

UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT PUBLIC ADVISORY COMMITTEE MEETING
FEE SETTING HEARING

Alexandria, Virginia

Thursday, September 6, 2018

1 PARTICIPANTS:

2 PPAC Members:

3 MARYLEE JENKINS, Chair

4 P. MICHAEL WALKER, Vice Chair

5 JENNIFER CAMACHO

6 CATHERINE FAINT

7 MARK GOODSON

8 BERNARD KNIGHT

9 DAN LANG

10 JULIE MAR-SPINOLA

11 PAMELA SCHWARTZ

12 JEFFREY SEARS

13 PETER THURLOW

14 USPTO:

15 ANDREI IANCU, Under Secretary of Commerce for
16 Intellectual Property and Director of the
USPTO

17 SCOTT BOALICK, Deputy Chief Judge, Patent and
Trial Appeal Board

18 WILLIAM COVEY, Deputy General Counsel and
19 Director, Office of Enrollment Discipline

20 SARAH HARRIS, General Counsel

21 DREW HIRSHFELD, Commissioner for Patents

22

1 BRENDAN HOURIGAN, Director, Office of Planning
and Budget

2

3 SEAN MILDREW, Acting Chief Financial Officer

4 ANTHONY SCARDINO, Acting Deputy Director

5 Guest Speakers:

6 DAVID BOAHENG
Room of Health

7

8 ROGER BURLEIGH
Ericsson Inc.

9 MARK DICKSON

American Bar Association-Intellectual Property
Law Section

11 LISA JORGENSEN

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13 JOSH MALONE
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Intellectual Property Owners Association

15

16 PAUL MORINVILLE
U.S. Inventor

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(9:00 a.m.)

So, first I would like to do some introductions. First, myself, my name's Mike Walker. I'm Vice Chair of the Patent Public Advisory Committee. Our Chair, Marylee Jenkins, who usually runs these meetings is not here; she is online, though, and she'll be listening in and participating online.

At this point, just to introduce everyone around the table, let everyone know who's sitting here and joining the meeting, like to go

1 around the table and maybe we can introduce
2 ourselves briefly and then come back to you.
3 Bill, do you want to start?

4 MR. COVEY: I'm Will Covey. I'm the
5 Deputy General Counsel and Director of the Office
6 of Enrollment and Discipline.

7 MS. HARRIS: Sarah Harris, General
8 Counsel.

9 MR. BOALICK: Scott Boalick, Acting
10 Chief Judge of PTAB.

11 MR. MILDREW: Hi, good morning. Sean
12 Mildrew, Acting CFO.

13 MR. HIRSHFELD: Drew Hirshfeld,
14 Commissioner for Patents.

15 MR. HOURIGAN: Good morning. Brendan
16 Hourigan, Director of Planning and Budget in the
17 CFO's Office.

18 MR. SCARDINO: Good morning. I'm Tony
19 Scardino. I'm the Acting Deputy Director.

20 MR. IANCU: Andre Iancu, Director.

21 MR. LANG: Dan Lang, I'm the PPAC and
22 Chair of the Finance Subcommittee.

1 MR. KNIGHT: Bernie Knight, PPAC.

2 MR. THURLOW: Peter Thurlow, PPAC.

3 MS. CAMACHO: Jennifer Camacho, PPAC.

4 MR. SEARS: Jeff Sears, PPAC.

5 MR. GOODSON: Mark Goodson, PPAC.

6 MS. SCHWARTZ: Pam Schwartz, PPAC, and

7 I'm the President of the Patent Office

8 Professional Association.

9 MR. WALKER: Okay. Thank you, everyone.

10 And then we have two people on the line. I
11 mentioned Marylee Jenkins, Chair of the PPAC is
12 online. And then also, Julie Mar- Spinola,
13 another member of PPAC, is also online on the
14 phone. I'm introducing them because we've got a
15 gap between the livestream and the phone, so just
16 to make it easier, I wanted to introduce them.

17 So, I'd like to do before we begin is
18 provide a little context before we get to the
19 substance of the hearing. As you know, the Smith
20 -- Leahy-Smith America Invents Act provided the
21 PTO with limited fee setting authority. Now, as
22 part of the rulemaking process to set or adjust

1 fees, the PPAC is required by the AIA to do two
2 things: first, the PPAC must hold a public hearing
3 about any proposed fees and the USPTO is required
4 to help us set up the meeting. So, thank you,
5 USPTO, for the great job you're doing in setting
6 up the meeting.

7 So, as announced in the Federal Register
8 on August 1, 2018, we're holding this hearing to
9 obtain input from the public on proposed patent
10 fee schedule made public and Director Iancu's of
11 -- to PPAC on August 8, 2018.

12 Our second requirement is to render a
13 report that includes public input, as well as PPAC
14 input, that we hope will assist the Office with
15 respect to the fee proposals that I just
16 mentioned.

17 So, for today's hearing, interested
18 members of the public were invited to testify
19 about the proposed patent fees and the questions
20 that were posted on the PPAC website about the
21 fees. So, the agenda for today's hearing, which I
22 hope you saw on the PPAC website, is as follows:

1 so, I'll make the opening comments, I'll be
2 followed by Dan Lang, who is the Chair of the PPAC
3 Finance Subcommittee, he'll be followed by
4 Director Iancu, and then comments from Deputy --
5 Acting Deputy Director Tony Scardino, and then
6 further comments on the fee adjustment proposals
7 by Brendan Hourigan, who's Director of the Office
8 of Planning and Budget. And then with that
9 overview and with that introduction, we'll turn to
10 you in the public to get your thoughts and
11 feedback.

12 So, this fee proposal, obviously very
13 important to the Office, very important to the
14 stakeholder community, and your voice, the
15 public's voice, is very important both to the
16 Office and important to PPAC and we very much look
17 forward to hearing what you have to say about the
18 fee proposal.

19 So, our procedure for the day very
20 simply is this: After we get through the
21 presentations, we'll turn to the witness part of
22 the hearing. And just ask you to be succinct. We

1 have quite a few people here, about seven people,
2 who may give their comments. Please keep your
3 comments focused on the fee issues. We know there
4 are a lot of issues with the Office, there always
5 are, but this is really about the fee proposal.
6 That's why we're here. And to be fair to
7 everyone, we ask that the comments be limited to
8 no more than 10 minutes and I have a sense that
9 some of them may be shorter than 10 minutes, but a
10 maximum of 10 minutes, please.

11 In terms of protocol, the PPAC is here
12 to listen. So, this is your opportunity to speak.
13 So, the PPAC members are in a listen-only mode, so
14 this is not going to be a Q and A, we're just here
15 to listen, not make opinions, render value
16 judgements on what people have to say. The only
17 questions may be very narrow limited questions for
18 clarity, but even those probably pretty few.
19 Because this is really your time to come and be
20 heard and for us to listen, so that's what it's
21 all about.

22 So, we have schedule witnesses and then

1 per the Federal Register Notice, time permitting,
2 we may also have unscheduled participation by the
3 audience and I'll have more to say about that
4 later. So, at this point, I'm going to let Dan
5 Lang, who is Chair of the PPAC Finance Committee,
6 give some more details on our process. Dan.

7 MR. LANG: Thank you, Mike. The PPAC's
8 role is to collect public input and then use that
9 to prepare a report on the USPTO's fee setting
10 proposal. Holding this hearing and listening to
11 the testimony is an important part of that. I am
12 looking forward to hearing different perspectives
13 from the public today and listening very carefully
14 to the testimony.

15 For those who are not here to testify,
16 but even for those who are, we are also collecting
17 written input. Please write to us at
18 fee-setting@uspto.gov, but do that by September
19 13th, which is next Thursday. Based on the input
20 we received, we and the PPAC, and I will leave
21 this process, we'll prepare a report. That's our
22 statutory role. We plan to get that report out in

1 November of this year at the latest. Then after
2 weighing the public input in our report, the PTO
3 will publish a notice of proposed rulemaking
4 inviting further public comment. Ultimately, the
5 USPTO will issue a final rule and implement
6 revised fees.

7 Thank you very much to the PTO staff for
8 their work on this proposal and their support in
9 -- to us in holding today's hearing. Thanks to
10 all of you who are attending, testifying, and
11 submitting comments. You're what makes the
12 process work. You're the important ones who make
13 it work the way it was intended to. But that's
14 all I have and then now I'll hand it over to --
15 back to Mike.

16 MR. WALKER: Thank you, Dan. Dan was
17 modest; as Chair of the PPAC Finance Subcommittee,
18 he is the one who was responsible for preparing
19 the report. So, Dan, on behalf of (laughter) the
20 public and PPAC, we all thank you very much for
21 your work and leading the effort on that report.

22 So, now it's my pleasure to introduce

1 Director Iancu, Director of the U.S. Patent and
2 Trademark Office. He'll make some comments.

3 MR. IANCU: Good morning, everybody.

4 And first of all, Vice Chair Walker, Mr. Lang,
5 Members of the PPAC, Members of the public, thank
6 you very much for being here, for holding this
7 hearing, and thank you to everybody in the room
8 and those of you watching online for joining us
9 today for this special hearing focused on patent
10 fees, a very important issue to the Office and to
11 everybody who has business before the Office.
12 This is a very important topic in planning for the
13 future of the USPTO and ensuring that we are in
14 the best possible position to enhance the
15 country's innovation ecosystem by providing
16 strong, reliable, and predictable intellectual
17 property rights.

18 As I've said before, and I truly
19 believe, the U.S. Intellectual property system is
20 a crown jewel of the nation's economy, culture,
21 and history. Protecting IP is vital to
22 maintaining the incentives for research and

1 development, creating quality jobs, driving our
2 economic prosperity, and providing incredible
3 benefits to society as a whole. The USPTO's
4 ability to issue timely reliable patents both
5 today and in the future is a critical part of
6 that.

7 As you are aware, the Leahy-Smeeth --
8 Smith America Invents Act, also known as the AIA,
9 which was passed by Congress by -- with bipartisan
10 support in 2011, made several significant changes
11 to the U.S. intellectual property system. Among
12 those changes, and most remain to our discussion
13 today, was that the Act granted the USPTO
14 authority to set its own patent and trademark fees
15 by rulemaking to recover the aggregate estimated
16 cost of operations for patents and trademarks.
17 Congress granted us this authority because it
18 recognized that the USPTO in collaboration with
19 the larger intellectual property community is
20 uniquely positioned to determine the most
21 appropriate fees that will both promote innovation
22 and provide sufficient revenue to sustain the

1 USPTO services designed to protect that
2 innovation. It is essential that we remain in
3 touch with our stakeholders as part of this
4 process.

5 Yes, this public hearing is a required
6 part of the fee adjustment process as specified by
7 the legislation of the AIA. And to that end, the
8 more viewpoints are here, the better information
9 we have to continuously improve the innovation
10 environment for everyone. This is why I've
11 enjoyed working closely with PPAC since joining
12 the USPTO seven months ago and why I look forward
13 to hearing the testimony today and reading the
14 PPAC report about our proposals to set and adjust
15 patent fees.

16 In a few moments, our Acting Deputy
17 Director, Tony Scardino, will provide us a little
18 more detail about why we are proposing fee
19 adjustments at this time. And our Director of the
20 Office of Planning and Budget, Brendan Hourigan,
21 will provide the details of those proposals. I am
22 sure you're all anxious to hear those details

1 since that's what brought you here today. But
2 first, I want to speak briefly about the
3 importance of USPTO's fee setting efforts.

4 The USPTO first exercised its patent fee
5 setting authority in 2013. The results of that
6 effort help the USPTO among other things reduce
7 the patent application backlog and decrease
8 pendency, allowed the Office to begin building a
9 patent operating reserve, and advance key policy
10 considerations while taking into account the cost
11 of individual services. For example, the USPTO
12 introduce in 2013 the 75 percent fee reduction for
13 micro-entities and expanded the availability of
14 the 50 percent fee reduction for small entities,
15 as required by the AIA.

16 The second iteration of patent fee
17 rulemaking under the AIA authority followed a
18 biannual review of fees, costs, and revenues that
19 began in fiscal year 2015. The fee adjustments
20 that resulted from this review went into effect on
21 January 16, 2018. Targeted adjustments were made
22 that allowed the Office to make progress on a

1 number of goals, including: Continued work
2 towards patent pendency goals, the improvement of
3 quality, and maintaining prudent levels of
4 financial reserves. The adjustment also allowed
5 the Office to make investments in -- into our IT
6 systems, although significant additional work
7 remains.

8 Indeed, they are no doubt aware of the
9 week-long outage that we experienced last month
10 with regard to our database, a key component of
11 dozens of internal and external programs that we
12 use in processing patent applications. Many of
13 the legacy systems we operate have not had the
14 major upgrade in years. We are now focused on a
15 fundamental review of our IT needs and options
16 going forward. While we were able restore our
17 services without data loss and in the process make
18 some upgrades to improve the reliability of pound,
19 we clearly have much more work to do.

20 In fiscal year 2017, we conducted
21 another biannual review of our fees. And
22 following that review, we have determined that

1 there is a need for USPTO to once again set and
2 adjust patent fees. It may seem like we just
3 finished adjusting fees and indeed, like I
4 mentioned, the updates fees have been in effect
5 for less than nine months at this point. But
6 setting and adjusting fees is a lengthy process
7 that requires us to look a few years towards the
8 future. We anticipate that the proposals we are
9 making now will take effect in January 2021, three
10 years after the previous adjustments. And
11 therefore, we must consider what the financial
12 needs of the Office will be at that time and
13 beyond.

14 The current proposals are a result of
15 lengthy and careful consideration. I believe that
16 both the USPTO and the broader IP community will
17 benefit from the proposed fee structure, as it
18 will allow us to identify an advanced policies
19 that deliver a strong, reliable, and predictable
20 patent system. For example, I am focused on
21 improving our information technology systems to
22 better support examination. Further, we all

1 benefit when the USPTO operates with a sustainable
2 funding model. During previous government-wide
3 shutdowns the USPTO was able to remain open,
4 thanks to our patent and trademark operating
5 reserves.

6 But the patent operating reserve does
7 more than that; it also allows us to make
8 long-term operational improvements and gives us
9 the means to respond to immediate and temporary
10 changes. It protects us against unexpected
11 increases in patent-related requirements or
12 unexpected declines in patent fee collections. It
13 helps minimize the impact of normal fluctuations
14 in fee collections, allowing us to run more
15 efficiently. Consequently, it is vitally
16 important that we continue to gradually build a
17 patent operating reserve towards this optimal
18 level.

19 In short, the fees we are proposing will
20 provide us with the resources and flexibility
21 needed to continue reducing the patent application
22 backlog, shortening patent pendency, improving

1 patent quality, enhancing patent administration
2 appeal and post-grant processes, engaging
3 effectively internationally, and improving our IT
4 infrastructure. These fees -- these fee proposals
5 will also enable the USPTO to continue to build,
6 retain, and effectively manage the highly educated
7 and talented workforce it needs to properly serve
8 you, our critical stakeholder community.

9 As many of you know, I came to the USPTO
10 from the private sector. It has been amazing for
11 me to see how the USPTO, despite being a
12 government agency, runs in many respects like a
13 business. We pay very careful attention to our
14 budget, to our user experience, and to the
15 services we provide. As many of you know, we also
16 have a Financial Advisory Board comprised of
17 executives from throughout the organization which
18 performs careful financial planning and budget
19 prioritization to ensure that our spending
20 supports our mission. As I have said before,
21 input on this initial proposal from you, our
22 stakeholders, is critically important.

1 So, please let us know your thoughts on
2 these proposals and not only the areas where you
3 think we can improve, but also areas where you
4 think our proposals are appropriate. Today's
5 hearing is the first opportunity to offer feedback
6 on the set of proposals. But it will not be your
7 last opportunity. Some of you will offer
8 testimony today, live, on these proposals. In
9 addition, following this hearing, you may also
10 submit written comments. As you've already heard,
11 but as Brendan Hourigan will also give you
12 information on this a bit later, you will find out
13 how to submit those comments and by when.

14 Additionally, PPAC will provide, as
15 mentioned, a public written report indicating the
16 Committee's comments, advice, and recommendations
17 about our proposals based in part on the oral
18 testimony today and the written comments received
19 in the next week. And next summer, we will plan
20 to publish in the Federal Register a notice of
21 proposed rulemaking which will formally outline
22 our fee proposals for public consideration and

1 another round of comments.

2 After receiving PPAC's and the public's
3 input, we plan to develop our final fee structure
4 and publish it in the Federal Register in the
5 summer or fall of 2020. Finally, we anticipate
6 that the new fees will go into effect January
7 2021. This process reflects the USPTO's
8 commitment to fiscal responsibility, financial
9 prudence, and operational efficiency. It is
10 critical that our intellectual property system be
11 balanced and continue to strive towards enhancing
12 the country's innovation ecosystem and providing
13 reliable and predictable intellectual property
14 rights.

15 As I have said many times, when patent
16 owners and the public have confidence in the
17 patents we grant, inventors are encouraged to
18 invent, investments are made, companies grow, jobs
19 are created, and science and technology advance to
20 the benefit of our entire society.

21 So, thank you, Vice Chair Walker,
22 Members of the Committee, and all of those

1 interested in our patent's organization for your
2 thoughtful consideration of this proposal. Thank
3 you all and have a great rest of the meeting.

4 MR. WALKER: Director Iancu, thank you
5 very much for those opening comments. We
6 appreciate you being here to share them with the
7 PPAC and with the public. Now it's my pleasure to
8 introduce Tony Scardino, Acting Deputy Director of
9 the USPTO. He'll provide us with some general
10 commentary on the USPTO fee setting proposal.
11 Tony.

12 MR. SCARDINO: Thank you, Mike, for the
13 introduction and good morning, everyone. I want
14 to thank those in the room and online for the
15 interest you have shown in our fee proposal.
16 Director Iancu has already touched on some of the
17 reasons we are proposing to adjust patent-related
18 fees, but I'm going to go into more detail on the
19 financial aspects of the proposal. And then as
20 the Director mentioned, I will turn it over to
21 Brendan Hourigan to give you the details of the
22 individual fees we are proposing to adjust.

1 As many of you are aware, the USPTO
2 operates like a business in certain respects.
3 Requests for products and services are made with
4 the expectation that they will be delivered in
5 either the current or future years in accordance
6 with established performance metrics. The total
7 cost of providing patent products and services is
8 funded from the total revenue derived from patent
9 fees and funding from the patent operating
10 reserve.

11 Every year, more than a half-a-million
12 patent applications are filed, bringing with them
13 both fees and associated patent processing and
14 examination workload. Fees for search and
15 examination are set below cost in order to keep
16 the barriers to entering the patent system low.
17 Issued maintenance fees from granted patent
18 applications subsidize those search and
19 examination costs, including for applications that
20 are ultimately not allowed. The ability to
21 calibrate our fee structure coupled with the
22 operating reserve is essential to helping USPTO

1 find the right balance to manage a complex funding
2 model that both incorporates responsible public
3 policy considerations and also can sustain
4 effective USPTO operations.

5 Following the most recent review of our
6 fees and our projected revenue and costs, we've
7 determined we need to adjust some fees for the
8 future. As we look over the five- year planning
9 horizon we use for budgeting, a number of factors
10 led us to project that USPTO's operating costs
11 will continue to increase. One of these factors
12 is inflation. Yes, inflation touches USPTO's
13 pocketbooks in the same ways it impacts yours.
14 Many of the resources we use to provide our
15 service increase in cost every year, driving up
16 our aggregate costs just to maintain the same
17 level of service.

18 But we want to do more than maintain
19 just the status quo. We're always looking to
20 improve the services we provide to you, our
21 stakeholders, while also advancing policies that
22 deliver a strong, reliable, and predictable patent

1 system. We'll continue our efforts to identify
2 tools and resources we can provide our examiners
3 to improve our prior art search and consistency of
4 examination. Providing high-quality, efficient
5 examination of patent applications will serve the
6 American economy well, as reliable patent rights
7 are key to economic growth. Increased reliability
8 of patent rights will also promote increased
9 demand and the USPTO must be positioned to respond
10 to this demand for quality and timely services
11 that benefit the American business community.

12 Related to this, the Office is wrapping
13 up a comprehensive analysis of examination time
14 known as examiner time analysis, the last
15 comprehensive assignment of expectancies for
16 examination time -- a mouthful. In other words,
17 the amount of time examiners are provided to work
18 on each application was done over 40 years ago.
19 Since then, significant changes to the examination
20 process have occurred, including the emergence of
21 new technologies, growth of available prior art
22 that must be searched, impacts of new electronic

1 tools, the challenges of transitioning to a new
2 patent classification system, and changes in legal
3 landscape or examination practices. As we plan
4 for the future, we must consider how changes such
5 as these impact the amount of time it takes to
6 examine an application.

7 Effecting changes in the examination
8 process needed to ensure the issuance of reliable
9 patents while also issuing those patents in a
10 timely manner means recognizing a potential
11 increase in our core operating costs. We do not
12 undertake this lightly and we're moving in the
13 direction after considering feedback from our
14 customers, employees, and other stakeholders now
15 and over the last several years. However, while
16 we've reached the conclusion that this change is
17 necessary for the future health of our -- of
18 America's IP system, absent an increase in revenue
19 or this increase in our core costs would
20 inevitably crowd out funding for other necessary
21 investments such as information technology. We
22 remain committed to investing in our information

1 technology.

2 Director Iancu mentioned that some of
3 our systems were unavailable for a week in August,
4 as we performed emergency maintenance. I know
5 many of you were directly impacted by the outage
6 and I'm sure you weren't happy about it. Neither
7 were we. Also, while the August issue was the
8 second time we have dealt with a multiday systems
9 outage in the past three years, I do want to note
10 that the outage in December 2015 was due to a
11 power outage, not a failure of USPTO IT systems.
12 Regardless, we will continue to strive in our
13 efforts to be better.

14 Our desire is to provide you with the
15 best systems and services possible and we believe
16 that revenue generated by the proposed patent fees
17 will assist us in that goal. Investing in IT
18 remains a priority for us, as it is inextricably
19 linked to the success of our mission and our
20 desire to provide a reliable, predictable patent
21 system. Therefore, the USPTO will continue to
22 invest in improving our IT infrastructure,

1 modernizing our IT systems, and retiring these old
2 legacy systems that continue to challenge us.

3 Our new tools are built on modern,
4 flexible, and more stable infrastructure.
5 Improving our IT systems to better support patent
6 examination, the Patent Trial and Appeal Board or
7 PTAB, and other parts of the Office also includes
8 exploring big data capabilities, data analytics,
9 and the use of artificial intelligence to improve
10 overall performance and fuel data-driven decisions
11 and policy-making. And IT improvements are not
12 restricted to the tools we use internally to do
13 our jobs. We're also planning to improve the user
14 experience on our public-facing IT tools, as well.

15 We seek to increase efficiencies by
16 providing a uniform platform for conducting
17 business with the Office, including registering,
18 entering, and updating information and paying
19 fees. IT is changing at accelerating rate and one
20 must be able to adapt to a future where our work
21 is more complex and technology-dependent.

22 Another area where changing

1 circumstances are driving a change in our
2 operating costs is in the PTAB. PTAB's AIA trial
3 provisions have received a lot of attention
4 recently, with multiple decisions handed down by
5 the Supreme Court this year. We expect that
6 complying with these decisions will increase our
7 costs of conducting an AIA trial. Through both
8 internal study and stakeholder engagement, we will
9 work to ensure that USPTO's review in these
10 proceedings is consistent with the intent of the
11 AIA and the overall goals of predictable,
12 high-quality patent rights. We'll also continue
13 to assess potential improvements in the AIA, trial
14 standards and processes.

15 The revenue brought in by this proposal
16 will also facilitate our continued efforts
17 regarding education, outreach, and domestic and
18 international IP policy. Through this spending --
19 though this spending only comprises a small share
20 of USPTO's budget, especially when considered next
21 to the overall costs of patent examination or our
22 IT investments, the USPTO's committed to serving

1 local innovation economies through our regional
2 Offices and encouraging and supporting future
3 generations of inventors and entrepreneurs to play
4 an active role in America's innovation economy.

5 The agency also plays a leading role in
6 promoting strong and balanced protection and
7 effective enforcement of IP at home and abroad.
8 To keep competitive in an increasingly globalized
9 economy, large and small American businesses need
10 as much certainty as possible in the creation,
11 enforcement, and protection of their IP, both
12 domestically and internationally. We'll
13 continuous -- continually assess what steps, if
14 any, towards greater harmonization of substantive
15 patent law are advisable and partner with our
16 international counterparts in pursuit of strong IP
17 policies, enforcement, and protection worldwide.

18 As you consider these new and changing
19 requirements that are driving the need for the
20 proposed fee adjustment, I would like to emphasize
21 that USPTO knows we cannot simply increase fee
22 rates to pay for every desired improvement. We

1 recognize we have responsibility to you, our
2 stakeholders, to pursue strategic opportunities
3 for improvement in an efficient, cost-conscious
4 manner.

5 Director Iancu mentioned our Financial
6 Advisory Board. And let me assure you that during
7 my time as Chair of that Board, I participated in
8 many discussions that focused on financial risk
9 management and determining what is truly necessary
10 spending versus what we call "nice to have" budget
11 requests. Each year, the Board reviews multiple
12 scenarios to determine what level of fee
13 collections are expected and what our hiring and
14 spending levels need to be in order to effectively
15 carry out our mission.

16 The Board also regularly reviews USPTO
17 activities to identify opportunities for cost
18 savings and resources that can be redirected to
19 higher-priority projects. But given the fact that
20 critical costs of the agency continue to increase,
21 we're proposing a fee schedule that seeks to
22 provide the USPTO sufficient financial resources

1 to facilitate effective administration of the
2 United States intellectual property system.
3 Proposal also targeted -- has targeted fee
4 adjustments that will encourage desirable
5 practices within the IP system. And Brendan
6 Hourigan will discuss these targeted adjustments
7 momentarily.

8 But before I turn the floor over to
9 Brendan, I do want to briefly address one other
10 important aspect of the USPTO's financial
11 management and that's our patent operating
12 reserve. Director Iancu talked about this some,
13 but I would like to go into more detail for those
14 of you that are less familiar with it.

15 Fee funded operations like the USPTO are
16 typically at high risk for cash flow stress. In
17 general, fee funded operation may be forced to
18 make expensive crisis-based decisions if fee
19 collections are lower than expected. The
20 organization may need to make decisions to keep
21 things operate in the short-term rather than
22 making strategic long-term decisions. If the

1 organization's in the private sector, these --
2 there are some typical business tools, such as the
3 ability to borrow money that are available in
4 times of lowered revenue or if there's a need to
5 invest in operational or capital improvements.

6 However, these tools are not available
7 to the USPTO and most federal agencies.

8 Therefore, our patent and trademark operating
9 reserves serve as fiscally responsible internal
10 lines of credit. They help us cover normal
11 fluctuations in revenues and therefore sustain
12 operations and allow us to continue to execute on
13 the products and services requested by you, our
14 intellectual property stakeholders. They can also
15 serve to smooth out major multiyear investments or
16 near-term spikes, allowing us to set aside funds
17 in one year to cover major expenses we know we
18 will need to incur in future years.

19 To prudently manage these operating
20 reserves, we've identified both an optimal patent
21 operating reserve balance and a minimum or a
22 lower-bound operating reserve level we seek to

1 retain while building towards the optimal level.
2 We ended fiscal year 2017 below our minimum
3 operating reserve level. And in addition, despite
4 the fee increases that went into effect in January
5 of this year, we expect to end fiscal years 2018,
6 '19 and '20 below the desired minimum reserve
7 level, as well.

8 We feel these dips below ourself impose
9 minimum are necessary as we continue critical
10 investments in areas such as IT modernization and
11 examine -- and examination initiatives. However,
12 operating reserve balances below the minimum
13 jeopardize the USPTO's ability to respond to
14 emergency situations, such as the unexpected
15 economic downturns or government-wide shutdowns.
16 As recently as earlier this year, the government
17 experience two short-term shutdowns and the USPTO
18 was able to stay open during, using our reserves.
19 When any kind of cash flow risk presents itself,
20 approximately 90 percent of USPTO spending is on
21 things that we don't want to cut or we could
22 easily cut in the short-term, such as rent, paying

1 our employees, or paying for contracts that
2 support mission-critical initiatives.

3 So, when short-term spending cuts are
4 needed, they almost always come from the areas
5 where we have the most flexibility, which are IT
6 hardware replacement and software development.
7 The good news is that the operating reserve is
8 doing its job. We've been able to continue our
9 investments in IT at levels that continue to drive
10 our goals without making those short-term
11 crisis-based decisions. The fees we are proposing
12 are part of a larger, long-term plan to keep the
13 USPTO on a stable financial footing.

14 Proposed fees we are discussing today
15 are not anticipated to go into effect until 2021
16 and therefore will not change the near-term
17 outlook. But when they are enacted, they will
18 help replenish the patent operating reserve and
19 stabilize USPTO's finances, enabling us to deliver
20 reliable and predictable service levels even in
21 times of financial fluctuations. A more robust
22 patent operating reserve will also position us to

1 identify and undertake capital improvements, such
2 as adapting to an ever-increasing technological
3 future.

4 And I want to stress that the operating
5 reserve will be managed carefully. If the
6 projected operating reserve were to exceed the
7 estimated optimal level by 10 percent for two
8 consecutive years, it is USPTO policy that we
9 would examine the contributing factors and
10 determine whether it would be advisable to lower
11 fee rates.

12 In conclusion, the aggregate revenue we
13 will receive from the proposed fee structure will
14 provide sufficient funds to continue fulfilling
15 the USPTO's goals in a financially prudent and
16 stable manner. As the USPTO continues to make
17 progress on its goals and commitments, these will
18 continue to be reviewed and assessed on at least a
19 biannual basis to ensure they're at appropriate
20 levels.

21 Speaking of the USPTO's goals, I want to
22 mention quickly that we are currently seeking

1 comments on our draft 2018-2022 strategic plan.
2 The draft plan which sets out our mission focus
3 goals is available through our performance and
4 planning webpage and public comments are being
5 accepted through September 20th. We'll -- we will
6 consider all comments received by that deadline
7 when finalizing the plan and we anticipate posting
8 the final strategic plan in November of this year.
9 As this fee setting effort moves forward, we will
10 certainly consider the goals in the final
11 2018-2022 USPTO strategic plan and ensure that all
12 fees are set in support of reaching those goals.

13 So, hope that I've provided you with a
14 good explanation of USPTO's current financial
15 position and why we are pursuing fee adjustments
16 at this time. We believe our proposal strikes the
17 right balance between increasing revenue and
18 containing our costs. However, this proposal
19 represents only an initial step, a starting point.

20 For those of you who participated in our
21 last two rounds of patent fee setting, you know
22 that we took your input seriously and we made a

1 number of changes based upon your feedback. Now,
2 can almost guarantee you that there will be
3 changes to the proposed fee structure -- fee
4 schedule between now and the time those
5 adjustments take place, based on the feedback we
6 receive and what we read in the PPAC report.

7 Because I don't know what that feedback
8 (laughs) will be, I cannot say how things will
9 change. Some proposed fees may be lowered and
10 some may increase. But any and all changes made
11 will be done in the interest of the best way to
12 serve the public. And hearing from you is
13 imperative when making those decisions. That's
14 why this hearing is so important and we look
15 forward to hearing your feedback.

16 With that, I will turn things over to
17 Brendan Hourigan to provide more details about the
18 changes we are proposing. Thank you again for
19 your interest in this process.

20 MR. HOURIGAN: Good morning. I would
21 like to thank you all again for joining us today.
22 We look forward to hearing your comments and

1 reviewing the PPAC report as we move forward with
2 this fee setting process. As Director Iancu and
3 Acting Deputy Director Scardino mentioned, a main
4 focus of this round of fee setting is to increase
5 revenue and enable the USPTO to enhance the
6 country's innovation ecosystem and provide strong,
7 reliable, and predictable intellectual property
8 rights.

9 To help meet these goals, we are
10 proposing an increase of approximately 5 percent
11 for most patent-related fees. I will go into a
12 little more detail on this portion of the fee
13 setting proposal near the end of this
14 presentation. In addition to the across-the-board
15 increase, we are also proposing some targeted fee
16 adjustments that align with the Office's four key
17 fee setting policy factors, namely to foster
18 innovation, align fees with the full cost of
19 products and services, set fees to facilitate the
20 effective administration of the patent and
21 trademark systems, and offer application
22 processing options for applicants.

1 I will now walk you through the details
2 of the targeted fee proposals. For simplicity,
3 the fee rates presented will be for large
4 entities. However, small and micro-entity
5 discounts will continue to be available where
6 allowed by statute.

7 The first targeted fee proposal is to do
8 -- introduce a surcharge for utility
9 nonprovisional patent filings that are submitted
10 in a format other than the electronic DOCX file
11 format. In other words, this surcharge will apply
12 to filings that are submitted in an electronic
13 document, such as a PDF, that is not saved in the
14 DOCX format. It will also apply to filings that
15 are submitted non- electronically in addition to
16 the existing paper filing surcharge.

17 This fee would be set at \$400 for large
18 entities with discounts for small and
19 micro-entities. This is being introduced for
20 specifications, claims, and abstracts in utility
21 nonprovisional filings. However, it is possible
22 that it could be expanded to other filing types in

1 the future, as DOCX functionality is added for
2 additional filing types.

3 EFS-Web is the USPTO's web-based patent
4 application and document submission solution.
5 Using EFS-Web, anyone with a web-enabled computer
6 can file patent applications and documents without
7 downloading special software or changing document
8 preparation tools and processes. Registering as
9 an EFS-Web e-filer allows enhanced filing,
10 follow-on processing, save submissions, and more.

11 EFS-Web registered e-filers have been
12 able to file specification, abstract, and claims
13 in DOCX for utility nonprovisional filings since
14 August 2017. This surcharge will encourage
15 applicants to use DOCX format, which will improve
16 examination quality and lower processing costs,
17 benefiting both the USPTO and users.

18 Filings that are submitted via DOCX
19 format can be processed more efficiently by USPTO
20 and will be easier to use in future searches and
21 publication materials. DOCX is XML- based, which
22 simplifies the process for the Office to share the

1 data with backend systems. Currently, the Office
2 must convert PDFs to XML using optical character
3 recognition, which is a source of potential
4 errors. Users will also see increased
5 efficiencies since they will no longer have to
6 convert their structured text into PDF for filing
7 and won't have to worry about conversion errors.

8 The DOCX format will also allow for
9 greater reuse of content by applicants.
10 Additionally, the structured text document and
11 Office actions will be available in the private
12 Patent Application Information Retrieval or PAIR
13 system, allowing applicants to more easily use the
14 text, such as copying and pasting, when drafting
15 responses. Further, DOCX allows the ability to
16 perform content-based validation in the
17 specifications, claims, and abstract, which will
18 help applicants identify and correct mistakes
19 prior to submission.

20 Examples of DOCX validation includes
21 claims validation for missing claim numbering or
22 abstract validation for work count. The reduction

1 of errors helps contribute to compact prosecution,
2 which benefits both the applicants and the Office.

3 The next proposal is to increase the
4 surcharge for late maintenance payment --
5 maintenance fee payment within six months
6 following the due date. Over 95 percent of
7 payment renewals are paid before the due date, but
8 some patents are renewed during the six-month
9 period following the due date. The goal of
10 increasing this surcharge is to encourage those
11 patent-holders who are making late payments to
12 instead renew prior to the due date. Encouraging
13 more on-time renewals will benefit the public by
14 increasing the understanding of which patents are
15 still in force and which patent rights have been
16 allowed to lapse.

17 The proposed fee of \$1,000 for large
18 entities is a significant increase from the
19 current fee of a hundred-and- sixty, but brings
20 the USPTO more inline with late payment penalties
21 charged by other IP Offices. Discounts would
22 continue to be available for small and

1 micro-entities.

2 The next proposal is to increase the fee
3 to request an expedited examination of a design
4 application, also known as the design rocket
5 docket. Increasing this optional fee will allow
6 the USPTO to better manage staff to match demand
7 for these services. Raising this fee from \$900 to
8 \$2,000 for large entities also narrows the
9 discrepancy between this fee and the similar fee
10 that exists for utility patent applications,
11 specifically, the request for prioritized
12 examination fee that is currently set at \$4,000.
13 Small and micro-entity discounts would continue to
14 be available for this fee.

15 The next set of proposals deal with the
16 backend fees for utility -- for a utility patent.
17 The total package of fees being proposed in this
18 package does not significantly impact the balance
19 between frontend and backend fees. USPTO
20 continues to set frontend fees below the cost to
21 the Office to provide those services in order to
22 encourage innovation. For a utility patent with

1 one RCE and lifetime maintenance, frontend fees
2 will continue to be about 18 percent of the total
3 fees paid over the life of the patent.

4 However, as technology lifecycles grow
5 shorter, it is important that the USPTO not rely
6 too heavily on fees paid late in the life of a
7 patent. Therefore, the backend fees have been
8 reconstructed -- restructured to recover the
9 initial search and examination costs earlier in
10 the life of the patent with the issue fee and the
11 first-stage maintenance fee increasing by larger
12 percentages, while the second and third- stage
13 maintenance fees increase at a smaller rate than
14 the across-the-board increase.

15 The issue fee for utility patents and
16 reissues will increase from \$1,000 to \$1,200 and
17 the first-stage maintenance fee will increase from
18 \$1,000 to \$2,000. As a result, the combined fee
19 paid for -- fees paid for issue and first-stage
20 maintenance would increase from 16 percent to 19
21 percent of the total fees paid for a utility
22 patent with one RCE and lifetime maintenance.

1 However, second and third-stage maintenance fees
2 would only go up by 4 percent, with second- stage
3 increasing from \$3,600 to \$3,760 and third-stage
4 increasing from \$7,400 to \$7,700. These
5 adjustments will mark the first time maintenance
6 fee rates have changed since 2013. Small and
7 micro-entity discounts will continue to be
8 available for utility patent issue and maintenance
9 fees.

10 The next proposal is to introduce an
11 annual active patent practitioner fee. The fee
12 would be \$340 with a \$100 discount for continuing
13 legal education or CLE completion and a \$70
14 surcharge for filing on paper. For an annual
15 active patent practitioner fee filed on paper,
16 without certifying CLE completion, the fee would
17 be \$410. Filing electronically without certifying
18 CLE completion would be \$340. Filing on paper
19 with certifying CLE completion would be \$310. And
20 filing electronically with certifying CLE
21 completion would be \$240.

22 Currently, the Office of Enrollment and

1 Discipline or OED has fees for some specific
2 services. But the cost to maintain the patent
3 practitioner roster other -- and other services
4 provided by OED, such as outreach and pro bono
5 support, are largely passed onto patent applicants
6 and owners. Instituting an annual active patent
7 practitioner fee would allow these costs to be
8 recovered directly from patent practitioners. The
9 fees would also promote the integrity of the
10 patent practitioner roster and eliminate the need
11 for periodic surveys of registered practitioners
12 to update the roster.

13 This fee would be paid by registered
14 patent attorneys, agents, and individuals granted
15 limited recognition, and beginning in the year
16 after they complete the registration examination
17 and join the roster. Adequate notice would be
18 provided to practitioners in advance of the due
19 date for payment of the fee. Failure to comply
20 would result in delivery -- delinquency fee -- a
21 delinquency fee and/or administrative suspension
22 after an additional notice. This is similar to

1 the annual fees charged by the vast majority of
2 state and territorial bars.

3 Practitioners would be asked to certify
4 whether or not they have completed the recommended
5 number of (Sealy) hours over the previous two
6 years at the time they pay their annual active
7 patent practitioner fee. This includes a
8 recommended one hour of ethics and five hours of
9 patent law and practice.

10 CLE may be completed in several ways,
11 including: Participation in patent-customer
12 partnership meetings, USPTO- provided speaking
13 engagements, or outside CLE. USPTO-provided
14 speaking engagements will be designed with the
15 intent that they would also meet state and
16 territorial CLE requirements. But since
17 requirements vary, it would ultimately be up to
18 each state and territorial bar as to whether they
19 will accept USPTO CLE classes as meeting their own
20 CLE requirements.

21 Also, I would like to point out that the
22 USPTO would like to hear from patent practitioners

1 as to what would work best in terms of USPTO CLE
2 delivery. Please keep in mind as you provide
3 comments to us, for example -- please keep this in
4 mind as you provide comments to us. For example,
5 share your preference, if any, in live speaking
6 engagements versus Webex sessions what type of
7 content you desire, et cetera.

8 Practitioners who certify CLE completion
9 will receive a hundred-dollar discount on the
10 annual active patent practitioner fee.

11 Practitioners who certify completion of CLE
12 credits will also be noted in the OED information
13 system or OEDIS, which is available to the public
14 to search for practitioner -- for a practitioner.
15 Encouraging CLE through the use of a discount will
16 improve the quality of the bar and therefore the
17 resulting patents.

18 Note that the plan is to have check the
19 box reporting of CLE. As I previously stated,
20 practitioners would be asked to certify their CLE
21 completion at the time they pay their annual fee.
22 There are currently no plans for proactive audits

1 of CLE completion. Disciplinary actions for false
2 reporting would likely mainly arise when
3 conducting other investigations. While plans are
4 not finalized yet, when practitioners certify CLE
5 completion, there will be a disclaimer regarding
6 making a false statement and the potential
7 implications thereof.

8 Practitioners will be advised to keep
9 records to show the C -- that CLE was completed.
10 If you believe that a more proactive audit program
11 is appropriate, please include that in your
12 feedback to us, as well. But be aware that a
13 proactive program would incur additional costs and
14 the annual active patent practitioner fee would
15 likely need to be increased.

16 There would be no fee for practitioners
17 who become voluntarily inactive. However, the
18 existing administrative reinstatement fee would be
19 charged to help cover the costs of react --
20 reactivation. After two years of inactivity, a
21 practitioner would need to make a showing to the
22 OED Director that they continue to possess the

1 necessary qualifications to render legal services
2 to patent applicants or retake the registration
3 examination to be eligible for reactivation.
4 After five years of inactivity, the practitioner
5 would be required to retake the registration
6 examination to be eligible for reactivation.

7 The next proposal is to introduce a
8 petition fee for pro hac vice admission into the
9 -- those -- admission for those appearing before
10 the Patent Trial and Appeal Board, PTAB. This fee
11 of \$250 is for counsel who are not registered
12 practitioners to be granted admission in limited
13 circumstances, such as where the practitioner is
14 an experienced litigator who is familiar with the
15 subject matter involved in the proceeding. This
16 would shift the cost of PTAB Judges and other
17 personnel to the process and issue orders with
18 respect to these petitions to be covered by the
19 petitioning counsel. This fee is roughly
20 commensurate with the lowest proposed annual
21 active practitioner fee and with the median fee
22 charged by federal and state courts or pro hac

1 vice administrate -- admission's motions.

2 Once the petition is granted, the
3 counsel would be admitted for the entire duration
4 of the proceeding, even if it extends for several
5 years. For example, when an interparty's review
6 proceeds to final written decision and after
7 appeal of the Federal Circuit is remanded back to
8 the PTAB for further proceedings.

9 The Supreme Court decision in SAS
10 Institute, Incorporated versus Iancu is expected
11 to impact PTAB costs. PTAB will no longer be able
12 to institute on less than all claims challenged in
13 a petition, leading to significant additional
14 work. Also, PTAB is currently evaluating changes
15 to its trial processes, including the institution
16 decision, the claim construction standard
17 employed, the motion to amend process, and the
18 conduct of hearings. These will also require
19 added work. Therefore, the Office is revising the
20 fee levels for AIA trials to more closely align
21 the fees with the anticipated costs of the Office
22 performing these services.

1 Before the Supreme Court decision, the
2 PTAB set the interparty's review or IPR request
3 fee to be for any petition up to 20 claims and the
4 IPR post-institution fee to be for any institution
5 of review for up to 15 claims. The lower claim
6 number threshold for the post-institution fee was
7 based on the prior authority to institute on a
8 subset of the claims raised in a petition. In
9 view of the Supreme Court decision, however, the
10 PTAB is required to institute as to either all
11 claims addressed in a particular petition for IPR
12 or none.

13 Accordingly, the Office will set the IPR
14 request fee and the IPR post-institution fee to
15 each be up -- be for up to claims. The Office
16 will do the same for the post-grant review or PGR
17 and covered business method or CBM fees. Post-
18 institution fees will continue to be refunded if
19 the proceedings are not instituted by the PTAB.

20 The fees would be adjusted as follows:
21 the fee for an IPR request up to 20 claims would
22 be increased from \$15,500 to \$19,500. The IPR

1 post-institution fee would increase from \$15,000
2 to \$18,750 and cover up to 20 claims rather than
3 the previous 15 claims. The excess claims fee for
4 IPR request with more than 20 claims would
5 increase from \$300 to \$375. The post-institution
6 excess claim fee for IPRs would increase from \$600
7 to \$750, but would only be charged for claims in
8 excess of 20 rather than for claims in excess of
9 15. The PGR and CBM request for -- fee for up to
10 20 claims would increase from \$16,000 to \$20,000.
11 The post-institution fee for PGRs and CBMs would
12 increase from \$22,000 to \$27,500, covering up to
13 20 claims rather than the previous 15 claims.

14 The excess claims for -- fee for PGR and
15 CBM requests with more than 20 claims would
16 increase from \$375 to \$475. The post-institution
17 excess claims fee for PGRs and CBMs would increase
18 from \$825 to \$1,050, but would be only charged for
19 claims in excess of 20 rather than for claims in
20 excess of 15.

21 Finally, among the targeted proposals,
22 USPTO plans to discontinue three patent service

1 fees and instead provide these services in
2 slightly modified form for free. This will help
3 streamline the patent fee schedule while also
4 focusing USPTO workforce efforts on producing the
5 products that benefit the general public rather
6 than producing outputs for individual customers.

7 The first fee proposed for
8 discontinuation is for a copy of patent technology
9 monitoring team or PTMT, patent bibliographic
10 extract, and other DVDs. PTMT, patent
11 bibliographic data, is currently available online
12 for free, curtailing the need for USPTO to send
13 out extracts on disc.

14 The second fee proposed for
15 discontinuation is for a copy of the U.S. patent
16 custom data extracts. With the elimination of
17 this service fee, USPTO would create common
18 customizations and release them online free to the
19 public at the same time the data is released.
20 Further customizations would be discontinued.
21 While not an official USPTO data source,
22 PatentView meets many of the needs for those

1 requesting custom data extracts at no charge to
2 the consumer.

3 The third fee proposed for
4 discontinuation is for a copy of selected
5 technology reports in miscellaneous technology
6 areas. Selected technology reports are currently
7 available online for free, curtailing the need for
8 USPTO to send out paper copies of these reports.

9 As I stated at the beginning of this
10 presentation and as Director Iancu and Acting
11 Deputy Director Scardino previously discussed, a
12 main focus of this round of fee setting is to
13 increase revenue to enable to USPTO to enhance the
14 country's innovation ecosystem and provide strong,
15 reliable, and predictable intellectual property
16 rights. However, the targeted adjustments I have
17 just finished explaining would not raise enough
18 revenue to both keep USPTO on a stable financial
19 -- keep USPTO on a financial stable track and
20 allow us to advance policies that enhance the
21 country's innovation ecosystem.

22 Therefore, we are proposing an increase

1 of approximately 5 percent for the patent-related
2 fees not covered by those targeted adjustments,
3 given the -- that nearly three years will have
4 passed between the implementation date of the last
5 fee adjustment and when these fees are expected to
6 take effect. A 5 percent increase to -- is
7 similar to fees increasing by 1.6 percent annually
8 to help USPTO keep up with inflationary cost
9 increases.

10 To keep the fee schedule simple, USPTO
11 generally rounds fees to multiples of \$5.
12 Therefore, some smaller fees will not be changing
13 since a 5 percent increase would round down to the
14 current fee, while other fees would change by
15 slightly more or less than 5 percent, depending on
16 rounding. For a full list of proposed fees,
17 please see the tables on our fee setting webpage.

18 We look forward to hearing your comments
19 and receiving the PPAC report that summarizes the
20 public opinion of these proposals.

21 In the summer of 2019, we intend to
22 publish a notice of proposed rulemaking that

1 incorporates what we read in the PPAC report.
2 Given the 60-day public comment period following
3 the MPRM and the time it will take to develop a
4 final rule that incorporates the public comments
5 we receive. We currently expect the final rule
6 from this fee setting effort would be published in
7 the summer or fall of 20 -- 2020 with the final --
8 finalized rates anticipated to take effect in
9 January 2021.

10 So, in closing, this presentation and
11 several other documents explaining the proposed
12 fee adjustments are available on our fee setting
13 webpage. We have a few people scheduled to give
14 testimony here this morning. Those of you who
15 provide testimony today should also provide a
16 written copy of your testimony no later than
17 September 13th for inclusion in the record of the
18 proceedings.

19 As Dan mentioned, those of you who do
20 not speak today also have the opportunity to
21 provide comments via the fee.setting@uspto.gov
22 email by September 13th. Because comments will be

1 made available for public inspection, information
2 that is not desired to be made public, such as an
3 address or telephone number, should not be
4 included in the comments.

5 I want to thank all of you once again
6 for joining us this morning. We look forward to
7 hearing from you -- hearing your testimony and
8 receiving your written comments.

9 Public feedback on fee proposals is
10 vital as we seek to be good stewards of both fee
11 setting authority granted by the AIA and the fees
12 we collect. I will reiterate that this is
13 intended to be a listening session rather than a
14 question and answer session so that we can hear as
15 much public feedback as possible during our
16 limited time here today.

17 With that, we come to the end of the
18 presentation portion of today's agenda and are
19 ready to hear your testimony. Thank you.

20 MR. WALKER: Thank you very much,
21 Brendan, for walking us through the details on
22 that, the fee proposal. And I just -- I'll

1 mention that in addition to the website link you
2 had there, the PPAC website, thanks to Marylee's
3 leadership, is a rich treasure trove of
4 information, including the transcripts from the
5 last two fee setting hearings, all the details
6 from there, and it has a link to all the
7 information that Brendan referred to. So, if you
8 haven't looked at the PPAC website recently, it's
9 very helpful in this regard.

10 So, again, thank you, Director Iancu and
11 Acting Deputy Director Scardino, for your comments
12 and for your explanations. So, now the table is
13 set and we're going to transition now and go to
14 the scheduled testimony.

15 So, I have a list of who will be
16 speaking, so as I recognize you and you come up to
17 the podium, would you just please say your name
18 and the organization that you're representing so
19 that is clear for the transcript?

20 So, at this point, the Chair recognizes
21 Roger Burleigh. Roger.

22 MR. BURLEIGH: Good morning. I

1 apparently drew the short straw to open the public
2 testimony portion of today's agenda. Thankfully,
3 I'm followed by a distinguished panel further
4 experts provide their comments.

5 My name is Roger Burleigh and I'm
6 Associate General Counsel for IP for Ericsson.
7 This is our North American headquarters in Plano,
8 Texas. Give you a little bit of a brief
9 introduction to our company. Ericsson is a --
10 it's a Swedish multinational networking and
11 telecommunications company headquarter in its
12 Stockholm. Company was founded in 1876,
13 contemporary of Alexander Graham Bell. We
14 currently employ about 95,000 people and we
15 operate in over a-hundred- and-eighty countries.

16 We're dedicated to research and
17 innovation. We lead the development of cellular
18 technology from 5 -- from 2G to 5G. Around 15
19 percent of our annual global revenue is invested
20 in research and development, and we have the
21 largest patent portfolio in the industry with over
22 45,000 granted patents globally. We also actively

1 license our patent portfolio and we're one of only
2 a handful of companies to have booked over \$1
3 billion annually from patent licensing.

4 Looking at those revenues, you might
5 expect that cost is not an issue for us. But just
6 like the Office, we have to anticipate, you know,
7 inflation rates, currency exchange rates, and
8 those all have a cost, is what we take into
9 consideration on how and when we file our
10 applications and more importantly where.

11 Over my 23 -- oh, just quickly, this --
12 these pictures here represent kind of the
13 evolution of our business. The first picture, the
14 black-and-white's, from 1876. That's a picture in
15 Stockholm, one of the first telephone towers
16 that's 5,000 wires off of that tower. And that
17 was operational from 1876 to 1913. It stood
18 standing -- it remained standing until 1953, when
19 it collapsed following a fire. Thankfully, our
20 technology now, although we still require towers,
21 which you see in the lower right is Ericsson's
22 patented tube tower technology still require

1 towers, but no longer require the wires.

2 Most of you may not be familiar with
3 Ericsson. We used to have -- we used to sell
4 cellular telephones. We're mostly an
5 infrastructure company now focusing on the core of
6 our business, but all of you use Ericsson
7 technology every day. Probably every phone you
8 have in this room has Ericsson- licensed
9 technology in it. If not, your calls traverse a
10 network that is enabled by Ericsson technology.

11 As I look through the fee proposal, and
12 I've looked through these, you know, the changes
13 and fees over 23 years, I usually just, you know,
14 greet them with, you know, resignation. "Okay,
15 this is what I have to tell my clients it's going
16 to cost them, or this is how I set my budgets."
17 When I looked at the proposals this time, a few
18 things stood out. I have to set a budget, very
19 large budget, for our global portfolio that
20 defines how and where we're going to file our
21 applications and which ones we're going to
22 maintain. You don't get to a size 4,000 patents

1 globally without having to periodically do some
2 pruning. So, maintenance fees can have an impact
3 on how we make those decisions, as well as where
4 we take patents to grant.

5 So, the two changes to the fees is not
6 so much the amount of the fees and the aggregate,
7 but it's the structure of the fees that's
8 important to us. And so I focused primarily today
9 in my comments -- and we'll provide broader
10 written comments on all the changes, but the two
11 key ones for me are the substantial increase in
12 the issue fees and the first maintenance fees.

13 As stated in the patent fee proposal
14 executive summary, and the emphasis added was here
15 was where appropriate set fees so that during
16 patent prosecution, an applicant pays individual
17 fees at points in time where he/she has more
18 information to make a decision about proceeding
19 with the patent process.

20 My comment here and a corollary to that
21 is that it's no less important so that -- to set
22 the fees such that after allowance a patentee can

1 pay fees at points in time where sufficient
2 information is available to make an appropriate
3 decision about the commercial merits of obtaining
4 and maintaining a patent. One of the stated
5 rationales for the increase in the issue fees and
6 the first maintenance fees was the apparent
7 perception that there's a shortened technology
8 lifecycle. And I don't see that in our industry
9 and I don't feel it's necessarily the case across
10 many industries.

11 To eliminate that a little bit, Ericsson
12 is a global participant in the telecommunications
13 ecosystem which requires standard setting process.
14 We are one of the leaders in that process and it
15 requires early RND and early application filings
16 to secure priority dates on our contributions to
17 the standards bodies. As an example, this past
18 November we filed what we call our Foundation
19 Patent. Four-hundred pages and a-
20 hundred-and-thirty inventors, and that will secure
21 a priority for us for many subsequent applications
22 that we believe defines the architecture of future

1 networks.

2 Now, as we grow our portfolio and we
3 take cases to issue, we have to periodically prune
4 those. We can't maintain all the patents we grant
5 -- get granted worldwide because we don't always
6 know which ones are going to be adopted by the
7 standards or which may be implemented in our
8 products or our competitors' products. So, we
9 undertake a process which we usually don't begin
10 until we come up on the second or the third
11 maintenance fees to review the patents that we
12 have and decide which ones we will maintain.

13 When we're getting granted fifteen to
14 1,600 U.S. Patents every year, that implies we
15 have many hours. At a rough estimate, I say it
16 cost us internal costs \$300 to \$500,000 when we
17 undertake this process to review those patents.
18 At the first issue fee, we may not have any market
19 insights yet and so typically, we maintain all of
20 those. So, it's the latter patents when we have
21 some -- we understand what the commercial or the
22 licensing value's going to be that we may start

1 pruning some and maintaining the others.

2 So, talking -- again, going back to the
3 issue fee. According to the pros -- proposed fee
4 structure, the fees to obtain a basic patent,
5 including file, search, exam, and issue fees, will
6 increase by 11 percent. "To encourage innovation
7 entry fees, just file, search, and examination
8 will increase at a smaller rate, 6 percent," which
9 is basically keeping pace with inflation, as Mr.
10 Scardino noted, "With the larger portion increase,
11 the issue fee, 20 percent, only paid after a
12 patent has been allowed." Again, my comment here:
13 my applicants didn't know -- do not know whether
14 an invention will have commercial value at the
15 time of entry. And it's also often true at the
16 time of issue. Okay?

17 Maintenance fees. Although in total,
18 maintenance fees are proposed to increase by only
19 7 percent, again, essentially keeping pace with
20 inflation, the first-stage maintenance fees will
21 see the largest increase, 25 percent, in order to
22 help the USPTO recover costs earlier in the life

1 of the patent, and the second and third
2 maintenance fees are proposed to increase by only
3 4 percent, so less than inflation. My comment
4 here is that shifting a substantial portion of
5 full life maintenance fees to the first fee, it
6 forced many patentees to encourage substantial
7 costs prior to having sufficient information to
8 make an appropriate decision about the commercial
9 merits of maintaining a patent.

10 Weighting the process more heavily to
11 the second and third maintenance fees will result
12 in additional cost being born more likely by those
13 patentees who have realized commercial value from
14 their patents and pay those fees willingly.

15 Getting into some numbers here, I was
16 interested to see, "Well, what is an alternative
17 proposal that could meet the Office's need for
18 their revenue, but not create additional costs on
19 stakeholders, such as Ericsson, that have large
20 patent portfolios to determine the commercial
21 value or potential commercial value of their
22 patents very early in the lifecycle?" So, the --

1 sorry, going to go back.

2 The upper table really just focuses on
3 -- and again, I'm just going to focus on the large
4 entity fees as representative. This just shows
5 what the Office's proposal is. I have grouped the
6 total maintenance -- so, total maintenance fees,
7 again, 7 percent inflation rate. But I group the
8 total -- the aggregate of the issue and the
9 maintenance fees together and that combined,
10 despite the 20 percent increase in the utility
11 issue fee, is 8 percent. So, again, just slightly
12 more than inflation.

13 Again, I grouped them this way because
14 it's not infrequent that I receive an allowance on
15 a case, whether in the U.S. or the EP, and I make
16 a decision. Maybe I have the commercial
17 information at that point to say, "Okay. I got
18 some claims allowed, but this is not going to have
19 value to us." And despite those costs, we decide
20 not to even take that case to grant. Okay?

21 So, anyway, this is the proposal here.
22 Here's just a model alternative proposal I put

1 together. Here you see rather than increasing the
2 utility issue fee by 20 percent, we increase it 7
3 percent, again, keeping with inflation. Then it's
4 more of a structured approach with progressive
5 increases on the existing maintenance fees of the
6 first, second, and third maintenance fees at 5, 7,
7 and 9 percent. The bottom line, however, is that
8 maintenance fees, the aggregate maintenance fees
9 for full life patent -- and I'll address non- full
10 life patents in a moment -- is 8 percent, actually
11 slightly more than what the Office has asked for.
12 But the total aggregate issue of issue and
13 maintenance fees for full life is 8 percent just
14 as it is under the Office's proposal.

15 MR. WALKER: And, Roger, just to
16 interrupt for one second, we're getting close to
17 your --

18 MR. BURLEIGH: Okay.

19 MR. WALKER: -- 10-minute time --
20 timeframe.

21 MR. BURLEIGH: Sure.

22 MR. WALKER: So --

1 MR. BURLEIGH: Thanks.

2 MR. WALKER: -- if you could wrap it up
3 in another minute.

4 MR. BURLEIGH: Yep. Okay. So, then I
5 was wondering, "Okay. Well, if there's -- if --
6 obviously, not all companies maintain their
7 patents." The statistics I looked at is a report
8 from the IP5 in 2016, basically shows that in all
9 the IP5 countries, including USPTO, the
10 maintenance fees drop off at about 20 to 25
11 percent every four to five years, meaning
12 eventually you get down to 50 percent of patentees
13 are maintaining their patents.

14 Going on, just looking at that from a
15 weighted average perspective -- sorry. The -- and
16 the yellow kind of highlights it. I made an
17 assumption here, since I don't have exact date, 95
18 percent of patents, issued patents, are maintained
19 at the first maintenance fee, 75 percent at the
20 second, 50 percent at the third. And in the far
21 right you'll see that -- yeah, that it is going to
22 be substantially less on the first in the issue

1 and the first maintenance fees as proposed by the
2 Office. However, that's more than made up by the
3 increase fees on the second and third maintenance
4 fees, resulting in a very minimal difference
5 between these two proposals.

6 MR. WALKER: Okay.

7 MR. BURLEIGH: Okay.

8 MR. WALKER: Thank you very much for
9 your input and for your materials which we hope to
10 receive soon.

11 MR. BURLEIGH: Thank you.

12 MR. WALKER: Our next -- Chair
13 recognizes Lisa Jorgenson. And for all the
14 speakers, can you make sure that the microphone is
15 close to you so we can --

16 SPEAKER: Sure.

17 MR. WALKER: -- hear in the room and for
18 the people online? Thank you.

19 MS. JORGENSEN: My name is Lisa
20 Jorgenson. I'm the Executive Director for AIPLA,
21 the American Intellectual Property Law
22 Association. We'd like to thank the PPAC for

1 conducting the hearing on the USPTO for fee
2 setting proposal and for the opportunity to
3 express our preliminary views on the proposal.
4 Most of you know AIPLA. We are a national bar
5 association of roughly 13,500 members practicing
6 in every area of intellectual property. Our
7 comments today are preliminary in nature and we
8 may adjust our final written comments in view of
9 the discussions during the proceedings today.

10 AIPLA has in the past expressed the view
11 that fees in the aggregate should recover 100
12 percent of the costs of the USPTO and that the
13 relationship between frontend and backend fees
14 should be maintained. This is to say, for
15 example, that search and examination fees for
16 patents should not necessarily be set to recover
17 the entire cost of frontend processing for patents
18 and that a portion of such costs should continue
19 to be born by maintenance and renewal fees. This
20 approach ensures the balance that frontend fees
21 remain low enough to allow a wide variety or a
22 wide range of inventors and businesses to seek

1 protection, making up the shortfall with the
2 backend maintenance fees.

3 The proposal contains a multitude of
4 proposed changes, some of which AIPLA does not
5 have concerns with, but other fee increases do
6 concern AIPLA. In either case, it is important
7 that the Office provides more detailed
8 justifications. For example, we note that the
9 Office's strategic plan was released after the fee
10 proposal. The question arises about how the fees
11 may be shifted in light of the implementation of
12 the strategic plan.

13 If fee increases are to compensate for
14 inflation, many of these fee increases seem to
15 exceed the consensus expected rate of inflation
16 even when projected over the two- year span of the
17 fee setting authority. If these fees are to pay
18 for new or improved services, AIPLA would like to
19 know what are those new and improved services.

20 Given that many entities have a fixed
21 budget for IP portfolios, many of these fee
22 increases will ultimately increase the cost of

1 obtaining and maintaining patents and may result
2 in a reduction of patents in the entity's
3 portfolio. Thus, these fee increases need to be
4 well-justified. Applying these fee increases and
5 especially the fee increases of 25 percent or more
6 to large, small, and micro-entities more
7 dramatically impacts the small and micro-entities.
8 While we understand that the Office is statutorily
9 limited in the discounts it can provide to small
10 and micro-entities, AIPLA urges the Office to
11 reconsider the increases that most significantly
12 impact those entities.

13 What I would like to do is to focus
14 today on a few specific proposed changes. The
15 first is the surcharge for late payment of
16 maintenance fees within six months. There is
17 currently insufficient information to justify the
18 increase. Is the surcharge intended to correct a
19 problem? Is the surcharge necessary to cover any
20 additional services? If the latter, what are the
21 additional services that are to be provided?

22 Next, the Patent Trial and Appeal Board

1 fees. The proposed 5 percent increase in fees for
2 ex parte proceedings may appear to be quite
3 reasonable. However, more information justifying
4 this increase could confirm that this increase
5 generally corresponds to inflation over the
6 two-year lifetime of the fees. While AIPLA
7 understands that the proposed 25 percent increase
8 in the fees for interparty's review proceedings
9 and post-grant review proceedings may be justified
10 by the additional work required by the SAS
11 decision, we do not believe that there is
12 sufficient data at this time to determine whether
13 the increase is reasonable. However, by the time
14 of the notice of proposed rulemaking, there should
15 be sufficient data to determine whether the
16 additional work justifies the fees. AIPLA
17 encourages the Office to revisit these fees prior
18 to generating the notice of proposed rulemaking
19 and to provide supporting documentation to justify
20 these fee increases.

21 AIPLA further notes that most of the
22 additional work required by the SAS decision is

1 after the institution of the proceeding. AIPLA
2 suggests that the Office consider a way of
3 dividing up the fees so that the pre-institution
4 fees bear less of the increased cost than the
5 post-institution fees.

6 With regard to the proposed annual
7 practitioner fee, in principle, AIPLA is not
8 opposed to a fee that adequately and properly
9 funds OED. However, more clarity is warranted on
10 the need for this fee and how it would be used.
11 It should be noted that the Office proposed
12 practitioner fee is part of rulemaking in the
13 early 2000s and it was not adopted at that time.
14 What is the reason that it is being revisited
15 today? For example, more information is needed to
16 understand if the fee is commensurate with the
17 services provided and limited to the OED. More
18 information on how the OED will use these fees for
19 OED's patent-related services is also needed. For
20 example, how is the fee increase related to the
21 OED's mission, responsibilities, workload, and
22 activities?

1 The Office indicated that this fee is
2 commensurate with fees charged by state bar
3 associations. State bar associations, however,
4 provide more distinct services to the attorneys
5 that they serve than the OED provides to patent
6 practitioners. In addition, OED already charges
7 fees for many services that OED provides. For
8 example, an application fee for admission to the
9 examination for registration, fee for
10 administering the registering examination, and a
11 fee for recognition and registration after
12 disbarment or suspension on ethical grounds.

13 As a conservative estimate of fee
14 revenue, assuming 40,000 active practitioners and
15 two-thirds of the practitioners paying the minimum
16 fee, \$240, the Office would receive \$6.4 million
17 annually. Without properly explained cost
18 accounting this amount seems excessive to fund
19 services provided by the OED, especially when
20 considered as an increase to the existing fees
21 collected.

22 AIPLA also has several concerns as to

1 how fee collections will be administered. How
2 will practitioners be notified that the fee is
3 due? Will practitioners be suspended for not
4 paying the fee on time? Will documents signed by
5 a practitioner who has not paid the fee on time be
6 recognized as signed by a practitioner? If not,
7 will there be a mechanism for retroactively
8 validating the documents to prevent unintentional
9 abandonment of applications or will the remedy be
10 to file an expensive request for revival of an
11 unintentional abandoned application? And will
12 there be a penalty for late payment of the fee?

13 With regard to the CLE discount, AIPL as
14 -- AIPLA as a provider of CLE encourages
15 practitioners to continue their legal education.
16 We believe, however, that more information is
17 needed to understand how the proposed discount
18 would operate. For example, the materials contain
19 only vague statements of what type of CLE would be
20 appropriate for the certification, what type of
21 CLE would qualify. Where could it be obtained?
22 How will the Office qualify that particular CLE?

1 Slide 26 of the PPAC executive summary
2 on the fee proposal states, "Practitioners who
3 certify completion of the CLE credits will be
4 noted in the OED information system, OEDIS, which
5 is available to the public to search for a
6 practitioner." AIPLA would like to confirm that
7 when the public searches for a practitioner, there
8 will be a field indication for CLE certification
9 and that lack of an entry in this field reflects
10 that a practitioner did not make the CLE
11 certification.

12 If this is the case then AIPLA's
13 concerned with a process that notifies the public
14 of practitioners who choose not to or fail to
15 provide the CLE certification, as this could
16 unfairly prejudice practitioners who do not have a
17 state CLE requirement or simply opt to pay the
18 full price. Although the Office indicates that
19 the CLE certification is optional, the public may
20 not understand this distinction. Providing a
21 public record that reports a lack of certification
22 essentially makes the CLE requirement mandatory.

1 With regards to the surcharge --

2 MR. WALKER: Please, at this --

3 MS. JORGENSEN: -- filing --

4 MR. WALKER: I'm sorry. We're just
5 about at 10 minutes, so if you could maybe wrap up
6 in a few seconds here.

7 MS. JORGENSEN: Sure.

8 MR. WALKER: Okay. Thank you.

9 MS. JORGENSEN: While AIPLA's aware of
10 the benefits for -- of filing documents in a
11 format that is easily text searchable we do have
12 some concerns, such as the ability to modify a
13 DOCX document. AIPLA suggests that the Office
14 consider allowing the applicant to provide both a
15 DOCX file for Office use and a PDF file as the
16 record copy that is made available to the public.

17 In conclusion, a comment about the
18 reserve fund: AIPLA has supported the
19 establishment of a reserve fund to help improve
20 the financial stability of the USPTO and sustain
21 operations under certain unexpected circumstances.
22 That said, there is insufficient information

1 provided in the proposal to assess how the fund
2 has been built and used over the years, what is
3 the appropriate target amount, or how these fees
4 will replenish the fund over what period of time.

5 Thank you again for the opportunity to
6 make these preliminary comments. AIPLA looks
7 forward to submitting our written and more
8 detailed comments before the submission deadline.

9 MR. WALKER: Thank you very much, Lisa.
10 Chair recognizes Roland McAndrews.

11 I'm trying to keep strictly to this 10
12 minutes because we're supposed to finish at 11:00
13 and already we may run a little late, so
14 appreciate your consideration there.

15 MR. McANDREWS: Sure.

16 MR. WALKER: Please.

17 MR. McANDREWS: My name is Roland
18 McAndrews. I'm here on behalf of the Intellectual
19 Property Owners Association. Intellectual
20 Property Owners Association is an international
21 trade association representing companies and
22 individuals in all industries and fields of

1 technology who own or are interested in
2 intellectual property rights.

3 As Lisa sort of stated, we're here with
4 preliminary thoughts. Sort of given the
5 timeframe, we sort of cobble together all of our
6 sort of thoughts on each of the individual fee
7 increases or fee proposals and we'll just touch on
8 some.

9 In a brief overview, the concern for IPO
10 is that currently the patent system has many
11 stresses on it. We have the success rate with IPR
12 as we have patent eligibility issues. Fee
13 increases will be another stress on the system and
14 we just want to make sure that with these fee
15 increases that they're well thought out and they
16 sort of strike that balance of being able to
17 properly not stop the barrier to entry to the full
18 patent system and they do not shift behavior. One
19 of the big concerns is these -- each of these fee
20 proposals may shift behavior, in which case we may
21 be raising fees, but actually revenue with the PTO
22 made it -- may go down.

1 So, the first one I'll talk about is the
2 non-DOCX surcharge. Just a brief point on that:
3 there is concern from the IPO, one, of the large
4 fee for doing that. It seems punitive in nature.
5 Is \$400 really necessary to push people to file in
6 a particular format? And two, is there -- there's
7 concern just over the metadata and other aspects
8 of the conversion that may take place with this
9 information as it's being downloaded or uploaded
10 to the PT0. So, there's -- those are the concerns
11 from the IPO on that.

12 IDS fees, the increase in IDS fees. IDS
13 is a burdensome process with the PT0.
14 Practitioners have always -- it's always been a
15 difficult process and expensive process to
16 maintain the free flow of information with IDS as
17 is very important. So, any increase, any -- in
18 fee, in any aspect of that strikes the IPO as
19 maybe going against that free flow of information.
20 You want to get as much information to the PT0 as
21 you can. You want that barrier to that to be as
22 low as possible. So, we do not -- we're not on

1 board with that increase in fee.

2 The extension of time fees. With
3 respect to those, these are very large fees. You
4 know, yes, the -- in some situations for --
5 particularly for smaller companies, these are fees
6 that just happen. And to have a fee of \$3,000 to
7 extend your period for response by months when a
8 business is running and they have other things
9 going on seems very high. So, the thought is, we
10 need to put sort of a cap at some point on these
11 extension of time fees. They're really getting
12 burdensome.

13 The RCE fees. I think Roger was
14 pointing to this a little bit. Shifting of
15 behavior is something that may happen here. RCE
16 is a decision point for many clients. And so the
17 more you raise those fees -- and these fees are
18 becoming now more expensive as -- with the second
19 RCE than filing a new case. So, you're going to
20 have clients or practitioners or stakeholders
21 deciding that they simply don't want to do that.
22 So, the concern here is by increasing this fee too

1 much, you're going to either shift people over to
2 filing continuations, which really isn't helpful
3 to the system, or you're going to have a situation
4 where you have people just abandoning their patent
5 application, which would probably negatively
6 affect the revenue or the proposed increase with
7 this fee.

8 Roger -- IPO is consistent with Roger on
9 the maintenance fees. IPO thinks that spreading
10 it over -- the increase over the entire, four,
11 eight, and twelve would be more appropriate rather
12 than the first one. What that will do, there's a
13 thought that that would move that decision, again,
14 earlier in the process at four years as to whether
15 you want to keep this patent enforced or not and
16 thus, you know, there's a question, "Will there
17 really be an increase in revenue to the PTO or
18 just more people pruning their portfolio earlier?"

19 The maintenance fee surcharge for late
20 payment. IPO simply doesn't agree that the
21 justification for this fee -- this is very large,
22 525 percent increase in fee -- doesn't agree with

1 the justification for this. If you're looking to
2 see if a patent has expired, you wait until four
3 years. It doesn't make a difference. That
4 six-month is just a period you wait. So, to get
5 people to pay that earlier to say that you're
6 getting people to pay that earlier doesn't really
7 justify the reason for that 525 percent increase.

8 IPO is on board with Lisa with respect
9 to the annual active practitioner fee. The --
10 this will raise between \$11 and \$19 million based
11 on the number of active practitioners. And so
12 justification for the expense of that is really
13 necessary here. So, we ask that the PTO provide
14 more details as to what is going to happen with
15 this large revenue from practitioners.

16 And a 100 percent -- \$100 discount for
17 CLE. CLE is expensive, but within its cost and in
18 its opportunity costs. So, \$100 really isn't --
19 doesn't feel like that's going to push people
20 towards CLE.

21 Design patents, the increase in the
22 expedited examination of designs, designs are

1 unique. They go after counterfeiters. You really
2 want to have a low barrier for entry to those and
3 they -- sometimes they're needed very quickly.
4 So, the thought is, is that -- and given the
5 expense or the effort that it takes to examine a
6 design patent, \$2,000 seems a bit high.

7 And then finally with respect to the
8 Patent Trial and Appeal fee, the increase there,
9 the thought is that maybe -- IPO understands the
10 expense of that, but maybe do -- apply it more to
11 a claim-by-claim basis, how many claims the effort
12 involved. So, more of a -- not increasing it to
13 20 claims, but saying, "For five claims, a certain
14 fee; for 10 claims, a certain fee," and that will
15 maybe align those fees a little better with the
16 effort at the PTO.

17 And hopefully I didn't go over my 10
18 minutes.

19 MR. WALKER: Did a very good job,
20 Roland. Thank you very much.

21 MR. McANDREWS: Thank you.

22 MR. WALKER: You brought us back right

1 on time, so I appreciate that. Okay. Next the
2 Chair recognizes Mark Dickson. Mark.

3 MR. DICKSON: I am Mark Dickson, Chair
4 of the Section of Intellectual Property Law from
5 the American Bar Association, and want to thank
6 the PTO and the PPAC for allowing us to testify
7 today.

8 The American Bar Association is the
9 world's largest professional membership
10 organization with nearly 400,000 members. The
11 Section of Intellectual Property is the oldest
12 substantive section of the ABA, approaching our
13 hundred-and- twenty-fifth year anniversary. We're
14 also the largest intellectual property
15 organization in the world. Our -- my comments
16 today are on behalf of the Section of Intellectual
17 Property. They have not been approved by the ABA
18 House of Delegates or the Board of Governors and
19 should not be considered the views of the ABA.

20 For those of you not familiar with the
21 American Bar Association, to appear here I have to
22 have several layers of authority. First, we have

1 to have policy passed within the section that
2 addresses the issues that we comment on. We then
3 prepare letters and comments and prepare for this
4 kind of testimony and it's all approved by our
5 council and our officers, but that alone is
6 insufficient.

7 In order to appear here we can go two
8 routes. One is to obtain authority through the
9 main ABA by taking our remarks to the House of
10 Delegates. That 500-member organization which
11 governs ABA only meets twice a year, at the
12 midyear and annual meeting. We do our best to
13 anticipate the need for this kind of testimony,
14 but there's no way we can cover all of that. So,
15 we use what's called blanket authority, in which
16 our prepared remarks are circulated to all
17 sections of the ABA for approval, comment, and
18 opposition.

19 In this case in particular, we used an
20 expedited form of the blanket authority. It went
21 to a selected group of the sections for approval
22 because this comment period encompassed a major

1 national holiday. I only mention that because
2 we'd encourage both the Office and PPAC not to
3 schedule over holidays. These 30-day periods are
4 a true fire drill for us. We obtained our BA
5 authority, blanket authority, yesterday afternoon
6 and submitted our letter of comments to the
7 Director yesterday afternoon, as well.

8 Let me get to my comments. These are
9 the areas that I'm going to summarize from our
10 letter. I'm going to add one to that that's not
11 on the agenda and that is, we are already on
12 record as supporting efforts by the Patent Office
13 to update its information technology systems,
14 including its website and database systems. We
15 think that's essential with Patent Office to both
16 fund those, capitalize those improvements, and
17 prioritize those in order to fulfill its mission.
18 We have commented on that previously and supported
19 those systems.

20 We're also on record in opposition to
21 the Shared Systems and Shared Services Initiative,
22 which we feel diverts funding and attention from

1 the Patent Office efforts to improve its systems.
2 We think the Patent Office systems are unique and
3 specially tailored to the needs of the patent
4 practitioners and the PTO, and we'd encourage the
5 Patent Office to continue its efforts to improve
6 those systems.

7 Let me address the things I have listed
8 on here. We generally support the efforts to use
9 the DOCX filing systems. We think the surcharge
10 for the DOCX filing systems would encourage
11 further efforts at cost-effective and reliable and
12 non-burdening formats for use by the Patent
13 Office. We do say -- we do think, however, that
14 most practitioners can comply, but there are still
15 entities and small inventors that may not have
16 access to DOCX systems, so we'd encourage the
17 Office to apply the surcharge solely to initial
18 filings on applications and not to every paper
19 filed in subsequent prosecution. At some point,
20 it be -- it switches from becoming an incentive to
21 a real penalty.

22 Proposed fee increases of up to 5

1 percent proposed by the Patent Office, we
2 generally support those in the section as an
3 effective way to recover the fees and costs that
4 are needed by the Patent Office for the enumerated
5 USPTO objectives. We note that those are
6 effectively a 1.6 percent annual increase, as the
7 Patent Office has said, and we generally support
8 those as reasonable and necessary for the PTO
9 objectives.

10 The restructuring of issue and
11 maintenance fees, we believe that this is also a
12 reasonable way for the Patent Office to recover
13 its initial examination and search costs and to
14 recover those a little sooner in the process. We
15 appreciate the fact that this is charged against
16 large entities and protects small entities and
17 small inventors.

18 There are some proposed fee increases by
19 the Patent Office that we do not support. In
20 particular, we do not support those that are more
21 than a hundred percent fee increases. Those work
22 as a penalty for independent inventors and small

1 businesses to the extent they're applied against
2 those groups. The 525 percent increase in late
3 payment surcharge for maintenance fees is one of
4 those.

5 We don't disagree with an incentive to
6 get people to pay their maintenance fees early,
7 but we think that becomes a substantial penalty.
8 We would suggest that if a surcharge of this -- of
9 any size is necessary to further encourage payment
10 of maintenance fees, that the PTO provide notice
11 to a patent owner prior to late payment of the
12 surcharge rather than the method now, that they
13 receive a notice of a surcharge that's due after
14 it's (laughs) already become due.

15 The hundred-and-twenty-two percent
16 increase that's proposed for examination of design
17 applications, we don't generally support quite
18 that high an increase. We understand the Office
19 need to recover the costs of expedited
20 applications, but design applications generally
21 require much less activity than an expedited
22 utility application -- and in addition, an

1 expedited design application, the practitioner
2 must supply additional search results and other
3 materials that improve the examiner's ability to
4 complete that examination. So, we'd ask the
5 Office to reconsider that's such a large increase.

6 And finally, I want to comment on the
7 proposed active patent practitioner fee. We have
8 a number of concerns and questions regarding the
9 proposed practitioner fee and a lot of those
10 concern and center relating to OED activities and
11 the fees used for OED support. For one thing, we
12 note prior fee increases institute last January
13 that were to cover OED services. We think some of
14 these may be the same services that are discussed
15 here and we need additional information to
16 distinguish those.

17 We'd like to see some apportionment
18 between new fees -- of the new fees proposed
19 between OED fees and enrollment fees so that we
20 understand where the distinction is between what's
21 being supported at OED and where the enrollment
22 fees go. And we'd like some further data on the

1 projected startup costs for this program and the
2 number of participants that the Patent Office
3 expects to be involved. We'd also like to see
4 some apportionment of these new fees for OED
5 nonpatent-related activities. OED has
6 responsibility, for example, for trademark
7 practitioners before the Patent Office and we have
8 concerns about patent practitioner fees being used
9 to underwrite costs related to trademark groups
10 and other groups that appear before the Patent
11 Office.

12 We'd like to see some further details
13 regarding the structure and cost of accreditation
14 in the CLE tracking programs proposed by the
15 Patent Office. Patent -- registered patent
16 attorneys are generally subject to both discipline
17 and CLE requirements in most of the states in
18 which they're members of the bar, so we'd like to
19 see some additional information as to how these
20 costs would compare and how the Office intends to
21 structure the accreditation in CLE tracking.

22 And we also have some concerns and would

1 like to see some further information regarding the
2 pro hac vice fee, whether that's tailored to cover
3 all costs of such admission. It may be inline
4 with what's charged in district courts and other
5 places, but we'd like to know that it has some
6 bearing on what the actual costs of administering
7 such a system would be.

8 A full text of our comments is available
9 in our letter to the Director. We thank, again,
10 the PPAC for this opportunity to appear and we may
11 have further comments as the rulemaking process
12 proceeds.

13 MR. WALKER: Thank you very much, Mark.
14 Appreciate it. We have two more speakers. Next,
15 the Chair recognizes Paul Morinville. Paul.

16 MR. MORINVILLE: Hi, I'm Paul
17 Morinville, Founder of U.S. Inventor, and we are
18 independent small inventors. A lot of people
19 claim to be those, but we are actually those
20 people. I'm an inventor and our entire
21 organization of 13,000 is inventors and startups
22 that are -- that make their living because of the

1 strong patent system. And I'd like -- since I
2 have this microphone, I would like to take this
3 opportunity to thank you, Director Iancu, for
4 putting a focus on the PTAB and on the abstract
5 idea and thank President for appointing you.

6 My comments are not as directed towards
7 the specifics of the fee increase, but I would
8 like to go through a little bit of history. The
9 2013 fee increase under the prior Administration
10 was originally listed as economically significant.
11 Economically significant rulemaking means that it
12 has an effective over a hundred-million dollars a
13 year in the economic effect. Money leaves the
14 economy.

15 In a policy innovation, that was changed
16 to a transfer. So, a transfer, a payment from one
17 party to another in the economy has nothing to do
18 with an economic effect. And I think that's a
19 pretty original innovation in policy because who's
20 the second party? It leaves me as an inventor and
21 goes to someone. If it has no economic effect, it
22 goes to someone else in the economy. That's not

1 where it goes. It goes to the Treasury; it's a
2 tax. Paul Ryan even calls it a tax. So, it is
3 not economically neutral. It is significant
4 rulemaking.

5 This most recent fee increase from 2016
6 -- and I think this might still be the same fee
7 increase we're talking about now -- was originally
8 submitted as economically significant. But when
9 they entered it -- when the Patent Office entered
10 it into the Federal Register, it was not
11 registered as economically significant. So,
12 anybody looking for rulemaking in the transition
13 to the Trump Administration could not find it. We
14 filed comments and it was put there.

15 The other things that we filed comments
16 on is the economic evaluation that was performed
17 under that rulemaking, only considered large
18 entities and did not consider small entities.
19 That's pretty important because small entities,
20 little guys like Josh Malone, who is here, like
21 me, like the Members of U.S. Inventor, are the
22 primary job creation engine of this country. I

1 mean, you're going to raise fees without even
2 considering economically whether or not that
3 affects them. The economic considerations need to
4 be beyond just whether the inventor can pay it.
5 But if they don't pay it, what happens? They
6 don't -- they can't get funding to start a
7 company, there's a, you know, they go to China,
8 they go other places. And that economic analysis
9 did not happen.

10 Money's transferring from the -- from
11 examination to the PTAB to fund the PTAB. I find
12 (laughs) this -- not only is it illegal under the
13 America Invents Act, but I find it completely
14 absurd that you would take money where you're
15 creating the asset that can attract capital to
16 start companies to the (laughs) very entity that
17 destroys the asset.

18 MR. WALKER: Paul, just -- I mean, this
19 is really focused on the specific fees that we're
20 talking about. I think I see the context there,
21 but can you just keep your comments focused on
22 that? And some of the language you use doesn't

1 strike me as directly for this fee setting
2 hearing.

3 MR. MORINVILLE: Well, it really does.
4 This does, because we're increasing fees again for
5 the small entities on examination. And we are
6 also increasing them on the PTAB, but if you file
7 for a PTAB and they don't answer to you, you get
8 75 percent of that money back. So, (laughs) I
9 think that the shift needs to be on the PTAB and
10 there needs to be an economic evaluation before we
11 increase fees on small entities.

12 There are other comments -- we got a lot
13 of other comments on the specifics of what these
14 fees are and these extra fees, but I'm going to
15 reserve that to put in on paper. Thank you.

16 MR. WALKER: Okay. Thank you, Paul.
17 Our last speaker is Josh Malone. So, Chair
18 recognizes Josh.

19 MR. MALONE: Thank you. My name's Josh
20 Malone and I'm an inventor; I'll be speaking for
21 myself today. I think it's somewhat
22 representative of experience of a lot of small

1 entities and stakeholders.

2 The hearing today has been about fees.

3 The information provided by the Patent Office and
4 the previous Witnesses has been very helpful and
5 thorough as to the fees and how they are used. I
6 will touch on the fees, but I will focus my
7 comments on the interrelated concept of value.
8 How do we determine if the fees are too high or
9 too low? What is the right number? The number --
10 the answer to the number is tied to the value of
11 the products or services provided in exchange for
12 the fees.

13 As business owners and consumers, we
14 think about cost in relation to value. It's not a
15 question of the absolute cost, it's a question of
16 the value. It all depends on what you get. We go
17 to Walmart and you want a value, so you get a
18 product that it may not be very reliable and it
19 may not last, but it's cheap. So, if we want low
20 costs, we go to Walmart. On the other hand, if we
21 want an extremely high- quality durable product
22 perhaps for commercial use instead of a consumer

1 use, we pay more for that version of the product.
2 It would be a high cost. But both approaches
3 might result in a similar value.

4 What we don't want to do is pay a high
5 cost for a low-quality or unreliable product.
6 This discussion about the fee increase has thus
7 far been based on an unrealistic and aspirational
8 view of the value proposition. So, the budget for
9 the Patent Office for 2019 is \$3.6 billion funded
10 primarily by these fees, along with the reserve
11 fund that was discussed. So, is \$3.6 billion too
12 much or too little for the product that's being
13 provided? What do we get?

14 As a small entity when I applied for my
15 patents, the fees were about \$1,200. Application,
16 examination, search issuance. So, in one regard
17 that's not a lot of money. \$1,200, I was able to
18 pay that. You have to compare that to, "What do I
19 get for the \$1,200?" If you ask Tom Pierson, the
20 Founder and CEO of TAS Energy in Houston, one of
21 the inventors profiled in the new documentary and
22 validated the shredding of the U.S. patent system,

1 he points to his wall. Our first one, our second
2 one, our third one, our fourth one, all
3 invalidated.

4 These were his patents for his invention
5 of a high- efficiency turbine power plant, an
6 invention that he commercialized and built a
7 company around. His patents were nothing more
8 than a plaque that he hung on the wall.
9 Reflecting on his useful -- useless patents and
10 millions of dollars he had wasted, he commented,
11 "I guess it's better than having an empty wall."
12 Even at \$1,200 that's an overpriced plaque. Of
13 course, he paid much more than \$1,200. It was
14 several more thousand in filing RCE issuance,
15 reissue, and maintenance fees and several million
16 in attorney fees at the PTAB, all wasted. The PTO
17 fees were much too high for these patents. But if
18 he had received a real patent backed by the full
19 faith and credit of the United States government,
20 he would have had a good value. He would have
21 been happy to pay the higher fees that are being
22 proposed today. And we all would.

1 The agency fees are one aspect of this.
2 Of course, the legal fees that go along with it
3 are a concern, as well. Lisa's organization, the
4 AIPLA, did a study a couple of years ago and
5 determined that the median legal cost to defend a
6 patent in the PTAB and subsequent appeal is
7 \$350,000. Tom Pierson had four of those, I've had
8 eight. David Monroe had 28; that sunk his San
9 Antonio company. Patrick Ross at Smart Flash
10 had 68. (Inaudible) Emphany had a
11 hundred-and-twenty-five, at \$350,000 each.

12 How about the fee increase include a
13 fund for these inventors to defend their patents
14 or an advocate of the PTO to defend the
15 examination on behalf of inventors of modest
16 means? \$350,000 is the median and I can tell you
17 that's not enough. The best PTAB lawyers and
18 experts cost much more than that and they lose
19 more often than not in the PTAB. They cannot
20 protect us from endless attacks. Very, very few
21 applicants have this kind of money and very, very
22 few applicants understand that obtaining a real

1 patent, one approved by the PTAB, costs \$350,000.
2 They will learn about this fee increase and they
3 will believe that they can get a patent that
4 protects their invention for \$1,400, a \$200
5 increase.

6 Why isn't the Patent Office defending
7 the patents that is issued? Should the fees come
8 with a defense of those patents against the tax by
9 would-be infringers? I understand the America
10 Invents Act and I understand the creation of PTAB,
11 but this is not error correction, this is
12 destruction. These are phony patents. It seems
13 to me that the Patent Office should be defending
14 the patents. It's very shocking and incredulous
15 that the lawyers that work here -- I'm talking
16 about the PTAB APJs and the Solicitor's Office --
17 spend almost all their time attacking patents
18 instead of defending them.

19 This is driving our cost to many orders
20 of magnitude greater than the proposed fees that
21 we're talking about today. So, back to the
22 question of value. It all depends on what we get.

1 Does this proposed fee increase come along with
2 the full faith and credit of the United States
3 government behind the patents? Then I say
4 fantastic, this is a great proposal, I
5 wholeheartedly support it. On the other hand, is
6 this fee increase for more plaques to hang on the
7 wall like Tom Pierson did? That's kind of silly.
8 Really, I think if you look at the PTAB
9 statistics, there's a lot of numbers floating
10 around. And I attend and listen to these
11 quarterly meetings at PPAC and I see the reports
12 and frankly, they're very speculative, they're
13 based on a lot of assumptions.

14 There's a very simple approach to
15 whether we can depend on the patents that are
16 being issued or not. The PTAB has issued 1,998
17 final written decisions as of yesterday. 1,690 of
18 those had one or more claims invalidated. 305
19 patents survived; that's an 85 percent defect
20 rate. And that's the only number we have. All
21 these reports on settlements, non-institutions,
22 pending cases are all irrelevant; they're all

1 unknown. They're all plaques.

2 The other \$2.5 million unexpired
3 patents, all unknown, standing here today. All in
4 limbo, standing legal right, but they are good
5 enough to hang on the wall. From what I can tell,
6 they do not come with the full faith and credit of
7 the United States as to any legal right in the
8 claimed invention.

9 And even if you don't accept my numbers
10 -- and you should, because these are the only
11 numbers we know anything about -- there's 305
12 patents that have passed PTAB mustard, but they're
13 still exposed to further attacks, so that's the
14 best case. But maybe it's 70 percent, 60 percent,
15 50 percent. Whatever the number is, it's
16 horrendous. No business could survive a scenario
17 where their product reliability level is in the 50
18 percent range. For more than half the product
19 that's going out the door, signed and sealed, is
20 meeting the requirements.

21 So, what kind of business or agency
22 would propose a fee increase when their defect

1 rate is in the 50 to 90 percent range? If that is
2 what we are getting with this fee increase, this
3 is a pretty outrageous proposal to increase the
4 fees. Given the current reliability levels as
5 determined by the PTAB, the fees are incredibly
6 excessive. I mean, how much is an invalid patent
7 worth? Fifty dollars, a hundred dollars? And
8 that's what these are.

9 The millions of patents that are printed
10 every Tuesday in batches of 5 or 6,000, they have
11 a pretty new cover, you can hang it on the wall,
12 but it doesn't take \$3.6 billion to produce this.
13 Let's lower the fees, let's pay the cost of
14 printing, let's switch to rubber stamps. If the
15 Patent Office is not going to back its product,
16 they have no business increasing the fees.

17 Now, I know this has been uncomfortable
18 and probably from the moment you heard I was
19 testifying, it -- you get a little hot under the
20 collar. And it's a damper on what, Director
21 Iancu, you've been casting as, properly,
22 leadership for restoring predictability,

1 reliability of the patent right. And I believe in
2 that vision. We're not there yet. It's not
3 comfortable when the child in the crowd tells the
4 emperor that he has no clothes; no one wants to be
5 in that room. But this is not an empire, this is
6 America. And you guys know deep down that what
7 I'm saying is true. And you don't have to accept
8 it; it's not just your job, it's not just your
9 constituent's job.

10 There's going to be closing remarks here
11 in a minute. Your hands are not tied. You can go
12 with me over to the capital. I can ask
13 Congressman Issa to give us a hearing on this
14 situation. Director Iancu's right. He's doing
15 everything he can here. And Congress wants to sit
16 around and kick this down the road and wait until
17 next session, maybe they can clean it up. But I
18 want you to go with me.

19 Mark, I want you to go with me. Peter,
20 I want you to go with me. Bernie, Director Iancu,
21 Mr. Hirshfeld, Lisa, Mark, Paul, we'll go there.
22 We'll tell Congressman I said that we're trying to

1 set fees for the Patent Office and we need to tell
2 these applicants what they're going to get. "Give
3 us a hearing. Before you go home and retire, give
4 us a hearing about the patent system and how we
5 need to fix it." We need to do it next week or
6 the week after.

7 I'll be here afterwards. Please join
8 me. Thank you.

9 MR. WALKER: Okay. Thank you, Josh.
10 Okay. Thanks to all the members of the public who
11 were able to join us today to provide scheduled
12 testimony. As I mentioned earlier, time
13 permitting, we would have unscheduled
14 participation, unscheduled testimony, but we're
15 already over our scheduled time of 9:00 to 11:00
16 a.m., so I'm going to say that we are not going to
17 have any unscheduled testimony at this hearing.

18 Anyone who has further comments, as we
19 said all along, you've heard it from everybody,
20 the PTO and PPAC really want to hear what you have
21 to say, so I strongly emphasize that on our
22 behalf. Please comment. As Dan and others have

1 mentioned, the deadline for comments is September
2 13th. Want to have your input and so please
3 comment soon so that PPAC can do its statutory job
4 to prepare a report and provide guidance and input
5 to the Patent Office on this fee adjustment
6 proposal.

7 So, with that, I bring the meeting to a
8 close. Thank you all for joining us. So, meeting
9 is over.

10 (Whereupon, at 11:05 a.m., the
11 PROCEEDINGS were adjourned.)

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