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By Email

Attention: Michelle Picard

Re: Comments on Notice of Proposed Rulemaking:
Setting and Adjusting Patent Fees as
Authorized by the Leahy-Smith America Invents Act

Dear Ms. Picard:

Set forth below are our comments regarding the proposed rules of practice to implement the fee setting and adjusting provisions of the America Invents Act (AIA) by the United States Patent and Trademark Office (USPTO).

Oliff & Berridge is a nationwide law firm specializing in intellectual property matters. Our patent practice serves corporations, universities and individuals worldwide. Our law firm files and prosecutes thousands of patent applications each year on behalf of a wide range of U.S. and foreign applicants. Our practice before the USPTO provides a perspective and depth of experience necessary to provide the following comments regarding the proposed rules.

We appreciate the opportunity to have our positions considered by the USPTO. We also applaud the PTO for its efforts to adhere to both the letter and spirit of the Leahy-Smith America Invents Act (AIA).

We have reviewed the PTO's proposed fees and generally concur with the PTO's overall goals and objectives to recover its aggregate operations costs while improving patent quality, decreasing backlog and pendency, and improving efficiency by upgrading the PTO's business information technology and infrastructure.

We have also reviewed the September 24, 2012 Patent Public Advisory Committee Fee Setting Report (PPAC report) and we concur with many of the Committee's findings and conclusions, as mentioned below. Additionally, we have reviewed the Intellectual Property Owners Association (IPO) comments to the U.S. Patent and Trademark Office regarding the proposed patent fee schedule and agree with many of the IPOs comments, as mentioned below.

Our concerns, as well as recommendations for addressing those concerns, are discussed below.

I. Lower Pendency and Improved Quality

We generally support the USPTO's goals for reducing average first action pendency and average pendency to disposal. For that reason, we also support adequate funding not only for training and hiring to meet those goals, but also for keeping experienced examiners. However, we question the USPTO's proposal to arbitrarily reduce first action pendency to ten months in view of the potential "hidden" prior art implications that may occur from such a short first action pendency.

For example, 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 §102, a patent publication in the United States or a PCT publication will be prior art as of its effective filing date for both novelty and obviousness purposes. Under the stated goal of issuing a first Office Action on the merits (i.e., one that issues at 10 months from the filing date), there may be unpublished "hidden" prior art that is set to publish in the months following the mailing of first Office Action on the merits, but is unknown to both the applicants and the USPTO as of the mailing date of the first Office Action on the merits.

In the absence of knowledge of such prior art, circumstances may arise where 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. Under a best-case scenario, the USPTO would discover that the first Office Action on the merits was incomplete. This should result in the USPTO revisiting the examination process and incurring greater costs than those associated with a full examination at the beginning of the process. However, in a worst-case scenario, publication of anticipatory prior art having an earlier effective filing date may occur after the issuance of a first action Notice of Allowance for which the first action pendency goal was achieved.

In either case, in the event prosecution is not re-opened based on the newly published prior art, with the new Post Grant Review proceeding under the AIA, such later-published prior art would be available to opponents prior to the end of the 9-month opposition deadline, as indicated in the PPAC report. Like the PPAC, we are also concerned that an opponent, upon finding a recently published piece of prior art, may be in an advantageous position to challenge such a newly issued patent, and upset the expectation of the patentee that such a newly issued patent would be presumed valid. Such scenarios would increase costs for the patentee and potentially the USPTO. Thus, if and when a first action pendency of ten months is actually achieved, it may have the unintended consequences of increasing the uncertainty of the patenting process and potentially reducing the quality of patents that issue as a result of such goals.

Thus, the USPTO should relax the first action pendency goal to 20 months from the effective filing date (i.e., after all effective prior art would have been published) in order to avoid the above possibilities and/or the need to re-open prosecution based on newly published prior art that was unavailable at the time the first Office Action on the merits issued. Relaxing the first action pendency goal should also significantly reduce the necessary funding allotted to reduce the first action pendency and thus result in a significant overall fee decrease for applicants.'

An alternative would be to allow applicants to postpone paying search and examination fees for up to 18 months. This would ameliorate the problem discussed in Section III below, and allow applicants the option of shorter pendency or more thorough examination based on all possible prior art. It would also allow more applications to be abandoned when commercial feasibility turns out to be low. This would free up otherwise-wasted USPTO resources expended on first Office Actions in applications for which the applicants' interest has waned.

II. Operating Reserve

The fee setting authority that has been entrusted to the USPTO for the next seven years has the disadvantage that Congress is not precluded from confiscating reserve funds. We share the IPO's concerns that the proposed rate for the build-up of reserves, estimated at over \$700 million by 2017, will become a likely target for congressional confiscation considering the pressure for relieving the overall federal deficit. The USPTO should consider delaying the collection of excess fees for its reserve until any potential fee diversion is prohibited. It is not reasonable for current applicants to pay fees above and beyond the fees needed to cover aggregate costs to fund an operating reserve that is subject to fee diversion by Congress.

In other words, the proposed fee structure should be reduced to the extent the proposed fees have been increased to fund this rapid-growing operating reserve, at least until there is a guarantee that the USPTO will have exclusive access to the fees in the operating reserve. In 2014 alone, according to the Federal Register Notice, about 8% of collected fees will be diverted into the operating reserve. We also agree with the IPO's assessment that the funding of the operating reserve using such a large percentage of collected fees adds significantly to the applicants' fee burden at a time when they are already paying higher fees in order to help meet the PTO's other goals. If the operating reserve is maintained, it should be funded more gradually (such as at a rate of less than 2 percent of total USPTO expenses per year) to avoid current applicants carrying too much of the burden.

III. Filing Fees

The current combined filing, search and examination fees (post surcharge) are \$1,260. The September 2012 NPRM proposes \$1,600 for these fees. While this is a better approach than the February 2012 Proposal (which proposed combined filing, search and examination fees of \$1,840), we share the PPAC's concerns that the USPTO's shifting of the fees to be higher at the

front end and lower at the back end will ultimately discourage some applicants from entering the patent system and filing patent applications.

Substantially all applicants (both large and small) operate on a fixed filing budget. Thus, many important inventions will never be financed and/or disclosed to the public to promote science and the useful arts if entry into the patent system becomes unduly expensive. Here, shifting fees earlier in the examination process (the filing, search and examination fees as proposed by the NPRM represent an increase of 28%) will discourage applicants from filing some otherwise worthy patent applications. We agree with the PPAC's conclusions that this increase in filing fees in general will thus frustrate the dissemination and publication of potentially useful inventions, which will be removed from public disclosure (such inventions will either be held secret or never commercialized) because the patenting process was too expensive to pursue. Thus, to encourage applicants to enter the patent system, we suggest that the USPTO to lower the filing, search and examination fees and/or shift a higher proportion of the fees to the back end when, as is the case with maintenance fees, commercial potential and patentability are better known.

IV. Prioritized Examination

We are in full agreement with the PPAC comments regarding the fee for filing a Request for Prioritized Examination, which the NPRM proposes to reduce from \$4,800 to \$4,000. Like the PPAC, we have also observed that most applicants have deemed even the reduced cost too expensive for them to pursue, which is also supported by the fact that Office is not even close to approaching the 10,000 application-per-year limit. Thus, the pricing of filing a Request for Prioritized Examination is still too high. The USPTO should consider bringing the cost down to \$2,000 to encourage participation in this program.

V. Appeal Fees

The total fee increase from \$1240 to \$3000 for appealing a final rejection is too high. The Federal Register Notice proposes that the applicant will pay \$1000 upon filing of a Notice of Appeal and \$2000 after the Examiner's Answer is mailed. The proposed \$1000 fee due upon filing a Notice of Appeal is too high given that a significant number of appeals are pursued because of inexperienced Examiners and/or poor rejection quality.

Many appeals never reach the Board because the final rejection is withdrawn after the applicant submits a pre-appeal brief or appeal brief. Thus, the increased fees force applicants to bear even higher costs to train individual Examiners how to avoid poor and/or piecemeal patent examination. Clearly, given the low rejection affirmance rate of the Board, it is evident that appeal fees should remain low (at the current level or lower) to provide applicants with a low cost means of correcting an Examiner's wrongly issued rejection. Alternatively, the increase in the initial appeal fee should be shifted into the second appeal fee.

VI. RCE Fees

We commend the USPTO for the newly established pilot programs to address RCEs by providing extra time for Examiners for the consideration of amendments after final and a program (QPIDS) for the consideration of new references (after payment of the issue fee) that were not known by the applicants. These programs are a sound effort by the USPTO to help reduce the need for RCEs.

The NPRM proposes reducing the fee for an RCE from the February 2012 Proposal of \$1,700 to \$1,200 and retaining the proposed fee of \$1,700 for second and subsequent RCEs. The rates set by the USPTO for RCEs need to be lowered at least because one of the primary reasons RCEs are pursued is poor and/or piecemeal patent examination by inexperienced examiners. Such poor and/or piecemeal patent examination generally amounts to 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. Additionally, as discussed above, if the USPTO achieves its 10 month first pendency goal, there may be applications that receive first Office Actions on the merits for which newly published prior art is, at the time of such examination, unavailable. Examiners often issue improper final rejections with newly available prior art or prior art that should have been identified in the first Office Action. Challenging the finality of an Office Action is generally futile due to the high level of discretion granted to Examiners and the strong USPTO incentives to make all second actions final. Thus, the most cost-effective approach for proceeding is often to file an RCE to address this newly cited prior art.

Thus, in view of such problematic patent examination, it would be unreasonable to force the patent community to pay excessive RCE fees to achieve quality patent examination at a time when the USPTO will be diluting the patent examining corps by hiring more than 3,800 new inexperienced patent examiners from FY 2011 to the end of FY 2013. Instead, the RCE fees should be incrementally increased to a level necessary to recover full costs of these services once the overall experience level of the examining corps increases and quality examination is ensured. We suggest that either the increase in RCE fees should be substantially reduced or eliminated, and/or additional efforts (such as the establishment of a mechanism for easier and less biased resolution of improper final rejections) should be made by the USPTO to ensure that improper final rejections do not occur.

VII. Excess Claim Fees

The USPTO is proposing to increase the current government fee from \$250 to \$420 per claim for presenting independent claims in excess of 3. Not only is this increase excessive, the number of independent claims that may be presented without incurring the government fee is too low.

We agree with the PPAC that a thorough first search by the Examiner for the overall inventive concept should not require a significant further amount of work for such additional claims. Additionally, it has been our experience that if the claims are directed to distinct inventions, Examiners rarely miss an opportunity to issue a Restriction Requirement. Thus, the claims in applications with multiple independent claims, which are not subject to being withdrawn in view of a Restriction Requirement, are most often interrelated and place little additional examination burden upon Examiners.

Furthermore, more than three independent claims are often necessary to effectively cover the varying aspects of a single invention. Such different types of claims that may be necessary to effectively provide patent protection for a single invention, such as a chemical compound, electrical component, or mechanical device, may include:

Chemical compound: (1) method claims (including method of making, using, and/or treating claims), (2) combination claims (including composition and kit claims), (3) sub-combination claims (including compound claims), (4) product-by-process claims, (5) multiple actor claims, and other applicable claims;

Electrical Component: (1) apparatus claims, (2) method claims (including method of making and/or using), (3) product-by-process claims, (4) means-plus-function claims, (5) multiple actor claims, and other applicable claims; and

Mechanical Device: (1) apparatus claims, (2) method claims (including method of making and/or using), (3) combination claims (including kit claims), (4) means-plus-function claims, (5) multiple actor claims, and other applicable claims.

For such inventions that have related inventive concepts and are not subject to a Restriction Requirement, Applicants should not be required to pay excessive independent claim fees just for the opportunity to obtain effective patent protection of a single invention. Accordingly, we recommend that the fees for presenting independent claims in excess of 3 should not be increased and/or the rules be revised to indicate that excess independent claim fees start accruing if independent claims in excess of 5 are presented.

VIII. Correction of Inventorship

The Federal Register Notice notes that inventorship can change as a result of limiting claims in a restriction response and intends to encourage applicants to file the inventorship change before the mailing of an action on the merits in order to avoid a \$1000 fee. However, in cases where claims are limited by restriction after the first action on the merits or by amendments during examination, inventors are almost always removed from the application – i.e., the number of inventors is reduced. Like the IPO and PPAC, we believe that the \$1000 fee to correct application inventorship after issuance of the first Office Action seems excessive.

Instead, a smaller fee appears to be more appropriately applied only to cases in which a new inventor is added to an application after the first action – where there is an enlargement of the inventive entity, which might require a further search. Thus, similar to the IPO and PPAC, we believe the PTO should consider reducing or eliminating this fee or consider applying it only to situations where an inventor not named in the original application is added to the application after the first action on the merits.

IX. The Supplemental Examination Fee

The USPTO proposes to charge very substantial government fees for supplemental examination and for any resulting *ex parte* reexamination during an economically difficult time worldwide. For at least the following reasons, we do not believe that such fees are justified.

Supplemental examination, as the name indicates, is supposed to supplement initial examination by allowing a patent owner to have information considered that was not previously considered or to have previously-considered information reconsidered or corrected. Supplemental examination applies to the same types of information that could have been submitted in an Information Disclosure Statement (IDS) and considered during the initial examination of the patent for no fee or, at most, the \$180 fee for not timely filing an IDS, and has substantially the same effect on inequitable conduct allegations as does consideration of information in initial examination.

Supplemental examination simply requires the USPTO to review the initial examination and the new or corrected information, and then determine whether the information submitted for supplemental examination raises an SNQ -- i.e., whether the information may justify issuance of a rejection. The USPTO is not even required to formulate a rejection of any claim in the course of supplemental examination. Because a new file must be set up and the initial examination should be reviewed in full, it is reasonable for the USPTO to charge a higher fee for supplemental examination than the \$180 fee for consideration of an untimely IDS.

However, the fee for supplemental examination (excluding any ensuing *ex parte* reexamination ordered pursuant to supplemental examination) should be no more than the filing and search fees charged for reissue applications. In a separate proposal, the USPTO proposes a large entity fee of \$280 for filing a reissue application and a large entity fee of \$600 for "searching" a reissue application. These fees total \$880 for a large entity and are reduced by 50% and 75% for small and micro entities, respectively. The \$280 filing fee appears to cover administrative costs for setting up a new file and, thus, the same fee should be charged for administrative processing of the request for supplemental examination.

Because reviewing the request for supplemental examination and submitted information does not require searching, but instead requires reviewing the initial examination and the submitted information to determine whether an SNQ is raised, supplemental examination should

require no more, and likely would require less, resources than searching. Because no rejections need be formulated and no responses need be reviewed, the examination fee should not be applicable. Thus, the USPTO's costs to review the request for supplemental examination and submitted information should be no more than the reissue \$600 search fee. Accordingly, the USPTO would be justified in charging a \$880 large entity fee for supplemental examination with appropriate discounts for small and micro entities.

The USPTO further proposes to charge \$13,600 to conduct *ex parte* reexamination following supplemental examination (*i.e.*, supplemental examination reexamination). Once the SNQ determination is made and reexamination is ordered by the USPTO, *ex parte* reexamination following supplemental examination proceeds as any other examination. *See* MPEP §2209 ("The reexamination proceedings which follow the order for reexamination are very similar to regular examination procedures in patent applications"). The fee should be no more than the USPTO charges for examining and issuing a reissue application.

Similar to the examination of a reissue application, *ex parte* reexamination involves generation of two office action rejections and consideration of responses. The USPTO proposes to charge a \$2,160 large entity fee to examine a reissue application and a \$960 large entity fee to issue a reissue application. These fees appear to cover the costs of performing examination, including the administrative costs. The USPTO would be justified in charging the same fee amount to cover the costs of conducting *ex parte* reexamination following supplemental examination. Accordingly, the USPTO would be justified in charging a total of \$3,120 for conducting *ex parte* reexamination following supplemental examination with appropriate discounts for small and micro entities.

In total, the USPTO would be justified to charge a combined total of \$4,000 for supplemental examination and a resulting *ex parte* reexamination, because supplemental examination and the resulting reexamination should not require any more resources, and probably would require less resources, than processing, examining and issuing a reissue application. If the request for supplemental examination does not raise an SNQ and, thus, reexamination is not ordered, no reexamination fee should be payable.

Further, the USPTO should reconsider its proposal that all fees be paid upfront and a portion refunded if *ex parte* reexamination is not ordered, so as to reduce the initial costs on patent owners. For instance, the USPTO could at least defer the *ex parte* reexamination fee for patent owners until reexamination is ordered. If not timely paid, the USPTO could cancel any claims for which it previously found an SNQ raised. This would allow patent owners to avoid additional reexamination fees for claims that are not believed to be of sufficient value to justify the expense of reexamination, and remove the burden and backlog issues on the USPTO resulting from unnecessary reexaminations. Alternatively, if the patent owner does want to pursue such claims, it could then pay for the reexamination. This would also serve the purpose

stated in the legislative history of removing obstacles to investment in patented technology, without raising financial barriers to use of the process that removes those obstacles.

X. The Fee for *Ex Parte* Reexamination Should Be Significantly Reduced

The USPTO proposes to reduce the large entity fee for *ex parte* reexamination to \$15,000, which is said to be 15 percent below the Office's cost of conducting the proceeding. According to the USPTO, the \$17,750 fee reflects the USPTO's estimate of its fiscal year 2013 cost for conducting *ex parte* reexamination. It is unclear how this can be, unless the USPTO is performing other examinations far below cost. Moreover, as discussed above, it becomes very difficult to understand how the USPTO incurs over \$10,000 in additional costs to review a request for *ex parte* reexamination and conduct the reexamination when an SNQ is present, particularly when the USPTO's MPEP states that the process is substantially identical.

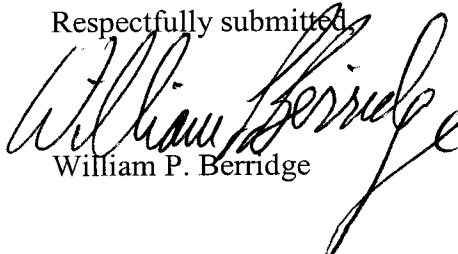
There are differences between *ex parte* reexamination and examination of a reissue application. However, the primary difference is that *ex parte* reexamination requires that the USPTO review the request for *ex parte* reexamination and determine whether an SNQ is raised. The USPTO indicates that the majority of *ex parte* reexamination requests are filed by third party requesters who seek to convince the USPTO that claims are unpatentable. Accordingly, it would appear from the USPTO's reasoning that it would be aided, rather than impeded, in formulating a first action relative to reissue examination. Thus, no further resources beyond those devoted to examining reissue patent applications are required to review requests for *ex parte* reexamination from third party requesters.

As discussed above, *ex parte* reexamination proceeds as any other examination. See MPEP §2209 ("The reexamination proceedings which follow the order for reexamination are very similar to regular examination procedures in patent applications"). For the same reasons as discussed above with respect to *ex parte* reexamination following supplemental examination, the USPTO would only be justified in charging a few thousand dollar large entity fee for conducting *ex parte* reexamination with appropriate discounts for small and micro entities. Thus, the USPTO should significantly reduce the total large entity fees for *ex parte* reexamination.

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We appreciate the USPTO taking our comments into consideration.

Respectfully submitted,



William P. Berridge