, and where we believe further work remains to be done.

C. General Considerations and Approaches

Understanding the finances of the USPTO, the new and important procedures and obligations provided for by the AIA, and the costs associated with improving the USPTO's outdated and dangerously fragile IT systems, the PPAC endorses an increase in the fees above the level set by the 15% surcharge. The current levels of receipts are insufficient to allow the Office to make critical infrastructure improvements or improve operations and provide the service patent applicants deserve. Importantly, the Office and PPAC recognize and highlight that the AIA requires the USPTO to set all of its fees, *in the aggregate*, to recover its overall projected costs of operation.

The crucial questions are not necessarily whether fee increases in many respects are necessary, but exactly which ones, for how much and for which reasons.

D. Behavioral Incentives

Within the ambit of overall aggregate revenue recovery, the AIA allows the USPTO to set individual fees at levels to encourage or discourage behaviors by applicants. As a policy matter, the PPAC advised that while some use of fees to encourage or discourage behavior may be appropriate, significant use of this ability to set fees at very high levels to discourage actions is not recommended because it is not clear that the USPTO will always take into consideration the factors driving applicants to certain behaviors, which may be at cross-purposes with particular desires of the USPTO. For example, court decisions push applicants to take certain actions, such as submitting larger numbers of claims of varying scope or filing follow-on applications as continuations or divisionals to cover all possible subject matter to which they may be entitled.

Yet, the Office should remain mindful of the predictable effects of any particular fee, both on applicant behavior *and* on the Office, its staff and examiners. Any particular fee structure, especially if it departs from strict cost recovery, can engender either beneficial or perverse incentives to all actors within our patent system. While the Office notes in various points their concerns about applicant behavior, they have not focused enough concern (in so far as both public comment and PPAC considered reflection find) on behaviors by the Office overall.

Despite best intentions and the high professionalism of both applicants and examiners and other USPTO staff, improperly devised incentives (and the accompanying procedures, rules and regulations) can engender perverse outcomes that wise regulators would seek to avoid. We will note several areas where both rules and incentives seem to be conspiring to produce exactly those sorts of outcomes and areas, especially in some of the new procedures (e.g., contested cases) as well as old (e.g., RCE applications). An important part of new fee setting approach of the AIA is to ensure (just as in other rate setting for other regulated entities) that ratepayers (that is, applicants) aren't directly saddled with internal operational inefficiencies, providing no incentive to the Office for improvements. PPAC encourages the USPTO to scrutinize carefully not only its recommended new set of fees, but also its companion proposed AIA-implementing rules to ensure that the proper incentives are provided for all stakeholders in the US patent system, and to help derive the maximum benefit and the minimum harm from the promise of the AIA.

E. Fee Setting Assumptions of Elasticity

The USPTO's proposed fees considered estimates of the applicants' responses to the fees. In particular, economic analysis of "price elasticity" was prepared and presented to the PPAC and the public as a part of the February 2012 Proposal. The Office's analysis indicated that there would be some reduction in requested services if fees were increased. The PPAC heard testimony that for certain applicants, including large corporations, the amount of funds

available to participate in the patent system were limited, namely, that with fixed patent budgets, any increase in fees would likely lead to some reduction in the demand for patent rights.

The PPAC received input from start-up and small entities that indicated that they too are subject to budgetary constraints and that increased fees are likely to result in decreased numbers of patent application filings.

The PPAC believes that if applicants decrease participation in the patent system, there is likely to be less return to the USPTO in the form of filing, examination, issue, and maintenance fees. Therefore, the PPAC suggests that the anticipated income to the Office may be less than expected.

The PPAC also reviewed the experience of the Office with the “Track 1” process, whereby for an additional fee, a new patent application could be moved to the “head of the line” for examination. Initially, the Office believed that this process would be very popular with Applicants and therefore set a ceiling of 10,000 such cases in the initial program. The experience to date is that the Track 1 program was not as popular as originally believed, and in 2011, the Office included RCEs in the Track 1 program. With the payment of an additional fee, an Applicant could have an RCE moved to the “head of the line” for more rapid examination. Even with the addition of RCEs to Track 1, fewer than about half of the hoped-for 10,000 cases during FY 2012 have been filed using Track 1. Anecdotally, this reduced usage stems from what some patent applicants perceive as too high a cost for the program.

Thus, the PPAC believes that the elasticity assumptions made by the Office may have been overly optimistic, and with the proposed increases in fees, the actual funds to be recovered may be significantly less than anticipated. Participation in the new programs provided by the USPTO in implementing the AIA will also be driven, at least in part, by cost. Thus, the results experienced by the Office for Track 1 seem relevant to the new programs of the AIA.

F. Finance Sub-Committee Feedback

This section highlights the positions of the PPAC to the February 2012 Proposals and reflects the feedback delivered to the USPTO regarding that proposal.

III. Key Initial Sub-Committee Suggestions (between February 2012 Proposal and September 2012 NPRM)

A. Basic Examination Fees

First, the Finance Sub-Committee noted that the public was especially concerned about the overall rise in fees for existing examination services, that it was too steep as an initial step in fee-setting, particularly on the heels of an across the board 15% surcharge instituted by the AIA legislation.

As proposed, the fees were set at levels to provide significant new revenue to achieve stated (aggressive) pendency goals by certain dates, and to generate an operating reserve of money adequate for operations of the Office for about 3 months, that is, \$756 million (by FY2015). The Finance Sub-Committee suggested that the timeframes set for achieving both of these was too short and that setting the fees lower to provide a slower growth of the operating reserve and slightly longer period to reach the stated pendency goals was preferable. The Sub-Committee noted that our sense of the applicant and public community was that a more gradual approach better balanced the needs of the office and the potential shock of a new fee system.

We generally approved of the way the USPTO was seeking to manage the balance between the front-end (filing, search, and examination) fees and the back-end (issue and maintenance) fees. We recommended that this general balance be maintained as a good set of incentives (departing from strict specific cost recovery) that encourages participation in the patent system. Even still, we suggested that the increases to the front-end fees were still too steep (recognizing that the overall set of initial fees: File/Search/Examine and then Issue/Publication was set lower than the current post-surcharge fees). We also raised concerns that the elasticity calculation utilized to estimate demand for maintaining patent rights may underestimate the decrease in demand for this service, particularly for the 3rd stage maintenance fee (i.e., that the jump from \$4,730 to \$7,600 was simply so large that the Office thereby might be putting at risk a significant amount of revenue from issued patents, on which so much of the rest of the fee structure depends). A suggestion was also made that a pay-as-you-go approach might be beneficial for applicants, allowing them to pay the initial filing fee and later depending on interest in the invention, decide whether or not to pay the search and/or examination fees.

B. RCE Fees

As proposed, the fee for a Request for Continued Examination (RCE) application was increased significantly (from \$930 to \$1,700). It was suggested that this fee should not be raised as proposed, because many applicants find it necessary to utilize an RCE in order to achieve an allowance of the invention. The PPAC encouraged additional programs and work by the USPTO to reduce the need for RCEs. The PPAC also noted (as explained further below) the problematic incentives that this significant increase might place on the Office and its staff.

C. Claims, Oaths, and Notices of Appeal

Feedback to the USPTO also included concerns that the significant increase for excess claims fees was too high (that there was no good evidence that each additional claim costs that much more in examiner time), and the new fee for a late submission of the oath or declaration was inappropriate. Similarly, advice was given that the proposed increase for a Notice of Appeal was too large, particularly since it is often used as an extension of time and in many situations, no subsequent appeal is actually pursued by applicant, and further, that it might be better to break up into another pay-as-you-go approach, with separate fees for the Notice of Appeal and the Appeal Brief. Moreover, the fee for forwarding a brief to the Patent Trial and Appeal Board (PTAB) was deemed in excess of what seems reasonable given that this costs the Office very little to accomplish.

The Sub-Committee did note that the increases for extensions of time made sense as an area of pure incentive: delays in filing responses were nearly entirely in the control of patentees, delays in prosecution not only lead to increased work for the USPTO (as examiners have to pick up long-dormant cases to review the latest response), but also cut against overall pendency goals. One area where we noted this does not apply is in after-final practice, where applicants may be put to the excruciating wait for a response from an examiner, but then if unsuccessful, require paying significantly increased extensions of time before re-filing the case, or a notice of appeal.

D. Contested Cases

Regarding the new Contested Cases fees (for Post-Grant Review (PGR), *Inter Partes* Review (IPR), as well as *Ex Parte* Review, and Covered Business Method review (CBM)), the PPAC Sub-Committee noted several things. First, we noted that a number of the public comments had focused significant concern about how high the fees were. We noted that it was difficult to untangle (as in most of the fee issues) the relationship between fee and Rule

We expressed concern that the structure of the fee calculation for PGR, IPR and CBM imposed significant costs at arbitrary points based on the number of claims at issue. We expressed

doubt that such proposed fees really bore any relation to actual cost recovery, and that such rapidly escalating fees might engender perverse behaviors by patent-holders---filing an unnecessary number of additional claims in applications simply to make the cost of review prohibitively expensive. We suggested a more incremental approach, perhaps based on either the number of grounds in the request (i.e., 102, 103, 112) or the types of grounds (for example, reviews under section 102/103 seem ostensibly easier and less expensive than under 112 or 101 grounds, or, costlier still, under prior public use), or simply institute a per-claim system without arbitrary cliffs.

We also suggested that these fees be broken at least into two pieces, first upon petition and second upon institution of the procedure by the USPTO.

We also noted that it is difficult to separate the filing costs for these contested cases with the estimated prosecution costs for the participants (both challenger and patent-holder). Many have estimated these cases could cost as much as \$250k to \$500k or more to prosecute to conclusion. We noted this pointed in two directions. First, we generally agreed that the filing costs should bear some strong relation to the actual costs of the office. If the USPTO charged too little for these challenges, it would provide improper incentives for challengers to file frivolous petitions, attempting to keep legitimate patent-holders “penned down” in the patent office. There are even those who fret about the potential of a whole new cottage industry of patent challengers (some have called them “inverse trolls”) who might challenge patents hoping to settle quickly with patentees for below their costs of defense.

But if the Office sets the fees too high, the USPTO may have the perverse incentives of both granting and maintaining too many contested cases of little or no objective basis, given the significant fees the office might receive.

A number of esteemed commentators and the general public have directed concerns at the proposed rules for these new Contested Cases (including representatives of the American Intellectual Property Law Association (AIPLA), the Intellectual Property Owners Association (IPO) and the American Bar Association, Intellectual Property Law section (ABA-IPL)), who have all separately and jointly argued for greater certainty in the discovery rules and more set discovery for the parties, to avoid predictable and extremely costly discovery battles.

E. Supplemental Examination

Similar to Contested Cases, it was noted that the proposed fees for new Supplemental Examinations seemed to bear no rational relationship to expected costs. We objected to the Office basing historic calculations on all types of *ex parte* reexaminations (EPRs) rather than simply patentee-initiated EPRs, since those were most like what Supplemental Examination would be. Third-party initiated EPRs would be expected to have a larger number of more

complicated issues than the former. Further, the structure of the proposed fees (e.g., steep cliffs at 21+ claims) made little sense, even in some sense getting it backwards, since usually there are significant economies of scale from handling larger numbers of claims (which are often simply dependent claims all within the same inventive concept). Both the sorts of ways that various USPTO officials spoke about Supplemental Examination, and the initial fee proposal, seemed to carry more than a whiff of approbation against the procedure, with assumptions it would only be used by those who may have committed quasi-egregious misconduct. However, much of the public and the members of the PPAC sub-committee suggested that its purpose and promise was to provide a ready way to ensure that patents (especially those about to be enforced) were as strong as possible and to avoid the oft-bemoaned “plague” of inequitable conduct charges that impeded enforcement of patents of high quality.

We recommended changing Supplemental Examination fees to a lower base cost with additional per-claim fees model.

IV. USPTO Notice of Proposed Rule Making *re* Fees

In the following section, the PPAC offers its evaluation of the September 2012 NPRM.

Upon consideration of the comments from the public and the Finance Sub-Committee, the USPTO has made revisions to the proposed fees as noted in the Notice of Proposed Rulemaking (NPRM) published on September 6, 2012. As is clear from the revisions to the proposed fees outlined in the NPRM, the USPTO listened to the various comments and concerns raised and consequently reduced or revised a number of the proposed fees. The PPAC commends the USPTO for demonstrating willingness to change and compromise in the application of their new fee-setting authority. This behavior is the hallmark of a well-run, responsive government agency. While the level of some fees has been reduced, the overall increase in fees is still significant, especially since it follows the recent 15% surcharge. There are some concerns that the increased fees will strain already limited patenting budgets and have more impact on filing and payment of maintenance fees than projected. While generating adequate funds for a first-class patent office is essential, it must be balanced with the public policy of ensuring access to intellectual property coverage.

A. Operating Reserve

The PPAC agrees with the USPTO that the creation of an operating reserve is a sound business practice to allow for continuity of service and the ability to complete long-term plans more effectively and efficiently. The USPTO proposes to increase the time needed to fully generate an operating reserve at a level of funds that would permit running the USPTO for about three months. Specifically, the NPRM proposal would set fees that would eventually (with current

projections) fund an operating reserve at \$757 million by fiscal 2017 rather than by 2015 as originally proposed. The PPAC agrees that a more gradual accumulation of the operating reserve, by distributing the cost over more years and consequently more applicants, is an improved plan since that places the burden on a larger number of applications. While the PPAC generally agrees with an operating reserve of three months, this size of an operating reserve (\$757 M) is still of some concern to the PPAC as access to spend all generated funds, as part of annual appropriations processes, is not assured under the AIA. But also more gradually building up the operating reserve allows for a greater amount time to test that Congress continues to uphold its side of the bargain, providing durable support of the Office and its ability to fully access all user fees.

B. Pendency Goals

A reasonable amount of time for an applicant to wait for a first office action and to receive a patent is an essential feature of a first-class patent office, while the invention remains relevant and meaningful in the marketplace. Consequently, the USPTO needs to reduce its current pendency times (both to first office action and total pendency). The USPTO had proposed to reduce first action pendency to ten (10) months by 2014 and the total pendency to twenty (20) months by 2015. For one or more reasons, including a later than expected implementation of the 15% surcharge, the USPTO has now reconsidered these goals and lowered a number of fees, setting 2015 for reaching 10 months pendency to first office action, and 2016 reaching a total pendency of 20 months. The PPAC supports reducing pendency and while the proposed levels are laudable, there is nothing magical about the proposed pendency times. The USPTO will remain successful even with slightly higher pendencies, and the PPAC believes this is a fruitful area for public comment and testimony directed to the PPAC and/or the Office to assist the Office in goal-setting. The important aspect is to ensure that the inventory level across the Patent Examining Corps provides a “soft landing”: achieving desired pendency while accommodating potential fluctuations of application filing, retention of examiners and changes in RCE filings stemming from the programs being instituted by the USPTO.

Furthermore, in discussing pendency timeframes, it is worth noting that the Leahy-Smith America Invents Act (AIA) retained a particular feature of US patent law relating to prior art. Importantly, a patent publication in the United States or a foreign country is still considered to be prior art as of its effective filing date for both novelty and obviousness purposes. Generally, patent applications are published by about 18 months after the effective filing date (of the application or an earlier-filed priority application, such as a Provisional application). Under the stated goal of first Office Action on the merits by 10 months, and allowance by 20 months, there may be prior art that is unknown to both the Applicant and the USPTO. The Subcommittee believes that there may be applications that receive first Office Actions on the

merits for which the full panoply of prior art is, at the time of examination, unavailable. In such cases, if there is a publication of prior art that occurs after the filing date of an application under examination, it is likely that a first Office Action on the merits may be incomplete.

In the absence of knowledge of a piece of effective prior art, a first Office Action on the merits may allow claims that would be later found unpatentable based on subsequently published prior art having an earlier effective filing date. In such situations, the Office may revisit the examination process, and incur greater costs than those associated with a full examination at the beginning of the process (Compact Prosecution).

Even if the Office does not re-open prosecution based on the newly published prior art, with the new Post Grant Opposition proceeding under the AIA, such later-published prior art would be available to opponents prior to the end of the 9-month opposition deadline. An opponent, upon finding a recently published piece of prior art, may be in an advantageous position to challenge a newly issued patent, upset the expectation of the patentee that such a newly issued patent would be presumed valid, and increase costs for both Patentee and the Office.

These situations may increase the uncertainty of the patenting process, and may undermine the expected revenues to the USPTO.

C. Specific Fees in the Notice of Proposed Rule Making (NPRM)

1. *Filing, Search, Examination, Issue, Publication and Maintenance Fees*

The current combined filing, search and examination fees (post surcharge) are \$1,250. The February 2012 Proposal fees were \$1,840 and the September 2012 NPRM proposes \$1,600 for these services. This is a better approach. The balance of fees distributed between the front end and back end still are preserved so that the levels encourage applicants to enter the patent system and file patent applications. While the filing, search and examination fees as proposed by the NPRM represent an increase of 28% compared to the current equivalent fees, because the issue fee and publication fee are proposed to be a lower amount in total to paid by successful patent applicants, the total fees in the NPRM for filing, search, examination, publication and issue are lower than those currently in place, even though the initial filing search and examination fees are raised above the current level.

Lowering the issue fee and publication fee is reasonable. However, PPAC notes shifting fees earlier in the examination process can (at the margin) discourage some otherwise meritorious patent filings. But our assessment is that since overall costs through issuance are lower, the proposed system is sensible.

The maintenance fees set forth in the NPRM are reasonable since by this point in the process, patentees should have a better sense of the value of their Intellectual Property (IP), although the PPAC still questions the increase proposed for the third stage maintenance fee. Given the percentage of patentees who currently pay for this stage, the concern is that revenues will decrease more than projected when fewer patentees elect 3rd stage maintenance. As the USPTO has noted, the AIA Fee Setting authority does not contemplate a once-and-done approach, but careful (at least yearly) review of fees and the observed behaviors of both applicants and Office personnel in response to the fees. PPAC encourages such continual review, especially with respect to things like responses to the 3rd Maintenance Fee and potential future course-corrections.

2. RCEs

RCEs are, for better or worse, often a necessary part of examination for a significant number of patent applications for a variety of reasons. From the applicant side, an application may involve complicated subject matter, submission of new evidence to rebut a rejection, the filing of newly received prior art, or a failure of applicants to limit the claims quickly enough or completely comprehend the aspects of the rejections. On the examiner's side, a failure to do a full and complete search on all reasonable issues for the first office action, and thereby a lack of compact prosecution, and/or making essentially improper final rejections with newly cited prior art can force applicants to either appeal or refile the case as an RCE. As a consequence, applicants rely on RCEs to continue the prosecution and eventually (and justly) receive a patent on their invention. RCEs are mostly filed by applicants genuinely attempting to move prosecution forward and get a patent and not generally, it is believed, simply to delay the prosecution (applicants have the ability to file further continuation applications to proceed with other claim sets or to keep a particular patent family in prosecution in any case). RCEs are a source of frustration for both the Office and the applicants, with both parties contributing to the problem. However, from both casual conversation and also in public statements, the USPTO seems to place the blame for the rapid growth in RCE applications solely and squarely on applicants. The change several years ago to move RCEs to the special new case docket (rather than an examiner's amended docket) causes (as one would expect) significant delays in acting on RCEs. That the Office has proposed significant increases in the RCE fees adds salt to an existing wound: applicants must pay more for what most perceive as a reduction in service. Thus, the proposed increase in fees for RCEs was not well received by the public.

Given the fact that RCE pendency does not show up in the primary measurement of USPTO “Traditional Pendency”¹, and that the Office gets paid additional money when it requires applicants to refile the same case one, two or more times as an RCE, it should come as no surprise that the burden of RCE filings has increased. In fact, increases in RCE backlog have nearly matched any decreases in the unexamined application backlog.² Again, there are incentives on both sides to file RCE (applicants continue to need to achieve allowance) examiners get further (albeit reduced) counts for RCE prosecution, and the pendency of RCEs is not included in the Traditional Pendency numbers. It is against this backdrop that any proposed increase in RCE fees must be weighed. While the USPTO may be correct that the proposed fees enable the Office to recoup estimated processing costs (estimated at \$1,696 for FY 2010), from the applicant’s point of view, that is work that may be avoidable with more compact prosecution and a number of process adjustments. Furthermore, it should be noted that an RCE is filed as an amendment, so patent term adjustment (PTA) begins accruing at four months from filing. The increasing backlog of RCEs and their increasing pendency, only generates further PTA for a larger number of applicants. From a public policy standpoint, this increased effective term of a larger number of issued patents may not be a good thing and may not serve the overall patent system.

PPAC commends the USPTO for the newly established pilot programs to address RCEs by providing time for the consideration of amendments after final and a program for the consideration of new references (after payment of the issue fee) that were not known by the applicants. These programs are a laudable effort by the USPTO to help reduce the need for RCEs. However, the PPAC recommends that more is needed to address this issue. Specifically, these programs provide some relief once a final rejection or allowance has occurred but additional efforts can be made to ensure that improper final rejections do not occur.

¹ To be sure, the USPTO has added a separate “Traditional Total Pendency Including RCEs”, now standing at about 40 months, but the main number used to judge the Office and its progress towards reducing pendency is “Traditional Total Pendency”. The submission of an RCE and abandonment of the earlier case terminates the “pendency” for the measurement of Traditional Pendency for that application. Subsequent time required for the examination of that or any additional RCE is not captured in the reported Traditional Pendency. Given the significant number of RCEs filed, this amounts to substantial unreported pendency in the Traditional Pendency numbers. The reported time for “Traditional Pendency Including RCEs” will continue to increase because there are a growing number of backlogged RCEs and applications do not become part of pendency numbers until work is completed on any particular application.

² The Unexamined Patent Application Backlog has decreased from about 740,000 cases in June 2010 to below 640,000 case in June 2012; the RCE backlog has increased over the same time from 35,000 cases to 90,000 cases. The Appeal backlog has increased by over 10,000 cases as well over the same time. Source: USPTO, June PPAC Hearing presentations.

Also, it is suggested that the USPTO establish a mechanism for easier resolution of improper rejections. For example, actual participation by applicant in the pre-appeal brief conference might help reduce both the RCEs and the appeals to the BPAI. To be sure, in many instances, the rejections set forth are proper and well-articulated with applicants not fully comprehending the scope of the claims or the exact Office position. However, in many other instances the examiners seem not to grasp the point(s) of a particular invention, do incorrect or inadequate searching, accordingly providing only bare-bones first office action rejections, and then suddenly force cases to final when applicants respond. Having the option of a third party independent evaluation of the rejection and arguments along with applicant participation in a meeting can in many cases resolve the issue by identifying allowable subject matter or indicating that an appeal really is needed.

Furthermore, many of these problems might be avoided by providing better ways for applicants to meet with examiners before the search, to explain their invention and help provide a guide to their application. Examiners can then request section 112 modifications to claims to better focus their inquiry. The entire system would benefit from more open and early communication between applicant and examiner. Recent upgrades and web and/or video conferencing can help make such early orientation meetings straightforward and easy to accomplish.

In response to the comments received, the NPRM proposes reducing the fee for an RCE from the February 2012 Proposal of \$1,700 to \$1,200 (still a 29% increase over current post-surge fees) and retaining the proposed fee of \$1,700 for second and subsequent RCEs (an 83% increase and greater than the proposed \$1600 fee for filing, searching and examining a completely new application). The USPTO acknowledges that the cost of completing an RCE is less than that required for an original utility application. Thus, the increased costs to applicant being proposed to treat an RCE (and particularly a second and subsequent RCE) compared to the fees proposed for a utility or continuation application seems illogical. Viewed in this light, some might even deem the higher proposed fees for RCEs punitive (as noted in several of the submitted public comments) because the proposed fees would charge higher fees for less work for an RCE compared to a straight continuation application. It should also be noted that the change imposed by the USPTO of moving RCEs from the amended docket to the special new case docket has not reduced the filing of RCEs. It is believed that if an applicant needs to file an RCE, they will do so, even if the fees are raised. Thus, raising the fees on RCEs may have little or no effect on their filing (or even increase them), but such a step will likely antagonize applicants, as has already been noted in the public comments provided to the USPTO. The PPAC recommends that a small increase in the fee for an RCE might be appropriate but it should align more closely to the associated required work, and certainly be less than the fees for new or continuation applications. The higher fee for second and subsequent RCEs should be eliminated because these become easier and cheaper to examine and any number of

continuations may be filed at the same cost per continuation. Rather than punishing applicants for pursuing their inventions by filing an RCE, it is suggested that the USPTO continue to find ways to reduce applicants' need for the RCEs in the first place.

3. *Prioritized Examination*

The NPRM proposes to reduce the cost for a Track 1 application from \$4,800 to \$4,000. This is an encouraging step. Some applicants have deemed the cost too steep, but it is recognized that some level of fee is necessary to ensure that not all applications enter this program. However, at the same time, during FY 2012 the Office has not received even close to the 10,000 application-per-year limit, so the pricing of this Track 1 may still be too high. The Office might look at bringing the cost down a bit further to find what the optimal pricing might be (this fee is almost entirely incentive--although it seems that more Office personnel engage at each action of the Track 1 application, perhaps increasing costs). Anecdotally, the program offers benefits to applicant as the Examiner and supervisor have been demonstrating an even higher level of cooperation and pro-active behavior to help identify allowable subject matter in the application filed as Track 1 cases. The speedy resolution combined with a willingness of Office personnel to discuss and suggest options make this a winning program.

4. *Excess Claims Fees*

The NPRM proposes to slightly reduce the originally proposed increases for excess claims fees. However, the proposed increases are still quite significant, as the independent claims in excess of 3 would increase by 68% from \$250 to \$420 per claim. Similarly, the total claims in excess of 20 would increase 33% from \$60 per claim to \$80. This increase seems excessive, especially in light of the fact that applicants cannot take advantage of multiple dependent claims in the manner available in other patent offices. In the typical application, the claim sets are more or less variations on themes claiming the invention from several angles. A thorough first search by the examiner for the overall inventive concept would not require a significant further amount of work for the additional claims (and if the claims are to distinct inventions, examiners have shown little hesitation to issue restriction requirements). Moreover, as noted earlier, applicants are pushed by court decisions to include more claims of varying scope, but then face substantial fees at the USPTO to file those required claims. The PPAC recommends that the final fees should be further reduced from the proposals for excess claims.

5. *Appeal Fees*

The February 2012 Proposal fees provided changing the existing fees of \$620 for a Notice of Appeal and \$620 for submitting a brief to \$1,500 for a Notice of Appeal, no charge for the submission of a brief but \$2,500 for forwarding the brief to the PTAB. In the September 2012 NPRM, the proposal reduces these fees to \$1,000 and \$2,000. It is understood that eliminating

the fee for the submission of a brief is to avoid refunding the fee should the examiner reopen prosecution or allow the application, thus obviating the need for going to the PTAB at that point. This is a positive step forward, however, the fees for these services still seem quite high. There is a concern that the fees are being proposed, at least in part, to discourage filing an appeal or filing an RCE. However, applicants must choose one of those lines of action for resolution of cases. In some instances there has been excellent examination and the issue is a difference of opinion. However, in many instances, the applicant is driven to appeal or filing of an RCE due to significant problems with the examination. These fee proposals raise the costs for applicants, regardless of which path happens. It is also noted that a Notice of Appeal is frequently utilized as an extension of time and it is understood that the Office set the fee at this level recognizing this usage, but in some instances applicants are forced to pay extensions of time and/or file a Notice of Appeal stemming from slow Office treatment of an After-Final submission. However, there would now be a stark difference between a two month extension of time of \$600 and the \$1,000 proposed for the Notice of Appeal. These appeal fees might be acceptable if the Office provided a better mechanism for an Office third party resolution of legitimate problems in the examination of applications (during pre-appeal conferences, Quality Assurance Specialist (QAS) review, a more robust ombudsman or SPE review of cases). Currently, the pre-appeal brief conference does not involve the applicant and is generally regarded as of limited value. Appeal conferences are required when an appeal brief is submitted, but again no participation by the applicant is permitted. Consequently, the PPAC recommends a program to permit real-time applicant participation in these processes (and conducting them earlier) since we believe this will reduce appeals and RCEs. PPAC also recommends lowering the initial Notice of Appeal fee back to around its current post-surcharge amount of \$620 (for example \$750), and if the case is not reopened or allowed by the examiner, then charging the increased amount for forwarding the brief to the Board and thereby funding the formal appeal.

6. Oath/Declaration Fees

While the originally proposed fees included a \$3,000 fee for filing an oath or declaration up to the notice of allowance, this new fee was eliminated from the NPRM. The PPAC applauds the USPTO for working with the patent community to resolve the issues, harmonize practice with other patent offices, and permit filing of applications by assignee. This willingness to compromise and identify solutions is a very positive action by the USPTO.

7. Correction of Inventorship

A new fee of \$1,700 was proposed for the correction of inventorship after a first action is completed by the USPTO. The NPRM proposes reducing this fee to \$1,000, and acknowledges that this fee is not set itself to recover actual costs. However, inventorship depends upon the claims examined and, eventually, those issued; during the examination process claims change due to restriction requirements and/or amendments. A fee for changing the inventorship stemming from a restriction requirement or amendments to the claims does not seem appropriate. Further, what matters to the Office is any enlargement of inventorship, which might require a further search, not a reduction of inventorship as claims get more limited either from amendment or restriction. This rule should be tightened to only pertain to correction of inventorship which adds an inventor after the first office action. This still seems rather high.

8. Supplemental Examination

The February 2012 Proposal for Supplemental Examination fees were \$7,000 for filing the Request and \$20,000 for proceeding to reexamination, once the Office determined there was a substantial new question of patentability. As noted, PPAC (and members of the public) challenged the assumptions underlying these costs, especially since the Office indicated it based its estimates on historic costs for reviewing and prosecuting all *ex parte* reexaminations (not just patentee-initiated reexams). PPAC also noted that the structure of the implementing rule for Supplemental Examination, allowing only a maximum of 10 items of information to be reviewed, together with the steep costs of each examination, did not make rational sense. PPAC proposed a more graduated approach---a filing fee per reviewed patent, with additional fees for each additional reference.

The USPTO in its NPRM, has sharply reduced the fees for Request (from \$7,000 to \$4,400) and for reexamination (from \$20,000 to \$13,600), and has increased the number of allowed references from 10 to 12. But all of these fees still seem very high, given that the Office estimates that the total unit cost of an original examination of a patent is only \$3,569 (FY 2011). For the most part, Supplemental Examination will be used akin to reviews of IDSs after-final (that at least is how many in the applicant community view this option if it is going to be useful to patentees). PPAC recommends that these fees be brought down in line with original examination, that the Office publish its estimates of historic costs for patentee-initiated reexaminations as a comparable, and at the very least, allow in the implementing Rule that a patentee be permitted one Supplemental Examination filing per issued patent regardless of the number of references submitted with an additional per reference fee for each reference submitted above some number, such as 12. An entire new filing should not be required for a patentee to submit more than 12 references.

9. Contested Cases

In light of PPAC and public comments that the initial proposed fees for the contested cases were too high, the USPTO reduced each set of fees roughly by 15%, and also added (in some instances) “staging” of fees depending on what actions are taken. How the final implementing Rules get deployed bears a great deal on whether accompanying fees are reasonable and overall, how both applicants and the Office will respond to these regulatory and financial incentives.

10. Ex Parte Reexamination

The Office drastically increased the fees for all EPRs from the present post-surcharge fee of \$2,520 to \$17,750 in the initial fee proposal and which the Office has now reduced in the NPRM by 15% to \$15,000. The Office has provided historic cost data³ to support this significant increase. The proposed increase is troubling from a number of respects. First, given that prior to AIA USPTO fees were set by Congress, upon informed request by the USPTO (subject to yearly cost-of-living adjustments), why was this significant discrepancy between fee and cost not seen earlier? Second, why are these reexaminations (which can only be based on patents and publications, involve no testimony and no interaction with third parties other than the patentee) costing so much? The Office’s cost estimates, even for simply reviewing the petition, are \$1,800 (higher than the proposed fee for the entire initial examination), and then processing a refused request at around \$4,000. Historic costs for examination of the newly cited references are estimated at \$13,430. These costs seem very high and PPAC suggests there should be ways to streamline review, provide for quicker and more straightforward decision making and bring these internal costs down. Third, just as in other areas of petition and then institution, the Office should break this fee into two pieces: petition and then examination. If the Office is concerned about collecting the fee once a petition is granted, simply (a) take credit card forms of payment, (b) sequester certain funds in the petitioner’s deposit account, (c) as proposed for IPR, take both fees but provide a (much more) streamlined path for refund or (d) find some other way of securing future payment. The PPAC encourages the Office to construct a much more streamlined and state-of-the-art system for a pay-as-you-go approach to many of these fees.

11. Inter Partes Review

The existing *Inter Partes* Reexamination fee is \$8,800. The initial proposed fee for the new IPR contested proceedings was a flat fee of \$27,200, for a maximum of 20 claims. In light of comments by PPAC and by the public, the USPTO in its NPRM has changed these fees and made

³ See http://www.uspto.gov/aia_implementation/cost_calc_supplemental_exam.pdf.

a more graduated system. There is now an IPR Request fee of \$9,000 (with \$200 for each challenged claim greater than 20) and an IPR Institution fee of \$14,000 (plus \$400 for each claim subject to the instituted case greater than 15), for a \$23,000 total plus \$200 for first 15 claims and \$600 per each claim above 15 in the final case.

PPAC recognizes that the Office has done two important things: (a) bring down the overall costs of IPRs and (b) break the fees into separate chunks, depending on whether the petition is granted or not. Given that IPRs involve contests between parties, it would be expected that the actual historic costs for these sorts of actions would be significantly higher than basic examination, or *ex parte* reexamination. Some of the public comments have raised concerns about how high these proposed fees are, for both IPR and PGR actions, arguing that high entrance fees will dampen use of these tools for policing improperly granted patents and blunt the effect of AIA on overall patent quality. PPAC believes that these concerns are misplaced. PPAC generally approves the current fee structure for IPR, as striking the right balance between cost recovery and incentive for use.

First, the initial Request and Institution fees are just the beginning of the costs of these contested cases. As noted above, experts and commentators estimate that prosecution of contested cases (including attorney fees, discovery costs and other related expenses) will range from \$250K to \$500K and above, *per* case. If a requestor cannot afford or is dissuaded from filing the initial fees (only 5 to 10% of the total estimated costs of a case) they should not be filing a contested case. They can file an EPR (but see our comments above on those costs which we do believe are too high). And in any case, the point of these proceedings is to provide a cheaper, quicker approach to settling validity issues than full-scale declaratory judgment actions in Federal court.

Second, there are real dangers of providing perverse incentives, both for requestors as well as the Office in setting IPR and PGR fees too high or low compared with actual costs. For the requestor, too low would incentivize a rash of frivolous attacks on patents. Already, concerns have been raised about engendering a new cottage industry of patent-attackers (“inverse trolls”, see above). And for the Office, too high above historic costs would incentivize the Office to grant too many Requests of low probable value, again given the “profitability” of the work.

PPAC is pleased that the Office broke the fee into two main parts. PPAC would encourage, though, the institution of other methods of payment (a true pay-as-you-go approach) along the lines discussed above for EPR. PPAC is also pleased that the Office has provided a base fee and additional per-claim fees to eliminate some of the strange and illogical effects of the original

fee proposal. PPAC notes that since the Office has been able to do that in the context of IPR and PGR, it should be able to do the same with respect to Supplemental Examination.⁴

The PPAC still raises concerns about the final proposed rules for governing these contested cases. Despite well-reasoned and passionate calls by all the major intellectual property organizations in America, the Office has resisted calls for (in particular) more structured and automatic discovery in these proceedings. This will be the single most significant driver of costs for prosecuting these contested cases: for requester, for patentee and for the Office. PPAC strongly recommends that the Office do further work to streamline the structure and conduct of these proceedings. The higher the costs for conducting these proceedings, the greater the disincentive to legitimate challengers, and the greater the incentive to gamesmanship and parasitical attacks on legitimate patent holders.

12. Post Grant Review/Covered Business Methods

Very similar comments apply to PGR and CBM. The initial proposal was for a flat fee for up to 20 challenged claims of \$35,800. The Office, in its NPRM, has broken that fee down and reduced by approximately 15%, to a \$12,000 Request fee (with \$250 per additional challenged claim above 20) and an institution fee of \$18,000 (with \$550 per excess claim above 15), or a total of \$30,000 per PGR plus \$800 per excess claim.

For much the same reasons, PPAC is pleased the Office has both reduced the fee somewhat and broken it down into separate fees, with more logical excess claim charges. These cases are going to be expensive for both challenger and patentee. The Office should recoup its estimated costs for managing these cases, to ensure adequate support and efficient shepherding. Setting these entrance fees too high or too low can cause significantly misplaced incentives either for requestors or the Office or both. At the same time, PPAC reiterates its concerns about the structure of the final rules for the conduct of these contested cases. How complicated those proceedings are and how unstructured the discovery disputes between parties become, has a direct bearing on how successful these new proceedings will be to improving our patent system, or whether they will simply be just another area of dysfunction.

⁴ As an example, in the prior proposal, an IPR with 40 challenged claims would cost \$40,800 flat rate, whether the request was successful to institute proceedings or not. In the new proposal, for the same IPR request, it would cost \$23,000 base fee plus \$14,000 in excess claim fees (\$200 x 20 + \$400 x 25), or \$35,000 total.

V. CONCLUSION

Upon consideration of public comment and PPAC feedback, the USPTO has provided an NPRM proposing revised fees according to Section 10 of the AIA. The PPAC applauds both the process undertaken by the Office in this initial implementation of their new authority and the outcome and fees reflected in the NPRM. The Office seriously considered the public and PPAC comments and reduced the proposed fees. However, as set forth in this report, the PPAC still has concerns about the levels of certain fees.

A. Areas of Commendation

In response to the comments, the USPTO has reduced the proposed fees in almost all areas, which is a positive step that should be well received.

The creation of programs by the Office to reduce the need for RCEs is laudable. The ability to have more references and/or amendments considered after final rejection will greatly assist applicants and should pay dividends to the Office in reduced RCE filings. A significant step has also been made in creating the program for the consideration of newly discovered references after payment of the issue fee. Given the international focus of many applicants, this program allows the submission of prior art cited by another patent office at this critical point in the U.S. prosecution.

Reducing the fee for Track 1 may increase the usage of this valuable program. This program does seem to provide more concerted efforts by the Office to assist applicants in reaching allowable subject matter.

The elimination of the proposed fee for submission of a late oath or declaration was an exceptionally excellent step in cooperation with practitioners. It helps harmonize the U.S. with other patent offices and simplify filing in the U.S.

Another good change in the NPRM is the elimination of the fee for filing a brief, but rather payment only when the brief is forwarded to the PTAB for the actual appeal. This is more efficient for both applicant and the Office.

Changes to the fee structure for both *Inter Partes* Review (IPR) and Post Grant Review (PGR) are commended for creating graduated fees for numbers of claims, reducing the overall cost of the programs, and creating step-wise fees for services.

B. Areas For Improvement

Still of concern are the increased fees proposed for RCEs given that the Office proposes higher fees than for a continuation application. Having placed the RCEs on a slower docket has created a quite large backlog, already a source of frustration for applicants. Charging higher fees for less service is not a positive step. It should also be noted that the backlog of RCEs are an “iceberg” of longer pendency (Traditional Pendency Including RCEs) for the future and represent significant potential Patent Term Adjustment (PTA).

While the excess claims fees were reduced, they still seem quite high and it is not clear that the cost for examining these claims justifies the additional cost being charged.

Reducing the cost for a Notice of Appeal was appropriate, but it is still higher than a two-month extension of time. Since applicants are sometimes forced to pay this fee to keep an application alive, efforts to promptly process amendments after final are important.

The proposed rules governing the contested cases seem more complicated than necessary. Despite coordinated suggestions made by representatives of the AIPLA, IPO and ABA, the Office has maintained its approach and not adopted a more structured or automatic discovery protocol. It is hoped that should the process prove unwieldy, the Office will be open to swift modifications.

Supplemental Examination can provide a useful mechanism for permitting a patentee to gain consideration of information after granting of the patent. However, the steep proposed fees and limited number of references to be considered may make this program less useful than hoped.

The drastically increased fees for *Ex Parte* Reexamination do not appear aligned with the work to be done (consideration of patents and publications, involving no testimony and no interaction with third parties other than the patentee). Also, the failure to provide payment of separate fees for individual services is a disappointment.

Overall, the Office is commended for an excellent first foray into the fee-setting arena. In general, the Office is applauded for being transparent, receptive to suggestions and flexible. The Office performed an incredible job of drafting all rule packages in a timely and exceptionally competent manner. To keep the PPAC and public well informed throughout the process, communications, including an excellent website, significant outreach in the form of Roadshows across the country and public hearings, have been well executed. While the proposed fees reflected in the NPRM are not perfect, they are a compromise and sensible approach to new programs and modifications of existing ones. The PPAC endorses the efforts and the fees in general, with the caveats noted in this report. It is hoped that additional

changes may be made following this report and public comments. However, should the final fees prove incorrect or the participation in the patent system does not conform to the assumptions made with the elasticity calculations, the PPAC suggests that the fees be revisited and the PPAC looks forward to working with the USPTO in developing future modifications of the fees.