

Executive Summary: Patent Fee Proposal



Submitted to the Patent Public Advisory Committee

In accordance with the Leahy-Smith America Invents Act
(Public Law 112-29), Section 10

February 7, 2012

February 10, 2012, Revised page 10, first bullet

See **Detailed Appendices: Patent Fee Proposal** for additional information.



Overview

- Section 10 of the Leahy-Smith America Invents Act (AIA) authorizes the USPTO to, in part, “set or adjust by rule any fee established, authorized, or charged” under Title 35 of the United States Code provided that the aggregate patent fee revenue equals the aggregate estimated cost to for patent operations, including administrative costs.
- USPTO is exercising its fee setting authority to set and adjust patent fees to recover the aggregate estimated cost of the patent operation.
- The fee structure summarized here is an initial proposal to enable the Patent Public Advisory Committee (PPAC) to hold public hearings, gather feedback from the public, and prepare a report for the USPTO about our proposed fee schedule.



Overview

- After the PPAC Hearings, the USPTO will publish its final proposed fee schedule in a Federal Register Notice of Proposed Rulemaking, anticipated in June 2012, which will open a 60-day comment period for the public to submit written feedback directly to the USPTO.
- The USPTO encourages public input about the proposed fee schedule to guide the Agency in making adjustments.
- To assist the PPAC and the public in providing input, the Office is including an alternative view of fees in addition to its proposed fees. The alternative presents fees at the current 15% surcharge level and includes new micro entity fees where authorized by Section 10 of the AIA. The alternative also provides a high-level analysis of the progress the Office would make toward reducing patent application backlog and pendency.



Investing in the Future

- The USPTO's goals for the proposed fee structure and in exercising our fee setting authority for patent fees are to:
 - Accelerate the Agency's progress in reducing the backlog of unexamined patent applications and reducing patent application pendency to bring more quality products to market within the timeframes demanded by patent applicants and owners and the public;
 - Realign the fee structure to add processing options during patent application prosecution; and
 - Put the Agency on a path to financial sustainability.



Investing in the Future

- The goals for reducing the patent application backlog and patent pendency are derived from the activities outlined in the *USPTO 2010 – 2015 Strategic Plan*, issued in September 2010:
 - ✦ Reducing the application backlog to 329,500 by 2015; and
 - ✦ Reducing the average first action pendency to 10 months by 2015 and average total pendency to 20 months by 2016.
- The goal for fee structure realignment is to refine and tailor fees to specific activities at specific points in time, giving applicants the ability to make more informed decisions about the dollars they spend prosecuting patent applications as more information becomes available to them.
- The goal for financial sustainability is two-fold:
 - ✦ Provide a more stable funding model *[see Appendix A for details]* by charging fees that more closely align with the Agency's cost for a particular service *[see Appendix G for details]*; and
 - ✦ Establish a sufficient operating reserve *[see Appendix J for details]*.



Benefits for Stakeholders

- Once the USPTO fee proposal is implemented, the USPTO expects that the IP community will experience the following benefits:
 - More stable USPTO operations to deliver quality patent examinations and avoid future patent application backlogs, even in times of financial fluctuations;
 - Significantly decreased examination times to bring valuable patent assets to market faster, and reduce congestion for all other applicants;
 - More patent prosecution options to enhance applicant choice and Agency efficiency;
 - Modern IT systems at USPTO, to increase efficiencies by providing a uniform platform for conducting business with the Office, including registering, entering, and updating information, and paying fees.



Proposed Fee Structure



Fee Structure Considerations

- Considerations taken into account in setting and adjusting the patent fees in the proposed fee structure are:
 - Generally setting fees to achieve cost recovery for service, but also setting fees either below or above cost based on sound public policy, for example:
 - Subsidize filing, search, and exam fees to enable lower cost of entry into patent system;
 - Set supplemental examination fees slightly above cost to encourage applicants to provide all relevant information during initial examination, which facilitates compact prosecution;
 - Where appropriate, setting fees during patent prosecution so that an applicant pays the fee at a point in time where there is more information to make a decision about proceeding;
 - Recovering aggregate cost from FY 2013 through FY 2017 [see Appendix E for details] that will be required to meet performance targets, based on commitments to our stakeholders, as outlined in the *USPTO 2010 – 2015 Strategic Plan* and the President's FY 2013 Budget¹;

¹ Assumptions supporting the aggregate cost calculations are preliminary until the President releases the FY 2013 budget. Once released, final assumptions related to costs, production and filing levels, and economic outlooks can be found at <http://www.uspto.gov/about/stratplan/budget/index.jsp>



Fee Structure Considerations

- Additional fee setting considerations *(continued)*:
 - Relationships among individual fees and the cost of operational processes, including some targeted adjustments to fees where the gap between cost and current fee rate is greatest;
 - Economic impact of patent fees and fee changes, and the relationship of fees to each other and to beneficial outcomes;
 - Fee changes that could administratively improve application processing;
 - The purpose and size of an operating reserve necessary to provide sustainable funding *[see Appendix J for details]*; and
 - Elasticity of demand related to paying fees *[see Appendix I for details]* as it impacts the amount of aggregate revenue required to fund the aggregate cost of operations over multiple years *[see Appendix F and Attachment 2 for details]*.



Proposed Fee Structure Changes

- The USPTO proposes to set or adjust the fees contained in Attachment 1 – *Table of Patent Fee Changes*. The more notable changes impact the following fee categories [See Appendix G for more information]:
 - ↗ Basic filing, search, and examination
 - ↗ Excess claims, application size, and extensions of time
 - ↗ Request for continued examination (RCE)
 - ↗ Prioritized examination (Track 1)
 - ↗ Supplemental examination
 - ↗ Pre-grant publication and issue
 - ↗ Appeal, maintenance, and micro entity
 - ↗ Oath and declaration
- Plan for new fees to be effective February 2013, except for:
 - ↗ Reduction and consolidation of the pre-grant publication and issue fees, which will be effective January 2014 (decrease is delayed to ensure sufficient revenue during FY 2013).
- Details related to the new AIA fees proposed under the 12 month timeline for supplemental examination, reexamination, and the contested cases can be found in the respective notices of proposed rulemakings published in January and February, 2012. See Attachment 1 – *Table of Patent Fee Changes* for references to NPRMs.



Proposed Fee Structure - Summary of Significant Changes

Description	Current Large Entity Fee (Alternative)	Proposed Large Entity Fee	Dollar Change	Percent Change	Rationale
Utility--Basic Filing, Search, and Exam (total)	\$1,250	\$1,840	\$590	47%	More closely aligns fee revenue with cost of service.
Request for Prioritized Exam (Track 1)	\$4,800	\$4,000	(\$800)	-17%	Encourages greater program participation and aligns the large entity fee with cost of service.
Excess Claims (Independent in Excess of 3)	\$250	\$460	\$210	84%	Encourages applicants to file compact and carefully devised applications.
Excess Claims (Total in Excess of 20)	\$60	\$100	\$40	67%	
Application Size	\$310	\$400	\$90	29%	
Extensions for Response within 1st Month	\$150	\$200	\$50	33%	Encourages efficient prosecution and assists in reducing patent pendency.
Extensions for Response within 2nd Month	\$560	\$600	\$40	7%	
Extensions for Response within 3rd Month	\$1,270	\$1,400	\$130	10%	
Extensions for Response within 4th Month	\$1,980	\$2,200	\$220	11%	
Extensions for Response within 5th Month	\$2,690	\$3,000	\$310	12%	
Request for Continued Examination (RCE)	\$930	\$1,700	\$770	83%	Achieves cost recovery and continues to offer applicants a viable option to dispute a final rejection when the applicant believes the examiner has erred.
Notice of Appeal *	\$620	\$1,500	\$880	142%	Better aligns services with costs and reduces fee burdens associated with examiner withdrawal of final rejections.
Filing a Brief in Support of an Appeal	\$620	\$0	(\$620)	-100%	
Filing an Appeal	\$0	\$2,500	\$2,500	102%	
Supplemental Examination	\$5,180/\$16,120	\$7,000/\$20,000	\$5,700	27%	Encourages applicants to submit complete applications with all relevant information during prosecution.
Combined Pre-grant Publication and Issue	\$2,040	\$960	(\$1,080)	-53%	Combined to streamline the fee structure; reduced to promote public information to encourage follow-on innovation and reduce initial costs to patent owners who may not know the value of their invention immediately.
Maintenance - 1st Stage	\$1,130	\$1,600	\$470	42%	Increased to achieve goals and better align front-end and back-end fees; early stage fees are lower in recognition of the uncertainty of patent value; as time goes on, an inventor can better measure the value of an invention and determine whether maintenance is truly worthwhile.
Maintenance - 2nd Stage	\$2,850	\$3,600	\$750	26%	
Maintenance - 3rd Stage	\$4,730	\$7,600	\$2,870	61%	

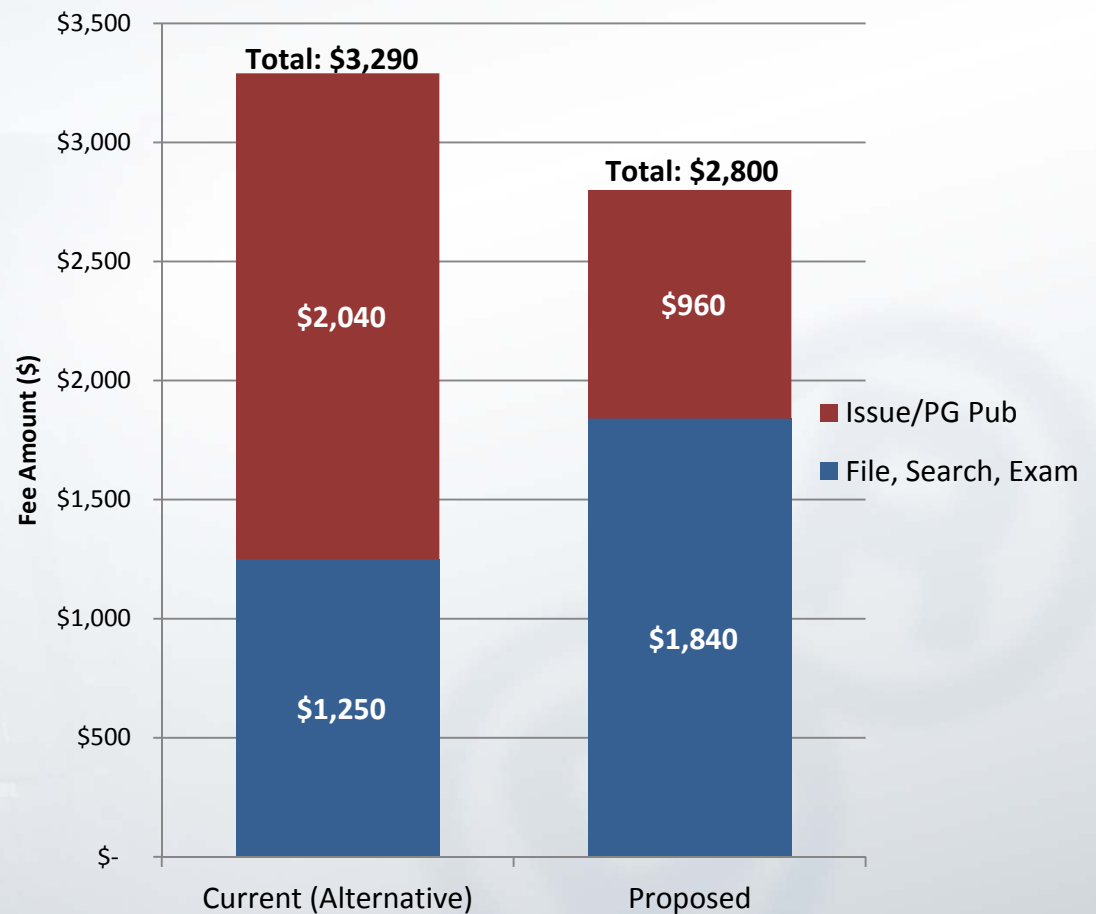
* The Office is also proposing a \$0 issue fee when the examiner withdraws final rejection before the applicant pays the filing of an appeal fee.



Proposed Fee Structure for a Basic Patent – *Compared to Alternative*

- Overall, when paying all fees under the proposed fee structure, the fees to obtain a basic patent (file/search/ exam and issue/publication) will decrease.
- This supports our strategy to encourage innovation and reduce the cost to applicants at a stage when the value of the innovation is least certain.

**Current (Alternative) vs. Proposed -
F/S/E & Issue/PG Pub**

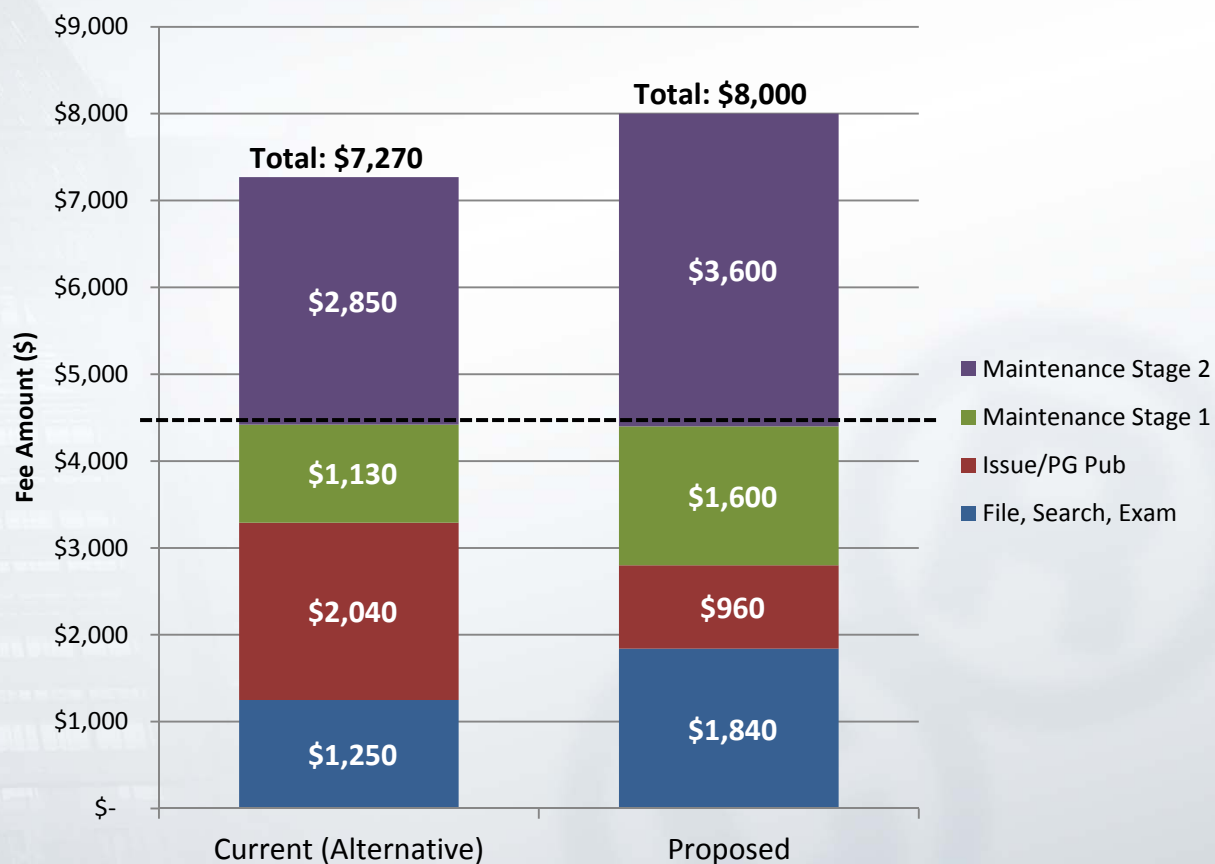




Proposed Fee Structure for a Basic Patent – *Compared to Alternative*

- The total fees for a basic patent (file/search/exam and issue/publication) through 1st stage maintenance remain nearly the same at around \$4,400.
- There will be a \$730 (10%) increase in total fees to reach the 2nd stage maintenance fee.
- However, this increase will occur over 7 years after patent issuance when a patentee will have had the opportunity to pursue commercialization and reap the financial benefits of the patent.
- A patent owner holding a patent through the 3rd stage maintenance fee*, will experience an additional \$2,870 increase to total fees.

Current (Alternative) vs. Proposed Fees - through Maintenance Stage 2



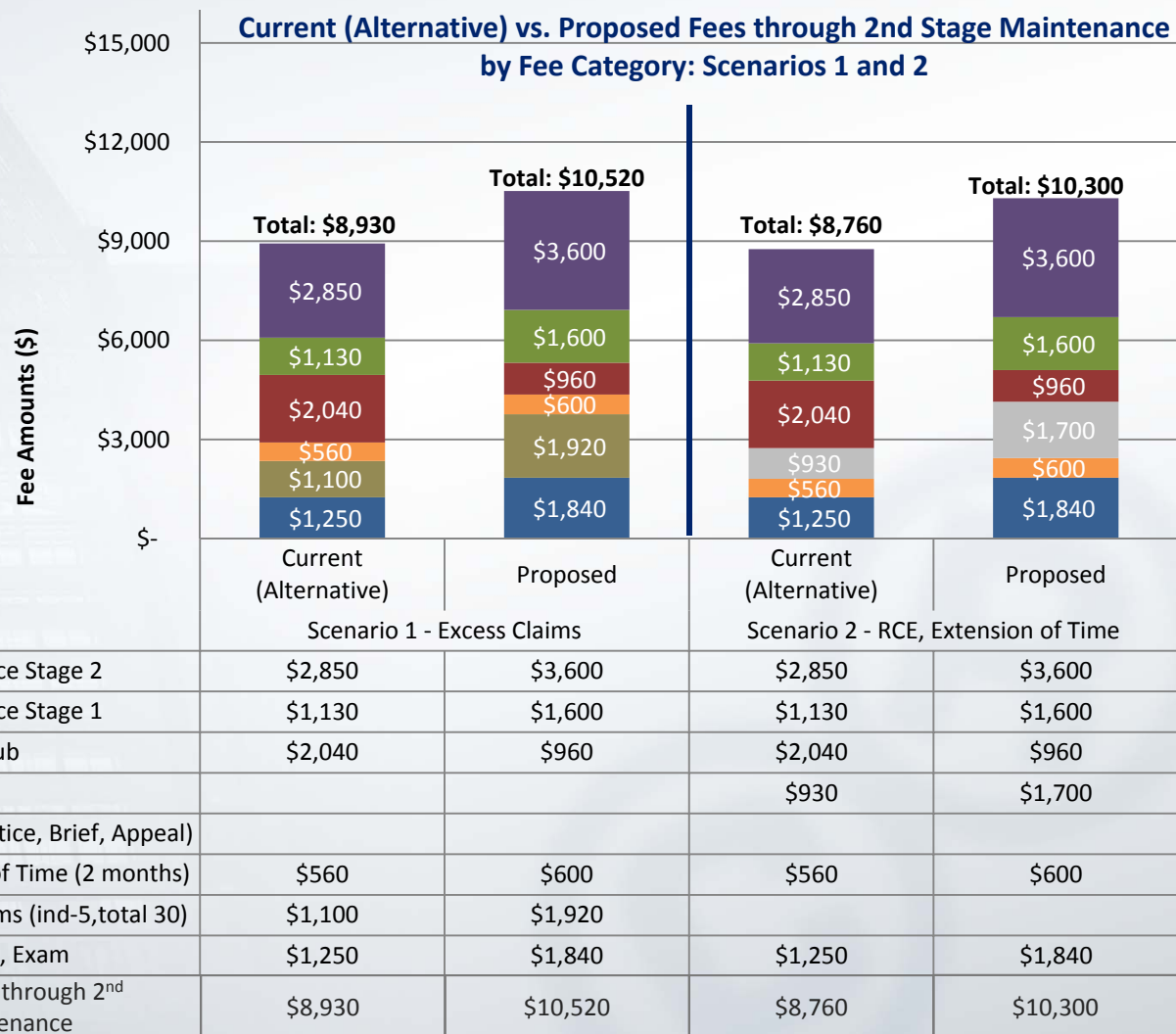
* Only 50% and 60% of patent owners renewed at the 3rd stage during FY 2010 and FY 2011, respectively. The FY 2011 renewal rates may be inflated due to a large number of patent holders who paid maintenance fees in advance of the 15% surcharge effective date on 9/26/2011.



Proposed Fee Structure Examples: Scenarios 1 & 2 — Compared to Alternative

- The USPTO recognizes that many applications involve more than the basic process. These following four examples depict patent prosecution scenarios including additional fees for excess claims, extensions of time, notice of appeal, and RCEs.

- In Scenarios 1 and 2, an applicant would pay around \$800 more through 1st stage maintenance fee under the proposed fee structure.

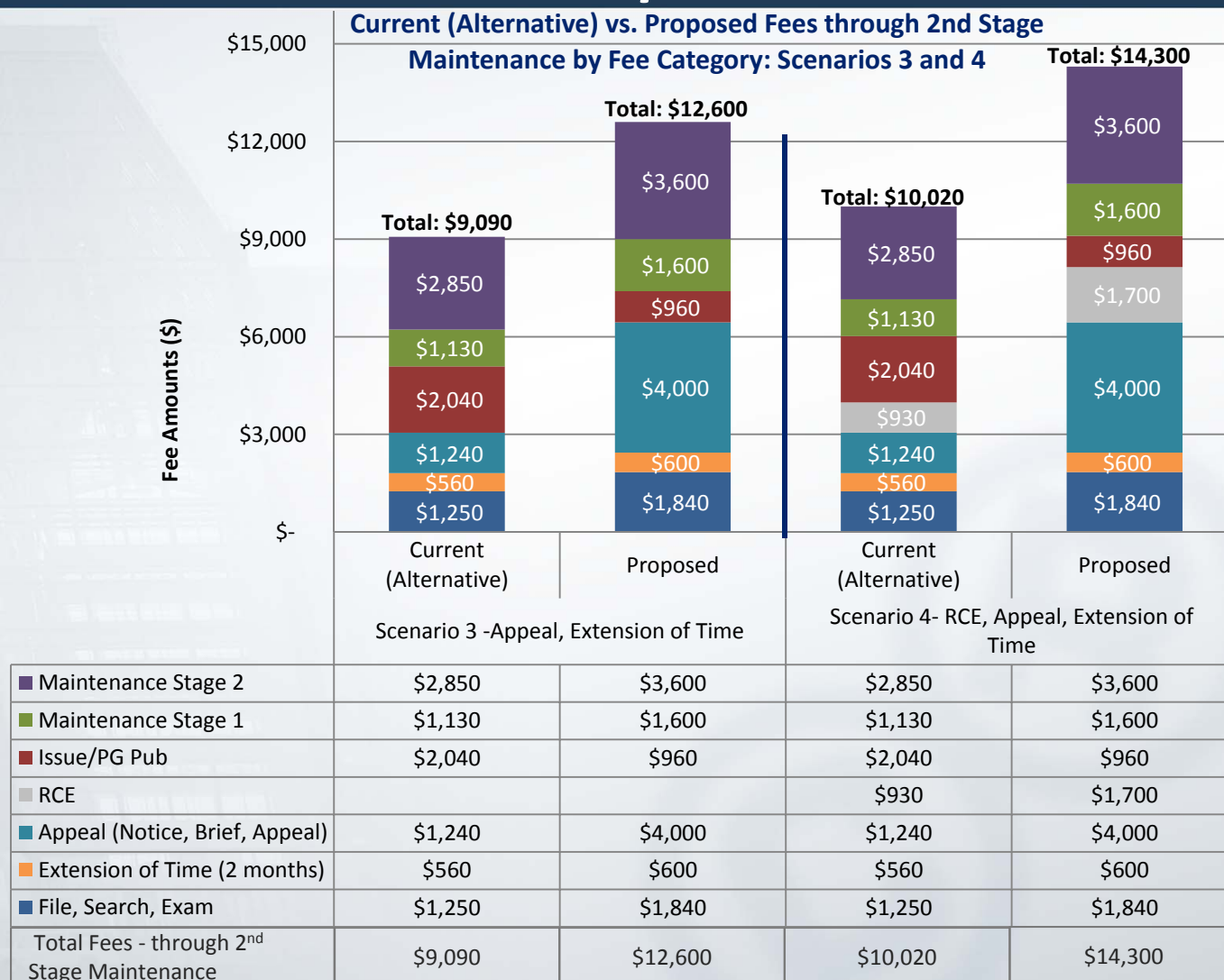




Proposed Fee Structure Examples: Scenarios 3 & 4 — Compared to Alternative

○ In Scenario 3, an applicant would pay around \$2,700 more through 1st stage maintenance if the case goes all the way to appeal, but only \$1,800 more if an examiner happens to withdraw the final rejection before the applicant files for an appeal.

○ In Scenario 4, an applicant would pay around an additional \$3,300 through 1st stage maintenance.





Benefits of Proposed Fee Structure by Major Fee Category

○ Filing/Search/Exam Fee Increases

- ⇒ Additional revenue generated from the proposed increases in the filing/search/exam fees will permit the USPTO to continue pursuing improvements in compact prosecution.
 - ⇒ For example, giving examiners time to initiate interviews with applicants to resolve issues earlier in prosecution makes the Office more efficient and saves applicants money. The Office has found that interview time per examiner is on the rise and the actions needed to complete prosecution have been reduced.

○ Request for Continued Examination (RCE) Fee Increase

- ⇒ Fee set to recover cost.
- ⇒ The Office understands that increasing the RCE fee may be controversial because some applicants may feel compelled to file an RCE. We are currently reviewing other processing options to address these types of situations, such as:
 - ⇒ Ways to improve the ability to submit an information disclosure statement (IDS) after paying the issue fee in a manner other than through an RCE; and
 - ⇒ Ways to incentivize examiners for more consideration on amendments after final rejection for the purpose of identifying and working out allowable subject matter.



Benefits of Proposed Fee Structure by Major Fee Category

○ Prioritized Examination Fee Decrease

- After some experience conducting the prioritized examination program, the USPTO determined that we are able to reduce the fee for prioritized exam without impacting the pendency of applications processed under the non-prioritized examination timeline.

○ Excess Claims and Application Size Fee Increases

- Examiners are able to examine a more succinct application faster and it is expected that they would make fewer errors.

○ Extensions of Time Fee Increases

- Facilitates an efficient and prompt conclusion of application processing, which assists in reducing patent pendency.



Benefits of Proposed Fee Structure by Major Fee Category

○ Notice of Appeal Fee Increases

- ↗ The Board currently is in the process of hiring more Administrative Patent Judges to help reduce the Board's ex parte appeals backlog. With sufficient resources, the Board can and will address and eventually end the growth in the backlog and reduce pendency.

○ Publication and Issue Fee Decreases

- ↗ Combined the two fees to begin streamlining the fee structure.
- ↗ Lowered the combined fee to align with cost and offset the increase in examination fees.
- ↗ Decreasing the issue fee helps inventors financially at a time when they could be commercializing the invention and when commercial prospects are relatively uncertain.

○ Maintenance Fee Increases

- ↗ Increase is commensurate with subsidizing the prosecution of a patent application and ensuring the USPTO has sufficient revenue to recover the aggregate cost of reducing the backlog of patent applications.
- ↗ Considered the intellectual property system as a whole and the economic impact of patents in force. The system is designed assuming that maintenance fees are paid only by patent owners who believe the present value of the patent is greater than the renewal fee, and moving the marginal patent into the public domain more quickly.



Projected Outcome of Proposed Fee Structure



Aggregate Cost-Revenue Balance

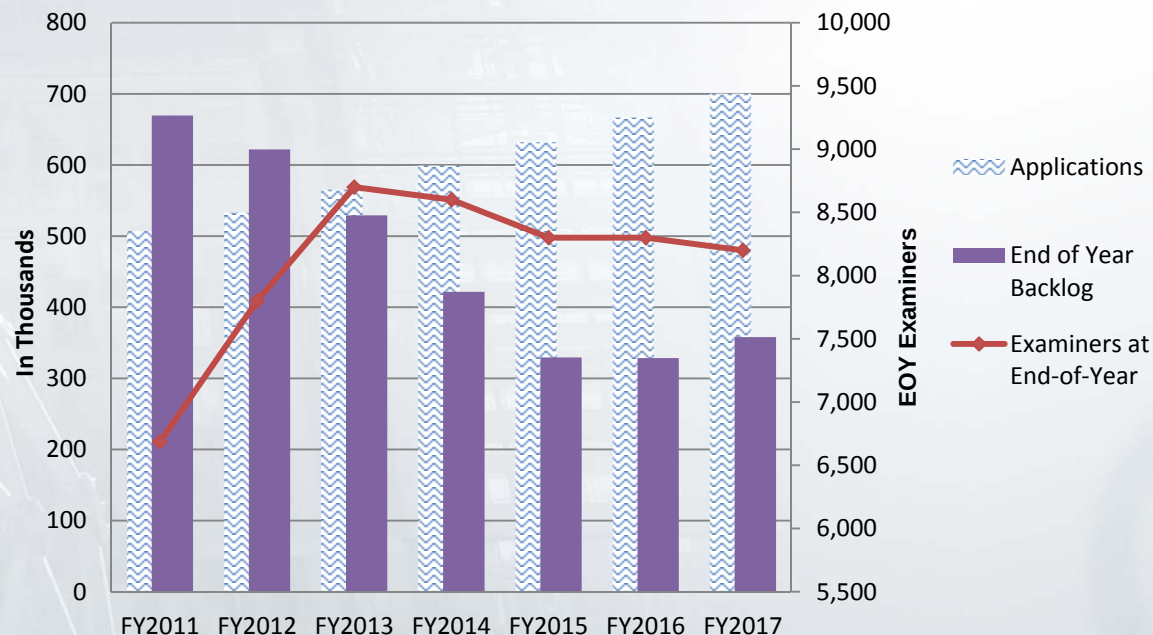
- For FY 2013, the USPTO estimates that its aggregate patent operational costs, including administrative costs, will total \$2.549 billion *[see Appendix E for details]*.
- Under the proposed fee schedule in FY 2013, the USPTO anticipates collecting \$2.686 billion in patent fee revenue *[see Appendix F and Attachment 2 for details]*.
 - \$2.549 billion directed to paying for known costs *[see Appendix E for details]*.
 - \$137 million* placed in an operating reserve for long-term financial stability to pay for unknown costs or offset revenue loss due to the fluctuation in demand for service *[see Appendix J for details]*.

* An additional \$19 million collected from other revenue will also be deposited in the reserve.



Impact of Proposed Fee Schedule on Patent Application Backlog

- The USPTO anticipates using the fee revenue to offset prospective aggregate costs to:
 - reduce the backlog of patent applications from 669,625 applications at the end of FY 2011 to 329,500 at the end of FY 2015; and
 - keep pace with incoming applications.



The benefits of the proposed fee structure become apparent when reviewing the change in patent applications filed, inventory in backlog, and number of patent examiners



Impact of Proposed Fee Schedule on Patent Pendency

- The USPTO anticipates using the fee revenue primarily to offset prospective aggregate costs to reduce:
 - The average first action pendency to 10.1 months in FY 2015 from 28 months at the end of FY 2011; and
 - The average total pendency to 18.3 months in FY 2016 from 33.7 months at the end of FY 2011.

Utility, Plant and Reissue	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Applications	506,924	533,300	565,300	599,200	632,200	666,900	700,300
Growth Rate	5.3%	5.2%	6.0%	6.0%	5.5%	5.5%	5.0%
Production Units	502,488	539,700	620,600	671,900	694,200	645,200	656,200
End of Year Backlog	669,625	621,800	529,100	421,600	329,500	328,400	358,000
Performance Measures							
Inventory Position (Months)	21.2	17.9	12.9	9.5	7.3	8.3	9.2
Avg. First Action Pendency (Months)	28.0	22.5	16.9	15.9	10.1	9.4	9.4
Avg. Total Pendency (Months)	33.7	34.7	30.1	24.6	22.9	18.3	18.1
Examiners at End-of-Year	6,685	7,800	8,700	8,600	8,300	8,300	8,200

○ = Pendency Targets Projected to be Achieved



Impact of Proposed Fee Schedule Operating Reserve

- The proposed fee structure builds the operating reserve to the optimal level of three months of operating expenses, as follows *[see Appendix J for details]*:

Description	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
3 Months Operating Expense	\$562 M	\$637 M	\$675 M	\$702 M	\$712 M	\$736 M
Estimated End of Year Balance	\$121 M	\$277 M	\$459 M	\$756 M	\$712 M*	\$736 M*

- The Office is able to reach the three month level in 2015, when operating expenses begin to level off after reducing the patent application backlog.
- An operating reserve increases the USPTO's ability to absorb and respond to unanticipated shocks and temporary changes in its environment or circumstances.
- Fee-funded operations are typically at high risk for cash flow stress and can be:
 - ↳ Forced to make expensive, short-term, crisis-based decisions in exchange for strategic, long-term decisions; or
 - ↳ Left without the resources to continue the delivery of programs at designated performance levels.
- Without typical business tools, such as the ability to borrow money, the operating reserve serves as an internal line of credit to cover normal fluctuations in fees to sustain operations and execute on the goods and services requested by intellectual property stakeholders.



Alternative



Alternative

- An alternative to the proposed fee structure that some might prefer is to set fees at current rates, which include the 15 percent surcharge added under the AIA on September 26, 2011, and set the new micro entity fees.
- Considering this alternative, the USPTO estimates receiving about \$2.4 billion in patent fees during FY 2013.
 - Only \$100 million more than it anticipates collecting in FY 2012.
 - These fees would recover an estimated aggregate cost of \$2.4 billion.
 - With this reduced aggregate cost comes reduced examination capacity – the Office would continue with its plans to hire 1,500 examiners in FY 2012, but would only replace attritions, thereafter.



Impact of Alternative

- With this alternative, the Office would be in a financial position to continue paying for a steady state operation, which includes items such as:
 - ↪ Continuing with patent process reengineering and some patent information technology improvements, albeit at a slower pace than planned for with the proposed fee structure; and
 - ↪ Continuing to open the initial Satellite office in Detroit.
- However, given the reduced aggregate revenue, the Office would not be in a financial position to implement the numerous improvements planned for in FY 2013 and beyond, which includes items such as:
 - ↪ Expanding the nationwide workforce initiative;
 - ↪ Executing patent examiner production overtime at maximum levels;
 - ↪ Hiring the full 1,500 patent examiners planned for in FY 2013;
 - ↪ Continuing with IT infrastructure improvements at a pace that would prevent reversal of the achievements, to date; and
 - ↪ Depositing funds in the operating reserve during FY 2013, leaving it insufficient to weather economic downturns.



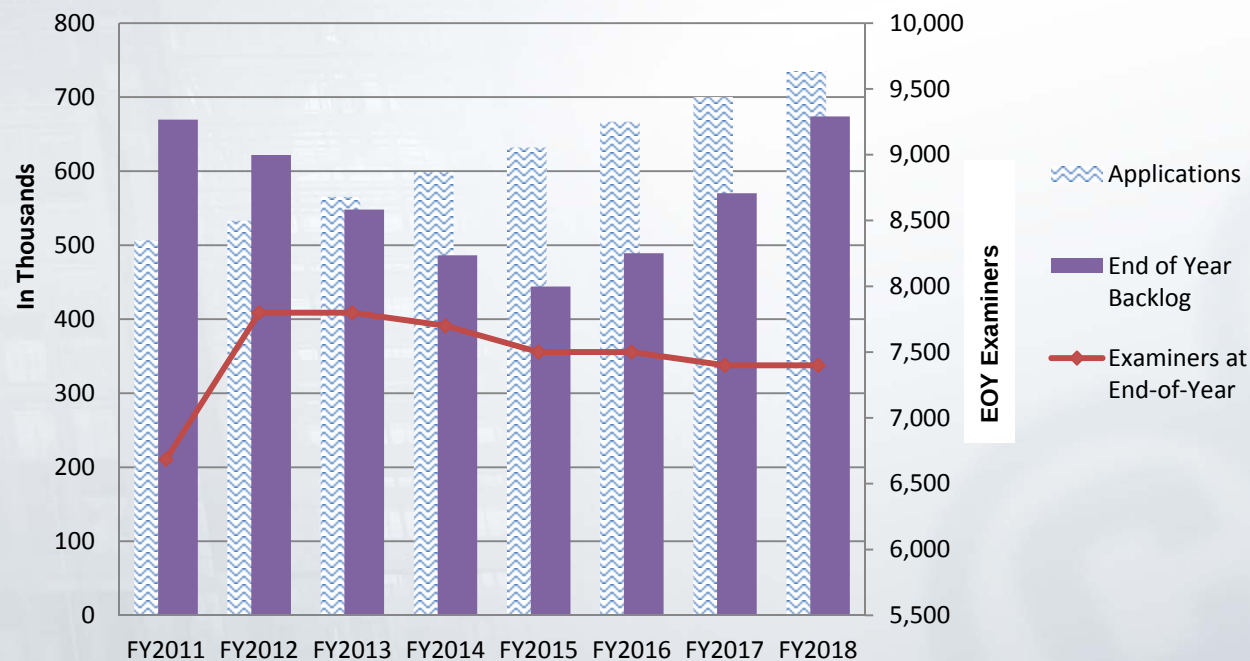
Impact of Alternative

- With this reduced production capacity, the Office would not realize an average first action pendency of 10 months or a average total pendency of 20 months during the next six years, if ever, for example:
 - ⇒ The backlog in FY 2018 would likely be slightly greater than it is today;
 - ⇒ Average first action pendency would improve to about 13 months in FY 2015 and gradually increase to 15 months in FY 2018;
 - ⇒ Average total pendency would improve to about 21 months in FY 2016 and gradually increase to 24 months in FY 2018;
 - ⇒ Considering the historical growth in patent applications, this increasing trajectory would continue beyond FY 2018.
- In addition, financial stability would be at risk as the fee structure continues to be misaligned with the cost of providing services.



Impact of Alternative on the Patent Application Backlog

- The USPTO would use the \$2.4 billion in aggregate fee revenue to offset aggregate costs to pay for examiners hired in FY 2012, with some attrition replacement in the out years:
 - ✚ The backlog of patent applications would be reduced from 669,625 applications at the end of FY 2011 to 444,200 at the end of FY 2015.
 - ✚ However, it would not keep pace with incoming applications and begin rising again in FY 2016.





Impact of the Alternative on the Patent Application Pendency

- The USPTO would reduce pendency as follows:
 - ✚ The average first action pendency to 12.7 months in FY 2015 from 28 months at the end of FY 2011; and
 - ✚ The average total pendency to 21.1 months in FY 2016 from 33.7 months at the end of FY 2011.
 - ✚ Like the application backlog, average first action and total pendency would begin growing again in FY 2016 and FY 2017, respectively.

Utility, Plant and Reissue	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Applications	506,924	533,300	565,300	599,200	632,200	666,900	700,300	735,300
Growth Rate	5.3%	5.2%	6.0%	6.0%	5.5%	5.5%	5.0%	5.0%
Production Units	502,488	539,700	601,500	626,300	644,200	599,100	604,900	626,200
End of Year Backlog	669,625	621,800	548,200	486,300	444,200	489,200	570,200	674,000
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Avg. Total Pendency (Months)	33.7	34.7	30.1	25.2	24.6	21.1	22.3	23.8
Examiners at End-of-Year	6,685	7,800	7,800	7,700	7,500	7,500	7,400	7,400



Conclusion



Summary

- The USPTO has embraced the spirit of the Leahy-Smith America Invents Act to embark on a long-term path toward financial stability, increased innovation, and better service to the patent community.
- Fee setting authority is a critical tool to enable us to reach our goals. We accept the challenge to use this new authority judiciously and responsibly.
- Despite several fee increases in the proposed fee structure, we are confident that this proposal will better serve our stakeholders, the future needs of the agency, and the U.S. economy.



Summary

- Achieving the goals outlined in the *USPTO FY 2010 – 2015 Strategic Plan* will cost money when the Agency currently faces 650,000 applications in the examination queue, will receive approximately 530,000 applications in FY 2012, a 5% increase over FY 2011, and has insufficient funds to ensure completion of the work.
- We also expect that as pendency falls, the Office will face even greater demand for our services, thus increasing application filings further.
- The aggregate revenue for the proposed fee structure provides sufficient funds to accomplish the USPTO's goals in a financially prudent and stable manner.
- The proposed fees also enable the Agency to overcome the unfunded deficit and once the patent application backlog is reduced in FY 2015, eventually reduce fees.



Additional Information

- The following additional documents, presented separately, provide background information and further details related to the proposed fee structure in this summary document and are integral part of the proposal:
 - Transmittal letter;
 - Detailed Appendices: Patent Free Proposal;
 - Attachment 1 - *Table of Patent Fee Changes*; and
 - Attachment 2 - *Aggregate Revenue Calculations*.



Path Forward

- The proposed fee structure and the alternative baseline scenario are intended to provide two different perspectives of information to the public to assist in considering our proposal.
- The proposal is far from final and we look forward to your insight, ideas, and suggestions for improvement that is beneficial for all – stakeholders, the Office, and our country.
- As you provide input, it is useful to frame it in goals, time periods, and which realignments within the proposed fee structure are favorable and which are not.
- With this type of information, the Office would be armed to prepare a proposal for a notice of proposed rulemaking that achieves mutual objectives.
- We look forward to a productive dialog over the next couple of months.

Thank You!