



September 30, 2019

Brendan Hourigan  
Director, Office of Planning and Budget  
Office of the Chief Financial Officer  
United States Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22313-1450

VIA EMAIL

Re: Comments of Engine Advocacy in Response to *Setting and Adjusting Patent Fees During Fiscal Year 2020*, Proposed Rule, Docket No. PTO-P-2018-0031

Dear Mr. Hourigan:

As a non-profit research and advocacy organization that supports high-growth, high-tech startups, Engine appreciates the United States Patent and Trademark Office's ("USPTO") attention to pursuing policies that foster innovation. Many of the companies Engine works with are patent owners, and they appreciate the important role high-quality patents can play in the innovation ecosystem. However, these startups also experience, in often disproportionate ways, the devastating impact that low-quality patents can have. And we appreciate the opportunity to comment on the USPTO's proposal to set or adjust its fees.

In setting and adjusting patent fees, the USPTO should ensure that startups are able to afford the Agency's products and services. Of course, we would prefer not to see fee increases at the USPTO. To the extent such increases are necessary, though, the USPTO should take into account how startups need access to the full scope of its services.

We are particularly concerned about the substantial increases proposed for AIA trial fees. At the very least, the USPTO should collect and analyze data on its expenses and the effect of these fee changes before it adopts the proposed 25 percent increase in AIA trial fees. The Agency should weigh more complete data about the impact of recent Supreme Court cases on the volume and scope of post-grant proceedings and consider the elasticity of associated fees for small- and micro-entities. In the current proposal, the AIA trial fee increases are disproportionate to the

other proposed fee increases and premature given the available data. Consistent with the recommendation of the Patent Public Advisory Committee (“PPAC”), we encourage the USPTO to complete data collection and analysis of the state of post-grant proceedings before increasing those fees.<sup>1</sup>

### **General comments**

Startups and small businesses face real resource constraints. It has been variously reported that most small businesses get started with less than \$25,000, and a recently-launched startup raises on average less than \$80,000.<sup>2</sup> Even as startups mature and start raising more money, the costs of obtaining a patent or responding to a patent demand are significant by comparison to their overall budget. And any increase in those costs could work a hardship on small entrepreneurs and innovators.

But many startups will, at some point, need to incur the patent systems’ costs. For many companies, a good patent may help deter copy-cats, and investors may inquire about the contents of a company’s patent portfolio in deciding whether to invest.<sup>3</sup> And unfortunately, for many companies, they will receive frivolous patent demand letters accusing them of infringement and threatening litigation over low-quality patents they do not infringe.<sup>4</sup> Investors also take these patent demands into account.<sup>5</sup>

One of the Agency’s “key fee setting policy factors” includes “ensur[ing] barriers to entry into the U.S. patent system remain low.”<sup>6</sup> We agree this is a worthy goal. And this should include keeping barriers low enough that startups can obtain patents (e.g., application and examination fees), maintain them (e.g., maintenance fees), and challenge others’ low-quality patents that should not have issued in the first place (e.g., AIA trial fees). It is essential startups be able to reap the benefits at each stage.

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<sup>1</sup> See, e.g., Setting and Adjusting Patent Fees During Fiscal Year 2020, 84 Fed. Reg. 37398, 37405 (proposed July 31, 2019) (to be codified at 37 C.F.R. pts. 1, 11, 41, 42) (summarizing PPAC recommendations).

<sup>2</sup> Matt Mansfield, *STARTUP STATISTICS – The Numbers You Need to Know*, Small Business Trends (Mar. 28, 2019), <https://smallbiztrends.com/2019/03/startup-statistics-small-business.html> (citing survey data compiled by Kabbage); *Startup Funding Infographic*, Fundable, <https://www.fundable.com/learn/resources/infographics/startup-funding-infographic> (last visited Sept. 30, 2019).

<sup>3</sup> See, e.g., Stuart H. Graham et al., *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 24 Berkeley Tech. L. J. 1255, 1296-1302 (2009).

<sup>4</sup> See, e.g., Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461 (2013-2014).

<sup>5</sup> See, e.g., Robin Feldman, *Patent Demands & Startup Companies: The View from the Venture Capital Community*, 16 Yale J.L. & Tech 236 (2014).

<sup>6</sup> E.g., 84 Fed. Reg. at 37402 (proposed July 31, 2019).

## **Importance of patent quality**

Patent policy, including fee setting, should be based on an appreciation of the roles patents play in the innovation ecosystem. And the USPTO should continue to prioritize patent quality, especially as it asks users to pay increasing fees. A high-quality patent can be a valuable asset to a startup: it can protect certain innovations, prevent certain unfair competition, and attract investors. But low-quality patents are a problem for innovators including startups. Such low quality-patents are easily misused to improperly preempt downstream R&D, distract or slow competitors down with patent demands, or coerce nuisance value settlements. It is important that patent policy be crafted to limit the possibility that low-quality patents get in the way of technical and economic progress.

We are very supportive of efforts at the USPTO to improve patent quality. High-quality patents which are appropriately tailored to claim genuinely new inventions—e.g., those that truly satisfy the requirements of 35 U.S.C. §§ 101, 102, 103, and 112—are not as readily subject to abuse. And recent research similarly suggests that “savings in future litigation and prosecution expenses associated with giving examiners additional time per application more than outweigh the costs of increasing examiner time allocations.”<sup>7</sup> To the extent the USPTO deems it necessary to increase fees to applicants, patentees, and petitioners at this time, increased resources must be devoted to ensuring examiners receive the time and resources they need to assess each application and all the relevant prior art.

## **Disproportionate costs to challenge patents**

We are concerned about the disparate increase in costs for AIA trial filings. These fees can already be high for a startup. And the USPTO’s proposal to increase AIA trial fees by 25 percent is a significant departure from the general across-the-board fee increase of 5 percent for other fees. And unlike those other fees, companies that qualify for small- or micro-entity status do not pay reduced AIA trial fees. As noted above, it is important for startups to have access to the patent system, and that does not stop at application and examination fees. They can also benefit from *inter partes* review (“IPR”) and similar processes.

IPR is an important and efficient mechanism to challenge low-quality patents and improve overall patent quality. Indeed, IPR was created based on the recognition “that it is often prohibitively expensive or even impossible to test the validity of a newly-issued patent that is of dubious validity, and the continued existence of such a patent can disrupt product development

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<sup>7</sup> Michael Frakes & Melissa F. Wasserman, *Irrational Ignorance at the Patent Office*, 72 Vanderbilt L. Rev. 975 (2019)

in a field of technology for years.”<sup>8</sup> And the value of IPR extends to startups. For example, as Senator Tillis recently stated “IPR as a whole is cheaper and faster than litigation in federal court, because [] IPR is an efficient way to cancel bad patents that never should have been granted without requiring defendants who are often small business owners to spend millions of dollars.”<sup>9</sup>

To justify its proposed AIA trial fee increases, the USPTO identified recent Supreme Court cases that could affect the volume and scope of Patent Trial and Appeal Board (“PTAB”) activities.<sup>10</sup> But, consistent with PPAC suggestions, the USPTO should defer increasing AIA trial fees until after it has collected and analyzed sufficient data “on the impact of these decisions on its processes.” That data will, in turn, allow all stakeholders to assess the need (if any) for increased fees.<sup>11</sup> The proposed rule does refer, at a general and high level, to one quarter—three months—of data about the expense attributable to *SAS Institute Inc. v. Iancu*.<sup>12</sup> But for a procedure that takes 12 to 18 months, three months of data cannot shed much light on how the *SAS* decision affects IPR expenses.<sup>13</sup> And another, more-recent study appears inconsistent. That study found that “*SAS* does not appear to have radically shifted the Board’s approach to analyzing grounds and claims for institution,” but instead that “while the *SAS* decision changed the form of the Board’s institution practice, the substance is largely the same.”<sup>14</sup> Better and more complete data should be collected and presented before proceeding with 25 percent fee increases.

Finally, the USPTO’s elasticity data fail to capture whether small entities react differently than large entities to changes in the AIA trial fees. Before proceeding with such a significant change in those fees, the Agency should study how (and how much) it could reduce startup participation in (i.e., startup access to) IPR.

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<sup>8</sup> Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 Fed. Cir. Bar J. 539, 600 (2012).

<sup>9</sup> See *Innovation in America: How Congress Can Make Our Patent System STRONGER: Hearing on S. 2082 Before the Subcomm. on Intellectual Prop.*, 116th Congress (2019) (statement of Sen. Thom Tillis).

<sup>10</sup> *E.g.*, 202084 Fed. Reg. at 37399, 37405.

<sup>11</sup> *E.g.*, 202084 Fed. Reg. at 37405.

<sup>12</sup> 138 S. Ct. 1348 (2018).

<sup>13</sup> The proposed rule only identifies estimated data about the expenses of IPR pre- and post-*SAS*. It also fails to distinguish whether and how much of the increased expenses the USPTO attributes to *SAS* are based on supplemental activity in pending trials where the PTAB had already instituted trial on a portion of claims challenged in the petition. See, e.g., *Guidance on the Impact of SAS on AIA Trial Proceedings*, USPTO (Apr. 26, 2018), <https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/trials/guidance-impact-sas-aia-trial>.

<sup>14</sup> Tyler R. Bowen & Emily J. Greb, *The Supreme Court’s SAS Decision: Has All-Or-Nothing Instituted Created A Wave of Change?* (2019), <https://www.1600ptab.com/wp-content/uploads/sites/27/2019/07/IPR-Practice-The-Impact-of-the-Supreme-Courts-SAS-Decision.pdf>.

Engine appreciates the opportunity to provide these comments on the USPTO's proposal to set or adjust its fees. We appreciate the Agency's interest in and efforts to promote innovation and ensure that the barriers to the patent system are not set too high. We further agree that the Agency is properly focused on improving patent quality, and encourage the USPTO to continue to weigh the interests of the startup community as it sets fees across the full patent lifecycle and works toward that goal.