

To: *Michelle Picard*, Office of the Chief Financial Officer
To: fee.setting@uspto.gov
Docket No: PTO-C-2011-0008

**Comments of the Electronic Frontier Foundation
and the Computer & Communications Industry Association
in Response to the Patent and Trademark Office Providing Comment
on its Proposals to Set or Adjust Patent Fees**

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The Electronic Frontier Foundation (EFF) and the Computer & Communications Industry Association (CCIA) submit this response to the Patent and Trademark Office (PTO or the Office) providing comment on its proposals on Setting and Adjusting Patent Fees (Docket PTO–C–2011–0008). We welcome the opportunity to provide information on this topic.

EFF is a nonprofit civil liberties organization that has worked for more than 20 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its nearly 20,000 dues-paying members have a strong interest in helping the courts and policy-makers in striking the appropriate balance between intellectual property and the public interest. As an established advocate for the interests of consumers and innovators, EFF has a perspective to share that might not be represented by other persons and entities who submit comments in this matter, where such other commentators do not speak directly for the interests of consumers or the public interest generally. As part of its mission, the EFF has often served as amicus in key patent cases, including *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *Quanta Computer, Inc. v. LG Electronics Corp.*, 128 S. Ct. 2109 (2008); *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2005); and *i4i v. Microsoft*, No. 10–290, 2011 WL 2224428 (2011). EFF also has launched an effort, called Defend

Innovation, to survey the field of those affected by the patent system and intends to publish its results in 2013.¹

Also as part of its mission, EFF instituted a “Patent Busting Project” (see <https://www.eff.org/patent-busting>) in which EFF attempts to challenge overbroad patents that affect the public interest. EFF uses the PTO’s reexamination process as part of this project in which EFF, along with pro-bono co-counsel, has filed ten reexamination requests (with more potentially in the works). Those reexaminations have led to narrowed claims, and—in at least one instance—an invalidated patent. See, e.g., *Patent Busting Project: Clear Channel/Live Nation*, EFF (challenging a patent covering the recording live performances, editing them into tracks, and recording them onto media (Control No. 95/000/131));² *Patent Busting Project: Sheldon F. Goldberg*, EFF (challenging a patent covering real-time multi-player online games (Control No.90/010,093));³ *EFF Tackles Bogus Podcasting Patent - And We Need Your Help*, EFF (November 19, 2009) (challenging a patent on podcasting).⁴ In addition, EFF filed a petition for *ex parte* reexamination as recently as September of this year. *EFF Challenges Tracking-Services Patent Used to Threaten Cities Across the U.S.* (September 14, 2012) (challenging a patent on various tracking services).⁵ In that case, the owner of the patent

¹ Available at: <https://www.defendinnovation.org>

² Available at: <https://www.eff.org/patent-busting/clear-channel-live-nation>

³ Available at: <https://www.eff.org/patent-busting/sheldon-f-goldberg>

⁴ Available at: <https://www.eff.org/deeplinks/2009/11/eff-tackles-bogus-podcasting-patent-and-we-need-yo>

⁵ Available at: <https://www.eff.org/press/releases/eff-challenges-tracking-services-patent-used-threaten-cities-across-us>

has asserted it nearly ten times against municipalities and public transportation authorities, along with hundreds of assertions of related patents against others, including the federal government.⁶

CCIA is an international, nonprofit association of computer and communications industry firms, representing a broad cross section of the industry. CCIA represents large, medium, and small companies that participate in the information and communications technology industries, including computer hardware and software, electronic commerce, telecommunications, and Internet products and services. For 40 years, CCIA has been dedicated to preserving full, fair, and open competition throughout its industries. CCIA's members employ more than 600,000 workers and generate annual revenues in excess of \$200 billion.

As a preliminary matter, we have the following general concerns with the PTO's proposal on setting and adjusting patent fees:

The proposed regulations appear to interpret the goal of "fostering innovation" as making things easier for patent applicants. Reminiscent of the "help customers get patents" mission that the PTO adopted from 1996 to 2002,⁷ this focus fails to take into account the externalities that marginal patents impose on producing companies, other innovators, and the public. Over the long run, this priority contributes to the failure of the disclosure

⁶ See <https://www.eff.org/deeplinks/2012/03/help-eff-bust-dangerous-jones-patent>; see also <http://arstechnica.com/tech-policy/news/2012/03/a-new-low-for-patent-trolls-targeting-cash-strapped-cities.ars>

⁷ See, e.g., <https://www.law.upenn.edu/live/files/81-long157upalrev19652009pdf>

function by lowering the quality of patents and the perception that they provide useful information. *See, e.g.*, Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition*, at 80, (Mar. 2011)⁸ (“the notice function ‘is not well served at all”), 83 (noting a “fundamentally poor fit” between claim language and IT-related patents). Marginal patents create notice externalities. *See generally*, Peter Menell and Michael Meurer, *Notice Failure and Notice Externalities*.⁹

The proposed regulations assume that the costs of reexamination and the various forms of review should be borne by the challenger, even when the patent is shown to be invalid. In effect, the proposed fee structure subsidizes the prosecution of invalid patents, while imposing costs on those that would restore the norm of free competition.

Furthermore, there is a well-known free rider problem in invalidating patents. Not only does the world benefit from the elimination of invalid patents, but the challenger’s business competitors may benefit disproportionately when they have similar products, for example if the patent reads on an industry standard that many companies use. The challenger thus pays full price for performing a public service to remedy a problem created by the patent applicant and the PTO.

While it would be possible to reimburse a successful challenger from

⁸ Available at: <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>. *See also FTC Report Recommends Improvements in Patent System to Promote Innovation and Benefit Consumers*, Federal Trade Commission (Mar. 7, 2011), <http://www.ftc.gov/opa/2011/03/patentreport.shtm>

⁹ Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1973171

the excess revenues provided by maintenance fees, a better alternative would be to require the patent owner to either abandon the patent or commit to reimbursing a successful challenger.

The subsidy structure provided by Congress is clear enough. It is keyed to size—the resources available to the entity. It should be symmetrical given the high costs of innovation and navigating the patent system, especially since innocent infringers are usually innovators as well. As Professor Colleen Chien’s work shows, startups and other small entities are frequently victims of patent predators because they simply cannot afford to fight back.¹⁰ Without an adequate subsidy on the defense side, their access to the patent system is unfairly limited. As it is, small patent plaintiffs benefit from the availability of legal representation on a contingency basis while small defendants have no such help.

In cases where a slight subsidy is provided, such as for those initiating a review, the proposed schedule makes no attempt to quantify the effects. However, this can be done by acknowledging the intent of Congress to provide alternatives to costly litigation. The review processes do not just save the petitioner the costs of litigation, they also save the patent owner similar costs even if it loses. The latest AIPLA survey shows average costs per side in patent litigation to be \$916,000 when the amount in controversy is less than \$1 million. AIPLA, Report of the Economy Survey 2011 at I-153.

¹⁰ See generally, Colleen Chien, *Startups and Patent Trolls*, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251

And the more than \$1.8 million that the two parties spend does not reflect the costs of the judge and judicial infrastructure—or the time of jury members away from their employment. Should taxpayers subsidize conflicts generated within the patent system that the patent system can shoulder?

The way to handle this is not to confuse fostering patents with vague claims of fostering innovation but to ensure that patent applicants undertake due diligence for the technology they claim to have invented—and not simply kick the can down the road by expecting the PTO and challengers to foot the bill. Instead, fee schedules should create the right incentives consistent with the AIA's parameters that limit the PTO to recovering its costs of operation.

Despite these overarching policy concerns, EFF and CCIA applaud the PTO's efforts to reduce certain fees, particularly those applicable to third-party participation, such as *ex parte* reexaminations for small businesses and Micro Entities. As the PTO is well aware, the reexamination proceeding is a helpful and necessary check on the patent process. First, given the volume of patents that the PTO issues, it is virtually inevitable that some will be improvidently granted. Second, it allows for third-party involvement for those who often do not find themselves before the Office as applicants, but whose day-to-day activities may depend, in certain circumstances, on being able to make requests for reexamination of overbroad and improvidently granted patents, especially those that are used offensively. For those third parties in particular, an efficient and affordable reexamination process is

necessary to incentivize participation and to minimize associated costs for those with fewer resources. Third, the reexamination process may provide a public forum in which relevant prior art is collected and made accessible to parties who may lack the resources to gather such information and would otherwise be unable to challenge patents asserted against them.

For third parties, and particularly those with limited resources, it is essential that reexaminations be both efficient and affordable. Congress itself has stressed that the reexamination procedure was intended to meet the need for “a useful and necessary alternative for challengers and for patent owners to test the validity of [a] patent in an *efficient and relatively inexpensive* manner.” H.R. Rep. No. 96-1307, pt.1, at 4 reprinted in 1980 U.S.C.C.A.N. 6460, 6463 (emphasis added).

While the proposed rules lower reexamination fees for certain small businesses and Micro Entities, EFF and CCIA are particularly concerned that the proposed new fees will create a disincentive for some third parties, like public interest groups, to participate in important opportunities to challenge patents.¹¹ Specifically, we are concerned about the lack of Small Entity and Micro Entity proposed fees surrounding *inter partes* reexaminations (Table 21), post grant review (Table 24), and covered business method patent review (Table 23). Even if these reviews are considered “trial services” and thus are not governed by section 10(b) of the

¹¹ While the \$7,500 in Table 16 is significantly lower than the originally proposed \$17,750, the \$7,500 figure will still pose a significant hurdle for certain public interest groups.

America Invents Act, the Office should nonetheless extend Small and Micro Entity status discounts to these services—which are inherently part of the examination process—to create incentives for third-party participation, particularly from stakeholders such as EFF and CCIA.

The invalidation of wrongly awarded patents is a public good that benefits everybody. Public interest groups are often uniquely well situated to challenge patents, particularly when individuals and small businesses are targeted by those patents. For instance, recent events underscore the risk that patent plaintiffs will indeed threaten—and in some instances, actually sue—downstream individual users of a technology, and those users often lack indemnification. Case in point: just over a year ago Lodsys, LLC, sued eleven defendants for infringement in the Eastern District of Texas. *Lodsys, LLC v. Combay, Inc.*, No. 2:11-cv-00272 (E.D. Tex. filed May 31, 2011). Those defendants—each of which developed applications in Apple’s iPhone and Google’s Android operating systems—allegedly infringe patents for in-application purchases and upgrades. Notably, Apple and Google provided the technology to each of the defendants and mandated its use in developing applications for their products. Apple and Google have taken licenses from Lodsys,¹² leaving them immune from suit, but those licenses do not apply to

¹²See, e.g., Lodsys, LLC (May 15, 2011), <http://www.lodsys.com/1/post/2011/05/q-lodsys-is-trying-to-force-apple-to-take-a-license-by-pressuring-ios-developers.html>; Lodsys, LLC (May 15, 2011), <http://www.lodsys.com/1/post/2011/05/q-what-about-other-operating-systems-such-as-android.html>

the developers, and Apple and Google have chosen not to indemnify them.¹³ So the developers—using technology they are required to use by others and, in many cases, lacking the means to defend themselves—now face expensive litigation they could not possibly have anticipated for using technology provided by third parties.

In this case, Google filed a request for reexamination of Lodsys' patents.¹⁴ But that will not always be the case. Unfortunately, actors like Lodsys—those who target small companies and even individuals—are becoming more and more common. See Colleen Chien, *Startups and Patent Trolls*, *supra*, n.9. Oftentimes, as with the many patents EFF has challenged as part of its Patent Busting Project, for instance, public interest groups are best positioned to mount a challenge against patents asserted by such entities. We believe these actions add substantial value.

Poor patent quality imposes substantial social costs. Those costs are reflected in the price of goods covered, or allegedly covered, by improvidently granted patent claims. They are also reflected in the high costs associated with litigation and unnecessary licensing fees, which serve as an unjustified tax on consumers. As the Supreme Court recently noted in its ruling in *Mayo v. Prometheus*, an improvidently granted patent may “tend to impede innovation more than it would tend to promote it.” *Mayo Collaborative Servs.*

¹³ See, e.g., Lodsys, LLC (May 15, 2011), <http://www.lodsys.com/1/post/2011/05/q-i-developed-on-apple-ios-or-other-platform-why-isnt-apple-or-other-os-vendor-responsible-or-taking-care-of-this-issue.html>

¹⁴ See, e.g., <http://www.wired.com/gadgetlab/2011/08/google-android-lodsys-patent/>

v. Prometheus Labs., Inc., 132 S. Ct. 1289 (2012). This runs counter to the PTO's stated goal of fostering innovation.

EFF and CCIA are aware of the financial strain facing the PTO, but a drastic increase in reexamination fees facing stakeholders and specifically not-for-profit public interest groups is not the way to make up the shortfall. Even the proposed Small Entity fee of \$7,500 provides quite a hurdle for many non-profit organizations. At a minimum, the PTO must ensure that any fee adjustment does not render the reexamination process unavailable to entities with legitimate concerns but limited resources.

Thus, we urge the PTO to reconsider the proposed fee increase. We urge the Office to extend the regime it proposes for those who qualify for Micro Entity status (or, at least Small Entity status) explicitly to not-for-profit organizations for the purpose of *ex parte* reexamination filing fees. In addition, we urge the PTO to reconsider its decision to not include a Small Entity or Micro Entity (or another similar not-for-profit) exemption to the proposed fees for post grant review or covered business method patent review as well as the fees associated with *inter partes* reexaminations. As they currently stand, for the same reasons stated above, those fees may pose an insurmountable challenge to potential third-party challengers, running counter to the PTO's stated priority¹⁵ to increase third-party participation in the patent process and to foster innovation.

¹⁵ See Request for Information, 76 Fed. Reg. 15,892 (Mar. 22, 2011) ("How can the [Patent and Trademark] Office best encourage public participation in its rule making process? How

Another proposal that EFF and CCIA would encourage the PTO to entertain would be to adopt a fee-shifting regime for all examination procedures: *ex parte* and *inter partes* reexaminations, post grant reviews, and covered business method patent review. Specifically, if a patent is invalidated, the patent owner should pay the costs and fees associated with filing that petition. If certain claims are struck or narrowed, the PTO should be in a position to exercise its discretion to award some fees and costs to the party who filed the petition. Such a regime would take into account the PTO's desire to address financial concerns while helping to eliminate dangerous disincentives that are inherent to the proposed heightened third-party fees.

We thank the Office for this opportunity to comment on the proposed setting and adjusting of patent fees and look forward to helping serve the public interest through the PTO in the future.

can the Office best provide a forum for the open exchange of ideas among the Office, the intellectual property community, and the public in general?"); *see also* <https://www.eff.org/deeplinks/2011/04/eff-files-comments-pto-regarding-improving>