

December 3, 2020

The Honorable Andrei Iancu
Under Secretary of Commerce for Intellectual Property and
Director of the U.S. Patent and Trademark Office
600 Dulany Street
Alexandria, Virginia 22314

RE: Comments of ACT | The App Association on Discretion To Institute Trials Before
the Patent Trial and Appeal Board [Docket No. PTO-C-2020-0055]

Dear Director Iancu:

ACT | The App Association (App Association) writes in response to the Department of Commerce U.S. Patent and Trademark Office's (USPTO) request for comment regarding the discretion to institute trials before the Patent Trial and Appeal Board (PTAB).¹

I. Introduction and Statement of Interest

The App Association represents more than 5,000 small business software application development companies and technology firms located across the mobile economy.² Our members develop innovative applications and products that meet the demands of the rapid adoption of mobile technology and that improve workplace productivity, accelerate academic achievement, monitor health, and support the global digital economy. Our members play a critical role in developing new products across consumer and enterprise use cases, enabling the rise of the internet of things (IoT). Today, the App Association represents an ecosystem valued at approximately \$1.7 trillion that is responsible for 5.9 million American jobs.

The USPTO is actively eroding Congress' efforts to establish an efficient and fair patent system that helps avoid unnecessary litigation. PTAB continues to exercise its discretion to *inter partes* review (IPR) petitions which leaves many invalid patents unchallenged. Our members include companies that own patents as well as those that license patents, all of which are directly influenced by the USPTO's approach to patent rights and litigation. The small business community that the App Association represents no longer has the option of turning to IPR as a more practical option to challenge the quality of a patent. The rates of abusive litigation continue to rise, which only creates

¹ United States Patent and Trademark Office, *Request for Comments on Intellectual Property Protection for Artificial Intelligence Innovation*, 85 FR 66502 (October 29, 2020).

² See ACT | The App Association, <https://actonline.org/about/>.

more obstacles for the developer community at large. The App Association urges USPTO to reaffirm its focus on the quality of patents and the IPR’s prior function which addressed problematic patents in an efficient way.

II. Predictability in the Functioning of the Patent System, Including an *Inter Partes* Review System Operating as Congress Intended are Vital to the App Economy’s Growth and Job Creation

In its relatively short existence, the software application (app) industry has served as the driving force in the rise of smartphones, tablets, and other internet-connected devices and markets. The rise of the app economy has revolutionized the software industry, touching every sector of the economy in every congressional district.³ Today, the \$1.7 trillion app economy is led by United States companies, more than 80 percent of which are startups or small businesses.⁴ As decreasing operational costs through the use of global computing resources, such as cloud-based services, have enabled a diversity of novel, patentable inventions, as well as innovative business models, hundreds of millions of Americans—and billions of people around the world—use apps in every facet of their lives, from education to finance to leisure activities. Assuming a coherent legal framework for intellectual property disputes, the growth of this vital ecosystem is expected to continue. In 2019, there were 204 billion app downloads worldwide, generating \$120 billion in consumer spending, and data from 2019 demonstrates that the app economy’s exponential growth continues.⁵

Patents allow small business innovators to protect the investment they make in innovation, attract venture capital, establish and maintain a competitive position in the marketplace, and level the playing field in dealings with established companies and competitors. Small business innovators highly value patents and rely on the ability to protect their rights (whether in licensing or in litigation) within a predictable environment. As more and more devices throughout the consumer and enterprise spheres become IoT devices, the interface for communicating with these devices is likely to remain an app.⁶

The IPR process allows App Association members to have a fair and dispassionate tribunal to first assess whether the patent used against them was properly reviewed and issued. Our members have limited resources for litigation, and the IPR process

³ ACT | The App Association, *State of the App Economy*, 7th Edition (2020).

⁴ *Id.*

⁵ Lexi Sydow, *The State of Mobile in 2020: How to Win on Mobile*, APP ANNIE, (Jan. 15, 2020), <https://www.appannie.com/en/insights/market-data/state-of-mobile-2020/>.

⁶ Morgan Reed, Comments of ACT | The App Association to the National Telecommunications and Information Administration regarding The Benefits, Challenges, and Potential Roles for the Government in Fostering the Advancement of the Internet of Things, ACT | The App Association (June 2, 2016), <http://actonline.org/wp-content/uploads/NTIA-Comments-on-IoT-Regulations.pdf>.

successfully provided a much-needed alternative for these small businesses that do not have the ability to withstand years of expensive federal court patent litigation that can easily cost millions of dollars. Patent litigants may rely on the fact that many of these small businesses do not have the capital to fight the case and use that to their advantage to force them into licensing arrangements accompanied with terms greatly benefiting the litigant. Thus, IPRs serve as a barrier protecting our members from some of the financial and temporal burdens associated with proceedings in front of Article III tribunals.

A key congressional goal was “to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs” when enacting the America Invents Act (AIA).⁷ By enacting the AIA, Congress recognized “a growing sense that questionable patents [were] too easily obtained and are too difficult to challenge.”⁸ Congress sought to “provid[e] a more efficient system for challenging patents that should not have [been] issued” and to “establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”⁹ Small businesses, the main drivers of the U.S. economy, were at the core of Congress’s decision to enact the AIA; the IPR process provided a more affordable and efficient recourse for small businesses to exercise their rights – whether defending the validity of their granted patent or challenging a granted patent.

The IPR system initially met Congress’ expectations by making it more difficult for serial patent litigants to use the high costs of litigation to pressure startups and small business innovators into settling frivolous cases, thus lowering the number of abusive patent demands since the IPR’s inception.¹⁰ The AIA boasts an estimated \$2.6 billion in direct savings in patent litigation costs, which led to a \$2.95 billion increase in business activity in the United States.¹¹ The IPR process has significantly reduced costs to litigants, while also preserving the rights of the parties, affording our members the ability to defend claims effectively and efficiently without expending too much hard-earned capital. Preserving said capital to invest in research, development, and innovation has proven and will continue to be essential to the continued growth of the app economy.

⁷ H. R. Rep. No. 112-98, pt. 1, p. 40 (2011).

⁸ *Id.* at p. 39 (2011).

¹⁰ Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, PATENT PROGRESS, (Sept. 14, 2017), <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

¹¹ *Unified’s Patent Quality Initiative (PQI) Releases Economic Report Showing AIA led to over 13,000 Jobs and Grew U.S. Economy by \$3 Billion since 2014*, UNIFIED PATENTS, (June 24, 2020), <https://www.unifiedpatents.com/insights/2020/6/23/the-perryman-group-releases-economic-report-an-assessment-of-the-impact-of-the-america-invents-act-and-the-patent-trial-and-appeal-board-on-the-us-economy>.

III. Recent USPTO Policy Decisions Have Jeopardized the IPR System and Have Enabled Exploitation of the Patent System

Recent PTAB denials of legitimate and proper IPR petitions have undermined progress made through the IPR. The increasing procedural burdens on IPR petitioners adversely impacted them with higher costs and more obstacles by having to bring claims against invalid patent holders in court. The USPTO's actions modifying IPR proceedings can be traced back as a direct contributor to the recent growth in the number of abusive suits brought by non-practicing entities.¹² Current USPTO policies subvert this purpose by imposing requirements on IPR petitions that are inconsistent with the statute.¹³ The PTAB's reserved approach to patent scrutiny has not gone unnoticed by patent assertion entities (PAEs).

Abusive patent litigation is increasing and alongside forum shopping as a result of changes made to the IPR system. Defending against frivolous litigation is prohibitively expensive and more costly than an IPR.¹⁴ Compared to last year, PAE litigation has grown substantially.¹⁵ Moreover, the Western District of Texas has seen an increase in PAE cases since the precedential *NHK Spring Co. v. Intri-Plex Techs., Inc.* decision.¹⁶ This resurgence of behavior that necessitated the creation of IPR should send a strong signal that the USPTO's current policies are ineffective and stray from Congress' envisioned role.

IV. USPTO Should Withdraw its Proposal to Codify Policies that Improperly Protect Invalid Patents, Instead Advancing Patent Quality through the *Inter Partes* Review Process

The App Association opposes USPTO's proposal to codify the policies and practices put forward in the Request for Comments, which are misaligned with the experiences of the American small business community and lack an adequate evidence base. The USPTO should course correct by returning its attention to patent quality and restoring the IPR system to its former function. We encourage USPTO to unwind its recent efforts that

¹² *Q3 2020 Patent Dispute Report*, UNIFIED PATENTS, (Sept. 30, 2020), <https://www.unifiedpatents.com/insights/q3-2020-patent-dispute-report>.

¹³ Brenton R. Babcock and Tyler R. Train, Proposed Alternative PTAB Discretionary Denial Factors in View of Co-Pending Parallel Litigation, *THE NATIONAL LAW REVIEW*, (Oct. 2, 2020), <https://www.natlawreview.com/article/proposed-alternative-ptab-discretionary-denial-factors-view-co-pending-parallel>.

¹⁴ Britain Eakin, *PTAB Discretionary Denials Harming Patent System, Atty Says*, *LAW360*, (Dec. 1, 2020), <https://www.law360.com/articles/1332942/ptab-discretionary-denials-harming-patent-system-atty-says>.

¹⁵ *Litigation on the Rise: Number of New Cases Filed by Patent Assertion Entities*, *ENGINE* (Nov. 9, 2020), https://www.engine.is/s/Pae-stats-Diagram_Jan-Oct-2020.pdf.

¹⁶ See *NHK Spring Co. v. Intri-Plex Techs., Inc.*, IPR2018-00752 (Sept. 12, 2018), see also Scott McKeown, *Texas Plaintiffs More Likely to Side-Step PTAB?*, *PATENTS POST-GRANT*, (Apr. 7, 2020), <https://www.patentspostgrant.com/texas-plaintiffs-more-likely-to-side-step-ptab/>.

have weakened IPR, including its support of *NHK Spring*, which undercuts the purpose of the IPR process in contrast to congressional intent. USPTO should withdraw its proposed rules and re-engage with all stakeholders affected by IPR policy and precedent to collect a robust evidence base and viewpoints. This new consultation will drive a new and reoriented approach by the USPTO that uses all data available to correctly focus on patent quality, and which appropriately makes the IPR process available to identify and eliminate invalid patents that should never have been issued. Making these changes can help spark innovation and remove the financial weight of litigation. Without those burdens, small businesses can focus on their actual business and restoration from the current pandemic. USPTO has the power to re-prioritize patent quality through IPR and we request that it use that power to reinstate the systems as Congress intended.

V. Conclusion

The App Association appreciates the opportunity to submit these comments to the USPTO, and we are committed to working with all stakeholders to address the impacts of PTAB and the importance of IPR.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brian Scarpelli', written in a cursive style.

Brian Scarpelli
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Belen Crisp
Policy Associate

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