November 24, 2015

The Honorable Michelle K. Lee
Under Secretary of Commerce for Intellectual Property &
Director of the United States Patent and Trademark Office
United States Patent and Trademark Office
Mail Stop CFO
P.O. Box 1450
Alexandria, Virginia 22313-1450
Attention: Brendan Hourigan

Via email: fee.setting@uspto.gov

Re: IPO Comments on Proposed Patent Fee Adjustments

Dear Director Lee:

Intellectual Property Owners Association (IPO) submits the following comments on the United States Patent and Trademark Office's request for comments on the Patent Public Advisory Committee Public Hearing on the Proposed Patent Fee Schedule (80 Fed. Reg. 63543).

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 through other classes of membership.

IPO appreciates the USPTO's effort to allow stakeholders the opportunity to provide comments before the publication of the proposed patent fee schedule. In these comments, IPO addresses many of the key fee issues for patent applicants. We hope the USPTO will consider how the proposed fee changes will affect patent applicants and owners.

Maintenance Fees

IPO appreciates that the USPTO has not proposed any increase in the maintenance fees for patent owners. Maintenance fees subsidize the costs of examination and any increase could substantially affect patent owners and the maintenance of patents.

Excess Claim Fees

The USPTO's 25% proposed fee increase for exceeding 3 independent claims and 20 overall claims does not comport with actual patent prosecution practices. Via restriction practice, many examiners remove claims before a substantive examination on the merits of a patent

application. Often, the number of claims examined is far fewer than 3 independent claims and 20 overall claims. Such restriction practices frequently occur despite the fact that independent and dependent claim sets are frequently interrelated and would place little additional burden upon examiners.

For similar reasons, we believe the proposed fee increase for excess claims in national stage applications is inapt. Often a PCT examiner does not find lack of unity of invention, but a U.S. examiner issues a restriction requirement or restricts claims into more groups than the PCT examiner.

Accordingly, IPO recommends that the USPTO implement a process that refunds excess claims fees that have been paid by the applicant following an examiner's restriction requirement and election. Alternatively, the USPTO should only impose excess claim fees on applicants based on the outcome of a restriction requirement or a first action on the merits.

If nothing else, we believe the proposed excess claim fee increase should be reduced.

RCE Fees

The Proposed Fee Schedule increases the fee for a first RCE by 25% and the fee for subsequent RCEs by 18%, from $1200 to $1500 and $1700 to $2000 respectively. The Detailed Appendix Slides report that historical costs associated with an RCE are about $1775.

IPO wonders why the Detailed Appendix states that "[t]he higher than cost recovery fee for the 2nd and subsequent RCE partially recovers the loss in average issue and maintenance fee collections that would be have been recovered by examination of original applications." IPO respectfully requests clarification as to whether the "loss in average issue and maintenance fee collections" is associated with applications having two or more RCEs, or is a figure for all applications regardless of whether or not they involved two or more RCEs.[1] If the latter, IPO questions the justification for singling out applications having two or more RCEs.

The Detailed Appendix suggests that the proposal will provide "[b]etter alignment of fee rates and cost in order to implement other programs aimed at reducing the need to file RCEs such as consideration of amendments and IDS filed after final action." IPO commends the USPTO for exploring ways to reduce the need for RCEs, such as the After Final Consideration Pilot (AFCP) 2.0 program and the proposed changes to the IDS rules. We believe, however, that additional steps still must be taken to reduce the number of RCE filings and improve the RCE system, and do not believe raising RCE fees is the solution.

With regard to the fees, IPO is not convinced that AFCP 2.0 has significantly reduced the need for RCEs. Although many IPO members successfully used AFCP 2.0 when it first was implemented, more recently IPO members have reported less success with the program. IPO's understanding is that the USPTO intended to track the course of prosecution in applications in which AFCP 2.0

[1] *See* PPAC Detailed Appendix at 74.

requests were made. IPO would appreciate the USPTO releasing that information and suggests critical review of AFCP 2.0 before proposing higher RCE fees.

IPO suggests that the USPTO consider whether the need for RCEs could be reduced further with more supervisory review of an examiner's refusal to enter claim amendments "after final," and more guidance on when such a refusal is not proper. For example, IPO believes that examiners should be required to enter amendments that incorporate one or more dependent claims into an independent claim (or otherwise consolidate claimed embodiments). Such amendments should not require a new search if the examiner correctly searched all of the claims in the first instance. Allowing such amendments after final as a matter of right could reduce the need for RCEs and decrease applicants' burden of higher RCE fees.

Sequence Listing Fees

The Proposed Fee Schedule includes new fees for "Mega Sequence Listings," set at $1,000 for a 300MB to 800MB Sequence Listing and $10,000 for a Sequence Listing greater than 800MB. The Detailed Appendix slides claim that "Mega-sequence listings require a significant amount of handwork to process, are too large for many of our systems to handle as the systems were designed, and have additional storage costs," but provide no historical costs associated with large Sequence Listings. IPO would appreciate the USPTO providing such information before imposing new fees.

IPO is also concerned that the new fees do not take into account the USPTO rules that govern Sequence Listings. For example, the Detailed Appendix slides comment that "some applicants have filed sequence data that is neither invented by the applicants nor claimed. Often the mega-sequences were available in the prior art and were invented by others." That comment does not appear to recognize that it is the USPTO's Sequence Listing rules that require applicants to include every sequence beyond a certain size set forth in an application in a Sequence Listing disclosure regardless of its origin. Pursuant to MPEP § 2421.02 this includes "all unbranched nucleotide sequences with ten or more nucleotide bases and all unbranched, non-D amino acid sequences with four or more amino acids." This is required regardless of whether the sequence is known in the art, provided for context, provided for written description or enablement, or recited in the claims. If the USPTO now feels that requiring prior art and unclaimed sequences to be included in a Sequence Listing creates an unnecessary and costly burden, IPO recommends the USPTO modify the Sequence Listing rules (*i.e.*, 37 C.F.R. §§ 1.821-1.825).

The Proposed Fee Schedule also includes a new fee for the "late" submission of Sequence Listings in a PCT application, set at $300. The Detailed Appendix slides do not provide historic costs for processing "late" Sequence Listings or otherwise discuss this proposed new fee. IPO respectfully requests that the USPTO provide support for this fee, and explain how the late filing of a Sequence Listing imposes costs on the USPTO.

Appeal Fees

The Proposed Fee Schedule increases the Notice of Appeal fee and Appeal Forwarding fee in an ex parte reexamination by 25% each, from $800 to $1000 and $2000 to $2500 respectively. The Detailed Appendix Slides report that historical costs associated with a Notice of Appeal are only

$33 and historical costs associated with Appeal Forwarding in an ex parte reexamination are $16,545.[2]

IPO respectfully requests that the USPTO provide additional information on the basis of the historical costs associated with Appeal Forwarding, including what those costs encompass and why those costs are higher than the historical costs for the post-institution phase of an Inter Partes Review (IPR) proceeding. For example, we would have expected the USPTO's costs for conducting an ex parte review to be lower than the costs for an inter partes proceeding that may include conference calls with the parties, motions, etc.

IPO also respectfully requests that the USPTO explain the comment in the Detailed Appendix Slides that the proposal "more closely aligns fees with cost in order to continue making progress towards decreasing the backlog of ex parte appeals." In particular, IPO wonders whether the USPTO expects higher fees to decrease the backlog because the higher revenue will enable the USPTO to hire more APJs, or because the higher fees will discourage applicants from pursuing appeals. Considering that 45% of appeals result in at least partial reversal, the latter rationale would not serve the USPTO's mission of "[f]ostering innovation, competitiveness and economic growth."[3]

The high reversal rate of *ex parte* appeals at the Patent Trial and Appeal Board (PTAB) indicates that a large number of appeals are pursued to correct improper final rejections. Many appeals also never reach the PTAB at all because the examiner withdraws a final rejection. IPO believes that the 25% increase in appeal fees is too high, and fails to take into account the practical realities facing applicants. Accordingly, IPO recommends the USPTO consider the following suggestions.

First, IPO recommends the USPTO consider eliminating the Notice of Appeal Fee or substantially reducing the fee. As the Detailed Appendix Slides show, the USPTO costs associated with a Notice of Appeal are minimal. By setting the Notice of Appeal Fee at a level that takes into account the costs of an appeal, the USPTO ignores that applicants often must file a Notice of Appeal to maintain pendency after a Final Office Action, while waiting for the examiner to act on the after-final response (*i.e.*, issue an Advisory Action or Notice of Allowance). The USPTO could further increase the Appeal Forwarding Fee, or reinstate the Appeal Brief Fee. If the latter option is pursued, the USPTO should apportion most of the fees to the Appeal Forwarding Fee, because many appeals never reach the PTAB because examiners may withdraw the final rejection to reopen prosecution or issue a Notice of Allowance. Apportioning most of the appeal fees to the Appeal Forwarding Fee would avoid applicants paying for appeals they do not need and for which the USPTO does not incur any further time or expense.

Moreover, in view of the ex parte appeal backlog, IPO recommends that the USPTO consider postponing the Appeal Forwarding Fee until the application is about to be taken up for review. This could reduce the number of appeals the PTAB has to decide and eventually reduce the appeal backlog if applicants have an incentive to abandon their applications on appeal. For example, if commercial interest in the invention has changed while the application was awaiting review, or if

[2] *See* PPAC Detailed Appendix at 81.
[3] USPTO 2014 Performance and Accountability Report.

an unfavorable court decision has significantly reduced the chance of success on appeal, an applicant may choose to abandon an application instead of paying a $2000 appeal fee.

Postponing the Appeal Forwarding Fee also would take into account the current state of flux of patent eligibility under 35 U.S.C. § 101. Many applicants are appealing § 101 rejections because the examining corps is reluctant to allow claims that even tangentially raise § 101 issues and they believe there more clarity to § 101 law may happen during their appeals. The courts may provide clearer guidance, giving applicants an incentive to abandon their applications (and appeals) in the face of an unfavorable decision. Alternatively, applicants may file an RCE in the event of a favorable court decision or more favorable examination guidelines. In both situations, the number of appeals the PTAB has to decide would be reduced as well as the appeal backlog.

IPO also recommends that the USPTO take into account the appeal statistics. About 45% of appeals result in partial reversals (recorded by the USPTO as partial affirmances) or full reversals. Although some appeals raise close issues, others do not. When applicants have to pursue appeals to obtain reversals of improper rejections, the USPTO is shifting the burden of uneven patent examination quality to applicants along with an added and unnecessary expense.

Information Disclosure Statement Fees

The Proposed Fee Schedule provides for a significant restructuring of the Information Disclosure Statement (IDS) submission process and revenue generation. The revised framework includes the ability to file an IDS after a final rejection without the need to request continued examination or file a certification statement, and after a notice of allowance but before issue fee payment without the need to request continued examination or utilize the QPIDS program. Although IPO appreciates the additional flexibility in IDS submission timing provided by the new process, we recommend the USPTO consider this revision's overall impact.

Under the current IDS framework, if a final office action has not yet issued, and applicants can certify that the art was first received by a designee under 37 C.F.R. § 1.56(c) less than three months prior to submission of the IDS, no fee is due. IPO is concerned that elimination of the certification process translates to penalizing applicants for complying with their duty of disclosure regarding corresponding related applications, because under the new structure, an IDS submission fee is due regardless of whether the art has been first cited in a foreign Office. As applicants have no way to predict or control the timing of foreign examination and corresponding citation of prior art, this system may place an undue financial burden on those applicants with corresponding international patent filings in offices with more variable examination pacing, and on those who have requested, and paid for, expedited prosecution in the U.S.

In addition, the USPTO has not yet addressed the implications to Patent Term Adjustment (PTA) for removing the certification process. Currently, if prior art first cited in corresponding applications is submitted to the USPTO within 30 days, applicants' PTA is not negatively affected. IPO suggests the USPTO preserve a methodology for documenting which art results from corresponding foreign examination and not penalize applicants' patent term on this basis. If this is not done, applicants will likely hold art to file in bulk with each response to office action, both to avoid PTA ramifications and to save fees by filing one submission instead of submitting and paying for each piece of art as it is made known to the applicant. IPO finds this approach to be

suboptimal, as it will impact examination quality by delaying the process that supplies relevant art to the patent examiner.

IPO believes that the impact of IDS fee changes on applicants' duty of disclosure regarding their international portfolio is exacerbated by the fact that all non-U.S. references must be provided by applicants to the USPTO. IPO asks the USPTO to consider requiring patent examiners to, similar to their current system for obtaining U.S. publications and patents, utilize tools available to them (*e.g.*, the IP5 Global Dossier) to obtain copies of free and readily-available foreign/PCT references, thereby easing the undue burden on applicants.

Furthermore, although the new IDS framework may reduce the need for requesting continued examination to enter an IDS, an RCE may still be needed in these applications if an examiner makes an additional rejection in a final office action based on newly-submitted art. Therefore, IPO believes the quantity of RCE filings will not significantly decrease based on new IDS rules unless the USPTO considers an incremental change in after final practice.

IPO also suggests the USPTO consider incorporating this issue into its IDS rule changes by not permitting new rejections in final office actions based on art recently cited in a corresponding foreign case.

Finally, the IDS fees after three months from filing but before final office action have increased by 67%, and the fees after mailing of a final office action have increased by 233%. IPO is concerned that the proposed escalating IDS fees do not truly incentivize applicants to submit all prior art early in prosecution due to the timing of foreign examination, which is beyond applicant control. Although an increased fee after a notice of allowance is understandable in order to mitigate the USPTO's stated additional cost of processing at this stage, IPO recommends the USPTO address in its new IDS procedure a mechanism to account for art provided from corresponding foreign applications.

Patent Enrollment and Discipline Fees

The Proposed Fee Schedule introduces a number of new fees related to Office of Enrollment and Discipline (OED) costs, in addition to increasing the existing fees. IPO notes that each currently existing fee is increased by at least 100%. The Detailed Appendix slides, however, only discuss fees for limited recognition, registration examination review sessions, IDs/passwords for updating status and change of address, and application fees for registration. No explanation is given for the fees involving the review of decisions for the Director of OED.

Of particular concern to IPO is that The Detailed Appendix slides make no mention of the new "disciplinary proceeding" fee which is assessed "at cost." IPO requests further clarification regarding this proposed fee. In particular, IPO requests that the USPTO provide further explanation as to the rationale for establishing this new fee, provide practical examples of how such a fee might be assessed, what possible ranges this fee might fall within, and explain whether the disciplinary fee is outcome dependent. IPO is concerned, for example, that a practitioner may be responsible for a disciplinary fee as the result of a frivolous grievance submitted by a third party, even where the OED has determined that no disciplinary action is warranted against the practitioner.

Although IPO appreciates the system upgrade that gives practitioners the ability to create and reset IDs/Passwords and to change addresses free of charge through a self-service option, IPO requests additional clarification as to the $69 historical cost of OED in establishing an ID/password or updating a change of address for a practitioner, since such types of electronic registrations are ubiquitous in the internet age.

Design Patent Fees

Collectively, the minimum fees for a design patent application to issue is proposed to increase 48.4% (from $1,320 to $1,960 for a large entity). In comparison, the minimum fees for a utility patent application to issue is proposed to increase 6.2% (from $2,560 to $2,720). The proposed increase to issue fees for design patents is particularly egregious, increasing a extremely high 79%, as compared to utility patents which is 4%.

Historically, fee increases for design patents have been on the order of 4-15% and in some cases were even reduced. In January 2014, minimum fees for patent applications declined (for a design patent from $1,540 to $1,320; for a utility patent from $3,030 to $2,560). In raising the minimum fees to $1,960, this proposed increase wipes away those fee reductions for design patents (but not for utility patents, which remain $310, below the pre-January 2014 fees).

Although small entities benefit from a 50% discount, the increase is still quite significant over what small entities pay currently. If the fees for a single claim design patent approach $2,000, as has been proposed, we expect that some small entities and foreign applicants (who may already find the U.S. fees to be high as compared to fees in other jurisdictions) will decline to file in the U.S.

Because design patents may only have one claim, and the related mandatory restriction practice, applicants for U.S. design patents might often need to file more than one design patent to adequately protect their innovative designs, magnifying the effect of any increased fees.

Other than standardizing all issue fees to the same amount, there is no indication as to why the issue fee for design patents should be increased by 79%. Design patents typically contain fewer pages than utility patents, requiring less pre-printing formatting work and lower printing costs. Although the design patent bar has often advocated for higher quality patent printing, including the transition to the electronic publication, it is unclear if these additional funds will be used in furtherance of that goal. If these additional funds will be used for these efforts, then the USPTO should release a timeline for when the public can expect these improvements to be implemented.

In the Detailed Appendix, the USPTO states that the increased fees will "bring the fees paid for filing, search, examination, and issue closer to the costs of performing these services." *See* slide 72. But, the proposed fee increase (to $1,960) would create a surplus well beyond the USPTO's stated costs for these services ($1,528) after the large entity issue fee is paid. If cost recovery is the goal, then a much more modest increase should achieve it.

In sum, there are questions as to why such a drastic increase is warranted, and if the drastic increase is maintained, this substantial increase may decrease the incentive to develop and protect new designs. IPO recognizes the importance of fees in providing the USPTO the resources it needs

to conduct a thorough search of the prior art and a careful examination of design patent applications. But fees charged must be based on the cost of providing those services and the USPTO has not sufficiently explained why these large increases are warranted based on those costs. Without additional evidence of how the increased fees will be used or how they will benefit design patent applicants who pay the fees, we think that the increase in fees for design patent applications should only reflect a modest increase, something more in line with the proposed increase for utility patent applications.

Post Grant Fees

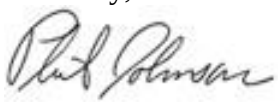
IPO would like to understand how the USPTO arrived at the proposed fees for AIA trials. For example, it is not clear why, according to the chart identifying "unit cost," the cost to the USPTO pre-institution is greater than the cost post-institution. There seems to be more work post-institution: settling party disputes, preparing for and holding an oral hearing, and preparing a final written decision.

Further, we understand that initial setting of fees for the AIA trials required estimating potential cost and that the fees were set below cost-recovery. Actual, historical cost is now available and was used for the proposed fees. We note that the proposed fees continue to be set below cost recovery. Perhaps the USPTO could clarify how fees for AIA trials are subsidized.

Finally, IPO believes there are advantages to treating the fees as "pay as you go" systems so that fees are charged as reviews proceed. We appreciate that the USPTO continues to separate the pre- and post-institution fees and suggest further separating the fees. For instance, the USPTO could charge a fee for holding an oral argument or provide a partial refund of the post-institution fee if the parties settle within a month of institution. Parties often settle within that timeframe, and the USPTO thus incurs significant cost savings.

We thank you for considering these comments and would welcome any further dialogue or opportunity to provide additional information to assist your efforts in developing the patent fee schedule.

Sincerely,



Philip S. Johnson
President