

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

APPLE, INC. et al.)
)
 Plaintiffs,)
)
 v.)
)
 ANDREW IANCU, in his official capacity)
 As Under Secretary of Commerce for Intellectual)
 Property and Director, United States Patent and)
 Trademark Office,)
)
 Defendant.)

Declaration of Josh Malone

I, Josh Malone, being over 18 years of age and competent to testify as to the following, declare as follows:

1. I am an inventor. I am the Policy Director for nonprofit organization, Intervenor-Plaintiff US Inventor, Inc. US Inventor has given me authority me to speak on its behalf, particularly in all matters related to this litigation. I present this declaration in support of US Inventor's motion for a preliminary injunction. I have personal knowledge of the facts below.
2. The main purpose of this declaration is to explain the irreparable harm experienced by the membership of US Inventor, caused by the absence of proper rulemaking by the USPTO on discretionary factors that go into AIA trial institution decisions.
3. I first describe my own experience with the patent system.

4. I invented the highly successful Bunch O Balloons toy in 2014. Bunch O Balloons allows parents and kids to fill more than 100 water balloons from a standard garden hose in less than one minute.

5. My kids and I had always enjoyed playing with water balloons. We would spend hours filling up thousands of balloons and I kept thinking that there had to be a better way to do this. After years of intermittent experiments, I put a small o-ring around the neck of a balloon and inserted a small tube through the neck creating a passageway; I then assembled 37 of these and stuck them into holes I had made in a connector for a garden hose. It worked, and I decided to call it Bunch O Balloons. I filed for a patent. I posted my invention on Kickstarter, a crowdfunding website. It went viral, initially on the internet then on national television. I even appeared on the Today Show where I engaged in a water balloon fight in Times Square with host Carson Daly. The Kickstarter campaign raised \$929,160 from 21,455 supporters.

6. Soon after we started production, a friend called and told us that they saw my invention on a tv commercial but it was called "Balloon Bonanza." We sent a cease and desist letter to Telebrands, the company violating my patent. They ignored it so I filed a lawsuit along with Zuru, the company Bunch O Balloons was licensed to. (My company Tinnus Enterprises, LLC, also an Intervenor-Plaintiff, owns the patents to my inventions and was co-plaintiff in that lawsuit).

7. Six months later we were awarded a preliminary injunction. The case was far from over, but it appeared to me that the order would put a stop to the infringement. However, only three weeks after the injunction, Telebrands launched another copy which they named "Battle Balloons." We filed another lawsuit and were awarded another preliminary injunction, but the next year they came out with a third copy, "Easy Einstein Balloons."

8. We earned a preliminary injunctions against every copycat version that came out, but in parallel, Telebrands went back to the patent office (“USPTO”) and asked the Patent Trial and Appeal Board (“PTAB”) to take my patents back, which they began to do. The USPTO ruled the opposite on the validity question from the federal court decisions, finding invalidity after the court had found I was likely to succeed against the same invalidity argument. Eventually the appeals court straightened things out by affirming the preliminary injunction, and then later vacating the PTAB ruling. But I learned through this process the specific ways that AIA trials are hurting inventors, hurting invention in this country, hurting the economy and the integrity of the patent system, and discouraging the job creating activities the Constitution and the Patent Act are supposed to encourage.

9. In my case, the infringer petitioned the PTAB on several of my patents, and numerous times I asked the Director to use his discretion not to institute the AIA trial. Sometimes it worked, sometimes it didn’t. I had to make those requests without there being any agency rules I could cite. Instead, all of my arguments to the PTAB asking to use discretion to deny institution had to address the question of whether there were “sufficient grounds” to institute an AIA trial in a procedural vacuum. Without any “rule” that would tell the PTAB panel what to do, the PTAB institution decision was always uncertain.

10. Because of the lack of rulemaking in this area, it was never clear whether or how any PTAB panel would treat my arguments for discretionary denial. Because of the lack of rulemaking in this area, it was not possible to know in advance if a particular type of argument for “discretionary denial” would be inevitably work, or inevitably fail.

11. Whether I received a discretionary denial was not an academic question. I came to learn that because of the PTAB and AIA trials, the patent grant is not reliable like it used to be

before the AIA. According to analyses that I have performed and published for US Inventor, 68% of patents challenged in AIA trial reviews experience a “grant” of institution.

<https://www.ipwatchdog.com/2020/05/21/ptab-institution-data-analysis-proves-reforms-failed/>.

After that, the PTAB invalidates (in whole or in part) 84% of patents that reach a final decision.

Id. By comparison, I found that federal court cases that reach a final decision on the question of patent validity result in invalidity only about 29% of the time. (Source: Docket Navigator. Report parameters for district court statistics sought final determinations from January 1, 2000 through September 23, 2020. The number of patent cases that included final determinations of “invalid” or “not invalid” totaled 14,766, while cases that included only final determinations of “not invalid” were 10,486).

12. It is not important for this declaration to understand why there is this difference, because the important fact here is that the difference exists. In federal court, patentees have a low chance of receiving an invalidity decision after a trial, whereas in the USPTO, patentees have a high chance of receiving an invalidity decision after a trial—even with the identical invalidity arguments and evidence between the two forums (as with my experience).

13. These statistics show that the institution phase can be the most important phase of the AIA trial for a patentee. If a patentee cannot fend off institution, the odds are extremely high that the so-called “trial” will result in invalidity. Such a “trial” also is extremely costly for the patentee (on average \$451,000 per patent), and occurs in a venue that cannot award damages or any injunctive relief for the petitioner’s infringement. Fortunately in my case there was no stay of litigation, but stays pending trial are common. Yet, I and other inventors dragged into these proceedings do not have any agency rulemaking on the subject of discretionary factors for denial to help us exit the process. Such rules could also help us know when certain arguments are futile

and won't work, and conversely could help petitioners know when certain petitions should just not be filed.

14. Notice-and-comment rulemaking is important to inventors (and petitioners at the PTAB) for many reasons. Primarily, rulemaking in this specific context requires the Director to consider the effects of a rule on the economy and the integrity of the patent system. 35 U.S.C. § 316(b). So far, a practice has developed within the PTAB about discretionary factors. That practice does not use notice-and-comment rules, but uses "precedential" designations on certain decisions that name multiple factors to be weighed. This process of ad hoc decisions followed by precedential designations to make weighing-factors has not considered the economic harm from the demoralizing effect of extremely high invalidation rates. Demoralized inventors devote fewer resources to inventing, or when they do invent they do not patent. This is because the agency who granted the patent is likely to revoke it should the inventor need to use it. In contrast, if proper notice-and-comment rulemaking were in place, it would have to follow section 316(b). Rulemaking would have to take into account economic and patent-system integrity factors. This makes it likely that correctly promulgated notice-and-comment rules will improve the reliability of patents in appropriate circumstances, and give more confidence to inventors about the patent system.

15. US Inventor is a nonprofit 501(c)(4) organization. Its mission is to foster innovation and help the "little guy" inventor achieve excellence. US Inventor advocates for inventors in the courts, having filed a dozen or so amicus briefs in important cases in the past 3-4 years. Example cases that include US Inventor's amicus briefs this year are: *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 19-1458 (S. Ct.) (supporting Petitioner's argument that PTAB judges are unconstitutionally appointed), *Chrimar Systems Inc. v. ALE USE Inc.*, No. 19-1124 (S. Ct.) (supporting Petitioner's

argument that PTAB outcomes cannot nullify prior federal court final judgments), and *New Vision Gaming & Dev't, Inc. v. SG Gaming, Inc.*, No. 2020-1399, -1400 (Fed. Cir.) (supporting Appellant's argument that PTAB APJ performance evaluations and bonuses violate due process). US Inventor also discusses invention issues with legislators on Capitol Hill. US Inventor also teaches its inventor membership about obstacles in the patent system, while encouraging advocacy against such obstacles.

16. Among US Inventor's more than 10,000 members are numerous inventors and small companies dragged into AIA trials at the PTAB.

17. Several of the co-Intervenor-Plaintiffs are US Inventor members dragged into PTAB trials. For example, World Source is about to receive an institution decision in its AIA proceeding. Dareltech just received an institution decision two days after this intervention was filed, in mid-September 2020. Both World Source and Dareltech asked for discretionary denial in their first patentee filing (a document called a "Preliminary Response"), but had to do so without the benefit of notice-and-comment rulemaking on that topic.

18. Several US Inventor members have just been served an AIA trial petition attacking their patents, but have not yet filed their Preliminary Response. These include: Ikorongo Technology, LLC ("Ikorongo"); Moskowitz Family LLC ("Moskowitz Family"); ParkerVision Inc ("ParkerVision"); and Snik LLC ("Snik"). These parties have an interest in bolstered and clarified criteria for discretionary denial before they file their Preliminary Response. Without a preliminary injunction against institution grants in this case, these parties will not have notice-and-comment rulemaking to rely upon.

19. The US Inventor membership who have just been served with AIA trial petitions are entitled to, but have not received, notice-and-comment rulemaking on discretionary factors.

They have not received notice-and-comment rulemaking that takes into account the section 316(b) factors of impact on the economy, the integrity of the patent system, the efficient administration of the USPTO, or the ability of the USPTO to complete AIA review proceedings. Without such rulemaking, such US Inventor members are deprived of available arguments for discretionary denial that would make it more difficult for a petitioner to prove entitlement to a grant of institution. Thus, the absence of notice-and-comment rules directly increases the risk of these US Inventor members being swept into an AIA trial process that is hostile to the validity of the patent grant compared to federal court validity litigation.

20. The ad hoc decisions that have been made “precedential” are an inadequate substitute for such rules, because (1) they can be ignored from panel to panel without any right of appeal (since all institution decisions are nonappealable by statute), (2) they include vague “weighing” of factors without any guidance on how the weighting occurs, (3) they originally issued as part of ad hoc decisionmaking that did not include the procedural rights to the public that exist with notice-and-comment rulemaking, (4) panels apply “precedential” decisions inconsistently, and (5) the “precedential” nature of any decision designated as such is contingent and subject to withdrawal by this or a future Director without notice. There is no way for an inventor to plan for the future (much less the nearly two-decade term of a patent grant) with such irregular and revocable procedures in place.

21. The following are some examples of inconsistent decisionmaking by panels applying “precedential” decisions on discretionary factors under the so-called *NHK/Fintiv* analysis:

- On September 12, 2019 institution was **denied** in IPR2018-00752. A district court trial between the same parties was scheduled 6 months ahead of the PTAB final decision. The

judge had not ordered a stay or issued any order contingent on the PTAB. There were 134 docket entries including a Markman order.

- On May 13, 2020 institution was **denied** in IPR2020-00019. A district court trial between the same parties was scheduled 2 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 89 docket entries including a Markman order.
- On June 16, 2020 institution was **granted** in IPR2019-01393. A district court trial between the same parties was scheduled 4 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 101 docket entries including a Markman order.
- On July 28, 2020 institution was **granted** in IPR2020-00235. A district court trial between the same parties was scheduled 9 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 192 docket entries including a Markman order.

22. Attached to this Declaration is Exhibit 1, the August 27, 2020 Petition for Rulemaking submitted to the Director of the USPTO by US Inventor. Note that this Petition predated the filing of this lawsuit by the original tech company plaintiffs.

23. US Inventor's Petition illustrates the type of clear rules that would aid US Inventor's membership. The clear rules require denial of institution in many circumstances where the "precedential" ad hoc decisions simply weigh those circumstances as one of many vague factors. The USPTO has not yet acted on this Petition, and it is not clear when it will. This Court's entry of the requested preliminary injunction would likely spur action on this Petition, leading to

relatively quick publication of proposed USPTO rules on discretionary factors for notice-and-comment.

24. US Inventor's membership will be irreparably harmed if the Director continues to grant AIA trial petitions before concluding relevant rulemaking. This is so whether the Director uses as a template US Inventor's Petition or some other source. Without rules of some kind, any kind, petitioners and patent owners face irreversible economic burdens and (for patentees) loss of a favorable procedural forum that is otherwise available as of right. For example, if after notice-and-comment, bright line rules emerge that *fit* a circumstance that a patentee-respondent can assert in a Preliminary Response, that patentee-respondent will be able to avoid the AIA trial entirely by showing an absolute right to a petition-denial. Conversely, if after notice-and-comment, bright line rules emerge that *do not match* circumstances that a patentee-respondent can assert in a Preliminary Response, that patentee-respondent at least will know to direct its energies elsewhere (*e.g.*, to focus more heavily on patentability arguments, or to settle or disclaim patent rights without needing to file a futile preliminary response).

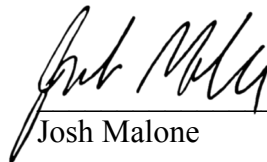
25. The irreparable harm absent a preliminary injunction is not speculative. Ikorongo has an upcoming Preliminary Response due. It intends to argue for discretionary denial by stating that a jury trial on the same patent is scheduled to be completed prior to any PTAB decision. This argument would guarantee a discretionary denial under US Inventor's Proposed Rules, but under the current legal framework is only one factor to be weighed with no guarantee of which outcome will happen. Likewise, ParkerVision has an upcoming Preliminary Response due. It intends to argue for discretionary denial by stating that a jury trial on the same patent with the same party (Intel) is scheduled to be completed around the same time as any PTAB decision, and that alleged prior art is cumulative to that which was previously presented to the patent office. These

arguments would guarantee a discretionary denial under US Inventor's Proposed Rules, but under the current legal framework is only one factor to be weighed with no guarantee of which outcome will happen. Snik has an upcoming Preliminary Response due. It intends to argue for discretionary denial by stating that they are a small entity and built functional prototypes in reliance on the pending (and subsequently issued) patent. This argument would also guarantee a discretionary denial under US Inventor's Proposed Rules, but under the current legal framework is not named as a factor to be weighed at all.

26. For US Inventor as an organization, it is presently hamstrung in its efforts to teach inventors about keeping their patents free of AIA trial reviews. It so far lacks a procedural way to give its comments on published proposed rules. The current style of "precedential" decision labeling does not let us teach membership on what factors that govern the Director's discretion will lead him to deny institution. Without rules, US Inventor is temporarily forced to advise its members that not participating in the U.S. patent system, reducing investments in inventing, and/or to keeping their inventions secret may now (solely because of AIA trial reviews) be the best way forward for their situation. These mitigation measures undermine our core mission of fostering innovation and helping inventors to achieve the American Dream, build businesses, and create jobs.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge and belief.

Dated: September 25, 2020



Josh Malone

EXHIBIT 1

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

PETITION FOR RULEMAKING PURSUANT TO 5 U.S.C. § 553(e)
FOR SPECIFIC CRITERIA FOR DECIDING INSTITUTION OF AIA TRIALS

PETITIONERS:

US Inventor
Small Business Technology Council

Director Andrei Iancu
U.S. Patent and Trademark Office
Mail Stop Petitions, Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

INTRODUCTION

This is a petition under 5 U.S.C. § 553(e) for rulemaking that would provide specific criteria for deciding institution of trials under the America Invents Act. The proposed rule is expected to be deregulatory for purposes of Executive Order 13771, since it imposes a net reduction of costs on parties, more of whom would no longer be subject to costly trials. For similar reasons, the proposed rule is not considered a significant regulatory action under Executive Orders 12866 or 13563, and is not expected to require review by the Office of Information and Regulatory Affairs (OIRA).

Rulemaking improvements are required in order to increase the reliability of the patent grant and bring the patent system into compliance with the Constitutional mandate of “securing to inventors the exclusive right to their discoveries.” Current procedures have defeated the traditional presumption of validity, jeopardizing meritorious patents with a high risk and expense of a trial

designed to undo the patent grant. Indeed, trials continue to be instituted on 65% of challenged patents¹, despite the Director’s recent emphasis on discretionary factors in updates to the Trial Practice Guide and designation of precedential decisions. The importance of integrity and reliability of issued patents as the basis for building businesses, which the current Director has often emphasized, require more predictability and uniformity at the institution phase than currently exists.

These attempts at setting policy through informal guidance, although a welcome departure from prior practices, lack bright line rules and therefore leave excessive discretionary decision making in the hands of the administrative patent judges (APJs) assigned to each case.² For instance, the Trial Practice Guide states that:

General Plastic enumerated a number of non-exclusive factors that the Board *will consider*...

The General Plastic factors, alone or in combination, *are not dispositive*, but part of a balanced assessment of all relevant circumstances in the case...

[it is] *the Board’s discretionary decision* to institute or not institute.³

(Emphasis added.)

¹ <https://www.ipwatchdog.com/2020/05/21/ptab-institution-data-analysis-proves-reforms-failed>

² Such attempts at informal guidance also appear inconsistent with EO 13891 and EO 13892 issued on October 9, 2019 by President Trump. I.e., “agencies in the executive branch adopt regulations that impose legally binding requirements on the public even though, in our constitutional democracy, only Congress is vested with the legislative power. The Administrative Procedure Act (APA) generally requires agencies...to engage in notice-and-comment rulemaking to provide public notice of proposed regulations under section 553 of title 5...”; “When an agency takes an administrative enforcement action, engages in adjudication, or otherwise makes a determination that has legal consequence for a person, it must establish a violation of law by applying statutes or regulations.”).

³ <https://www.uspto.gov/sites/default/files/documents/tpgnov.pdf> at 56, 58

Yet Congress did not give this level of discretion to the Board; it gave it to the Director. Thus, §314(a) states: “The *Director* may not authorize an *inter partes* review to be instituted unless the Director determines ...”. The Director is also required to promulgate regulations that govern how such discretion should be exercised. *See, e.g.*, §316(a): “The *Director* shall prescribe regulations...” (Emphasis added). Petitioners recognize that the Director can only implement the post-issuance aspects of the AIA by delegation, but we submit that the approach most consistent with the statute and relevant decisional law is for the Director to implement the institution discretion through notice-and-comment rulemaking providing objective criteria for institution. With objective criteria in place, both patent owners and prospective petitioners will know with a greater degree of certainty whether or not a patent is likely to be subject to post issuance review by the USPTO. Reliability of the patent grant thus will be substantially increased.

Relevant to this petition is a position taken by the USPTO in *Facebook v. Windy City*, wherein the USPTO asserted that decisions of the PTAB Precedential Opinion Panel are entitled to *Chevron* deference. In its brief, the agency acknowledges that:

Congress [contemplated] that the USPTO would not rely exclusively on adjudication insofar as it provided that the Director “shall prescribe regulations” about specified topics.

Yet in the 9 years since enactment of the AIA, the USPTO has not undertaken ANY notice-and-comment rulemaking to govern discretionary considerations, which is pivotal and in reality one of the single most important junctures in the process. Instead, The entirety of the Director’s discretion has been delegated to the individual APJs assigned to a new petition, who in turn conduct a “balanced assessment of all relevant circumstances.” This unconstrained and highly subjective approach leads to arbitrary institution decisions that undermine the

integrity and reliability of issued patents. A proper rule-making process will do much to restore confidence in issued patents.

GUIDANCE FAILS TO PROVIDE PREDICTABILITY

To date the PTO has relied on two mechanisms to govern the use of discretion in the institution decision. The Trial Practice Guide and designation of certain decisions as precedential. These include: Consolidated Trial Practice Guide November 2019; Trial Practice Guide July 2019 update; Trial Practice Guide August 2018 update; *Apple v. Fintiv* (Mar. 20, 2020); *Oticon Medical v. Cochlear* (Oct. 16, 2019); *Valve v. Electronic Scripting Products* (May 1, 2019); *Valve v. Electronic Scripting Products* (Apr. 2, 2019); *NHK Spring v. Intri-Plex Technologies* (Sept. 12, 2018); *Becton, Dickinson v. Braun Melsungen* (December 15, 2017); and *General Plastic Industries v. Canon Kabushiki Kaisha* (Sept. 6, 2017).

The primary failing of this approach, and the reason for this petition, is that it does not provide for reliable and predictable patent rights. It is impossible to predict with any confidence whether a trial will be instituted or not. The uncertainty impacts petitioners and patent owners alike as their investment, asset (for patent owners), and liability (for petitioners) hinge on what is essentially a wager. This is especially a problem for small entities with limited financial resources. Predictability is critical to avoid having to “bet the business” on post-issuance review by the PTO.

I. Co-pending District Court Actions

Precedential decisions *NHK* and *Fintiv* have not translated to predictability. Both decisions provide “non-exclusive” factors that are to be “weighed” as a part of a “balanced assessment”. What does this mean? No one knows. How is a factor to be scored and how much weight does each get and what score will assure or

prevent denial of institution? A sample of recent institution decisions illustrates the problem.

- On September 12, 2019 institution was **denied** in IPR2018-00752. A district court trial between the same parties was scheduled 6 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 134 docket entries including a Markman order.
- On May 13, 2020 institution was **denied** in IPR2020-00019. A district court trial between the same parties was scheduled 2 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 89 docket entries including a Markman order.
- On June 16, 2020 institution was **granted** in IPR2019-01393⁴. A district court trial between the same parties was scheduled 4 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 101 docket entries including a Markman order.
- On July 28, 2020 institution was **granted** in IPR2020-00235. A district court trial between the same parties was scheduled 9 months ahead of the PTAB final decision. The judge had not ordered a stay or issued any order contingent on the PTAB. There were 192 docket entries including a Markman order.

There are many other apparently conflicting decisions which are altogether undecipherable. The analysis under *NHK* and *Finitiv* has only added complexity and unpredictability to the institution decision. Clear and unambiguous rules would alleviate this and achieve the intended purpose of §314(a) and §316(b).

⁴ This was a rehearing in *Sand Revolution v. Continental Intermodal Group* where Vice Chief APJ Scott Weidenfeller was added to the panel which reversed the earlier decision denying institution. The decision has been designated informative. Judge Albright subsequently denied a motion to stay stating “the Court strongly believes the Seventh Amendment”, further confounding the decision to institute.

II. Previously Considered Issues

For some time the PTAB was inconsistent in determining that a prior art or argument had previously been presented to the Office, for example declining to recognize that prior art initialed by the examiner on an IDS met this condition. Fortunately *Advanced Bionics* has largely addressed this problem and has gone a long way toward providing predictability around this issue.⁵ This petition proposes to incorporate the analysis required by *Advanced Bionics* into a notice-and-comment rulemaking so that it is binding on the parties, provides long term predictability, and fulfills the requirements of recent Executive Orders on agency guidance and administrative adjudication by President Trump.

III. Multiple Petitions

General Plastics has failed to provide predictability to parties with respect to the number of petitions permitted. The PTAB continues to grant petitions that are filed both in parallel and in series relative to other petitions by the same petitioner. The PTAB has rewarded such gamesmanship by normally granting at least one of the multiple petitions. This provides no relief to patent owners who are forced to contend with responding to multiple petitions and at least one costly trial and commensurate likelihood of invalidation of important claims.

In Fiscal Year 2020 (beginning October 1, 2019) 72% of patents subjected to parallel petitions were instituted for trial and 71% of patents subjected to serial

⁵ Petitioners observe that there is still lack of clarity with respect to what qualifies as “substantially the same prior art or arguments” with panels allowing trivial distinctions to avoid this bar. See for example IPR2020-00021 and IPR2020-00285. We do not provide a proposal at this time, but leave it to the PTO to determine when and how to address this emerging problem.

petitions were instituted for trial.⁶

	Patents Instituted	Patents Challenged	Patent Institution Rate
Single	306	518	59%
Parallel	86	120	72%
Serial	65	91	71%
Total	457	729	63%

- On January 20, 2020 institution was **granted** in IPR2019-01223 and IPR2019-01224. These were 2 of 5 petitions filed against patent 7,686,631 by the same petitioner. Each petition challenged the same 18 claims.
- On February 21, 2020 institution was **granted** in IPR2019-01241. This was 1 of 3 petitions filed against patent 7,683,903 by the same petitioner. Each petition challenged the same 8 claims.
- On March 11, 2020 institution was **granted** in IPR2019-01520, IPR2019-01521, and IPR2019-01522. These were 3 of 6 petitions filed against patent 10,186,523 by the same petitioner. One of the claims was challenged 6 times, another was challenged 4 times, and while others were challenge 2 times each. Every challenged claim was instituted.
- On June 26, 2020 institution was **granted** in IPR2020-00130. This was the 5th petition granted of 6 petitions filed against patent RE45380 by the same petitioner. The petitions challenged 3 independent claims and 32 dependent claims.
- On July 28, 2020 institution was **granted** in IPR2020-00255. This was the 5th petition granted of 7 petitions filed against patent 9,516,127 filed by 4 different petitioners.

⁶ Data was obtained from the PTAB API 2.0 at <https://developer.uspto.gov/ptab-api/swagger-ui.html#/proceedings>; detailed report at <https://usinventor.org/wp-content/uploads/FY20-PTAB-Institutions.xlsx>

As shown in the table above over 200 patents have similarly been subjected to multiple petitions in FY2020, resulting in institution rates of 71-72%. Current guidance and precedents have failed to limit both serial and parallel petitions.

IV. The Effect on the Economy and the Integrity of the Patent System

It is widely accepted that AIA trials have had a dramatic impact on the economy and the integrity of the patent system. There is a vigorous debate over whether the impact has been positive or negative. Petitioners propose that a more granular analysis is advisable, in particular the impact on small practicing entities. Whatever the net impact of PTAB has been, it has caused serious harm to these stakeholders.

The PTAB has been heavily utilized by large corporations, who can easily afford to litigate their invalidity challenges in district court where a small business might obtain contingency representation and an opportunity to plead their case to a jury. The majority of PTAB cases involve a corporation with orders of magnitude greater resources than the patent owner.

Apple Inc. (636)	HTC America, Inc. (113)
Samsung Electronics Co., Ltd. (514)	Comcast Cable Communications Management, LLC (112)
Samsung Electronics America, Inc. (469)	Facebook, Inc. (110)
Google LLC f/k/a Google Inc. (336)	ZTE Corporation (109)
Microsoft Corporation (224)	Comcast Business Communications, LLC (108)
Unified Patents, LLC f/k/a Unified Patents Inc. (207)	Comcast STB Software I, LLC (106)
LG Electronics, Inc. (205)	NBCUniversal Shared Services, LLC f/k/a Comcast Shared
Intel Corporation (199)	Huawei Device USA, Inc. (103)
LG Electronics USA, Inc. (178)	Comcast Holdings Corporation (103)
Comcast Cable Communications, LLC (159)	Comcast Financial Agency Corporation (103)
Cisco Systems, Inc. (143)	Ericsson Inc. (101)
Comcast Corporation (142)	Huawei Technologies Co., Ltd. (99)
ZTE (USA), Inc. (127)	Amazon.com, Inc. (97)
LG Electronics MobileComm USA, Inc. n/k/a LG Electronics US	Sony Corporation (96)
HTC Corp. (118)	Dell Inc. (92)

Top Petitioners at the PTAB by Number of Petitions (Docket Navigator)

Some patent owners (often characterized as patent assertion entities (PAEs) or non-practicing entities (NPEs)) have resources and have adjusted their business

models to manage the cost and risk associated with PTAB trials. However a substantial number of others are small practicing entities who fully allocated their resources to R&D, manufacturing, and other investments in developing and commercializing the claimed invention. To small practicing entities institution of a trial has a substantial negative impact on their business, introducing dramatic unexpected costs and risk.

Such small businesses are the backbone of innovation and job creation⁷ and normally do not have hundreds of thousands of dollars to risk on outcomes in post-issuance proceedings. A 2008 survey of technology startups found that “cost considerations in patenting loom large for startups, with the cost of prosecuting and the cost of enforcing the patent cited by more respondents than any other reason [for not patenting]”.⁸ Another scholar explained, “even if an early-stage company had a patent, it is unlikely that it would have resources available to enforce the patent through litigation against a competitor. That is particularly true when the competitor is a large firm. One problem is the disparity in litigation resources. One investor emphasized the concern that a large defendant would ‘rain lawyers on your head and tie you up in court for the next ten years.’”⁹, which is what happens

⁷ See M.J. Meurer, “Inventors, entrepreneurs, and intellectual property law”. *Houston Law Review*, 45, 1201-1281. Available at <https://houstonlawreview.org/article/4828-inventors-entrepreneurs-and-intellectual-property-law> (2008) at 1201 (“Small innovative firms make crucial contributions to technological progress and economic growth...One of the relatively few empirical regularities...is the critical role...of entrants—typically de novo start-ups—in emerging industries.”.)

⁸ Stuart Graham, et al, “Intellectual Property and Technology Startups: What Entrepreneurs Tell Us”. *Technological Innovation: Generating Economic Results: Advances in the Study of Entrepreneurship, Innovation & Economic Growth*, Vol. 26, pp. 163-199. Available at <https://ssrn.com/abstract=3077282> (2016)

⁹ Ronald Mann, “Do Patents Facilitate Financing in the Software Industry?”. *Texas Law Review*, Volume 83, Number 4. Available at <https://pdfs.semanticscholar.org/7d53/b6f11090bbf764e28ff2905d95bcdeb119bc.pdf> (March 2005) at 981)

to many patent owners at the PTAB. These small businesses must be able to rely on their issued patents, and disputes with competitors must not be encumbered with delays, expense, and uncertainty of post-issuance review within the PTO.

- Patrick Buckley is the inventor of several patented smartphone accessories including a virtual reality viewer that was manufactured by his company *DodoCase* in their San Francisco factory. They were put out of the VR viewer business by infringing Chinese importers, one who filed IPRs on each of the 3 patents for the invention. Lacking funds to defend the IPR, *DodoCase* was forced to assign the patents to their attorney in exchange for representation at the PTAB and in federal court. The delays and cost added by the PTAB proceedings eventually forced the attorney-assignee to settle the infringement case. But for the PTAB, Patrick would have profited from his invention, invented and launched more products, and created more American jobs.
- *Mark Kilbourne* is the inventor of the patented Remotizer – a mechanism to retrofit deadbolts for remote actuation. He manufactures his invention and sells it on his website remotizer.com. Kilbourne sent a sample to Apple at their request for testing so his App to operate the deadbolt could be offered on the Apple App Store. Then Apple went to market with their own device and filed an IPR to invalidate the patent. Kilbourne did not have anywhere near the \$450,000 (average) required to defend his patent at the PTAB. With his limited budget, he retained an attorney who has never won a case at the PTAB for a patent owner and he did not retain an expert. Apple prevailed because they had better representation and AIA trials inherently have high invalidation rates.¹⁰ Apple is a 2 trillion dollar company that could easily afford to plead their case

¹⁰ 84% of 2,534 patents with final written decisions have been invalidated in part or whole. See <https://usinventor.org/5213-assessing-ptab-invalidity-rates/>

in a regular court where the inventor would have had a better chance of prevailing.

- David Chadwick is the inventor of a patented automated creel for supplying yarn to a carpet loom, making it safer and more efficient. His company *Automated Creel* designed and built the prototype which he then shared with a customer in the carpet manufacturing business. The customer implemented the design and filed two IPR petitions challenging the patent to avoid paying for a license to practice the patent. The PTAB dispute ran almost 4 years during which the infringement case was stayed, concluding with 13 claims invalidated and 8 claims upheld. *Automated Creel* laid off employees and closed down business due to the uncertainty, delays, and expense introduced by the PTAB.
- Ramzi Maalouf is the inventor of the patented wireless selfie-stick which enables taking stable one-handed selfies with a smartphone. His company *Dareltech* designed, built, and manufactured his invention. While their patent was pending, similar products flooded the market and *Dareltech* struggled to survive. When *Dareltech* attempted to enforce their patent, Shenzhen DJI (the Chinese drone manufacturer deemed to be a security risk by several U.S. agencies) filed 6 IPRs against 4 of *Dareltech*'s patents. Lacking funds to defend the patent, *Dareltech* was forced to settle with the Chinese company and acquiesce to their violation of the patents. Following that, Microsoft filed an IPR against one of the patents on behalf of their strategic partner Xioami, another Chinese corporation. *Dareltech* has been beaten down and distracted and discouraged from developing and launching new products as a result of the PTAB cloud hanging over their patents.

Hundreds of other small practicing entities have been jeopardized by PTAB reviews including: *360Heros*, *Alan Stuart*, *Avenue Innovations*, *Bragel International*, *Cablz*, *Capriola Corporation*, *Carlis Stephens*, *Collect*, *Cellspin*

Soft, Chestnut Hill Sound, Choon's Design, Chrimar, Christy, Clearplay, Comarco Wireless, Corephotonics, DDR Holdings, Emed Technologies, Engineered Corrosion, E-Watch, Goodson Holdings, IMTX Strategic, Jodi Schwendimann, Leachman Cattle, Leak Surveys, Lodge Manufacturing, Parkervision, Performance Pricing, Plastic Engineering & Technical Services, Polyzen, Putco, Inc., Roller Clutch Tools, Shane Chen, Shoes By Firebug, Southern Visions, Susan McKnight, Tas Energy, Tinnus Enterprises, Tom Waugh, Trans Technologies, Valencell, Vilox, Virnetx Inc., Visibly, Wavetronix, William Grecia, William O'Keeffe, Worldsource Enterprises, Zaxcom, Zipit Wireless, Zomm, and Zond. The vast majority of these examples were founded and managed by the named inventor on the patents.

PROPOSAL

I. Definition of Privy

Petitioners request amendment of 37 CFR § 42.2 by inserting before “*Proceeding*”:

Privy means a party to an agreement with the petitioner or real party of interest related to the validity or infringement of the patent where at least one of the parties would benefit from a finding of unpatentability.

II. Requirements for Denial of *Inter Partes* Review

Petitioners further request amendment of 37 CFR § 42.108 by adding new subsection (d) as follows:

(d) Notwithstanding subsection (c), *inter partes* review shall not be instituted if the patent owner objects and:

(1) the same or substantially the same prior art or arguments previously were presented to the Office, unless the petitioner has demonstrated that the Office

clearly erred in a manner material to the patentability of the challenged claims;

(2) another *inter partes* review or post-grant review of any of the challenged claims has been instituted;

(3) any of the challenged claims are also challenged in another petition by the petitioner, the petitioner's real party-in-interest, or a privy of the petitioner;

(4) any of the challenged claims are concurrently asserted against the petitioner, the petitioner's real party-in-interest, or a privy of the petitioner in a district court action and the court has not issued any order that is contingent on institution of review; or

(5) the patent owner—

(A) was the applicant to whom the patent was originally issued;

(B) claimed small entity or micro entity status at the time the patent was issued; and

(C) actually reduced one or more of the challenged claims to practice.

III. Requirements for Denial of Post Grant Review

Finally, Petitioners request amendment of 37 CFR § 42.208 by adding new subsection (d) as follows:

(d) Notwithstanding subsection (c), post-grant review shall not be instituted if the patent owner objects and:

(1) the same or substantially the same prior art or arguments previously were presented to the Office, unless the petitioner has demonstrated that the Office clearly erred in a manner material to the patentability of the challenged claims;

(2) another *inter partes* review or post-grant review of any of the challenged claims has been instituted;

- (3) any of the challenged claims are also challenged in another petition by the petitioner, the petitioner's real party-in-interest, or a privy of the petitioner;
- (4) any of the challenged claims are concurrently asserted against the petitioner, the petitioner's real party-in-interest, or a privy of the petitioner in a district court action and the court has not issued any order that is contingent on institution of review; or
- (5) the patent owner—
 - (A) was the applicant to whom the patent was originally issued;
 - (B) claimed small entity or micro entity status at the time the patent was issued; and
 - (C) actually reduced one or more of the challenged claims to practice.

These rule changes will improve the reliability of the patent grant and better align procedures for AIA trials with the Constitution and Congressional intent, as detailed below.

DISCUSSION

I. Definition of Privy

There remains confusion and uncertainty over who may petition for *inter partes* review under §315(b). Despite devoting several pages to the topic, the Trial Practice Guide offers only general commentary. The precedential decisions are fact specific and difficult to predictably apply to each new situation. Concerns of abuse remain. The legislative intent for AIA reviews and the case law on privy can be met by limiting *inter partes* review for all entities associated with an accused infringer to the first year after filing of a complaint, while preserving the right for completely unrelated entities to file a subsequent petition. The uncertainty and

prejudice to patent owners outweighs any benefit of allowing related entities to extend the one year time bar.

II. Explanation of the Proposed Institution Criteria

The remainder of the proposed criteria funnel the experience and discretion of the Director into what is essentially a checklist, to announce stable and predictable criteria meriting institution denial. These criteria have the beneficial effect of reducing the burden on APIs attempting to ascertain how to apply their delegated duty to decide institution. They supply predictability to all stakeholders. They also reflect the considered experience of patent owners (and, in many cases, the declared experience of the Office itself) about what situations make institution unfair to patent owners, what situations make institution deleterious to the overall economy, and what situations make institution destabilizing to the integrity of the patent system.

In combination, the proposed factors discussed below are intended to make institution less common. This will have a beneficial effect on petitioners: fewer remittances of expensive nonrefundable petition fees that eventually get surrendered through unpredictable non-institution decisions. It is also obvious that fewer decisions to institute will result in many patentees no longer having to bear the impoverishing costs of defending their patent (on average \$450,000 for a single proceeding). In many cases, individuals bear such costs, who innocently gave notice (without threatening a lawsuit) to a large company that they believed to be trespassing on their government-approved rights.

Petitioners understand that granting this Petition subjects the proposed rule to notice and comment, and administrative rulemaking procedure. Petitioners thus understand that the public comment process may result in modifications or amendments to the named factors. Petitioners welcome such input from all stake

holders. What is untenable, however, is for the Office to continue to do nothing, despite the 9-year pending statutory mandate to issue rules on these factors for the guidance of the APJs.

A. the same or substantially the same prior art or arguments previously were presented to the Office...

There is a statutory presumption that original determinations by the Office were sound (35 U.S.C. §282). The best way for the Office to respect this presumption is to allow such outcomes to stand where an item of already-considered prior art or argument is used in a petition. At worst, from a petitioner point of view, precluding an AIA trial will funnel such a petitioner into an ex parte reexamination process or district court. If the petitioner (as a requester) can convince the Central Reexamination Unit that there is a substantial new question of patentability under reexamination statutory thresholds, despite using an already-considered reference or argument, the petitioner may equitably proceed there. And of course, a district judge can always consider a challenge to the validity of a patent.

Further rationale for this rule is found in the precedential opinion *Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte GmbH*, Case IPR2019-01469, Paper 6.

Permitting AIA trials to proceed based on already-considered prior art arguments has heretofore undermined confidence in the patent system, and in the Office itself. This proposed provision corrects this situation.

B. another inter partes review or post-grant review of any of the challenged claims has been instituted

The Office has plenary statutory authority to manage how it handles multiple pending proceedings on the same patent. See 35 U.S.C §315(d) and §325(d). This proposed subsection clarifies how the Office would handle that authority in the

case of AIA trials. Here the Office would limit its review of a patent under the AIA to no more than one trial per patent. This has the same beneficial effect on the economy and perceptions of fairness as the previous subsection, and prevents what has become known as “gang tackling” by multiple adverse parties. Furthermore, this rule would provide a potential for “quiet title” to the exclusive right to the claimed invention.

Under this proposed rule any person wishing to challenge the validity of a patent would be encouraged to monitor the PTAB docket for patents of interest and request to join the first instituted petition. Additionally a person with standing could challenge the validity of a barred patent in a district court action. These avenues provide for balancing of the equities – quiet title for patent owners with freedom to operate for others.

C. any of the challenged claims are also challenged in another petition by the petitioner...

The patent system and the Office have come under particular criticism for allowing multiple “bites at the apple” by the same AIA petitioner. Some petitioners routinely use the costs of the process itself (rather than the outcome) to drive rivals out of business or to discourage small companies from pursuing their rights in court proceedings. Current rules and guidance do not prevent harassment of patent owners who are forced to respond to multiple petitions from the same challenger who usually enjoys vastly greater financial resources. If a patent is indeed mistakenly issued, then the petitioner should identify the clearest substantial defect and take its best shot. If the best attack fails at institution, then no estoppel attaches which allows the same petitioner to challenge the claims a second time in a district court action. The equities of a limiting challengers to at most two bites at the apple (one at PTAB and one in district court) is entirely consistent with the intent of Congress and fair to both petitioners and infringers.

D. any of the challenged claims are concurrently asserted...and the court has not issued any order that is contingent on institution of review

The Office has been used as a tool for litigants in federal court to circumvent the court system by opening a parallel battlefield against the patentee in an AIA trial. This proposed subsection would close that pathway, restore confidence among the judiciary that they (and they alone) manage cases before them, and prevent another type of gamesmanship. The court is capable of determining whether a matter could be simplified by the Office taking a second look at the claims, or when the expertise of the Office is helpful concerning questions of validity. To be clear, the proposed rule would not prevent parallel proceedings, but leave the decision of their appropriateness in the hands of a trial judge.

This rule eliminates guesswork and unpredictability with respect to efficiency and fairness. It is inefficient for cases to proceed in multiple venues. Courts have proven willing to manage dockets in order to invite the assistance of the PTAB as needed. A recent study indicates that 70-89% of motions to stay proceedings were granted in 2019 by the three district courts that handle most patent cases.¹¹ Even the oft-maligned Eastern District of Texas granted 70% of motions to stay pending IPR in 2019. These are the cases where the PTAB should focus resources and work in harmony with the district courts. Parallel proceedings are necessarily inefficient and are generally unfair to patent owners who must prevail in multiple proceedings, whereas a petitioner permitted to multiply proceedings need only prevail once.

¹¹ <https://www.sterneckessler.com/news-insights/publications/success-motions-stay-rising-why>

E. the patent owner...claimed small entity or micro entity status at the time the patent was issued; and actually reduced one or more of the challenged claims to practice

The economic value of the patent system and patenting is most evident to the general public when companies make or sell items under their own patent rights. Conversely, those who advocate for a weaker patent system repeatedly invoke the alleged unfairness of having to defend suits brought by those who do not make or sell under their own patent. A major thrust of AIA reviews was to address perceived abuses by nonpracticing entities, often referred to as “patent trolls”. Without rendering any moral or economic judgment about nonpracticing entities, the Office can at least offer some protection to practicing ones. This proposed subsection would embody the Office’s evaluation that it harms the economy and/or the integrity of the patent system to permit AIA trials where the patent owner, in reliance on the patent, is a small entity and has actually reduced the claimed invention to practice.

Individuals and startups have in the past relied on patent rights to enter a market. Incumbents rely on a variety of advantages and barriers to entry, whereas a new entrant often has nothing more to differentiate other than exclusive use of the technology they created. Such would-be disrupters face great difficulty establishing a business while their invention is copied and their patent is jeopardized with a review proceeding that lasts 3 years or more (counting appeals) and costs an average of \$450,000.¹²

This rule would mitigate a practice of market incumbents who pirate patented technology then leverage the cost and risk imposed by a PTAB to eliminate the

¹² 2019 AIPLA Report of the Economic Survey at I-184, I-188

smaller competitor. The patent system should be balanced in favor of encouraging invention, creation of new businesses, and competition. This rule helps achieve that balance.

CONCLUSION

Petitioners respectfully submit that the Constitutional and statutory objectives related to institution of trials under the America Invents Act are better achieved by implementation of these criteria and revisions through notice-and-comment rulemaking. Current procedures are excessively subjective and unpredictable as to whether or not a panel will institute review of a patent in most circumstances. Adoption of these rules will accomplish the purpose of AIA while increasing the reliability of the patent grant, restoring inventor confidence, and promoting innovation.

Respectfully submitted,

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