



Marylee Jenkins, Chair

Patent Public Advisory Committee (PPAC)

United States Patent And Trademark Office

Transmitted via email only

Dear Ms. Jenkins:

US Inventor is an organization of over 11,000 independent inventors and startups who put food on their tables with their patents. The strength and stability of patent rights have a very strong effect on our livelihoods and our businesses. This letter is to inform PPAC of our concerns related to the proposed fee increase, USPTO transparency, and issues surrounding the PTAB including diversion of fees from examination to the PTAB.

Last fall, the USPTO released a proposed \$710 million patent fee increase for public comments. (*Notice of Proposed Rulemaking, Docket No. PTO-P-2015-0056, Setting and Adjusting Patent Fees During Fiscal Year 2017, 81 Fed. Reg. 68150 (Oct. 3, 2016)*).¹ US Inventor filed a response.²

Donald Trump campaigned on reducing government regulations. In an August 2016 speech to the Detroit Economic Club, then candidate Trump declared, "Upon taking office, I will issue a temporary moratorium on new agency regulations." Two months later, on October 3, 2016, the USPTO's proposed fee increase was published for comments. While it was not known at the time that Trump would win the election, the USPTO may have concluded that if Trump were elected, he would implement a moratorium on new regulations, and the USPTO fee increase would be subject to that moratorium. On November 8th, Trump won the election and ordered this moratorium³ as soon as he was sworn in on January 20th.

The deadline for public comments on the proposed fee increase was December 2nd. Since the fee increase would need to be published for 45 days before it could become effective, the earliest effective date would be January 18th, two days before inauguration. This timing would allow the fee increase to become effective before Trump's inauguration, thereby avoiding the moratorium.

¹ <https://www.gpo.gov/fdsys/pkg/FR-2016-10-03/pdf/2016-23093.pdf>

² <http://www.usinventor.org/wp-content/uploads/2017/02/US-INVENTOR-comments-on-PTO-P-2015-0056-Dec.-2-2016.pdf>

³ <https://www.federalregister.gov/documents/2017/01/24/2017-01766/memorandum-for-the-heads-of-executive-departments-and-agencies-regulatory-freeze-pending-review>

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Under Executive Order 12866⁴ a regulation is considered a "*significant regulatory action*" if that regulation has "*an annual effect on the economy of \$100 million or more ...*" The USPTO fee increase exceeds that threshold with an economic effect of \$710 million over five years, and the USPTO admitted that its proposed fee increase is a "*significant regulatory action*". Therefore, the USPTO must mark the fee increase as *significant* when it is reported to the Office of the Federal Register.

However, the USPTO did not report the proposed rule as *significant*. Reporting a pending regulation as *significant* is important because failing to do so makes finding *significant* pending regulations in the Federal Register searchable database very difficult. Instead, one must read the contents of each regulation to determine which are *significant*. Thus any member of the public, including the Trump transition team, performing a search for *significant* rules in the Federal Register database would not have found the USPTO's fee increase.

Even after Trump won the election and with the USPTO now fully expecting that Trump would put in place a moratorium, the USPTO did not amend the proposed fee increase to report it as *significant* in the Federal Register.

Did the USPTO actually attempt to push through a *significant regulatory action* ahead of inauguration to avoid the moratorium, while also attempting to avoid scrutiny by the Trump transition team by not identifying the fee increase as *significant* in the Federal Register database? I guess it cannot be said for sure, but the question deserves an answer. (Note: Only after US Inventor brought this issue to the attention of the Trump White House on February 10, 2017 was the USPTO's fee increase marked as *significant* in the Federal Register database.)

Transparency is not our only concern. In support of the fee increase, the USPTO conducted an *elasticity analysis* to predict applicant behavior as a result of the proposed increased fees. However, the USPTO *elasticity analysis* did not consider small businesses and independent inventors who are less able to pay the USPTO's proposed increased fees. In fact, small business and independent inventors are not mentioned once in the *elasticity analysis*. Effectively, the USPTO's *elasticity analysis* treats all applicants like large multi-national corporations. If the USPTO had included small business and independent inventors, they would have found that these small applicants are far more sensitive to price increases than large corporations.

What is most frustrating is that USPTO justifiably prides itself in its Patent Pro Bono Program, which is geared toward small businesses and independent inventors who cannot afford to patent inventions. Obviously, the USPTO knows that small entities already have trouble paying under the current fee structure. Yet, the USPTO excluded this most sensitive group from their *elasticity analysis*.

While the USPTO is attempting to increase examination fees, the USPTO is diverting fees paid for examination to fund the rapidly growing Patent Trial and Appeals Board (PTAB). This transfer of money from examination, which creates patent rights, to the PTAB, which destroys patent rights, is troubling.

The PTAB was created by Congress to address "bad patents" asserted by "patent trolls" with a cheaper, faster alternative to court litigation. While no definition of "bad patents" has ever been established, the argument in favor of PTAB during the creation of the AIA was that the USPTO issues far too many "bad patents" in examination, and those patents are used by trolls to shakedown unsuspecting multinational

⁴ <http://govinfo.library.unt.edu/npr/library/direct/orders/2646.html>

corporations, startups and small businesses. Thus, the PTAB was created to invalidate these so-called “bad patents”.

However, if patents are high quality at the time of issuance, there is no need for the PTAB to invalidate “bad patents”, whatever the definition of “bad patents” might be. And since a patent is a presumed valid property right in black letter law, the problem of low quality patents should logically and legally be addressed in examination before issuance.

But the PTAB has gone much further than invalidating just “bad patents”. Patent claims reviewed by the PTAB are selected by the petitioner, who is often the accused infringer or an agent of the infringer thus hiding the true identity of the petitioner. This means that the very claims reviewed by the PTAB are the most important to the case for infringement. The PTAB invalidates at least one claim of each patent in over 95% of the patents that it reviews. Invalidating just one claim can render the entire patent unenforceable and therefore worthless despite the fact that other claims may still stand. This neutering effect on patents is not considered in any USPTO reporting despite widespread complaints of the patent community.

It defies reason that over 95% of issued patents are “bad patents”. It is disturbing that the USPTO refuses to view the patents that they issue as legally presumed valid property rights as is defined in black letter law. The presumption of validity is the very foundation of an effective patent system capable of attracting capital to early stage startups. The PTAB has destroyed that most valuable and primary aspect of the patent system.

Importantly, patents that end up in a PTAB review are the most commercially viable of all patents. These patents have been selected by experts who risk millions of dollars evaluating the patent, the case for infringement and paying for litigation. It is absurd to believe that 95% of these patents are “bad patents” and should be invalidated. The more accurate view is that they are in fact valid and commercially viable patents that the USPTO should go to great lengths to protect.

The damaging effect of the PTAB’s massive invalidations of commercially viable patents bleeds across the entire startup industry. Inventors, startups and their early stage investors have no way to project if any particular patent will survive the PTAB, and justifiably consider all patents to be worthless for the purposes of establishing an investment value on a company attempting to commercialize these patents. This is even more unsettling given that most independent inventors and startups have few assets to leverage for funding other than a patent asset granted by the USPTO. The effect of transferring fees from examination to the PTAB and the PTAB’s complete disrespect to a legally presumed valid property right is the destruction of investment into new emerging technologies.

Despite that patent applications are examined in a rigorous, lengthy and expensive examination process, with many patent applications, especially those covering critical areas of new technology, burning more than ten years in examination before allowance, let’s assume for the sake of argument that 95% of commercially viable patents are in fact “bad patents”.

The stated purpose of the fee increase according the USPTO’s fee increase proposal is *“to continue making strategic improvements, such as progress on patent quality initiatives, continued reduction of the patent application backlog and pendency, and modernization of IT systems.”* Also the USPTO’s proposed fee increase summaries the need for additional fees as: *“This fee setting rule supports the patent-related*

strategic goals to optimize patent quality and timeliness, which includes improving patent quality, reducing the backlog of unexamined applications and decreasing patent application pendency, and facilitating processing at the Patent Trial and Appeal Board (PTAB);...

Much has been written by the USPTO and others that “bad patents” are produced in examination due to overworked examiners with poor access to prior art, which is argued to be largely due to underfunding. Yet, money paying for this examination is being redirected by the USPTO to the PTAB. It is my understanding that PPAC and the PTAB are fully aware of this redirection, this diversion. The AIA represents many compromises including the creation of PGR, IPR, CBM and the PTAB. The agreement during the debate of the AIA was that the PTAB was to be financially self-sufficient. Clearly this has not been the case. Otherwise why would Chief Judge Rushke say at a recent Federal Circuit Bar Association conference that the fee increases are necessary so that PTAB can finally be self sufficient. Or now that the PTAB has completed all of its hiring and petition activity has leveled off and the institution is maturing then efficiencies and scale generated in the past five years should mean that there is going to be a surplus or that fees to use the PTAB can be reduced. Instead, the PTAB needs to have its fees increased to a level to get the PTAB in the black.

Further injuring examination funding, if a petition for a PTAB trial is not instituted, 75% of the petition fee paid to institute a PTAB procedure is returned to the petitioner, who is almost always a large multinational corporation or their agent used to hide their true identity. If the PTAB needs funding, this money should be kept to fund the PTAB.

Returning fees to petitioners biases the decision to institute a PTAB challenge in favor of institution. Each petition has a fee of around \$20,000. Deciding not to institute means that around \$15,000 is returned to the petitioner. The USPTO is obviously short of funds as is evident in the fee increase proposal. This actually serves to promote the institution of PTAB reviews because the PTAB Judge deciding whether or not to implement knows that USPTO funding is an issue and declining institution means giving money away. But this bias is even more pronounced when big corporations “gang tackle” a patent with multiple petitions. When multiple petitions are filed, the cumulative fees may be hundreds of thousands of dollars. Denying a petition means returning 75% of that money. It may not be a good career decision for PTAB judges to deny institution and thereby deny the already cash strapped USPTO those fees.

Even worse is the fact that the PTAB Judges who agree to institute challenges are the same PTAB Judges who decide validity under those challenges, which means they control their own docket and production quota. It is no wonder it is more likely to have multiple challenges on the same patent initiated than a single omnibus challenge that would only give the self-interested PTAB judges a single quota credit. The PTAB, as a result, is considered by independent inventors and startups to be gamed to invalidate justly and legally issued patents.

This USPTO fee increase appears to have been timed to get a regulation in place before President Trump could stop it and it appears to be done in a way to avoid scrutiny by failing to mark the proposed fee increase as *significant* from the Federal Register searchable database. It is counterproductive to take money away from examination because this serves to underfund examination which risks producing more “bad patents” (if they in fact exist). It is unjust to then transfer that money to the PTAB, which is tasked with invalidating “bad patents”. It is even more unjust to refund PTAB fees of failed petitions and

then ask to increase examination fees so more money can be transferred to the PTAB from examination. The absurdity of this whole process should not go unnoticed by PPAC.

The USPTO is in a fee crisis because it has strayed from its mission, which is to issue presumed valid patents. Far too many Art Units have allowance rates under 5%, and some as low as 1%, and those Art Units are dominated by Fortune 500 patent filings. Unfortunately, the USPTO solution isn't to ease up and allow patents, instead it is to double down by instituting more post grant challenges and raising fees.

There are a lot of big things in the USPTO that need to be fixed before raising fees on independent inventors and small businesses. On February 24, 2017, President Trump ordered that each Agency name a Regulatory Reform Officer who "*shall oversee the implementation of regulatory reform initiatives and policies to ensure that agencies effectively carry out regulatory reforms*".⁵ While the USPTO is a department of the Department of Commerce, the USPTO should appoint its own Regulatory Reform Officer to work within the USPTO and to serve on the Commerce Department's Regulatory Reform Task Force. Many problems must be fixed before attempting to increase examination fees just so that money can transfer to the PTAB to destroy the very patent rights the USPTO just created.

This week Wilbur Ross was confirmed and sworn in as Commerce Secretary. During his Senate confirmation hearing he spoke about the need to improve agency performance, especially those agencies that fail year after year to meet key metrics. The Inspector General of the Commerce Department reports each year on how the USPTO fails to meet patent quality, pendency, IT modernization and transparency in procurement goals. Ironically these are the same four goals that the USPTO calls out to justify increasing fees.

In early February 2017 Congress spoke out about agencies that spend money in ways not intended by Congress. The Agency Accountability Act of 2017 stands in the House (H.R.850) and the Senate (S.299) and may bring scrutiny to the unilateral act by the USPTO in 2013 to refund fees to failed petitioners. The comments filed at the USPTO on their proposed fee increase detailed this unilateral act. But Senator Mike Lee (R-UT), the original sponsor of S.299, highlights what is wrong with such unilateral agency action and very plainly: "While a significant portion of these fees and funds are used to offset appropriations, agencies have been known to use some of the fees to self-fund programs that have not necessarily been approved by Congress. This bill is an important step towards increasing transparency, simply by bringing all funds back where they belong – under congressional oversight and authority."

When S.23 left the Senate in March 2011 and arrived in the House, Reps. Paul Ryan and Harold Rogers, nearly killed the entire patent reform bill because they did not like the Senate's language aimed at ending the diversion of fees from the USPTO by Congress. H.R.1249 changed this very popular provision and when the House bill went to the Senate in September 2011 an amendment on the Senate floor nearly won enough votes to force the House to reconsider.

With the Trump administration looking to chop regulations and agencies, and with the USPTO maintaining a surplus fund, the risky and controversial spending by the USPTO to prop up programs that are supposed to be self sufficient will attract attention. Worse, since the PTAB actually kills the most

⁵ <https://www.whitehouse.gov/the-press-office/2017/02/24/presidential-executive-order-enforcing-regulatory-reform-agenda>

valuable patents, the USPTO is guilty of depriving people of their private property rights, of breaking the curve of USPTO financing (i.e., maintenance fees are higher and higher for the life of patent so that they can subsidize cheaper fees up front for applicants and thus democratize the system), and of depriving the US Treasury of tax revenues from patent licensing and patent asset sales along with deflating patent values which as an intangible asset are worth some 80% of company balance sheets.

And the economic effects are becoming clear. The US Chamber of Commerce of Commerce in its February 2017 edition of the U.S. Chamber International IP Index, “The Roots of Innovation”⁶ stated regarding “*Patents, Related Rights, and Limitations, the U.S. falls from 1st to 10th behind most European economies included in the Index as well as Singapore and Japan.*” They primarily attribute this decline to the PTAB and its high invalidation rates as well as “uncertainty” of biotech and software patenting in the USPTO.

Sure, court litigation is expensive. And sure having a cheaper, faster alternative to get rid of the USPTO’s “bad haircuts” (how David Kappos, then USPTO Director described it to Eric Schmidt of Google while he was a member of President Obama’s Council of Advisors on Science and Technology). But the PTAB is unfortunately an out of control, deficit ridden instrument of those large companies and their proxies that deem it to their competitive advantage to force independent inventors and startups to burn money most don’t have by paying lawyers to defend against serial patent challenges and to tie up these businesses with endless frivolous invalidity litigation. This cancer on innovation is called efficient infringement, and it is killing independent inventors and startups.

US Inventor asks that the PPAC consider several specific issues:

- Oppose any fee increase until the issues cited in this letter are addressed;
- Engage the independent inventor community for an “elasticity analysis”;
- Ensure that a senior USPTO employee is appointed to serve on the Commerce Department’s Regulatory Reform Task Force;
- Work with the independent inventor community to reduce the regulatory burdens that we encounter in patent prosecution and post-grant proceedings; and
- Create a PPAC Independent Inventor and Startup Task Force to solicit input and address concerns of the independent inventor and startup community.

I look forward to discussing these issues with you and PPAC at your first convenience. Good luck this week with your first quarterly meeting as the new Chair of PPAC.

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⁶ http://www.theglobalipcenter.com/wp-content/uploads/2017/02/GIPC_IP_Index_2017_Report.pdf