UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT PUBLIC ADVISORY COMMITTEE

FEE SETTING HEARING

Sunnyvale, California

Thursday, February 23, 2012
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MR. MATTEO: Welcome, everybody. I'd like to call to order this public hearing for the Fee Setting Authority of the U.S. Patent Office. I want to thank, in particular, the members of the public who are here, the PTO presenters, in advance, and a special thank you to all of our presenters who will be sharing their thoughts and opinions with us.

I'd like to do some introductions. First, myself, my name is Damon Matteo, I'm chairman of the USPTO Patent Public Advisory Committee. And with me to my left I have the balance of our finance subcommittee, led by Esther Kepplinger, Ben Borson, Wayne Sobon, and joining us online is the balance of the PPAC, Louis Foreman, Clinton Hallman, Valerie McDevitt, Steven Miller, and we have Michelle Lee with us here in the front row.

So, what I'd like to do before we begin is do a little context setting before we discuss
things properly. As you know, or may know, the Leahy-Smith America Invents Act provided the USPTO with limited fee setting authority. What it also did was give PPAC -- is that any better? This is a small room, I can't believe we need the microphone, but -- better? Well, I'm just going to go ahead anyway.

What you may not know is that the Leahy-Smith America Invents Act also provided PPAC with two additional obligations. The first was to solicit public input to any proposal the PTO makes for fee setting. That's the reason we're here. And also, to provide a report to the PTO which will incorporate public input as well as the PPAC input. So, in service of that objective is why we're all gathered here today.

And in terms of the program, what we'll have first are opening remarks by, again, the head of our subcommittee on finance, Esther Kepplinger. We'll have remarks by David Kappos, Under Secretary and Director of the USPTO. And we'll have a presentation setting forth the overview for the fee
setting proposal, some context, process, and next
steps by Michelle Picard, senior financial advisor
to the USPTO. Okay?

In terms of protocol, PPAC is here to
listen. This is your opportunity to speak. I
will not be making opinions, rendering value
judgments, et cetera. This is your time to be
heard and we're here to listen and, later, amplify
your voice when we provide our report to the
USPTO. We do have several scheduled witnesses and
as an opportunity for those among us who wish to
make unscheduled testimony to do so.

With respect to the testimony, we'll be
providing 15 minutes for each speaker. I would,
again, in service of the objectives before us, ask
each speaker to focus their comments on the fee
setting proposal. Clearly, a myriad of things are
linked and dependent upon that different
operational facets of the PTO, but if you would
focus on fee setting or, at the very least,
redirect your comments as to how they have
implications for fee setting.
In terms of unscheduled witnesses, are there any of those with us here today, so we can provide for scheduling? One? Okay. Well, thank you very much.

So without further ado, what I would like to do is turn it over to Esther Kepplinger for some opening remarks. Esther, again, is head of the PPAC Finance Subcommittee. Esther, please?

MS. KEPPLINGER: Thank you, Damon. Good morning. Welcome. Thank you for joining us this morning and we really appreciate your attendance and participation in this important event. As Damon indicated, we do have the statutory obligation to give comments to the PTO and recommendations and suggestions with respect to their proposed fee setting ability. And we will be providing a report, as Damon indicated, to the USPTO, which also goes to Congress. And so we value any input that you can give us, that we can incorporate in to the report or concepts that we can consider as we write this report.

So, please, I do encourage you to give
comments to us in addition to the testimony that you provide today. If you have additional thoughts or comments, that you get those to us, the PPAC, and/or to the USPTO so that all of it can be taken into consideration when we draft that report.

So thank you very much for coming and we hope that we can get good input from you on this. Thanks.

MR. MATTEO: Thank you very much, Esther. Just to build on what Esther said, for those of you interested in submitting comments, you can find access to different vehicles for doing so on the USPTO American Invents Act micro site, or via the PPAC micro site on the USPTO website. Alternately, you can use the e-mail address fee.setting@USPTO.gov. And for those of you interested in submitting comments, please do so by February 29th in order to have them fully comprehended and considered in our report.

So, what I'd like to do now is introduce the Under Secretary and Director of the USPTO, Mr.
David Kappos, for his opening remarks.

MS. KEPPLINGER: I just wanted to add
one thing. We do have two more members of the
PPAC: Catherine Faint from the PTO, and I believe
she's joining us online; and Robert Budens, also
there from our unions, internally -- at the
USPTO's unions. And so I just wanted to recognize
them as well.

MR. MATTEO: Oh, thank you, Esther. I
hadn't realized they were online with us.

Without further ado, Dave?

MR. KAPPOS: Well, good morning. Thanks
all for joining us this morning, taking time out
from your busy schedules to help us at the USPTO
and to help our Patent Public Advisory Committee
to undertake this big challenge that we've got.
I'll just make a very few brief remarks.

First of all, again, to welcome everyone
and to thank you for your interest in what is a
historic moment for the USPTO and a moment of
stewardship for us, which is this new
responsibility that we've been given under the
Leahy-Smith America Invents Act, for the first time, to set and manage our own fees at the USPTO. And as is probably apparent by now, we're taking that responsibility extraordinarily seriously and considering it a public duty on our part to do the very best possible job we can, listening to the U.S. innovation community, which is why we've come to the Valley -- the Silicon Valley here in Northern California, to hear from the biggest concentration of USPTO users on the planet and the world's biggest innovation community, and to hear about what you think we should be doing relative to fee setting. Right? And so we are very much open for suggestions.

As we've commented on several times, the proposals that we put out act as sort of bookmarks. One, on the one hand, a proposal that will enable us to continue aggressively reducing our backlog of unexamined patent applications and to continue aggressively improving on our pendency and doing other things to improve the agency. And then, of course, a price tag associated with that.
And then another bookmark, if you will, that says, if it's a case that the U.S. innovation community and, indeed, our country no longer wants us to aggressively pursue those kinds of goals, doesn't want us to aggressively reduce pendency, doesn't want us to aggressively reduce the backlog and, instead, wants us to put as a priority to essentially maintain the status quo, here's what we'd be able to do under a sort of status quo approach.

Those two bookmarks having been laid, we're very interested to know what you think is the right way for us to go on specific fees on the entire proposal as a package. Everything is up for discussion. There's absolutely nothing that we're not willing -- if I can use two negatives -- nothing we're not willing to discuss and hear about.

From a principle prospective, the thing to keep in mind, as has been said many times, but bears repeating, is that you get what you pay for and there's no such thing as a free lunch. It's
the same thing with a government agency like the USPTO that's entirely fee-funded. We are not able to depend on taxpayer dollars in order to run the USPTO. We depend fully, only, and exclusively on fees paid by our user community. And, of course, those fees are what goes to examining patent and trademark applications. And, moreover, we're still sitting on about 650,000 unexamined patent applications for which there is no money in the USPTO to get that work done. The money that was paid years ago when those applications were submitted has long since been spent on other things.

And to that money, this does not exist. If it's the view of our country that we are to get on top of that backlog and reduce it to acceptable levels, somehow or other money is going to need to get paid into the agency. In fact, more money is going to need to get paid to provide the goods and services that are being requested currently because the money to do that work simply isn't there.
So this is an opportunity, in my view, for us to have not only a discussion about fees, but also a discussion about what it is that our country wants from its patent and trademark granting authority. And we do recognize, in that regard, that again we will all get what we pay for and we will also face the situation very quickly. Whereas we talk about individual fees -- if we talk about reducing a fee -- that folks in our user community feel we have proposed at too high a level, we will either also then be talking about raising another fee, or we will be talking about not being able to conduct the services at such an aggressive level as up until now, I have understood as the leader of this agency, the U.S. innovation community wanted us to perform.

So, that's a long way of saying this is a rather complex matter. We have lots of fees we've got to consider at top level. You know, what it is our country wants us to do at the USPTO and that objective then sets a benchmark which then has to flow down into the income in order to
get all that work done. So I hope we'll have a
discussion today that enables us to touch on all
of those topics. Again, we're very much open to
all of your comments. We are attempting to be
extraordinarily transparent about this process. I
think we put out something like 3,000 pages of
proposed rulemaking that touches on all of this
stuff: The fees and the surrounding substantive
procedures that, of course, affect the fees.
However, if there's any other specific information
we haven't put out, we'd very much like to hear
about it. Frankly, it's a lot more helpful to get
specific input on ways we can provide information
as opposed to just having folks say you need to be
transparent because we're already attempting to be
historically transparent. So, as much specific
input we can get is going to be extremely helpful
to us.

With that I'll stop and say thank you
again. And a number of us from the PTO will be
here to listen and understand your comments today
and we're very much looking forward to them.
MR. MATTEO: Thank you very much, Dave.

What I'd like to do now is introduce Michelle Picard, who will walk us through the process -- an overview of the fees -- and speak to next steps.

Michelle, please? If you would?

MS. PICARD: Good morning. I'm happy to be here to provide you with an overview of our fee proposal and walk you through the different aspects of the information that we have presented out there and talk a little bit about the proposal from the high level, and then get into some of the individual fees and the path forward.

I think the objective -- I'd like to echo what Dave said -- the objective in this presentation, walking through the information, is to try to give you an overview of the different relationships among the data that we have, the rationale behind some of our proposed fee changes, and to just give you a better understanding, so that while you're preparing your comments to the PPAC and the PTO, they are somewhat targeted and related so that we can take them on as to
The first thing I wanted to do before getting into the details is talk about some of the information that's already out there on the website. If you are familiar with the website -- Damon had mentioned the AIA micro site and the PPAC site, both of those websites have a copy of this presentation. They have an executive summary which is in a little more detail than this presentation. They have appendices supporting how the costs were calculated, both historical view of the cost and the prospective view; how we calculate our aggregate revenue; more information on the operating reserve; all of these different aspects. It has the complete listing of fee changes and it has calculations supporting the aggregate revenue, even in Excel, so that you can go out and analyze the data yourself.

So, the first thing I wanted to do in walking through this is to probably echo what Damon said about the process. So, as we go through the process, you may be aware that we have Notice of
Proposed Rulemakings out there today for some of the new AIA processes we're putting in place. You'll hear more about that tomorrow, but I wanted to spend a little time explaining the difference between the fees that are being set under that process and the fees that are being set under this process with Section 10.

So, you'll see this timeline. It's about 17 months. The rulemakings that are out there right now for notice of public comment, we're estimating a timeline of about 12 months to complete. Today we have authority to set fees that are not already included in statute on top of the Section 10. We've always had that authority and it's in 41(d)(2) and that allows us to set fees and recover the cost of that particular service.

So the fees that are out there related to the Notice of Proposed Rulemaking that you're commenting on today are calculating the cost of that particular service and recovering the cost of that particular service. Under section 10 fee setting,
the mandate is that we ensure that our aggregate
revenue is recovering the total of the aggregate
cost, so it also allows us to set fees below or
above cost as long as the total cost equals the
total revenue. So, you'll see as you go through
Section 10 that some of those fees that are being
proposed in the Notice of Proposed Rulemaking now
are also in there under the Section 10 fee
setting. And we're setting them, in most
cases, at the same fees that we're proposing
through the process that's out there right now.

We're interested in your input as we go
through Section 10. We do have the ability to
change those and then we'll get further into the
presentation, we'll show one place where we are
proposing to change it in Section 10.

So the reason that the Section 10
process takes longer than the 41(d)(2) process is
because of the PPAC hearing that we talked about
and the ability to, first, do an initial proposal
of fees, get the public comment to the PPAC, have
the PPAC write their report to the public and the
Office to consider as a part of the Notice of Proposed Rulemaking. So you'll see on this slide, in the kind of a circle at the bottom, that's where we are today in February. We talked about in the Federal Register notice that comments are due by February 29th, which is next week. That is to allow the PPAC some time to complete their report and get it to the public and the Office in enough time for the Notice of Proposed Rulemaking. Through the fee.setting@USPTO.gov email, we're monitoring those comments. We're delivering them to PPAC weekly and we welcome your feedback to come in.

So, the other piece I want to say is that the public has this opportunity and then, also, the normal Notice of Proposed Rulemaking opportunity in June to be able to comment on the proposed fee structure. So I'm presuming that the comments that we hear and the feedback we'll hear, there will probably be some changes from this initial as we consider where things are. And then you'll have another opportunity to comment through the formal process there.
So the next thing I wanted to do is just talk a little bit more about the fee structure and what our objectives and goals are, and this is following on a little bit to what Dave said, and the bookmarks. So, I think that the way we decided to start -- or I decided to start this presentation is the status quo. Where would we be, from a context perspective, if we decided to set fees using Section 10 at the 15 percent surcharge level and also accessing the micro entity fee? Because we can't access the micro entity fee unless we set the fees under Section 10 and we want to do that.

So this assumes, if we were to do that, we would collect about $2.4 billion in patent fees. That's only $100 million more than we anticipate collecting today. And the fees would pay for the cost of planned activities at $2.4 billion. If any of you have looked at our President's budget that we just released on the 13th, -- our planned costs in 2013 are more than the $2.4 billion to be able to address the backlog in
pendency.

So I'm going to kind of go to the chart below now. There's shaded bars in the back. Those are application filing levels. Those continue to increase in the out years. Our projection in looking at the economy and all of the indicators are that filing will continue to grow. The dark blue/purple bars are backlog, and then the red line is the number of examiners on board at the end of the year. The numbers above those are first and total pendency numbers.

So, if we were to operate at this $2.4 billion level we would probably continue with our plans to hire 1,500 examiners in 2012, but we would not have the funds to continue doing that in 2013 as our plans are. So you'll see that through 2015 we will be reaping the benefits of all those hires and increasing our examination capacity. And in 2025, first action pendency we estimate to be 12.7 months. In 2016, total pendency we estimate to be at its lowest at 21.1 months.

You will see on this chart that we never
hit our 10-month and 20-month goals. So, at the
time, you know, in 2015 and 2016, is when we
believe in all of our estimates that while we're
working down the backlog, the application filings
start getting the best of us and we start going in
the opposite direction again. We can't keep pace
with the filings that are coming in the door and
work down the backlog.

So, you know, I'm not trying to -- I
don't want to paint this as a dire situation
because the Office would continue to pay its
bills, we would continue to do our best with the
momentum that we can, but because the funds would
be less than we would anticipate, we would end up
probably slowing down some of our IT improvements.
I mean, we would continue to do all that we can
with our quality improvements and some of our
other strategic operational efficiencies, but our
anticipation is that they would be at a slower
pace. We would not meet the goals here. And
unless we had an infusion of some resources, while
we would have progress through the 2015, it would
flip around the other way.

So I think that -- some people, when you look at this, they say, well, what happened? When you submitted your 2012 President's budget, you said that at a 15 percent surcharge level you were going to hit 10 and 20. Why aren't you going to hit it how? Which is a really good question.

In our 2012 President's budget we assumed we would have the 15 percent increase in patent fees effective for all of that Fiscal Year 2011. So we know the AIA was the law that gave us the ability to charge the 15 percent surcharge and that happened effective September 26th of 2011. So for all intents and purposes, not for 2011 at all.

So that's lost revenue to the Office that we had planned to use in trying to meet the 10 and 20 goals. The other thing is, for those of you who are maybe aware, when the fee change went into effect there was a 10-day implementation window -- the law was passed on the 16th, the fees became active on the 26th -- and between that 10-day window the
Office collected about $130 million -- or over $130 million of fees than we anticipated collecting in 2012. And in the federal government that actually became a problem for us because we get our authorization to spend our fees through the annual appropriations and we were already in excess of that level by a little bit. So all of those fees that people paid in advance of the fee increase, which is a natural occurrence -- I would probably do it the same -- was not available to the Office to spend and work down the backlogs.

So, in 2012, while we were anticipating those fees, those also aren't available to us in 2012, either. So when you take all of that and summarize it together, I'd say it's over $300 million, probably close to $400 million, of income we were planning on to meet our backlog and pendency goals that the Office did not have at its disposal to do so. So that's a little bit of the reason why there is an increase now to try to work off this deficit in the backlog that we have.

So that leads me to the next slide. The
next slide is the view of backlog and pendency
under the proposal. So, under the proposal we
would anticipate collecting about $2.6 billion in
patent fees and with that we expect to spend of
planned spending of $2.549 billion. So that would continue
with the hires that we were planning to increase
examination capacity in 2012, and also allow us to
continue to do the same in 2013. There is about
$137 million that we estimate right now that we
would put into the operating reserve, and I'm
going to talk a little bit about that on the next
slide, so I won't spend a lot of time there.

But with this additional revenue -- and
I'm probably going to take a minute to talk about
all of these numbers because there could be some
confusion. The $2.4 billion I just talked about
on the previous slide is what patent revenue would
be in the event that we didn't change the fees
above the 15 percent. The $2.686 that you see
there is what patent revenue would be under the
proposed fee changes. If you happen to be looking
at our 2013 President's budget, you'll see a
number in there of $2.9 billion. The $2.9 billion
is the total USPTO revenues, so that includes the
trademark fees. So I just want to make sure that
if people are looking at things that you are not
confused.

So, in total, the 2.6 is a subset of the
2.9. It's the patent piece of that. So, if we
look at this, you'll see that this chart is
basically the same with application filings. The
backlog we end up getting under control in 2015
and we meet our total pendency goals in 2016. Our
examiner hires, while we would continue to hire in
2013, starting in 2014 we would start leveling off
and doing attrition replacement now that we have
the resources on board to overcome the backlog and
then begin maintaining.

So where we would be in the future is at
a maintenance mode, keeping pace with all of the
patent applications coming in the door. We also
planned that we would continue with our IT
improvements, our quality initiatives, our
strategic initiatives -- on track as we had talked
about and not necessarily needing to slow those down.

One of the things that may not be apparent when you look at this, and for those of you who may have looked at the President's budget, you're not seeing all of the process improvements and efficiencies that the Office is doing as we go through with this. So in the 2013 President's budget you actually -- we point out where we have included about $30 million in cost savings and cost reductions as a result of process improvements that's been ongoing in the Office.

So, in parallel with all of this, we're not just sitting there saying we're going to increase fees because we've just got to recover the cost of the Office as we work through this. We are making sure that we're doing it responsibly, that we're looking at our processes as we're -- each year and on an ongoing basis, and to see if there's any changes to either improve the quality of our services or reduce the cost of the operations. And I think that while 2009 for
USPTO was at a -- it was a hard time financially for the entire nation, it did allow us to almost scrub down to bare bones. So we were at the point in 2009 of spending of barely keeping the lights on, barely paying salaries, and it was a good opportunity for us to realize what may have been some fluff and what wasn't. So as the years have marched on and we're starting to do some recovery, we as an organization have chosen to not just add all of those services or where we were prior to 2009 back. We actually went through a process at the executive level to make a decision on are these services that we as an agency need to get to the mission of examining patents and trademarks, reducing the backlog and pendency, and make decisions on what to put forward? So some of the things that you probably are not even aware of as you see the process improvements and may not be connecting them with the cost saving measures that are going on. One of the things that's out there are e-petitions and those, from our perspective, actually save the
examiners time and improves quality and have less
rework for the Office, so it's saving us money in
what we’re doing and that's being recognized
in prospective costs. The patent prosecution
highway and work-sharing with other offices --
trying to reuse the work done in other offices --
that's saving us money and it's included in the
cost of looking at what our revenue needs to
cover.

First action interview, I mean, those
are something that we're really seeing the results
of. Trying to get things done earlier in the
process, by getting them done earlier in the
process it's costing the Office less money. We're
not having to spend money further down in a
lengthy prosecution. It's saving you money and
it's saving us money.

So those are just some examples of some
things we've already done. We have a long list of
other process improvements that we're working in
the Office, getting ready to perhaps go out with
the public, but just things to improve. Our
approach is it doesn't matter how small or how big, if we can chip away at every little process improvement through the examination process, it helps in the long-term in reducing costs. So, that's something that I just wanted to spend a little bit of time talking about.

This next slide is a little bit about our operating reserve. So, you saw in the previous slide that in 2013 we plan to put some funds in an operating reserve. Today, and in 2009, the Office did not have any backup funds, any money to be able to look to when the revenue -- when we had a decline in revenue. So the operating reserve is basically just a portion of our fee collections that we carry over from year to year to be able to sustain operations in times like 2009, and it gives us the ability to absorb and respond to those unanticipated shocks.

I mean, this is something that any good business, especially someone like us that is such a large business, fee-funded, we're an operation that completely depends on the cash coming in
associated with the work we do. And so, you need
to have some money in reserve.

We spent a lot of time researching it.
What we see in the industry is an organization
that has risks on both sides of your operating
structure -- both spending and revenue risks --
and I'll explain that a little bit. They say that
you should have a minimum of three months
operating reserve. They also say you could up it
to six some times of the year. The Office has
decided that we can mitigate our risks with three
months and that's an adequate level. So part of
our goal over the next few years is to build up to
that operating reserve, and that is where some of
the fees are going.

MR. KLEY: What happened in 2009?

MS. PICARD: In 2009, with the economic
recession, the Office had a -- probably about $200
million decline in fee revenue we were
anticipating to come in. And it had been so
significant people not renewing their maintenance
fees, but we still had all this work in the door.
We stopped hiring. We were literally turning off, you know, just like other businesses do, too. We had to reduce all of the spending and we almost were at a point where we were having to discuss letting people go. So, what we're trying to do is get to a point where the Office is more financially stable -- more financially sustainable and stable, so that when there are fluctuations in workload and revenue.

And another good example is as we get into some of the more details of the fees, you know that our filing search and exam fees, as they come in the door, they don't nearly recover the cost of working on an application, as they shouldn't be because we want to make sure there is low entry from a policy prospective into the innovation system. So when our application filings are higher than we plan and the maintenance fees, those type of fees that subsidize those application filings, remain at the level as planned, we're already out of balance in the fee structure. We already are able to -- we won't
have the revenue to work off that backlog, so the
operating reserve will allow us to keep it at the
and backlog, and determine if this was a temporary
change or a long-term trend that we need to
address financially.

At the time the money goes into the
operating reserve, it has already been authorized
for us to spend. So, the authority for us to
spend the fees are already there.

SPEAKER: (inaudible) until the
probation requires it?

MS. PICARD: No, for these fees, as
we're talking about in the operating reserve, they
have already been appropriated to us. So they're
very different than the fee reserve fund that is
in the AIA.

I'm going to go ahead and continue on
with the presentation. This slide is busy, but
the only thing I'm trying to -- the objective I
want to achieve with this slide is for you to
understand the relationships of the data, the
information, and the balance. Over on the
left-hand side are our applications, the backlog sitting there, and new applications coming in the door.

On the right-hand side are our goals. So, we're trying to reduce the backlog in pendency, get these applications examined timely, so they can get out there in the market to you, so that you can take them in the marketplace and actually reap the benefits of them. In doing so, we are trying to balance the aggregate cost against the aggregate revenue. The red side of the slide is our cost, which is our existing examination capacity right now. We're trying to increase examination capacity, put in new requirements related to the AIA, continue with our capital improvements. This is things such as the satellite offices and things like that. Trying to expand our locations, as we do with the satellite offices and improve the IT systems, we're having to expand the infrastructure to make sure that we're able to take care of all of this.

And at the same time, it's a balancing
act because those new applications that are coming
in the door is what's driving the level of our
filing fees. The production of the examiners is
what is driving the issue fees in those years.
The amount of allowances and the amount of
disposals is dependent on the issues fees and the
revenue. And then the maintenance fees are driven
by the work we did 3-1/2, 7-1/2, and 11-1/2 years
ago. So there's many competing factors in
figuring out aggregate revenue and aggregate cost.

For the years coming up, you'll see that we'll be
funding the operating reserve a little bit. Once
that's funded, you won't see that anymore on that
side. In the operating reserve down at the bottom
will be the balancing skill that helps us keep
this aggregate revenue and aggregate cost in line.

So, the purpose of this was to just kind
of give context of the bigger process before we
get into the individual fees, so I'm going to kind
of transition a little bit into changes in some of
the -- the more notable changes in our fees. I'm
not going to go through every single fee that's included in the Table of Patent Fee Changes, but in that Table of Patent Fee Changes, also referred to as Attachment 1 there, is a -- you'll see the current large entity and small entity fee, the proposed large entity and small entity fee, and the proposed micro entity fee. And you'll see the estimated cost to the Office of the activities supporting those fees. So there's some good information in there as you're looking to provide us comments.

I want to take an opportunity to talk about how we approach setting the fees. So we first talked about the aggregate revenue and the aggregate cost. We knew our goals. We knew what it cost the organization to get there. You know, for us, figuring out what it costs is pretty routine because we have over 70 -- probably 75 percent of our costs are in compensation and benefits, so we know how much it's going to cost to pay all of those people in the out years. You have rent and utilities. There's
only, probably, maybe 7 percent -- less than 10
percent -- of our costs that are new things that
we're not used to costing out. So, as we go
forward and we know what our aggregate costs are
and what our revenue needs to
cover.

We started talking about each individual
fee. And we started from a frame of reference:
What does it cost us to do the activities
associated with those fees? And within the
Section 10 authority, we don't have to charge the
cost for those fees. And some fees, by policy
decision, we've chosen to set below the cost and
some fees are kind of to be subsidized, and some
are set above the cost to do the subsidizing.
We'll get more into those in the later slides.

But you'll see that the proposed fees
are intended to be effective in February of 2013,
except for there is a consolidation and decrease
of the PGPub and issue fee that's proposed, and
that's proposed to be effective in January 2014,
which will be into the Fiscal Year 2014, and we
chose to delay that decrease because if we would
have done it in 2013, we wouldn't have had enough
revenue to operate on and meet those goals.

And then when I talk about that fee a
little more, you'll see that that was the right
one we felt like to choose to delay the increase
-- I mean, sorry, delay the decrease because those
applicants that would be paying the proposed
increase in filing, search, and exam fees would
then have the benefit of the decrease in the issue
fees. If we did it in 2013 it would almost be a
dual benefit: Those that paid the lower filing,
search, and exam would also have the lower issue
fee. So we tried to think this through and be
kind of fair about the process.

The only other thing I want to point out
before I get into the individual fees is that in
Section 10 we're proposing a micro entity fee for
every fee that we can legally and statutorily do
that. And in all cases, even with some of the
proposed increases, a micro entity will pay less
under this new proposed fee structure than they do
as a small entity today.

So the first set of fees I'm going to talk about is the basic filing, search, and exam. If you look at this, we decided to kind of group them all together because you pay for them -- you submit your fees all at the same time right now. Today you pay about $1,250 for a large entity's filing, search and exam fee. And in every place on these slides -- just so they weren't so busy -- we're using large entity fee as the prospective and, obviously, the small entity is half of this, and a micro entity is half of the small entity.

So, the cost to the Office for this service, for examining a basic filing, search, and exam -- for examining a basic utility application -- is about $3,900. So, today the fees recover about a third of the cost. We felt, in looking at the fee structure in the financial stability, that that was a little too unstable. As time has gone on, it's a little -- we felt like we needed to move a little more of that revenue up front, so our proposal is to --
the total of those fees being $1,840, which brings us a little over 45 percent of cost recovery. So we're still not recovering the cost. As a policy from the Office, we don't think we should recover the cost of the up-front right now. We're interested in hearing what the public has to say about that. But the goals still -- we felt like it was a good balance between financial stability and the public policy of easing the entry into the IP system.

You'll see that the fee that we chose to change the most was the examination fee and that was mostly because when we looked at the cost compared to the fee of the activities, you'll see that the examination cost is the most expensive of the $3,900 and today the fee is the least amount. So we also tried to bring the ratio of the fee in balance with the ratio of the cost, and what it cost the Office to do those services just to try to balance it there, too.

So then I move onto prioritized examinations fee.
fee that just went into effect with the AIA, and
today the fee is $4,800 for a large entity and
$2,400 for a small entity. Under the Section 10
fee setting, there will be a micro entity fee
associated with it.

We have chosen to propose this fee at
cost for a large entity, so the way the fees are
established right now is, in aggregate for that
process of prioritized exam, we're recovering --
the revenue is recovering the cost of prioritized
exam. So we increase -- the statutory fee had an
increase to the large entity fee to basically
subsidize the small entity decrease. Under
Section 10, we're choosing to have that small and
micro entity subsidy elsewhere in the fee
structure and not specific to this process.

So, today, when you do prioritized exam,
you also have to pay your filing, search, and exam
fee. And you'll see by looking at these two sets
of fees that if you were to request a prioritized
exam under this proposed fee structure, you would
actually pay less than you do today, even with the
So I'm going to move on to the next fee, which is application size and excess claims. We're proposing increases to both of these fees to keep in line with our goals of compact prosecution, trying to encourage prompt conclusion of an application, and just a more focused application. As we're going through the process, we think it's going to be more cost efficient for us and for the applicant.

Extension of time fees are the same rationale and philosophy, that with efficient and prompt conclusion of application processing we think we'll be able to help in focusing on our backlog in pendency goals and be able to get these applications examined and out into the public domain sooner, for all of us.

Request for continued examination fee. This is one that we've heard a lot of feedback already from the public, and you'll see -- for a request for continued examination, the Office estimates our activity-based information data is
telling us that it costs us $1,696 to process and
RCE. Some people say, well, I know it costs less
to do an RCE than it does a regular application,
and intuitively this doesn't seem right. But if
you remember on a regular application, even though
the fees are only $1,200, the cost is $3,900.
It's almost $4,000 to examine an application. So
this is correct. It does cost us less to do an
RCE than it does a full-blown application.

So, our proposal is to set the fee at
cost for a large entity. So, again, this means
that a small and a micro entity subsidy for this
fee will be elsewhere in the fee structure, not
for a large entity subsidizing for the complete
process. But we are choosing to do this for
several reasons. When looking at the fee
structure, we realized that the subsidy for RCEs
is probably happening up there with regular
applications and we wanted to be able to focus it
on the process itself. And simultaneously with
the Section 10 fee setting and the proposal for
changing an RCE fee, we're also doing several
process improvements related to RCEs, trying to
find ways that, you know, sometimes the public
feels like they have no choice but to do an RCE
for certain actions in the Office.

A good example of that might be
submitting an IDS after the payment of an issue
fee, after the notice for that. And so, what
we're trying to do is look at ways such as that
that we could propose pilots and processes for the
public to be able to submit an idea after an issue
fee, and that's something that you should keep an
eye on. I think in another few months we're going
to be proposing a pilot relating to that, and this
is a really good example of the Office not just
looking at increasing fees, but paying
attention to the process improvement and improving
the process. We're trying to reduce the number of
times and reasons why an applicant even feels like
they need to go to an RCE.

So, another example that we're looking
at is ways to incentivize or, you know, be able to
give examiners some additional time -- on
amendments after final rejection. So this way the applicant and the examiner can focus on things and maybe if there is -- you know, obviously for the purpose of finding allowable subject matter -- if we're able to get to that point then an applicant may never need to submit a request for continuing examination.

So I think that this is another example. I think that one will be following the pilot on the IDS. Both of these coming out this year, we plan to propose and implement and work with the applicant community and evaluate that. And that's just the first couple of ones that we're working through. And the goal is -- with us bringing these out this year, they would be in effect even before these fees became effective. So, our goal is to not just increase fees, but change the process some and really look at process improvements to help the applicant community and the Office and eliminate the number of -- reduce the number of times that we need to go to reduce a request for continuing examination.
For those purposes, and all of those process changes that we're looking at, that's actually also another good reason to set this fee at cost recovery because if in the future we find out we're not having as many RCEs being filed -- which would be great, I think it's great for you and the Office -- then at least the revenue is recovering the cost related to that process so our aggregate revenue isn't quite so dependent on how many of these are coming in in the future because it's almost balancing within itself.

The next fees I'm going to talk about are pre-grant publication and issue fees. So you'll see today -- before I get into the actual fee amount, this is a good example of when we went through the fee structure, we actually took a step back and tried to determine the points in time that we felt an applicant may have additional information or enough information to make decisions as you're going through the prosecution pipeline. So, for an issue fee, today you pay both your PGPub and your issue fee at the same
time. There's no reason you have to have two fees for that, so we decided to consolidate them into a single fee. Trying -- the first step is starting to simplify the fee structure.

The other thing we did is look at the issue fee in relation to the first stage maintenance fee, and I'll get into a little bit more detail on that on the next slide. We started realizing that the issue fee and PGPub combined together was a significant amount to pay and you didn't really have that much information. Once your patent was allowed, the uncertainty related to the marketability is probably at its highest. You know, as the time marches on, you become -- you have more certainty.

So we decided that this is a really good place to decrease fees and it offsets the increase in filing, search, and exam, and it offsets increases in other places, too, which we'll get into more on following slides.

The appeals fees is a proposal where we're -- another place where we're really trying
to look at process improvement and trying to make things better for the applicant and the Office in making decisions as you're going through the pipeline. So, today, a notice of the cost for an appeal is about $4,960, so it's about $5,000 to do an appeal and our fees are about $1,240. So those are significantly under the cost of doing an appeal. And so, what we wanted to do is think about, as you go through the process, have a fee for a notice of appeal, and when you pay your notice for appeal fee, we're proposing $1,500. There will be no fee for filing a brief and if during that period of time the examiner happens to withdraw the final rejection, we're proposing to have a $0 fee for publication and issue.

So the net effect of all of this would end up being about $540 less than is paying today for just a notice of appeal. If you get to the point, after listening to the examiner's answer, and you want to go all the way to an appeal, that's when we were proposing this new appeal fee which is $2,500. It helps us to begin recovering
the cost of actually going all the way to an
appeal and is --

SPEAKER: Why isn't that included in
your pay allowance? That component, $2,500 for
appeal, that's not in your table.

MS. PICARD: The table of patent fee
changes?

SPEAKER: No, the spreadsheet of the
revenues you're explaining, it doesn't contain any
of the revenue for the (inaudible).

MS. PICARD: That is correct. As we are
proposing this and trying to get information as we
go through that, we're looking at the elasticity
associated with all of this in going forth. So
that is actually feedback, as you're doing your
comments and stuff, that we are interested in
seeing.

MR. SOBON: Michelle? For the audience
listening, can you repeat the questions from the
audience because they can't sort of hear the
questions.

MS. PICARD: Oh, sure. The question
was, on the information in the spreadsheets that are out on the website, he didn't see the appeal fee listed alone and the workload associated with it and the aggregate revenue calculation. And they're all embedded in the entire process.

So, I think that, you know, I'm okay clarifying some of the information you're seeing out there while you're giving your comments, and we just need to be careful because in this process we're supposed to be hearing and I'm not supposed to be having a conversation back and forth. And I know there's a fine line with that because I want to make sure that we're transparent and you have the information necessary for answering your questions, but that is what that is like.

So I'm going to move on to maintenance fees now. If you look at the maintenance fees, this slide, the slopes that are there, the blue slopes, is how our PGPub and issue fee are in relation to our maintenance fees today, so you'll see that you pay more to PGPub when you're issuing your patent. And then at the first stage you pay
less, and then as time marches on you begin to pay
more, but the slope isn't very steep.

Our proposal has you at your PGPub and
issue fee paying the lowest amount and as time
marches on and there becomes to be a little more
certainty in the value of your patent and the
marketability of your patent, that the fees begin
to increase a little more. And the steepest
increase is at the third stage maintenance fee and
there is -- when you look at the fee structure as
a whole and aggregate revenue as a whole, it's
clear that quite a bit of the money to work off
the patent application backlog is coming from
maintenance fees in addition to subsidizing the
front-end work that we do. And at the same time,
when we were looking at a lot of information and
research out there in the economy, you're seeing
that as a patent is out there -- you know, 11-1/2
years down the road -- the value of your patent is
a little more apparent. And the whole theory
behind this is it assumes -- maintenance fees
assume that the value of renewing is less than the
value of the patent that you're going to make in
the marketplace. So, at that third stage out
there is when we felt like it was the better time
to do this increase.

The last two individual fees I'm going
to talk about are supplemental examination and
declaration of oath fees. The supplemental
examination fees are one of the fees that are out
there in the Notice of Proposed Rulemakings today.
The cost amount that's there at the $5,180 and the
$16,120 is the cost that's proposed in the NPRM
today.

The proposal in the Section 10 is $7,000
and $20,000, and this was one of the ones that
through the Section 10 fee setting, it's the only
fee that we're choosing to propose differently
than what's out there under the 41(d)(2)
rulemaking that's out there today. And this is
one that we're interested in hearing your feedback
for. Our goal is and our rationale is that we
really wanted to encourage applicants to submit
all of the information as early in the initial
examination as possible.

The oath and declaration fees is actually a response to the inventor's oath and declaration Notice of Proposed Rulemaking that's out there right now. We've heard a lot of feedback that the applicant community would like to have a means by which to submit it later in the process and, honestly, right now, this fee amount is a placeholder. We wanted to make sure that we put something out there to generate a discussion with the applicant community on how much -- if it would cost us more to process it later in the process and evaluate that. So, you'll hear more on this tomorrow in the AIA road show information, but this is a spot that we wanted to also make sure that while you're reviewing those Notice of Proposed Rulemaking that's out there right now -- which I think the comments are due March 6th, if I recall, so they're coming up soon -- make sure that you're reviewing that in concert with the Section 10 information and giving the comments altogether to PPAC for the Section 10 and to the
Office for the Notice of Proposed Rulemaking.

This is a summary slide that gives us a perspective of the individual fees kind of altogether. So, if you look at this chart, the bar on your left is the sum of filing, search, exam, issue, and publication. This is obviously a very basic patent. You don't have extensions of time, you don't have excess claims, and we recognize that. But to just strip it down and, from a basic patent, what we wanted to show is that under the proposed fee structure, you would be paying less. So today you would pay $3,290 for all of those fees. Under the proposed fee structure, you would be paying $2,800 for that.

This is another summary view of the same information. The blue and red boxes on the bottom are what we just talked about. And as you start now looking at maintenance fees, the first stage maintenance fee is the green box. Under the proposed structure, you would basically be paying through first stage maintenance fee the same amount that you pay today. So there would be no
change through first stage maintenance fee. So that's getting your patent through the first three and a half years.

At second stage maintenance fee, there's an increase of about $730, or 10 percent, but that's also 7-1/2 years after patent issuance when you would be paying that increase, so we felt like that was the ability to look at it then. This chart doesn't show third stage maintenance fee because it was a little too busy to be able to see up there, and so that bottom bullet down there, if you were to pay through third stage maintenance fee, the total increase would be about $2,870. So that is where the largest increase is, in the third stage at 11-1/2 years.

But at the same time, only about half of patent owners that renew second stage actually renew third stage, so it's not really affecting the entire patent owner community, too. If you -- that little footnote down there at the bottom, if you look at our performance, our annual report, you'll see in 2011 -- I've got to get my fiscal
years right -- that about 60 percent renewed.

That was an anomaly because of all of the people
who paid the fees in that 10-day window to beat
the 15 percent increase. In general, about 50
percent renew at third stage.

So I think that basically summarizes the
major individual fee changes. And I think that
what we'll see in the proposed fee structure is
that with these proposed fee changes we're
bringing in enough revenue to work off the 650
applications that in the examination queue, to
address the applications that are coming in the
door, to be able to get our backlog down to the
desired level, to be able to meet our pendency
goals in 2015 and 2016, to get applications
examined faster and into your hands faster, and to
be able to start putting the Office in a more
financially stable environment to handle the
fluctuations in revenue and spending.

So I think that you'll see that it meets
the goals outlined in the PTO strategic plan. We
also believe there's benefits to you as an
applicant, that you'll have better operations at
the PTO, that you'll have more quality
examinations, avoid future backlogs, even in the
financial fluctuations, we really believe we'll be
able to manage through that and decrease,
obviously, the examination times if pendency's
decreasing, and giving the applicant community
more patent prosecution options.

So you'll see that some of these fee
changes was allowing a little more choices. You
know, at one point we went out in doing this fee
structure one of the objectives was to just
simplify, make it easier. But we realized, in
simplifying, it's not giving the applicant
community very many options. What we're really
trying to do is find the appropriate balance
between the two.

And one of the things that we haven't
talked about a lot, but obviously it will include
-- will be able to continue with some of the IT
improvements and stuff. And in the patent
community, I think you're going to see significant
changes in the next few couple years in the way
that you do business with the Office with the
electronic communication.

So, the path forward is comments. I
think we've talked about -- everybody has said it
-- that we really want to hear what you have to
say and we think that your feedback to the PPAC is
going to be very valuable to the Office in making
sure that we are able to evaluate everything and
all the information out there in our proposal that
goes out in the Notice of Proposed Rulemaking.

You'll see the website is there -- I mean, the
e-mail address where you can submit comments, and
we look forward to seeing your input. Damon?

Ms. Kepplinger: I just wanted to make
one comment and just reiterate, as Damon had
indicated earlier, we did not structure this as a
Q&A -- question-and-answer -- session. And
Michelle graciously took a few questions, but we
are, as the PPAC, very interested in hearing your
comments. So after the people that testify, we
will have the opportunity for other people to come
forward if they wish to make additional comments.

So, thank you.

SPEAKER: How long have you (inaudible)?

MS. KEPPLINGER: It's not a Q&A. It's really just designed to be a hearing where we take

in your input.

SPEAKER: How long will you be open for (inaudible) testimony?

MS. PICARD: As long as we need.

MR. MATTEO: Yeah. Within reason, we'll keep it open as long as is necessary.

Okay? So with that, why don't we take a brief break and reconvene about five minutes from now to give the scheduled testimony a chance to tee up their presentations? We seem to have had some logistical hitches with the computer, so we'll make sure everything is working. So we'll give ourselves five minutes and we'll reconvene here. Thank you very much.

(Recess)

MR. MATTEO: Welcome back, everyone.

We're prepared to begin the scheduled testimony in
the fee setting hearing for the USPTO Patent
Public Advisory Committee. First up we have Ron
D. Katznelson from IEEE. And with that, I'd like
to introduce Ron. Please, if you would?

MR. KATZNELSON: Thank you, Chairman.
Thank you, the committee, Director Kappos and the
staff, thank you all for your public service.
Thank you for coming all the way out here to
California and I'm pleased to be here.

I'm told -- actually seen that this
PTDL, this library at Sunnyvale, is probably one
of the earliest indication of the Silicon Valley
development. 1978 is when they started the PTDL
here, the library at Sunnyvale. So this is an
opportune time to come here.

I'm here on behalf of IEEE USA. My own
background is as an entrepreneur and inventor;
about 23 U.S. patents and applications beyond
that. But I'm here to talk about some of the
concerns the IEEE Intellectual Property Committee
has and what we would like to see in this process.

What I talk about is the fee setting
process itself, its unprecedented scope, new responsibility the PTO never had, except it did, theoretically, in 1980, when Congress passed an act that essentially vested fee setting authority with the PTO, which never really got exercised until 1982. It took it back, so PTO needs to take the stewardship very carefully so that Congress doesn't take it back like it did in 1982.

Public patent policy factors of fee apportionment -- and that's the important thing. There's no question about the fact that we will need to see additional fees coming to the Office. As Director Kappos said, you get what you pay for and you need more resources. The question is how you get them and where from. And that is an important point for the PTO to tread cautiously.

PPAC now has also an unprecedented job. It's now going to be entrusted with the advisory -- and the stress point is advisory role for the PTO in areas that it doesn't have institutional expertise or mandate to address. The balance between the front-end fees and the back-end fees
is an economic decision in which many factors come
in, none of which are easy or able to be assessed
by the resources that exist within the PTO.
That's where the PPAC needs to muster additional
resources to give its advice on these issues.

And to do so, it needs information. And
part of the concerns that we have is that the
Patent Office has done quite a bit to put all this
effort -- and, by the way, I do want to commend
the team on this monumental task of the rulemaking
process under the AIA. There's several dozens of
issues that I know are coming to you guys like a
bullet train going through train stops, and all of
these dates are statutorily mandated and you're
sitting there with the resources that you have
and, as far as I can see, all the rulemaking
processes, a lot of work, a good thought went into
it. So I commend you for it.

What is not under deadline is exactly
when to set those fees, and that's the one we have
a little more time. You have a minimal -- not to
diminish below, but you can take a little more
time to go through the PPAC process and the public
comment and to do some of the analysis necessary.

It committed to do so with a very
transparent process, so I will talk about some of
the desirabilities of transparency that we're
looking for. And we think the PPAC ought to
report when it actually has the information to be
able to report on, and that sufficient information
is yet to be forthcoming, we're concerned, from
the PTO. I'll talk a little bit about that next.

As I said earlier, PTO has neither the
economic expertise, mandate, or institutional
ability to actually make a determination about the
apportionment. It is inherently a non-neutral
party. It has an administrative role of seeing
the workload's getting done. Naturally, reduced
workload is a goal. You can do so by increasing
the up-front fees. When you increase back-end
fees, you don't change much of the workload.

Naturally there's a tendency, and it's
understandable, to try to control in-flow through
those fees.
Cost recovery is necessary, but it's done in both ways: Both the back-end and the front-end. It has to determine the fraction of fees to be collected up front as opposed to the back-end. It has to model and project the application attributes, the size, the claims, the continuations necessary to achieve patent protection, but that is something that the PTO doesn't have expertise in. Users might; the people who litigate and enforce claims, who look at infringement might. PTO doesn't have infringement expertise or analysis of what needs to be covered, how you cover a product.

Therefore, the PPAC has a role here to help them in the missing element and we are here to help the PPAC and try to get whatever you can to do that. But the PTO must help us disclose information in order for us to be able to be effective in that process. The up-front concept really is important. Low front-end costs enables applicants to defer patenting cost until they achieve commercial success. It provides low-cost
opportunity for discovery. You don't know which
invention is going to be commercially viable,
useful, or successful unless it comes to the fore,
unless it is applied for and potentially
published, and maybe you get a patent on it. You
would then see if it's viable or not. This is a
scouting process. This is essentially a process
where we cast a wide net and allow people to try
to accomplish an inventive goal in protection, get
investors to invest in it, and do it.
If there's a barrier to do that up
front, it's going to be harder to even try the 100
cases, out of which maybe 10 are successful in
terms of business. It also fosters more
disclosure, regardless of whether the applicant is
ultimately successful. And that's an element of
innovation that the PTO may not have in its own
resources to appreciate. The disclosure function,
there's a teaching and there's other values to the
public.
Getting more applications out is
important and it also has -- if you pay less up
front and more in the back, that means you're
going to have to weed out some of the chaff, some
of the patents that ultimately are not successful.
And Michelle talked a little bit about that as a
consideration in the out years in terms of
essentially increasing the back-end fees, and
that's an appropriate part of the policy.

So, the balance between the front end
and the back end essentially strikes at all these
four components. We have seen very little
analysis of the balance. The balance that you are
focusing on at the Patent Office is at the revenue
and the workload, and that's an important balance.
But what we need to do is also get information and
help you appreciate the balance of the two sides
of the pendulum for users and for the public in
terms of not being able to actually apply or
having a barrier to apply for or an appeal or any
process like that.

The other concern is that the
information that was provided doesn't permit us to
fully, meaningfully comment on these fees.
There's some information that we need in terms of the data. What's the underlying data and so on, and I'll talk a little bit about that.

This concept of the front end and the back end was ultimately set out back in public law in 1982 when it was very clear that Congress wanted to achieve a 50/50 break between the back-end and the front-end fees and that was part of the law. It was discussed and it was basically the basis for the fee structure that we actually inherited to this date.

It also liberalized rules to remove barriers, to increase applicants' activity, and those elements that we're all very familiar with really started at the same time. And that is awarding a filing date to applications submitted with missing parts, so get your invention, get your disclosure. We'll worry about it, get you missing parts, but we want your disclosure. We want that information. We want to give you a chance to apply. Deeming any paper to be considered filed with the PTO when it was put in
the mail in the post office, that's helpful, too.

You're writing a deadline, we know it is, it's right there.

Also, the ability correct inventorship.

Provided for automatic extension of time, it's an important process of maintaining the prosecution and not abandoning it and a revival if there's something unintentionally abandoned. So their every element of trying to help the front end is already spoken for and is there in the statute.

When Congress did that, it expected that the share of maintenance fees out of the whole cost will decline, will go down, and increase from 0 percent initially, because everything was without maintenance. You actually paid up front and the taxpayer paid over 50 percent to help the patentees. It was not fully funded by users at the time. Congress said in '82, let's get going, let's get it users funded, but we're not going to require that it's up front, we would like to achieve a 50 percent balance over time, when all matured applications come out and patents come
out. That was the goal. It was actually
codified; there's legislative history in that.

Now, why didn't we reach that goal? The
fees that were set according to that ratio assumed
a particular pendency. But guess what happened
during those years? Pendency got too long. We
got a lot of patents in the pipeline that didn't
fetch annuity revenues, maintenance revenues, and
they just -- revenue didn't come in. Now we're in
a constant process of trying to catch up with that
huge asset sitting at the PTO and, of course, part
of the effort that we and you are focused on is
try to condense that period. And that would help
free up some of that asset in fetching revenues in
the back end. And so it's clear that the
investment that you're considering making is
appropriate to do that, but be mindful of where it
comes from, where it could come from.

So, if we reduce the backlog, you'll
also have a contribution perhaps for improvement
in that area, but now the proposed fee that is
here has that increase that I'm showing at the
back end, at the years 2014 and 2015 -- and that's
based on the numbers that we've seen and what the
office proposes. So it actually makes it worse in
terms of the ratio.

In fact, the data that Michelle showed
is somewhat less relevant from the actual cost the
patentees will have to pay because included in it
is RCEs, included in it are appeals. So when you
do all of those at cost, you actually have
slightly higher front-end fees coming out in the
proposal. These are 2014/2015. You can see that
2010 -- the reason I'm not showing 2011 is there
was a spike in back-end fees and maintenance fees
in 2011 because of the change of fees, so it was a
huge increase: About $110 million that people
wouldn't have expected to see otherwise.

But that's a fair comparison. You can
see that that process occurred. Now, it is true
that what happens to be reduced here is the
publication and issue fee, but the same logic that
was explained to why that should be reduced and to
increase the maintenance fees applies to the very
front end, exactly because the applicant doesn't

know -- knows the least about the invention, about

what it is, a lot less he knows during the

prosecution of the application than he does when

it's time to pay the issue fee, okay? So it
doesn't quite seem consistent to, on the one hand,

justify a reduction of the issue fee, but not go

further and say the uncertainty is even greater at

the front end, let's reduce that even more.

So the concept doesn't seem to be fairly

consistent, but it is consistent with reducing

work flow. Now, as a country, we are the ones

sitting, probably, almost in the worst case in

terms of these ratios. If you compare our front
to back ratios in the U.S. to other countries, the

U.S. is at the top of the list here, almost,

except South Africa. These are assumptions that

all fees are paid through the term of the patent,

so obviously it exaggerates the back-end portion

because not all patents actually live that long to

actually support it. But at least it's an

indicator of what the relative mix is for us and
the rest of the world.

Now, that is not to disparage our system because when you look at the absolute prices, some of these countries -- and the EPO in particular -- are much more expensive than us, okay? And so this is not an indictment of the PTO's efficiencies. We probably have the most efficient patent office in the world in terms of how we use dollars per unit produced. But the problem is that there's a tendency in the administrative process to look at these things as a barrier for the agency to do its job. It's natural. It doesn't start today with this team, it's been there for years.

Back in 1928, when you thought when did the surcharge on excess claim fee took place and what was the rationale for it? It was not workload. It was allowing to control the amount of workload that comes in. So this -- we'll submit that list in the comments and I would like just to say that there's some fundamental facts related to excess claims that are inherent.
They're not in the expertise of the PTO. Why do we need more claims and what would be the impact if we start charging more? Whole new industries depend on a lot of these claims.

What will happen to various industries when they are faced with a 25 percent reduction of excess claims, which is what the PTO projects in the elasticity numbers for claims? Well, would disproportional impact be on certain industries and not others? Is this something the Office analyzed? What would happen to small business who actually have more excess claims than large entities? That's the nature -- what will happen? Is that going to be disproportional? Was that analysis something that the Office intends to do? What would happen to RCEs, the continuations? These things we only know now because there was a lawsuit during the Tafas case and we've got this information.

We don't know how these things look today; this is 2006. It's clearly important for us to evaluate and make some comments. Data in
the tables we saw and the analysis that was made
was examples -- I found there was zero elasticity
on appeals. Well, how is that done? We don't
even know how the elasticity studies were done.
None of them were disclosed. Was it done based
solely on the number of dollars coming in on
appeals? Well, what happens if appeals go through
the roof because there was more rejections? So
the normalization is important.

When you normalize the number of appeals
by the final rejections, you actually see a 20
percent elasticity problem, okay? And that's in
1982 when there was an increase of about of 2.3 in
the price of appeals, okay? These are measurable,
these are visible, they're there. You just have
to get the numbers and if you, you know, compute
that, you will get the results.

There are other increases that you can
look and they have a similar behavior, in 1990 and
so on. The 2004 increase was very hard to use
because of its huge rise in rejection. But when
you normalize it, you get these kind of numbers.
Conclusion: PTO should provide more information to enable meaningful public comment on this proposal. PPAC should report after it has all the information so it can be able to do this. This is economically significant regulation -- over $100 million -- and the President's order is to implement a regulatory impact analysis. A good thing to do is to do so before the PPAC has to comment on it because that's the nature of what the PPAC needs to work on and comment on. I'd like to see the PPAC see the impact analysis and then comment; the public as well.

Consider alternatives, increasing the back-end ratio. For example, if we have workload that depends on the number of claims, why do we only assess excess claims at the front end? Why don't we do it in the back end? If you want to fully recover costs based on complexity, it's appropriate to set maintenance fees based on the number of claims. Why not? Why do we do it only in the front end?

So, these are several ideas that should
be looked at, considered, before these fees are there, and I thank you for your time. (Applause)

MR. MATTEO: Thank you very much, Ron.

Our next scheduled speaker will be Ernie Beffel from Haynes Beffel & Wolfeld. Oh, here he is. If you would, please, Ernie? And remember, we have 15 minutes allocated for your speech. Thank you.

MR. BEFFEL: Okay. I'll try to keep it to 10 minutes since it's close to lunch.

MR. MATTEO: I think, if you can bear with us, I think we're transitioning.

MR. BEFFEL: Okay. While we're bearing with it, I'll pre-announce that I apologize for the title. Oh, okay, the title got changed. So if people -- I originally put a title up here, "Alternative to Punitive Pricing," but Michelle so completely convinced me -- (Laughter) -- that this was all exact cost recover that we changed the title. I don't know whether the people at home on the web have the same changed title? Excellent. Okay. Well done. Thank you.

MR. MATTEO: This is disturbing?

So, I'm from a small patent prosecution boutique over in Half Moon Bay. I'm speaking only on my own behalf; no constituency here. Like many other people, the cost of RCEs and the new appeal filing fee to continue with your appeal caught my attention immediately and I thought it was a little bit punitive given the kinds of circumstances in which RCEs and appeals sometimes happen.

I have three points to make today. One, be skeptical about aggregate elasticity curves because they mask what's going on in each of the constituencies that you're really addressing. And that's what we saw in the IEEE graphs there.

Two, improving efficiency is more a matter of collaboration in pricing, as we found when the collaboration improved so much right after we changed the count system. We got a great deal more productivity with a very small marginal change.

And three, discouraging behavior through
pricing can have unintended consequences. When I
went to law school, law and economics and modern
legal theory were just coming into their own.
That's how long ago it was that I was in law
school. One of the things that we saw in the
battle between those two points of view is that
the aggregate assumptions of economic analysis
tend to mask what's going on. And there are lots
of people for whom your intended pricing doesn't
really change their behavior. The primary example
in law school was in the environmental area where
they were trying to figure out what level of fine
would discourage a certain kind of polluting
behavior and they taught us all that were some
industries for which the fine was way too much, it
would put the company out of business, and some
industries that would be happy to take the fine
and continue polluting as long as they didn't get
into the criminal penalty area.

So that is my perspective. I represent
a lot of small people. I represent big companies.
I represent in-between size companies. I know
that there are very much different constituencies
that are involved in this pricing question and
that if you do the law in economic analysis and
you use the elasticity curves -- now, I'm an
operations research person, so I go beyond
everatility curves into multidimensional decision
analysis and how any individual person's
preference curves actually look if you try to map
them out. The difference between aggregate
everatility curves and what really happens to the
individuals is huge.

The second point is building on the
great work that the Patent Office has done in
encouraging greater collaboration. There are two
things you can do with pricing: One is to
everage good behavior and the other is to
discourage bad behavior. Encouraging good
behavior is something that we found is better
accomplished through encouraging collaboration
than I think that it can be accomplished through
pricing.

There's two examples that come to mind.
I already mentioned the huge improvement in collaboration that was coincident with when the count system was changed. The two, you know, happened to come at the same time. One doesn't cause the other, I recognize that, but I can tell you it's much easier to efficiently prosecute a patent now than it was five years ago. You can figure out whether you're right or wrong. You can work though with the examiner. You can have confidence that the examiner isn't facing some kind of punitive potential discipline for allowing a case, after a second set of eyes review and something on the back end, things that I learned about sitting on the bench in front of the Patent Office because I was never a patent examiner. I've been out here in California. I've come to patent prosecution in the second half of my legal career, being a trial lawyer before that. But I learned to listen to whoever's talking about something, as I did this morning listening to Michelle.

The second thing is how well the Patent
Office is collaborating through the AIPLA and the Partnering in Patents Program. There are some fantastic suggestions that don't nicely fit within what I'm supposed to be talking about, but I wanted to make sure that everybody here was aware of the kind of work that this other body is doing. The focus group was held on the Wednesday morning before the AIPLA annual meeting. They addressed these three questions and it was fascinating what suggestions came from the SPEs and the ordinary examiners who were in that room with eight different focus group and what they came up with. This is what it looked like when it was on the board before it got all typed up and these were some of my favorite suggestions. Incentives for filing responses sooner instead of at six months. You know, you've got some clients who don't want anything done any sooner than possible because they're trying to delay costs, typically small businesses, struggling businesses. But for companies that have the choice, examiners whose votes are indicated by the bright green dots --
the bright green dots are examiners and the dark green dots are patent attorneys who were attending the focus groups.

The examiners really want a change in their rules so that they can take things out of order if an applicant comes back to them a week after they do the office action, they want to be able to get back to the applicant the next week without being penalized for missing some deadline on an applicant who waited six months to respond to a prior office action.

So, it's kind of interesting what suggestions the patent examiners have been making in these kinds of focus group settings that improve efficiency and I think improve efficiency much better than any kind of pricing can ever improve efficiency because it's a matter of collaboration. And so much of what we do is one-on-one interactions with people, at least if you're doing interviews, which is one of my favorite activities in all of patent prosecution.

The second example that I take out of
that is how the examiners are suggesting something that Bob Stahl a year ago told us up at the San Francisco Intellectual Property Lawyers Association that he could never get the union to go along with: That the work rules were such that the examiners had control over when they took up an office action and there was no way we'd ever get a warning as to when they were going to pick up an office action in order that we could make sure that our file was in order. Well, you can see by all the bright green dots on the bottom part of the slide there, that the examiners very much wanted to tell us when they were coming up 60 or 30 days, 45 days before examination. There were a couple of reasons.

One was they wanted better foreign translations. You know, in fact, they would even like to be able to send out a paper that says, please, improve the translation because it will save costs for you overall, which kind of feeds into the efficiencies, so it's not too far off-point. They also think of it in terms of
continuing to use the first action interview
program in its different incarnations. In
general, one of the things that I often speak
about is why people should do interviews before
the first office action even if they're not part
of a formal expedited program.

The last point that I have is to be wary
of unintended consequences; that discouraging
behavior through pricing can have unintended
consequences. We've built such a feeling of
collaborative spirit between the customers and the
office, between the prosecutors and examiners in
the last four years that I shouldn't want for
there to be the unintended consequence of the RCE
fee of fighting about whether finality was
appropriate.

There is a fair number of cases in which
the examiner goes to final a little bit sooner
than they might have and I always tell my client,
you know, don't fight about it. But if the
pricing increases to a certain level, you can
expect there to be more contentiousness about
whether finality was appropriate.

The other fee that caught my attention was the $2,500 appeal fee. And I think that's another place where maybe pricing feels wrong because you really don't have any more information after you've read most examiners' briefs on appeal than you did before you filed the appeal. Ten percent of the time maybe the examiner says something new, different, interesting that clarifies the examiner's position rather than simply reiterating the final office action. There really isn't very much new information content. Certainly not twice as much information available about the likelihood of success that would justify putting $2,500 of the fee at the point where you're deciding whether to go to appeal as opposed to the first $1,600 up front.

So I just think that there's the potential for resentment if you structure it that way on the premise that people have more information. I have never -- I have on occasion better understood what mistake the examiner was
making after I read the examiner's answer. I can't think of any time where I got so much more persuasive information from the examiner that I decided to drop the appeal.

So, with those three points, I thank you very much for the time. (Applause)

MR. MATTEO: Ernie, thank you very much again. At this juncture, what I'd like to do is open the floor to unscheduled testimony. I believe we had at least one person indicate -- two people now indicate that they'd like to make brief statements. With respect to those statements, though, please, again, in service of the goals and objectives in front of us, if you would please confine your statements to those relevant to fee setting. And in the interests of time and affording everyone an opportunity to speak, if you could keep your comments to 10 or 15 minutes.

One further logistical note. Ostensibly the audience cannot hear questions that are being asked by the audience, so if the speaker could either repeat the question or if the audience
member is willing to come up and use our microphone, that would even be better. In the absence of that, I think we should proceed with the unscheduled testimony and the first gentleman, who, I apologize, I don't know your name. If you could come up and give your name and your testimony, we'd very much appreciate it. Thank you, sir.

MR. BERNSTEIN: Yes, thank you. My name is Larry Bernstein. I'm an independent inventor in the pharmaceutical area and I do my own patent application writing and prosecution. And I have to say I very much enjoyed working with USPTO. The people are very professional and helpful. I just want to comment on one pricing aspect. And I think that most people agree that the generally high cost of obtaining patents -- and I'm including the legal fees, mainly -- favor large corporations over individual inventors and small businesses. The large corporations have the big budgets and basically unlimited access to legal assistance that the rest of us don't.
Now, the recent implementation of this prioritized examination, or Track 1, is available for those who can pay this high surcharge, has made the advantages enjoyed by big business far worse, I think, and has been a huge slap in the face to individual inventors. Even with the proposed micro fees, the surcharge would still be out of reach for many individual inventors.

And I've checked on this with the USPTO and it's true that since Track 1 was implemented, those of us who cannot pay the surcharge are actually seeing delays in getting examinations increased by several months. And so while big business reaps the benefit of Track 1, the rest of us are basically paying the price for it.

And just sort of summing up this, there's a well-known quotation by James Madison in The Federalist Papers which you probably already know, but I'll just read it. "The copyright of authors has been solemnly judged in Great Britain to be a right of common law. The right to useful inventions seems with equal reason
to belong to the inventors. The public good fully
coincides in both cases with the claims of
individuals."

There's been debate about exactly what
tese brief remarks mean, but they certainly make
it clear that U.S. Patent rights are intended for
individuals, individual inventors, and I believe
that Madison and the other founders would not be
please to find that patent applications of wealthy
multinational corporations are being given
priority over those of individual inventors. I
think in the interest of fairness and innovation
and respect for the intent of the U.S.
Constitution, please eliminate Track 1 and return
to a system that does not blatantly favor giant
corporations over individual inventors. Thank
you. (Applause)

MR. SHERIDAN: Hi. My name is Rick
Sheridan and you can think of me as an
entrepreneur. I have two provisional patents
filed. I wanted to say that I really appreciate
this forum. I think it's a fantastic forum and
I'm really glad the USPTO is doing this. And also, I want to say how impressed I am with the quality of thought being discussed here. And I say that with as much humility as I can, as someone with a bachelor's from MIT and an MBA from an elite school.

So, what I want to describe here is -- what I want to say here is that I love the discussions of things like elasticity. It shows, you know, great economic thoughts are being practiced within the USPTO and, you know, one thing that I know about elasticity and generating demand curves is that it's really hard to generate demand curves. You need to have as much data points, survey data points, experiments as possible. And in the history of the USPTO, for very understandable reasons, I think for provisional patent filings there are only two data points from which to construct a demand curve.

So this applies specifically to the independent inventor and the independent inventor is the top of the funnel from which the USPTO is
gathering its customers. The USPTO is rightly
thinking of itself as a business and I can see
it's putting resources into do that and it needs
to just continue along that line. So when you can
figure out how to do pricing for the masses,
that's where you can see a very large revenue
opportunity. The provisional patent process is a
very high margin activity. Perhaps it's nominally
treated as a $1 cost. I don't know if it's even
that much within the Office. I've paid out $125
for each filing, so we're talking about a margin
of many tens of thousands percent. Any business
would love to have margins like that in a business
process. So perhaps there's some room to lower
that.

So that's one thing that I wanted to
talk about, is that when you can lower prices, you
can lower the barrier in the independent
inventor's mind to putting out a claim, as I think
of it, on the spot. $30 for a claim? Tomorrow
I'm writing a check and I can do it as I think. I
don't have to bunch up my claims into one filing,
the proverbial kitchen sink patent that
independent inventors are encouraged to do. So we
can space those out and have more filings that are
themselves also high margin for the USPTO.

The second point of three points I'm
going to address -- just so you know it won't take
that long -- is one of marketing. So there's some
bullet points about facilitating electronic
communication. That's a step in the right
direction. You know, right now there's still too
much that involves paper. And when you look at
the new -- it's called a federal consumer. It's a
finance -- there's a new agency called the
Financial Consumer Protection Bureau and whatever
the politics are of it, they've done an amazing
job of user interface, so making a highly simple,
 easy-to-use design for consumers who want to
engage with this federal bureau. And they've
basically taken the iPhone approach, you know,
making something that's super, super easy to use.

They've taken pages and pages of legal
documentation and condensed it into a nicely
designed, colorful, you know, large font-sized
document. One or two pages that consumers can
much more easily understand. I highly encourage
the USPTO to look at what this bureau is doing and
to try and emulate what their doing for all of
their processes facing especially the independent
inventor.

This is part of marketing. Again,
another business function that I think USPTO will
be finding itself doing more and more of.

Okay, finally, yeah, the idea of
bringing out outside resources. I think Mr.
Katznelson suggested the USPTO has not
traditionally been in the business of being in
business, so it needs to bring in outside
resources that can help advise it and maybe even
hire those resources in-house. And I think there
is some amazing brainpower here that can start to
offer those. I certainly offer my own services.

I think I've talked to some folks about that.

So, with that, I will leave it to the
floor. My contact is rick@rstoem.com. Thanks.
MR. MATTEO: Thank you very much, Rick.

Did we have any further comments from the floor?

Yes, sir? Oh, actually, two people. If you would please come up and use the microphone? Would you prefer the podium?

MR. KLEY: Sure.

MR. MATTEO: By all means.

MR. KLEY: My name is Vic Kley. I'm an inventor from Berkeley, California. I've been doing this for about 45 years. You may have some familiarity with some of the stuff I've done. I'm one of the inventors of touch-screen technology back in 1976, and you find those on things like iPads and iPhones and many things you use today; inventions that are in those products, but are not, in fact, invented by the products' purveyors and are very much in the public domain. And that's the whole principle, of course, of the Patent Office is to encourage the open availability of new ideas so that new things can be built on those ideas.
And in that vein, I'd like to share with you an idea for the back-end loading of how to improve finances at the Patent Office, with a thank you to Ron Katznelson for giving us a good overview of that. And that is, pretty much, there are many ideas that are really ground-breaking that can take 10, 15 years to merge and begin penetrating the world and begin bringing in some kind of revenue or interest or even funding. And that's a very long time. People dedicate their lives, they're bringing these disruptive new things to the marketplace.

And the patent system as it stands, particularly the fee structure, isn't well suited to that. And so I would like you to consider a fee structure, particularly for maintenance fees, in which the burden is placed on the earnings of the patent. Now, how would you do that? Well, there's lots of ways and I'm happy to consider possibilities. I've thought about this a little bit.

One way would be to simply have the
owner of the patent set a dollar value each time a
maintenance fee is due on that patent and have a
particular percentage set for that maintenance
time. This is, I believe, consistent with the way
the law reads, having the Patent Office set that
percentage. That would mean the owners of the
Viagra patent would pay quite a bit more than the
owners of the patent that isn't yet earning much
of anything. And it would, in fact, mean that
those that have patents that they are trying to
still develop would be, in fact, in a position to
pay very little at all on maintenance cost while
they still work to get their patents out to the
market to benefit our economy.

So, that's the idea. It's very simple.

It's one that could be modeled in a slightly
different way than is presently modeled, and that
would require some guessing about the value of
patents, but, fortunately, the value of patents
for the most successful products, which is
relatively easy to put your hands on, from the
standpoint of information. So, hopeful that
you'll consider that and think about using it. I think it could be an effective tool for you to then turn around and lower the barriers for incoming new ideas, particularly for the small entities and below. Thank you.

(Applause)

MR. MATTEO: Thank you, sir. And I believe we had one final person who wishes to provide testimony. Sir, if you would?

MR. ALLEN: Thank you, I'd like to throw something out to the breakfast-lunch club --

MR. MATTEO: You might want to get a little closer to the microphone so we can hear you.

MR. ALLEN: Oh, excuse me. Good morning, I would like to thank the original Congress and today's Congress, including the undersecretary and the secretary of Commerce. My question goes to special handling and special relief for the protection of technology and the patent treaty act and to disadvantaged individuals and small businesses. That goes to --
MR. SHARP: Excuse me, sir. I'm sorry, would you please state your name and then speak a little bit more loudly into the microphone?

MR. ALLEN: Okay. Darren Allen is my name and I'd like to present this to the undersecretary, the secretary of Commerce, and today's Congress. What I was going for is I represent International Friendship Band and the WIPO, and I would like to know why U.S. Congress today and the USPTO cannot allow for special handling and special relief to people including VAs, small business people, and disadvantaged learners, or students. I was hoping that there was a possibility that they could maybe have some high school and colleges understand about the goodness of having some claims or being a patentee. I quote, and someone that stated at one time, it's a privilege and goodness to be able to be a patentee and have a monopoly because it allows us to be able to go to the Supreme Court and be able to allow us to be able to produce product.
The main reason that I was here is that I was wondering what happens to people that are disadvantaged or might get hurt and -- or a VA that might come back and not have the exact amount of money for the oath, the declaration, and all of these other expenses. And that it might be able to be placed into offset cost, to allow manufacturing, and might allow them to do it maybe into the second or third actual fee revenue request.

From my understanding, I don't know everything, but I had my attorney on retainer and they just basically just dumped this on me, so I would like to know if I could be able to learn to be able to work with an examiner and have easy forms. Also, if Congress is requesting that we have paper lists, forms, and a paper list communication, that we have places at libraries and maybe other locations that we could have reviews other than just in Washington, because of the public transportation or cost to get there, and actually be able to meet with people to let
them know what we're going through.

It's nice to be able to IM a patentee with design patterns, but to have and maintain a utility patent, a trademark, or a trade secret, or including a trade service mark so that I could produce products, maybe also for the blind or disadvantaged individuals in our nation, the great that it is. Thank you very much. (Applause)

MR. MATTEO: Thank you very much for your comments. I know it was phrased as a question, but as I mentioned when we began, we're really here to gather input as opposed to engage in a dynamic Q&A session, so we have captured your comments and those will be factored in.

We do have someone who would like to make a statement via telephone, so in the spirit of the PTO, we're going to try to innovate on the fly here. No promises. We're going to try and hold the phone up to the microphone and see if that will work. (Laughter) Bear with me for just a moment, please.

Actually, I believe that's going to take
a moment. We did have another speaker from the floor, so if you would, sir, please come up and in the interim you can fill the space for us.

MR. KNAPP: Hello. My name is John Knapp and I'm an entrepreneur and inventor based here in Silicon Valley. And I really am thankful and appreciative of the opportunity to spend some time and listen and learn, and also I'd like to share just a brief comment, expanding, actually, on what Vic Kley had said and, also, Michelle, something that you brought up earlier.

As an independent inventor, we're always going to be leaning towards back-loading our expenses once we know more of what the patent is worth. And, Michelle, as you mentioned this morning, that only about 50 percent of patents currently are paying their third maintenance fee at 11-1/2 years, I, as an entrepreneur, have found personally patents that were about to expire. I have acquired them and monetized them. And the thought occurs to me that an auction process at the maintenance fee renewal period would be an
interesting opportunity for a patent that might just expire and die, generating no income for the Patent Office and generating no revenue in the marketplace or the creation of jobs, might be somehow brought back to life by an individual that recognizes -- or an organization that recognizes some latent value and is able to harness that.

Just a simple comment, an auction process in maintenance fees. The Viagra patent, if it's not going to be renewed, Vic, I'd pay a little bit for it. (Laughter) Because I think I could do something with it. And that would be also a way to let the market establish the value.

Thank you very much. (Applause)

MR. MATTEO: Thank you. And, Janet, are we --

JANET: We're waiting for our witness's call right now.

MR. MATTEO: I believe we're waiting for the witness to call in. In the interim, did we have any other comments from the floor? I appreciate your patience, but, again, this event
is the spirit of the hearings. We are trying to make every effort to accommodate every opinion and have it heard.

MS. KEPPLINGER: Damon, perhaps you could read the one comment about the one comment we got from the webmaster?

MR. MATTEO: Actually, I can do that. In the interim, we did receive one comment from the web and I'll just read it verbatim.

"Because of fee diversion we have not received what we have paid for. Now we are being asked to pay more than what is needed in order to examine cases for which the fees were not allocated to the USPTO. Is it fair to now shift this burden to the applicants?"

SPEAKER: Who is that from?

MR. MATTEO: Actually, I'm having a little trouble reading -- it looks like Keith, I apologize, something that begins with a G.

SPEAKER: Grislach.

MR. MATTEO: Possibly, Grislach. It's either the handwriting or my eyes that aren't
quite as good as they could be. I suspect it's
the latter. We are ready? Okay, so we're going
to give this a try. And who do we have speaking?

JANET: Mr. David Boundy.

MR. MATTEO: David Boundy, via
telephone.

JANET: Okay, we're ready to go.

MR. BOUNDY: Hi. I'm calling from
Boston. I'd like to second some the comments of
Mr. Burler and just to wrap a little legal basis
around it. Executive Order 12866, which governs
this rulemaking, requires the Patent Office to
consider whether a new regulation is the product
of an existing agency practice or existing agency
regulation. In other words, if a problem that an
agency wishes to resolve arises from something the
agency's already doing, then you shouldn't pile a
regulation on top of a regulation.

I'd like to steer you towards looking at
one possible area of that. About a month ago,
Jeanne Quinn's blog noted that in some technology
centers, as a practical matter, appeals are all
but a necessary step in the patent prosecution process and that's certainly the case at my company. Well over half of the applications that we get allowed come after an appeal and multiple RCEs. And what's striking is that how our appeals and our RCEs, the overwhelming majority -- I'm going to guess in the 70 to 80 percent area -- arise from the same class of issues over and over, and all of them reflect the idea that way too many examiners have that the instructions that you, Mr. Kappos, gave to the examining core in the MPEP can be disregarded.

Well over half of our appeals, well over half of our third and fourth and fifth office actions arise because the examiner simply skipped claim language and, in anticipation of obviousness rejection. I'm not talking about some reasonable difference between broadest reasonable interpretation. I'm saying that in the overwhelming majority of our extended prosecutions, the examiner just plain skipped claim language. There's nothing in any reference
mapped to the claim language. It's just the office action quotes the claim, but leaves it blank, no comparison.

And what's most striking is that MPEP 1207 requires that an examiner's answer must provide a limitation-by-limitation mapping from the claim to references. And even in examiner's answers, even when it block quotes the MPEP requesting a complete examiner's answer, it never happens. You know, this benefits no one.

Similarly, inherency requires certain showings. Examiners almost never make those showings and we get into extended battles about whether it's inherent when, you know, had the examiner written out the showing required, it would be very clear that there is no inherency. Over and over, where the MPEP requires certain showings for a rejection or a requirement, examiners feel that they have the personal authority to edit the MPEP form paragraph to simplify the job of rejecting claims or imposing some kind of requirement.
The preps I'm going to bring to your attention is that there is a pattern of non-enforcement. Supervisory examiners not -- you know, most do, in fact, enforce these requirements, but a large percentage, like on the order of a third, don't. I've had one supervisory examiner, he opened the MPEP, read the same thing I was reading and he says, that's not reasonable, I won't enforce it.

I've had a technology center director who's been remarkably unhelpful. I've had an issue that's clear as a bell under the Administrative Procedure Act and the Supreme Court authority interpreting the Administrative Procedure Act, went to the Office of Petitions, to the very highest place I can go in the Patent Office for the enforcement of this. The petition was denied and I couldn't figure out why because there was no mention of my Supreme Court authority to distinguish it or show that it was overruled or somehow, you know, the Patent Office had some justification. But I talked to the petitions
examiner, so this is somebody who's parallel to the Board of Appeals, and the petitions examiner says "I'm not getting into the U.S. Supreme Court."

Now, when the Petitions Office feels it has the authority to disregard Supreme Court authority on the administrative law, then I'd like to suggest that much of the extended prosecution that we experience as applicants, and that you need to control for your backlog purposes, I'd like to suggest that a lot of that extended prosecution should be addressed by internal reforms, not by regulation, not by fee setting.

And so, at the very least, in any fee setting proposal it would be appropriate for the Office to fully consider how existing regulations, or, more importantly, how existing Petitions Office interpretation of laws and practices are creating some of the issues that you're hoping to address through fees. And, in particular, I think the RCE fee and appeal fee should reflect that.

I'll just add one additional fact. A few years ago I filed a few FOIA requests and
obtained a number of statistics that showed that something on the order of 80 percent of appeals are successful; that when you add all layers of appeal, from peer appeal to appeal brief conference to final disposition. I know of no other agency that tolerates an 80 percent reversal rate and thinks that its procedures are adequate if it's resulting in an 80 percent reversal rate. And I'd like to suggest that before we look at raising fees, let's improve the Office's efficiency by simply making the internal procedures more predictable and more reliable so that we can use the laws as they are written to achieve the results the law contemplates. Thank you very much.

Any follow-up question, I'd be happy to answer.

MR. MATTEO: I don't believe so, thank you very much.

MR. BOUNDY: Good afternoon. (Applause)

MR. MATTEO: Thank you very much, ladies and gentlemen. I think that brings to a close the
scheduled and unscheduled witnesses. What I'd like to do is circle back and by way of summary suggest that today's testimony, again, it highlights the diversity of opinion and the complexity attendant to these issues, everything from the econometric and decision analysis around the price elasticity of demand, the notion of the subsidy, if and to what extent and how to execute against an operating reserve, and the fact that the complexity arises from a myriad broad range of factors, the fee setting authority, operations of the PTO, AIA, exogenous factors like the economy and corporate operations, et cetera.

All of these making it increasingly important for your voice to be heard and for PPAC ourselves to capture and present a balanced view of the disparate, although no less valid, opinions and perspectives surrounding this issue. And I can assure you that in service of that goal, PPAC will be providing as best we can a balanced and measured and objective report to the PTO in those matters.
Before closing, though, I would like to again offer up you're important to us. This is your moment to be heard. And, again, we want to amplify your voice in the report.

So with that, I'll suggest that anybody interested in making comments who has not done so, please do so by February 29th. It's possible that we would be able to comprehend your feedback if provided after that, but in the interests of the statutory guidelines and, frankly, also in the interests of having your input more fully considered, the sooner we get your comments the better.

And for those of you interested in submitting comments, those can be done in multiple ways. You can go to the USPTO micro site for AIA, you can go to the USPTO micro site for PPAC, or you can simply send an e-mail to fee.setting@uspto.gov.

And with that I would like to thank the PTO presenters and the myriad people behind them who made their presentations possible and the work
behind them possible, the public for joining us here live and online and apparently also by telephone. (Laughter) Yeah, we have a -- if that's not been done before, we do have a public use bar today, so bear that in mind, those of you wishing to file a patent on that. (Laughter) And a particular -- sorry, I couldn't resist that one -- and a particular thank you to all of those who provided testimony today. And again, thank you very much and that will bring to a close this hearing. Thank you. (Applause)

(Whereupon, at 12:30 p.m., the HEARING was adjourned.)

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither 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.

/s/Carleton J. Anderson, III

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