



UNITED STATES PATENT AND TRADEMARK OFFICE

UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

FEB - 7 2012

VIA ELECTRONIC TRANSMISSION

Patent Public Advisory Committee
ATTN: Damon C. Matteo, Chairperson
Palo Alto Research Center
3333 Coyote Hill Road
Palo Alto, CA 94304

Dear Members of the Patent Public Advisory Committee:

The new fee setting authority provided by the Leahy-Smith America Invents Act (AIA) presents the United States Patent and Trademark Office (USPTO) with a new responsibility of stewardship and provides a tremendous opportunity to continue improving our Nation's intellectual property (IP) system. For the first time in the Office's history, we have been entrusted with the authority to work with the IP stakeholder community to set our fees through the regulatory process. With this new authority, the USPTO has embarked on a fee setting initiative that will enable us to deliver on key commitments made to the IP community and our country, while at the same time placing the Office on a path to financial sustainability.

Throughout the fee setting process, the USPTO has been guided by two overriding principles which I believe we all share. **First**, the USPTO must operate within a more sustainable funding model than it has in the past to avoid disruptions in agency operations caused by fluctuations in the economy. Doing so requires that we charge fees for our services that, on the whole, more closely reflect the actual cost of delivering those services. If the Office is to move ahead on a steady course, this service-delivery cost must responsibly account for both planned expenses and unanticipated events. That is why the Office is continuing to build an operating reserve to ensure its long-term financial stability.

We do not have to look back very far to see why an operating reserve is necessary. In 2009, as the economy faltered, the USPTO's fee collections plummeted. Without an operating reserve in place to cushion the blow, the Office came alarmingly close to having to furlough its staff. While we ultimately were able to avoid such a drastic measure, we were forced to make painful funding decisions that reduced production capacity, all the while managing an unacceptably large backlog of unexamined patent applications. Operating this close to the edge is neither in the interest of our stakeholders nor our country.

Second, the USPTO is adhering to the strategic imperative set by our user community itself – to dramatically reduce the backlog of unexamined patent applications and patent application pendency. In response to our stakeholders' concerns, the *USPTO 2010 – 2015 Strategic Plan* set

forth the goals of reducing the patent application backlog to 329,500 applications by 2015 and of reducing first action pendency to 10 months by 2014 and total pendency to 20 months by 2015. Due to insufficient financial resources in fiscal year (FY) 2011, we have had to shift respective dates by one year.

To accomplish the priorities set forth in the Strategic Plan developed with guidance from our user community, the USPTO must, for several years running, examine significantly more patent applications than it receives. Unfortunately, in view of our past funding model pre-AIA, the resources to address the backlog do not currently exist. Accordingly, bringing the over 650,000 applications sitting in our backlog down to a manageable level, while at the same time keeping pace with the approximately 530,000 new patent applications expected this year, will require a significant infusion of resources. Thus, we must collect more, and raise our fees to do so, if we are to overcome the backlog.

Enclosed with this letter are four documents. The first provides a high level summary to help you understand the overall changes being proposed. It likewise includes information on an alternative fee scenario for your consideration. The second document contains additional details on our fee setting process, highlights of the issues and information we have considered, and offers a brief explanation of our methodology for determining the proposed fee levels. The third document provides a detailed listing of our fees, including the unit cost and proposed changes. The fourth presents a calculation of the total revenue we estimate collecting under the proposed option.

The proposed fee structure in the first document is designed to generate the revenue necessary to fulfill the commitments that the USPTO has made to our stakeholders. Transitioning to this fee schedule in FY 2013 will provide the USPTO with a 10 percent increase in fee collections over current fees (which include the 15 percent surcharge). Having fully transitioned to these new fee levels, the Office estimates that FY 2014 fee collections will exceed FY 2013 collections by a further 5 percent. This increased revenue will provide for much needed financial stability, and will allow the USPTO to continue making long-overdue investments in growing our examination corps and improving our information technology systems. With these enhancements in place, we expect our "catch up" will be substantially complete in FY 2015. And with the currently unfunded backlog finally paid off, we anticipate being able to reduce fees in FY 2016 and beyond.

While the proposed fee structure raises many fees, it also provides for more granular fees tailored to specific activities and specific points in time. This granularity gives applicants the ability to make more informed decisions about the dollars they spend prosecuting patent applications as more information becomes available to them. This is good for applicants, good for the Office, and good policy for our country. The proposed fee structure also provides for more paths through the patent system, actually enabling more efficient overall results for both applicants and the Office.

In the aggregate, the proposal will cover the cost of the USPTO's investments in the future of our Nation's IP system. However, you will see that this is not the case with each individual fee that we have proposed. In an effort to pursue sound public policy, some fees have been set below

cost recovery and some have been set above. For instance, filing, search, and examination fees are maintained below full-cost recovery in order to reduce barriers to entry into the patent system. In contrast, maintenance fees are set above cost to recoup the front-end subsidy at a time when applicants have more knowledge about the commercial viability of their invention. Lastly, in all cases under the proposed fee structure, and despite any increases in fees, those who qualify as micro entities under the new definition established by AIA will pay *less* than they currently pay as small entities.

The proposal represents the investment needed to accelerate progress the USPTO has already made and launch a full court press to overwhelm the backlog of unexamined patent applications as quickly and responsibly as possible. Our stakeholders will realize the benefits of this enhanced capacity through more efficient processing, reduced pendency times, and an improved user experience. And with faster processing, new innovative products will move more quickly to the marketplace, fostering job creation and economic growth for our country.

However, there are those within the U.S. innovation community who may consider reducing pendency and reducing the backlog of unexamined patent applications to be less important than retaining fees at current rates. Therefore, we have also examined an alternative schedule that maintains fees at the same level and structure as exists today (which includes the 15 percent surcharge), and results in fees set in this alternative schedule lower than the proposed fee structure. These lower fees would, of course, result in significantly reduced revenue as compared with the proposed fees, which would hamper the Office's efforts to improve operations.

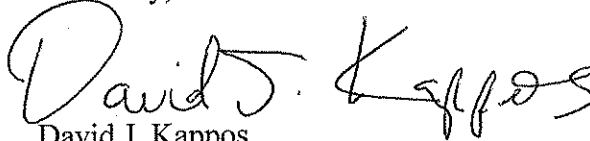
Under the alternative schedule, the USPTO's goals of 10-month first action and 20-month total pendency would never be met – let alone by 2015 and 2016, respectively. Rather, while the alternative would still enable the patent examiner hires currently under way in FY 2012, we estimate that average first action pendency drops to about 13 months in FY 2015, pendency subsequently will increase to 15 months in FY 2018 – with an expected and continued upward trajectory into the future. Likewise, we estimate that average total pendency will drop to about 21 months in FY 2016 and then increase to 24 months in FY 2018 – with the same upward trajectory into the future. Under the alternative, we further estimate our backlog in FY 2018 will be greater than it is today. Thus, while patent applicants would receive the short-term benefit of lower fees under the alternative, that benefit would come at the cost of slower, less effective service delivery in the long term, causing American manufacturers uncertainty about future patent grants that may jeopardize commercial marketing of their product and service in our country.

Additionally, with the alternative, the USPTO's operational stability will be impaired. With revenue invested in examination efforts, our information technology and sustainable funding objectives will remain unmet. The Office will invest in information technology improvements at a much reduced level and will be unable to accumulate an adequate operating reserve.

In closing, let me stress that the fee schedules contained herein represent only an initial proposal. They are far from final. There are many options that can be discussed in addition to the two presented, each with consequences for fees and thus Office improvements. We invite your

feedback and recommendations, and look forward to a meaningful dialogue over the coming months. In particular, we encourage you to examine our methodology and alert us to any areas where you feel our calculations, our assumptions, or our methods can be improved. Such a conversation can only enhance our final product and help to ensure that the end result represents the best path forward for the U.S. patent system.

Sincerely,

A handwritten signature in black ink, appearing to read "David J. Kappos". The signature is fluid and cursive, with the first name "David" being the most prominent.

David J. Kappos
Under Secretary and Director

Enclosures

cc: Benjamin Borson, Borson Law Group, PC
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