

UNITED STATES PATENT AND TRADEMARK OFFICE

PATENT PUBLIC ADVISORY COMMITTEE

FEE SETTING HEARING

Sunnyvale, California

Thursday, February 23, 2012

1 PARTICIPANTS:

2 PPAC Members:

3 DAMON C. MATTEO, Chair

4 D. BENJAMIN BORSON

5 ESTHER KEPPLINGER

6 WAYNE SOBON

7 USPTO:

8 MICHELLE PICARD

9 DAVID KAPPOS

10 Presentations:

11 RON D. KATZNELSON
11 Institute of Electrical and Electronics
12 Engineers

12
13 ERNIE BEFFEL
13 Haynes Beffel & Wolfeld, LLP

14

15 Other Participants:

16 LARRY BERNSTEIN

17 DAVID BOUNDY

18 VIC KLEY

19 JOHN KNAPP

20 DEREK ALLEN SHARP

21 RICK SHERIDAN

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1 P R O C E E D I N G S

2 (10:14 a.m.)

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

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

21 So, what I'd like to do before we begin
22 is do a little context setting before we discuss

1 things properly. As you know, or may know, the
2 Leahy-Smith America Invents Act provided the USPTO
3 with limited fee setting authority. What it also
4 did was give PPAC -- is that any better? This is
5 a small room, I can't believe we need the
6 microphone, but -- better? Well, I'm just going
7 to go ahead anyway.

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

17 And in terms of the program, what we'll
18 have first are opening remarks by, again, the head
19 of our subcommittee on finance, Esther Keplinger.
20 We'll have remarks by David Kappos, Under Secretary
21 and Director of the USPTO. And we'll have a
22 presentation setting forth the overview for the fee

1 setting proposal, some context, process, and next
2 steps by Michelle Picard, senior financial advisor
3 to the USPTO. Okay?

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

13 With respect to the testimony, we'll be
14 providing 15 minutes for each speaker. I would,
15 again, in service of the objectives before us, ask
16 each speaker to focus their comments on the fee
17 setting proposal. Clearly, a myriad of things are
18 linked and dependent upon that different
19 operational facets of the PTO, but if you would
20 focus on fee setting or, at the very least,
21 redirect your comments as to how they have
22 implications for fee setting.

1 In terms of unscheduled witnesses, are
2 there any of those with us here today, so we can
3 provide for scheduling? One? Okay. Well, thank
4 you very much.

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

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

22 So, please, I do encourage you to give

1 comments to us in addition to the testimony that
2 you provide today. If you have additional
3 thoughts or comments, that you get those to us,
4 the PPAC, and/or to the USPTO so that all of it
5 can be taken into consideration when we draft that
6 report.

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

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

21 So, what I'd like to do now is introduce
22 the Under Secretary and Director of the USPTO, Mr.

1 David Kappos, for his opening remarks.

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

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

11 Without further ado, Dave?

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

18 First of all, again, to welcome everyone
19 and to thank you for your interest in what is a
20 historic moment for the USPTO and a moment of
21 stewardship for us, which is this new
22 responsibility that we've been given under the

1 Leahy-Smith America Invents Act, for the first
2 time, to set and manage our own fees at the USPTO.
3 And as is probably apparent by now, we're taking
4 that responsibility extraordinarily seriously and
5 considering it a public duty on our part to do the
6 very best possible job we can, listening to the
7 U.S. innovation community, which is why we've come
8 to the Valley -- the Silicon Valley here in
9 Northern California, to hear from the biggest
10 concentration of USPTO users on the planet and the
11 world's biggest innovation community, and to hear
12 about what you think we should be doing relative
13 to fee setting. Right? And so we are very much
14 open for suggestions.

15 As we've commented on several times, the
16 proposals that we put out act as sort of
17 bookmarks. One, on the one hand, a proposal that
18 will enable us to continue aggressively reducing
19 our backlog of unexamined patent applications and
20 to continue aggressively improving on our pendency
21 and doing other things to improve the agency. And
22 then, of course, a price tag associated with that.

1 And then another bookmark, if you will,
2 that says, if it's a case that the U.S. innovation
3 community and, indeed, our country no longer wants
4 us to aggressively pursue those kinds of goals,
5 doesn't want us to aggressively reduce pendency,
6 doesn't want us to aggressively reduce the backlog
7 and, instead, wants us to put as a priority to
8 essentially maintain the status quo, here's what
9 we'd be able to do under a sort of status quo
10 approach.

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

19 From a principle prospective, the thing
20 to keep in mind, as has been said many times, but
21 bears repeating, is that you get what you pay for
22 and there's no such thing as a free lunch. It's

1 the same thing with a government agency like the
2 USPTO that's entirely fee-funded. We are not able
3 to depend on taxpayer dollars in order to run the
4 USPTO. We depend fully, only, and exclusively on
5 fees paid by our user community. And, of course,
6 those fees are what goes to examining patent and
7 trademark applications. And, moreover, we're
8 still sitting on about 650,000 unexamined patent
9 applications for which there is no money in the
10 USPTO to get that work done. The money that was
11 paid years ago when those applications were
12 submitted has long since been spent on other
13 things.

14 And to that money, this does not exist.
15 If it's the view of our country that we are to get
16 on top of that backlog and reduce it to acceptable
17 levels, somehow or other money is going to need to
18 get paid into the agency. In fact, more money is
19 going to need to get paid to provide the goods and
20 services that are being requested currently
21 because the money to do that work simply isn't
22 there.

1 So this is an opportunity, in my view,
2 for us to have not only a discussion about fees,
3 but also a discussion about what it is that our
4 country wants from its patent and trademark
5 granting authority. And we do recognize, in that
6 regard, that again we will all get what we pay for
7 and we will also face the situation very quickly.
8 Whereas we talk about individual fees -- if we
9 talk about reducing a fee -- that folks in our
10 user community feel we have proposed at too high a
11 level, we will either also then be talking about
12 raising another fee, or we will be talking about
13 not being able to conduct the services at such an
14 aggressive level as up until now, I have
15 understood as the leader of this agency, the U.S.
16 innovation community wanted us to perform.

17 So, that's a long way of saying this is
18 a rather complex matter. We have lots of fees
19 we've got to consider at top level. You know,
20 what it is our country wants us to do at the USPTO
21 and that objective then sets a benchmark which
22 then has to flow down into the income in order to

1 get all that work done. So I hope we'll have a
2 discussion today that enables us to touch on all
3 of those topics. Again, we're very much open to
4 all of your comments. We are attempting to be
5 extraordinarily transparent about this process. I
6 think we put out something like 3,000 pages of
7 proposed rulemaking that touches on all of this
8 stuff: The fees and the surrounding substantive
9 procedures that, of course, affect the fees.
10 However, if there's any other specific information
11 we haven't put out, we'd very much like to hear
12 about it. Frankly, it's a lot more helpful to get
13 specific input on ways we can provide information
14 as opposed to just having folks say you need to be
15 transparent because we're already attempting to be
16 historically transparent. So, as much specific
17 input we can get is going to be extremely helpful
18 to us.

19 With that I'll stop and say thank you
20 again. And a number of us from the PTO will be
21 here to listen and understand your comments today
22 and we're very much looking forward to them.

1 MR. MATTEO: Thank you very much, Dave.
2 What I'd like to do now is introduce Michelle
3 Picard, who will walk us through the process -- an
4 overview of the fees -- and speak to next steps.
5 Michelle, please? If you would?

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

13 I think the objective -- I'd like to
14 echo what Dave said -- the objective in this
15 presentation, walking through the information, is
16 to try to give you an overview of the different
17 relationships among the data that we have, the
18 rationale behind some of our proposed fee changes,
19 and to just give you a better understanding, so
20 that while you're preparing your comments to the
21 PPAC and the PTO, they are somewhat targeted and
22 related so that we can take them on as to

1 actionable information.

2 The first thing I wanted to do before
3 getting into the details is talk about some of the
4 information that's already out there on the
5 website. If you are familiar with the website --
6 Damon had mentioned the AIA micro site and the
7 PPAC site, both of those websites have a copy of
8 this presentation. They have an executive summary
9 which is in a little more detail than this presentation. They
10 have appendices supporting how the costs were
11 calculated, both historical view of the cost and
12 the prospective view; how we calculate our
13 aggregate revenue; more information on the
14 operating reserve; all of these different aspects.
15 It has the complete listing of fee changes and it
16 has calculations supporting the aggregate revenue,
17 even in Excel, so that you can go out and analyze
18 the data yourself.

19 So, the first thing I wanted to do in
20 walking through this is to probably echo what Damon
21 said about the process. So, as we go through the
22 process, you may be aware that we have Notice of

1 Proposed Rulemakings out there today for some of
2 the new AIA processes we're putting in place.
3 You'll hear more about that tomorrow, but I wanted
4 to spend a little time explaining the difference
5 between the fees that are being set under that
6 process and the fees that are being set under this
7 process with Section 10.

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

18 So the fees that are out there related
19 to the Notice of Proposed Rulemaking that you're
20 commenting on today are calculating the cost of
21 that particular service and recovering the cost of
22 that particular service. Under section 10 fee setting,

1 the mandate is that we ensure that our aggregate
2 revenue is recovering the total of the aggregate
3 cost, so it also allows us to set fees below or
4 above cost as long as the total cost equals the
5 total revenue. So, you'll see as you go through
6 Section 10 that some of those fees that are being
7 proposed in the Notice of Proposed Rulemaking now
8 are also in there under the Section 10 fee
9 setting. And we're setting them, in most
10 cases, at the same fees that we're proposing
11 through the process that's out there right now.

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

17 So the reason that the Section 10
18 process takes longer than the 41(d)(2) process is
19 because of the PPAC hearing that we talked about
20 and the ability to, first, do an initial proposal
21 of fees, get the public comment to the PPAC, have
22 the PPAC write their report to the public and the

1 Office to consider as a part of the Notice of
2 Proposed Rulemaking. So you'll see on this slide,
3 in the kind of a circle at the bottom, that's
4 where we are today in February. We talked about
5 in the Federal Register notice that comments are
6 due by February 29th, which is next week. That is
7 to allow the PPAC some time to complete their
8 report and get it to the public and the Office in
9 enough time for the Notice of Proposed Rulemaking.
10 Through the fee.setting@USPTO.gov email, we're monitoring those
11 comments. We're delivering them to PPAC weekly
12 and we welcome your feedback to come in.

13 So, the other piece I want to say is
14 that the public has this opportunity and then,
15 also, the normal Notice of Proposed Rulemaking
16 opportunity in June to be able to comment on the
17 proposed fee structure. So I'm presuming that the
18 comments that we hear and the feedback we'll hear,
19 there will probably be some changes from this
20 initial as we consider where things are. And then
21 you'll have another opportunity to comment through
22 the formal process there.

1 So the next thing I wanted to do is just
2 talk a little bit more about the fee structure and
3 what our objectives and goals are, and this is
4 following on a little bit to what Dave said, and
5 the bookmarks. So, I think that the way we
6 decided to start -- or I decided to start this
7 presentation is the status quo. Where would we
8 be, from a context perspective, if we decided to
9 set fees using Section 10 at the 15 percent
10 surcharge level and also accessing the micro
11 entity fee? Because we can't access the micro
12 entity fee unless we set the fees under Section 10
13 and we want to do that.

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

1 pendency.

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

12 So, if we were to operate at this \$2.4
13 billion level we would probably continue with our
14 plans to hire 1,500 examiners in 2012, but we
15 would not have the funds to continue doing that in
16 2013 as our plans are. So you'll see that through
17 2015 we will be reaping the benefits of all those
18 hires and increasing our examination capacity.
19 And in 2025, first action pendency we estimate to
20 be 12.7 months. In 2016, total pendency we
21 estimate to be at its lowest at 21.1 months.

22 You will see on this chart that we never

1 hit our 10- month and 20-month goals. So, at the
2 time, you know, in 2015 and 2016, is when we
3 believe in all of our estimates that while we're
4 working down the backlog, the application filings
5 start getting the best of us and we start going in
6 the opposite direction again. We can't keep pace
7 with the filings that are coming in the door and
8 work down the backlog.

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

1 flip around the other way.

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

8 In our 2012 President's budget we
9 assumed we would have the 15 percent increase in
10 patent fees effective for all of that Fiscal Year
11 2011. So we know the AIA was the law that gave us
12 the ability to charge the 15 percent surcharge and
13 that happened effective September 26th of 2011.
14 So for all intents and purposes, not for 2011 at
15 all.

16 So that's lost revenue to the Office
17 that we had planned to use in trying to meet the 10 and
18 20 goals. The other thing is, for those of you who are
19 maybe aware, when the fee change went into effect
20 there was a 10-day implementation window -- the
21 law was passed on the 16th, the fees became active
22 on the 26th -- and between that 10-day window the

1 Office collected about \$130 million -- or over
2 \$130 million of fees than we anticipated
3 collecting in 2012. And in the federal government
4 that actually became a problem for us because we
5 get our authorization to spend our fees through
6 the annual appropriations and we were already in
7 excess of that level by a little bit. So all of
8 those fees that people paid in advance of the fee
9 increase, which is a natural occurrence -- I would
10 probably do it the same -- was not available to
11 the Office to spend and work down the backlogs.

12 So, in 2012, while we were anticipating
13 those fees, those also aren't available to us in
14 2012, either. So when you take all of that and
15 summarize it together, I'd say it's over \$300
16 million, probably close to \$400 million, of income
17 we were planning on to meet our backlog and
18 pendency goals that the Office did not have at its
19 disposal to do so. So that's a little bit of the
20 reason why there is an increase now to try to work
21 off this deficit in the backlog that we have.

22 So that leads me to the next slide. The

1 next slide is the view of backlog and pendency
2 under the proposal. So, under the proposal we
3 would anticipate collecting about \$2.6 billion in
4 patent fees and with that we expect to spend of
5 planned spending of \$ 2.549 billion. So that would continue
6 with the hires that we were planning to increase
7 examination capacity in 2012, and also allow us to
8 continue to do the same in 2013. There is about
9 \$137 million that we estimate right now that we
10 would put into the operating reserve, and I'm
11 going to talk a little bit about that on the next
12 slide, so I won't spend a lot of time there.

13 But with this additional revenue -- and
14 I'm probably going to take a minute to talk about
15 all of these numbers because there could be some
16 confusion. The \$2.4 billion I just talked about
17 on the previous slide is what patent revenue would
18 be in the event that we didn't change the fees
19 above the 15 percent. The \$2.686 that you see
20 there is what patent revenue would be under the
21 proposed fee changes. If you happen to be looking
22 at our 2013 President's budget, you'll see a

1 number in there of \$2.9 billion. The \$2.9 billion
2 is the total USPTO revenues, so that includes the
3 trademark fees. So I just want to make sure that
4 if people are looking at things that you are not
5 confused.

6 So, in total, the 2.6 is a subset of the
7 2.9. It's the patent piece of that. So, if we
8 look at this, you'll see that this chart is
9 basically the same with application filings. The
10 backlog we end up getting under control in 2015
11 and we meet our total pendency goals in 2016. Our
12 examiner hires, while we would continue to hire in
13 2013, starting in 2014 we would start leveling off
14 and doing attrition replacement now that we have
15 the resources on board to overcome the backlog and
16 then begin maintaining.

17 So where we would be in the future is at
18 a maintenance mode, keeping pace with all of the
19 patent applications coming in the door. We also
20 planned that we would continue with our IT
21 improvements, our quality initiatives, our
22 strategic initiatives -- on track as we had talked

1 about and not necessarily needing to slow those
2 down.

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

13 So, in parallel with all of this, we're
14 not just sitting there saying we're going to
15 increase fees because we've just got to recover
16 the cost of the Office as we work through this.
17 We are making sure that we're doing it
18 responsibly, that we're looking at our processes
19 as we're -- each year and on an ongoing basis, and
20 to see if there's any changes to either improve
21 the quality of our services or reduce the cost of
22 the operations. And I think that while 2009 for

1 USPTO was at a -- it was a hard time financially
2 for the entire nation, it did allow us to almost
3 scrub down to bare bones. So we were at the point
4 in 2009 of spending of barely keeping the lights
5 on, barely paying salaries, and it was a good
6 opportunity for us to realize what may have been
7 some fluff and what wasn't. So as the years have
8 marched on and we're starting to do some recovery,
9 we as an organization have chosen to not just add
10 all of those services or where we were prior to
11 2009 back. We actually went through a process at
12 the executive level to make a decision on are
13 these services that we as an agency need to get to
14 the mission of examining patents and trademarks,
15 reducing the backlog and pendency, and make
16 decisions on what to put forward?

17 So some of the things that you probably
18 are not even aware of as you see the process
19 improvements and may not be connecting them with
20 the cost saving measures that are going on. One
21 of the things that's out there are e-petitions and
22 those, from our perspective, actually save the

1 examiners time and improves quality and have less
2 rework for the Office, so it's saving us money in
3 what we're doing and that's being recognized
4 in prospective costs. The patent prosecution
5 highway and work-sharing with other offices --
6 trying to reuse the work done in other offices --
7 that's saving us money and it's included in the
8 cost of looking at what our revenue needs to
9 cover.

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

18 So those are just some examples of some
19 things we've already done. We have a long list of
20 other process improvements that we're working in
21 the Office, getting ready to perhaps go out with
22 the public, but just things to improve. Our

1 approach is it doesn't matter how small or how
2 big, if we can chip away at every little process
3 improvement through the examination process, it
4 helps in the long-term in reducing costs. So,
5 that's something that I just wanted to spend a
6 little bit of time talking about.

7 This next slide is a little bit about
8 our operating reserve. So, you saw in the
9 previous slide that in 2013 we plan to put some
10 funds in an operating reserve. Today, and in
11 2009, the Office did not have any backup funds,
12 any money to be able to look to when the revenue
13 -- when we had a decline in revenue. So the
14 operating reserve is basically just a portion of
15 our fee collections that we carry over from year
16 to year to be able to sustain operations in times
17 like 2009, and it gives us the ability to absorb
18 and respond to those unanticipated shocks.

19 I mean, this is something that any good
20 business, especially someone like us that is such
21 a large business, fee-funded, we're an operation
22 that completely depends on the cash coming in

1 associated with the work we do. And so, you need
2 to have some money in reserve.

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

16 MR. KLEY: What happened in 2009?

17 MS. PICARD: In 2009, with the economic
18 recession, the Office had a -- probably about \$200
19 million decline in fee revenue we were
20 anticipating to come in. And it had been so
21 significant people not renewing their maintenance
22 fees, but we still had all this work in the door.

1 We stopped hiring. We were literally turning off,
2 you know, just like other businesses do, too. We
3 had to reduce all of the spending and we almost
4 were at a point where we were having to discuss
5 letting people go. So, what we're trying to do is
6 get to a point where the Office is more
7 financially stable -- more financially sustainable
8 and stable, so that when there are fluctuations in
9 workload and revenue.

10 And another good example is as we get
11 into some of the more details of the fees, you
12 know that our filing search and exam fees, as they
13 come in the door, they don't nearly recover the cost
14 of working on an application, as they shouldn't be
15 because we want to make sure there is low entry
16 from a policy prospective into the innovation
17 system. So when our application filings are
18 higher than we plan and the maintenance fees,
19 those type of fees that subsidize those
20 application filings, remain at the level as
21 planned, we're already out of balance in the fee
22 structure. We already are able to -- we won't

1 have the revenue to work off that backlog, so the
2 operating reserve will allow us to keep it at the
3 and backlog, and determine if this was a temporary
4 change or a long-term trend that we need to
5 address financially.

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

10 SPEAKER: (inaudible) until the
11 probation requires it?

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

17 I'm going to go ahead and continue on
18 with the presentation. This slide is busy, but
19 the only thing I'm trying to -- the objective I
20 want to achieve with this slide is for you to
21 understand the relationships of the data, the
22 information, and the balance. Over on the

1 left-hand side are our applications, the backlog
2 sitting there, and new applications coming in the
3 door.

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

22 And at the same time, it's a balancing

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

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

17 So, the purpose of this was to just kind
18 of give context of the bigger process before we
19 get into the individual fees, so I'm going to kind
20 of transition a little bit into changes in some of
21 the -- the more notable changes in our fees. I'm
22

1 not going to go through every single fee that's
2 included in the Table of Patent Fee Changes, but
3 in that Table of Patent Fee Changes, also referred
4 to as Attachment 1 there, is a -- you'll see the
5 current large entity and small entity fee, the
6 proposed large entity and small entity fee, and
7 the proposed micro entity fee. And you'll see the
8 estimated cost to the Office of the activities
9 supporting those fees. So there's some good
10 information in there as you're looking to provide
11 us comments.

12 I want to take an opportunity to talk
13 about how we approach setting the fees. So we
14 first talked about the aggregate revenue and the
15 aggregate cost. We knew our goals. We knew what
16 it cost the organization to get there. You know,
17 for us, figuring out what it costs is pretty
18 routine because we have over 70 -- probably 75
19 percent of our costs are in compensation and
20 benefits, so we know how much it's going to cost
21 to pay all of those people in the out years.

22 You have rent and utilities. There's

1 only, probably, maybe 7 percent -- less than 10
2 percent -- of our costs that are new things that
3 we're not used to costing out. So, as we go
4 forward and we know what our aggregate costs are
5 and what our revenue needs to
6 cover.

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

17 But you'll see that the proposed fees
18 are intended to be effective in February of 2013,
19 except for there is a consolidation and decrease
20 of the PGPub and issue fee that's proposed, and
21 that's proposed to be effective in January 2014,
22 which will be into the Fiscal Year 2014, and we

1 chose to delay that decrease because if we would
2 have done it in 2013, we wouldn't have had enough
3 revenue to operate on and meet those goals.

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

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

1 as a small entity today.

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

13 So, the cost to the Office for this
14 service, for examining a basic filing, search, and
15 exam -- for examining a basic utility application
16 -- is about \$3,900. So, today the fees recover
17 about a third of the cost. We felt, in
18 looking at the fee structure in the financial
19 stability, that that was a little too
20 unstable. As time has gone on, it's a little --
21 we felt like we needed to move a little more of
22 that revenue up front, so our proposal is to --

1 the total of those fees being \$1,840, which brings
2 us a little over 45 percent of cost recovery. So
3 we're still not recovering the cost. As a
4 policy from the Office, we don't think we should
5 recover the cost of the up-front right now. We're
6 interested in hearing what the public has to say
7 about that. But the goals still -- we felt like
8 it was a good balance between financial stability
9 and the public policy of easing the entry into the
10 IP system.

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

21 So then I move onto prioritized examinations fee.

That's a

1 fee that just went into effect with the AIA, and
2 today the fee is \$4,800 for a large entity and
3 \$2,400 for a small entity. Under the Section 10
4 fee setting, there will be a micro entity fee
5 associated with it.

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

17 So, today, when you do prioritized exam,
18 you also have to pay your filing, search, and exam
19 fee. And you'll see by looking at these two sets
20 of fees that if you were to request a prioritized
21 exam under this proposed fee structure, you would
22 actually pay less than you do today, even with the

1 filing, search, and exam fee increasing.

2 So I'm going to move on to the next fee,
3 which is application size and excess claims.
4 We're proposing increases to both of these fees to
5 keep in line with our goals of compact
6 prosecution, trying to encourage prompt conclusion
7 of an application, and just a more focused
8 application. As we're going through the process,
9 we think it's going to be more cost efficient for
10 us and for the applicant.

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

18 Request for continued examination fee.
19 This is one that we've heard a lot of feedback
20 already from the public, and you'll see -- for a
21 request for continued examination, the Office
22 estimates our activity-based information data is

1 telling us that it costs us \$1,696 to process and
2 RCE. Some people say, well, I know it costs less
3 to do an RCE than it does a regular application,
4 and intuitively this doesn't seem right. But if
5 you remember on a regular application, even though
6 the fees are only \$1,200, the cost is \$3,900.
7 It's almost \$4,000 to examine an application. So
8 this is correct. It does cost us less to do an
9 RCE than it does a full-blown application.

10 So, our proposal is to set the fee at
11 cost for a large entity. So, again, this means
12 that a small and a micro entity subsidy for this
13 fee will be elsewhere in the fee structure, not
14 for a large entity subsidizing for the complete
15 process. But we are choosing to do this for
16 several reasons. When looking at the fee
17 structure, we realized that the subsidy for RCEs
18 is probably happening up there with regular
19 applications and we wanted to be able to focus it
20 on the process itself. And simultaneously with
21 the Section 10 fee setting and the proposal for
22 changing an RCE fee, we're also doing several

1 process improvements related to RCEs, trying to
2 find ways that, you know, sometimes the public
3 feels like they have no choice but to do an RCE
4 for certain actions in the Office.

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

20 So, another example that we're looking
21 at is ways to incentivize or, you know, be able to
22 give examiners some additional time -- on

1 amendments after final rejection. So this way the
2 applicant and the examiner can focus on things and
3 maybe if there is -- you know, obviously for the
4 purpose of finding allowable subject matter -- if
5 we're able to get to that point then an applicant
6 may never need to submit a request for continuing
7 examination.

8 So I think that this is another example.

9 I think that one will be following the pilot on
10 the IDS. Both of these coming out this year, we
11 plan to propose and implement and work with the
12 applicant community and evaluate that. And that's
13 just the first couple of ones that we're working
14 through. And the goal is -- with us bringing
15 these out this year, they would be in effect even
16 before these fees became effective. So, our goal
17 is to not just increase fees, but change the
18 process some and really look at process
19 improvements to help the applicant community and
20 the Office and eliminate the number of -- reduce
21 the number of times that we need to go to reduce a
22 request for continuing examination.[NLK1]

1 For those purposes, and all of those
2 process changes that we're looking at, that's
3 actually also another good reason to set this fee
4 at cost recovery because if in the future we find
5 out we're not having as many RCEs being filed --
6 which would be great, I think it's great for you
7 and the Office -- then at least the revenue is
8 recovering the cost related to that process so our
9 aggregate revenue isn't quite so dependent on how
10 many of these are coming in in the future because
11 it's almost balancing within itself.

12 The next fees I'm going to talk about
13 are pre-grant publication and issue fees. So
14 you'll see today -- before I get into the actual
15 fee amount, this is a good example of when we went
16 through the fee structure, we actually took a step
17 back and tried to determine the points in time
18 that we felt an applicant may have additional
19 information or enough information to make
20 decisions as you're going through the prosecution
21 pipeline. So, for an issue fee, today you pay
22 both your PGPub and your issue fee at the same

1 time. There's no reason you have to have two fees
2 for that, so we decided to consolidate them into a
3 single fee. Trying -- the first step is starting
4 to simplify the fee structure.

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

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

21 The appeals fees is a proposal where
22 we're -- another place where we're really trying

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

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

1 the cost of actually going all the way to an
2 appeal and is --

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

6 MS. PICARD: The table of patent fee
7 changes?

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

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

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

22 MS. PICARD: Oh, sure. The question

1 was, on the information in the spreadsheets that
2 are out on the website, he didn't see the appeal
3 fee listed alone and the workload associated with
4 it and the aggregate revenue calculation. And
5 they're all embedded in the entire process.

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

16 So I'm going to move on to maintenance
17 fees now. If you look at the maintenance fees,
18 this slide, the slopes that are there, the blue
19 slopes, is how our PGPub and issue fee are in
20 relation to our maintenance fees today, so you'll
21 see that you pay more to PGPub when you're issuing
22 your patent. And then at the first stage you pay

1 less, and then as time marches on you begin to pay
2 more, but the slope isn't very steep.

3 Our proposal has you at your PGPub and
4 issue fee paying the lowest amount and as time
5 marches on and there becomes to be a little more
6 certainty in the value of your patent and the
7 marketability of your patent, that the fees begin
8 to increase a little more. And the steepest
9 increase is at the third stage maintenance fee and
10 there is -- when you look at the fee structure as
11 a whole and aggregate revenue as a whole, it's
12 clear that quite a bit of the money to work off
13 the patent application backlog is coming from
14 maintenance fees in addition to subsidizing the
15 front-end work that we do. And at the same time,
16 when we were looking at a lot of information and
17 research out there in the economy, you're seeing
18 that as a patent is out there -- you know, 11-1/2
19 years down the road -- the value of your patent is
20 a little more apparent. And the whole theory
21 behind this is it assumes -- maintenance fees
22 assume that the value of renewing is less than the

1 value of the patent that you're going to make in
2 the marketplace. So, at that third stage out
3 there is when we felt like it was the better time
4 to do this increase.

5 The last two individual fees I'm going
6 to talk about are supplemental examination and
7 declaration of oath fees. The supplemental
8 examination fees are one of the fees that are out
9 there in the Notice of Proposed Rulemakings today.
10 The cost amount that's there at the \$5,180 and the
11 \$16,120 is the cost that's proposed in the NPRM
12 today.

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

1 examination as possible.

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

1 Office for the Notice of Proposed Rulemaking.

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

15 This is another summary view of the same
16 information. The blue and red boxes on the bottom
17 are what we just talked about. And as you start
18 now looking at maintenance fees, the first stage
19 maintenance fee is the green box. Under the
20 proposed structure, you would basically be paying
21 through first stage maintenance fee the same
22 amount that you pay today. So there would be no

1 change through first stage maintenance fee. So
2 that's getting your patent through the first three
3 and a half years.

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

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

1 years right -- that about 60 percent renewed.
2 That was an anomaly because of all of the people
3 who paid the fees in that 10-day window to beat
4 the 15 percent increase. In general, about 50
5 percent renew at third stage.

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

20 So I think that you'll see that it meets
21 the goals outlined in the PTO strategic plan. We
22 also believe there's benefits to you as an

1 applicant, that you'll have better operations at
2 the PTO, that you'll have more quality
3 examinations, avoid future backlogs, even in the
4 financial fluctuations, we really believe we'll be
5 able to manage through that and decrease,
6 obviously, the examination times if pendency's
7 decreasing, and giving the applicant community
8 more patent prosecution options.

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

18 And one of the things that we haven't
19 talked about a lot, but obviously it will include
20 -- will be able to continue with some of the IT
21 improvements and stuff. And in the patent
22 community, I think you're going to see significant

1 changes in the next few couple years in the way
2 that you do business with the Office with the
3 electronic communication.

4 So, the path forward is comments. I
5 think we've talked about -- everybody has said it
6 -- that we really want to hear what you have to
7 say and we think that your feedback to the PPAC is
8 going to be very valuable to the Office in making
9 sure that we are able to evaluate everything and
10 all the information out there in our proposal that
11 goes out in the Notice of Proposed Rulemaking.
12 You'll see the website is there -- I mean, the
13 e-mail address where you can submit comments, and
14 we look forward to seeing your input. Damon?

15 MS. KEPPLINGER: I just wanted to make
16 one comment and just reiterate, as Damon had
17 indicated earlier, we did not structure this as a
18 Q&A -- question-and-answer -- session. And
19 Michelle graciously took a few questions, but we
20 are, as the PPAC, very interested in hearing your
21 comments. So after the people that testify, we
22 will have the opportunity for other people to come

1 forward if they wish to make additional comments.

2 So, thank you.

3 SPEAKER: How long have you (inaudible)?

4 MS. KEPPLINGER: It's not a Q&A. It's
5 really just designed to be a hearing where we take
6 in your input.

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

9 MS. PICARD: As long as we need.

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

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

20 (Recess)

21 MR. MATTEO: Welcome back, everyone.

22 We're prepared to begin the scheduled testimony in

1 the fee setting hearing for the USPTO Patent
2 Public Advisory Committee. First up we have Ron
3 D. Katznelson from IEEE. And with that, I'd like
4 to introduce Ron. Please, if you would?

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

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

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

22 What I talk about is the fee setting

1 process itself, its unprecedented scope, new
2 responsibility the PTO never had, except it did,
3 theoretically, in 1980, when Congress passed an
4 act that essentially vested fee setting authority
5 with the PTO, which never really got exercised
6 until 1982. It took it back, so PTO needs to take
7 the stewardship very carefully so that Congress
8 doesn't take it back like it did in 1982.

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

17 PPAC now has also an unprecedented job.
18 It's now going to be entrusted with the advisory
19 -- and the stress point is advisory role for the
20 PTO in areas that it doesn't have institutional
21 expertise or mandate to address. The balance
22 between the front-end fees and the back-end fees

1 is an economic decision in which many factors come
2 in, none of which are easy or able to be assessed
3 by the resources that exist within the PTO.
4 That's where the PPAC needs to muster additional
5 resources to give its advice on these issues.

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

19 What is not under deadline is exactly
20 when to set those fees, and that's the one we have
21 a little more time. You have a minimal -- not to
22 diminish below, but you can take a little more

1 time to go through the PPAC process and the public
2 comment and to do some of the analysis necessary.

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

11 As I said earlier, PTO has neither the
12 economic expertise, mandate, or institutional
13 ability to actually make a determination about the
14 apportionment. It is inherently a non-neutral
15 party. It has an administrative role of seeing
16 the workload's getting done. Naturally, reduced
17 workload is a goal. You can do so by increasing
18 the up-front fees. When you increase back-end
19 fees, you don't change much of the workload.
20 Naturally there's a tendency, and it's
21 understandable, to try to control in-flow through
22 those fees.

1 Cost recovery is necessary, but it's
2 done in both ways: Both the back-end and the
3 front-end. It has to determine the fraction of
4 fees to be collected up front as opposed to the
5 back-end. It has to model and project the
6 application attributes, the size, the claims, the
7 continuations necessary to achieve patent
8 protection, but that is something that the PTO
9 doesn't have expertise in. Users might; the
10 people who litigate and enforce claims, who look
11 at infringement might. PTO doesn't have
12 infringement expertise or analysis of what needs
13 to be covered, how you cover a product.

14 Therefore, the PPAC has a role here to
15 help them in the missing element and we are here
16 to help the PPAC and try to get whatever you can
17 to do that. But the PTO must help us disclose
18 information in order for us to be able to be
19 effective in that process. The up-front concept
20 really is important. Low front-end costs enables
21 applicants to defer patenting cost until they
22 achieve commercial success. It provides low-cost

1 opportunity for discovery. You don't know which
2 invention is going to be commercially viable,
3 useful, or successful unless it comes to the fore,
4 unless it is applied for and potentially
5 published, and maybe you get a patent on it. You
6 would then see if it's viable or not. This is a
7 scouting process. This is essentially a process
8 where we cast a wide net and allow people to try
9 to accomplish an inventive goal in protection, get
10 investors to invest in it, and do it.

11 If there's a barrier to do that up
12 front, it's going to be harder to even try the 100
13 cases, out of which maybe 10 are successful in
14 terms of business. It also fosters more
15 disclosure, regardless of whether the applicant is
16 ultimately successful. And that's an element of
17 innovation that the PTO may not have in its own
18 resources to appreciate. The disclosure function,
19 there's a teaching and there's other values to the
20 public.

21 Getting more applications out is
22 important and it also has -- if you pay less up

1 front and more in the back, that means you're
2 going to have to weed out some of the chaff, some
3 of the patents that ultimately are not successful.
4 And Michelle talked a little bit about that as a
5 consideration in the out years in terms of
6 essentially increasing the back-end fees, and
7 that's an appropriate part of the policy.

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

20 The other concern is that the
21 information that was provided doesn't permit us to
22 fully, meaningfully comment on these fees.

1 There's some information that we need in terms of
2 the data. What's the underlying data and so on,
3 and I'll talk a little bit about that.

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

12 It also liberalized rules to remove
13 barriers, to increase applicants' activity, and
14 those elements that we're all very familiar with
15 really started at the same time. And that is
16 awarding a filing date to applications submitted
17 with missing parts, so get your invention, get
18 your disclosure. We'll worry about it, get you
19 missing parts, but we want your disclosure. We
20 want that information. We want to give you a
21 chance to apply. Deeming any paper to be
22 considered filed with the PTO when it was put in

1 the mail in the post office, that's helpful, too.
2 You're writing a deadline, we know it is, it's
3 right there.

4 Also, the ability correct inventorship.
5 Provided for automatic extension of time, it's an
6 important process of maintaining the prosecution
7 and not abandoning it and a revival if there's
8 something unintentionally abandoned. So their
9 every element of trying to help the front end is
10 already spoken for and is there in the statute.

11 When Congress did that, it expected that
12 the share of maintenance fees out of the whole
13 cost will decline, will go down, and increase from
14 0 percent initially, because everything was
15 without maintenance. You actually paid up front
16 and the taxpayer paid over 50 percent to help the
17 patentees. It was not fully funded by users at
18 the time. Congress said in '82, let's get going,
19 let's get it users funded, but we're not going to
20 require that it's up front, we would like to
21 achieve a 50 percent balance over time, when all
22 matured applications come out and patents come

1 out. That was the goal. It was actually
2 codified; there's legislative history in that.

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

19 So, if we reduce the backlog, you'll
20 also have a contribution perhaps for improvement
21 in that area, but now the proposed fee that is
22 here has that increase that I'm showing at the

1 back end, at the years 2014 and 2015 -- and that's
2 based on the numbers that we've seen and what the
3 office proposes. So it actually makes it worse in
4 terms of the ratio.

5 In fact, the data that Michelle showed
6 is somewhat less relevant from the actual cost the
7 patentees will have to pay because included in it
8 is RCEs, included in it are appeals. So when you
9 do all of those at cost, you actually have
10 slightly higher front-end fees coming out in the
11 proposal. These are 2014/2015. You can see that
12 2010 -- the reason I'm not showing 2011 is there
13 was a spike in back-end fees and maintenance fees
14 in 2011 because of the change of fees, so it was a
15 huge increase: About \$110 million that people
16 wouldn't have expected to see otherwise.

17 But that's a fair comparison. You can
18 see that that process occurred. Now, it is true
19 that what happens to be reduced here is the
20 publication and issue fee, but the same logic that
21 was explained to why that should be reduced and to
22 increase the maintenance fees applies to the very

1 front end, exactly because the applicant doesn't
2 know -- knows the least about the invention, about
3 what it is, a lot less he knows during the
4 prosecution of the application than he does when
5 it's time to pay the issue fee, okay? So it
6 doesn't quite seem consistent to, on the one hand,
7 justify a reduction of the issue fee, but not go
8 further and say the uncertainty is even greater at
9 the front end, let's reduce that even more.

10 So the concept doesn't seem to be fairly
11 consistent, but it is consistent with reducing
12 work flow. Now, as a country, we are the ones
13 sitting, probably, almost in the worst case in
14 terms of these ratios. If you compare our front
15 to back ratios in the U.S. to other countries, the
16 U.S. is at the top of the list here, almost,
17 except South Africa. These are assumptions that
18 all fees are paid through the term of the patent,
19 so obviously it exaggerates the back-end portion
20 because not all patents actually live that long to
21 actually support it. But at least it's an
22 indicator of what the relative mix is for us and

1 the rest of the world.

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

15 Back in 1928, when you thought when did
16 the surcharge on excess claim fee took place and
17 what was the rationale for it? It was not
18 workload. It was allowing to control the amount
19 of workload that comes in. So this -- we'll
20 submit that list in the comments and I would like
21 just to say that there's some fundamental facts
22 related to excess claims that are inherent.

1 They're not in the expertise of the PTO. Why do
2 we need more claims and what would be the impact
3 if we start charging more? Whole new industries
4 depend on a lot of these claims.

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

20 We don't know how these things look
21 today; this is 2006. It's clearly important for
22 us to evaluate and make some comments. Data in

1 the tables we saw and the analysis that was made
2 was examples -- I found there was zero elasticity
3 on appeals. Well, how is that done? We don't
4 even know how the elasticity studies were done.
5 None of them were disclosed. Was it done based
6 solely on the number of dollars coming in on
7 appeals? Well, what happens if appeals go through
8 the roof because there was more rejections? So
9 the normalization is important.

10 When you normalize the number of appeals
11 by the final rejections, you actually see a 20
12 percent elasticity problem, okay? And that's in
13 1982 when there was an increase of about of 2.3 in
14 the price of appeals, okay? These are measurable,
15 these are visible, they're there. You just have
16 to get the numbers and if you, you know, compute
17 that, you will get the results.

18 There are other increases that you can
19 look and they have a similar behavior, in 1990 and
20 so on. The 2004 increase was very hard to use
21 because of its huge rise in rejection. But when
22 you normalize it, you get these kind of numbers.

1 be looked at, considered, before these fees are
2 there, and I thank you for your time. (Applause)

3 MR. MATTEO: Thank you very much, Ron.
4 Our next scheduled speaker will be Ernie Beffel
5 from Haynes Beffel & Wolfeld. Oh, here he is. If
6 you would, please, Ernie? And remember, we have
7 15 minutes allocated for your speech. Thank you.

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

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

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

22 MR. MATTEO: This is disturbing?

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

20 So that is my perspective. I represent
21 a lot of small people. I represent big companies.
22 I represent in- between size companies. I know

1 that there are very much different constituencies
2 that are involved in this pricing question and
3 that if you do the law in economic analysis and
4 you use the elasticity curves -- now, I'm an
5 operations research person, so I go beyond
6 elasticity curves into multidimensional decision
7 analysis and how any individual person's
8 preference curves actually look if you try to map
9 them out. The difference between aggregate
10 elasticity curves and what really happens to the
11 individuals is huge.

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

22 There's two examples that come to mind.

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

22 The second thing is how well the Patent

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

1 the bright green dots are examiners and the dark
2 green dots are patent attorneys who were attending
3 the focus groups.

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

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

22 The second example that I take out of

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

16 One was they wanted better foreign
17 translations. You know, in fact, they would even
18 like to be able to send out a paper that says,
19 please, improve the translation because it will
20 save costs for you overall, which kind of feeds
21 into the efficiencies, so it's not too far
22 off-point. They also think of it in terms of

1 continuing to use the first action interview
2 program in its different incarnations. In
3 general, one of the things that I often speak
4 about is why people should do interviews before
5 the first office action even if they're not part
6 of a formal expedited program.

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

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

1 whether finality was appropriate.

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

18 So I just think that there's the
19 potential for resentment if you structure it that
20 way on the premise that people have more
21 information. I have never -- I have on occasion
22 better understood what mistake the examiner was

1 making after I read the examiner's answer. I
2 can't think of any time where I got so much more
3 persuasive information from the examiner that I
4 decided to drop the appeal.

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

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

19 One further logistical note. Ostensibly
20 the audience cannot hear questions that are being
21 asked by the audience, so if the speaker could
22 either repeat the question or if the audience

1 member is willing to come up and use our
2 microphone, that would even be better. In the
3 absence of that, I think we should proceed with
4 the unscheduled testimony and the first gentleman,
5 who, I apologize, I don't know your name. If you
6 could come up and give your name and your
7 testimony, we'd very much appreciate it. Thank
8 you, sir.

9 MR. BERNSTEIN: Yes, thank you. My name
10 is Larry Bernstein. I'm an independent inventor
11 in the pharmaceutical area and I do my own patent
12 application writing and prosecution. And I have
13 to say I very much enjoyed working with USPTO.
14 The people are very professional and helpful.

15 I just want to comment on one pricing
16 aspect. And I think that most people agree that
17 the generally high cost of obtaining patents --
18 and I'm including the legal fees, mainly -- favor
19 large corporations over individual inventors and
20 small businesses. The large corporations have the
21 big budgets and basically unlimited access to
22 legal assistance that the rest of us don't.

1 Now, the recent implementation of this
2 prioritized examination, or Track 1, is available
3 for those who can pay this high surcharge, has
4 made the advantages enjoyed by big business far
5 worse, I think, and has been a huge slap in the
6 face to individual inventors. Even with the
7 proposed micro fees, the surcharge would still be
8 out of reach for many individual inventors.

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

16 And just sort of summing up this,
17 there's a well-known quotation by James Madison
18 in The Federalist Papers which you probably
19 already know, but I'll just read it. "The
20 copyright of authors has been solemnly judged in
21 Great Britain to be a right of common law. The
22 right to useful inventions seems with equal reason

1 to belong to the inventors. The public good fully
2 coincides in both cases with the claims of
3 individuals."

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

18 MR. SHERIDAN: Hi. My name is Rick
19 Sheridan and you can think of me as an
20 entrepreneur. I have two provisional patents
21 filed. I wanted to say that I really appreciate
22 this forum. I think it's a fantastic forum and

1 I'm really glad the USPTO is doing this. And
2 also, I want to say how impressed I am with the
3 quality of thought being discussed here. And I
4 say that with as much humility as I can, as
5 someone with a bachelor's from MIT and an MBA from
6 an elite school.

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

20 So this applies specifically to the
21 independent inventor and the independent inventor
22 is the top of the funnel from which the USPTO is

1 gathering its customers. The USPTO is rightly
2 thinking of itself as a business and I can see
3 it's putting resources into do that and it needs
4 to just continue along that line. So when you can
5 figure out how to do pricing for the masses,
6 that's where you can see a very large revenue
7 opportunity. The provisional patent process is a
8 very high margin activity. Perhaps it's nominally
9 treated as a \$1 cost. I don't know if it's even
10 that much within the Office. I've paid out \$125
11 for each filing, so we're talking about a margin
12 of many tens of thousands percent. Any business
13 would love to have margins like that in a business
14 process. So perhaps there's some room to lower
15 that.

16 So that's one thing that I wanted to
17 talk about, is that when you can lower prices, you
18 can lower the barrier in the independent
19 inventor's mind to putting out a claim, as I think
20 of it, on the spot. \$30 for a claim? Tomorrow
21 I'm writing a check and I can do it as I think. I
22 don't have to bunch up my claims into one filing,

1 the proverbial kitchen sink patent that
2 independent inventors are encouraged to do. So we
3 can space those out and have more filings that are
4 themselves also high margin for the USPTO.

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

21 They've taken pages and pages of legal
22 documentation and condensed it into a nicely

1 designed, colorful, you know, large font-sized
2 document. One or two pages that consumers can
3 much more easily understand. I highly encourage
4 the USPTO to look at what this bureau is doing and
5 to try and emulate what their doing for all of
6 their processes facing especially the independent
7 inventor.

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

11 Okay, finally, yeah, the idea of
12 bringing out outside resources. I think Mr.
13 Katznelson suggested the USPTO has not
14 traditionally been in the business of being in
15 business, so it needs to bring in outside
16 resources that can help advise it and maybe even
17 hire those resources in-house. And I think there
18 is some amazing brainpower here that can start to
19 offer those. I certainly offer my own services.
20 I think I've talked to some folks about that.

21 So, with that, I will leave it to the
22 floor. My contact is rick@rstoem.com. Thanks.

1 (Applause)

2 MR. MATTEO: Thank you very much, Rick.
3 Did we have any further comments from the floor?
4 Yes, sir? Oh, actually, two people. If you would
5 please come up and use the microphone? Would you
6 prefer the podium?

7 MR. KLEY: Sure.

8 MR. MATTEO: By all means.

9 MR. KLEY: My name is Vic Kley. I'm an
10 inventor from Berkeley, California. I've been
11 doing this for about 45 years. You may have some
12 familiarity with some of the stuff I've done. I'm
13 one of the inventors of touch-screen technology
14 back in 1976, and you find those on things like
15 iPads and iPhones and many things you use today;
16 inventions that are in those products, but are
17 not, in fact, invented by the products' purveyors
18 and are very much in the public domain. And
19 that's the whole principle, of course, of the
20 Patent Office is to encourage the open
21 availability of new ideas so that new things can
22 be built on those ideas.

1 And in that vein, I'd like to share with
2 you an idea for the back-end loading of how to
3 improve finances at the Patent Office, with a
4 thank you to Ron Katznelson for giving us a good
5 overview of that. And that is, pretty much, there
6 are many ideas that are really ground-breaking
7 that can take 10, 15 years to merge and begin
8 penetrating the world and begin bringing in some
9 kind of revenue or interest or even funding. And
10 that's a very long time. People dedicate their
11 lives, they're bringing these disruptive new
12 things to the marketplace.

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

22 One way would be to simply have the

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

15 So, that's the idea. It's very simple.
16 It's one that could be modeled in a slightly
17 different way than is presently modeled, and that
18 would require some guessing about the value of
19 patents, but, fortunately, the value of patents
20 for the most successful products, which is
21 relatively easy to put your hands on, from the
22 standpoint of information. So, hopeful that

1 you'll consider that and think about using it. I
2 think it could be an effective tool for you to
3 then turn around and lower the barriers for
4 incoming new ideas, particularly for the small
5 entities and below. Thank you.

6 (Applause)

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

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

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

15 MR. ALLEN: Oh, excuse me. Good
16 morning, I would like to thank the original
17 Congress and today's Congress, including the
18 undersecretary and the secretary of Commerce. My
19 question goes to special handling and special
20 relief for the protection of technology and the
21 patent treaty act and to disadvantaged individuals
22 and small businesses. That goes to --

1 MR. SHARP: Excuse me, sir. I'm sorry,
2 would you please state your name and then speak a
3 little bit more loudly into the microphone?

4 MR. ALLEN: Okay. Darren Allen is my
5 name and I'd like to present this to the
6 undersecretary, the secretary of Commerce, and
7 today's Congress. What I was going for is I
8 represent International Friendship Band and the
9 WIPO, and I would like to know why U.S. Congress
10 today and the USPTO cannot allow for special
11 handling and special relief to people including
12 VAs, small business people, and disadvantaged
13 learners, or students. I was hoping that there
14 was a possibility that they could maybe have some
15 high school and colleges understand about the
16 goodness of having some claims or being a
17 patentee. I quote, and someone that stated at one
18 time, it's a privilege and goodness to be able to
19 be a patentee and have a monopoly because it
20 allows us to be able to go to the Supreme Court
21 and be able to allow us to be able to produce
22 product.

1 The main reason that I was here is that
2 I was wondering what happens to people that are
3 disadvantaged or might get hurt and -- or a VA
4 that might come back and not have the exact amount
5 of money for the oath, the declaration, and all of
6 these other expenses. And that it might be able
7 to be placed into offset cost, to allow
8 manufacturing, and might allow them to do it maybe
9 into the second or third actual fee revenue
10 request.

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

1 a moment. We did have another speaker from the
2 floor, so if you would, sir, please come up and in
3 the interim you can fill the space for us.

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

12 As an independent inventor, we're always
13 going to be leaning towards back-loading our
14 expenses once we know more of what the patent is
15 worth. And, Michelle, as you mentioned this
16 morning, that only about 50 percent of patents
17 currently are paying their third maintenance fee
18 at 11-1/2 years, I, as an entrepreneur, have found
19 personally patents that were about to expire. I
20 have acquired them and monetized them. And the
21 thought occurs to me that an auction process at
22 the maintenance fee renewal period would be an

1 interesting opportunity for a patent that might
2 just expire and die, generating no income for the
3 Patent Office and generating no revenue in the
4 marketplace or the creation of jobs, might be
5 somehow brought back to life by an individual that
6 recognizes -- or an organization that recognizes
7 some latent value and is able to harness that.

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

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

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

19 MR. MATTEO: I believe we're waiting for
20 the witness to call in. In the interim, did we
21 have any other comments from the floor? I
22 appreciate your patience, but, again, this event

1 is the spirit of the hearings. We are trying to
2 make every effort to accommodate every opinion and
3 have it heard.

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

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

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

16 SPEAKER: Who is that from?

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

20 SPEAKER: Grislach.

21 MR. MATTEO: Possibly, Grislach. It's
22 either the handwriting or my eyes that aren't

1 quite as good as they could be. I suspect it's
2 the latter. We are ready? Okay, so we're going
3 to give this a try. And who do we have speaking?

4 JANET: Mr. David Boundy.

5 MR. MATTEO: David Boundy, via
6 telephone.

7 JANET: Okay, we're ready to go.

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

19 I'd like to steer you towards looking at
20 one possible area of that. About a month ago,
21 Jeanne Quinn's blog noted that in some technology
22 centers, as a practical matter, appeals are all

1 but a necessary step in the patent prosecution
2 process and that's certainly the case at my
3 company. Well over half of the applications that
4 we get allowed come after an appeal and multiple
5 RCEs. And what's striking is that how our appeals
6 and our RCEs, the overwhelming majority -- I'm
7 going to guess in the 70 to 80 percent area --
8 arise from the same class of issues over and over,
9 and all of them reflect the idea that way too many
10 examiners have that the instructions that you, Mr.
11 Kappos, gave to the examining core in the MPEP can
12 be disregarded.

13 Well over half of our appeals, well over
14 half of our third and fourth and fifth office
15 actions arise because the examiner simply skipped
16 claim language and, in anticipation of
17 obviousness rejection. I'm not talking about
18 some reasonable difference between broadest
19 reasonable interpretation. I'm saying that in the
20 overwhelming majority of our extended
21 prosecutions, the examiner just plain skipped
22 claim language. There's nothing in any reference

1 mapped to the claim language. It's just the
2 office action quotes the claim, but leaves it
3 blank, no comparison.

4 And what's most striking is that MPEP
5 1207 requires that an examiner's answer must
6 provide a limitation-by- limitation mapping from
7 the claim to references. And even in examiner's
8 answers, even when it block quotes the MPEP
9 requesting a complete examiner's answer, it never
10 happens. You know, this benefits no one.

11 Similarly, inherency requires certain
12 showings. Examiners almost never make those
13 showings and we get into extended battles about
14 whether it's inherent when, you know, had the
15 examiner written out the showing required, it
16 would be very clear that there is no inherency.
17 Over and over, where the MPEP requires certain
18 showings for a rejection or a requirement,
19 examiners feel that they have the personal
20 authority to edit the MPEP form paragraph to
21 simplify the job of rejecting claims or imposing
22 some kind of requirement.

1 The preps I'm going to bring to your
2 attention is that there is a pattern of
3 non-enforcement. Supervisory examiners not -- you
4 know, most do, in fact, enforce these
5 requirements, but a large percentage, like on the
6 order of a third, don't. I've had one supervisory
7 examiner, he opened the MPEP, read the same thing I
8 was reading and he says, that's not reasonable, I
9 won't enforce it.

10 I've had a technology center director
11 who's been remarkably unhelpful. I've had an
12 issue that's clear as a bell under the
13 Administrative Procedure Act and the Supreme Court
14 authority interpreting the Administrative
15 Procedure Act, went to the Office of Petitions, to
16 the very highest place I can go in the Patent
17 Office for the enforcement of this. The petition
18 was denied and I couldn't figure out why because
19 there was no mention of my Supreme Court authority
20 to distinguish it or show that it was overruled or
21 somehow, you know, the Patent Office had some
22 justification. But I talked to the petitions

1 examiner, so this is somebody who's parallel to
2 the Board of Appeals, and the petitions examiner
3 says "I'm not getting into the U.S. Supreme Court."

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

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

21 I'll just add one additional fact. A
22 few years ago I filed a few FOIA requests and

1 obtained a number of statistics that showed that
2 something on the order of 80 percent of appeals
3 are successful; that when you add all layers of
4 appeal, from peer appeal to appeal brief
5 conference to final disposition. I know of no
6 other agency that tolerates an 80 percent reversal
7 rate and thinks that its procedures are adequate
8 if it's resulting in an 80 percent reversal rate.
9 And I'd like to suggest that before we look at
10 raising fees, let's improve the Office's
11 efficiency by simply making the internal
12 procedures more predictable and more reliable so
13 that we can use the laws as they are written to
14 achieve the results the law contemplates. Thank
15 you very much.

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

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

20 MR. BOUNDY: Good afternoon. (Applause)

21 MR. MATTEO: Thank you very much, ladies
22 and gentlemen. I think that brings to a close the

1 scheduled and unscheduled witnesses. What I'd
2 like to do is circle back and by way of summary
3 suggest that today's testimony, again, it
4 highlights the diversity of opinion and the
5 complexity attendant to these issues, everything
6 from the econometric and decision analysis around
7 the price elasticity of demand, the notion of the
8 subsidy, if and to what extent and how to execute
9 against an operating reserve, and the fact that
10 the complexity arises from a myriad broad range of
11 factors, the fee setting authority, operations of
12 the PTO, AIA, exogenous factors like the economy
13 and corporate operations, et cetera.

14 All of these making it increasingly
15 important for your voice to be heard and for PPAC
16 ourselves to capture and present a balanced view
17 of the disparate, although no less valid, opinions
18 and perspectives surrounding this issue. And I
19 can assure you that in service of that goal, PPAC
20 will be providing as best we can a balanced and
21 measured and objective report to the PTO in those
22 matters.

1 Before closing, though, I would like to
2 again offer up you're important to us. This is
3 your moment to be heard. And, again, we want to
4 amplify your voice in the report.

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

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

20 And with that I would like to thank the
21 PTO presenters and the myriad people behind them
22 who made their presentations possible and the work

1 behind them possible, the public for joining us
2 here live and online and apparently also by
3 telephone. (Laughter) Yeah, we have a -- if
4 that's not been done before, we do have a public
5 use bar today, so bear that in mind, those of you
6 wishing to file a patent on that. (Laughter) And
7 a particular -- sorry, I couldn't resist that one
8 -- and a particular thank you to all of those who
9 provided testimony today. And again, thank you
10 very much and that will bring to a close this
11 hearing. Thank you. (Applause)

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

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