



IN THE MATTER OF Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board

Docket No. PTO-P-2020-0022

COMMENTS OF THE ELECTRONIC FRONTIER FOUNDATION

The Electronic Frontier Foundation (“EFF”) welcomes this opportunity to respond to the United States Patent and Trademark Office’s (“USPTO”) Advance Notice of Proposed Rulemaking, Docket No. PTO-P-2020-0022.

The Electronic Frontier Foundation is the leading nonprofit organization defending civil liberties in the digital world. Founded in 1990, EFF champions user privacy, free expression, and innovation through impact litigation, policy analysis, grassroots activism, and technology development. EFF represents more than 30,000 active donors, including consumers, hobbyists, artists, computer programmers, entrepreneurs, students, teachers, and researchers. EFF and its members have a strong interest in helping courts, government agencies, and policy-makers strike the appropriate balance between intellectual property rights and the public interest.

Congress created inter partes review (IPR) and post grant review (PGR) proceedings to remedy a serious problem: patent litigation abuse, based on the massive quantity of improperly granted patents being produced by USPTO. This problem is particularly acute in the area of software, “business method,” and high-tech patents.

Because USPTO grants patent owners the ability to force others into costly litigation—very often litigation over ultimately invalid patents—hundreds of patent-assertion entities (PAEs) have exploited the system. They threaten small businesses and everyday people, cost the economy billions, and harm U.S. innovation.¹² A 2018 study showed firms targeted by patent trolls reduced their research and development commitments by nearly 20%, or \$160 million.³

¹ A 2012 study found that patent assertion entities resulted in \$29 billion in annual direct costs to corporations, with small and medium-sized companies defending 59% of PAE lawsuits. <https://arstechnica.com/tech-policy/2012/07/new-study-same-authors-patent-trolls-cost-economy-29-billion-yearly/>

² A 2014 study found that PAE litigation reduced venture capital investment by \$22 billion over 5 years. Tucker, Catherine E., The Effect of Patent Litigation and Patent Assertion Entities on Entrepreneurial Activity (June 22, 2014). Available at SSRN: <https://ssrn.com/abstract=2457611>

³ Cohen, Lauren and Gurun, Umit G. and Kominers, Scott Duke, Patent Trolls: Evidence from Targeted Firms (June 8, 2018). Harvard Business School Finance Working Paper No. 15-002, Available at SSRN: <https://ssrn.com/abstract=2464303>

In the technology sector, these entities are colloquially called “patent trolls,” a term that emphasizes their lack of contribution to moving technology forward or economic growth.

Patent trolls also threaten Americans’ Constitutional rights to free speech. When our supporters face enormous monetary demands for expressing their political views, creating a game, or teaching a foreign language—using off-the-shelf, basic software tools—it threatens the core of EFF’s mission. We hear from supporters every month about the harms caused by PAEs.

Well-functioning IPRs don’t solve the patent troll problem, but IPR has created important limits. The USPTO and especially the Patent Trial and Appeal Board (PTAB) deserve credit for creating the system of post-grant challenges, which has been one of the only reforms to put any boundaries at all on the growing business of extortive patent litigation.

Wrongly granted patents, and the threats of litigation they engender, are a plague on individuals, small businesses, hobbyists, and nonprofits. USPTO now proposes a set of rules that would sabotage the IPR process on behalf of patent owners, to strengthen and lengthen the lives of wrongly granted patents. EFF and our supporters oppose the rules, which should be withdrawn in their entirety.

USPTO’s Proposal To Expand “Discretionary Denials” Would Harm The Public and Should Be Withdrawn

Broadly, the framework laid out in the ANPRM suggests creating various new reasons for making “discretionary denials,” in which USPTO shuts down an IPR without considering the merits. But discretionary denials themselves are a problem, not a solution. This is the first of several instances where the ANPRM gets it exactly wrong, conflating patent owners’ privileges with the public good.

Discretionary denials are unappealable edicts that limit the public’s right to challenge patents. They are a violation of Congressional intent in passing the America Invents Act, which created IPR and other post-grant review processes.

IPR petitions are often the first chance for serious review of a patent grant. With more than 300,000 patents now routinely granted in a year, examiners only have a handful of hours to review patent applications, without any real input from competitors or outside experts in the art. Mistakes happen. IPR petitions present prior art that the Patent Office may not have seen before, and should be reviewed on the merits.

The USPTO should withdraw these proposed rules. Discretionary denials of IPR are a violation of Congressional intent—they should not be expanded, they should be stopped.

USPTO’s Proposal To Limit Access To “Certain For-Profit Entities” Would Harm The Public And Should Be Withdrawn

The rules propose limiting access to “certain for-profit entities,” claiming they may use patent challenge processes “to advance other interests.” The proposals seek feedback on whether USPTO should increase discretionary denials against “for-profit entities” that are believed to not be practicing a challenged patent.

EFF opposes the increased use of discretionary denials. Procedures to challenge wrongly granted patents should be open to the public in a broad manner. Petitioners who follow the procedures for patent challenges that are laid out by Congress should have their cases heard on the merits.

Singling out certain companies to deny them the right to challenge patents isn't in line with Congressional intent. It will do harm far beyond the particular companies that will be denied access to PTAB proceedings. We've seen many situations where smaller companies or individuals, who don't have the resources to challenge patents, rely on IPRs filed by others to be freed from illegitimate patent threats.

- A patent assertion entity called SportBrain Holdings sued more than 80 companies on a wrongly granted patent. SportBrain claimed their patent covered getting user data, then sharing it over a network and providing feedback. When a panel of PTAB judges analyzed the patent, they canceled all claims. SportBrain was challenged by Unified Patents, a membership-based for-profit company that could be banned under the proposed rules.
- Another Unified Patents challenge involved a patent assertion entity called WordLogic. The patent assertion entity ended threats against small businesses and the non-profit Wikimedia Foundation following PTAB's institution of proceedings.

USPTO's Proposed Exemption For "Small Entities" Would Harm Individuals and Small Businesses Who Are Routinely Threatened by Patent Owners

Under "Micro and Small Entities," the USPTO would wholly ban a large class of patent-owners from having their patents reviewed at all. The USPTO proposes to define certain patent owners as "under-resourced," based on a gross income requirement, when an IPR is filed against their patents, and then deny institution of the IPR.

This proposed change would be a wholesale giveaway to patent-assertion entities, many of whom will suggest they meet, and some of which will actually meet, any income requirement that USPTO sets. While the overall economics of PAEs remain opaque, we know that PAEs commonly claim they have low assets or are even bankrupt when they are made to pay legal fees in court cases.

Based on EFF research, it's clear that some of the most aggressive patent assertion entities would claim the mantle of "small entity." Creating a low-asset or no-asset limited liability company is a common mode of operation for PAEs. Many PAEs break up their assets into many different LLCs, effectively "shells" to hold and assert patents, so the individual incomes of those companies may be relatively low. In other words, any entity that wants to shield its patents from inter partes review would be able to assign a patent to its own unique LLC, which has little or no income.

EFF documented a recent case where a patent owner purported to cover certain "Captcha" tests, a form of simple identity-verification software tools. Rather than asserting it against Google, a major provider of Captcha tests, it was asserted against small users of Google's reCAPTCHA

system, including one-person food bloggers⁴. The PAE asserting this patent claimed it was initially invented and owned by “a small startup” in San Diego.⁵

This is a common pattern. Many PAEs are created from patents that originated at tech companies that are simply defunct, and made little or no income. ⁶ Often, it’s difficult to even determine the ownership of “small entity” PAE plaintiffs. An increasing number have opaque outside funding sources.⁷

The proposed “Small Entities” exclusion proceeds from the incorrect assumption that the benefits of challenged patents invariably outweigh the harms caused. There’s no evidence that patents even protect profits in the software and high-tech sector, much less advance the Constitutional mission to “promote science and the useful arts.”⁸ Small companies and startups are frequently the targets of patent demands. A 2012 study found that 55 percent of defendants to patent troll suits are small, with less than \$10 million in annual revenue. ⁹

“Invention” is not limited to people and companies who acquire patents. The software industry, in particular, has a long history of non-patented invention and innovation. In the case above, as with many cases EFF has researched, it is the small defendants, not necessarily the patent owners, who are bona fide inventors.

Fundamentally, the size or income of the patent owner should not matter. The patent owner, by definition, has sought and received a major government subsidy in the form of a limited monopoly. Members of the public should have the right to challenge those grants.

Parallel Proceedings Are Not A Reason To Deny IPR

USPTO already has created a practice of denying the right to IPR in cases where it deems there will be a “parallel proceeding,” such as an impending district court trial, that is close in date to the IPR. However, estimates about trial dates are often wrong.

⁴ <https://www.eff.org/deeplinks/2021/08/captcha-patent-all-american-nightmare>

⁵ Defenders of the American Dream, LLC, patent demand letter, located at: https://www.eff.org/files/2021/07/27/dad_demand_redacted_final.pdf

⁶ Here’s one example of a PAE derived from a defunct startup that went on to sue several small companies for patent infringement. <https://www.eff.org/deeplinks/2022/05/patent-troll-uses-ridiculous-people-finder-patent-sue-small-dating-companies>

⁷ For instance, see <https://www.eff.org/deeplinks/2022/12/judges-investigation-patent-trolls-must-be-allowed-move-forward>

⁸ James Bessen and Michael J. Meurer: Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk, (Princeton University Press, 2009). Outside chemicals and pharmaceuticals, the cost of patent litigation began to exceed rewards to inventors by the year 2000.

⁹ Colleen Chien, Santa Clara University, “Startups and Patent Trolls.” https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2146251.

Rather than drawing down this improper and often-wrong guessing game about other proceedings, the USPTO seeks to codify “time to trial” rules and further close the gates to IPR.

This is improper and against Congressional intent. When petitions are timely filed by legitimate parties, USPTO should consider them on the merits. In cases of dual-track patent disputes—i.e., an ongoing district court litigation combined with an IPR proceeding—the USPTO’s sole job is to follow the rules of IPR. A district court can issue a stay on litigation if it is warranted. The USPTO has no similar authority, and should conduct its proceedings on the Congressionally-created timeline for IPRs.

Concluding Remarks

Overall, IPR and post-grant proceedings are an important and Congressionally-mandated line of defense against serious and well-known abuses of the U.S. patent system. Particularly in software and high-tech, there’s scant evidence that government patent monopolies advance the state of the art or push forward innovation. Rather, patents tend to enrich particular private parties who are best able to manipulate the patent system.

Citizens’ rights to challenge monopolies must be treated as equally important (at least) as the monopoly rights being given out. The USPTO Advance Notice of Proposed Rulemaking would arbitrarily and improperly set limits on our best system of challenging improperly granted patents. It should be withdrawn.

If the USPTO wants to reform the IPR system in a way that would push forward the office’s mission, it should move in precisely the other direction—making IPR accessible and available to more people. Positive moves could include overturning some existing caselaw that limits access to IPR, including *General Plastic*, *Fintiv*, and the *Valve* cases.

Respectfully submitted,

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