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Subject: Fee Setting
Attachments: AIPLA Comments to PPAC on Patent Fee Schedule-2-29-12.pdf

Attached please find the comments of the American Intellectual Property Law Association in response to the USPTO Request for Comments to the Patent Public Advisory Committee on the Proposed Patent Fee Schedule, 77 Fed. Reg 4509, published on January 30, 2012.

Please acknowledge receipt by return email.

Thank you,

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February 29, 2012

The Honorable Damon C. Matteo, Chair
Patent Public Advisory Committee
c/o The United States Patent and Trademark Office
600 Delany Street
Alexandria, VA 22314

Via email: fee.setting@uspto.gov

**RE: Comments to the Patent Public Advisory Committee on the “Proposed Patent Fee Schedule”
77 Federal Register 4509 (January 30, 2012)**

Dear Chairman Matteo:

The American Intellectual Property Law Association (AIPLA) is pleased to present the following comments to the Patent Public Advisory Committee on the proposed patent fee schedule, implementing the USPTO’s authority to set fees under the Leahy-Smith America Invents Act (AIA), which was enacted on September 16, 2011.

AIPLA is a U.S.-based national bar association whose approximately 15,000 members are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent law and other intellectual property law in the United States and thus have a keen interest in an efficient and effective Patent Office and intellectual property system. AIPLA appreciates the opportunity to comment on the fee proposal and congratulates the USPTO on what obviously required a prodigious effort in a short period of time.

Initially, we would like to reflect briefly on the context within which this fee-setting process is occurring. As an integral part of the overall reform of the patent system incorporated in the AIA, it is critical to remember that the principal driving philosophy behind the reforms was the widely held concern about the overall quality of patents, real and perceived. In one of the recent proposals to implement the AIA, the USPTO made the following statement:

“The purpose of the Leahy-Smith America Invents Act and the proposed regulations is to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”¹

¹ Notice of proposed rulemaking, “The Transitional Program for Covered Business Method Patents—Definition of Technological Invention,” 77 Fed. Reg. 7095-7096 (February 10, 2012).

It should also be remembered that many stakeholders either opposed granting the USPTO fee-setting authority or, as with AIPLA, supported it only as a function of the ability of the Office to retain and access fees. That opposition or concern for limiting or reducing Congressional oversight of the fee-setting process stemmed from, among other things, a concern that fees would rise either capriciously or with a dearth of appropriate data and analysis, with perhaps too much attention on general overall revenue generation without adequate consideration of the appropriate balance of stakeholder and public interests. Therefore, this first-time fee-setting exercise should be undertaken with particular care.

In our initial reading of the proposal, we find that significant weight is placed on the Administration’s other goal of pendency reduction. While this is certainly an important and laudatory goal, also long-sought by the user community, it must be balanced against the costs of entering and participating in the system. It should not interfere with the primary goal of the patent reform effort: quality improvement, both in perception and in fact. In other words, if pendency reduction results in either keeping inventors or the concerned public from using the system, or decreasing the quality of the rights patent holders receive, the value of the pendency reduction goal is itself undermined.

Consequently, when overall fee-setting occurs or, perhaps more importantly, when fees are targeted or adjusted to incent or retard certain behaviors, we believe the nature and magnitude of those fees should lean toward quality enhancement as a first principal. We believe that is why Congress for the first time also directed that the Office change from an individual action cost recovery model to one in which fees must only in the aggregate add up to the cost of managing the various functions of the Office.

That said, AIPLA agrees in principle with the foundational cost recovery approach provided by the Office. However, AIPLA is concerned, particularly with the fees for new services being proposed, that the Office is being overly conservative in its cost analysis (resulting in overestimating likely costs, particularly for new processes), resulting in many instances in fees justified by overstated costs in the aggregate, or even more likely in certain cases, in fees which are difficult to justify on an individual basis. We believe that a productive dialogue should ensue based on more detailed discussion of the assumptions, modeling, and estimation of those costs.

Many of our members have noted or suggested that overall fee increases and associated revenue are generally too excessive to meet appropriate pendency goals. AIPLA believes that easing the trajectory toward the pendency goals could reduce some of the overall costs being borne by applicants over the next couple of years. Those users have already absorbed a 15% across the board fee increase and are being asked to deal with another challenging set of fee changes which in the aggregate are not an insignificant additional burden. There is also skepticism about the assumptions and calculations regarding the elasticity of actions taken or not taken by stakeholders in view of these higher fees. Already some have reported that in order to meet client budgetary goals, activities such as basic filing and routine maintenance may be moderated. If relatively wide-spread, this would obviously have the potential to alter revenue projections.

Following one of the USPTO’s stated goals, AIPLA also believes there may be additional opportunities to charge separate fees for some of the processing activities to provide more flexible and efficient operation and prosecution (saving both applicant and USPTO resources) and that real progress on some of the Office’s more vexing problems such as RCE’s and Appeals could be addressed by such separation and by new supporting processes. Through the coming dialogue AIPLA hopes to mutually improve understanding between the Office and the community to better work together to apply our shared principles in a rational manner to achieve the balanced result we are all seeking while remaining faithful to the requirements of the statute.

Philosophy Generally

AIPLA believes that fees, in the aggregate, should recover 100% of the costs of the USPTO, and that the relationship between "front-end" (filing, search, examination, etc.) and "back-end" (maintenance, renewal, etc.) fees should be maintained. This is to say, for example, that search and examination fees for patents should not necessarily be set to recover the entire costs of front-end processing for patents, and that a portion of such costs should continue to be borne by maintenance and renewal fees. This approach ensures that front-end fees remain low enough to allow a wide range of inventors and businesses to seek protection, making up the shortfall with back-end maintenance fees. The current fee schedule was built on this core philosophy.

Along this line, AIPLA tends to agree that unavoidable "front-end" fees (filing, examination, etc.) should generally be offset by "back-end" fees (maintenance fees). The justification for "subsidy" through certain fees becomes less tenable for fees tied to choices made by the applicants (excess claim fees, page fees, etc.). Additionally, the balance, which has relied on back-end fees to keep front-end fees lower to provide access for those most likely to struggle with patent fees as they seek to develop their innovations, has been enshrined by the welcome addition of the micro-entity fees.

In the past, patent fees have been proposed for certain filing practices in excess of the cost of providing the requested service in an attempt to control applicant behavior. In general, our position has traditionally been to believe this approach is questionable and appropriate only in limited circumstances, especially when it is intended to limit or retard applicant behavior, versus incenting positive goals such as quality improvement. It has the potential in various situations to deny patent applicants a reasonable opportunity to protect their inventions, and it could be especially detrimental to applicants of limited means. It also has the risk of disproportionately impacting different technology areas where the technology and the state of the law over time have engendered distinct needs in prosecuting, claiming, and enforcing patents.

On the other hand, imposing fees that fully recover the costs of a service, e.g., a fee that would recover the full costs to the Office for searching and examining claims in excess of a certain number, remains worth considering. This is particularly relevant where specific prosecution choices by small subsets of the user community (where those subsets are not entire classes of a technology practice) have a disproportionately large impact on examination efficiency and effectiveness. While we do recognize that Congress gave the Office the flexibility to manage fees in this way, we believe that, in the interests of transparency and stakeholder buy-in, the Office should specifically identify as to each fee, whether a component of the fee is provided with the intention of managing applicant behavior or whether it is purely being set for cost recovery. For those fees which include a component for behavioral reasons, the Office needs to provide a very detailed analysis of the factors which went into that decision and the potential costs and benefits resulting from that decision.

It is difficult at this point for AIPLA to address the specific absolute fees without more detailed information regarding the costs of the myriad processing activities (docketing, searching, examination, IT operations, etc.) which is uniquely in the possession of the USPTO. To best provide a framework for informed discussion of the proposed fee schedule, AIPLA believes there will be significant value in the Office further setting forth the detailed bases on which it has calculated its proposed fees so that the user community may better understand the need for particular fees to be set at any given level. Such disclosure would enable the user community and the USPTO to have a more rational and productive discussion and analysis resulting in a fee schedule more universally understood and accepted.

With the almost across-the-board increases which the Office is proposing, it is critical that the community be able to have and fully understand the assumptions, the core numbers, and the mechanics of how the estimates were developed from those numbers. A specific example the USPTO could provide would be to map the recovery of a proposed new fee for a given activity against the existing fee and its recovery for that activity for past fiscal years minus the actual (not the estimated) costs for the activity for those years. It would be very useful to see how the proposed fees would have changed Office finances in recent years.

Pendency Targets and the Timing to Achieve Them

AIPLA believes that the current pendency targets reflect appropriate long-term goals for the Office. However, there is a real concern that the trajectory to achieve them may be too steep when the Office is also trying to implement AIA and institute foundational improvement to the IT systems. AIPLA is concerned that the proposed trajectory creates an undue burden on filers in the next year or two and also raises real challenges in the Office as the rapidly built-up Examining Corps then may have to dial back once the surge is complete. A slightly more moderated approach may result in less dramatic fee increases and also in a softer landing for the Office once the pendency targets are met. AIPLA would also note that increased fees are not the only way to enhance work toward the pendency targets, but that the Office should additionally continue to build on its current efforts to manage and improve costs and the productivity benefits of improved efficiency of its own processes to contribute toward better overall pendency and quality using more currently available resources.

When one also considers that the original purpose and impetus for the reform legislation was quality improvement, both real and perceived, AIPLA believes that careful consideration should be made of how much Office time and resources, and additional expense on the applicants, should be made toward this strong focus on pendency, at the potential expense of significant quality enhancement processes as post-grant review.

Fee Alignment/Restructuring for Prosecution Options

In the fee proposal, the USPTO is proposing to “Realign the fee structure to add processing options during patent application prosecution.” AIPLA applauds this goal and sees several opportunities not yet taken during this restructuring which could further the goal. AIPLA understands there are legitimate concerns that high out-of-pocket costs of some of the contemplated steps and proceedings may make more challenging the ability to participate by smaller players, universities, etc. However, there appear to be many instances where in actual practice there are multiple stage processes where much of the costs occur in the later stages.

This presents the opportunity to charge separate fees for the various stages and allow the applicant to opt out of a later stage to avoid the fee, or avoid a stage because of an action on the part of the Office and thus not incur the fee for that stage. This would be particularly beneficial for a small entity as it would spread out the timing of when the payments had to be made and, if a later second stage is never reached, it would eliminate the need to pay for that later stage, or would allow a small entity to avoid paying the entire amount until a decision was made on whether to proceed to the next stage. Specific examples, discussed in more detail below, would include: filing fees separated from search and examination fees; notice of appeal fees separated from appeal brief fees; and petition for supplemental examination fees separated from substantive reexamination fees.

AIPLA also sees opportunities for a new procedure, similar to an RCE fee but closer in range to the current cost of an RCE, which would allow for a single review or targeted search, after final action, without a full renewal of the prosecution (this is further discussed below). To the extent the Office is trying to create more flexibility for the applicants while providing better options to reduce Examiner workloads on work about which the applicant is no longer as concerned, AIPLA believes the current fee review process and restructuring provides an opportune framework to accomplish these goals and potentially lessen the impact of some of the proposed changes in fees to meet the Office’s fiscal goals.

Further, there are options for reducing or eliminating fees by adopting more user-friendly procedures to implement the AIA. For example, with respect to the proposed \$3,000 fee for filing an oath or declaration after the filing date and \$1,700 fee for change of inventorship, USPTO has stated that these high fees are intended as compensation for potential delays in the processing of applications and for the loss of late filing fees. AIPLA respectfully submits that modifying the proposed rules in order to permit the easier naming of inventors at an early stage, in an Application Data Sheet (ADS), would eliminate any additional cost resulting from late filing of an oath or declaration, and thus eliminate the need for the additional high fees.

The Reserve Fund

AIPLA agrees that the careful building and management of a 3-month operating reserve is a reasonable and responsible fiscal goal for the Office. It allows for continuity of operations when the federal government is operating on a continuing resolution or shutting down. It also permits for better long-term planning on multi-year projects like IT upgrades. In our initial reaction, however, we are concerned that efforts to accelerate the rapid growth of such a reserve on the backs of current applicants at a time when the Office is already aggressively reworking fees to address foreseeable costs (such as IT, Examiner hires, etc.) may not be prudent or politically expedient. The rate at which the Office proposes to grow the reserve fund is also inexorably tied to ambitious goals the Office has set for reducing patent pendency—laudable goals, but as noted above, potentially overly ambitious in timing given the challenges the Office faces. A balance must be struck between the reserve fund, the pendency goals, the improvement to the IT systems, and the other resource-intensive challenges the Office faces.

Finally, particularly with respect to how a reserve fund is justified, budgeted, and maintained, it is paramount that every precaution should be taken to ensure that the fees paid by users are not vulnerable to a Congress looking for ways to reduce the budget deficit. As many have noted, in difficult economic times, this reserve fund could be a tempting target. If the formation of the proposed reserve fund can only occur in a manner which creates undue exposure of user fees to congressional diversion, then the risks may start to outweigh the benefits of such a fund.

In building a reserve, AIPLA would note that there are several occurrences coming in the course of implementing the AIA and related changes which will likely lead to “bubbles” of fee payments. AIPLA believes that these bubbles and surges in activity may also help in getting a reserve more quickly, lessening the need to raise fees as much in the near term.

Funding a reserve of 1/4 of the estimated annual expenditures in the next few years through increased fees would unduly burden applicants in the near term. Once the new fee structure comes into place, it would appear the reserve is being funded at anywhere from \$150 million to \$300 million a year to reach and then soar past the targeted levels. AIPLA is concerned that this provides much too strong a tax on the current users over and above the actual costs of their direct activities within the Office. AIPLA is reluctant to build more than about a 2-week annual increase to the reserve into the calculations supporting the fee setting, although it remains cautiously optimistic that some of the surges and bubbles in the implementation phases may accelerate the initial building of the reserve more quickly.

Filing Fees and Approach

AIPLA appreciates that the USPTO has proposed lowering of some of the fees in the core filing process and at least created the point of discussion that for simple track applications the proposed fee structure reduces the fees through issuance. We would note that, at least anecdotally, a significant portion of issued patents currently have to go through the RCE process to educate the Examiner and reach agreement. The proposed significant increases to RCE fees undercut these postulated savings. The USPTO might consider discussing RCE practice more fully in its analysis and realistically identifying the percentages that follow that track as compared with cases in which no RCE is filed. We will discuss this issue in more detail in the following section.

AIPLA notes the proposal to significantly increase the combined filing/search/examination fees and lower the combined issuance and publication fees. At the time an issue fee must be paid, the applicant is about to be granted an issued patent with known claims and enforceable rights. The applicant is therefore in a better position at that time to value the patent claims which will issue to its business than those filing at the entry stage. While we would not call for increase in the issue fees from current standards, some consideration should be given to maintaining the current issue and publication fees and passing the benefits back to lowered entry fees in the new proposal.

As noted above, AIPLA believes there is a real opportunity to create an optional staging at the point of filing that might assist on a number of fronts. The proposal would be to maintain a separate filing fee from the search and examination fees. At the time of filing, only the filing fee would be due. Then, when the application is about to be taken up for examination (the time to be determined by the Office), the applicant will be informed and have the opportunity to pay the search and examination fees or abandon the application. This would create a lower initial investment by all players.

In the coming first-inventor-to-file environment, this is not an insignificant benefit as there may be perceived pressures to file earlier in the innovation and commercialization process. However, many months down the road when examination is imminent, the applicant will have the opportunity to reassess whether it makes sense to pursue a particular application or to abandon an application which has been superseded by later filings or where the invention does not appear economically viable. This would prevent Examiners from investing time (a valuable resource when trying to reduce backlog) in cases which no longer have significant value to the applicants. It would also make the initial entry barrier for applicants lower and reduce some of the challenges of earlier decision-making for independent inventors and even larger entities that might be faced with multiple filings along a complex developmental path. Such an approach would improve efficiency of capital use, efficiency of examination, and would not seem to present significant negatives with the exception of administrative costs in obtaining the second payment.

RCE Fees and Approach

Although originally intended simply as a means for applicant to capture accrued term adjustment following the implementation of the American Inventors Protection Act of 1999, as suggested above, AIPLA now perceives that RCEs are a common and frequently necessary practice in examination generally (at least in some art units) for both applicant and examiner. However, we are troubled that the USPTO appears to perceive RCEs as more of an applicant-generated problem that does not need to be addressed or accounted for by the Office, or more particularly by incited Examiner behavior, which among other things may have been exacerbated by efforts to reduce allowances or the unintended consequence of the recent performance agreement.

As an initial point, it would appear that none of the pendency goals take into account RCEs, nor do the (primary) reported backlog numbers include RCEs (which are also now on a separate track within the Office from typical Office action responses). AIPLA perceives that this is creating a "hidden" backlog which is growing and reflects a real challenge which needs to be monitored, discussed, and resolved cooperatively by all participants. Simply doubling the RCE fee would not only unfairly penalize many applicants, but it would also seem to leverage and fund a failed model. AIPLA believes more open tracking and study of RCE's and other re-files along with the issues underlying them is a key part of any solution.

While increasing the fee for RCE's could provide a part of the solution for the benefit of the system overall, it must be accompanied by an effort to ensure that examiners promptly complete examination, and that supervisors thoroughly review their work, and not simply look for opportunities to "kick the can down the road." And while the Office is looking at incentives for the applicant community, AIPLA believes that the Office also needs to look at the incentives which fees create for the Office and its personnel. All things being equal, the increased revenue (and examiner credits) stemming from RCE filings (which are at least partly under the control of the Office) would tend to incentivize that behavior. Incentives need to be balanced for all constituents.

Members of AIPLA report that three very common reasons for filing RCE's are the consideration of newly discovered or identified art by the Examiner, the need to put the claims in condition for appeal based on newly discovered art by the Examiner, and the opportunity for the Examiner to do an updated search following an agreement after final on potentially allowable subject matter. All three of these scenarios provide the opportunity to be resolved in a single review by the Examiner that could be less complex than the multiple steps of a full RCE.

AIPLA proposes that the USPTO create a new procedure and fee for a "single review RCE" at a fee lower than that being used currently for a full RCE. This "single review RCE" is envisioned as effectively the opportunity for the Examiner for some portion of a count to make a last review of late cited art or a last updated search to address situations such as the scenarios defined above without requiring a full RCE with a delayed track, multiple actions, and the like. This procedure should not be slow-tracked, but should be maintained on the response to Office action scheduling, or even faster and treated as an amendment after final, and should provide some count benefit to the Examiner commensurate with the fee and the work.

The New Appeal Fees

AIPLA is concerned about the new proposed fee structure for the appeals process. In at least some instances, the appeals process may reflect a break-down in the examination process which is not the fault of the Applicant. This may be reflected in the number of cases in which a notice of appeal is filed but which are returned to prosecution after a pre-appeal conference. It is also reflected in the number of cases that are resolved after the Applicant's brief is filed, or before the cases are submitted to the Board. By combining the notice of appeal fee with the fee for the Appeal brief (which presumably was intended to cover the Examiner's efforts on the Response), the Applicant is bearing a larger share of the burden even if a pre-appeal conference ultimately indicates the Examiner had not made a proper rejection.

AIPLA understands the concerns about cost recovery and is open to considering a third fee which addresses the costs of the Patent Trial and Appeal Board review, but believes strongly that separate fees should be maintained out of fairness to the Applicant. Thus AIPLA would suggest the proposed fees be divided among a notice of appeal fee, a fee upon the filing of Applicant's appeal brief, and the newly proposed appeal fee for going to the Board.

Moreover, if greater cost recovery at the Board is a goal, we might also suggest reviewing the high costs associated with interference practice, which has very little revenue return. Perhaps it is also time for some fee imposition or adjustments in those proceedings. If the goal is to fund the Board for all of its costs, then the individual costs of all of its processes should be accounted for.

As with RCEs, the current typical paths in the appeal process are not indicative of a fully healthy process. Strong efforts to improve communication and efficiency in resolving the errors and disputes leading to appeals need to be undertaken by all sides and the backlog must be addressed. Ensuring that the additional Examiner in pre-appeal and appeal conferences has adequate time and preparation prior to participating in those conferences remains a desirable goal. Additionally, creating an option for an Applicant interview or participation in the pre-appeal brief conference or the appeal conference with the collective Office representatives in addition to the Examiner, for a reasonable fee, could go a long way toward earlier resolution of many appeals. This would both increase applicant understanding and satisfaction and make more efficient use of Office resources.

Supplemental Examination Fees

AIPLA supports the basic principle that the consideration for fees should begin with the actual cost to the USPTO of the services provided. Although not a direct part of the fee package, the underlying cost analysis provided in association with the 41(d) fee setting for the Supplemental Examination is illustrative of AIPLA’s concerns regarding transparency and appropriateness of the costs being used as the starting point for fee setting for both Section 41 and Section 10 analysis. The USPTO is estimating costs for Supplemental Examination plus an ensuing Ex Parte Reexamination to be \$5,180 + \$16,116, but at the same time the USPTO estimates the fully burdened costs for Utility Examination (post search) at a little under \$2,000. Even if you double the estimated Utility Examination estimate to \$4,000 to account for the 4 Office actions anticipated by the USPTO, this difference can only be described as striking and raises concerns about the underlying assumptions. Equally challenging is the requirement to file two Supplemental Examination requests at a total cost of \$42,600 when the number of references cited exceeds 10 while a third party can submit 11 references during prosecution for less than \$400. While there is a difference in the processes, both fees were developed based on an analysis of cost under 41(d).

One specific observation relating to the approach for setting fees involves our understanding of the document size fees being proposed in the Supplemental Examination environment. It appears that the USPTO is proposing to set the fees for Supplemental Examination based on the aggregate costs (which includes the time to handle all comers—both complex and less complex). The USPTO is then analyzing sub-costs where certain types of activity drive up the costs, and is proposing to add separate surcharges for those (such as the document size fee). However, those extra efforts were present in the aggregate cost analysis used to set the fee originally. It does not appear that the USPTO backed out the proposed recovery from the separate fee when establishing the original fee. If there is a justified effort to identify that certain types of activity are distinctly more expensive to process and to price than activity with surcharge fees—then logically there should equally be a reassessment of the base fee normalizing it to cases without the surcharged activity, or estimating what the surcharges would have been and removing them from the averaging of costs for the base fee.

As we understand it, the current approach has a “double-dipping” appearance, where the burden of the difficult activities is included in both the base cost and then separately paid for in the surcharges. Several approaches could be used to correct this situation—one would be to remove the additional estimated time for which surcharges are being built from the original calculation to estimate aggregate cost. Another would be to remove the estimated aggregate surcharge recovery from the aggregated cost before averaging the unit cost.

AIPLA also has specific concerns about the 20% number used by the USPTO to estimate the relative impact of supplemental examination compared with prior ex parte examination on which it is basing its estimates. Again—the basis for this does not appear to be very well developed. Further, with many of the items the Office is using in its consideration (the greater range and challenge of documents the Office might receive), the USPTO is also proposing surcharges to address many of those same differentials—so again the full justification to change the base number is not clear if it is going to be partially accounted for otherwise. In fact, AIPLA is not confident that Supplemental Examination will be significantly harder to examine and can envision many instances where it may in fact be easier than an Ex Parte Reexamination given the more likely reasons it will be used by applicants to self-police their own potential mistakes.

It would appear the USPTO is using all Ex Parte Reexaminations (3rd party requested and patentee requested) for their analysis. However, in many instances, the 3rd party requested Reexaminations would provide more challenging art to deal with than many of patentee-requested reexaminations which are simply cleaning up duplicative art to confirm with the Office it does not present new challenges. It is believed that an analysis of the potential cost of supplemental examinations would be more soundly based on consideration of the cost of patentee requested reexaminations. This might additionally provide better data for discussion of the proposed 20% estimated increase in complexity the Office anticipates for supplemental examinations.

Where the cost results seem inconsistent with other work in the Office, and the explanation and justifications to date do not seem to be soundly based, it begs for a better explanation of the bases and assumptions if the USPTO is to build support for fees which seem significantly higher than might be anticipated. This simply illustrates the point that greater transparency and fuller explanations could lead to better collective insight and ultimately better numbers. We believe the goal is a collaborative process to get the USPTO the fees it needs to do its job and do it well. The USPTO needs to give the community enough information to contribute to the collaboration both to get a better result and hopefully to get a better collective buy-in with the final result by the user community. This would clearly be fostered by their active and open participation in the process combined with clear efforts by the USPTO to listen to and incorporate or address their feedback.

Further, AIPLA does not support raising the fees for Supplemental Examination as a disincentive to requesting it. AIPLA contemplates a broad variety of reasons why reasonable patentees might want to exercise the process without any intent to cleanse misconduct. For example, a company acquiring a portfolio from a smaller entity which did not have sophisticated counsel might spend the time to go through the portfolio to make sure the Office had a chance to review everything which could potentially raise an issue (under *McKesson* for example) which might not have been expressly presented during the original prosecution.

Finally, with respect to Supplemental Examination, the Office is clearly defining two stages, a Request for Supplemental Examination and an Ex Parte Reexamination which may or may not be triggered by the request. Much of the costs and the corresponding fee are associated with the second stage which may never be reached. As we currently understand, the USPTO intends to require a combined payment of both the \$5,180 Request Fee and the \$16,120 Re-examination Fee upfront, but has costed-out the stages and will in some manner "return" the later fee if the second stage is not reached. For the reasons identified above about the desirability of staged fees, particularly for smaller entities, AIPLA would request consideration of separate fees for the stages rather than a combined fee where in many instances the second stage will never be reached. This is especially relevant if the Office continues to maintain the significant fees for this service currently proposed.

Post-Grant Review Fees

A key aspect of the current fee-setting involves the setting of fees for Post-Grant Reviews and Inter Partes Reviews. The fees currently proposed are very high, and at first glance appear to many members to be significantly out of line, especially when compared to their quality improvement goals. As discussed above in connection with understanding the potential costs, AIPLA is concerned that the estimated costs are based on the existing inter partes reexamination proceedings, not taking into account the more controlled procedures envisioned in Section 6 of the AIA. In this regard, we believe that the proposed procedures earlier submitted by AIPLA reflect the goals for the new post-grant procedures in the AIA and should avoid excessive costs. As indicated above, these post-grant processes are cornerstones of quality improvement envisioned by Congress in the AIA, and their valuable purpose should not be thwarted by fees which are excessive and discouraging.

Given the significant nature of the proposed fees, and concerns about the assumptions underlying some of the other costing elements estimated by the USPTO, AIPLA believes a much more detailed discussion of the assumptions and bases underlying these costs needs to be provided. A comparison of the estimated costs for the use of Board resources in the current appellate and interference processes with the estimated costs for their use in these new processes raises additional concerns about the assumptions underlying the estimates. AIPLA looks forward to a productive dialogue to try and improve the accuracy of these estimated costs rather than have circumstances such as apparently occurred with Track I Examination where a very short amount of experience apparently has revealed that the costs were at least 20% less than estimated, resulting in the proposal to significantly reduce the fee charged.

AIPLA is also concerned that the procedures currently envisioned for post-grant review are themselves inefficient and cost intensive. ABA, AIPLA and IPO jointly proposed an approach which would be leaner and more efficient in usage of Board, petitioner and patentee resources. Under this proposed approach, the proceedings required only three major submissions to the Board—the initial petition, the patent owner’s response to the petition and the petitioner’s responsive comments. A required initial disclosure, standard protective order, pre-authorized discovery in pre-defined periods, time-limited and subject-matter-narrowing depositions, and other proposals not adopted in the currently proposed regulations all would have saved the Board’s time, and considerable expense. Instead, the currently proposed regulations import unneeded procedure from prior Board practices, maximize Board involvement in matters best addressed by simple rules, and ignore suggestions based upon best practices developed in the Federal Courts. The use of a more streamlined and efficient structure should produce a significantly lower estimated cost in fees to the USPTO and a lower cost in outside attorney fees paid by all of the participants. This should be a key consideration in driving the costs of the post-grant review to more balanced and effective levels.

AIPLA also observes that the post-grant procedure was envisioned by Congress as quick, less expensive quality control check intended to weed out clearly defective patents shortly after their issue. To this end, Congress expressly raised the post-grant threshold so that post-grant proceedings would be instituted only when clearly warranted. In so doing, Congress clearly differentiated the post-grant threshold from that for ex parte and inter partes re-exams and the like which are typified by a very high percentage of grants of the original requests and a significantly lower percentage of substantive changes to the issued patents. Recognizing that the costs borne by the Office and all of the participants in a granted review could potentially be very significant, Congress took pains not only to set a high threshold for such proceedings, but also provided substantial discretion to the Director to deny or terminate such proceedings, even in cases where the threshold is otherwise met.

It is now incumbent on the Office to assume the responsibility conferred to it by Congress as a public gatekeeper that will institute those proceedings that are needed to weed out clearly defective patents, while protecting patentees from all others, including those brought by parties seeking to turn the threat and expense of the procedure to their own competitive or economic advantage. To do otherwise would impose a very large burden on the inventor community, and weaken or destroy the very incentives that form the basis of our patent system.

Nevertheless, the question remains: How much should third-party requesters be required to pay to initiate one of these procedures? Assuming that the procedures will be appropriately constrained as envisioned, we believe the appropriate starting point is cost recovery, but avoiding the use of highly conservative estimates which would recover any conceivable costs from every single case. Moderate estimates based on the average estimated costs of the new procedures should be the starting point for establishing the fee for requesters. As noted, particularly with the pricing currently proposed, a much more careful discussion of the assumptions and calculations by the Office in delivering these estimates and in the procedures driving these estimates needs to occur to build support for the final resulting fees. This is especially true given that there is no historic data on the use of these processes upon which these estimates could more reasonably rely.

That said, a word of caution is appropriate: even though setting the fees to initiate either procedure too high will discourage their use, frustrating the goal of engaging the public to assist the USPTO in limiting and/or invalidating overly broad patents, we are nevertheless mindful that setting the fees too low would permit the harassment of patentees, especially harming small businesses, universities, and independent inventors, and frustrate the goals of these procedures. Some balance between the two extremes is called for.

There are also suggestions that the “law of unintended consequences” may come into play with the magnitude of PGR fees. PGR is intended to be a cost-effective alternative to litigation, and involve far fewer patents. Many patent owners, especially those with large portfolios, may think that higher fees and costs will deter challenges to their patents. But if PGR is used so infrequently that it does not fulfill the promise of weeding out many bad patents, it will be cited, especially by patent system opponents, as a “failed experiment” and we might be right back with Congress, fighting yet again over new legislation to address the problem of low quality patents.

Even worse, yet another unintended consequence of the high PGR fees is that they might actually encourage abusive behavior rather than deter it. As often occurs in litigation, asymmetrical burdens on the parties can produce settlement leverage that is disproportionate to the merits of the case. Although third parties would have to pay the high filing fee to initiate the PGR, thereafter they would be able to run their side of the PGR as cheaply as possible. By contrast, the patent owner most certainly will not cut corners if important patents are involved, and its costs will mount. Should those costs reach on the order of \$500,000, win or lose, a rational patent holder might be encouraged, for example, to pay a settlement of \$250,000 as a “nuisance value,” regardless of the merits of the case. Such a return could indeed fuel this type of behavior. On the other hand, if the procedures are significantly streamlined and the overall cost is minimized, especially with respect to the fees, the going rate for a nuisance value settlement, independent of the merits, may make PGR much less attractive for this type of abuse.

Finally, the costs of the PRG process themselves are inextricably tied to the fees. Accordingly, early analysis of the proposed PGR processes suggests numerous places where burdensome or overly involved processes presumably yield fees commensurate to those overburdened processes. We need to work closely together to streamline those proposed processes, get away from Board and judge intensive requirements where they are not absolutely necessary, and reduce the complexity and the costs, so that we can, in turn, keep the fees at an appropriate level.

Micro-Entity Fees

The 75% reduction in fees for “micro-entities” (which includes applicants employed by, and who have assigned or are under an obligation to assign their applications to, an institution of higher education), is a particularly helpful provision for independent inventors and universities. This class of applicants is the most likely to be deterred from filing patent applications, or to abandoning patents once obtained, by the level of fees charged by the Office. While we recognize that the fees charged by the Office are relatively small in the context of the overall costs of preparing and filing a patent application, the reduction in the fees for these applicants will increase the downstream investment in innovations which might otherwise never be commercialized and lead to the creation of jobs for American workers.

The Office has set a seventeen-month implementation schedule for establishing all patent fees, making the effective date mid-February, 2013. While we recognize that the implementation of micro-entity fees is part of the overall fee-setting process and will ultimately be directly tied to the fees set by that process, we would urge the Office to advance the implementation schedule of the micro-entity fees on a preliminary basis to assist these applicants. Appropriate adjustments can be implemented when the overall fee-setting process is finalized. We note that the 15% surcharge provided by the AIA found its way into the Office fees as close to instantly as one could contemplate, but the cost reduction specifically provided for the benefit of classes impacted by the increased fees is on a very slow and deliberate path.

We appreciate the opportunity to present these preliminary comments and look forward to working with the PPAC and with the Office to develop a sound, balanced, and fair fee schedule that will benefit both the Office and the user community.

Sincerely,

A handwritten signature in black ink that reads "William G. Barber". The signature is written in a cursive style with a long, sweeping underline.

William G. Barber
AIPLA President