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September 30, 2019

Mail Stop Comments – Office of the Chief Financial Officer
 Director of the United States Patent and Trademark Office
 P.O. Box 1450
 Alexandria, Virginia 22313-1450
 Attention: Brendan Hourigan

Via email: fee.setting@uspto.gov

Re: Setting and Adjusting Patent Fees During Fiscal Year 2020

Dear Mr. Hourigan:

Intellectual Property Owners Association (IPO) submits the following comments and suggestions in response to the USPTO’s notice of proposed rulemaking entitled “Setting and Adjusting Patent Fees During Fiscal Year 2020,” published in 84 Fed. Reg. 37398 (July 31, 2019).

IPO is an international 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 about 200 companies and close to 12,000 individuals who are involved in the association either through their companies or as inventor, author, law firm, or attorney members. IPO membership spans 43 countries. IPO advocates for effective and affordable IP ownership rights and provides a wide array of services to members, including supporting member interests relating to legislative and international issues; analyzing current intellectual property issues; information and educational services; and disseminating information to the general public on the importance of intellectual property rights.

IPO supports the USPTO’s goal of adjusting patent fees to recover the aggregate cost of patent operations in future years and to allow the Office to continue progress towards achieving strategic goals. IPO also supports the strategic goal of proposed fee setting to optimize patent quality and timeliness, which includes optimizing patent application pendency and examination timeframes, issuing highly reliable patents. We appreciate the USPTO’s effort to allow stakeholders to provide feedback on how the USPTO should set fees in Fiscal Year 2020. Our comments address many of the key fee issues for patent applicants, particularly where a nexus does not exist between a proposed fee increase and actual costs. Given some stakeholders’ concerns about the increasing uncertainty of patent rights, we encourage the USPTO to carefully consider whether excessive increases might have the unintended consequence of discouraging filings.

UTILITY PATENTS

I. Filing and Issue Fee Increase

a. Increase in Initial Filing Fees

The USPTO proposes increasing the utility basic filing fee by 7% and the utility search fee by 6%. However, the associated unit costs have risen by 0.8% and 4%, respectively. If fees related to patent

application filing must be increased, IPO suggests that these increases more closely parallel the rise in associated unit costs. In its Notice of Proposed Rulemaking, the USPTO states that many initial filing fees such as these are “set below unit cost in order to promote innovation strategies by removing barriers to entry for innovators.” Consistent with this stated motivation, the increases to these initial filing fees should be more closely tied to the rise in the respective unit costs of each fee.

b. Increase in Issue fees

IPO has several concerns about the proposed 20% increase in the issue fee. This is one of the largest increases, and we are concerned that sufficient justification has not been provided. As larger companies are often constrained by fixed budgets, higher issue fees may result in adjustments in behavior elsewhere in the patent lifecycle, which could upset the balance between front-end and back-end fees collected by the USPTO. Additionally, because we understand that the USPTO is limited in its ability to provide discounts to small and micro entities, we are concerned that such a large increase in the issue fee may discourage small and micro entities from paying this and other back-end fees that, again, the USPTO relies upon to maintain a balance with front-end processing fees to meet its cost recovery goals.

II. Non-DOCX Filing Surcharge

The USPTO proposes a new fee to be charged for all utility non-provisional applications that are filed in a format other than DOCX. This new \$400 surcharge fee for large entity applicants is punitive, nearly a 22% increase in the cost of filing a patent application. Combined with the proposed increases in the basic filing fee, the search fee, and the examination fee, the USPTO is effectively proposing an increase of over 22% for applicants who file new applications in the same manner as they do today (e.g., \$1,720 to \$2,220!).

To encourage more applications to be filed in DOCX, the USPTO proposes a required surcharge for applications that are not submitted in that format. Instead of a surcharge for failure to file applications in DOCX format, IPO suggests that the USPTO provide a rebate to those who file in that format. The USPTO argues that the need for this new surcharge is the current cost of optical character recognition (OCR) of approximately \$3.15 per new submission. The USPTO estimates that in FY2020 approximately 611,168 utility non-provisionals will be received, costing the USPTO only about \$1.9M in OCR fees for large entities, but the proposed surcharge would result in revenue of over \$244M for the same number of applications. We suggest that the USPTO reduce the surcharge to be reflective of true cost to the Office of processing non-DOCX applications or offer a rebate for applicants filing in DOCX, especially in view of the unreadiness of the USPTO’s filing framework to accurately intake all DOCX filings, as discussed below.

a. DOCX Concerns and Ancillary Costs

As noted above, the USPTO should not penalize patent applicants for failure to file in DOCX by applying a surcharge, but instead should offer discounts for DOCX filing until the DOCX procedure is consistently demonstrated to be without risk. The USPTO’s preference for DOCX, and the associated additional costs for patent applicants that fail to adopt compliant DOCX word processors, lack justification unless the USPTO demonstrates that it has shifted a significant portion of its document-processing workload to DOCX. The USPTO states that filing applications in

DOCX provides *opportunities* to increase efficiencies, but the USPTO provides no data verifying this, even after the completed eMod Project. Accordingly, we are unable to substantiate or evaluate the magnitude of purported workload savings.

Moreover, IPO is concerned about inconsistencies in word processing software and the various DOCX formats in the word processing programs that can create and save in DOCX format, including Microsoft Word 2007 and higher, Google Docs, Apache OpenOffice, Apple Pages, and LibreOffice. IPO members have reported issues when uploading DOCX files that are not prepared in Microsoft Word. Many IPO members or their clients reside or perform some portion of business operations outside the US, and the originally drafted document may not have been written in DOCX or in the USPTO-preferred Microsoft Word processing software program. In the Proposed Rules, the USPTO claims that over 80% of applicants draft their patent applications in DOCX. IPO wishes to understand where this data originated and submits that this does not eliminate document integrity issues with the USPTO receiving DOCX filings properly.

IPO members have had issues with formatting when uploading DOCX files. Testing has demonstrated that properties such as page count, integrity of chemical structures and/or mathematical formulae, special characters or symbols, diagrams, and merged table fields may delete or alter technical document content in a concerning way during the upload process and PALM conversion process into the Image File Wrapper. As a result, IPO is concerned about the potential for introducing inconsistencies between DOCX content rendered by an applicant's word processor and the content that ultimately makes its way into the electronic file wrapper of a patent application. This concern is the reason the USPTO requires fonts to be embedded in PDF documents that are currently electronically filed via EFS. No provision has been set forth to correct or avoid errors introduced during the DOCX upload process, and the current language in EFS-Web tells the user to "inspect" the converted PDF file rendered from a DOCX upload prior to submission, not providing any remedy should USPTO processing introduce an error that is later discovered in the PDF in the official file. Until the DOCX upload and rendering process is perfected, IPO urges the USPTO to abandon this proposed required surcharge.

In addition, IPO remains concerned about incentivizing a large-scale migration to DOCX filing in the absence of comprehensive testing to ensure a lack of risk from filing DOCX documents. IPO is specifically concerned about the potential for unwanted metadata to be retained in DOCX documents transmitted to the USPTO. Although the USPTO's "Filing Text Document via EFS-Web Quick Start Guide" claims that "unnecessary document properties" are detected and removed upon upload, testing by some IPO members suggests that certain metadata is retained in editable documents filed with the USPTO as well as in documents downloaded from PAIR in DOCX form. To reassure patent applicants that such metadata retention will not harm applicant interests, IPO urges the USPTO to release comprehensive data demonstrating the extent of document properties transmitted upon filing and formulate a plan to mitigate availability of DOCX metadata to the public via PAIR or other mechanisms.

b. PCT National Stage Entry Applications Avoid Non-DOCX Filing Surcharge

The USPTO proposes PCT national stage fees (e.g., the Basic National Stage Fee, the National Stage Search Fee, and the National Stage Examination Fee) that are nearly identical to the increases to the utility patent application filing fees, but does not introduce the new non-DOCX filing

surcharge fee for those PCT national stage filings. Although IPO understands that a non-DOCX surcharge cannot be applied because copies of the PCT publication automatically route into the U.S. national stage application in PDF form, this further highlights the unwarranted nature of the non-DOCX surcharge. If a relatively moderate increase in price for PCT national stage entry applications is believed to be fiscally sustainable within the proposed fee structure, then the same should be true of regular non-provisional application filings, and the imposition of a new non-DOCX filing surcharge fee in one and not the other is thus inconsistent.

III. Patent Maintenance Fee Increases

a. 3.5-Year Maintenance Fee

The USPTO is proposing a 25% increase to the 3.5-year maintenance fee and a 4% increase to the 7.5-year and 11.5-year maintenance fees. These proposed increases are in addition to a proposed 20% increase for utility issue fees. Given the proposed surge in post-allowance fees, IPO suggests the USPTO phase in the increases to provide patentees adequate time to prepare for and adapt to the increased costs. Patentees need time to identify non-disruptive changes to cover the higher fees and to integrate the changes into their financial plans. A phase-in period over multiple years would enable patentees to respond to the increases in a measured and incremental manner. Otherwise patentees will be compelled to make abrupt changes that may not align with the USPTO's financial goals. For example, it is likely that patentees will significantly reduce 7.5-year and 11.5-year maintenance fee payments to cover the increased costs in 3.5-year maintenance fees. Moreover, patentees may become more selective on issue fee and 3.5-year maintenance fee payments, which will lower the overall pipeline of USPTO maintenance fee revenue. These actions will counter the USPTO's financial goals and may be mitigated by a phase-in period.

Furthermore, small entities and start-ups could be disproportionately affected by the new fee structure because they do not have age-diverse portfolios that allow for modified maintenance fee behavior. That is, such entities may not have an age-diverse granted portfolio that allows for diverting spend from 7.5-year and 11.5-year maintenance fees to cover the proposed cost increases for issue fees and 3.5-year maintenance fees. Instead, small entities and start-ups may have no choice but to pay all the higher post-allowance fees to secure and maintain the critical IP rights, and this could negatively impact their overall operations. IPO therefore requests the USPTO reconsider the overall magnitude of the proposed increases given the impact to small entities and start-ups, in addition to considering a phase-in approach.

IV. Maintenance Fee Surcharge – Late Payment Within Six Months

IPO appreciates that the USPTO recognized that the 525% increase in the maintenance fee surcharge proposed last year was excessive. Nevertheless, the 213% increase in the maintenance fee surcharge in the current proposal remains excessive and, like the previous proposal, “is not justified by any extra expense on the part of the USPTO” as noted in the PPAC Fee Setting Report from October 2018.

Furthermore, although the increased maintenance fee surcharge may encourage patent holders to pay patent maintenance fees prior to the grace (or surcharge) periods, increasing the maintenance

fee surcharge will not provide the public benefit suggested by the USPTO. Specifically, the USPTO asserts increasing the maintenance fee surcharge “will benefit the public by increasing the understanding of which patents remain in force and which patent rights have been allowed to lapse.” Patent rights do not lapse until the end of the applicable grace period. 35 U.S.C. § 1.362(g). Therefore, regardless of the amount of the maintenance fee surcharge, patents remain in force until the end of the applicable grace period. Indeed, the PPAC recognized this fact and noted “as long as extensions of time are available, the public cannot rely on the expiration of a patent for which the maintenance fee is overdue, until the period for which an extension is available has expired” in the PPAC Fee Setting Report from October 2018.

Patentees often rely on the grace period for a variety of business reasons. For example, patentees often require additional time to assess the commercial marketplace for the invention (especially patentees with larger portfolios). Moreover, patentees often require additional time due to unexpected business events—such as a management, counsel, or vendor changes, M&A activity, or financial events—rather than bad behavior that should be deterred by imposing a hefty increase in the maintenance fee surcharge. This 213% increase, which is neither justified by any extra expense on the part of the USPTO nor by any identified increased public notice or benefit, is an unreasonable obstacle to patentees with legitimate purposes for using the grace period.

V. Annual Active Patent Practitioner Fee

More information is needed to justify this fee and how the revenues would be used. According to the USPTO website, there are approximately 47,000 active patent practitioners. Thus, this proposed fee has the potential of generating well over \$10 million in additional USPTO income per year. The USPTO’s main justification is shifting OED’s costs associated with maintaining the practitioner roster and disciplinary actions from applicants and owners to practitioners who benefit from registration. However, the USPTO has not provided data concerning the cost of these services. A fee that funds OED must be commensurate with the services provided and limited to the USPTO. Without a detailed cost accounting, this fee seems excessive to fund the current services provided by the OED, especially when considered as an increase to existing fees collected pursuant to 37 C.F.R. § 1.21(a)(1)-(10).

The USPTO also states that the new practitioner fee will fund OED’s Patent Pro Bono Program and the Law School Clinic Certification Program, and help fund the cost of increased outreach efforts, including speaking engagements. Again, more information is needed on the cost of such programs. IPO also questions the nexus of these programs to patent practitioners, and thus why the cost of such programs should fall squarely on practitioners, rather than on the larger patent community and/or taxpayers.

The CLE discount also lacks a detailed justification. It is unclear how the proposed \$100 discount would urge practitioners to spend the time and money to attend hours of CLE each year. Many currently available patent CLE activities have registration fees alone that are more than the \$100 discount. With such a limited incentive, the use of the CLE discount by practitioners might be so small as to not justify the USPTO’s expense and burden in tracking and policing a CLE policy.

Finally, IPO doubts whether the fee addresses a true need of the USPTO and the patent community and whether it is the best use of USPTO resources. It is unclear whether a potentially more accurate

roster of patent practitioners, adding a CLE requirement, and funding OED activities will meaningfully benefit the U.S. patent system. Moreover, many practitioners have limited budgets for these types of activities. All registered patent attorneys already belong to state bars and pay dues to maintain their licenses to practice. This new fee could cause some to be unable to participate in other groups or activities given limited budgets and would impose yet another new government administrative burden on the patent community. Finally, although enhancing the IP profession is a laudable goal, we respectfully suggest that the USPTO's resources would be better spent in the interest of the patent community on issues that the USPTO is in the best position to address, such as assuring patent quality.

DESIGN PATENTS

Any fee increase for a Request for Expedited Examination of a Design Application should be more modest. The proposed fee increase, from \$900 to \$2,000, represents a 122% increase. Under the proposed fee increase, the USPTO would enjoy a surplus on each Request. In light of these facts, and as otherwise explained below, the fee increase, if any, should be of a more modest amount, such as to reflect inflation.

Among other things, IPO's previous comments relating to this increase explained that:

- The proposed Expedited Examination of a Design Application fee increase would discourage filing of expedited examination requests, which would conflict with the USPTO's Fee Structure Philosophy by reducing efficiency of operations.
- The proposed fee increase would result in a significant misalignment of fees with cost.
- The existing Expedited Examination of a Design Application fee is already in alignment with utility Track One examination fees. The proposed increase would create a substantial disparity, significantly disadvantaging design applicants relative to utility applicants.
- The proposed increase would disproportionately harm individual inventors and small entities.
- The process to obtain design protection in the US is significantly longer than in many countries. Not all applicants and circumstances can wait for the normal lengthy US examination process to complete. The Office should not impose further barriers to obtaining timely design protection for those applicants that may need it.

The USPTO has not substantively addressed these important issues. IPO asks that it take them into account in any further fee setting activity. Any fee increase should be consistent with the USPTO's stated Fee Structure Philosophy. In his letter to PPAC, Director Iancu stated that the "patent fee proposal is intended to promote efficiency of operations, better align fees with cost, and ensure adequate revenue to deliver on our goals." With a Request for Expedited Examination, the applicant is required to submit a prior art search, saving the USPTO time and resources because any additional search that the Office conducts should be minimal and would certainly be covered by the application filing fees. Discouraging the filing of these Requests by increasing the fee would not promote efficiency of operations but actually would increase the USPTO's workload by reducing the number of applications submitted with a prior art search.

Nor would this fee increase better align fees with cost. The historical cost of expedited examination for designs in FY2017 is \$107 (a cost which has declined each year from FY2013 to FY2017),

meaning that the USPTO currently makes a \$793 surplus on each Request for Expedited Examination. The new proposed fee increases the USPTO's surplus to \$1893, which does not align the fee with actual costs.

No increase appears to be needed to ensure adequate revenue for the USPTO to deliver on its goals. As stated above, the USPTO appears to already enjoy a substantial surplus on Requests for Expedited Designs and such Requests actually reduce the USPTO's workload by reducing examiner search burden. It does not appear that the USPTO requires a 122% increase in this fee to appropriately manage staffing.

In the PPAC Detailed Appendix at slide 63, the USPTO says that this increase "will bring the fee more in line with the request for prioritized examination of a utility patent examination." Setting aside whether these fee structures should be aligned, currently the two sets of fees are almost exactly the same. For \$4,000, Track One examination accelerates the examination of up to four independent claims and no more than 30 claims total. Currently, accelerating the examination of four design patent applications—each limited by regulation to only one claim—costs \$3600. Under the proposed increase, design applicants would pay \$8000 to have four design patent application claims expedited (as opposed to \$4200 for a utility Track One examination under the proposed increase). This substantial disparity would penalize applicants seeking expedited design rights.

Fee increases are particularly harmful to individual inventors and small entities. Although small entities benefit from a 50% discount, the increase in the expedited examination fee is quite significant. Keeping in mind that small entities must still procure a prior art search (at the cost of \$750 to \$1500 or more), the total cost of expedited examination of a single design patent application claim (not including attorney fees) could substantially exceed \$2000 under the proposed fee increase. This dramatic increase will make it more difficult for small entities to obtain expedited design rights to stop theft of their designs by counterfeiters.

Because the U.S. has a lengthy examination system, applicants need an accessible route to expedited rights, such as exists in Europe, especially to address counterfeiting. Although some design applicants can wait 19+ months for design protection, in certain situations rights are needed more quickly. Expedited design examination is crucial to applicants who are facing counterfeit products. Recognizing this, other systems, such as the European Union, can provide rights on an expedited basis. (In the EUIPO, rights can be granted in as quickly as two days at no additional cost.) If the proposed fee increases are implemented, we would expect some foreign applicants to decline to file in the U.S., or when possible to file for copyright instead of seeking design rights.

PATENT TRIAL AND APPEAL FEES

While the Patent Trial and Appeal Board's workload could increase based on the PTAB's post-SAS policies directed towards addressing all arguments at institution, only opaque "best estimates" are shared showing increased costs. More complete comments could be provided if the PTAB shared how much more time is being spent pre-institution on average or in the aggregate. Furthermore, when the dust settles filing rates and institution rates actually might decline post-SAS, resulting in a negligible increase or even an overall decrease in pre-institution costs. In any event, raising fees for PTAB trials runs counter to Congress' intent to make them cost-efficient.

These increases incentivize petitioners to include weak challenges to additional claims, causing additional work for the USPTO (and patent owners). And instead of increasing the claim threshold from 15 to 20, a better way to align fees with costs might be to reduce the claim threshold (such as to 4-6 claims) and increase excess claim fees. This would disincentivize challenges to claims that are likely valid and would more proportionately align petitioner costs with increased PTAB workload. Alternatively, PTAB might consider fee increases post-institution to handle any additional work.

CONCLUSION

The USPTO might also seek to identify internal cost savings to limit fee increases that will be borne by patent applicants and owners. For example, IPO has previously suggested that the USPTO could modernize its current compact prosecution policy and its “final” rejection, which are unnecessary and come at the expense of patent users and USPTO. We encourage the USPTO to examine possible changes to policies and systems that could reduce the need to raise fees and that will improve the efficiency of the patent examination process.

Thank you for considering these comments. We welcome further dialogue or opportunity to provide additional information to assist your efforts.

Best regards,

A handwritten signature in black ink, appearing to read "Henry Hadad". The signature is fluid and cursive, with the first name "Henry" being more prominent than the last name "Hadad".

Henry Hadad
President