

UNITED STATES PATENT AND
TRADEMARK OFFICE

TRANSCRIPT FROM PATENT PUBLIC ADVISORY COMMITTEE
MEETING- FEE SETTING HEARING - Thursday, November 19,
2015

Alexandria, Virginia

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P R O C E E D I N G S

(2:02 p.m.)

MS. JENKINS: Now, we have such a great group here. I am very excited of the attendance for fee issues before the Office. Can we start? Yeah? Yeah? Everyone -- I think we have plenty of seats, so I don't think this is going to be sort of musical chairs. I think there's a seat for everyone. Fabulous. Okay. So, welcome.

This, I think, is sort of part two of our meeting today. As one of our roles for PPAC, it is our responsibility to help the Office with respect to fee questions and issues that come up and fee-setting authority. So, we have been asked to schedule a meeting with the public, which we are doing so now.

I would like to welcome everyone, and I would like to, at this point, just quickly go around the table and just introduce yourselves, so everyone knows who is sitting at the table. So, Rick, do you want to start?

MR. SEIDEL: Rick Seidel, currently acting deputy commissioner for Patent Administration.

MS. FAINT: Catherine Faint, PPAC, and vice president of NTU 245.

MS. SCHWARTZ: Pamela Schwartz, PPAC member and POPA vice president. That's the Patent Office Professional Association.

MR. GOODSON: Mark Goodson, PPAC.

MR. SOBON: Wayne Sobon, PPAC.

MR. HIRSCHFELD: Drew Hirschfeld, commissioner for Patents.

MR. LANG: Dan Lang, PPAC, and chairman of the Finance Subcommittee.

MS. JENKINS: I was going to say, I hope you said that. Thank you. I'm Marylee Jenkins, PPAC, and vice chair of PPAC.

MS. LEE: Michelle Lee, director of the PTO.

MR. SCARDINO: Tony Scardino, The CFO at PTO.

MR. WALKER: Mike Walker, PPAC.

MR. JACOBS: Paul Jacobs, PPAC.

MR. THURLOW: Peter Thurlow, PPAC.

MR. BAHR: Bob Bahr, acting deputy commissioner for Patent Examination Policy.

MR. NIGON: I'm Ken Nigon,

representing AIPLA.

MR. GREENLEAF: Kevin Greenleaf, part of Dentons U.S. LLP, and I'm here partially representing the ABA-IPL Section.

MS. JENKINS: Okay. Thank you. So, I am sure, as the audience knows, the reason why we are here is thanks to the AIA, America Invents Act, which has provided the US PTO with limited fee scheduling authority. So, in our role as PPAC, as I mentioned, we are tasked to doing two things: Gathering public input via public hearings and also rendering a report that we hope will assist the Office with respect to these fee proposals.

And the role today here is to have comments provided, not only by the overview of the Office by Director Lee, and then comments by Tony Scardino for the CFO, and just then to hear you. It's important for the dialogue to be open, and I know I was hearing a lot this morning transparent. So, as best we can do that. This is obviously very important for the stakeholder community. And your voice is important to this Office and is important to PPAC. And we hope that

we can get some good dialogue going.

So, the procedure is very simply this. When we get to the witness part of the hearing, we would like you to be succinct. Keep your comments directed to fee issues. I know there are many other issues with respect to the Patent Office, but this is why we're here. And I have been told that you have at least 10 minutes to present comments. I've also been told that maybe you will only go for five. So we will try to be open for that dialogue. So, we have scheduled witnesses, and then we also will have unscheduled participation by the audience as well.

So, at this point, according to our schedule, I am going to let Dan give more detail on our process, and how you can reach out. Anything else you'd like to share?

MR. LANG: Sure thing. (Laughter)
Thanks. Thanks, Marylee.

So, it's great to see this strong turnout at this hearing. It's a critical part of the process that's been outlined. You know, the AIA in granting the PTO fee-setting authority, was careful to allow a significant component of

public input. And that's what this today is for. You know, we in the PPAC, are looking forward to listening to your input. We're also, you know, accepting written comments, and we're going to be looking at those very closely. You can send them in writing to fee.setting@USPTO.gov. And somebody can confirm that I've got the right email address, and I also believe that there's a website.

So, we have the responsibility to prepare a report, commenting on the USPTO's proposal. Now, we're planning to be done with that report end of February/early March timeframe. And, you know, we want all the public input that we can get to help us with preparing it, so that we can reflect that in our own commentary on the fee shifting -- I'm sorry, fee setting. And, you know some -- and then after we do our report, you know, the PTO will then be able to publish the proposed changes in the Federal Register, and that will initiate another important period of public commentary.

As I understand it, the target is for the new fees would be going into effect, you know,

in January of 2017. It's not the case that I think -- you know what one of my colleagues said, you've got to realize that there are some people out there who think that it's January 1, 2016, and in five weeks, it is not. It is more than a year from now. But, this time we have now is critical to getting it right and gathering public input and understanding the impact. So, with that, I will pass it back.

MS. JENKINS: Back to me, and then I get to pass it to Director Lee because she is going to provide some overview and opening remarks.

MS. LEE: So thank you, Marylee, and good afternoon, everyone. Thank you for joining us today on this very important topic and for this special public hearing focused on Patent fees.

This is a relatively new statutory process of critical importance, both to our agency and to the public. PPAC is quite appropriately part of this statutory process. In a few moments, our CFO, Tony Scardino, will provide an overview of the fee proposals that brought us here today.

But first, I want to speak briefly about

why we're here, bringing these proposals to the public now. As we all know, in 2001, Congress passed with overwhelming bipartisan support, the Leahy-Smith America Invents Act, which President Obama signed into law. Among other things, it granted the USPTO for the first time, the authority to set its own patent and trademark fees by rulemaking to recover the aggregate estimated cost of operations for patents and trademarks.

Congress gave us the authority because it recognized that the USPTO is best and uniquely positioned in collaboration with a larger intellectual property community to determine the most appropriate fees that promote innovation and, in turn, patent and trademark application filing to protect that innovation.

The USPTO exercised its patent fee-setting authority for the first time in Fiscal Year 2013. Leading up to the 2013 fee setting, I personally had the privilege of working with a number of the PPAC members here, as we advised the agency on the proposed fees. Both the USPTO and the IP applicants and owners have benefitted from the final fee structure.

Most notably, we all benefit from this agency operating with a sustainable funding model. It has allowed the agency to maintain steady state operations for the past three years despite many twists and turns in federal funding in recent years. It likewise has permitted the agency to pursue many operational improvements such as, IT enhancements, opening regional offices in four continental time zones across the United States, and hiring high-caliber examiners and administrative patent judges to reduce the backlog of unexamined patent applications and ex parte appeals, as well as to meet the statutory deadline of the America Invents Act trials.

Further, the funding model we achieved through our first fee-setting process, has permitted the agency to launch programs to update our IT systems, to reduce patent backlog, again to open our regional offices, and to begin an enhanced focus on the quality of issued patents.

With the clear benefits gained from our first fee- setting process, we conducted a biennial review of our fees to assess whether adjustments need to be made so that we can

continue to make the IT improvements and upgrades, backlog reduction, patent quality improvements, and compact prosecution. Our biennial review was comprehensive and multifaceted.

First, we studied how well our existing fees would enable the agency to maintain financial stability and an operating reserve to weather economic fluctuations.

Second, we focused on maintaining a fee structure that achieves sound public policy. For example, we want to subsidize filing, search, and exam fees to enable low cost of entry into the patent system, while requiring applicants to pay individual fees at different points in the application process when they have more information and can make better decisions about whether to pay those fees.

Third, we examined establishing new fees to give more service options, eliminating unnecessary fees, and adjusting other fees to achieve a better cost recovery for the service provided.

The presentation that follows, my

remarks will lead you through our fee-setting process in more detail, as well as walk you through a sampling of individual fees being proposed. Also, detailed information is available at our PPAC website. When you learn about our proposals for certain fees, you will see that we are proposing increases. We are not making these fee increases lightly.

Internally, we have looked to cut unnecessary expenditures and trim budgets as much as possible to reduce costs without compromising our work product and service. Externally, we are proposing fee increases to certain, carefully selected fees to bring in more revenue. Between these two actions, recall that must achieve an alignment of cost and revenues per the AIA.

As with many USPTO initiatives, we welcome and we need your input. Much of what we do at the USPTO occurs in collaboration with the public. Please be sure to let us know, not just what can be improved, but what you think is spot on.

Today's hearing is a critical first step in an estimated 18-month public engagement

effort outlined in the AIA. During this hearing, you may offer testimony regarding our fee proposals. Following this hearing, you may submit written comments. Tony Scardino will give you information on how to do so shortly.

PPAC will also provide, as mentioned, a public written report indicating the committee's comments, advice, and recommendations about our proposals. Next spring, we will plan to publish in the Federal Register a Notice of Proposed Rulemaking. That notice will formally outline our fee proposals for public consideration and a second round of comment. PPAC's report will be available during this public comment period to provide guidance as you prepare your written comments. After receiving PPAC's and the public's input, we plan to develop our final fee structure and publish it in the Federal Register notice in the fall of 2016. Following our path forward, the new fees would go into effect January 2017.

This process reflects the USPTO's commitment to fiscal responsibility, financial prudence, and operational efficiency. It is

critical that our intellectual property system continue to feel the greatest advances in science and the useful arts the world has ever seen and inspire other nations around the world to improve their own IP laws and infrastructures. We owe our nation's innovators no less.

So, thank you, Chairperson Jenkins, Acting Chair Person Jenkins, members of the committee, and all those interested in our patents organization for your consideration to this proposal. Thank you.

MS. JENKINS: Thank you, Director Lee. Much to talk about, but I'm now going to turn the microphone over to Tony Scardino. So, you will give us a presentation, please.

MR. SCARDINO: Thank you. And good afternoon to everyone who has joined us here today. As Director Lee noted, it's been more than three years now since we have engaged with the PPAC and the public to adjust our patent fees.

Our last hearing of this nature was back in early 2012. And we finalized our current patent fee schedule in January 2013. The current fee schedule has notable benefits for the USPTO

and our community of stakeholders. We have increased our examination capacity, growing our patent examination core despite a 20 percent increase in application filings over the last 5 years. The USPTO has reduced the patent application backlog by more than 20 percent since Fiscal Year 2010. During that same time, we've reduced application processing times by 8.4 months for average first- action patent pendency and 9 months for average total patent pendency.

We've made significant progress on the patents and suite of IT tools to enable a new way of processing patent applications for patent examiners and the public. We've also completed foundational projects to repair our aging IT infrastructure. Additionally, we've been able to increase capacity at our patent trial and appeal boards, which has received over 4,100 petitions for AIA trial proceedings and has met every deadline set by Congress for these trials. And we've opened four regional offices, you've already heard, to better serve our stakeholders.

When we set our fee rates three years ago, we did so based upon a plan that reflected

the realities known to us at that point in time. Some things, however, we could not predict, either because we had no experience with them or because they resulted from changes that were outside of our immediate control.

(inaudible) were unexpected.

Demand for AIA trials have far outstripped what we expected.

When we set these three years ago, we had no historical experience to draw upon for these new trial proceedings. So, we had to make educated guesses as to what we thought the demand would be and what the associated cost would be. We projected that we would receive 500 petition filings per year. In reality, we've received about three times that number annually.

Additionally, sequestration of Fiscal Year 2013 impacted, not just our available funds that year, but also our longer term costs. This was most notable in the area of IT, where project delays, needing to stop these projects due to

midyear budget cuts, and then having to ramp back up the next year, ultimately led to higher project costs. These scheduled delays have also pushed out retirement dates for our legacy IT systems, resulting in higher than anticipated costs for IT operations and maintenance.

Additionally, adoption of the Cooperative Patent Classification or CPC, emerges a new initiative in 2014 and 2015. While examiners are able to identify more relevant prior art faster using the CPC, successfully implementing it was a significant added cost, particularly in terms of examination training time. That had not been factored in the last time we set our fees. Finally, application filing rates are less than we thought they would be at this point in time.

Looking ahead, we want to build upon the successes that we have achieved in recent years. We want to be proactive in providing sound fiscal management of the agency and answering our stakeholders' calls for improved service. But to do so, we cannot ignore the new realities that we face today and the changes we see coming on the

horizon.

As we began our fee review this past year, one thing was abundantly clear. The USPTO's revenue and cost were out of alignment. We received public input through a number of forums, calling for improvements in our operations. Modern IT tools that will benefit both our employees and our stakeholders, more timely examination, greater services through our regional offices, and better examination quality. We want to position the agency to be able to deliver in these areas.

At the same time, we've also heard stakeholder input regarding certain fees that some consider too high or different processing options we could introduce. As we collect all this feedback and try to map out a path forward, we need to strike the right balance among all of these concerns.

So, what have we done? First, we know that we cannot simply increase fee rates to pay for every desired improvement. While undertaking improvements helps to drive the USPTO forward, we recognize that we have a

responsibility to our stakeholders to pursue strategic opportunities in an efficient cost-conscious manner. During this past fiscal year, we focused a lot on financial-risk management, prioritizing spending across the agency, and right sizing our operating reserves to prudent levels that will mitigate financial and operational risks. An operating reserve of three months' worth of operating expenses will provide financial stability needed to sustain and improve USPTOs operations.

When we first engaged in fee setting a couple years ago, the public not only supported the establishment of this reserve but also guided us in determining the optimal amount of the reserve. The Fiscal Year 2016 budget estimated that we would have to withdrawal almost \$100 million from the reserve to pay for estimated requirements, with the reserve balances getting dangerously low by the end of Fiscal Year 2017.

Recognizing the risk that this exposed the USPTO to, we committed to maintaining a minimal patent operating reserve of \$300 million, which may sound like a lot of money, but in the

context of 3+ billion-dollar annual budget, it really is just a little over one months' worth of operating expenses.

To ensure that the agency has the appropriate reserve level that we have determined is needed to shield against known risks over the next two years, we've undertaken a holistic and comprehensive review of USPTO spending. We did this by collaborating with leaders across the agency to help identify and reign in nonessential spending, while at the same time ensuring we have the healthy foundation we need to effectively carry out our mission, both today and in the future. You will see results of this review when our Fiscal Year 2017 budget is released in a couple of months.

Yet even as we pair back our budgetary requirements, we cannot ignore the fact that critical costs at the agency are outpacing revenue under the current fee schedule. The fee proposal that I will walk you through today seeks to provide the USPTO with sufficient financial resources to facilitate effective administration of the USIP system.

The proposed fee schedule adjusts some fees to better align fees with costs, both individually and at the aggregate level and considers the agency's projected future operating expenses and revenue. We believe that the proposed fee schedule provides reasonable, targeted adjustments to generate critical funding needed to continue with improvements at the agency in future years. Major utility fees in the process; for instance, filling, search, and examination fees have been proposed for only limited increase, while maintenance fees would remain flat. To balance this, we have proposed targeted increases in other areas, which are specifically addressed today.

Overall, this proposal would generate approximately 150- to \$200 billion annually and additional revenue once fully implemented for an increase of roughly 5 percent. One thing that's important to keep in mind, while we're talking about these increases today, we don't anticipate that they would become effective before January 2017. And the full impact for the agency in terms of revenue won't begin to accrue until Fiscal Year

2018. As such, this proposal is about being proactive and making sure the agency is well positioned in the future to deliver on both known commitments and changes that may come our way.

As we look over the five-year horizon that the fee proposal covers, inflationary cost increases alone would justify some increase in revenue. This proposal also seeks to position us to deliver results to our stakeholders for things like improved patent quality and modern IT systems.

Further, while we've managed to maintain a viable minimum patent operating reserve over the next two years through spending reductions alone, over the longer term this proposal will position us to continue building towards the optimal three-month patent operating reserve level that our stakeholders have agreed is the smart thing for the agency to do.

Given these factors and our efforts on the cost side of our budget, we are hopeful that our proposal strikes the right balance between increasing revenue and containing our costs. With that said, we know, that like us, your

finances can be strained at times. This proposal represents only an initial step, a starting point. For those of you who participated in our last patent fee setting, you know that we took your input seriously, and we made a number of changes based upon your feedback. That's why this hearing is so important for us today. With that, let's review what we believe this proposal will do for us collectively.

The biennial fee review resulted in a proposed fee schedule that we presented to PPAC and a table of patent fee adjustments. It's available on our website. In the slide starting here, I will go over the high-level grouping of major proposed fee changes. And you'll see that most of the changes were proposed to better align fee rates with costs, while continuing to remain sound public policy by setting filing, search, and exam fees below cost to enable entry into the patent system. And where appropriate, we provide multiple processing options and fees are set, so that during patent prosecution, an applicant pays individual fees at points in time where he or she has more information to make a

decision about proceeding with the payment.

So, looking at the major fees here on this chart, the utility payments, the entry fees for filing, search, exam, and issue, additional revenue generated from the proposed increases will permit the USPTO to continue pursuing improvements in backlog reduction, patent examination quality, and compact prosecution. The slight proposed increase in utility and reissue fees is also helping us keep pace with the normal rise in cost due to things such as inflation. Current fee rates only recover a fraction of the costs.

Along with the proposal to increase application filing fees, we're also proposing an increase in excess claim fees regards to a design and plant filing; search, exam, and issue fees are proposed to increase by more than utility and reissue applications. That's because design and plant patent holders do not pay maintenance fees to subsidize the lower front-end fees.

The current fees, as I mentioned, only recover a fraction of the costs. Compared to utility applicants, a larger portion of design

applicants claim small and micro- entity status. Therefore, a higher fee rate is proposed to narrow the gap between fee, income, and costs. To give you an example, in Fiscal Year 2015, the design fees paid recovered only 60 percent of our total costs. If the proposed fees would have been in place for Fiscal Year 2015 and the workload and fee payment rates were unchanged, roughly 88 percent of costs would have been recovered.

RCE fees are also proposed to increase a bit. The increase in the fees is proposed to narrow the gap between fee income and costs. The USPTO previously received feedback from the public, but there are situations in which some applicants may feel compelled to file an RCE. We've responded to this feedback by implementing options to address these types of situations. For example, ways to improve the ability to submit an Information Disclosure Statement, or IDS, in a manner other than RCE. So, we are introducing a proposed new fee structure for submissions of IDSs.

As you can see from the slide, the timing of submissions of IDS will determine the

proposed fee. Eliminating certification simplifies the process for both the Office and applicants. And the ability to submit IDS after allowance, should reduce the need to file an RCE. Any applicant may file an IDS after allowance for the \$600 fee proposed and have the IDS considered without an RCE. If an IDS is filed after issue fee payment, petition to withdrawal is also required. Under this proposal it's also anticipated that QPIDS, or the Quick Path Information Disclosure Statement, would be discontinued.

There are three other patent fee proposals that I'd like to highlight. The first one would require maintenance fees to be paid for each reissued patent. The second one provides a new lower-cost option for reexaminations. The option would be available for those willing to submit a streamlined IE less than 40 pages request for reexamination. And finally, we would provide micro-entity rates for some existing design fee related to The Hague Agreement.

Now, I'm going to talk about the fee changes for the activities managed by the Patent

Trial and Appeal Board.

The current fee rates recover only 60 percent of the costs associated with deciding an appeal. Additional revenue generated from the proposed increases will permit the PTAB to continue pursuing improvements in quality and backlog reduction. The PTAB has a backlog of ex parte appeals currently awaiting decision, as we know. However, over the last several years, we've hired additional judges and streamlined the decision-making process. That's enabled us to this past year alone, led to reduction from about 25,700 pending appeals to about 21,500 appeals, or a 16 percent reduction. And we hope to further reduce the appeals backlog in Fiscal Year 2016.

Regarding Inter Partes Review, IPR, Post Grant Review, PGR, and Covered Business Methods, CBM, reviews, the proposed fee increases -- well, as you know, when we've talked about before, when the fees were initially set, the Office had to estimate both demand and costs of these trials. We were essentially flying blind. Now that the trials have been in place for two fiscal years, the Office has actual data to

more accurately estimate costs and properly set fees.

The proposed increase will better align fees with costs and will enable us to continue to meet deadlines required by the AIA. Excess claims fees are also proposed to increase.

Congress provided several deadlines for IPRs, PGRs, and CBMs. Including time for decision institute and final written decision. The PTAB has met every deadline set by Congress so far. The proposed fee increases will assist the PTAB in continuing to meet these deadlines.

So, now, I'd like to kind of elaborate on the path forward that Michelle discussed a few minutes ago. As the slide indicates, a Notice of Proposed Rulemaking, or an NPRM, will be drafted following the careful review and consideration of comments received during this hearing or from this hearing. And then the draft NPRM will be published in the Federal Register after we receive comment from both the Department of Commerce and the Office of Management and Budget. This is anticipated for April 2016. Then there is a 60-day period to allow for comments to NPRM

and accompanying materials. And then a final rule, including responses to all comments received during the public comment period, will be drafted and transmitted again to DOC and OMB for their approval. This is planned for late summer of next year, or August 2016. Once approved, the final rule will then be published in the Federal Register, which is currently anticipated for November 2106. And then finally, implementation of the final rule, assuming this path forward, is estimated for January 2017.

I want to thank you for taking the time to listen to the highlights of our proposal. The full proposal, along with accompanying information, can be viewed on our website. And I encourage you to review the documentation if you have not already done so. Please keep in mind this proposal is far from final, and we look forward to your insight, ideas, and suggestions for improvement that is beneficial for all, stakeholders, the USPTO, and our country. We look forward to a productive dialogue over the next couple of months.

The next slide contains a link to the detailed information I mentioned, as well as the email address we have set up to receive your comments. Please keep in mind, as Dan mentioned, the email address for comments is `fee.setting@USPTO.gov`. Thank you.

MS. JENKINS: Okay, Tony, just to be clear, because I know we have down at the bottom of this page, the PPAC email. They should not send to that. They should send to the Fee.

MR. SCARDINO: Yes, correct. Your responsibility is just to hold and conduct the hearing and produce a report, not to answer questions.

MS. JENKINS: Thank you. Thank you.

MR. SCARDINO: Unless you want to. No, I'm kidding (laughter).

MS. JENKINS: We will now -- thank you, Tony, very thorough and hopefully will bring a lot of good comments. We'd like to now, transition to the testimony. And we have scheduled today Ken Nigon, and you will be presenting on behalf of AIPLA. Is that my understanding?

MR. NIGON: Yes. That's correct.

MS. JENKINS: And so, again, Ken mentioned that his comments aren't that long, but we'd like to try to hold you to, you know, 10 minutes. And I will start waving at you if you go longer than that.

MR. NIGON: My specialty is keeping it short.

MS. JENKINS: Excellent. Thank you.

MR. NIGON: Okay. Thank you for allowing AIPLA to offer comments. I'm Ken Nigon, the vice chair of the Patent Relations with the USPTO committee of AIPLA. In preparation for this hearing, several AIPLA committees were surveyed for their opinions about the new fees. And based on that review, we present these preliminary comments. I want to note that these are preliminary anecdotal observations offered to identify a few areas where further clarification may be needed and to identify some possible issues with the fees for consideration. Due to the short window of time, our board of directors has not made any final determination. We intend to provide more detail when we submit written comments on or before November 25th.

AIPLA appreciates the stated goal of the fee setting to ensure that the USPTO has sufficient funds to maintain and improve efficient, effective, and high-quality patent operations for the present and into the future. We especially appreciate the Office's focus on enhancing patent quality, on reducing the inventory of unexamined applications, and on the need to invest in the PTAB functions.

In reviewing the proposed fee increase and accompanying materials, our members have identified several items that perhaps could benefit from further clarification. These include the role of inflation in the proposed fee increases, the projected costs of patent quality initiative and how it's funded, the projected optimal amount for the patent fee reserve fund and how rapidly it will grow, details on the rule changes contemplated for the IDS program, and the rule changes for the proposed streamlined examination program.

The survey of AIPLA members has identified concerns with several of the proposed fees. These include the excess claim fees, the

RCE fees, notice of appeal fees, design patent fees, and in particular, the design patent issue fee, and the fees for recording mega sequence listings or for proving mega sequence listings.

Again, we hope to offer more detailed comments after consideration by our board, and we appreciate the openness of PPAC in providing us with the opportunity to comment on these proposed fee adjustments. We also look forward to reviewing and commenting on the Notice of Proposed Rulemaking. Thank you.

MS. JENKINS: True to his word. Thank you very much. Ken, we look forward to AIPLA's comments and appreciate you making the time to be here. And I know, the subcommittee will be eagerly awaiting.

Our next testimony would be from Courtenay Brinckerhoff. And I don't know if you're speaking on your own behalf or on behalf of Foley & Lardner? So, if you could clarify. And again, the same rules I'm applying to you that I applied to Ken, so.

MS. BRINCKERHOFF: So, I am not speaking on behalf of Foley & Lardner or any of

our -- my partners or our clients. I am speaking from my over 20 years of experience in counseling clients and prosecuting patent applications and -- so, generally from my client's interest. I'm going to get a little bit more into the weeds than Ken did on some of the specific fees and the justifications of them, just to provide my prospective on some questions that were raised by the comments provided in the detail slides.

On the proposed RCE changes, there is still concern that RCEs are viewed by the -- I'll just say the Patent Office, without -- not to have any negative implications, but are still viewed as a delay tactic that applicants may use or applicants who don't want to advance prosecution. And from my experience that's not the case. And while we appreciate the efforts that the Patent Office has made to reduce the need for RCEs, such as with the AFCP 2.0 program and the proposed IDS changes. The reality is still very much that RCEs are a necessary part of prosecution and don't arise from applicant misconduct or even examiner -- or alternatively, examiner -- poor examination quality as often arises from a new

reduction being made in the final Office action. In which case, the applicant must file an RCE to amend the claims.

With the AFCP 2.0 program, we have seen some initial success with that when it was new, but it seems to be that examiners have -- are less and less frequently doing -- treating a response under AFCP 2.0 versus 1.116. I think when the Patent Office started the 2.0 program and provided for the separate transmittal sheet, there was going to be tracking of the program and statistics. And so, I don't know if that's been studied yet, and if that information can be released along with the next discussion of the fee schedule. How is AFCP 2.0 really impacting the need or not -- is it really impacting the need for RCEs?

With regard to the new IDS program, I think that's a very interesting change, and I'm really glad to see some sort of really -- something new coming forward. I would also note though that if the new art does trigger another rejection, that would be in a final Office action. Again, we're still going to need RCEs.

So, I just wanted to keep in mind that RCEs seem to be a normal part of the prosecution process when you can only amend the claim as a matter of right once with your non final. Then the --

MS. JENKINS: Is it okay to stop you for a second?

MS. BRINCKERHOFF: Sure.

MS. JENKINS: So, what with the RCEs are you seeing an issue with the fee change?

MS. BRINCKERHOFF: Well, there's -- it is one of the more significant fee changes, and in the commentary was the notion that some of the new programs have lessened the need for RCEs. And since we haven't seen the data on the efficacy of the AFCP 2.0 program, I don't know that that's true. And that's what I wanted. Anecdotally, it was very helpful in the beginning and is less helpful now. So, I don't know, if the Patent Office has statistics that AFCP 2.0 has, you know, significantly impacted the need for RCEs, then that would help people accept the changes or the justification for increasing the RCE fees.

But right now, I think the feeling among my colleagues, not just in Foley, is that AFCP 2.0

has sort of waned in its efficacy as its novelty wore off. And then also that the IDS changes may not -- the next step after you submit an IDS, if an examiner makes a new rejection, then you might need to file an RCE anyway. I'm not sure that that was contemplated in the proposal.

For the appeal fees, there are two fee increases, one on the notice of appeal fee and one on the appeal forwarding fee. In raising the notice of appeal fee to \$1,000, which is a 25 percent increase, I just wanted to make sure that there's a recognition that oftentimes a notice of appeal fee is filed just to maintain pendency while an examiner considers an Office action after final. Even if you file your response early in the after-final response period, sometimes you get close to that deadline before the examiner acts on the case and can't get the allowance mailed, or you don't know you're going to need an RCE until the six-month date has passed.

And so, charging \$1,000 when that's a common purpose of a notice of appeal, we would like to sort of pay attention to that. Before the

notice of appeal fee, we had no notice of appeal fee and an appeal brief fee. And if the Patent Office thinks that we need to increase the costs of an appeal to cover the actual costs of appeal, it might be more rational to put that fee back at the appeal brief stage instead of the notice of appeal stage. Because a large number of notice of appeals aren't really headed towards the appeal stage.

And then similarly, with the appeal forwarding fee, if there are -- if they're keeping that double-fee schedule, if the fees are covering the cost at the board, it might make sense to push more of those two fees to weigh it more at the second time, at the appeal forwarding time. Because often is the case -- another scenario that happens is once you filed your appeal brief, the examiner may withdraw the rejection or reopen prosecution. So, again, you're not -- not going to the board until you've paid that appeal forwarding fee.

And then finally, it's sort of dramatic to say that the costs of an appeal or \$16,000 and, you know, applicants only paying, you know, 3- to

\$4,000 of it. From the applicant's prospective, you know, when there's about -- depending on how you look at the statistic of versus full reversals and reversals in part, you know, it's not that necessarily applicants should be bearing all the costs of the appeal because not all of the rejections or, you know, a large number of the rejections are reversed.

So, we'd also like to see continued efforts to reduce appeals by increasing examination quality and the feedback between the board and board decisions and the examining core that I know is part of the Patent Quality Initiatives. Those were the two main topics that I wanted to talk about.

MS. JENKINS: Courtenay, thank you. I didn't mean to throw you off with a question, but I was -- needed a little bit more information. We also have additional testimony by Kevin Greenleaf. And help me with what hat you are wearing at the table?

MR. GREENLEAF: So, I'm here partially in my capacity as the chair of the ABA-IPL section's committee on Patent System Policy

Planning. But the ABA is working on developing formal policy on the fees, the new fees. So, today I'll be speaking more in my personal capacity with some background knowledge of the ABA's positions until we're able to formulate more specific policy, which takes some time in the ABA.

So, my main practice area is in the post-grant proceedings, and I'd like to get some more information on why the fees are increasing so dramatically in that area. About a 50 percent increase across the board there. I appreciate, Mr. Scardino's information today about how apparently the Office perhaps misjudged the initial costs for AIA trials. And I'd like to get some more information about what is costing more. So, perhaps, you know, we can do something to avoid certain practices such as request for rehearing and other such practices that might be increasing the costs there, perhaps not in a good way.

So, the rule -- the fee-setting presentation said the Office also wants to hire more judges, which it's been doing, and that's

applaudable. Fix IT problems. I think PRPS needs some improvements. I think people have been constantly making comments about how PRPS can be improved upon. And there's talk of new IT system for the PTAB, and I look forward to seeing that come out. Ensure consistency I think is another thing that the public is interested in. And a good thing to think about, an expanded outreach. I think that PTAB has done an excellent job in the past of going out to the public and receiving comments with the roadshows, and to continue to see that would be a good thing.

Another thing that I was curious about with the fee proposals was the costs of pre-institution was greater than the cost of post-institution, which was surprising because, you know, my perspective is that the post-institution practice is much more in-depth. You have a lot of disputes between the parties. You have the oral hearings. You have the final written decision, which anecdotally seems to be where most of the work is going nowadays. Initially, the decisions on institution were much more -- there was much more analysis there, but

I think as a necessity, they've become shorter, and the final written decisions have been more of a focus. And, so, I don't know why the pre-institution costs are greater than the post-institution costs?

I think that the separation of fees that the Patent Office did after the first rules packages is good, separating the pre-institution fee and the post-institution fee. I think that further separation would be a good idea too. For example, setting a fee for the oral argument, because sometimes parties don't request oral argument, and that it seems would be a good cost savings for the Office. And parties should not have to pay for that if they're not going to use that.

Another way to separate fees, perhaps, is to give parties a refund if they settle soon after an institution. There's a 30-day period after an institution for certain PTAB procedures, and oftentimes, parties settle after institution because the patent owner awaits to see whether the board will institute, and then if they do, they'll settle. And that would also be a significant

cost savings for the Office. It seems appropriate to give the petitioner some refund of money because of that savings.

And then finally, another point that Mr. Scardino made today was sort of the deprecation of the QPIDS program. If the IDS rules are loosened so that you can submit IDSs later in prosecution after allowance, and I just wonder whether examiners will look at IDS's then if there's no QPIDS program, perhaps giving them some points for looking at the IDS's. So, I think that's something the Office should consider. Thank you.

MS. JENKINS: Kevin, thank you. And personally, I appreciate the ABA. As former past chair of the ABA-IP Section, I personally thank you for coming.

So, we will now open -- so we are now into the unscheduled speakers. So, do I have any -- we have microphones? I see one. There's another one over there. Do we have any enthusiasm or comments from anyone in the audience who is unscheduled? Please rise to the microphone and introduce yourself and who you're

speaking on behalf of or just yourself, so we understand who you are.

MS. BRILL: Good afternoon. Thank you. I am Kasie Brill with the United States Chamber of Commerce's Global Intellectual Property Center. Thank you for the opportunity to offer comments regarding your continued administration of efficient and innovative patent and trademark systems. The US Chamber appreciates the good work of the USPTO and its current examination, recordation, and issuing of patents and trademarks. We've have long supported the work of the PTO and your well-staffed work streams.

While Section 10 of the AIA requires the Office to provide a schedule of proposed fees to the PPAC at least 45 days before a Federal Register publication of proposed rules with a few changes, it is our view that fees should be set for cost recovery, not to cover additional unknown services. The Chamber appreciates the challenges that fees may only recover the aggregate estimated costs of patent operations and believe that fees should be set for cost

recovery, not for reserves.

We applaud the USPTO for its stated goal to simplify and stream line its work to reduce costs. However, the proposed fee increase does not achieve this goal. With the guidance of the US Government and industry, we can help to build the next generation of exporters of IP. We appreciate that the cost of filing fees for patents, specifically, designed patents, are an integral component to the patent system. However, current purposed fee structures create a significant and negative impact on businesses bottom line and the pipeline for innovation.

The Chamber remains particularly concerned by government policies that reduce or eliminate the ability of manufacturers to distinguish and for consumers to identify trust, regulated, and well-known brands. As such, the GIPC did establish the Global Brand Counsel to give trademark owners and brands a strong voice in this fight.

While the U.S. Chamber appreciates the general approach of setting fees to recover the costs of providing services, there must be some

flexibility. The Chamber understands that the PTO intends to improve its examination times to bring patents to market faster, and we share that goal. However, there must be a more equitable way to achieve this goal. I respectfully request the Advisory Committee recognize the U.S. Chamber's disappointment with this newly purposed fee-setting structure.

The U.S. Chamber's comments are a representative sample of challenges faced by businesses small and large. Because the elimination of fair filing fees is equivalent to hindering robust innovation. We further ask that you reference our extended submission that will be filed after today's hearing by the U.S. Chamber of Commerce on this important policy matter. We look forward to working with you to secure meaningful improvements to IP that create jobs, support innovation, provide access to technology, and protect consumers in the United States and around the world. Thank you.

MS. JENKINS: Thank you, Kasie. Anyone else? We have two open microphones. No? Okay. Well -- yes, Wayne?

MR. SOBON: As PPAC, is it appropriate to ask questions at all?

MS. JENKINS: That's not how it's done in the past.

MR. SOBON: No questions?

MS. JENKINS: Tony, can we -- (Laughter). Do you have to raise it to the air?

MR. SOBON: I just have a few questions to you, Tony, if we have time? It sounds like we do. Just to maybe help the public in digesting the proposals.

MS. JENKINS: Are you willing to take them?

MR. SCARDINO: If you want to take one, but I'm sure I can answer it.

MR. SOBON: Sure.

MS. JENKINS: Okay. With that understanding.

MR. SOBON: Sure. No, these may be things that, you know, go back and then can provide input. As someone who was heavily involved in the first PPAC fee-setting process, a couple questions. One is, if you took the

aggregate fees you're proposing here and just multiplied them out assuming no elasticity issues of change and demand. If we just took the current demand of 2015 and took these fees, what would that have done for fee recovery in that past year? Can we compare that to the actuals that we just talked about at the PPAC hearing? Maybe somebody here can go back and do that analysis. But I'd be very interested to see how much more revenue would have -- the Office would have received multiplying out all the actions that happened in 2015 by the new purposed fees. And that'd be a good recent comparator for both the PPAC as well as the public, I think.

The second question sort of relates to that in a broad sense. I've heard anecdotal evidence of this, and we've talked a bit about it, but it was a key feature of the fee setting in the last go around, three years ago, that you did shift quite purposefully from entry fees in the filing to later maintenance fees. And you're not proposing any changes to the current three maintenance fees. And in particular, the third maintenance fee, and we spent a lot of time

analyzing this at the time, the third maintenance fee went up very dramatically. And I just would love to see more data on how current historic record is for those choosing to pay that third much higher maintenance fee versus more recent prior years, prior to when you instituted that increased face. You know, and whether elasticity bore out what you had predicted because, again, we were looking at the time forward whether that has been one of the key issues that has caused a decrease in demand and whether that may need to be adjusted. You know, you may be on the wrong side of the demand curve of the third fee, is my -- I guess my broad question.

MR. SCARDINO: I can at least partially answer that question because we do have analysis on that. We have not seen at the aggregate level any dropoff in payment of third- stage maintenance fees. So, it doesn't mean by sector that we haven't seen some increase and some decrease, but the aggregate, it stayed flat.

MS. JENKINS: Okay, Tony survived that well. Go ahead, Peter, you have a question?

MR. THURLOW: Thank you to Wayne for starting it. So, I don't represent the United Inventors Association, but people know that we're on PPAC, and they send us emails, and there were requests to mention a few things. And if you can comment, it would be great.

First, of course, this seems to be very pleased with the micro-entity status and appreciative of that, but there was a concern, as Courtenay mentioned, with the RCE fees, especially for independent inventors. You know, they're saying we have 18 regional entities that now have pro bono services in each of the 50 states. So, for independent inventors that are going through the system, the additional fees for the first and second RCEs seem to be troublesome or of concern, so to the extent you can keep that in mind.

I received a more general question. As you look at all the changes, there was a question of whether there is a real focus on revenue generation vote versus aggregate costs recovery as compared to what people considered discouraging certain behavior. It seems like a

combination of that. In the example that we use, revenue generation, of course, the -- what many consider is the minor increases in the filings versus discouraging certain behavior, the RCEs and the IDSs later in the process. So, you can mention that.

And then the last thing, which we have mentioned and is somewhat funny, but it's on the fee schedules as \$10,000 fee for this copy of a patent grant single page TIF images. And every time I look at it, I say I can't believe this. So, it's at the end of the fee schedule, and I think it was a marker to see if people read the end of the fee schedule.

(Laughter) But, you know, that's something you're probably -- and then the second one for \$5,000 for a copy of the (inaudible) patent. So, we think it's somehow gold -- gold TIF images or something like that, but, so.

MR. SCARDINO: Some I'll answer backwards, okay? Because the last one is kind of

the easiest one, in that those are our costs, to be honest with you. It's available free to folks who want to get them on a website, but folks want them downloaded onto to CDs, it is a costly procedure. So -- because I checked with my team right before I walked in the door. Because Peter is nice enough to give me a heads up on that. So, thank you. Because otherwise, I'm not sure if I would have had the answer.

Going to RCEs, I have to actually look to some of my colleagues, either Rick or Drew or someone I know that -- there is some -- most of this is aggregate revenue, but there are some slight behavior modifications, like with IDS, that we are trying to instill here for compact prosecution. But I don't know if you want to elaborate?

MR. HIRSCHFELD: I would only add that the intent was really not behavior modification, except for very small areas like Tony mentioned, IDS as being one of them, not for RCEs. RCEs was simply -- it is in my understanding it is still aggregate below costs. So, there again, just a revenue generation as opposed to a behavior

modification attempt on our part.

MR. THURLOW: And I'll leave on a positive note. There is happiness, I guess, that the maintenance fees were not increased after -- it seemed like for years that was the focus of revenue generation. So, that was a good comment.

MS. JENKINS: Okay. I get a comment too. But more of a question. Colleagues have asked if there was any consideration of other fees being raised in other countries when this was being contemplated? Understanding that in other countries, I won't name them, they are also considering raising fees. So, the idea is -- well, how much is this global patent protection really going to cost me, and is this something that the Office considered when they were looking at the fees in general, or was it just how does it affect the Office? How does it affect prosecution? What's the revenue?

MR. SCARDINO: I can see your point from a global perspective, but when we consider our fees, we just look at our own costs.

MS. JENKINS: Yes, Mark?

MR. GOODSON: A lot of my colleagues that are also inventors, their comments have all been very uniform. This is a first-class agency. And I can tell you, other federal agencies that I've worked with that will remain nameless, there is no question among my colleagues or myself as to the professionalism of this organization. Having said that, charge what you need to do. It is worth it to have that decent protection in terms of intellectual property ownership. And all the inventors I talk to say, we're willing to pay more if it guarantees us, you know, our spot in the market place.

MR. SCARDINO: Did we get Mark's comments on the record? (Laughter) I just wanted to make sure.

MS. JENKINS: And probably bold it and highlight it, right. So, did that spur anyone into thinking about commenting? Nothing. Well. Okay. All right. Well, unless there's anything else -- Tony -- Michelle, you'd like to add or in closing? No.

So, again, I cannot more strongly emphasize on behalf of the committee and on behalf

of the USPTO as well, please comment. We really would like to have your input. And please comment soon, so we can present a report to the Office that will be helpful and guide them in this area. Thank you.

I bring this meeting to a close. Thank you.

(Whereupon, at 3:00 p.m., the PROCEEDINGS were adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

COMMONWEALTH OF VIRGINIA

I, Stephen K. Garland, notary public in and for the Commonwealth of Virginia, do hereby certify that the forgoing PROCEEDING was duly recorded and thereafter reduced to print under my direction; that the witnesses were sworn to tell the truth under penalty of perjury; that said transcript is a true record of the testimony given by witnesses; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this proceeding was called; and, furthermore, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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