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October 31, 2012

Hon. David J. Kappos
Under Secretary of Commerce for Intellectual Property
And Director of the U.S. Patent and Trademark Office
600 Dulany Street
P.O. Box 1450
Alexandria, VA 22313

Re: Comments on Notice of Proposed Rulemaking: Setting and
Adjusting Patent Fees, 77 Fed. Reg. 55028 (September 6, 2012)

Dear Under Secretary Kappos:

Intellectual Property Owners Association (IPO) appreciates the opportunity to provide comments to the U.S. Patent and Trademark Office (PTO) regarding the proposed patent fee schedule (Fee Schedule) published in the Federal Register on September 6, 2012 (Federal Register notice).

IPO is a trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO's membership includes more than 200 companies and more than 12,000 individuals who are involved in the association either through their companies or as inventor, author, law firm, or attorney members.

We have reviewed the Fee Schedule and generally agree with the PTO's overall objectives and goals. We applaud the PTO for its efforts to adhere to the letter and spirit of the Leahy-Smith America Invents Act (AIA) and to accommodate the needs of our members and others in the patent community. We have also reviewed the September 24, 2012, Patent Public Advisory Committee (PPAC) Fee Setting Report. We concur with many of the PPAC's findings and recommendations.

The Fee Schedule includes a number of improvements over the PTO's preliminary fee setting proposal that was published in the Federal Register on January 30, 2012. In response to the January proposal, IPO outlined several general principles relating to fees that IPO presented at a public hearing and confirmed in a letter to PPAC on February 29, 2012. Those same principles apply to the proposed Fee Schedule.

I. IPO Supports the PTO's Pendency and Quality Goals, But Questions the Level of Funding Proposed for the Operating Reserve

IPO continues to support the PTO's goals for lower pendency and improved quality. Decreased application pendency combined with quality examination provides greater legal certainty for everyone affected by patents. We support funding adequate for hiring and training to meet the pendency and quality goals, and funding adequate to make IT improvements. IPO is concerned, however, with the proposal to set aside funds for a three-month operating reserve.

The fee increases being proposed will cost our members hundreds of millions of dollars and will require difficult spending choices within many companies. The Executive Summary of the 57-page Federal Register notice focuses only on the routine fees for obtaining a patent. It states:

All in all, as a result of these proposed adjustments to patent fees, for all applicants the routine fees to obtain a patent (i.e., filing, search, examination, publication, and issue fees) will decrease by at least 22 percent relative to the current fee schedule.

The effects of the Fee Schedule would be very different for a patent owner who paid the routine fees to obtain a patent plus the three maintenance fees to keep the patent in force for its full term. We calculate that a patent owner who paid all of those fees would face an overall fee *increase* of 26.3 percent at the fee levels proposed for 2013. When fees were reduced for patent issuance and publication in 2014 as proposed, the overall fee *increase* for such a patent owner still would be 20.9 percent. In addition, our members will face large fees for using the new proceedings under the AIA and large proposed increases in some other fees, which some companies will have to pay out of fixed patent budgets. All in all, the Federal Register notice proposes a major fee increase. We urge the PTO to reduce the proposed fee levels as much as possible without sacrificing its pendency and quality goals.

We believe significant reductions in some fees can be made by sharply reducing the rate of accumulation of funds in the operating reserve projected in the Federal Register notice. 77 Fed. Reg. at 55035, Table 3. The PTO is planning that about 3 percent to 7 percent of collected fees per year will be used to help build the operating reserve. IPO questions whether applicants should pay such a significant percentage of collected fees to build an operating reserve at the same time that applicants are paying increased fees to achieve the PTO's pendency and quality goals. The pursuit of all of these initiatives at the same time imposes a heavy fee burden on IPO members, especially during difficult economic times that continue to include work-force reductions.

In addition, the PTO's planned rapid buildup of the operating reserve, which would increase from \$194 million in FY2013 to over \$750 million in FY2017, might invite congressional confiscation of fees. Between 1992 and 2011 Congress denied the PTO access to more than \$1 billion in fee collections. The loss of those fees contributed to the application backlogs the PTO is still struggling to overcome. With the proposed operating reserve exceeding three-quarters of a billion dollars by the end of FY2017, IPO believes there is a danger of history repeating itself. Access to patent fee

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collections occurs through the appropriations process, and appropriations legislation is enacted one year at a time. While the current leaders of congressional appropriations committees have publicly committed to make all fee collections available to the PTO, the leadership of the appropriations committees will change over time and the PTO could become an inviting target if Congress perceives that the PTO is collecting fees substantially in excess of current needs.

A significant portion of the estimated 3 percent to 7 percent of collected fees planned for the operating reserve could be channeled elsewhere in the PTO's budget to help fund some of the specific fee reductions we are recommending below. IPO would support building an operating reserve over a longer period of time, assuming the PTO would cut fees back when the operating reserve reached the planned level.

II. Comments on Specific Fees

IPO believes that many of the proposed fees seem reasonable in light of the PTO's objectives, but certain fees warrant reevaluation. We address each of those fees and provide our recommendations below.

1. Maintenance Fees

IPO supports reasonable subsidization of selected patent-related services, particularly with income from maintenance fees. We understand that maintenance fees provide the PTO with funds to achieve pendency and quality goals without increasing application filing fees. We are concerned, however, that the Fee Schedule raises maintenance fees so high that too many patent owners will be unable or unwilling to pay the fees. If more patent owners than anticipated do not pay the maintenance fees, not only will the PTO's pendency and quality goals be at risk, but the front-end application subsidies will have to be cut back. IPO urges the PTO to consider whether the maintenance fee increases of 56, 42, and 18 percent in the third, first, and second maintenance fees, respectively, will defeat rather than promote the PTO's objectives. IPO member companies have stated that the proposed maintenance fee increases will need to be counterbalanced by corresponding decreases in application filings. We urge the PTO to reconsider the impact of such an unintended result on PTO operations.

IPO recognizes that the patent statute has long required a 50 percent discount for small entity applicants and owners, which is paid for by higher fees charged to large entities. Based on the preliminary fee schedule published in January, we calculated that if large entity fee payers did not have to support any subsidies to cover fees for small and micro entities, their fees could be reduced by roughly 13 percent. We believe the Fee Schedule saddles large entities with more than a fair share of the fee burden, at least for maintenance fees. Under 35 U.S.C. § 123(e), the PTO Director has authority to impose limits on who may qualify as a "micro entity" if reasonably necessary to avoid an undue impact on other patent applicants and owners. We urge the Director to use this authority to eliminate the 75 percent micro entity discount for maintenance fees. Micro entities that successfully license or otherwise commercialize a patented invention should be expected to pay a

fair share of maintenance fees, which are not due until 3-1/2 years and later after they obtain their patent.

2. Appeal Fees

The Fee Schedule increases the total fees for appealing a final rejection from \$1,240 to \$3,000. IPO believes this 242 percent increase fails to take into account the practical realities facing applicants. According to recent PTO statistics, almost 50 percent of the decisions on appeal reverse an examiner's final rejection. This high reversal rate suggests that a significant number of appeals are pursued to correct improper final rejections. IPO is concerned that applicants are being asked to pay even more for a service that is often necessitated by the quality of the final rejection.

The Fee Schedule also apportions payment of the appeal fee into two parts, \$1,000 upon filing of a notice of appeal, and \$2,000 after the examiner's answer. In addition to IPO's concerns about the entire appeal fee, above, IPO believes that a larger portion of the initial filing fee should be shifted into the second payment. Many appeals never reach the Board because the examiner withdraws the final rejection. Reapportioning most of the appeal fee until after the examiner's answer is mailed would avoid applicants paying for appeals they do not need.

3. Post-Grant and *Inter Partes* Review Fees

The Federal Register notice indicates that the proposed Post-Grant Review (PGR) and *Inter Partes* Review (IPR) fees are set at below cost-recovery. Because these are new proceedings, no historical cost information exists. The Federal Register notice includes only "prospective cost information." IPO hopes that the cost calculations for these proceedings will be reevaluated when information from actual proceedings becomes available.

To the extent that the proposed fees for PGR and IPR represent "pay as you go" systems, IPO believes that there are advantages to charging fees as the reviews proceed. For example, separating the petition fee and the post-institution fee creates a break in which the parties can evaluate the merits of continuing the review. This also divides the fees commensurate with burdens on the PTO. To further reduce front-end costs and match fees with costs, the PTO should consider dividing fees at other milestones in the proceedings, such as at the request for an oral hearing and for a rehearing,

IPO would also support imposing additional fees during the proceedings including fees for late-filed and additional motions, particularly motions for supplemental discovery, as these may impose significant burdens on the PTO and the non-moving party. When imposing sanctions, the PTO should calculate and recover its own costs.

4. Supplemental Examination Fees

The Fee Schedule proposes supplemental examination fees of \$18,000, which includes \$4,400 for processing the request and \$13,600 for the subsequent *ex parte* reexamination. The Federal Register notice indicates that these fees are set below cost recovery based on prospective cost information.

IPO wonders whether this prospective information is based on the historical costs of all *ex parte* and *inter partes* reexaminations instead of only patentee-initiated reexaminations, which are the closest corollaries to supplemental examination.

The Federal Register notice indicates that supplemental examination fees are set high to encourage applicants to submit all relevant information during initial examination. We believe that the proper assumption, at least for purposes of setting initial supplemental examination fees, is that patentees will use supplemental examination properly and efficiently. We encourage the PTO to consider further reducing supplemental examination fees so that the procedure will be used by stakeholders. This will produce sufficient numbers of supplemental examination cases to allow the PTO and patentees to evaluate the procedures and costs so that meaningful modifications can be made if needed.

5. *Ex Parte* Reexamination Fees

The Fee Schedule proposes a fee of \$15,000 for *ex parte* reexamination, which is almost six times more than the fee for the same proceeding at the beginning of 2012. In comparison to other examination fees, IPO believes the proposed *ex parte* reexamination fee is far too high. Except for evaluating the request itself, an *ex parte* reexamination generally requires the same PTO resources as a typical patent application. According to the Federal Register notice, in 2011 the estimated total cost to examine an application was \$3,569. We understand that *ex parte* reexaminations may require some additional examiner time and effort in comparison to a regular patent application examination, but not more than four times as much.

From the perspective of the costs to the PTO, we believe that *ex parte* reexamination is closely related to prioritized examination. Both procedures are expedited and both may require examiner involvement in one or more interviews. IPO suggests that the PTO consider revising the *ex parte* reexamination fee to more closely parallel the proposed fee of \$4,000 for prioritized examination.

6. Excess Claim Fees

The Fee Schedule raises excess independent claim fees by almost 70 percent, from \$250 to \$420. We believe that this fee increase does not reflect actual prosecution practices. While many independent claims directed to different inventions in one application would increase an examiner's burden, such claims would be removed from the application through restriction. In reality, multiple independent claims are most often interrelated and place little additional burden upon examiners. IPO, therefore, requests that the PTO reconsider and reduce this proposed fee increase.

7. Fees for Correction of Inventorship

The Fee Schedule proposes a \$1000 fee to correct inventorship after issuance of the first office action. IPO questions whether this fee is warranted in all cases. 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. The proposed fee appears more appropriate when an

inventor is added to an application after the first action. Even in this situation, a new search for prior art authored by the added inventor should be relatively simple. IPO believes this fee should be eliminated, or at least reduced, and apply only in situations where an inventor is added to the application after the first action on the merits.

8. Fee Reductions Delayed Until 2014

The Federal Register notice indicates that proposed fee reductions for patent issuance (from \$1,740 down to \$960), publication (from \$300 down to \$0), and electronic assignment recordation (from \$40 down to \$0), will not become effective until January 1, 2014. IPO supports these reductions, especially to offset the increased fees for basic application filing, search, and examination (from \$1,250 up to \$1,600). We suggest that the PTO consider implementing these reductions earlier, at the same time as the rest of the proposed fees.

9. RCE Fees

IPO commends the PTO for exploring ways to reduce the need for requests for continued examination (RCEs), such as permitting Information Disclosure Statements to be submitted after payment of the issue fee and allowing further consideration of “after final” responses. We believe, however, that additional steps still must be taken to reduce the number of RCE filings and improve the RCE system. We do not believe raising filing fees is the solution to the RCE problem. The Fee Schedule proposes increasing the \$930 RCE fee to \$1,200 for the first filing and \$1,700 for the second and each subsequent filing. These fees are unduly high and, like appeal fees, fail to take into account prosecution realities. Applicants have to file many RCEs as a regular prosecution practice, but are penalized because examiners are allowed to put RCE applications at the end of their examination queue. Further to the PTO’s efforts to improve the RCE system, IPO suggests that the PTO consider docketing RCEs like other amended cases to advance rather than delay prosecution.

IPO thanks the PTO for considering these comments and would welcome any further dialogue or opportunity to provide additional information to the PTO to assist in implementing the Fee Schedule.

Sincerely,



Richard F. Phillips
IPO President