

SUBSTANTIAL FEE INCREASES IN STORE FOR PATENT USERS

By Ralph Hoppin

Current legislation proposes to address the backlog of nearly a half-million patent applications at the U.S. Patent and Trademark Office (“USPTO”) by hiking user fees and making other changes to streamline the patent examiners’ workload. The legislation, formally known as the U.S. Patent and Trademark Fee Modernization Act (H.R. 1561), was passed by the U.S. House of Representatives on March 3, 2004 and approved by the Senate Judiciary Committee on April 29, 2004. A full vote by the Senate is expected soon. Once enacted, the bill may become effective as early as October 1, 2004. The bill focuses on increasing user fees while also ending diversion of the user fees for other government uses. In particular, the bill proposes fee increases that should increase the USPTO’s budget by 25%, to \$1.5 billion, allowing it to hire a substantial number of new examiners and pursue other initiatives. The bill will impact individual inventors, corporations, universities and other users.

Furthermore, in important structural changes, the bill establishes separate fees for filing, searching and examination, while also providing for a partial refund of fees if the patent applicant decides to abandon the application before it is examined. Other changes to the fee structure encourage the patent applicant to file applications that are concise and have only a limited number of claims. Overall, across-the-board fee increases are planned, although a fee rebate system may provide some financial relief to users.

1. SEPARATE FILING, SEARCHING AND EXAMINATION FEES.

Currently, when filing an application, the applicant pays one fee that includes the cost of the search and the examination. The examiner conducts a search by locating prior patents and publications (“prior art”) that may be similar or analogous to the invention described in the patent application. In the examination, the examiner prepares a written report or office action indicating whether each of the claims in the application is allowable. Claims are numbered sentences at the end of a patent application that define the “metes and bounds” of the invention. A claimed is deemed to be allowable if it defines an invention that is sufficiently different from the prior art. If all of the claims are allowable, the application issues as a patent. If some or all of the claims are rejected, the applicant has the opportunity to refute the examiner’s reasoning,

and to fine-tune the definition of the invention by amending the claims in an attempt to distinguish the invention from the prior art.

The proposal institutes separate filing, search and examination fees. As with the current system, all fees are paid when the application is filed. However, unlike the current system, a partial or full refund of the search and examination fees may be obtained if the patent applicant files a written declaration of express abandonment before the application has been examined. The amount refunded is left to the discretion of the USPTO. Also, the time for filing such a declaration is not specified, but it is believed that the USPTO will inform the applicant of the time based on the expected date on which the application will be taken up for examination. Currently, applications are examined after about one to three years after filing, depending on the backlog of the examining group to which the application is assigned.

Generally, the applicant may choose to abandon an application for various reasons. For example, the invention described in the application may prove to be commercially unviable after it is filed. Newly discovered prior art or other bars to obtaining a patent may be discovered after filing. Or, the applicant's financial resources or changing business focus may lead to the decision to abandon an application. The proposed refund procedure should alleviate the problem under the current system in that a significant number of applications go abandoned after they are examined due to the applicant's failure to respond to the initial office action. The examiners' efforts in such cases are wasted and could be better spent on examining other applications. The refund procedure should therefore reduce unnecessary work by the USPTO while providing the applicant with the ability to recoup some costs if an application is not worth pursuing.

The bottom line for patent applicants is that the total cost to place on application on file and have it searched and examined is markedly higher under the bill. For example, the current fee of \$770 for filing a regular, "non-provisional" application jumps 30% to \$1,000, based on a filing fee of \$300, a search fee not to exceed \$500 for three years after the bill becomes law, with escalation caps of 20% in each of the next three one-year periods, and an examination fee of \$200. Individual inventors, nonprofit organizations and smaller corporations having less than 500 employees that qualify as "small entities" will also pay significantly more. Specifically, with a 50% discount on the filing fee and examination fee, but not the search fee, a small entity applicant will pay \$750 under the proposal law – nearly double the current discounted filing fee of \$385. In an attempt to reduce the burden for small entity applicants, the bill includes a 75%

discount off the filing fee when filing an application electronically, to bring the total cost to \$525 – still an increase of 36%.

Reductions in the search fee are available to all applicants when the applicant provides a search report from a “qualified search authority”, such as a foreign patent office that has performed a search on a foreign patent application that is a counterpart to the U.S. application. This reflects the fact that the USPTO intends to adopt such foreign search reports with little or no independent searching using its own resources. Reductions in the search fee are also available to applicants that provide a search report that meets conditions prescribed by the USPTO. However, it is not clear what such conditions might be, and whether the provision might encompass searches performed or commissioned by the applicant. The term “qualified search authority” is also meant to encompass searches performed by commercial searching companies, as discussed below.

2. OUTSOURCING OF SEARCHING.

Under the proposal, the USPTO may outsource the searching function to commercial entities under a pilot program. Various conditions are imposed on the program. For example, the program cannot exceed eighteen months duration, and the program must demonstrate that the outsourced searches are accurate and meet or exceed the standards of searches that are currently conducted by the examiners employed by the USPTO. It is not clear how the quality of the searches will be measured. The bill also requires searching to be performed by U.S. citizens and businesses organized under the laws of the U.S. or its states. In an earlier form, the bill had no such provision and therefore presumably allowed outsourcing to commercial entities that employed foreign nationals. Additionally, the commercial searching entity is prohibited from having any financial interest in any patent or patent application.

Various groups have voiced concerns over this proposal. For example, the Patent Office Professional Association (POPA), which represents the examiners at the USPTO, believes that the searching and examination functions are inherently intertwined, so it is most appropriate and efficient for both tasks to be performed by the same person. Additionally, examiners believe that searching allows them to increase their knowledge of the state of the art. Finally, they believe that searching should remain a core governmental function to fulfill the constitutional mandate on which the patent system is based. Scully, Scott, Murphy & Presser supports this reasoning and, in fact, its attorneys and agents perform their own searches when requested by clients in

order to increase their knowledge of the state of the art and improve efficiency in preparing follow-on patent applications. With the above and other concerns, the course of outsourcing is likely to be closely watched.

A further issue not addressed by the bill is whether the search results will be made available to the applicant before examination in order to give the applicant time to assess the prior art and to preemptively amend the claims, if necessary, to better distinguish over the prior art. The USPTO may eventually adopt the procedure followed by many foreign patent offices, which publish applications with search reports about eighteen months after filing, and allow applicants to file amended claims and request examination up to six months later.

3. NEW AND INCREASED FEES ACROSS-THE-BOARD.

A new fee addresses the concern that applicants with relatively simple inventions are subsidizing applicants with more complex inventions that require longer applications to describe. This fee is imposed for applications that exceed 100 sheets, including drawings. The fee is \$250 for each additional fifty sheets or fraction thereof. This fee can be avoided in most cases by concisely drafting the application.

Furthermore, more than a doubling of the extra claims fees is proposed to encourage brevity and to bring fees more in line with the cost of the examiners' time. Claims are of two types: independent and dependent. Independent claims are interpreted without reference to another claim, while dependent claims provide further limitations in relation to another claim. Currently, a fee of \$86 per extra independent claim is charged when an application has more than three independent claims. Additionally, a fee of \$18 per extra claim is charged when an application has more than twenty total claims. With the proposal, the \$86 fee jumps to \$200, and the \$18 fee jumps to \$50. As an example, for an application with thirty total claims and four independent claims, the extra claims fee increases from \$266 to \$700. This proposal will likely encourage applicants to avoid or minimize the extra claims fee by formulating claims for only the most important features of an invention. As a concession, and in a departure from the current procedure, the bill allows the applicant to obtain a refund for extra claims fees paid when the extra claims are cancelled before the application is examined.

Other fees increase markedly as well. For example, the total cost for appealing a decision of an examiner more than doubles from \$950 to \$2,000. Specifically, the fees for filing a notice of appeal and a subsequent appeal brief increase from \$330 to \$500 in each case, and the fee for

requesting an oral hearing in the appeal jumps from \$290 to \$1,000. This proposal is likely to result in fewer appeals. Instead, applicants will likely pursue the current option of continuing the examination process by paying a “request for continued examination” fee, which is currently \$770. More telephonic and in-person interviews of the examiners may also be helpful in resolving issues and avoiding appeals. Maintenance fees, which are paid after a patent issues, are scheduled to increase, by up to about 20%. Other various fees are proposed to increase as well.

A 50% small entity discount continues to apply to the above-mentioned new and increased fees.

4. FEE REBATE SYSTEM

The bill authorizes a rebate system that allows the USPTO to make payments from a reserve fund to persons who have paid patent or trademark fees for a given fiscal year. The reserve fund is funded by fees collected by the USPTO that exceed the amount appropriated to the USPTO by Congress. Previously, since 1991, when the USPTO became a user-funded agency, excess collections were diverted to the government’s general fund, essentially resulting in a tax on inventors. The present proposal avoids this injustice by allowing the USPTO to retain control of all user fees. Scully, Scott, Murphy & Presser and other firms in the patent community support proposals that end such fee diversions and allow the USPTO to best serve its customers.

CONCLUSION

Individual inventors, corporations, universities and other users of the patent system should update their planning to cope with the effects of the U.S. Patent and Trademark Fee Modernization Act, which is expected to be enacted later this year. In particular, the patent applicant should budget for increased fees at all stages of the application process, as well as after a patent issues. Additionally, if the invention covered by an application proves to be commercially unviable or otherwise not worth pursuing, the patent applicant should consider abandoning the application before it is examined in time to receive some refund of the search and examination fees paid. Finally, the length of a patent application and the number of claims should be tailored to avoid or minimize the effects of the new excess pages fee and the sharply higher excess claims fees. Guidance of a professional patent attorney or agent should be sought

to avoid missteps, and to ensure that each patent application is carefully drafted to maximize the scope of coverage while avoiding unnecessary fees.