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# How the Proposed Patent Fee Schedule Diminishes the Benefits of the AIA, and a Possible Solution

**H**istorically, there has been a tension between making post-issuance patents too hard or expensive to challenge and making such patents so easy to challenge that they create harassment opportunities for those who wish to extract undue settlements. Prior to the passage of the America Invents Act (AIA), *ex parte* and *inter partes* re-examination were often used as a tool to prolong or complicate litigation. When an alleged infringer was being sued, the re-examination process offered a quick way to increase the transaction cost for the patentee, perhaps effect a stay in the corresponding litigation, and, with luck, invalidate some claims in the process. While a post-grant system that encourages the review of patents for legitimate reasons is an important tool to guarantee high-quality patents, the system must also discourage its use for mere harassment purposes. One of the significant goals of the AIA was the rebalancing of the post-grant processes to better address this problem.<sup>1</sup>

While maintaining an *ex parte* re-examination process, the AIA has eliminated *inter partes* re-examination and replaced it with post-grant review and *inter partes* review.<sup>2</sup> Post-grant review is a third-party, post-grant procedure that may be initiated no more than nine months

after a patent has issued or reissued and may challenge the patent under any of the possible invalidity contentions.<sup>3</sup> *Inter partes* review is a similar third-party review system but may only be filed after nine months from the issuance or reissuance of a patent and only under novelty and obviousness grounds.<sup>4</sup>

Additionally, *inter partes* review may not be instituted more than one year from the filing of a complaint alleging infringement of the patent.<sup>5</sup> These changes appear to be a positive step in the overall rebalancing of the post-grant process.

The AIA, however, contains another provision that may have the unintended consequence of nullifying much of the gains

made in rebalancing the review process. Under the AIA, the Patent Office may now also set its own fees for its various proceedings and services as a means of meeting its cost-recovery needs. The USPTO has published its first post-AIA proposed-fee schedule that, not surprisingly, contains fee increases. However, the proposed fee increases are so significant that they will likely chill the use of post-grant proceedings to the point of counteracting much of the intended rebalancing benefits of the AIA. The USPTO should reconsider the revisions to its fee schedule so as to maintain the balance point originally sought by the AIA that encouraged limited, third-party review of issued patents.

The increase in the USPTO's fees for each of the available AIA proceedings is significant.<sup>6</sup> The fee for the requester in a pre-AIA *ex parte* reexamination was \$2,520—under the USPTO's new fee schedule, that fee has increased by more than 600% to \$17,760.<sup>7</sup> Likewise, while the fee for an *inter partes* re-examination was previously \$8,800, the newly proposed fee would, at a minimum, increase to \$35,800 for post-grant review and \$27,200 for *inter partes* review.<sup>8</sup> Each of the new forms of review also has a proposed tiered pricing scheme, where the fee for the review of more than 20 claims increases for every additional ten claims to be reviewed.<sup>9</sup> These substantial fee increases will quite likely discourage the initiation of third-party actions before the USPTO and the accompanying benefit of third party input in the patent review process, at least when the patent in question is not currently in litigation.

The House Judiciary Committee Report submitted with the AIA noted that, pre-AIA, third parties rarely took advantage of the available *inter partes* reexamination, even at its original cost.<sup>10</sup> It is therefore highly unlikely that the substantial increase in the costs associated would increase its use. By contrast, the European Patent Office (EPO), which charges significantly lower fees for patent review<sup>11</sup>, has a significantly higher volume of post-grant opposition.<sup>12</sup> The U.S. Patent Office has justified this difference by noting that the U.S. and European systems serve different purposes. The USPTO argues that the EPO system serves more as a nonbinding, secondary examination of a patent, whereas the U.S. review system serves as a less expensive alternative to litigation.<sup>13</sup> The USPTO's justification, however, does not account



for the basic fact that if “questionable patents are too easily obtained and are too difficult to challenge,”<sup>14</sup> making post-grant proceedings more expensive will only serve to make questionable patents more difficult to contest. While the EPO’s cheaper, unrestricted opposition system may make post-issuance challenges too easy to initiate, the USPTO position is equally as problematic in its opposing approach and some middle ground is required.

One of the primary reasons cited by the USPTO for the proposed fee increases is the need for the office to recover its costs and build a reserve fund for day-to-day uncertainties and future improvements.<sup>15</sup> While the goals of cost recovery and planning for future improvements are reasonable in the long term, the substantial increases of the proposed fee schedule may inappropriately place the burden created by the patent system’s inefficiencies on current applicants. In his comments, AIPLA President William Barber points out that certain fee increases “unfairly penalize many applicants” and serve to “leverage and fund a failed model.”<sup>16</sup> He suggests instead that the Patent Office simultaneously increase the efficiency of the review process so as to lower the overall costs.<sup>17</sup> Such a compromise would provide a more collaborative environment for improving the patent system while at the same time improving the Patent Office’s budget issues. While a basic cost-recovery model may be ideal for the USPTO, there may be a number of efficiency-enhancing solutions that work better than placing the entire financial burden on the end customer.

### Proposed Solution: Hybrid Fee Schedule

The AIA’s restriction on filing inter partes review after one year in litigation addresses the problem of harmful third-party review, but does not remove the motivation to harass or provide an incentive to promptly disclose potentially invalidating information. A possible solution to promote the goals of the AIA while still dealing with the USPTO’s budget dilemma may be to vary the level of the fees charged according to the purpose for which the proceeding is brought. For example, charging the higher, currently proposed rates only for challenging patents then under litigation and charging a lower rate for other third-party review would avoid the discouragement of helpful challenges to overbroad patents prior to litigation. Under this example, the public would be encouraged to submit evidence of invalidity immediately upon the issuance of a patent to preserve the cheaper rate, which would also lead to higher quality patents and more certainty as to the limits of any given patent. The pricing could also be augmented with incentives such as steadily increasing prices the longer after issuance a request is filed or by only discounting certain proceedings such as post-grant review, which is only available for nine months. This hybrid fee schedule would be effective in both ex parte and inter partes proceedings, since

the primary focus is only prompt, limited disclosure and consideration of prior art.

These fees would still allow for genuine questions of validity using the third-party review process during litigation within the one-year period required by the AIA. Even with the currently proposed fees, the costs of pursuing the new AIA proceedings would only be an incremental cost to the challenging party relative to the typical costs of patent litigation and should not greatly diminish their use. A hybrid fee schedule would also be cheaper for the Patent Office because submissions made to the USPTO in an in-litigation post-grant process are likely to be significantly more detailed and comprehensive than post-grant processes where there is no litigation. In litigation, discovery might present numerous theories of invalidity that are not based on the more traditional patent and published application prior art, and it would be fairly easy to recycle those briefings into lengthy and numerous post-grant submissions, which makes the USPTO’s costs of consideration that much higher. On the other hand, if there is no litigation pending, and the stakes are considered to be much lower, the submissions to the USPTO will likely be more measured and dependent only on the more conventional prior art references.

A hybrid fee schedule would combine the benefits of both the EPO opposition system and the AIA post-grant system while eliminating many of the more obvious drawbacks of each system. In addition, such a hybrid fee system would more closely align the AIA system to Congress’s goals of encouraging prompt but limited third-party review and thus ensures higher quality patents. This type of collaborative review process is also more closely aligned with the realities of the patent examination process. The USPTO’s proposed fees place too much of the burden for systemic inefficiencies on the applicant and counteract much of the benefits of the improved AIA review system. A hybrid fee schedule would provide at least a portion of the budgetary assistance needed by the USPTO, while also achieving better quality patents by encouraging early review of issued patents by the public. **TFL**

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### Endnotes

<sup>1</sup>H.R. Rep. No. 112-98 at 40 (2011).

<sup>2</sup>America Invents Act of 2011, H.R. 1249, 112th Cong. §§ 311, 321 (2011).

<sup>3</sup>*Id.* § 321(b).

<sup>4</sup>*Id.* § 321(b).

<sup>5</sup>*Id.* § 321(b).

**INSIGHT** *continued on page 21*