January 18, 2017

The Honorable Michelle K. Lee
Under Secretary of Commerce for Intellectual Property and
Director of the U.S. Patent and Trademark Office

VIA ELECTRONIC MAIL TO 101Roundtable2@uspto.gov


Dear Under Secretary Lee:

Engine Advocacy (“Engine”) appreciates this opportunity to submit comments in response to the USPTO’s October 2016 Request for Comments, and specifically on the Topics for Public Comment and Discussion At Roundtable 2: Exploring the Legal Contours of Patent Subject Matter Eligibility.

Engine is a technology policy, research, and advocacy organization that bridges the gap between policymakers and start-ups, working with government and a diverse community of high-technology, growth-oriented start-ups across the nation to support the development of technology entrepreneurship. Engine creates an environment where technological innovation and entrepreneurship thrive by providing knowledge about the start-up economy and helping government and the public to construct smarter public policy.

While we appreciate the Patent Office’s efforts to understand the impact of the Supreme Court’s interpretation of 35 U.S.C. § 101 leading up to and including in Alice Corp. Pty. Ltd. v. CLS Bank International (“Alice”), we are concerned that the request for comments starts from the premise that something needs to be fixed. To the contrary, we believe that Alice and its progeny have been good for the development of the law, in particular as it relates to the startup community that we represent.

Those startups are crucial to the American economy. Indeed, they are responsible for all net new job growth in the United States. Yet they often find themselves interacting with the patent system in a less-than-ideal way: on the receiving end of an infringement suit or a letter threatening as much. For companies operating in software-intensive sectors, avoiding allegations of infringement is all but impossible. Indeed, it has been estimated that in the software space, in order for patent lawyers to look at every software patent—even for a brief analysis to see if the patent applied—we would need approximately 2 million patent attorneys working full time to compare every software-producing firm’s products with every patent issued

in a given year. It is easy to understand why a small company can never clear the path of potential patent suits and therefore might not even try.

And understanding the patents that might actually be relevant is only one piece of the problem. Small companies also bear the brunt of the bad actors who take advantage of low-quality patents, using them as proverbial weapons. In fact, 82 percent of so-called patent troll activity targets small and medium-sized businesses, and 55 percent of troll suits are filed against companies with revenues of less than $10 million. Generally lacking the resources to decipher vague and often bogus demand letters, startups are vulnerable to extortion. The time and money required to fight back against a troll could put the viability of a startup’s entire business in jeopardy.

The impact on startup operations is acute: a very high percentage of startups who received a demand letter reported “significant operational impact” in the form of deferred hiring, change in strategy, cost-cutting, reductions in personnel, decreased valuation or total shut-down.

The economic incentives in this model are clear: a bare bones and vague demand letter based on a low-quality patent provides immediate low-risk, low-cost leverage over a startup, even when the claim is baseless. It can easily cost a startup $50,000 just to hire a patent lawyer to evaluate demand letter claims. Litigation costs range between $1 million and $6 million, and can mean life or death for a fledgling business.

Alice and its progeny have provided startups with a crucial new tool to push back on spurious claims of infringement that otherwise might have proven to be a real threat. Indeed, multiple startups in our network have reported that counsel now often recommends that they fight back against those spurious claims since, for the first time, Section 101 provides a viable tool to get out of a lawsuit early, before costs become unbearable.

Under the Constitution, the Patent Office must represent two distinct, yet sometimes overlapping, groups: patent owners and innovators operating in the public domain. The notice function, when working properly, is intended to strike the appropriate balance, by giving the public clear guidelines on where it can innovate while protecting patent owners’ claimed inventions. The system should grant clear rights narrowly, giving an applicant no more and no less than she can show is truly novel. Over the past two years, Alice has slowly started making


inroads on some of the lower-quality patents that run afoul of this goal. Given the scope of the problem, and how many patents (particularly in the software space) exist on the books, this work must be allowed to continue to protect both patent owners and—just as importantly—innovators working in the public domain.

If anything, we hope that these comments can help represent the voice of those very innovators—the individuals building tomorrow’s AI applications or small startups envisioning new uses of robotics—many of whom have thus far not come before this Office. By definition, those voices are often underrepresented in debates around Patent Office policy and practice. Yet they are just as important as those of patent holders and should be equally considered and weighed.

In closing, we would urge no legislative action until the courts are further able to interpret Alice and its progeny. We would also like to take the opportunity to commend the Patent Office on the hard and important work it has done implementing Alice. We are encouraged by the strides made thus far in implementation and look forward to continued success.

Thank you,

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