

PATENT PUBLIC ADVISORY COMMITTEE ANNUAL REPORT 2012



UNITED STATES PATENT AND TRADEMARK OFFICE

2 NOVEMBER 2012



PATENT PUBLIC ADVISORY COMMITTEE OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

2 November 2012

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Re: Patent Public Advisory Committee Annual Report For Fiscal Year 2012

Mr. President:

As Acting Chairman of the Patent Public Advisory Committee ("PPAC") of the United States Patent & Trademark Office ("USPTO"), it is my great pleasure and privilege to convey to you the PPAC Annual Report for the 2012 fiscal year. To aid in your review, you will find an *Executive Summary*, which highlights six high level "themes" integral to USPTO operations, and that are interwoven with the various topical areas covered in this Annual Report.

Principal among these is the critical import of providing stable and adequate funding to the USPTO to support new initiatives to improve operations – and even to preserve current levels of operation. The new fee-setting authority arising from the America Invents Act ("AIA") are key aspects achieving that funding goal, and permitting the USPTO to retain an operating reserve and reserve fund will help ensure that the missions of the USPTO can be met. Attendant to the fee-setting authority provision in AIA, the PPAC held a series of public hearings during 2012, to obtain input from members of the public about this important aspect of USPTO operations.

Based upon those hearings, we prepared and submitted a Fee Setting Report published in September 2012, which we believe will aid members of the public in understanding and commenting upon the fee proposals put forth by the USPTO. A copy of the Fee Setting Report is attached as an Appendix to the Annual Report.

The America Invents Act also poses challenges both in implementing new obligations (e.g. First Inventor to File, Post-Grant Opposition, *Inter partes* Review) and many other new procedures. Through the PPAC's public meetings, we have obtained valuable input from stakeholders who rely upon the USPTO to provide predictable, efficient patent processes to promote investment and further job creation in the United States.

During 2012, PPAC subcommittees worked closely with USPTO personnel to assist in preparation and review of proposed rules to implement the AIA, and to help improve and update USPTO operations. As a result of our cooperative interaction with the USPTO, the Committee believes that major advances have been made to improve the patent processes in the United States, and to heighten our standing internationally as a leader in innovation.

Fiscal year 2012 brought with it significant progress on many fronts for the USPTO, but many challenges remain. Full implementation of the America Invents Act will require additional thoughtful review from your office, the USPTO, members of the public, and Congress. The USPTO needs to continue to advance its important initiatives including updating and improving its information technology operations, and its outreach to members of the public. The PPAC believes that building on the progress to date is not simply desirable, but is necessary to realize the true and full potential of the US patent system.

I welcome any questions or comments you or your staff might have regarding this Report.

Respectfully submitted,



D. Benjamin Borson, M.A., J.D., Ph.D.
Acting Chair
 Patent Public Advisory Committee
 United States Patent & Trademark Office

Enclosure: Patent Public Advisory Committee Fiscal Year 2012 Annual Report

cc: The Honorable Patrick J. Leahy, Chairman, Senate Judiciary Committee
 The Honorable Lamar S. Smith, Chairman, House Judiciary Committee
 The Honorable Chuck Grassley, Ranking Member, Senate Judiciary Committee
 The Honorable John Conyers, Jr., Ranking Member, House Judiciary Committee
 The Honorable Robert Goodlatte, Subcommittee on Intellectual Property, Competition, and the Internet

The Honorable Melvin Watt,	Ranking Member, Subcommittee on Intellectual Property, Competition, and the Internet
The Honorable John Bryson, David J. Kappos,	Secretary of Commerce Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office
Teresa Stanek Rea,	Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the U.S. Patent and Trademark Office
Margaret Focarino,	Commissioner for Patents

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EXECUTIVE SUMMARY

INTRODUCTION AND COMMON THEMES

The Patent Public Advisory Committee (PPAC) thanks the USPTO and Director David Kappos for providing highly interactive, proactive, positive, and substantial opportunities to work with the USPTO. We applaud the USPTO and its personnel for their gracious and highly skilled analysis of issues facing the Agency and its stakeholders. In our view, the relationship between the PPAC and the USPTO has reached a very high level, enabling all members and USPTO personnel to engage in very open and complete discussion of the Agency's current operations, new opportunities, and challenges facing the innovation communities in the United States and throughout the World. We all thank the officials of the USPTO with whom we have worked during the past year, and in particular, to the inspirational leadership of Director Kappos, who has set a very positive tone. We recognize the efforts and contributions made by the employees unions to work cooperatively in making positive changes in the USPTO. We view our ongoing work with the USPTO as firmly based on an extremely good working relationship. For this, we are extremely grateful, and look forward to our ongoing work with the USPTO.

The PPAC believes that the personnel, policies, and actions, of the Office have moved the Office substantially in achievement of the four key themes of (1) economic growth, (2) customer service, (3) organizational excellence, and (4) workforce excellence. This Report is to provide the readers with a review of the activities of the PPAC during 2011-2012, challenges faced by the USPTO, and the Committees conclusions and recommendations for continued execution on the goals and objectives stated in the Strategic Plan.

PPAC PROCESSES

The PPAC holds quarterly meetings at the USPTO to address matters brought before it. These meeting are announced in advance, are open to the public, webcast, and have telephone call-in numbers so interested persons can provide real-time feedback and ideas. We encourage members of the public to submit comments and questions via telephone, email, or via the PPAC website. The Committee also holds hearings, roundtables and other publically announced events to obtain input regarding matters of significance to the USPTO and the innovation communities. In the past, the Committee held roundtables on Patent Quality and Pendency, and recently held hearings on the new Fee Setting provisions of the AIA.

For pre-decisional or matters confidential to the USPTO, the Committee forms subcommittees consisting of up to 4 members of the Committee, and subcommittees may meet informally from time to time, either in person or via teleconferences. The Committee has formed several standing subcommittees to address "Topical Areas," focused upon issues that require action over time. The Topical Areas discussed in detail below represent matters of ongoing

interest to the USPTO and the Committee. Topical Area subcommittees interact with USPTO personnel to obtain information, engage in in-depth discussions, and provide suggestions to assist the Office. Additionally, from time to time, the Committee forms ad-hoc subcommittees to address matters that are of short-term or immediate interest. For example, during the past year, as part of the USPTO's roles in implementing the AIA, the Committee set up subcommittees to provide analysis and comment on individual proposed rules. The standing Finance subcommittee held Fee Setting hearings, and presented its findings to the Committee, which then finalized the Fee Setting Report for submission and publication.

Members of the subcommittees have greatly appreciated the high level of cooperation and trust afforded by Office personnel. For this trust, the Committee sincerely thanks Director Kappos and other Office personnel for helping to create a very positive working relationship.

Brief descriptions of the PPAC's activities and how those have furthered the Strategic Plan are below. More detailed descriptions are provided in the individual Sections.

A. LEGISLATION AND RULEMAKING

The Committee is pleased to report that work with the USPTO as part of Agency rulemaking has been very productive. The patent statutes require rulemaking by the USPTO to implement the policies reflected in the statute. The USPTO has been very forthcoming with pre-decisional proposals for Committee review and comment prior to the Agency publishing a Notice of Proposed Rulemaking (NPRM). The Committee and the USPTO have cooperated and worked through numerous rulemaking proposals, including those required by the Leahy-Smith America Invents Act (AIA). The Committee especially appreciates the timeliness with which the USPTO has kept us informed about upcoming rulemaking. Timeliness has been crucial to enable the Committee to carefully review proposals and provide feedback prior to public notices of proposed rules.

In the past several years, the USPTO has provided recommendations to Congress to provide the Agency with more predictable funding. With the passage of the AIA, the USPTO has gained substantial control over its own destiny through passage of provisions that provide Fee Setting Authority to the USPTO and create a "reserve fund" for any fees collected above appropriated amounts. The PPAC appreciates its enhanced role in the Fee Setting process, and the USPTO and the Committee have worked together over the past year to implement the intent of Congress in this provision.

The AIA has also provided stakeholders with new procedures that may be efficient alternatives to litigation. On September 16, 2012, a series of new procedures were implemented that provide the newly renamed Patent Trial and Appeal Board (PTAB) with authority to hear matters that previously were within the exclusive realm of the courts. These new "Board Trials" hold promise for providing more cost effective alternatives to traditional procedures. Now that

they have been implemented, the Committee has been informed that many new filings have already been made.

The Committee recommends that the USPTO review proposed rules and endeavor to avoid creating situations in which outside stakeholders increase their risks. For example, the Committee recommends that to the degree possible, that attorneys and agents not be required to make legal admissions against interest. We note that under the current Section 102 of the AIA, the burden of persuasion or proof is on the Office to show that a claimed invention is not patentable. The Committee urges the USPTO to avoid shifting the burden on patent applicants to provide binding statements on the record about priority of claims or prior art in advance of examination. The Committee appreciates the balance between applicants and the Office, but believes that the initial burden of showing unpatentability of a claim remains with the Office. The Committee applauds the Office for reaching out to the user communities to solicit input on policies and rules affecting patent applicants. We encourage the USPTO to continue to maintain this open, proactive attitude.

Other legislative proposals have been implemented and additional proposals are under consideration.

B. FINANCE

Previously, the bulk of fee-setting for the USPTO had been solely within the purview of Congress. The amount that the USPTO is authorized to spend is determined by the appropriations process as the United States economy goes through good times and less good times, the USPTO has had to address the very difficult task of trying to anticipate funding on a year-to-year basis, while at the same time, providing expert patent examination processing requiring a highly trained and experienced workforce. The Committee believes that with the passage of the AIA, the USPTO can expect a more stable funding environment and thereby be able to better plan for the future.

Pursuant to its obligations under the AIA, in 2012, the PPAC held a series of public Fee Setting hearings to hear views of a diverse group of individuals and organizations. We listened to the comments from the stakeholders and produced our first Fee Setting Report, which was published September 24, 2012. A section of this Annual Report below describes a synopsis and details of our work, and an Appendix to this Report contains the entire text of our Fee Setting Report.

The Committee recommends that in setting Fees, the Office appreciate the realities of fixed budgets of many organizations. We believe it to be important that the overall fee structure promote formation of companies that can implement the innovation created by inventors and their employers.

C. PATENT OPERATIONS, QUALITY, AND PENDENCY

Under the dedicated leadership of Director Kappos, Commissioner Focarino and other key individuals, the USPTO has been striving to modernize the systems of the Office and streamline the accompanying processes to gain efficiencies wherever possible to improve operations and reduce pendency. While the USPTO has eliminated paper search files and paper applications, the processes associated with examination and handling of applications within the Office mostly still reflects the processes developed for paper processing. The USPTO successfully implemented a new, electronic system, in which documents were prepared and could be transmitted electronically, as image files. This process has worked very well, but more recently, the possibility of increasing efficiencies can be realized by moving to a text-based information system.

The USPTO has continued to develop new systems for more rapidly processing patent applications but the actual examination process remains the rate-limiting factor. Until recently, the backlog of unexamined patent applications increased to over 750,000. This meant delay (long pendency) in examination, and uncertainty in the marketplace. Due to the hard work of USPTO personnel, the backlog of unexamined patent applications is decreasing, although the decrease in this backlog is somewhat counterbalanced by an increase in Requests for Continued Examination (RCEs). The Committee applauds the USPTO for its efforts in new Post-Final procedures to address some of the problems with RCEs. Additional comments and recommendations appear below in this Report. The Committee encourages continued review of RCE procedures, and hopes to see a decrease in RCE filings in the future.

Some changes were implemented in the area of patent quality. For example patent quality is currently measured using a “Quality Composite,” consisting of several prior measures, as well as new measures. Some of the new measures are subjective (e.g., Applicant and Examiner Surveys), and some are more objective measures based on actual data made available through automated or in-person review. The Committee commends the Office for modifying its measures of quality, but recommends that the Office incorporate more objective measures of patent examination quality into its metrics.

The Committee also believes that decreasing patent pendency for certain applications is crucial to the US maintaining its leadership in technological progress. We commend the Office for implementation of the new “Track 1” process, and for making rapid examination possible under other circumstances, such as Applicant’s age, and certain critical technologies. The Committee encourages the Office to consider additional programs to decrease patent pendency.

As part of ongoing review and analysis, the Committee recommends that pendency reflect total pendency, from filing to issue. We believe that not including RCEs in pendency metrics may give the public an unrealistic view of pendency, particularly since RCEs represent a large proportion of all applications. We encourage the Office to pursue its stated goals of having

average time to First Office Action on the Merits (FOAM) of 10 months and total pendency to issue of 20 months provided they can be achieved without reduced quality or maintenance of a sufficient working inventory of applications. The Committee believes that “Compact Prosecution” can significantly decrease overall pendency, and urges the Office to continue developing additional training and programs to achieve a FOAM that addresses all issues of patentability. The Committee remains willing to work with the Office to assist in identifying problems and developing possible solutions.

D. INFORMATION TECHNOLOGY AND PROCESS REENGINEERING

With the implementation of new and improved ways of producing, storing, transmitting and editing documents, with ongoing development of text-based systems, the USPTO has entered into a new and exciting phase, in the development of text-based systems. The Office of the Chief Information Officer (OCIO) has initiated a series of changes to the USPTO IT system, including a new computerized platform for Examiners. In 2012, the entire examining corps has received new laptop systems that are compatible with the new text-based electronic filing and examination processes being implemented.

Along with the new IT infrastructure, the USPTO has now completed a multifaceted review of its processes. Teams of individuals have reviewed many of the operations of the Office, have identified areas in which improvements in process can be made, and have made recommendations for their implementation. The Committee commends the Office for this initiative and has already seen improvements in many areas, including pre-examination, e-petitions, and other programs described below.

E. INTERNATIONAL COOPERATION

The Committee complements the Office for its bilateral and multilateral efforts to streamline international procedures to permit a more World-wide innovation infrastructure. The Patent Prosecution Highway (PPH) programs have been beneficial for applicants to more rapidly obtain patent protection in all participating patent offices, and we look forward to continuing to improve and simplify the PPH programs.

The Committee believes that the new “Global Dossier” concept has great merit. With the implementation of new IT systems in the United States and elsewhere, we welcome the ability of patent offices throughout the World to take advantage of a single source of much of the information relevant to their internal processing and examination. We especially believe that there may be a substantial saving of time and resources through the use of information sharing between offices.

F. HUMAN CAPITAL

The PPAC highly commends the USPTO for development of a nationwide workforce, with patent examiners, board judges and other employees distributed throughout the country. In 2012, the first Satellite Office in Detroit, Michigan opened for business, and now has patent examiners and PTAB judges in place. We believe that with improvements in IT systems, it is no longer necessary for examiners and judges to limit their work location to the USPTO offices in Alexandria. We recommend that the USPTO develop systems to support the satellite offices so that they may develop into beneficial hubs accessible for the public throughout the regions these satellite office serve. We applaud the USPTO for this endeavor, and look forward to seeing new Satellite Offices in Dallas, Denver, and the Silicon Valley in California.

Finally, the PPAC renews its dedication to serve the USPTO, Applicants, and all other members of the innovation communities to help maintain our patent system among the best in the World.

G. PATENT TRIAL AND APPEAL BOARD (PTAB)

The AIA has renamed the prior Board of Patent Appeals and Interferences to reflect the new procedures authorized by Congress. Interference practice will be discontinued, as the older cases are resolved, and in its place, a new Derivation proceeding will be handled by the PTAB. The change is to remove the often difficult issue of determining date of invention based on pre-filing records. Derivation procedures will not be based on date of invention, but rather upon the effective filing date.

In addition to Derivation, a series of new proceedings (“Board Trials”) under the PTAB will include *Inter partes* review, Post-Grant Opposition, and Covered Business Methods. The PTAB maintains its jurisdiction over the appeals process as well as *Ex parte* Reexamination as well as the legacy Inter Partes Reexamination will continue under the jurisdiction of the Central Reexamination Unit (CRU). The CRU also takes on the new Supplemental Examination proceedings.

The Committee has been involved in review of the proposed Board rules, and thanks the Office for considering our views during the process. We believe that the new rules will adequately address the new Board Trial procedures, yet we remain concerned that some of the rules could be improved to increase the efficiency of Board proceedings, for example, with respect to discovery matters.

Under the leadership of Chief Judge James Smith, the PTAB has initiated a *per curiam* process, whereby some appeals can be addressed on the basis of the Applicant’s filing and the Examiner’s answer. Over 100 of such *per curiam* decisions have been rendered to date, and of these, many are based on Examiner’s answers, some are based on Applicant’s filings, some are

“split” decisions, with certain matters resolved on the basis of the Applicant’s filings and others based on the Examiner’s answers.

To address Board staffing, the USPTO has begun an aggressive hiring program to provide sufficient numbers of Board Judges to handle the current backlog of appeals, as well as the new Board Trial proceedings. The Committee applauds the USPTO for this effort, and for placing Board members in the Detroit Satellite Office, and looks forward to additional members being hired and strategically placed in Alexandria and in the Satellite Offices.

TOPICAL AREAS

I. LEGISLATION

A. INTRODUCTION

As a result of the enactment of the America Invents Act (AIA) in September 2011, the U.S. Patent and Trademark Office (USPTO, Office or Agency) has been busy implementing this new law in 2012 and consequently created a significant amount of work for the PPAC in reviewing all of the proposals for this implementation. In addition to the AIA related work, the USPTO handled its usual load of legislative issues and outreach. This section summarizes: (i) the USPTO’s rule-making and legislative tasks and accomplishments in 2012, (ii) the PPAC’s assistance with the same, and (iii) work remaining to be done in 2013 and beyond.

B. LEAHY-SMITH AMERICA INVENTS ACT (AIA) RULE-MAKING AND LEGISLATIVE TASKS AND ACCOMPLISHMENTS OVERVIEW

On September 16, 2011, the America Invents Act became law. The AIA is multi-faceted legislation that introduced a number of new provisions of the patent law, requires the USPTO and other government agencies to conduct studies into certain areas of intellectual property law, and requires the USPTO to establish new programs that assist applicants in filing and prosecuting patent applications.

To keep the public abreast of its AIA implementation activities, the USPTO established a special AIA micro-site within the USPTO main website to house all implementation information. The AIA micro-site contains a variety of features including explanations of the new provisions, frequently asked questions, AIA speeches, and blogs. The Office updates the micro-site on a weekly basis to share the most current AIA information with the public.

Additionally, the USPTO has conducted broad outreach to educate the public about the AIA and its implementation activities. USPTO officials have given more than 200 AIA-focused presentations and speeches since the legislation was enacted. They likewise have traveled to

many regions of the country and engaged with a variety of stakeholders (e.g., private practitioners, in house counsel, universities, small business, and independent inventors).

The Agency received and considered 171 public comments to its proposed rules and received and incorporated feedback to its proposed rules from the Patent Office Professional Association (POPA), the Patent Public Advisory Committee, the Department of Commerce and the Office of Management and Budget.

1. PROVISIONS OF LAW

There are twenty provisions in the AIA that impact USPTO operations and must be implemented by the Agency. These provisions have effective dates ranging from sixty-days to 18 months or longer after enactment and include changes to implement (i) inventor's oath and declaration provisions, (ii) pre-issuance submissions of prior art by third parties, (iii) miscellaneous post patent provisions such as citation of prior art in a patent file, (iv) statute of limitations provisions for the Office of Disciplinary Proceedings, (v) supplemental examination, (vi) inter partes review, (vii) post-grant review, (viii) a transitional program for covered business method patents, and (ix) derivation proceedings, as well as implementation of the Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions.

The USPTO successfully implemented seven provisions of the AIA in the first sixty-days after enactment, and later implemented nine additional provisions that were required to be effective one-year after enactment. To do so, the Agency employed notice-and-comment rulemaking. From January to March of 2012, the Agency published Notices of Proposed Rulemaking in the Federal Register for many of these provisions and solicited public written comments to be submitted in sixty-day comment periods. The Agency likewise hosted a series of eight cross-country roadshows to gather feedback from the public. This was the first time that the Agency engaged in such extensive public outreach at the proposed rule stage. The Agency has prepared final rules and released them to the public over the course of the year and, most recently, on August 16, 2012. In building these final rules, the Agency made modifications based upon the public input it has received. The Agency conducted additional cross-country roadshows to educate the public about the final and certain proposed rules and to answer questions.

Thus far, the Agency has admirably and timely met all of its AIA implementation deadlines for the new provisions of the patent law, is on track to complete remaining events by the statutory due dates and has been commendably welcoming and receptive of the comments submitted by PPAC and the public. By the one year anniversary of the passage of the AIA (September 16, 2012), seven provisions of the AIA have gone into effect:

- Inventor's oath or declaration;
- Preissuance submissions;
- Supplemental examination;
- Citation of patent owner claim scope statements;
- Post grant review;
- *Inter partes* review; and
- Covered business method review

One of the yet-to-be-implemented provisions of the AIA having greatest impact on the entire patent user community is Section 3 of the AIA. This Section contains changes to (1) convert the U.S. patent system from a “first to invent” system to a “first inventor to file” system, (2) eliminate the requirement that a prior public use or sale activity be “in this country” to be a prior art activity, (3) treat U.S. patents and U.S. patent application publications as prior art as of their earliest effective filing date, regardless of whether the earliest effective filing date is based upon an application filed in the U.S. or in another country, and (4) treat commonly owned patents and patent application publications, or those resulting from a joint research agreement, as being by the same inventive entity for purposes of 35 U.S.C. 102 and 103. The changes in Section 3 take effect on March 16, 2013. The USPTO has published in the Federal Register a notice of proposed rulemaking for changes to implement, and examination guidelines for implementing, the first inventor to file provisions. Comments for both are due on or before October 6, 2012.

2. STUDIES

The AIA requires the USPTO to conduct 7 studies over the next 4 years either alone or in consultation with other government agencies. The status of those 7 studies is as indicated in **Table 1** below.

Table 1: Studies required under the AIA

Topic	Due Date from Enactment	Status
International Patent Protection for Small Businesses	4 months	Complete
Prior User Rights	4 months	Complete
Genetic Testing	9 months (6/16/12)	Extended
Misconduct Before the Office	Every 2 years	Future
Satellite Offices	3 years	Future
Virtual Marking	3 years	Future
Implementation of AIA	4 years	Future

During the first year after enactment of the AIA, the USPTO was required to and successfully completed the top three listed studies in the table above.

Regarding the study on Genetic Testing the Agency held two hearings, but has postponed the completion date of the study due to the need for further review, discussion and analysis, and has so notified Congress.

The Agency successfully and timely completed the International Patent Protection for Small Businesses and Prior User Rights studies within the first four months of enactment and submitted reports to Congress. For both of these studies, the Agency collaborated with other Agencies specified in the AIA, conducted public hearings to receive witness testimony, and collected written public comments. In turn, the Agency presented findings of fact based upon the hearing testimony and written comments and offered recommendations to Congress in the reports. Director Kappos testified on the findings of this report in front of the House Judiciary, Subcommittee on Intellectual Property, Competition and the Internet on February 1, 2012.

In the International Patent Protection for Small Businesses study, the Agency investigated how the USPTO and other federal agencies can help small businesses with patent protection overseas. Based upon its analysis, the Agency recommended engaging in diplomacy and harmonization to reduce costs associated with filing foreign patent applications (e.g., via small entity discounts), expanding intellectual property education and training for U.S. small businesses, and engaging industry on how to best to support U.S. small business efforts to patent internationally (e.g., via corporate venture capital), and conducting further study regarding governmental financial assistance to U.S. small businesses (e.g., loans and grants). For the study, the USPTO also consulted with the Department of Commerce and the Small Business Administration and ultimately submitted a thirty-three page report to Congress on January 13, 2012.

In the report on prior user rights, the USPTO analyzed prior user rights in other industrialized countries and concluded the following:

- the prior user rights defense in the AIA is consistent with that offered by major trading partners. The Director's Feb. 1, 2012 testimony noted, however, that the one year limitation in the provision was more restrictive than the approach used in other countries and this might be an issue open to further review;
- there is no substantial evidence that the prior user rights defense in the AIA will have a negative impact on innovation, venture funding, small businesses, universities, or independent inventors;
- the prior user rights defense in the AIA appropriately balances protection between trade secrets and patents; and

- the U.S. patent law should provide for a prior user rights defense to address the inequity inherent in a first-inventor-to-file system.

The Agency concluded that the U.S. should re-evaluate economic impact of the prior user rights defense in its 2015 required review of the AIA. The Agency consulted with the United States Trade Representative, Secretary of State, and Attorney General as part of this study and ultimately issued a sixty page report to Congress on January 13, 2012.

The Agency also held two public hearings on genetic testing where twenty witnesses testified on this topic. The agency also received twenty-three written comments after extending the April 4, 2012 deadline in view of the Supreme Court’s ruling in *Prometheus*. On behalf of USPTO, the Department of Commerce notified the relevant congressional leadership that given the complexity and diversity of opinions received, more time was needed to conduct additional stakeholder outreach and finalize a set of recommendations. The USPTO currently plans to host a roundtable early next year to finalize this process.

3. PROGRAMS

The Agency must establish four new programs under the AIA within four years from enactment. Below in **Table 2** is a summary of the status of each of the programs.

Table 2: Programs under the AIA

Topic	Due Date from Enactment	Status
Pro Bono	Immediately	Complete
Diversity of Applicants	6 months (3/16/12)	Complete
Patent Ombudsman for Small Businesses	12 months (9/16/12)	Complete
Satellite Offices	3 years	Ongoing

The Agency successfully and timely established the Pro Bono and Diversity of Applicants programs. Under the Pro Bono program, on the date of enactment, the Agency began partnering with intellectual property law organizations to create pro bono programs to assist under-resourced independent inventors and small business in filing and prosecuting patent applications in the USPTO. To date, the Agency has helped to set up two programs in Minneapolis and Denver. The Minnesota program was the pilot program, had twelve clients and issued one patent by June 14, 2012. The Agency also established a nationwide clearing house for pro bono intake, screening and referral that was set to launch in the summer of 2012. Moreover, the Agency targets additional pro bono programs to be operational by the end of 2012 in Northern California, Southern California, Texas, Washington, DC, Maryland and Virginia.

The Agency is actively working on the remaining two programs, Patent Ombudsman for Small Businesses and Satellite Offices, with projections of having them running by the statutory

due dates. Regarding the establishment of satellite offices, the USPTO is required to open three within three years from the enactment of the AIA.

On July 13, 2012, the USPTO opened the first of its satellite offices in Detroit, Michigan. The office represents the first phase of the USPTO's Nationwide Workforce Program, an effort to hire more patent examiners and seek out additional resources and technical expertise in locations across the country.

Further, on July 2, 2012, the USPTO announced plans to open additional USPTO satellite offices in or around Dallas, Texas, Denver, Colorado, and Silicon Valley, California. The Denver office is slated to open in November 2013, and site selection is on-going for the Dallas and Silicon Valley locations. The USPTO intends for the four offices (Detroit, Dallas, Denver and the Silicon Valley) to "function as hubs of innovation and creativity [and] helping protect and foster American innovation in the global marketplace...." The USPTO also hopes to "attract talented IP experts throughout the country who will work closely with entrepreneurs to process patent applications, reduce the backlog of unexamined patents, and speed up the overall process, allowing businesses to move their innovation to market more quickly, and giving them more room to create new jobs."

Selection of the four sites was based upon a detailed analysis of criteria including geographical diversity, regional economic impact, ability to recruit and retain employees, and the ability to engage the intellectual property community. The USPTO and the Department of Commerce received extensive public input before selecting the sites of the satellite offices. In addition to reviewing over 600 public comments in response to a public *Federal Register* Notice, USPTO officials met with hundreds of state and local officials, congressional delegations, and policy leaders, as requested. The selection team developed a model to evaluate over 50 metropolitan areas based on the previously stated criteria to assess operational cost and feasibility, ability to improve patent quality, and ability to employ U.S. veterans.

Finally, by the end of summer 2012, the Agency plans to roll out the Patent Ombudsman program, which the Agency already has piloted and now will make permanent.

C. OTHER LEGISLATION

On the legislative front, the USPTO has been provided support and/or technical assistance related to the following intellectual property legislation and congressional reports over the past year, including: (i) technical corrections to the America Invents Act, (ii) proposed implementing legislation for the Patent Law Treaty (PLT) and the Hague Treaty on Industrial Designs, and (iii) relevant appropriations bills that impact USPTO (namely the Commerce-Justice-Science (CJS) appropriations for FY 2013.

In addition, the USPTO contributed to the following congressional reports required as part of its annual appropriation for fiscal years 2012 and 2013, including required reports related to economic and national security, IG recommendations, quality, information technology improvements and trademark squatting.

The Agency participated in six congressional hearings on (i) the prior user rights defense, on February 1, 2012 by the House Judiciary, Subcommittee on Intellectual Property, Competition and the Internet, (ii) fiscal year 2013 appropriations, on March 1, 2012 by the House Appropriations, Subcommittee on Commerce, Justice and Science, (iii) implementation of the America Invents Act, on May 16, 2012 by the House Judiciary Committee, (iv) implementation of the America Invents Act and international harmonization efforts, on June 20, 2012 by the Senate Judiciary Committee, (v) international IP enforcement -- protecting patents, trade secrets and market access, on June 27, 2012 by the House of Representatives Subcommittee, and (vi) economic espionage on June 28, 2012 by the House Homeland Security Subcommittee on Counterterrorism and Intelligence.

In addition, the Agency conducted outreach to stakeholders and Congress. For example, for congressional staffers, the USPTO gave a training program on a “Day in the Life” of a patent examiner so the staff could gain a better understanding of the patent application and prosecution process that occurs at the Agency. In addition, the Agency held several congressional staff meetings and briefings on various ongoing issues such as the status of the USPTO’s satellite offices, implementation of the America Invents Act, international outreach and negotiations (in particular, WIPO treaties and negotiations) and the Hague Treaty on Designs and Patent Law Treaty implementing legislation.

Finally, the Agency conducted numerous “roadshows” related to its rule packages and held a roundtable discussion at the USPTO on the topic of First Inventor to File (FITF), among others. Both of the latter two items were meant to give the user community the opportunity to learn more about the proposed rules and the USPTO an opportunity to facilitate discussion and respond to questions regarding the proposed rules.

D. PPAC’S CONTRIBUTIONS TO THE WORK OF THE PTO

1. PPAC’S ROLE IN RULE MAKING

In accordance with statute, the Patent Public Advisory Committee is required to provide input to the Notice of Proposed Rules prior to publication to the public and again prior to publication of final rules. The Patent Public Advisory Committee has done so for each of the packages of rules provided to it so far and looks forward to continuing to do so for rules packages that have yet to publish.

2. PPAC'S ROLE IN FEE SETTING PROCEDURES

In 2012, in accordance with its newly delegated authority to set fees via Section 10 of the AIA, the USPTO published a proposed set of fees. As a part of PPAC's statutory obligations to gather public reaction and comments on the proposed fees, PPAC held two public hearings. A more complete discussion of these matters is provided below in the Finance Section of this Report. The complete Fee Setting Report is found in an Appendix to this Report and at http://www.uspto.gov/aia_implementation/fees.jsp

E. REMAINING AND UPCOMING WORK

Looking ahead to 2013, work remains to be done on the implementation of the micro entity, first-inventor-to-file and fee setting rules. For the studies, work remains on the studies relating to misconduct before the office, satellite offices, virtual marking and implementation of the AIA. Finally, the USPTO will have additional work in 2013 in setting up its satellite offices. The PPAC looks forward to helping and working with the Agency with these upcoming efforts.

F. CONCLUSIONS AND RECOMMENDATIONS

Inevitably, when rules change as much as they have under the AIA, questions will remain as to the application of the new rules. PPAC advises that as the Office continues to promulgate new rules, it provide numerous examples in its guidelines of how a rule is to be applied under various fact scenarios so that the examiners and the applicants can be guided by both the same rules and assumptions. This is especially true for the new "first inventor to file" and prior art rules, which impact all applicants and which are sufficiently complex (with numerous exceptions to the general rule) to benefit from providing clarifying examples.

All of that said, the Office is commended for its rule making endeavor and public education and outreach endeavors. The passage of the AIA represents the biggest change to our patent laws in over fifty years. Implementing all these new laws under tight deadlines is no minor task. 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 arduous and numerous deadlines, with demonstrated flexibility in developing the implementing rules. PPAC particularly commends the Office for its numerous "roadshows" and public hearings to inform the user community of its efforts and to receive input from this community on the same.

The Committee believes that some if not a majority of recommendations made by the 3 major IP organizations (AIPLA, IPO, and ABA) for improving and strengthening the rules of practice for contested cases have not been adopted. In particular, mandatory discovery, swifter and more certain procedures for resolving discovery disputes would strengthen the program and reduce costs for all participants, including the Office.

II. FINANCE

A. INTRODUCTION

The USPTO relies entirely upon access to user fees paid by patent applicants to accomplish the critical role it plays in rewarding and driving innovation. It is believed that there is a strong correlation between a vibrant patent system and a thriving national economy. For this reason, continued full access to user fees is of paramount importance to the USPTO, patent applicants and the country.

Because of the passage of the America Invents Act (AIA), Fiscal Year 2012 was an extremely busy year for the USPTO. A number of provisions of the AIA came into effect in September of 2011, including a 15% surcharge on patent fees. As a consequence, there was an increase in fees paid (a “bubble”) to the USPTO immediately prior to the implementation of the surcharge to take advantage of the lower fees. Because this bubble was paid in FY 2011 and was revenue above the authorized spending limit, it resulted in \$209 M of user fees not being accessible to the USPTO. It is hoped that commitments of the AIA will end such events and ensure access by the USPTO to all fees paid by users.

Fees from two programs implemented by the USPTO under the AIA, the 15% surcharge and Track 1 (a program providing expedited examination for a fee), are directly accessible to the USPTO above the Congressional appropriated amount in FY 2012. However, because some users had already paid fees earlier than their due date before the implementation of the 15% surcharge (money to which the Office was not given access), there was a trough of receipts from fees in the beginning of FY 2012. Additionally, the Office set a limit on the number of Track 1 applications which could be filed at 10,000, but fewer than 5,000 are expected to have been filed by the end of the FY. Consequently, income from these programs has been lower than projected. Revenue has largely recovered during the year from the dip and another bubble of revenue from fee payments is expected prior to implementation of the CPI adjustment scheduled for October 5, 2012. The Office will likely finish the FY with close to \$120 M in an operating reserve.

B. AIA FEE-SETTING ACTIVITIES

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 with 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. That fee-setting report is attached as Appendix A to this PPAC annual report, and was published on September 24, 2012. The Office will consider and analyze any comments, advice, or recommendations received from the PPAC, along with public comments to the NPRM before finally setting or adjusting fees.

C. POSITIVE ASPECTS OF THE SEPTEMBER NPRM

Compared to the first proposal of February 2012, the NPRM has proposed new reduced fees from those originally proposed in almost all areas. This is a welcome adjustment, particularly in light of the fact that most organizations filing patent applications have set budgets for patent activity. Increases in the fees will necessitate hard decisions on how to expend those limited resources.

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 should be well received by practitioners. The changes allowing the submission of patent applications by non-patent entities 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.

D. 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 because they should cost less than examining an unexamined application. 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, neither of these outcomes is desirable.

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 multiply 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. Although a coordinated effort was expended by the patent bar associations, ABA, IPO and AIPLA, to provide suggestions for implementing these programs, the resulting 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 arbitrary and steep fees proposed and the limited number of references that may be considered per request 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.

E. 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, seem 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 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 the fee-setting report. It is hoped that the report will be helpful to the public in assessing the September NPRM and to the USPTO in finalizing the fees.

F. RECOMMENDATIONS:

The PPAC believes that the USPTO must be afforded full access to all fees in order to continue modernizing IT systems, hiring and maintaining a competent staff adequate to provide high quality patents with a reasonable pendency. Access to any receipts above the authorized appropriations should be made readily available upon request.

The PPAC recommends that the USPTO consider the comments of the PPAC and those received from the public related to the September NPRM and determine whether additional reductions may be appropriate to the fees.

Because a bubble of user fees paid in advance of the 15% surcharge were paid in FY 2011, \$208 M from FY 2011 was made unavailable. This early payment of fees reduced collections at the beginning of FY 2012 and the reduced revenues caused a delay in some important programs of the USPTO, including the vitally essential improvements needed in IT infrastructure to help achieve the goals of the USPTO in reducing patent pendency. The PPAC believes that access to the \$208 M should be provided.

Since the USPTO is fully funded by user fees, the Committee recommends that the USPTO budget should be exempt from sequestration.

III. PENDENCY AND QUALITY

A. INTRODUCTION

Issuance of high quality patents with a reasonable pendency remains the most important priority for the USPTO. Applicants need to be able to rely on the validity of their granted patents with a high degree of certainty and be able to obtain the patent rights while the invention is still relevant in the marketplace.

The USPTO made strides of improvement in both pendency and quality during FY 2012, largely due to the leadership of Director Kappos and his team of managers. Significantly, the Office has continued to build on the focus of working with patent applicants to quickly identify allowable subject matter resulting in a record year of patent grants. The Office developed several initiatives to reduce bureaucratic barriers, provide additional options and streamline processes to facilitate improved interactions with the USPTO, leading to increased customer satisfaction. There are still a number of areas for improvement but Director Kappos has shown a willingness to embrace change and the PPAC is certain the Office will continue to focus on changes to continue improving quality and pendency.

B. AFTER FINAL CONSIDERATION PILOT (AFCP) AND QUICK PATH IDS (QPIDS)

The AFCP provides additional time for examiners to consider responses filed after a final rejection to determine whether the application can be put into condition for allowance. By concluding prosecution at that point, applicants may avoid the need for a Request for Continued Examination (RCE) or appeal. This pilot program will be evaluated to determine if it contributes to the USPTO priority of issuance of high quality patents with reasonable pendency.

QPIDS provides an avenue for the consideration of newly discovered prior art after the payment of the issue fee, if certain conditions can be met. The handling of related applications at different times in foreign offices and the USPTO has contributed to the filing of RCEs for this

reason. This pilot program also represents a step forward in creating options for applicants to avoid the need for filing an RCE.

The PPAC applauds the creation of both of these programs.

C. TRACK 1 (PRIORITIZED EXAMINATION)

Implementation of Track 1, an AIA mandated pay-for expedited examination program, began on September 26, 2011. Although the Office designed the program to accept just 10,000 requests, only about 5,000 requests have been made in FY 2012. The cost of \$4800 is perhaps seen as too high by some applicants and the September NPRM has proposed reducing the fee to \$4000.

For an Applicant needing quick examination, this program offers significant advantages. The Office takes the goal of completion of examination in twelve months seriously and examination proceeds at a very rapid pace. It appears that the Office works more closely with an Applicant to identify allowable subject matter and is open to meaningful interviews and productive discussions to advance prosecution. While there is a fee, Track 1 provides significant benefits in timeliness and cooperation, making it worth considering for some applications.

The Committee recommends that the Track I program be modified so that should one RCE be necessary, the application would not be moved to the regular docket, but would remain expedited throughout the prosecution of the original application and one RCE.

D. PATENT QUALITY COMPOSITE

As a quality measure, the USPTO has implemented a “Patent Quality Composite”, composed of seven individual factors, including internal USPTO measures of the quality of the actions setting forth the final disposition, the quality of actions during the course of examination and perceived quality of the patent process from both an external and an internal perspective. This composite represents a step in the right direction and results from work done with the PPAC, but does not go far enough to find objective measurements of quality that depart from just the historic internal USPTO evaluation of their own quality. However, we note that since the inception of the composite, external perceptions of improvements/declines have been consistent with internal USPTO evaluations of their own quality.

The PPAC approves the move to a Quality Composite to permit a more comprehensive view of patent quality. However, the PPAC continues to believe that more concrete, objective statistics should be included into the composite. The Committee continues to be willing to work with the USPTO to refine quality metrics. For example, following an appeal, a significant number (approximately 25%) of Applications are either re-opened or allowed based on the evaluation done in either a pre-appeal brief conference or an appeal conference. This statistic

seems at odds with the internal review reporting high quality for final rejections. The Committee recommends that more objective metrics that represent outcomes, rather than just internal reviews, be incorporated into the quality composite. Because the Composite still is based in large part on subjective metrics, the user community questions the reliability of the current metric.

In our 2012 Annual Report, the Committee provided some metrics of Patent Examination Quality. A portion of that Report is included below.

E. RESTRICTION

An internal Reengineering Restriction Practice Working Group recommends that patent Applicants be required to elect claim 1 (first claimed invention) in the event of a restriction. The rationale for this recommendation is the elimination of the time currently taken after the Examiner prepares a Restriction Requirement until the Applicant makes an election. This is something for consideration but it is not clear that such a proposal would solve the concerns the practitioners currently have regarding presently applied restriction requirements or that it would actually reduce the time taken by the Office to prepare the restriction requirements. Although this recommendation is in line with the typical European Patent Office procedure of selecting groups under Unity of Invention practice, the Committee believes that this proposal must be preceded by an improvement in substantive Restriction practice, or replaced by a move to a European style Unity of Invention standard.

The Committee believes that restriction practice must be improved. The Committee believes that currently in some Technology Centers, applications are restricted too much, and for reasons not related to the scope of the overall subject matter sought to be patented. The Committee believes that most patent Applicants submit claims covering what is believed to be the proper scope. Even though Examiners justify the imposition of a restriction of independent or distinct inventions based on a “search or examination burden,” many Applicants remain frustrated by the inability to have a full set of claims examined, and are forced into the expensive Divisional practice, with the concordant delay and loss of effective patent term. The Committee believes that in the short-term, restriction practice could be improved through greater training and supervision of Examiners and the elimination of subsequent restriction of claims not subject to restriction in the original application in subsequent applications, including Divisionals.

F. REQUESTS FOR CONTINUING EXAMINATION

Requests for Continued Examination (RCEs) continue to be a problem adversely affecting overall pendency and a source of frustration for both the Office and applicants. As of September, 2012, the Committee was informed that the rate of filing RCEs has slowed, but as of that date, the RCE backlog was about 90,000 – 100,000 cases. With the recent change in the Examiner Count System, RCEs are now placed on a docket that does not require Examiners to

respond in a sufficiently timely fashion. While RCEs are counted as a new application for intake, RCEs are not counted by the Office as part of the backlog of unexamined applications. The impressive reductions in the backlog stemming from COPA have almost been matched by a growing backlog of RCEs awaiting examination. RCEs are not included in the “Traditional Pendency” numbers reported by the USPTO, despite the fact that they represent a significant proportion of the first actions and disposals. For the “Traditional Pendency” numbers, the pendency of that application stops at the filing of an RCE and any subsequent pendency is captured only in the “Traditional Total Pendency Including RCEs” numbers. Consequently, the “Traditional Total Pendency” does not represent an accurate picture of the pendency. Moreover, Patent Term Adjustment (PTA) begins at four (4) months from filing for an RCE but fourteen (14) months for a continuation so the large backlog of RCEs awaiting examination represent a large increase in pendency in the “Traditional Total Pendency Including RCEs” and significant amounts of PTA. The Committee notes that the USPTO has added a category, “Traditional Total Pendency including RCEs”, on its dashboard that captures the pendency of applications including RCEs. This was a positive step. However, the Office primarily uses the “Traditional Total Pendency” without including RCEs for its reports and planning. Note that the Fee Setting NRPM identified pendency only with “Traditional Total Pendency” thus providing no insight into what the fees will deliver for pendency of RCEs. The Committee recommends that the Office ensures swifter action on RCEs by examiners, move RCEs back to the amended docket, develop and report pendency expectations and goals for RCEs, and continue developing mechanisms to reduce applicants need to file RCEs.

The Committee acknowledges with appreciation the training completed by the Office on Compact Prosecution. However, the Committee believes that more is needed to achieve actual compact prosecution. It is believed that the citation of new prior art, that could have been applied to the original claims, in a final rejection contributes to the filing of RCEs. Both applicants and the Office share responsibility for this problem but encouraging a complete search and first office action will assist in reducing RCEs.

The Committee recommends that the Office increase Examiner training in proper grounds for issuing a Final Office Action, and recommends that relatively minor matters of form not be proper grounds for issuing a Final Office Action. The Committee urges the Examination Corps to increase use of telephone or in-person interviews to address minor issues prior to allowance.

G. STUCK CASE CLEANUP AND CLEARING OUT OLD PATENT APPLICATIONS (COPA)

The Office’s new focus on achieving the ambitious goals of having a First Action on the Merits by 10 months, and final resolution in 20 months has focused the Office’s attention on stuck cases (cases under examination that have become stuck for extended periods of time) and the oldest cases in the inventory of applications awaiting examination (the “tail”). Stuck cases

have been identified and analyzed to determine the blockages in each situation, after which appropriate action has been taken. Some cases become stuck because of difficulties in resolving petitionable matters, printer rushes, formalities issues, particularly difficult examination issues or other reasons. The Committee recommends that the Office continue to develop and implement plans to identify root causes for stuck cases. The PPAC is ready to assist in this endeavor.

Clearing the Oldest Patent Applications, or COPA, was a concerted effort by the entire examining corps to initiate examination on the oldest applications in the unexamined case backlog. The effort took place over the past 2 Fiscal Years, targeting all cases older than 16 months at the beginning of FY 2011 and then all cases older than 13 months at the beginning of FY 2012. By the end of Fiscal Year 2012, the age distribution of unexamined new cases in the backlog had been substantially compressed so that less than 6% were older than 25 months. The effort resulted in a drop in average first action pendency from over 28 months at the end of FY 2011 to less than 23 months by the end of the first quarter of FY 2012. It is expected that the average first action pendency at the end of first quarter FY 2013 will be less than 18 months. The intense focus on the oldest cases to be examined reduced the number of cases older than 3.5 years to less than 350, or 0.06% of the backlog inventory. The Committee believes that continuing this reduction in oldest cases and overall average pendency will be helped in part by hiring additional examiners, and in part by reducing the number of times an application is transferred between TCs or art units.

The creation of a Central Transfer Unit (CTU) will help prevent cases from languishing for lack of an Examiner to handle the case. In the event that there is a dispute about which TC, art unit or Examiner should examine a particular case, the CTU will have the authority to assign the case appropriately.

The Office should continue to explore reasons for and categories of “stuck” cases. For example, in situations in which applicant requests withdrawal of an office action, such as an improper restriction requirement or final rejection, the Examiner may promise that this will be done but such cases frequently languish before such action is actually completed. This increases pendency and reduces patent term because the Office has not provided PTA for such situations, despite the fact that in these situations it stems from Office delay.

In order to reduce these delays, the Committee recommends that applications be given a special status and placed on a docket when an action is being withdrawn. Additionally, applicants should have the ability to request that such status be accorded their case based on the promise of the Office. Based on this status, the application would be required to be acted upon within a set period of time, and proper PTA given to the patent that issues from such a case.

Because the workload of Examiners is high, and not likely to decrease, addressing the challenges of hiring and retention of qualified Examiners remains a priority. The Committee believes that without full funding and retention of funds by the Office in a revolving or reserve

fund, this problem will increase in magnitude, making it difficult for the Office to reach its stated pendency goals.

H. POST-EXAMINATION STREAMLINING

Members of the Committee have noted significant improvement in timeliness of patent issuance. We commend the Office for making efforts to decrease unneeded delays in processing Issue Fees, printer rushes and other factors that have delayed patent issuance in the past. We look forward to greater improvements in timeliness of issuance, as the new electronic and IT tools are made available.

I. PATENT PENDENCY

The USPTO has announced the desired goal of decreasing First Office Action pendency to 10 months, and pendency to issue of 20 months. 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 their 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). Because of delays in the passage of the AIA, the USPTO has modified the time to achieve these pendency goals.

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. The important aspect is to ensure that the inventory level 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.

It is worth noting that the AIA retained a unique feature of US patent law relating to prior art. A patent publication 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, prior to the first office action and even prior to average issuance.

In particular, the Committee 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 have to revisit (one way or another) 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.

The Committee recommends that the Office review the time needed to provide a First Office Action on the Merits that addresses all issues (Compact Prosecution), and be able to adjust its procedures to meet the desired pendency goals without jeopardizing the very laudable goal of Compact Prosecution.

IV. INTERNATIONAL COOPERATION AND WORK SHARING

A. SUBSTANTIVE PATENT LAW HARMONIZATION

Recent progress has been made on substantive patent law harmonization in the so-called “Tegernsee Group.” The Tegernsee Group was formed in July 2011 and is comprised of the Heads of the European, Danish, French, German, UK, Japanese and United States patent offices. Over the course of the last year, patent law experts from these offices prepared a comparative analysis of substantive law applied in each jurisdiction. On April 19-20, 2012, the Tegernsee Heads reconvened near Munich to consider the results of the experts’ work. At the conclusion of the meeting, the Heads agreed to a statement outlining further specific work for the experts to undertake, with a view to studying 1) grace period, 2) 18-month publication, 3) the prior art effect of secret prior art, and 4) prior user rights for additional fact finding and convergence. The Tegernsee Heads will reconvene this October in Geneva, Switzerland to endorse the work done and agree to a way forward, for example possibly in treaty-text writing exercises in the Group B+ Working Group I at WIPO.

The USPTO has also made significant outreach gains in perhaps the most important harmonization issue: establishment of a common grace period regime. As Europe is an outlier (the European Patent Convention not providing for one), the Director and key staff from both Patents and Policy and External affairs have visited several cities there (in one instance, six cities

in four days) and met with key American Chamber of Commerce symposia, US embassy staff, ministries, IP offices, and European users to discuss the issue. These efforts seem to have contributed to changing attitudes towards a grace period, which many believe pro-innovation and pro-economic growth.

Also, in June of this year, the heads of the IP5 offices agreed to establish a new patent harmonization experts' panel, which will build on the work of the Tegernsee efforts. This effectively adds two other major offices—those of Korea and China—to the larger discussion.

In summary, , given that passage of the AIA has opened a new window for the harmonization discussions, the USPTO has undertaken substantial and proactive efforts to nudge the IP system towards harmonization, which would save users of the international patent system significant resources, time while providing greater certainty

B. NEW CONCEPT: THE GLOBAL DOSSIER ENVIRONMENT, REALIGNMENT OF IP5 WORK

In the fall of 2011, the USPTO refined its concept of the “Global Dossier.” In essence, it envisions a virtual environment which takes into account all of the stakeholders in an inventive activity, including filers, offices, their examiners, litigants, investors—where all of the activity of a patent family is available for viewing (or interaction as appropriate)—in a single portal. It further envisions a system where the user can pre-plan and pre-select cross-filing routes, smart software enabling compliance with differing requirements (thereby reducing delay or inadvertent loss of rights), and opt into worksharing programs such as the Patent Prosecution Highway.

A key aspect of the proposal provides an outcome for and an “umbrella” over the many IT-related projects that are currently underway among the trilateral, IP5, and WIPO relationships in which USPTO is currently engaged. During the winter of 2011-12, bilateral engagement was undertaken with the JPO to refine the proposal, and it was introduced in the IP5 context at its May, 2012 Deputy Heads meeting. Only weeks later, in June, the concept was endorsed by the IP5 Heads as the vision around which technical work in the IP5, plus WIPO, should be undertaken going forward. It was further agreed that the IP5 foundation project workplans be revised, re-missioned, or sunsetted accordingly.

An outreach program, including a “task force” of user representatives from AIPLA, IPO, Business Europe, JIPA, and others has also been agreed to by IP5 office heads. This effort will begin immediately.

C. PATENT PROSECUTION HIGHWAY (“PPH”)

The Patent Prosecution Highway continues to prove a major success for the global worksharing regime. As of September 30, 2012, the number of PPH entries has approached

13,000 and USPTO is receiving requests at the rate of 400 to 500 per month. Recently, “PPH 2.0” was implemented, which is a program designed to streamline entry requirements—principally by allowing applicants to self-certify claim correspondence. The result has been to drastically reduce the request processing time and time to start examination.

The excellent statistical results continue in terms of reduced numbers of office actions and high grant rates. According to the AIPLA, these statistics amount to cost savings for users from \$2,000 per application to over \$10,000 in complex cases where appeals and RCEs are avoided.

As with the harmonization efforts, significant outreach efforts by USPTO, often in conjunction with user groups such as the AIPLA and IPO, continue both domestically and internationally.

An issue over the past several years has been the extent that US filers in the PPH have received rapid prosecution and allowances in the foreign patent offices. This was a particular issue among users with respect to the JPO. Recent statistics from the JPO show that about 70% of US filers are getting their PPH applications granted. (After appeals, the grant rate could actually be as high as 84 %.) PPAC understands that the JPO has instructed its examiners to adopt the search of a worksharing office to the extent they can. Hopefully, this will result in an increase in the grant rate of US PPH filed applications. However, the PTO should continue to closely monitor these statistics to insure that US filers’ grant rates under the PPH program increase to levels in the JPO approximating those of US grants of Japan PPH filers.

D. OTHER WORKSHARING AND COLLABORATIVE PROGRAMS

1. WORKSHARING WITH KOREA

The first phase of the worksharing effort with the Korean office (KIPO) has concluded and many lessons have been learned. A second phase will be initiated upon the signing of a memorandum of understanding between the USPTO Director and the new commissioner of KIPO later this year. Initial planning for that includes movement from an office of first filing to office of second filing worksharing orientation to one centered upon which office does the initial work, which fits with the new Mottainai model in the PPH system. It will also build on the collaboration system currently piloted between EPO, KIPO, and USPTO, with the aim to provide business requirements for examiner (and user) collaboration in the proposed Global Dossier environment.

2. OUTSOURCING PCT SEARCHES

Over the last several years, outsourcing has enabled the USPTO to become a world leader in overall PCT timeliness. The USPTO is taking all steps to maintain the progress made, notwithstanding funding cuts to the contract necessitated by the overall budget situation during

FY 2011. In addition, quality has improved in view of the more recent change to U.S. patent examiner standards for the contracted work.

3. PATENT COOPERATION TREATY – WORK SHARING (PCT-PPH)

In FY 2011, the USPTO initiated pilot PCT-Patent Prosecution Highways (PCT-PPH) with five additional International Authorities: IP Australia (IPAU), Rospatent, the Austrian Patent Office (APO), the Spanish Patent and Trademark Office (SPTO), the Nordic Patent Institute (NPI), the Swedish Patent and Registration Office (PRV) and the National Board of Patents and Registration (NBPR) in Finland. In FY2012, the USPTO initiated a PCT-PPH pilot with the State Intellectual Property Office of the P.R.C. (SIPO). Further in FY2012, Rospatent began operating as a competent International Searching Authority and International Preliminary Examining Authority for international applications filed by U.S. nationals and residents.

The USPTO is now participating in the second phase of a Collaborative Search and Examination Pilot Program with KIPO and EPO. In this pilot, examiners from the three Offices work together to create a single, high quality PCT search report and written opinion. The pilot will be used to test the feasibility of establishing such a system on a permanent basis.

4. PATENT COOPERATION TREATY – SYSTEMIC IMPROVEMENT

The USPTO, in conjunction with the United Kingdom IP Office (UKIPO), has developed a plan to improve the PCT. This plan, referred to as “PCT 20/20”, is comprised of a series of improvements which will increase quality, enhance transparency and simplify the PCT system. The plan has received generally favorable responses when presented to the Trilateral Offices and users, the IP5 Offices and the PCT Working Group at WIPO.

E. OVERALL USPTO PCT STATISTICS

Table 3 below shows the data for PCT procedures through August 2012

Table 3: PCT Timeliness

	FY2009	FY2010	FY2011	FY2012 (thru Aug)
RO/US Receipt to record copy mailing	21 days	13 days	10 days	11 days
DO/EO/US Receipt to release	379 days	251 days	159 days	98 days
ISA/US Mailing of ISR/WO within 16 months from priority	77%	82%	81%	53%
Mailing of ISR/WO within 18 months of priority	87%	91%	92%	87%
IPEA/US Mailing of IPER within 28 months from priority	14%	14%	21%	31%
Mailing of IPER within 30 months of priority	22%	19.5%	27%	37%

F. CONCLUSIONS AND RECOMMENDATIONS

The Committee commends the Office for its efforts on these international cooperation and work sharing initiatives and recommends their continued expansion and improvement. In particular, the Committee recommends that the Office review these efforts to ensure that the initiatives promote the overall objectives of harmonization, international work sharing, reduce duplication of efforts by offices and promote best practices to improve timeliness and quality.

The Committee strongly endorses the efforts of the Office to push for substantive harmonization of patent laws, especially a grace period that protects disclosures of information prior to the filing of an application.

The Committee also endorses the Global Dossier program and offers its assistance to the Office, along with the designated bar associations, in prioritizing international work efforts. On PPH, the Committee supports the USPTO's efforts to increase use of the PPH arrangements by applicants and notes the positive results achieved to date. The Committee supports the PPH 2.0 program which has promise to increase consistency among the various offices and simplify the requirements for applicants.

Overall, the Committee commends the Office on its proactive actions in FY2012 in the international arena. The Office has become a leader for change and the Committee fully endorses the actions this past year and offers its support and efforts for FY2013 to further the work already in progress.

V. INFORMATION TECHNOLOGY

A. OVERVIEW

In this Section of the Report, the PPAC describes the continued progress made and recommendations for improving patent examination and processing at the USPTO by improving the Office's information technology (IT) system under the direction of the Office of Chief Information Office ("OCIO"), and coordinated with Process Reengineering ("PRE") teams (described in the following section). The OCIO and Process Reengineering teams continue to work in parallel and in collaboration to identify and remedy deficiencies in the current patent processing systems.

B. MISSIONS OF THE OCIO AND PROCESS REENGINEERING TEAMS

As noted in our report last year, the USPTO has continued its Agency-wide effort to identify inefficiencies and unnecessary delays and reengineered operations. The overall goal of this effort is to provide more timely and high quality processing of applications from filing through issue and beyond. Improvements in processing will decrease pendency of the patenting process and lead to more rapid creation of companies to take advantage of our culture of innovation. Central to this mission is the creation of a modern information technology (IT) infrastructure that forms the framework for improvements in processes within the Office.

Instead of attempting to remedy the above problems through incremental improvement in the image-based system, the OCIO has devised an overall structure for the new PTO IT system based on interactive, text-based system, using markup language, "XML". An interactive, text-based system will permit Office personnel to use modern IT hardware and software to produce a system that is not "locked into" a particular IT framework.

In addition, OCIO has agile software development, integrate various tasks through individualized, task-specific program modules. After establishing its core architecture, each module can be tested, refined, and if necessary, replaced by improved modules.

One key element is funding, which is rate limiting. At this critical time in creation of the new IT system, the Committee believes that such cuts are counterproductive and will result in significant delays in improving the patent system, with the consequent threat to the United States' position in the World innovation ecosystem. Without significant resources applied over a sufficient time period, the development of any new IT system is necessarily delayed.

C. OCIO PROGRESS IN 2011-2012

Since our last Report, the PPAC has noted that substantial progress has been made in the following areas.

1. IT INFRASTRUCTURE IMPROVEMENTS

The Office has been working on a number of initiatives to improve and strengthen the various components of its IT infrastructure over the last several years. They developed a Road Map Capital Investment Decision Paper (CIDP) and gained USPTO management approval in 2008, and have been moving forward on development and implementation. The Work was focused on nine programs, defining 163 projects. The office has completed 111 of these projects, and 17 additional ones are in various stages of completion. Other projects were closed, especially when it was determined they had been superseded by other programs, such as Patents End To End (see further below). All the pending projects are expected to be completed this calendar year. And the Office has completed these projects, estimated to be under budget by 7.2%.

These infrastructure improvements were in the following areas:

ORGANIZATIONAL STRENGTHENING

The OCIO implemented a simplified organization structure; developed a Strategic Human Capital Implementation Plan, identified critical skill gaps and implemented training programs to address them; improved staff performance appraisal Plans; and implemented Executive Information System (EIS) as the OCIO financial system.

PROCESS STANDARDIZATION

The OCIO implemented an updated Systems Development Life Cycle (SDLC) process, compatible with both waterfall or Agile software and application development; implemented an Enterprise Project Management System (EPMS); implemented an OCIO Policy Management function; and is developing and implementing IT Infrastructure Library (ITIL) processes for Incident, Problem, Service, and Event Management.

DATA CENTER STABILIZATION

Addressed power shortfalls for the Data Center; established the architecture, the physical and logical mapping of all components, and migration/expansion plans for the Data Centers; replaced a substantial portion of the obsolete infrastructure through Capital Hardware Plans (servers, storage, etc.) - 52% replaced, 54% virtual.

TELECOMMUNICATIONS INFRASTRUCTURE

Implemented PTONet III, the first complete telecommunications upgrade to the PTO campus, and network security infrastructure; implemented the CIO Command Center, which established a centralized monitoring, performance and security center dedicated to the rapid diagnosis and response to suspected incidents or outages; completed a Voice Over Internet

Protocol (VOIP) phone replacement project and is completing projects to deploy Unified Business Collaboration Tools.

AIS STABILIZATION

Concluding identification of systems for analysis of root cause failures and implemented recommendations for architecture, design, and other enhancements to these systems; finishing replacement of end-of-life HP-UX Servers for 22 systems; completed numerous projects enhancing existing systems, based on the recommendations of root cause failures analysis; implemented an improved USPTO Public Access Internet website, e-Newsletter, Infrastructure Code Table upgrade, metrics, and other enhancements. Much of this project was placed on hold due to funding and the investment into Patents End to End.

DESKTOP STABILIZATION

Adopted the required Federal Desk Core Configuration (FDCC) framework and practices; established desktop baselines and architecture; established desktop rights management; implemented improvements to USPTO's patch management process; completed other projects for Windows XP SP3 upgrade, Symantec Endpoint Protection, IE 8 upgrade, PTOFAX 2.0, and the Desktop Management Tool Set; completed projects to implement Universal Laptops with compliant Windows 7 baseline.

SERVICE DESK

Completed selection and implementation of a Service Desk tools suite (Remedy), compliant with established IT Infrastructure Library (ITIL) Processes; completing implementation of the IT Service Management (ITSM) tool for incident and problem management; completing ITSM projects for release, service, governance, change, etc. This project is completing early in FY13 due to a late funding start.

DISASTER RECOVERY

Selected an alternate processing site for disaster recovery and implemented infrastructure necessary to support disaster recovery operations, including Internet and network connectivity; implemented the data bunkering of USPTO critical data to the Boyers, Pennsylvania (external, remote) backup site; and is completing testing of failover capability for some applications to Boyers, and implementing supporting configuration management tool sets. This project is ending in FY13 due to a late funding start.

ENTERPRISE ARCHITECTURE

Developed an enterprise Service Oriented Architecture strategy and plan; developed an enterprise architecture governance process and implementation plan; completed implementation of enterprise architecture tools such as Troux and GEARS.

Overall, the PPAC has been impressed by the ability of the Office to establish a strong and very successful OCIO capability for the delivery of large, multi-year, multi-program information technology infrastructure efforts. They appear to have firmly institutionalized portfolio, program, and project management practices (processes, templates, tools); along with practices for cross-functional collaboration, and reporting at the OCIO. These are very favorable and seem exemplified by their achievements for some of the large application development and deployment programs described further below. The IT Road Map ends on September 30, with a few continuing projects finishing by year-end. Management and enhancement of the IT infrastructure portfolio will continue under the purview of the Capital Hardware IT Replacement Portfolio (for end users and IT facilities) and the Enterprise Infrastructure Portfolio (for various other programs).

2. PATENTS END-TO-END (PE2E)

Patents End-to-End has made great strides in implementing new functionality, converting patent application data to structured text, and planning to obtain text from applicants. Patents End-to-End has been deployed to internal pilot audiences an entirely new infrastructure that cover examination functions related to examiner dockets, case review, document viewing, and reference management. Work on managing Office Action drafting is ongoing, and PE2E remains on track to release to incrementally larger pilot audiences as it adds new functionality throughout 2013.

The biggest challenge has been obtaining converted text for patent applications, and Patents End-to-End has explored multiple conversion options to ensure that it has the data necessary to support releases to its pilot audiences. Initially, OCIO was focusing on the Central Reexamination Unit (CRU) as the test/pilot audience for the system. However, the data conversion requirements were very difficult to meet for that pilot (CRU requires all patent case documents to be converted, all together, to be effective but also requires a maximum 60 day turnaround for a first office action). These two priorities conflicted and caused legacy data conversion and integration to proceed slower than planned. Further, AIA critical CRU and IT implementation requirements reduced resources available for PE2E. The Independent oversight specialist recommends moving the test focus away from CRU, due to these issues. OCIO believes that engagement with the intensive requirements of the CRU was very beneficial for establishing PE2E requirements and development, even if it is difficult to use them as a full test pilot of the system. Over the final quarter of Fiscal Year 2012, data conversion options have become increasingly clear, prompting a reevaluation of the composition of the pilot audience for

Patents End-to-End releases. The Office is now focusing using a cross-section of the examination corps as the pilot audience, to narrow focus of document conversion efforts, provide more flexibility on conversion times, allow examiners to self-select for PE2E pilot usage, and allow earlier and wider exposure to all Technical Center (TC) areas. The Office has changed the PE2E deployment plans, with an initial deployment to pilot audiences in November 2012. While the Office has been delayed in getting testing of the PE2E system, the delay has not been severe and the PPAC remains reasonably satisfied that this program is both very important and remains reasonably on track to deliver promised results. PPAC will remain engaged in reviewing progress towards new deployment plans.

3. PATENT APPLICATION TEXT INITIATIVE (PATI)

During the PATI program, claims, specification, and abstracts of all active patent applications have been converted to structured text. Patent examiners have access to this text in Office legacy IT tools, and PATI will be the key source of data for PE2E's new tools suite. PATI has now converted claims, specifications and abstracts of all active backfiles (63 million + documents), from image data to full XML4IP standard text. The Office has successfully completed all the hardware upgrades as part of the Infrastructure programs enabling corps-wide deployment of PATI data. OCIO plans to expand the scope of PATI text conversion to include IDS and Remarks documents. There will be follow-on continuous data conversion of additional document types.

4. TEXT TO PTO (TEXT2PTO)

The Text2PTO program is projected to allow text submissions of patent applications from applicants. It will provide applicants with a suite of pre-submission tools to analyze and validate applications. Planning for Text2PTO began in 2012, and outreach to the intellectual property community is underway to vet different approaches, understand applicant needs, and communicate the advantages of text-based submission. The early outcome of this activity will be a prototype scheduled for November 2012, including application submission and analytic reports. Text2PTO allows conversion of Open Document (.docx) application data into XML4IP information, and online validation of application data.

5. PATENT REVIEW PROCESSING SYSTEM (PRPS)

The OCIO has also successfully completed a new PRPS system for the Patent Trial and Appeal Board (PTAB). Again using agile software development approaches, an integrated team of IT and PTAB judges have worked over a period of several months to develop a new system to allow submission and management of the information that will be used during new post-grant processes of the AIA, including post-grant oppositions, *inter partes* review, and the transitional program for covered business method patents. Since a number of these processes went into

operation at the one year anniversary of the AIA (September 16, 2012), the Office and this integrated team worked very hard to develop, test and go live with the new PRPS. The Office ensured that the PRPS went live over the weekend, allowing a number of requesters to file new petitions through PRPS immediately.

All of these new IT systems are impressive. The OCIO has demonstrated each of the modules to the PPAC as they have been completed. The use of agile software development continues to payoff in terms of successful deployment of additional critical IT functionality for the Office. The Committee commends the Office on the smart investments, and looks forward to further deployment, especially with the promise of increased and ostensibly more reliable funding through AIA that allows better and more consistent investment. Reductions in current user fees this fiscal year provide some worry about this promise.

D. COMMITTEE RECOMMENDATIONS FOR THE OCIO FOR 2013

The PPAC believes that the efforts so far have produced valuable results, and encourages the OCIO and USPTO to rapidly address the following areas.

- 1. Provide stable sources of funding**
 - a. Ensure that fee setting under Section 18 of AIA by the USPTO is adequate to meet Office IT needs.
 - b. Continue development of the Operating Reserve Fund authorized by the AIA.
 - c. Carefully monitor user receipts and manage competing requirements to ensure necessary long-term investments
- 2. Continue to upgrade Office IT infrastructure**
 - a. Continue migration to a text-based IT system with the Text2PTO program and PE2E.
 - b. Expand network capabilities
 - c. Improve cyber-security
 - d. Continue Agile development of new Process Reengineering (PRE) tools and processes
 - e. Implement new PRE tools
- 3. Continue to upgrade and expand links with stakeholders**
 - a. Expand access to USPTO data and knowledge through the web
 - b. Continue partnerships with stakeholders, industry and other Intellectual Property Organizations to ensure meeting both internal and external stakeholder requirements.
 - c. Continue to improve the PTO website with modern assistance technologies
 - d. Expand use of collaboration tools between internal and external stakeholders

VI. PROCESS REENGINEERING

A. INTRODUCTION

The USPTO has made significant progress in identifying inefficiencies in its operations and providing remedies. As of June 2012, the USPTO has provided reports with recommendations addressing Cooperative Patent Classification (CPC), Appeal and Pre-Appeals, Commercial Database (CDB) Usage, US application processing of International applications under 35 U.S.C. 371, Management Operations, Call Centers, and Petitions. These areas have been addressed by the formation of a “Process Reengineering Team,” (“PRE”) each tasked with setting up and coordinating efforts of individualized Working Groups, each of which addresses a focused set of issues. The teams were created to take advantage of the experiences of internal and external stakeholders in the patent process. Identifying and removing inefficiencies should lead to improved patent processing and should promote innovation and jobs in the United States. The Committee hopes that increased efficiency will lead to more rapid processing of patent applications, improved examination quality, decreased pendency, and decreased costs to patent applicants.

Some Reengineering programs will be enhanced by the new IT infrastructure discussed above that will support a fully electronic patent system (including PE2E and Text2PTO). These improvements, allowing for a more efficient US patent system, with easier access by examiners to relevant prior art, and quicker allowance of valid patents and rejection of unworthy patent applications, should result in increased investment in technology, creation of new companies and jobs, and improve the overall economic situation, helping keep the United States a world leader in innovation and job creation.

B. REENGINEERING APPROACH

The Reengineering process is divided into three Phases. Phase I includes analyses of restriction practice, double patenting, color drawings, elimination of unneeded forms, classification and transfer of cases, central reexamination and reissue, pre-examination streamlining, enhancing technical knowledge between examiners, management operations, applicant/office interface, post-examination streamlining, information disclosure and PCT processing. Phase I programs resulted in over 200 individual process improvement recommendations. If all of those recommendations are implemented, the USPTO estimates annual cost savings of millions of dollars could be realized.

Phase II includes analyses of sequence listing, application and publication numbering, clearing oldest patent application (COPA), “stuck case” clearance, petitions for Cooperative Patent Classification (CPC), and patent reform (AIA).

Phase III includes appeals and pre-appeals, commercial database usage, 371 case processing, technical support staff implementation, workflow system functions and business rules, risk analysis, employee relations and call centers.

C. PROGRESS DURING 2011-2012 AND RECOMMENDATIONS FOR 2013

The Committee thanks the Office for these efforts, and we hope that the efficiencies created will decrease pendency, increase quality and decrease costs to applicants. With the new Fee Setting authorization provided in the AIA, the Committee hopes that cost savings through increasing process efficiencies can be directly translated into decrease cost to the Office, with the savings passed onto patent applicants through reduced fees or at least a slower increase in fees.

1. PRE-EXAMINATION STREAMLINING

This Working Group recommended automated data entry and formalities review using structured text. Capture of text data including Title, Inventors, Continuity, Priority and other data for preparation of Filing Receipts would have high impact on patent applicants. The Office estimates that with full implementation of automated data entry, the cost savings could be from \$2 – 10 million annually, and would increase accuracy, quality and decrease pendency. The Committee thanks the Office for this initiative and believes that it should be fully implemented and further steps should be automated.

2. IMPROVE SEARCHING AND COOPERATIVE PATENT CLASSIFICATION (CPC)

In June 2012, the CPC reported to the Committee on its efforts to create a new USPTO, EPO partnership do develop a shared searching system. This working group has embarked on an ambitious plan to combine features of the European Classification system (ECLA) and the current USPTO system. This effort produced a bilateral initiative that may be a model for a broader application among the countries of the IP5 (WIPO, Japanese Patent Office (JPO), European Patent Office (EPO), State Intellectual Property Office of China (SIPO), and the Korean Intellectual Property Office (KIPO). This system would be aligned with the International Patent Classification (IPC) and WIPO standards. Currently, the USPTO is engaged in discussions with representatives of IP5 countries to further refine and implement the new classification system.

The Committee believes that such a system could be very effective and improve the examination process. Given that the USPTO has acquired a tremendous amount of highly useful information in its own databases, the Committee believes that it would be very important for this information to be brought up current in any new classification system. In other words, the USPTO should make the current USPTO system fully searchable by the new system and that the new system is backwards compatible.

3. INFORMATION DISCLOSURE

The Committee agrees that IDS practice is currently very time consuming and may not be the best way of identifying the best prior art. The Committee notes that the USPTO recently proposed moving to a new standard for IDSs based on the “but for-plus” approach taken by the Federal Circuit in the *Therasense* case. The Committee believes that the “but for-plus” standard will be more certain than the current 37 C.F.R. 1.56 rule, and recommends implementation of the new standard. This could save Applicants time, cost of complying with the “reasonable examiner” standard, and further, recommends that the USPTO, in its new rulemaking, provide guidance about what types of information an Applicant need not disclose in an IDS.

The Committee recommends developing some form of a new tool into the IT system that would permit an Applicant to (one way or another) list a series of references on a form, and then either through applicant-provided links or search capability in available global patent databases (USPTO patents/application database, WIPO database, Medline, Derwent, etc.) allow the IT system to automatically download into the appropriate electronic file at the USPTO. The Committee also recommends that the new tool permit an Applicant to indicate which other applications (Continuations, CIPs, Divisionals, Related Applications, and foreign counterparts) may be related without having to refile all relevant information in all related cases. . Then the new tool might then automatically download into the application file prior filed IDSs, search reports (WIPO, EPO, JPO etc), Office Actions, Examination Reports and Replies. The Committee believes that such a new IT tool would save time, money and improve accuracy and completeness of such submissions.

4. PETITIONS

The Committee believes that processing of Petitions can be inconsistent and take too much time. This problem is exacerbated by the large volume of Petitions and requests, varying types, and varied responsibilities for deciding Petitions. Petitions are handled by the Office of Petitions, Office of Patent Legal Administration (OPLA), PCT Legal Administration, Technology Centers (TCs), Office of Patent Application Processing (OPAP/OPPE), Office of Data management (ODM/Pubs), and the Central Reexamination Unit (CRU). Outside the Patent Examination Unit, Petitions are addressed by the Board of Patent Appeals and Interference, now the Patent Trial and Appeal Board (PTAB), the Office of the General Counsel (OGC), and the Office of Enrollment and Discipline (OED).

Additionally, similar types of petitions may be handled differently in different organizations, routing may be difficult, and processing may be inconsistent. These complexities and others can each add pendency of up to 100 days or more.

The Committee believes that Petition processing should be carefully reviewed, and where possible, a central docketing system should be used. This could result in fewer petitions

becoming “lost” or deferred without disposition. The Committee encourages the Office to develop improved processing rules to improve Intake and Routing, Drafting and Decisions, Mailing and Hand-Off, and updating the processes to reflect current Office structure.

To partially address these problems, the USPTO has implemented an “e-Petitions” process. E-Petitions currently are used for submission of drawings in color, Petitions to Make Special based on Age of Applicant, delayed payment of Maintenance Fees, Terminal Disclaimers, and other “routine” matters. The electronic Terminal Disclaimer (“e-TD”) process is now available whereby a terminal disclaimer can be filed and granted instantly. Prior to implementing the e-TD, processing of TD Petitions took an average of 25.3 days. The time from filing to allowance has decreased from 40.5 days to less than 10 days for those cases for which a TD is the only outstanding issue. No eTDs have been disapproved; 100% are granted, compared with 19% disapproval rate under the prior system.

Rapid analysis of Petitions is essential to reducing pendency and improving examination quality. Petitions that are dismissed are particularly difficult, because unless a Petition is denied, there is no opportunity for Appeal. In some cases, delays in handling Petitions may lead to months or even years of inconclusive examination.

The Committee recommends that all petitionable issues be addressed promptly and completely, without unnecessary dismissals for lack of form or other non-merits reasons. The Committee recommends that all Petitions be placed on a single docket, with a well-defined time frame for resolution, in a fashion similar to examination docketing.

5. NATIONAL PHASE APPLICATIONS BASED ON 35 U.S.C. 371

An applicant who files an International Patent Application under the Patent Cooperation Treaty (PCT) may have that application filed in the United States either through the “regular” route via 35 U.S.C. 371, or via the “bypass route” under 35 U.S.C. 111. The “bypass” route is nearly identical to the filing of a regular United States utility application. However, an application entering the United States via 371 faces some unique situations. Docketing, workflow, document retrieval, tracking, notification of defects in the application, problems with forms, and other matters can delay, increase cost, and may be confusing.

The Committee recommends the Office to perform Root-Cause analysis of problems with 371 applications, identify potential common solutions, and begin implementing “pilot” programs to test solutions. We recommend implementing electronic data retrieval, document tracking and identification of other electronic procedures that would expedite filing and initial processing of such applications. The Committee also recommends that PCT Legal work with OPAP/OIPE to identify ways of simplifying the initial steps in application processing, including adjustment of claim fees due to multiply dependent claims filed in PCT International Applications that do not enter the US National Phase with a Preliminary Amendment to remove multiple dependencies.

6. EXAMINER AND SPE TRAINING

In 2011, the Office has approved up to 25 hours per examiner for refresher and leadership development training. The Committee commends this initiative, and would like to see training increased. The Committee understands that Primary Examiners and SPEs require ongoing training to remedy past deficiencies and to develop understanding of the changing landscape of patentability. We also agree that SPEs are in a unique position given their management responsibilities in addition to maintaining high levels of expertise in examination. The Committee believes that without training in effective management skills, Examiners may not receive proper, up-to-date guidance needed to properly address examination issues. The Committee also notes that the Office has introduced training in Negotiating the Patent Examining Process, which emphasizes cooperative problem-solving techniques while negotiating with Applicants to identify allowable claimed subject matter.

The Committee appreciates the Office's efforts to implement the recent guidelines on Section 112, and preparation of new Section 101 guidelines based on the *Mayo v. Prometheus* decision. The Committee also thanks the USPTO for efforts in providing technology-specific examples that integrate Section 112 guidance on breadth, with the Supreme Court's holding that breadth is also an important issue in rendering decisions based on Section 101 (e.g., "preemption"). The Committee understands the challenges facing the innovation communities to understand and properly implement the Court's holdings in *Mayo*, *Bilski v. Kappos*, and other key decisions, and offers to assist the Office in its efforts.

VII. HUMAN CAPITAL

The Committee believes it is critical that the Office recruit and maintain a qualified and competent work force. Human capital initiatives influence the Office's ability to timely and effectively accomplish its strategic plan goals.

A. EXAMINER RECRUITMENT

Underlying the Office's goal to reduce the backlog of patent applications and decrease pendency is the stated goal of hiring 1500 new patent examiners in fiscal year 2012. In the FY 2013 President's Budget, the Office projected an end of the year examiner staffing level of 7,852. The Office has a total of 7,837 patent examiners, plus 105 design examiners, and 122 CRU, with 1,505 new examiners on board as of September 2012. As a result of the significant progress the Agency has already made in achieving its priority goals and transitioning to a sustainable funding model, the USPTO is modifying and accelerating its long-term plans to recognize the progress that has been made to date, and to take advantage of the recent trends in terms of lower examiner attrition and higher production. This includes revalidating the total number of new patent examiner hires in FY 2013, and leveraging the nationwide workforce to facilitate hiring more examiners with significant prior IP-related experience, and those with some

level of IP background. Hiring experienced former examiners and IP professionals will allow the Patent organization to reduce the time necessary for training, and realize benefits that will enable the USPTO to still achieve its performance targets of 10 months for first action pendency, and 20 months for total patent pendency. This will meet stakeholder expectations, and also allow the Office to begin taking actions to achieve greater effectiveness and contain costs; for example, to begin making a soft landing from the aggressive hiring efforts in 2012 and 2013 by gradually reducing end-of-year examiner staffing levels, while still maintaining pendency and backlog at levels that facilitate effective and efficient operations.

1. EXAMINER RETENTION AND TRAINING

Examiner retention and training is an important factor that can positively affect efforts to improve quality and pendency. The Office attrition rate has stabilized with a projected attrition rate for 2012 of 3.1% as compared to 2.96% in 2011 and 3.75% in 2010. Participation in the most recent Federal Employee Viewpoint Survey was a remarkable 76% which is an improvement of 11%. The survey offers employees the opportunity to voice their opinion on organizational climate, culture, employee engagement, job satisfaction, among other things. The survey results provide feedback to Federal agencies on how to improve their work environment to increase productivity and employee engagement. It is also important to note, however, that attrition rates are historically lower during more challenging economic conditions. Accordingly, the Committee recommends that the Office continue to focus on initiatives to maintain its stabilized attrition rate by continuing to monitor and improve employee training and satisfaction in order to retain experienced, productive examiners.

2. EFFORTS TO ENHANCE TECHNICAL KNOWLEDGE AND TRAINING OF EXAMINERS

In an effort to enhance technical knowledge and training of Examiners the USPTO enhances patent examination fundamentals, communication, and cooperation between the examiner and applicant. The USPTO utilizes a highly successful compact prosecution training and refresher training program that encompasses over 20 training modules designed to enhance examiners' knowledge and skills in procedural and legal topics pertaining to patent examination. In addition, the USPTO has also implemented the *Patent Examiner Technical Training Program (PETTP)*.

The Patent Examiner Technical Training Program (PETTP) provides scientists and experts as lecturers to patent examiners in order to update them on technical developments, the state of the art, emerging trends, maturing technologies, and recent innovations in their fields. Data is collected for the PETTP program in 2 ways -- total training hours; and the number and types of participating organizations.

- Training Hours
 - For FY 12, the Office provided 17,222.25 total training hours
 - For FY 11, the Office provided 12,233 total training hours
 - These changes represent a 41% increase in training hours in FY 12.
- Participating Organizations (university/educational institutions vs. private organizations/individuals).
 - University/Educational Institution Participation
 - In FY 12, 19 universities/educational institutions participated (including such institutions as Johns Hopkins, Brandeis, Cornell, Stanford, University of California, NIST, Duke, NIH, Columbia, Georgetown, Penn State among others)
 - In FY 11, 8 universities participated
 - Significant improvement in university outreach in FY 12 (137% increase), principally due to collaboration with AUTM and assistance from UT Austin
 - Private Organizations/Individuals,
 - In FY 12, 63 private organizations/individuals participated, including a Nobel Prize Laureate. Many provided multiple lectures on multiple topics.
 - In FY 11, 60 private organizations/individuals participated

The Office continues to encourage greater participation in the program, for example, the newly announced USPTO/Association of University Technology Managers (AUTM) Patent Examiners Training Initiative, a joint program designed to utilize the expertise of the Association of University Technology Managers members working in university technology transfer offices to identify key faculty members to participate in training programs for patent examiners.

This enhanced communication contributes to improving overall patent quality and decreasing patent pendency. Another new program is the Site Examiner Education (SEE) program, this program allows Examiners to travel to companies and educational institutions to learn about updates on technology or new technologies and experience how technologies operate in the field. The Office of Patent Training (OPT) also continues to maintain and improve the effectiveness of the ISO-9001 (International Organization for Standardization) certified *New Patent Examiner Training Program*.

The USPTO via the Office of Patent Training also administers The New Patent Examiner Training Programs include: the Intellectual Property Experienced Examiner Training Program and the Entry Level Training Program, which are each a two-phased program completed in 12-months.

- ***Intellectual Property Experienced Examiner Training Curriculum***
This curriculum includes enhanced instruction in legal, procedural, and automation training, in areas such as: more than a dozen specialized applications used in patent examination, multiple search systems, databases and commonly used office applications such as: Classification Systems, Searching (classification, text), Claim

Interpretation, Advanced Text Searching, Technology Center (TC) Specific tools such as STN and Dialog, Writing an Effective Examiner's Answer, Appeal Procedure and Practice (Appeal Conference and Pre-Conference; Prevent Administrative Remand).

- ***Entry Level Two-Phased 12-Month New Examiner Training Curriculum***
The legal and procedural training of this curriculum includes enhanced instruction in areas such as: Classification Systems, Searching (classification, text), Claim Interpretation, and Advanced Text Searching, Writing an Effective Examiner's Answer, Appeal Procedure and Practice (Appeal Conference and Pre-Conference; Prevent Administrative Remand).
- Technical training includes Introduction to examining applications in specific areas of technology, the current state of specific technologies, ongoing technology topics, etc.
- Automation training includes classes in more than a dozen specialized applications used in patent examination, multiple search systems, databases, and commonly-used office applications.
- Life skills training includes time management, ethics training, stress management, balancing quality and production, professionalism, benefits and financial planning basics, balancing work and personal life, diversity training and negotiating conflict.

The Office of Patent Training (OPT) also provides Management Training. A two-phase training program for new Supervisory patent examiners provides coaching and mentoring, leadership, and software training modules in an effort to help patent examiners reach their full potential. Patent managers and supervisors will continue to participate in a *Leadership Development Program* which focuses on educating and creating leaders.

An Experienced Patent Managers Program is provided and designed for Patent Managers with more than one year of experience. Courses offered focus on coaching and mentoring and senior leadership development.

A Train the Trainer Program offers training to new Trainers who manage a lab of new Examiners. The courses concentrate on the daily operation and supervision of Examiners in the lab at the Patent Training Academy. The modules are a combination of theory and application and include mentoring, presentations and feedback, coaching, lab management and supervision, and adult education.

In addition the OPT provides continuing education training for experienced Examiners at the USPTO.

The Legal Lecture Series Program is offered periodically to patent examiners and based on major court decisions and office policies.

The In-House Patent Law and Evidence Course provides training for patent examiners on authoritative court decisions on statutory issues under 35 U.S.C. §§ 101, 102, 103, and 112 and the handling of evidence during the examination of applications.

Negotiating in the Patent Examination Process Training is an interactive lecture and workshop designed to teach the fundamentals of negotiating issues which arise during the patent examination process utilizing effective collaborative communication skills.

The Office held a Leadership Forum providing training opportunities to its management and leadership team to impart practical knowledge on how to improve efficiencies and effectiveness and to combine education with collaboration to make sure management has the tools needed to lead the workforce in meeting the current and future challenges.

The Committee believes that periodic, timely and up-to-date training is very important to maintaining an effective examination corps. We understand that there are a series of “Partnership Meetings,” “Tech-Fairs,” and other in-person programs. The Committee recommends that the USPTO continue to provide such programs, and ideally, at the USPTO and Satellite Offices. The Committee also recommends that these programs be continued and expanded to further include presentations by expert Examiners (Supervisory Patent Examiners (SPEs), Quality Assurance Specialists (QASs), Academic, Industry experts, and legal experts. The Committee also believes that these programs should be made available via internet access, and other technology platforms.

The Committee supports continuing and expanding the existing examiner training initiatives and recommends enhancing the training efforts by providing timely training to examiners of recent court decisions to further improve quality and maintain consistency.

B. DEVELOPMENT OF A NATIONWIDE WORKFORCE

Geographical expansion of the Office’s work force allows for a number of strategic benefits to the Office and applicants: improved recruiting and expansion of exceptionally well qualified applicants, enhanced employee retention (potentially allowing the Office to retain its trained and experienced examiners for an entire career), reduced real estate and infrastructure costs, and improved outreach to applicants. Development and support of a nationwide workforce also improves retention and recruitment efforts in technical areas where recruitment has historically not been as robust.

As of August 31st, 2012, 89% of patent employees are participating in some form of telework program up from 82.5% in 2011. The USPTO continued to support and promote the Patents Hoteling Program (PHP) which permits examiners to work from remote locations. The number of teleworkers in PHP increased to 3,084 patent examiners and 336 technical support staff as of August 31, 2012. Implementation of the Office’s new flexibility under the Telework

Enhancement Act of 2010 enabled the Office to launch the Telework Enhancement Act Pilot Program (TEAPP), initially launched to twenty-five percent of full time teleworkers waiving the “twice a bi-week” reporting requirement. The new program is voluntary, allowing eligible workers to live more than 50 miles from the USPTO and allowing them to change their duty station to an alternate worksite in the city in which they work. Further demonstrating a USPTO distributed workforce in FY 2012 11 percent of patent examiners (751) live more than 50 miles from the Alexandria campus, residing in 42 states. The Committee commends the Office’s initiatives for the geographical expansion of the work force, and recommends the TEAPP be made permanent and provided to a larger percentage of employees. The Committee believes that the Office should explore other venues for in-person interviews, including use of Satellite Offices, other Federal venues, and web-ex or other tools. To this end, the Committee recommends that the USPTO test other high-quality conferencing systems.

The USPTO’s satellite offices further support the Agency’s mission to foster the growing contribution that intellectual property makes to the economy. The *Leahy-Smith America Invents Act of 2011* (AIA) dictates that at least three satellite offices be established by the USPTO in three years as part of a larger effort to modernize the U.S. patent system by September 2014. The Detroit satellite office is the first of four selected, officially opened in July 13, 2012 and is expected to create approximately 120 highly skilled jobs in Detroit in the first year of operations.

Three future satellite offices were announced to be located in Denver, Colorado; Dallas-Fort Worth, Texas; and Silicon Valley, California. Satellite offices have been advanced to enable the Office and applicants to realize the potential benefits of: expansion of the applicant pool, enhanced employee retention, reduced real estate and infrastructure costs, and improved outreach to applicants. The Committee recommends while the Office moves forward with the establishment of the three additional satellite offices, it remain focused on addressing the concerns also brought about by further expansion of a distributive workforce such as management challenges and maintaining consistency and quality.

C. RECOMMENDATIONS

The Committee recommends that the USPTO receive consistent funding and full access to the fees collected in order to continue its expansion, training, and retention of the Examining Corps. Many applicants depend on prompt and accurate examination to support their current businesses and future growth. The USPTO needs consistent and predicable funding in order to make long range plans to effectively meet existing and future demands for its services, including continued implementation of AIA.

VIII. PATENT TRIAL AND APPEAL BOARD

A. INTRODUCTION

On September 16, 2012, the formerly named Board of Patent Appeals and Interferences was renamed the Patent Trial and Appeal Board (PTAB). The change in name reflects the additional proceedings to be handled by the Board under the AIA. The backlog of appeals before the Board has generally increased over the past few years, and the USPTO is faced with the challenge of maintaining timely appeals as well as accommodating the new Board Trial procedures.

B. BOARD HIRING

To address the backlog of appeals as well as the expected filings under Inter partes review, Post-Grant Opposition, Derivation and Supplemental Examination, the Board is undergoing a period of aggressive hiring of new Judges. As of September 10, 2012, the total number of Judges is now 150. Some of these new appointees will be located in the satellite offices in Detroit, Denver, Dallas, and the Silicon Valley in California. The current goal is to hire 100 new Administrative Patent Judges (APJs) in 2012. The Board expects new hires from the USPTO Examining Corps, Office of the General Counsel, the International Trade Commission, Department of Justice, private practice, and industry.

C. APPEALS

Since 2010, there has been a trend to increasing the backlog of appeals before the Board. As of the fourth quarter of 2012, the number of appeals in the queue is about 26,000. However, during fiscal year 2012, the backlog has stopped increasing, due in part to the number of new Judges, lower than expected numbers of new filings, and the efforts by current Judges.

The Committee believes that it is imperative for the Board to render rapid, fair decisions, because the PTAB is in a unique position to evaluate the decisions made by the examining corps. Further, the Committee believes that with the number of RCEs being in the backlog of the examining corps, that delays in patentability decisions are increasingly frustrating to the customers of the USPTO, namely, patent Applicants.

The Committee is encouraged by the balance of decisions by the Board. It is apparent that the Board is carefully reviewing Examiner's decisions, and in fiscal year 2012, about 1/3 of Board decisions are reversals of Examiner's rejections, about 1/2 are affirmances, and about 15% were partial affirmances. The Committee is also encouraged by the low numbers of Administrative remands and appeals dismissed.

The Board has also instituted a *per curiam* process, whereby certain appeals can be decided based on the written record. During fiscal year 2012, the Board has rendered 119 *per curiam* decisions, with 77 adopting the position of the Examiner's answer, 25 adopting the position of the Appellant's briefing, 16 adopting parts of the Examiner's answer and parts of Appellant's briefing. The Committee believes that these initial results reflect a balanced approach.

The Committee recommends that the PTAB consider making more decisions precedential and informative. Precedential and informative decisions are very helpful in providing the public with a degree of predictability and accuracy of decisions. Such predictability is crucial for making decisions about whether and how to appeal an adverse decision of patentability by an Examiner.

D. BOARD TRIALS

As the new Board Trial programs become more widely used (*Inter Partes* Review, Post Grant Opposition, Covered Business Methods, and Derivation), the Committee expects that the work of the PTAB in these new decisions will complement the Appeal process. The Committee believes that the Applicant community will benefit greatly from having PTAB decisions reflected in a timely fashion in the examination process. Therefore, the Committee recommends that Patents work closely with the PTAB to identify and implement mechanisms for improved and continual training of Examiners, SPEs, and others responsible for the examination process.

The Committee has included comments in other Sections of this Report, and hopes that the USPTO and the Board will consider these and other views positively as the rules for Board Trials are refined in the future.

E. EXAMINER TRAINING

The Committee believes that the PTAB is in a very good position to provide information essential to the evolving standards for patentability. Although the PTAB has issued few Precedential or Informative Opinions in the past two years, we believe that Examiner and SPE training can be improved by such decisions being brought to the Examining Corps early. It is not the intent of this recommendation that such PTAB decisions necessarily reflect Examiner performance under their Performance Appraisal Plans (PAPs), but rather as a training resource to provide Examiners with the most current views of the Board.

Decisions by the Court of Appeals for the Federal Circuit are also very informative to the Examining corps. For fiscal year 2012, the Federal Circuit heard 105 patent cases, with 66 affirmances, 26 dismissed, and 12 remanded (with one reversed).

The Committee believes that consistent decision making by the Federal Circuit and the Board will be very helpful in providing predictability for the users of the patent system in this

country. That predictability will be enhanced if the Examining corps has access to, and is trained in how changes if the law should be reflected in the examination process.

IX. USPTO STRATEGIC PLAN UPDATE

In 2010 the USPTO published a 5-year strategic plan, outlining themes, goals and objectives for the Office. The main themes of the Department of Commerce (DOC) are: (1) economic growth, (2) customer service, (3) organizational excellence, and (4) workforce excellence. These themes are reflected in specific DOC goals, DOC objectives and USPTO goals as shown in **Table 4** below.

Table 4: Key Themes, Goals and Objectives of the USPTO Strategic Plan

DOC Theme	DOC Goal	DOC Objective	USPTO Goal
Economic Growth	Innovation and Entrepreneurship Goal: Develop the tools, systems, policies and technologies critical to transforming our economy. Fostering U.S. competitiveness, and driving the development of new businesses.	Facilitate intellectual property protection by reducing patent and trademark pendency and increasing quality of issued patents and trademarks. Expand international markets for U.S. firms and inventors by improving the protection and enforcement of intellectual property rights	Optimize Patent Quality and Timeliness. Optimize Trademark Quality and Timeliness. Provide Domestic and Global Leadership to improve intellectual Property Policy, Protection and Enforcement Worldwide.
Customer Service	Create a culture of outstanding communication and services to our internal and external customers.		Achieve Organizational Excellence.
Organizational Excellence	Create a high performing organization with integrated, efficient and effective service delivery		
Workforce Excellence	Develop and support a diverse, highly qualified workforce with the right skills in the right job to carry out the mission.		

The Committee believes that the USPTO has aggressively pursued the themes, objectives and goals of the Strategic Plan, and congratulates Director Kappos and other USPTO personnel for their vision, dedication, and teamwork. The Committee stands ready to offer its ongoing assistance in furtherance of these activities that are crucial to the continued economic progress in the United States.

Respectfully submitted,

A handwritten signature in black ink that reads "D. Benjamin Borson". The signature is written in a cursive style with a large, sweeping flourish at the end.

D. Benjamin Borson, M.A., J.D., Ph.D.

Acting Chair, Patent Public Advisory Committee

Full Report of the PPAC on Fee Setting

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 proposed new fees 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.

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.

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 multiply 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.

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.

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.

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>.

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 Kepplinger, 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.

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.

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.

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.

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.

Key Initial Sub-Committee Suggestions (between February 2012 Proposal and August 2012 NPRM):

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.

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.

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.

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.

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.

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.

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.

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 Sub-Committee 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.

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

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.

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

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

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.

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.

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.

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.

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 hesitance 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.

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.

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.

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.

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.

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.

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

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

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.

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 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 IPR. 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.

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.

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 \times 20 + \400×25), or \$35,000 total.

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.

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.

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.

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.

Statutory Authority of the PPAC

35 U.S.C. §5 – Patent & Trademark Office Public Advisory Committee

(a) Establishment of Public Advisory Committees

(1) **Appointment** – The United States Patent and Trademark Office shall have a Patent Public Advisory Committee and a Trademark Public Advisory Committee, each of which shall have nine voting members who shall be appointed by the Secretary of Commerce and serve at the pleasure of the Secretary of Commerce. Members of each Public Advisory Committee shall be appointed for a term of 1 year, and three shall be appointed for a term of 2 years. In making appointments to each Committee, the Secretary of Commerce shall consider the risk of loss of competitive advantage in international commerce or other harm to United States companies as a result of such appointments.

(2) **Chair** – The Secretary shall designate a chair of each Advisory Committee, whose term as chair shall be for 3 years.

(3) **Timing of Appointments** – Initial appointments to each Advisory Committee shall be made within 3 months after the effective date of the Patent and Trademark Office Efficiency Act. Vacancies shall be filled within 3 months after they occur.

(b) Basis for Appointments – Members of each Advisory Committee

(1) shall be citizens of the United States who shall be chosen so as to represent the interests of diverse users of the United States Patent and Trademark Office with respect to patents, in the case of the Patent Public Advisory Committee, and with respect to trademarks, in the case of the Trademark Public Advisory Committee;

(2) shall include members who represent small and large entity applicants located in the United States in proportion to the number of applications filed by such applicants, but in no case shall members who represent small entity patent applications, including small business concerns, independent inventors, and nonprofit organizations, constitute less than 25 percent of the members of the Patent Public Advisory Committee, and such members shall include at least one independent inventor; and

(3) shall include individuals with substantial background and achievement in finance, management, labor relations, science, technology, and office automation. In addition to the voting members, each Advisory Committee shall include a representative of each labor organization recognized by the United States Patent and Trademark Office. Such representatives shall be nonvoting members of the Advisory Committee to which they are appointed.

(c) **Meetings** – Each Advisory Committee shall meet at the call of the chair to consider an agenda set by the chair.

(d) **Duties** – Each Advisory Committee shall

(1) review the policies, goals, performance, budget, and user fees of the United States Patent and Trademark Office with respect to patents, in the case of the Patent Public Advisory Committee, and with respect to Trademarks, in the case of the Trademark Public Advisory Committee, and advise the Director on these matters.

(2) within 60 days after the end of each fiscal year

(A) prepare an annual report on the matters referred to in paragraph (1);

(B) transmit the report to the Secretary of Commerce, the President, and the Committees on the Judiciary of the Senate and the House of Representatives; and

(C) publish the report in the Official Gazette of the United States Patent and Trademark Office.

(e) **Compensation** – Each member of each Advisory Committee shall be compensated for each day (including travel time) during which such member is attending meetings or conferences of that Advisory Committee or otherwise engaged in the business of that Advisory Committee, at the rate which is the daily equivalent of the annual rate of basic pay in effect for level III of the Executive Schedule under section 5314 of title 5. While away from such member's home or regular place of business such member shall be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5.

(f) **Access To Information** – Members of each Advisory Committee shall be provided access to records and information in the United States Patent and Trademark Office, except for personal or other privileged information and information concerning patent applications required to be kept in confidence by section 122.

(g) **Applicability of Certain Ethics Laws** – Members of each Advisory Committee shall be special Government employees within the meaning of section 202 of title 18.

(h) Inapplicability of Federal Advisory Committee – The Federal Advisory Committee Act (5 U.S.C. App.) shall not apply to each Advisory Committee.

(i) Open Meetings – The meetings of each Advisory Committee shall be open to the public, except that each Advisory Committee may by majority vote meet in executive session when considering personnel, privileged, or other confidential information.

(j) Inapplicability Of Patent Prohibition – Section 4 shall not apply to voting members of the Advisory Committees.

DAMON C MATTEO, CHAIRMAN



Damon C. Matteo is Vice President & Chief Intellectual Property Officer of the Palo Alto Research Center (PARC). Mr. Matteo's career spans twenty years in all facets of the strategic creation, management and commercialization of high-value intellectual capital assets – all in an international context. On the creation side, these efforts align research targeting with the creation of intellectual capital assets that secure advantaged technology positions in the marketplace, and realize broader corporate objectives. In optimizing returns from these assets, Mr. Matteo regularly employs new business creation, start-ups, venture/strategic funding, M&A, licensing, assertion as well as direct-to-product vehicles. Aside from their strategic benefits, a number of these transactions were themselves each valued at over US\$250 million. In creating and commercializing these innovations, Mr. Matteo operates across industry domains which span: mobile computing, clean-tech (e.g. water & solar), web and e-commerce, computer and consumer electronics, networking (e.g. interoperability and security) and telecom.

In recognition of this professional standing, Mr. Matteo's awards and distinctions include being named one of the "Fifty Most Influential People in Intellectual Property" by both Intellectual Asset Magazine and Managing Intellectual Property Magazine, the National Technology Transfer Excellence Award given by the U.S. Federal Government, NewsLink's "Profile In Excellence" for technology transactions and Senior Distinguished Fellow for the Center For Advanced Technology.

A recognized thought leader dedicated to developing new theory and best-practice in realizing value from intellectual capital assets, Mr. Matteo is also an author, by-line columnist, subject of frequent interviews and sought-after lecturer at graduate universities and professional organizations worldwide. Mr. Matteo also serves as an expert for the US Congress, federal agencies e.g. U.S. Department Of Commerce, U.S. Security & Exchange Commission (SEC), the United Nations, as well as for corporations, universities and at trial.

Mr. Matteo serves as Chairman of the US Patent & Trademark Office's Public Advisory Committee, which operates like a Board Of Directors (overseeing operations, goals, performance, budget, etc...) for the USPTO. Other Board memberships include the European Center For Intellectual Property Studies and Chair of the Silicon Valley Licensing Executive Society.

D. BENJAMIN BORSON, M.A., J.D., PH.D., ACTING CHAIRMAN



Dr. Ben Borson is Founder and President of the Borson Law Group, PC in Lafayette, California. He is a patent attorney representing individual inventors and small- and mid-sized companies that create and exploit intellectual property assets. His clients are in the biological arts (biotechnology, chemistry, and pharmaceutical sciences), scientific and medical instrumentation, materials science, semiconductor processing, software, video technology, and mechanical arts. He has 17 years of experience as a practitioner, and focuses on patent preparation, prosecution, opinions and licensing. Additionally, he assists clients in trademark, copyright, and scientific

counseling.

Dr. Borson is an active lecturer and author in intellectual property law, and prepared and prosecuted over 100 issued patents. He is Adjunct Professor of Law at Golden Gate University, where he teaches patent law and biotechnology law in the J.D. program. Dr. Borson is a member of the AIPLA patent, USPTO, and biotechnology committees, and is co-chair of the Patentability Sub-Committee. He is active in the IP Law and International Law Sections of the State Bar of California, is a past member of the IP Section Executive Committee. He is past co-chair of the Council of State Bar Sections, and served on the Board of Governor's Task Force on Sections. Ben is Chair of the Business Law Corporate Counsel Section of the Contra Costa County Bar Association. Ben was appointed to the PPAC in 2009 by Secretary Locke.

Dr. Borson earned a Bachelor of Arts degree from San Francisco State College, a Masters of Arts degree in Biology from the University of California, Riverside, a Ph.D. degree in Physiology from the University of California, San Francisco, and a J.D. degree from the University of San Francisco School of Law.

He is licensed to practice law in California, District Court in California and to practice before the USPTO.

Prior to entering law, Dr. Borson was a member of the faculty at the University of California, San Francisco, Cardiovascular Research institute, where he ran a research program in basic biomedical science, and trained post-doctoral fellows and staff in research methods. He also was a member of the faculty of the Department of Physiology. He is author of over 70 peer-reviewed articles, reviews and abstracts in physiology, biochemistry and molecular biology. He was the recipient of research grants from the National Institutes of Health, Cystic Fibrosis Foundation, American Lung Association, the Parker B. Francis Foundation and other groups.

Dr. Borson is founder and Past President of the BioScience Forum, a non-profit educational organization. He is a past member of the Federated Association of Societies for Experimental Biology, American Lung Association, American Physiology Society, American Association of Cell Biologists, American Chemical Society, and the American Association of Pharmaceutical Scientists. Prior to entering science, he was a Certified Flight Instructor and holds a Commercial Pilot License.

LOUIS J. FOREMAN



Louis Foreman is founder and Chief Executive of Enventys, an integrated product design and engineering firm. He is also CEO of Edison Nation. Louis graduated from The University of Illinois with a Bachelors of Science degree in Economics. His interest in starting businesses and developing innovative products began while a sophomore with his first company founded in his fraternity room. Over the past 20 years Louis has created 9 successful start-ups and has been directly responsible for the creation of over 20 others. A prolific inventor, he is the inventor of 10 registered US Patents, and his firm is responsible for the development and filing of well over

500 more.

The recipient of numerous awards for entrepreneurial achievement, his passion for small business extends beyond his own companies. Louis is an adjunct professor of Entrepreneurship and Innovation, teaching at Queens University and Belmont Abby College. He received the Instructor Achievement Award for his teaching at Central Piedmont Community College, and was recognized by the National Museum of Education for his Distinguished Contributions to Education. Louis is the

Entrepreneur in Residence at The McColl School of Business at Queens University. He is a frequent lecturer and radio / TV guest on the topics of small business creation and innovation, and is frequently invited by national trade associations to be a featured speaker on the topic of innovation.

In addition to being an inventor, Louis is also committed to inspiring others to be innovative. Louis is the creator of the Emmy® Award winning PBS TV show, Everyday Edisons, and serves as the Executive Producer and lead judge. The show is in its fifth season and appears nationally on PBS. In 2007, Louis became the publisher of Inventors Digest, a 25 year old publication devoted to the topic of American Innovation. In 2009, his first book, The Independent Inventor's Handbook, was published by Workman Publishing.

Louis serves on the Board of Directors of the James Dyson Foundation, the Intellectual Property Owners Association (IPO), The United Inventors Association (UIA), and the

Intellectual Property Owners Educational Foundation (IPOEF). He is co-chairman of the NC Institute for Emerging Issues Business Committee on Creativity.

CLINTON H. HALLMAN, JR.



Clinton Hallman is the Chief Patent Counsel for Kraft Foods Group, Inc. He has global responsibility for patent matters at Kraft and manages a staff with counsel in the Chicago area, New York and Zurich. His time at Kraft has involved a variety of experiences including major litigation matters, business divestures, and IP strategy development. Prior to working at Kraft he was a patent counsel at the Altria Group for several years where he was responsible for patent prosecution, opinion work and significant client counseling. His responsibilities there included a stint at an Altria subsidiary that was created to market technology developed for the tobacco industry in other areas such as medical devices, fuel injector technology and alloys. Clinton has had a stint in private practice at a small IP boutique where he handled patent, trademark and copyright matters working with companies in the textiles and furniture industries. Clinton got his start in IP at Mobil Oil Corporation where he worked as a project engineer and construction manager for several years before joining the office of patent counsel. His patent work at Mobil included support of the plastics division of Mobil Chemical.

Clinton served as an officer in the US navy having been commissioned in 1977. His service was all sea duty with most of that time assigned to the engineering departments of the ships on which he served.

Clinton is a 1977 graduate of the US Naval Academy with a degree in Mechanical Engineering. He is a 1994 graduate of the George Mason University School of Law in the Patent Track. He is admitted to practice in Illinois (Corporate), North Carolina and Virginia. He is a member of the Intellectual Property Law Association of Chicago, the American Intellectual Property Law Association, the American Bar Association. He sits on the board of directors of the Greater Chicago Food Depository.

Clinton is married and has two sons, ages 26 and 20. He lives and works in the suburbs north of Chicago, Il.

ESTHER M. KEPPLINGER



Esther Kepplinger is Wilson Sonsini Goodrich & Rosati's Chief Patent Counselor. She serves a key role within the firm on USPTO practice and procedures enhancing the firm's practice before the Agency, provides client strategic patent counseling and serves as an expert witness on patent examination procedures. In 2009, she was appointed by Secretary of Commerce, Gary Locke, to serve on the Patent Public Advisory Committee (PPAC), an advisory committee to the USPTO. Prior to joining the firm in 2005, Ms. Kepplinger served as the Deputy Commissioner for Patent Operations for five years (2000-2005) at the USPTO. In this capacity, she oversaw the day-to-day operations of the Examining Corps, was responsible for the achievement of the quality, pendency and productivity goals and helped in the development of patent policy. She played an active role in the Trilateral activities and led the drafting of WIPO PCT Search and Examination Guidelines and WIPO Standards for submitting nucleic acid and/or amino acid sequences in international patent applications. She spent 32 years at the USPTO in various positions, including examiner.

MICHELLE LEE



Michelle K. Lee is the former and first Deputy General Counsel and Head of Patents, Patent Strategy and Partnerships at Google Inc. During her nine years at Google, Ms. Lee has overseen almost all aspects of patent related matters including general strategy, prosecution, acquisitions, licensing, third party disputes, amicus related efforts, policy and press outreach. During her tenure at Google, Ms. Lee has been involved in many of Google's higher stakes legal matters including the acquisition of YouTube, participation in the \$4.5B Nortel patent auction and advising on the mobile phone patent wars.

Prior to her position at Google, Ms. Lee was a partner at the Silicon Valley law firm of Fenwick & West LLP, where she counseled high-technology companies on a range of issues including licensing, intellectual property, litigation, employment, M&A and corporate matters.

Prior to Fenwick & West LLP, Ms. Lee worked at Kecker & Van Nest LLP as a litigator representing her clients in commercial, intellectual property, employment and securities disputes.

Ms. Lee received a master of science degree in computer science and a bachelor of science degree in electrical engineering, both from the Massachusetts Institute of Technology, where she graduated at the top of her class.

Ms. Lee received her law degree from Stanford Law School and was editor of the Stanford Law Review. Prior to attending law school, Ms. Lee worked as a computer science researcher at the Hewlett Packard Company and the M.I.T. Artificial Intelligence Laboratory. Upon graduating from law school, Ms. Lee clerked for Judge Vaughn R. Walker on the U.S. District Court for the Northern District of California. Thereafter, Ms. Lee clerked on the U.S. Court of Appeals for the Federal Circuit in Washington, D.C. for Judge Paul R. Michel.

Ms. Lee serves on several boards including the Stanford Law School Board of Visitors, the George Washington University Law School's Intellectual Property Benefactors Program and the Santa Clara Law School's High Technology Law Board.

VALERIE LANDRIO MCDEVITT, J.D., MST



Valerie Landrio McDevitt is the Assistant Vice President at the University of South Florida, Office of Technology Transfer, the Division of Patents and Licensing. In 2010, USF was ranked 20th among technology transfer offices in licensing revenue and 9th among universities for US patents issued.

Prior to joining USF, Valerie served as assistant patent counsel and a research chemist for Bausch & Lomb Pharmaceuticals. She also participated in the American Association for the Advancement of Science Fellowship program and worked as a science advisor with a House subcommittee in Washington, D.C.

Valerie received her BS in Chemistry from Siena College in Loudonville, New York, MST in Chemistry at the University of Florida, and a JD at Emory University School of Law. She is a certified licensing professional through LES, a registered technology transfer professional through ATTP, a member of the Georgia and Florida bars, and is admitted to practice before the Federal Patent and Trademark Office.

STEVEN W. MILLER



Steven W. Miller is Vice President & General Counsel – Intellectual Property for The Procter & Gamble Company. In this position, he oversees about 150 patent and trademark attorneys worldwide, and advises Procter & Gamble’s senior management on intellectual property issues. Mr. Miller has authored numerous P&G patents and patent applications and has been involved in a number of license agreements, acquisitions, interferences, arbitrations, and litigation, both in the U.S. and abroad.

Mr. Miller is currently on the Executive Committee and Vice President for the Association of Corporate Patent Counsel (ACPC); on the Board of Directors and Past President of the Intellectual Property Owners Association Education Foundation (IPOEF); on the Board of Directors and Past President of the Intellectual Property Owners Association (IPO); on the Board of Directors for the National Inventors Hall of Fame; on the Steering Committee for the Coalition for 21st Century Patent Reform; on the Dean’s National Council for The Ohio State University Moritz College of Law; on the Advisory Council for Intellectual Property at the Franklin Pierce Law Center; and is a member of the American Intellectual Property Law Association (AIPLA), American Bar Association – Intellectual Property Committee, and Cincy IP. He received a J.D. with Honors and a B.S. in Mechanical Engineering, cum laude, from The Ohio State University.

He is licensed to practice in Ohio; US Patent & Trademark Office; United States District Court for the Southern District of Ohio; United States Court of Appeals for the Sixth and Federal Circuits; and the United States Supreme Court.

WAYNE SOBON



Wayne P. Sobon is Vice President and Chief IP Counsel for Rambus Inc., at its Sunnyvale, California office. Originally from Phoenix, Arizona, Wayne received his B.S. degree in physics and B.A. degree in German Studies from Stanford University in 1984 and his J.D. and M.B.A. from the University of California, Berkeley in 1992. Wayne worked at several Silicon Valley law firms, and most recently as Associate General Counsel, and Director of Intellectual Property for Accenture from 2000 to 2011.

Wayne is First Vice President of the American Intellectual Property Law Association (AIPLA), a member of the USPTO’s Patent Public Advisory Committee (PPAC), a member of the board of Invent Now.org of the National Inventor Hall of Fame, and a prior member of the board of the Intellectual Property Owners Association (IPO).