

I. Introduction

Public Knowledge submits this comment in response to the United States Patent and Trademark Office's Notice of Proposed Rulemaking on Setting and Adjusting Patent Fees, 77 Fed. Reg. 55028 (Sept. 6, 2012). Public Knowledge is dedicated to preserving the openness of the Internet and the public's access to knowledge; promoting creativity through balanced intellectual property laws; and upholding and protecting the rights of consumers to use innovative technology lawfully.

The fee structure that the USPTO has proposed for the patent system's post-grant proceedings (ex parte reexamination, inter partes review, post grant review, and the transitional program for covered business method patents) established by the America Invents Act (AIA) is wholly inadequate because it will make these proceedings inaccessible for the vast majority of stakeholders, especially small businesses and non-profit organizations. This type of fee structure undermines the USPTO's own articulation of the AIA's goals: "to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs."¹

Congress established the post-grant proceedings in order to increase the overall health of the patent system by making it easier to remove defective patents and achieve more certainty as to patents' validity, and Congress intended that the post-grant proceedings be available to those who are unable to challenge the validity of patents in court due to high litigation costs.² The proposed fee structure undermines this goal because fees based on the number of claims result in prohibitively high costs for many stakeholders, effectively pricing out small businesses, non-profits, and other relatively under-funded entities such as startups. Worse, the fee structure would create harmful incentives for patent applicants by rewarding applications containing very numerous claims. Accessibility for all stakeholders is a critical goal in this fee-setting rulemaking because it is part and parcel of creating a healthier patent system; the USPTO should therefore revise the fee schedule so as to ensure accessibility to post-grant proceedings for all stakeholders, including relatively under-funded ones. A schedule that sets lower fees for such entities in ex parte reexamination, inter partes review, post-grant review, and the transitional program for covered business method patents proceedings would better satisfy Congress's intent that the proceedings be broadly accessible and the goal of creating a healthier, more efficient patent system. It is entirely within the USPTO's authority to develop a fee schedule that ensures accessibility to all, and nothing in Section 10 of the AIA indicates otherwise.

¹ Transitional Program for Covered Method Business Patents--Definition of Technological Innovation, 77 Fed. Reg. 7095-96 (Feb. 10, 2012).

² *America Invents Act*, 157 Cong. Rec. H. 4496 (daily ed. June 23, 2011) (statement of Rep. Smith).

II. Congress intended the post-grant proceedings to be accessible to all stakeholders in the patent system.

A. Congress intended for the AIA patent review and post-grant proceedings to be a more affordable alternative to litigation that would be available to all stakeholders.

Congress intended for the patent review process to be more open to public participation through several post-grant proceedings: *ex parte* reexamination³, *inter partes* review⁴, post grant review⁵, and the transitional program for covered business patents⁶ (collectively, “post-grant proceedings”). Congress stressed that these proceedings are 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.”⁷

One of Congress’s major policy goals in creating the post-grant proceedings was to reduce costly patent litigation and the legislative history of the AIA contains numerous references to the burden of litigation expense. For example, an AIPLA Economic Survey considered by the House Intellectual Property Subcommittee put the average cost of patent litigation between \$500,000 and \$3.9 million per party.⁸ Moreover, small business owners are usually very involved in the litigation process, serving various roles; the impact of litigation on the business often greatly exceeds the financial impact of legal fees.⁹ Thus, litigation costs this high price out many small businesses and non-profits¹⁰ from effectively challenging patents.

The legislative history makes clear that these programs were meant to create an “inexpensive and faster alternative to litigation.”¹¹ Senator Hatch stated on the Senate

³ 35 U.S.C. § 302 (2002); *see also* 2209 Ex Parte Reexamination (Nov. 03, 2012), <http://www.uspto.gov/web/offices/pac/mpep/s2209.html>.

⁴ Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 299-305 (2011); *see also* Inter Partes Disputes (Nov. 03, 2012), http://www.uspto.gov/aia_implementation/bpai.jsp#heading-1.

⁵ Leahy-Smith America Invents Act § 6, 125 Stat. at 305-311; *see also* Inter Partes Disputes (Nov. 03, 2012) http://www.uspto.gov/aia_implementation/bpai.jsp#heading-2

⁶ Leahy-Smith America Invents Act § 18, 125 Stat. at 329-31; *see also* Inter Partes Disputes (Nov. 03, 2012), http://www.uspto.gov/aia_implementation/bpai.jsp#heading-3

⁷ H.R. Rep. No. 96-1307, pt. 1, at 4.

⁸ *See Patent Quality Improvement: Post-Grant Opposition: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Prop. of the H. Comm. on the Judiciary, 108th Cong. (2004)*, at 29–30 (statement of Michael Kirk, Executive Director, AIPLA) [*hereinafter* 2004 House hearing],

⁹ Klemm Analysis Group, Impact of Litigation on Small Business 2 (2005).

¹⁰ Small businesses and non-profit organizations to which we refer henceforth include entities defined by 37 C.F.R. § 1.27(a)(1)-(3).

¹¹ 157 Cong. Rec. H. at 4496 (statement of Rep. Smith).

Floor that the post-grant proceeding “provisions satisfy[y] a long-felt need in the patent community to be able to identify whether a patent would be deemed flawed if it ever went to litigation and. . . enhances the quality of patents, thereby promoting greater certainty for patentees and the public.”¹² Senator Kyl noted that under current law “even minor and inadvertent errors in the patent application process can lead to expensive and very unpredictable and very inequitable conduct in litigation,”¹³ and explained that post-grant proceedings would be particularly beneficial to small and startup businesses:

“It is often the case that startup companies or university researchers cannot afford to hire the very best patent lawyers. The authorization [of post-grant proceedings] will result in path-breaking inventions being developed and . . . ensure that small and startup companies with important and valid patents will not be denied investment capital because of legal technicalities.”¹⁴

The legislative history makes it very clear that post-grant proceedings are intended to be accessible and used by small businesses and non-profits.

B. Congress intended to increase the overall health of the patent system by making it easier to challenge patents through the new post-grant proceedings.

In addition to its concern that patent litigation costs are notoriously high, Congress recognized that it is sometimes impossible to test the validity of newly issued patents that are of dubious validity, because for patent litigation to occur a patentee must bring forward an infringement claim. This means a competitor must incur the costs and risks of developing and marketing a potentially infringing product before it can challenge the validity of a patent. Congress intended the post-grant proceedings to address this problem because it understood that such uncertainty reflects negatively on the patent system, burdens innovation, and undermines the confidence of business and consumers.¹⁵

Even where litigation is available to test the validity of a patent, a 2004 National Academy of Sciences study¹⁶ found that such litigation typically does not start until seven to ten years after the patent is issued. After this it takes another two to three years for a final decision to be reached. So until the time the litigation has concluded, there is often substantial uncertainty in the industry as to the scope of the particular patent right.¹⁷

¹² *Patent Reform Act of 2011*, 157 Cong. Rec. S. 1097 (daily ed. Mar. 2, 2011) (statement of Sen. Hatch).

¹³ *America Invents Act*, 157 Cong. Rec. S. 5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

¹⁴ *Id.*

¹⁵ See 2004 House Intellectual Property Subcommittee hearing, at 29–30.

¹⁶ See Stephen A. Merrill et. al., *A Patent System for the 21st Century* 95–96 (2004).

¹⁷ See 2004 House hearing, *supra* note 10, at 29–30.

Congress specifically considered the issues raised in this study and intended the post-grant proceedings to be a mechanism to resolve these issues without litigation.¹⁸

The AIA's final Committee Report highlighted these barrier-to-entry issues when it noted that the USPTO had received only 53 requests for inter partes reexamination during the first five years of the proceeding's existence, and stated that the bill's changes are "intended to remove current disincentives to current administrative processes."¹⁹ Congress intended to address these issues by creating accessible and efficient proceedings through which low quality patents could be challenged. Indeed, the USPTO itself has recognized that greater access to ex parte reexamination "benefits the patent system and patent quality by removing low quality patents,"²⁰ and that inter partes review and post grant review fosters innovation "because certainty of patent rights benefits the overall IP system."²¹ The valuable service that these proceedings provide should not be thwarted by excessive fees that discourage stakeholders from using the proceedings.

The legislative history makes clear that Congress intended for the post-grant proceedings to be broadly accessible, particularly as regards small businesses and non-profits, because it believed that greater access would mean a healthier, more efficient patent system. Indeed, Congress has granted the USPTO considerable flexibility in its fee setting authority precisely in order to better accomplish this goal.²² But broad accessibility cannot be achieved under the proposed fee structure for post-grant proceedings because the proposed fees are simply too high for small businesses and non-profits.

III. The proposed fee structure for post-grant proceedings does not fulfill Congress's intent and undermines the goal of creating a healthy patent system.

A. The current proposed fee structure for the post-grant proceedings is unduly burdensome for small businesses and non-profits, making the proceedings inaccessible to many.

The fees that the USPTO has proposed for instituting the AIA's post-grant proceedings are exorbitant. For example, the proposed fee for filing a post-grant review or covered business method patent for 20 or fewer claims is \$30,000, with an additional \$800 charged for each claim above twenty. Meanwhile, the fee for filing an inter partes review for twenty or fewer claims is \$23,000, with an additional \$600 charged for each

¹⁸ *America Invents Act*, 157 Cong. Rec. S. 5409 (daily ed. Sept. 9, 2011) (statement of Sen. Hatch).

¹⁹ H.R. Rep. No. 112-98 at 46, 48 (2011).

²⁰ 77 Fed. Reg. 55,048 (Sep. 6, 2012).

²¹ 77 Fed. Reg. at 55,050-51.

²² H.R. Rep. No. 112-98 at 49; *see also id.* at 78.

claim above twenty.²³ The basic fee of \$30,000 for a post-grant review is sizable and will be challenging for many small businesses and non-profits to produce. However, it sits on the low end of the possible spectrum of fees. For a heavy-claim patent of 200 or more claims such as is common in litigation over software and patents used in consumer electronics,²⁴ the fees would amount to over \$174,000, whereas the fees for other proceedings such as requests for prioritized examination and total appeal fees do not cost more than \$5,000. Moreover, the cost of litigation for small businesses ranges from \$3,000 to \$150,000.²⁵ Many small businesses survive on small profit margins and costs this high can be devastating, if not fatal, for a small business.²⁶ As a result of these small profit margins many small businesses will be priced out of participating in the post-grant proceedings contrary to Congress's intent.

In addition, the challenger in a post-grant proceeding must incur additional costs related to these proceedings, such as discovery. Although discovery in post-grant proceedings may differ from discovery in litigation, the substantial costs of discovery cannot be ignored.²⁷ Thus, the proposed claims-based fee structure for post-grant proceedings is prohibitively high for an already expensive procedure rendering it inaccessible to many small businesses and non-profits.

Finally, under the proposed fee structure, challenging a patent would often be impossible for underfunded entities because the fees for post-grant proceedings must be paid up front.²⁸ Even where a portion of these fees may be refundable, small businesses and non-profits with small cash reserves would be unable to initiate such proceedings for lack of sufficient financial capital. Litigation costs, on the other hand, may be distributed over time throughout the course of litigation so as to be more financially viable. Further, many small businesses and non-profits employ in-house counsel, which reduces key litigation costs. Thus, for some small businesses and non-profits, litigation may be a more financially viable option than post-grant proceedings with high up-front fees. This creates a peculiar result in which a more expensive, less efficient route could be preferable to a cheaper, more efficient one.

The USPTO should strive to minimize such cases, and to service all stakeholders in the patent system; but the proposed fee structure does just the opposite by preventing much of the public from fully taking advantage of the AIA's new post-grant proceedings.

²³ 77 Fed. Reg. at 55,050.

²⁴ NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1281 (Fed. Cir. 2005).

²⁵ Klemm Analysis Group, *supra* note 9, at 12.

²⁶ *Id.*

²⁷ Douglas J. Kline, Patent Litigation: The Sport of Kings, MIT Tech. Rev. (Apr. 28, 2004) <http://www.technologyreview.com/news/402686/patent-litigation-the-sport-of-kings/>; see also David E. Sosnowski, Resolving Patent Disputes Via Mediation: The Federal Circuit And The ITC Find Success, 45-APR Md. B.J. 24, 26 (2012) (“Much of the cost of patent litigation is due to the ever-growing cost of discovery.”).

²⁸ 77 Fed. Reg. at 55,050.

The USPTO's statutory discretion to set fees should be informed by an awareness of Congress's intent that the proceedings be accessible to all, and the USPTO should exercise its discretion accordingly.

B. High fees based on the number of claims at issue create incentives that harm the patent system.

Most empirical studies of the number of claims per patent find a range of ten to twenty claims per patent²⁹, but many patents have considerably more claims than the average. For example, the notorious Blackberry patent litigation NTP, Inc. v. Research in Motion, Ltd., 418 F.3d 1281 (Fed. Cir. 2005) involved five patents with 89, 276, 223, 341, and 665 claims.³⁰ In general, studies have concluded that more valuable patents tend to have more claims than average, in part because claim-heavy patents are more difficult to contest.³¹ Moreover, the application fee for each claim in excess of twenty in a patent application is a meager \$80 and offers reductions for small and micro entities³²—in stark contrast to the proposed \$600 and \$800 excess claim fees in inter partes review and post grant review, respectively, which lack corresponding reductions for small and micro entities. A fee structure of this type creates an incentive for applicants to file applications with large numbers of claims because any value added to the patents upon granting will justify the additional, relatively minor filing fee expenses, and also unfairly shield the applicant by imposing unduly high costs on potential challengers to the patent's validity.

As a result, the most claim-heavy patents will be the ones that small businesses and non-profits will be least able to challenge in post-grant proceedings because of the additional cost per claim associated with many of the post-grant proceeding fees. These are the same patents that will be the most difficult to challenge in an infringement suit because of their complexity. The fee structure should not create a system that discourages third parties from challenging patents with the largest number of claims. It cannot have been Congress's intent to discourage post-grant challenges to patents having the most complex and problematic claim structures.

By effectively shutting out many small businesses and non-profits as third party challengers, the proposed fee structure would have a negative effect on patent quality as well as innovation.³³ Poor patent quality imposes substantial social costs, which are reflected in the price of goods, high litigation costs, and unnecessary licensing fees. An

²⁹ See Peter L. Giunta, *Quid Pro Whoa!: An Exponential Fee Structure for Patent Applications*, 25 *Cardozo L. Rev.* 2317 (2004); see also John Allison & Mark Lemley, *The Growing Complexity of the United States Patent System*, 82 *B.U.L. Rev.* 77 (2002).

³⁰ Research in Motion., 392 F.3d at 1336; see also Gerard N. Magliocca, *Blackberries and Barnyards: Patent Trolls and the Perils of Innovation*, 82 *Notre Dame L. Rev.* 1809 (2007).

³¹ John R. Allison et al., *Valuable Patents*, 92 *Geo. L.J.* 435 (2004).

³² 77 Fed. Reg. at 55,055.

³³ *To Promote Innovation: The Proper Balance of Competition and Patent Law Policy*, Federal Trade Commission Report 18 (Oct. 2003).

improperly granted patent “tend[s] to impede innovation more than it would promote it.”³⁴ It therefore stands to reason that when competitors interact in the patent process, the process is much more effective and the quality of patents is higher.³⁵ Post-grant proceedings were meant to be quick, relatively inexpensive quality control checks intended to single out defective patents after they were mistakenly issued.³⁶ The USPTO should therefore revise the proposed fees to allow as many third party challengers as possible to fully utilize the post-grant proceedings.

IV. The USPTO has many options at its disposal to increase accessibility by lowering the post-grant proceeding fees for small businesses and non-profit organizations.

As the legislative history indicates, Congress designed the post-grant proceedings to serve as efficient alternatives to litigation.³⁷ However, a standard of “cheaper than patent litigation,”³⁸ as Director Kappos has put it, should *not* be the benchmark for setting post-grant proceeding fees. Patent litigation is notoriously expensive and just because the proposed fees for these proceedings are less than the total cost of the average patent litigation does not mean that they will make it easier, in any practical sense, to challenge a patent. The proper benchmark ought to be whether a fee level allows *all* interested stakeholders to access these proceedings so as to facilitate removal of dubious patents and achieve a healthy patent system.

A. The authority granted by Section 10 of AIA permits the USPTO Director to structure fees in a way that creates a healthier and more accessible patent system.

Section 10(a)(2) of the AIA gives the USPTO Director the authority to set or adjust fees “to recover the aggregate estimated costs to the Office.” The Director is given discretion to set individual fees of services rendered or materials furnished, without regard to the direct costs of the specific services rendered or materials furnished, provided that the total fees collected recover the aggregate of estimated costs.

³⁴ *Mayo Collaborative Servs. v. Prometheus Labs, Inc.*, 132 S. Ct. 1289, 1293 (2012).

³⁵ Christopher Wong, *Community Service: Adapting Peer Review to the Patenting Process*, 4 I/S: J.L. & Pol’y for Info. Soc’y 31, 45 (2008).

³⁶ *America Invents Act*, 157 Cong. Rec. S. at 5409 (daily ed. Sept. 9, 2011) (statement of Sen. Schumner).

³⁷ H.R. Rep. No. 96-1307, pt. 1, at 4.

³⁸ David Kappos, *2011 Was Quite a Year*, Director's Forum: David Kappos' Public Blog, United States Patent and Trademark Office, (Dec. 21, 2011), http://www.uspto.gov/blog/director/entry/a_look_back_at_2011; *see also* Tom Michael, *The Patent Office Chief Details the New Law*, Innovation America (Nov. 2011), <http://www.innovation-america.org/patent-office-chief-details-new-law>.

By contrast, fees for patent services prior to the enactment of the AIA were not calculated based upon the costs of delivering such services. Rather, Congress via various Acts set the fees, and the collection of such fees was considered to be “offsetting”³⁹; hence the Consolidated Appropriations Acts’ repeated reference to the patent fees as “offsetting fees” that would offset the federal funding the allotted to the Office.⁴⁰ By granting the Director broad fee setting authority as per Section 10 of the AIA, Congress clearly intended to do away with the old funding paradigm and establish a sustainable, efficient, fair, and accessible fee schedule.⁴¹

Given that the Director is charged with setting the fees so as to recover the *aggregate* estimated costs of operations, he has considerable flexibility in setting any individual fee. The Director is free to set the fee for any service below the cost to the USPTO to administer that service provided that the fee for another service is set above cost so as to subsidize the below-cost service. With this kind of flexibility, the Director is able to set a fee schedule that would further important policies such as increasing accessibility and achieve an efficient and healthy patent system. Congress gave the USPTO this flexibility so that it can create the healthiest system possible that is realistically accessible to all.

B. The USPTO Director may lower post-grant proceedings fees to facilitate greater access for small businesses and non-profit organizations, and recover costs elsewhere.

Section 10(b) of the AIA mandates the USPTO to reduce fees for “filing, searching, examining, issuing, or appealing, and maintaining patent applications and patents” by 50 percent and 75 percent for small entities and micro entities respectively.⁴² The USPTO has apparently interpreted section 10(b) of the AIA not to permit the Office to apply discounts to post-grant proceedings, reasoning that such proceedings do not fall under six categories enumerated in that section.⁴³

We disagree with the USPTO’s interpretation of the AIA with regard to section 10(b) and its enumerated categories. Neither the text of section 10(b) nor any other provision of the AIA limits the USPTO from offering reduced fees or lowering fees for services not enumerated in that section. Rather, it only prescribes what fees “shall be reduced”—in other words, which reductions are mandatory—and does not in any manner limit the USPTO from lowering fees so that small businesses and non-profit

³⁹ See *Consolidated Appropriations Act, 2005*, Pub. L. No. 108-447, § 801, 118 Stat. 2809, 2924 (2004)

⁴⁰ See *Revised Continuing Appropriations Resolution, 2007*, Pub. L. No. 110-5, 121 Stat. 8 (2007).

⁴¹ H.R. Rep. No. 112-98, at 49; *see also id.* at 78.

⁴² Leahy-Smith America Invents Act § 10(b).

⁴³ 77 Fed. Reg. at 55,038 (determining that a fee previously subject to small entity reductions is no longer eligible for discount because the “fee does not fall under one of the six categories of patent fees set forth in section 10(b)”).

organizations are not priced out.⁴⁴ Congress clearly has recognized the importance of greater accessibility for all stakeholders as evidenced by the establishment of discounts for some groups and many statements in the legislative history.⁴⁵

Even assuming that that the USPTO's interpretation is correct, the Director still has broad authority to lower fees for post-grant proceedings across the board so as to allow greater access for entities such as small businesses and non-profits that may otherwise not be able to participate. In a number of areas in this proposed fee schedule, the USPTO has subsidized fees that are set below the cost of recovery by setting other fees above the cost of recovery. For example, the USPTO projects that half of all fee collections will be derived from issue and maintenance fees, which are set above the costs of administering these services, and will subsidize filing, search, and examination activities.⁴⁶ The USPTO should utilize this method to further subsidize and set a lower fee for the post-grant proceedings in order to achieve optimally accessible post-grant proceedings fees.

The USPTO should take full advantage of the broad discretion Congress has given it and modify the fee structure so that post-grant proceedings are more accessible for small businesses and non-profit organizations. In doing so, it would further Congress's intent in promoting accessibility to smaller entities, and facilitate a healthier patent system by making post-grant proceedings more accessible to key stakeholders in the patent system.

C. Other goals of this fee-setting can be adjusted to devise a fee schedule with lower post-grant proceeding fees.

The USPTO also has the discretion to adjust other aspects of the fee-setting structure in order to enable greater flexibility. For example, the USPTO can revise its timeframe of achieving its lower patent pendency goal and its goal to generate an operating reserve, which, under the currently proposed fee structure, are expected to be achieved by 2015 and 2017, respectively.⁴⁷ Indeed, the Patent Public Advisory Committee's Finance Sub-Committee suggested that the USPTO's proposed timeframes for these goals are too short.⁴⁸ By establishing a longer timeframe, the USPTO would have greater ability to lower the fees for post-grant proceedings.

⁴⁴ Leahy-Smith America Invents Act § 10(b), 125 Stat. at 316-17.

⁴⁵ *E.g.*, 157 Cong. Rec. S. 1366 (statement of Sen. Jon Kyl) ("Under current law, the PTO charges small businesses and nonprofits lower fees than it charges large corporations. This section establishes an even smaller category--truly independent inventors--for which the PTO may make additional accommodations.").

⁴⁶ 77 Fed. Reg. at 55,037.

⁴⁷ *Id.* at 55,034-35.

⁴⁸ Patent Public Advisory Committee, *Fee Setting Report* 8 (2012).

V. Conclusion

The America Invents Act is a much welcome reform to the American patent system. The changes therein address many problems that have plagued countless innovators, small and large alike, as well as the public. The post-grant proceedings established by the AIA present a historic opportunity to resolve questions of patentability while avoiding lengthy and costly litigation that hurt both innovators and consumers. If the proceedings are to realize their full potential however, they must be made accessible to all interested parties. The proposed fee structure does not achieve this goal. We urge the USPTO to use its broad fee setting authority to offer lower fees for small businesses and non-profits or set lower fees overall for these proceedings.