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Attorneys for Intervenors  
US INVENTOR, 360 HEROS, INC.,  
LARRY GOLDEN, WORLD SOURCE ENTERPRISES, LLC,  
DARELTECH LLC, TINNUS ENTERPRISES, LLC,  
CLEARPLAY, INC., E-WATCH, INC.

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN JOSE DIVISION

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

Case No. 5:20-CV-06128-EJD

**COMPLAINT IN INTERVENTION FOR  
DECLARATIVE AND INJUNCTIVE  
RELIEF**

Under Federal Rule of Civil Procedure 24, Intervenors US Inventor, 360 Heros, Inc., Larry Golden, World Source Enterprises, LLC, Dareltech LLC, Tinnus Enterprises, LLC, Clearplay, Inc., and E-Watch, Inc., allege for their Complaint in Intervention as follows:

**NATURE OF SUIT**

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2  
3 1. This is a suit under 5 U.S.C. § 706(1) of the Administrative Procedure Act (“APA”) to  
4 compel “agency action unlawfully withheld” by the United States Patent and Trademark Office  
5 (“USPTO”). This is also a suit under 5 U.S.C. § 706(2)(D) of the APA to “hold unlawful and set aside  
6 agency action” that is “without observance of procedure required by law.”

7  
8 2. The text of the APA provides distinct remedies for judicial review of both agency  
9 inaction and action. This suit addresses USPTO unlawful inaction in the form of incomplete and/or  
10 procedurally unlawful rulemaking to govern how the USPTO Director (and his designees) exercise  
11 discretion whether to grant or deny institution of patentability trials. This suit addresses USPTO  
12 unlawful action in the form of attempts at rulemaking that unlawfully circumvent proper publication,  
13 notice and comment.

14  
15 3. Intervention is proper under Fed. R. Civ. P. 24, as described in the accompanying motion  
16 to intervene.

17 **JURISDICTION AND VENUE**

18 4. This case arises under the APA, 5 U.S.C. § 701 *et seq.*. This Court has subject matter  
19 jurisdiction under 28 U.S.C. § 1331.

20  
21 5. Under 5 U.S.C. § 702, Defendant has waived sovereign immunity for purposes of this  
22 suit.

23 6. Intervenors’ claim for declaratory and injunctive relief is authorized under 28 U.S.C. §§  
24 2201 and 2202, by 5 U.S.C. §§ 702-706, by Federal Rules of Civil Procedure 57 and 65, and by the  
25 inherent equitable powers of this Court.

26  
27 7. Venue is proper in this District under 28 U.S.C. § 1391(e) and 5 U.S.C. § 703 because  
28 venue is proper in the underlying suit into which Intervenors hereby intervene. Venue is also proper  
because each of the original plaintiffs to the underlying suit reside in this judicial district.



1 key information it wishes to use in its routine information dispensing activities and to fulfill its mission,  
2 the USPTO and the Director have inhibited its daily operations.

3 11. 360Heros, Inc. is a patent owner harmed by the unlawful agency action and withholding  
4 of agency action described below. 360Heros is a Delaware corporation with its principal place of  
5 business at 518 Queen Street, Olean, New York 14760. 360Heros manufactures accessories for camera  
6 equipment. 360Heros has been forced to respond to at least one AIA trial petition that was ultimately  
7 denied (IPR2018-00853), but that would not have been brought in the first place had the USPTO issued  
8 lawful regulations governing discretionary denial prior to the bringing of that petition. As a patent owner  
9 facing a likelihood of future infringers making future challenges through future AIA trial petitions,  
10 360Heros' injury is likely to recur.

11  
12  
13 12. Intervenor Larry Golden is a patent owner harmed by the unlawful agency action and  
14 withholding of agency action described below. Mr. Golden is an individual residing in Greenville, South  
15 Carolina. Mr. Golden has been forced to respond to at least one AIA trial petition that was ultimately  
16 granted without Mr. Golden having made arguments for discretionary denial (IPR2014-00714), but that  
17 would have been denied had the USPTO issued lawful regulations governing discretionary denial prior  
18 to the bringing of that petition. As a patent owner facing a likelihood of future infringers making future  
19 challenges through future AIA trial petitions, Mr. Golden's injury is likely to recur.

20  
21 13. Intervenor World Source Enterprises, LLC ("WSE") is a patent owner harmed by the  
22 unlawful agency action and withholding of agency action described below. WSE is a Nevis company  
23 having a principal place of business in High Point, North Carolina. WSE has been forced to respond to  
24 at least one AIA trial petition that is still pending an institution decision, where WSE has presented  
25 arguments for discretionary denial (IPR2020-00768). The pending petition would be more clearly  
26 deniable had the USPTO issued lawful regulations governing discretionary denial prior to the bringing  
27 of that petition. As a patent owner facing a likelihood of future infringers making future challenges  
28 through future AIA trial petitions, WSE's injury is likely to recur.

1 14. Intervenor Dareltech LLC (“Dareltech”) is a patent owner harmed by the unlawful  
2 agency action and withholding of agency action described below. Dareltech is a Delaware company  
3 having a principal place of business in Bethesda, Maryland. Dareltech has been forced to respond to at  
4 least one AIA trial petition that is still pending an institution decision, where Dareltech has presented  
5 arguments for discretionary denial (IPR2020-00483). The pending petition would be more clearly  
6 deniable had the USPTO issued lawful regulations governing discretionary denial prior to the bringing  
7 of that petition. As a patent owner facing a likelihood of future infringers making future challenges  
8 through future AIA trial petitions, Dareltech’s injury is likely to recur.

10 15. Intervenor Tinnus Enterprises, LLC (“Tinnus”) is a patent owner harmed by the unlawful  
11 agency action and withholding of agency action described below. Tinnus is a Texas company having a  
12 principal place of business a 3429 18th St, Plano, Texas 75074. Tinnus has been forced to respond to  
13 eight AIA trial petitions, of which half were instituted (PGR2015-00018, PGR2016-00030, PGR2016-  
14 00031, and PGR2017-00015) and half were denied (PGR2017-00024, PGR2017-00040, PGR2017-  
15 00051, and PGR2017-00052). PGR2017-00015 is an example petition where the Director granted  
16 institution after disagreeing with Tinnus’s arguments for discretionary denial. PGR2017-00024 is an  
17 example petition where the Director denied institution after agreeing with Tinnus’s arguments for  
18 discretionary denial. These petitions would, respectively, have been denied or not have been brought had  
19 the USPTO issued lawful regulations governing discretionary denial prior to the bringing of those  
20 petitions. As a patent owner facing a likelihood of future infringers making future challenges through  
21 future AIA trial petitions, Tinnus’s injury is likely to recur.

25 16. Intervenor Clearplay, Inc. (“Clearplay”) is a patent owner harmed by the unlawful agency  
26 action and withholding of agency action described below. Clearplay is a Delaware company having a  
27 principal place of business in Murray, Utah. Clearplay has been forced to respond to five AIA trial  
28 petitions, of which four were instituted (IPR2014-00430, IPR2014-00383, IPR2014-00339, IPR2013-  
000484) and one was denied, on discretionary grounds (IPR2014-00783). These petitions would,

1 respectively, have been denied or not have been brought had the USPTO issued lawful regulations  
2 governing discretionary denial prior to the bringing of those petitions. For example, IPR2013-00484  
3 involved a grant of institution even after Clearplay requested denial because the same prior art and  
4 arguments had been rejected by the USPTO in a prior request for inter partes reexamination. As a patent  
5 owner facing a likelihood of future infringers making future challenges through future AIA trial  
6 petitions, Clearplay's injury is likely to recur.

7  
8 17. Intervenor E-Watch, Inc. ("E-Watch") is a patent owner harmed by the unlawful agency  
9 action and withholding of agency action described below. E-Watch is a Nevada company having a  
10 principal place of business in San Antonio, Texas. E-Watch has been forced to respond to over 20 AIA  
11 trial petitions. IPR2015-00412 is an example of a petition filed against E-Watch where the Director  
12 granted institution after disagreeing with E-Watch's arguments for discretionary denial. IPR2015-00610  
13 is another example of a petition filed against E-Watch where the Director granted institution after  
14 disagreeing with E-Watch's arguments for discretionary denial. These petitions, and others filed against  
15 E-Watch, would, respectively, have been denied or not have been brought had the USPTO issued lawful  
16 regulations governing discretionary denial prior to the bringing of those petitions. As a patent owner  
17 with a large portfolio of patents, E-Watch faces a likelihood of future infringers making future  
18 challenges through future AIA trial petitions, E-Watch's injury is likely to recur.

19  
20  
21 18. Defendant Andre Iancu is the Under Secretary of Commerce for Intellectual Property and  
22 Director of the USPTO. The Director oversees the operations of the USPTO and is statutorily vested  
23 with the authority both to decide whether to institute IPR of a patent claim, 35 U.S.C. § 314, and to issue  
24 regulations governing such institution decisions, 35 U.S.C. § 316. Defendant Iancu is being sued in his  
25 official capacity. His principal places of business are in Alexandria, Virginia and Washington, D.C.

26  
27 19. Though Director Iancu is named as defendant in his official capacity, the unlawful  
28 activities alleged here originate with actions and inactions committed by his predecessors: Joe Matal  
(officer who for a time was "Performing the Functions and Duties of" the Director position), Michele

1 Lee (former Director), Theresa Stanek Rea (former Acting Director) and David Kappos (former  
2 Director). Director Iancu has attempted during his tenure to make AIA trials more fair for patent owners.  
3 This Complaint seeks that outcome through processes that are lawful under the APA.

#### 4 **FACTUAL ALLEGATIONS**

5  
6 20. The USPTO administers patentability trials under the America Invents Act of 2011  
7 (“AIA trials”). Such AIA trials include IPR (“inter partes review”) and PGR (“post grant review”). The  
8 administration of such trials occurs in two phases: an institution phase, and (if there is institution) a trial  
9 phase. The decision whether to institute includes legal and factual determinations (*i.e.*, the level of merit  
10 of a petitioner’s unpatentability argument), but also includes discretionary factors (*e.g.*, the impact of  
11 numerous factors relating to other court or other USPTO proceedings). *See, e.g.*, 35 U.S.C. §§ 314(a),  
12 315(d); Patent Trial and Appeal Board Consolidated Trial Practice Guide (November 2019), available at  
13 [www.uspto.gov/sites/default/files/documents/tpgnov.pdf](http://www.uspto.gov/sites/default/files/documents/tpgnov.pdf); *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019,  
14 Paper 11 (P.T.A.B. Mar. 20, 2020); *Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte*  
15 *GmbH*, IPR2019-01469, Paper 6 (P.T.A.B Feb. 13, 2020); *Gen. Plastic Indus. Co. v. Canon Kabushiki*  
16 *Kaisha*, IPR2016-01357, Paper 19 (P.T.A.B Sep. 6, 2017).

#### 17 **Effects of Incomplete and Withheld Rulemaking**

18  
19  
20 21. AIA trials are expensive and often ruinous to defend. In costs and legal fees, patent  
21 owners can expect to spend on average \$451,000 per patent, just to maintain the status quo of keeping a  
22 patent that the law already presumed to be valid. 35 U.S.C. § 282. Patent owners who are dragged into  
23 an AIA trial have no upside—the USPTO cannot adjudicate infringement and cannot award damages.  
24 This is on top of the costs and fees already expended just to obtain the patent right, which can be  
25 considerable, sometimes more than \$100,000 per patent. Government fees spent on filing, issuing and  
26 maintaining each such patent often exceed \$10,000, but (under current law) a declaration of invalidity in  
27 an AIA trial does not entitle the patent owner to any refund of such fees for the “mistaken” work by the  
28 government during original examination.

1 22. AIA trials, once instituted, impose an 80% likelihood of invalidation. Accounting for  
2 multiple petitions, 85% of patents reviewed result in invalidation of one or more claims. This is at least  
3 2-3 times higher than in district court proceedings, which afford more procedural protections, a  
4 presumption of validity (including deference due a qualified government agency official presumed to  
5 have performed his or her job), and a clear and convincing burden of proof of invalidity. Thus, the  
6 institution decision effectively determines the fate of the business of the patent owner, implicating 35  
7 U.S.C. § 316(b).

9 23. The AIA requires that “The Director shall prescribe regulations...setting forth the  
10 standards for the showing of sufficient grounds to institute a review [and] shall consider the effect of any  
11 such regulation on the economy, the integrity of the patent system, the efficient administration of the  
12 Office.” 35 U.S.C. 316(a)(2) and (b).

14 24. Ad hoc decision-making of AIA trial institution decisions has resulted in harm to the U.S.  
15 economy including: the U.S. falling from its perennial number one position in international patent  
16 rankings; reducing access to capital for cutting edge technology ventures; and shielding trillion-dollar  
17 corporations from would-be competitors with disruptive inventions.

19 25. Ad hoc decision-making of AIA trial institution decisions has resulted in substantial loss  
20 of confidence in the integrity of the patent system, leaving entrepreneurs without any reliable path to  
21 “securing...the exclusive Right to their...Discoveries”. U.S. Const. art. I, § 8, para. 8. Regardless of how  
22 carefully an inventor and examiner follow the laws and procedures, and how thoroughly familiar they  
23 are with the prior art, and how flawlessly they perfect an application that is granted by the Director, it is  
24 impossible to predict whether the PTAB will institute an AIA trial of the issued patent. It is likewise  
25 uncertain even after a patent has been reexamined by the USPTO or declared not invalid by the final  
26 judgment of an Article III court – such patents are still likely to be instituted for review by the PTAB.

28 26. Ad hoc decision-making of AIA trial institution decisions has harmed the efficient  
administration of the USPTO and the judicial system. Such decisions often conflict with and nullify

1 prior determinations of the USPTO, including when the USPTO has previously considered the same or  
2 substantially the same prior art or arguments. Such decisions often conflict with determinations of  
3 Article III courts, in many instances nullifying final judgments incorporating years of adjudication and  
4 jury verdicts.

5  
6 27. Dareltech's plight of being dragged into ruinous proceedings with an uncertain outcome  
7 is exemplary of the burden on the economy from the Director's unlawful withholding of rulemaking,  
8 and fully explained in its Preliminary Response to the IPR filed against one of its patents by Microsoft,  
9 Inc., a trillion dollar company.

10  
11 28. The entire Dareltech operation is self-financed by the inventors, with zero debts,  
12 encumbrances, VC, or other debt financing. The Dareltech inventors developed a commercial  
13 embodiment of an invention called the HandlePa. The HandlePa is a selfie stick with control buttons to  
14 communicate wirelessly with the smartphone and to control and operate at least the camera function  
15 using just one finger. The apparatus yields clearer and steadier pictures than the prior art, while allowing  
16 the user to take more difficult angle shots using only one hand to securely grasp the stick and operate the  
17 systems safely and comfortably.

18  
19 29. The Dareltech inventors engineered, designed, tested, and manufactured the HandlePa  
20 product, producing 11,500 units at a cost of \$322,000. Before Dareltech could get a foothold in the  
21 market, cheap similar products flooded the market. It quickly became impossible for a Dareltech to  
22 compete against established brands, so Dareltech focused on securing the patent rights to the invention  
23 at the USPTO.

24  
25 30. After thorough examinations, the USPTO issued four patents for the invention each titled  
26 HANDLE FOR HANDHELD TERMINAL. The Dareltech inventors invested from personal funds  
27 approximately \$650,000 in the development and commercialization of the claimed invention, without  
28 any significant revenue to date. Furthermore, the inventors stretched their credit to the limit including  
borrowing against at least one of their homes. As a result, Dareltech has no funding to defend the

1 currently-attacked patent should a trial be instituted. The average cost of an IPR defense is \$451,000 and  
2 the cost for top tier representation is \$750,000.

3 31. From 2012 to 2017 Dareltech prosecuted its family of patents, following all relevant laws  
4 and procedures. Dareltech budgeted and paid approximately \$16,000 in fees to the USPTO and  
5 approximately \$150,000 in attorney fees to obtain these patents. Dareltech did not budget and has no  
6 means to pay an additional \$450,000 to \$750,000 in order to defend one of them should Microsoft's IPR  
7 be instituted.  
8

9 32. In related proceedings filed by a different attacker, Dareltech was forced to disclaim  
10 approximately half of the patent claims in hopes of avoiding a trial it could not afford. When trial was  
11 instituted, Dareltech was forced to settle with the other attacker and allow them to infringe the remaining  
12 claims because Dareltech could not pay the cost or countenance the risk of a full trial.  
13

14 33. The Dareltech inventors complied with their end of the patent bargain, invested all  
15 available funds to obtain the portfolio, and were already forced to surrender substantial rights due to  
16 filing and institution of the prior petitions by the time Microsoft filed its IPR.  
17

18 34. Microsoft petitioned for IPR against Dareltech even though there is no legal dispute  
19 between them, and even though the USPTO had already considered the same or substantially the same  
20 prior art. Microsoft does not, to Dareltech's knowledge, infringe any of the claims of the attacked patent  
21 and stands to gain no benefit from its cancellation. There can be no district court suit since Microsoft  
22 and Dareltech lack standing to sue one another.  
23

24 35. The relative cost to the parties is dramatic. For Dareltech the cost of a trial far exceeds its  
25 total available cash, whereas for Microsoft the cost of a trial (based on an average of \$451,000) is about  
26 0.000032% of their \$1.4 trillion value and 0.00034% of the \$133 billion cash and short term deposits.  
27

28 36. Dareltech awaits decision on its arguments for discretionary denial that it had to make  
without the benefit of guidance through rulemaking. Had clear rulemaking on discretionary  
considerations by the Director occurred, Microsoft would have had clear guidance that its petition

1 against Dareltech was futile, and would not have filed it; or, alternatively, the cost to prove Dareltech's  
2 immediate right to denial of the petition would have been negligible (unlike what has in fact transpired).

3 37. Intervenor Tinnus represents another example of the burden on the economy from the  
4 Director's unlawful withholding of rulemaking. Tinnus was founded and is owned by Josh Malone, a  
5 father of 8 who quit his corporate job in 2006 to become a full-time inventor. After 8 years of struggling  
6 to make ends meet, he solved a 63-year-old problem of filling and sealing water balloons and  
7 immediately applied for a patent for his Bunch O Balloons invention. Launched on Kickstarter, it went  
8 viral and quickly ascended to become the number one selling summer toy.

9  
10 38. A major As Seen on TV company posing as a backer of the Kickstarter campaign  
11 purchased a first edition Bunch O Balloons product, reverse engineered it, and raced their copy of the  
12 product to market, selling millions of units at major retailers such as Walmart, Target, Bed Bath &  
13 Beyond, Kroger, Toys-R-Us, Walgreens, and Home Depot.

14  
15 39. Tinnus sought to enforce its patent rights, leading to 4 district court actions, 8 petitions  
16 for PTAB review, and 14 appeals to the Court of Appeals for the Federal Circuit, spanning about 4  
17 years.

18  
19 40. The district court preliminarily enjoined the copied product, in a decision affirmed by the  
20 Federal Circuit which held that the term "substantially filled" was not indefinite.

21 41. Subsequent to the district court injunction and a week prior to the appellate affirmance,  
22 the PTAB ruled in PGR2015-00018 that the term "substantially filled" was indefinite and all the patent  
23 claims were therefor invalid. That decision was reversed on appeal a year and a half later.

24  
25 42. After being enjoined, the infringer introduced additional infringing products with slight  
26 alterations of the version previously enjoined. In total, the infringer produced three variations, each of  
27 which was enjoined by the district court while holding that the validity challenges did not present a  
28 likelihood of success.

1 43. The PTAB instituted review in a total of 4 petitions, all relying on the same prior art  
2 considered by the examiner and overruled by the district court in granting preliminary injunctions of the  
3 various infringing products.

4 44. Over one million dollars in additional litigation costs were incurred due to the PTAB  
5 petitions and trials.

6 45. PGR2015-00018 was pending for 3 years and 10 months, causing the infringement trial  
7 to be delayed by more than 2 years, ultimately forcing Tinnus to settle with the infringer for a fraction of  
8 the damages caused by the infringement.

9 46. The PTAB administrative patent judges had no particular expertise in water balloons and  
10 in fact no professional technical experience of any kind. During the one hour trial, one of the APJs  
11 mused (via remote connection) “I don't understand why with the first few drops it's already not  
12 expanding, given that the material is elastic.” The district court never sought expertise from the PTAB,  
13 and the PTAB only confounded, confused, and delayed the resolution of the invalidity dispute.

14 47. Had clear rulemaking on discretionary considerations by the Director occurred, the  
15 petitions against Tinnus' patents would have been denied resulting in a faster and less expensive  
16 resolution to the dispute with the infringer. The economy and integrity of the patent system would be  
17 improved. Mr. Malone and other inventors would have increased confidence that patents will effectively  
18 protect their investment in developing and commercializing their inventions from brazen copycats.

19 48. E-Watch suffered the harmful effect on the economy from the Director's unlawful  
20 withholding of rulemaking. The abuses endured by E-Watch due to serial IPRs being filed against its  
21 patents were significant. E-Watch is a small company owned by David Monroe, a prolific inventor who  
22 spent millions of dollars developing an invention for digital pictures to be captured, converted and  
23 transmitted digitally. Mr. Monroe and E-Watch's invention can be best described as the camera phone.  
24 At great expense, E-Watch patented its ground-breaking camera phone invention, which culminated in  
25 two patents: United States Patent No. 7,365,871 (the “871 Patent”), issued April 29, 2008, for  
26  
27  
28

1 “Apparatus for Capturing, Converting and Transmitting a Visual Image Signal Via a Digital  
2 Transmission System”; United States Patent No. 7,643,168 (the “’168 Patent”), issued January 5, 2010,  
3 for “Apparatus for Capturing, Converting and Transmitting a Visual Image Signal Via a Digital  
4 Transmission System” (collectively, the “Camera Phone Patents”).

5  
6 49. On December 9, 2013, E-Watch, Inc. filed suit against camera phone manufacturers,  
7 including Apple, Blackberry, HTC, Huawei, Kyocera, LG Electronics, Nokia, Samsung, Sharp, Sony  
8 Mobile and ZTE, asserting infringement of the ’871 Patent and the ’168 Patent.

9  
10 50. The IPRs filed against E-Watch included one filed by Iron Dome LLC, a third-party that  
11 had not been sued by E-Watch and did not manufacture or sell infringing products. Iron Dome  
12 previously threatened to file an IPR against E-Watch’s ’871 Patent unless E-Watch agreed to give Iron  
13 Dome a portion of its licensing enforcement proceeds. E-Watch refused and, on February 18, 2014, Iron  
14 Dome filed IPR2014-00439 (the “Iron Dome IPR”). E-Watch implored the Board to exercise its  
15 discretion not to institute the Iron Dome IPR. The Board refused and instituted the Iron Dome IPR  
16 against E-Watch.

17  
18 51. But the attacks on E-Watch’s Camera Phone Patents did not stop there. In response to  
19 the lawsuit, the defendants launched a campaign of serial and cumulative IPR filings to invalidate E-  
20 Watch’s Camera Phone Patents. In its preliminary response to certain of these IPRs, E-Watch requested  
21 that institution be denied because of the cumulative nature of the prior art and arguments across the  
22 various IPRs and that that these were serial filings. For example, in IPR2015-00412, E-Watch stated to  
23 the Board:

24  
25 As a result, many of these petitions, including this petition (i.e., IPR2015-00412), are redundant  
26 and present cumulative prior art and substantially the same arguments as other earlier-filed IPR  
27 petitions, concurrently-filed IPR petitions, and/or later-filed IPR petitions. The Patent Trial and  
28 Appeals Board (“PTAB”) should exercise its discretion under 35 U.S.C. 325(d) to deny  
institution of this petition for this reason alone.

1 E-Watch urged the Board to exercise its discretion to decline to institute the inter partes review. The  
2 Board refused and instituted the IPR on May 11, 2015. By the end of the punitive IPR campaign, the  
3 number of IPR petitions filed against E-Watch's Camera Phone Patents was staggering. The '871 Patent  
4 had 12 IPRs filed against it: IPR2014-00439, IPR2014-00987, IPR2014-00402, IPR2014-00404,  
5 IPR2014-00406, IPR2014-00411, IPR2014-00412, IPR2014-00413, IPR2014-00541, IPR2014-00610,  
6 IPR2014-00612 and IPR2014-01366. The '168 Patent had eight IPRs filed against it: IPR2014-00989,  
7 IPR2014-00401, IPR2014-00407, IPR2014-00408, IPR2014-00414, IPR2014-00543, IPR2014-00607  
8 and IPR2014-00611. Ultimately, E-Watch was forced to defend against 20 IPRs across its two Camera  
9 Phone Patents, spent hundreds of thousands of dollars defending against all of these IPRs and had its  
10 district court case irreparably damaged as a result.  
11

12  
13 52. Had clear rulemaking on discretionary considerations by the Director occurred, at least  
14 some of the petitions against E-Watch's Camera Phone Patents would have been denied resulting in a  
15 faster and less expensive resolution to the dispute with the infringer. The economy and integrity of the  
16 patent system would be improved. Mr. Monroe, E-Watch and other inventors would have increased  
17 confidence that patents will effectively protect their investment in developing and commercializing their  
18 inventions from brazen copycats.  
19

20 53. Each of the other patentee Intervenor experienced severe disruption to their business  
21 and their legal interests because of institution of AIA trials that occurred without rulemaking on  
22 discretionary factors.  
23

24 54. Larry Golden ended up having to prosecute his IPR *pro se* against a government agency  
25 petitioner after losing the assistance of his counsel after the PTAB instituted trial. A later Supreme Court  
26 ruling in a different case held that the government had no statutory right to petition for IPRs in the first  
27 place.  
28

1 55. 360Heros originally faced a grant of institution, until the PTAB (in a specially-convened  
2 panel different from the original panel, and including the Director) granted reconsideration and denied  
3 review because the petitioner violated the time bar of 35 U.S.C. § 315(b).

4 56. WSE develops, markets and sells fertilizer additive products that lessen the  
5 environmental impact of nitrogen in waterways and in the atmosphere. Success of WSE's  
6 environmentally friendly solutions would be an existential threat to nitrogen / fertilizer manufacturers,  
7 causing them to lose up to 50% of existing sales. A competitor of WSE who WSE believes infringes its  
8 patents has filed multiple petitions at the PTAB to try to invalidate them, while filing multiple patent  
9 applications for essentially the same technology. WSE has sought discretionary denial in at least one  
10 pending petition not yet decided, which would have been much less costly to do had the USPTO already  
11 issued lawful and clear rulemaking on discretionary factors for the "sufficient grounds" decision.  
12

13 57. Clearplay had to go through IPRs that should have been discretionarily denied if clear  
14 and legal rulemaking had occurred, including at least one in which the USPTO contradicted a prior  
15 federal judge decision by issuing a broader claim interpretations for a material claim limitation than the  
16 judge did, leading to an invalidation decision that a federal court would never make.  
17

18 58. Intervenors have therefore suffered concrete economic injury from the absence of  
19 "discretionary consideration" rulemaking. In a like manner, the absence of complete rulemaking on  
20 "sufficient grounds" for the institution decision runs afoul of the requirement that rulemaking must take  
21 into account the effect on the economy. 35 U.S.C. § 316(b).  
22

### 23 **The Director's Clear (and Ignored) Statutory Mandate for Rulemaking**

24 59. Congress did not intend either IPR or PGR to be an easier process for accused infringers  
25 to invalidate so-called "weak" patents. Instead, Congress intended IPR and PGR to be an accurate and  
26 less costly alternative to district court litigation of particular patentability issues, one that would be  
27 "objective, transparent, clear, and fair to all parties." 157 Cong. Rec. 3433 (Mar. 8, 2011) (Sen. Kyl).  
28

The measure of a "fair" system is one in which rates for final determinations on patent validity at the

1 PTAB roughly match rates for final determinations on validity in U.S. District Courts. That has not been  
2 the case. In federal court final determinations, only 25-30% of patents are invalidated, whereas in PTAB  
3 final determinations, that number is 80-85%.

4 60. AIA trials have been heavily used by large corporations, who can easily have afforded to  
5 litigate their invalidity challenges in district court, where a small business might obtain contingency  
6 representation and an opportunity to plead its case to a jury. AIA trials impose asymmetric burdens,  
7 since, aside from a hypothetical right to seek sanctions for egregious conduct, a patent owner has no  
8 basis to obtain a monetary recovery against a petitioner. The majority of AIA trial cases involve a  
9 corporation with orders of magnitude greater resources than the patent owner.  
10

11 61. All AIA trial stakeholders have an interest in predictability of the institution decision.  
12 Patent owners especially do. Congress intended to further the goal of predictability through legislative  
13 mandates requiring the USPTO to promulgate regulations. In promulgating such regulations, the  
14 Director is required to “consider the effect of any such regulation on the economy, the integrity of the  
15 patent system, the efficient administration of the [USPTO], and the ability of the [USPTO] to timely  
16 complete proceedings instituted under [the AIA].” 35 U.S.C. §§ 316(b) and 326(b).  
17

18 62. The USPTO has and had a clear legislative mandate under 35 U.S.C. § 316(a)(2) to  
19 “prescribe regulations . . . setting forth the standards for the showing of sufficient grounds to institute a  
20 review under section 314(a)” for IPRs. The USPTO also has and had a clear legislative mandate under  
21 35 U.S.C. § 326(a)(2) to “prescribe regulations . . . setting forth the standards for the showing of  
22 sufficient grounds to institute a review under subsections (a) and (b) of section 324” for PGRs.  
23

24 63. “Sufficient grounds” under the respective statutes include not only the legal and factual  
25 merits related to patentability as presented by the petitioner. “Sufficient grounds” also include why the  
26 Director should not apply discretionary factors to deny review. The USPTO has plenary authority,  
27 unreviewable on appeal or mandamus, to deny review of any AIA trial petition for any reason.  
28

1 *Harmonic Inc. v. Avid Tech., Inc.*, 815 F.3d 1356, 1367 (Fed. Cir. 2016) (“the PTO is permitted, but  
2 never compelled, to institute an IPR proceeding”).

3 64. The USPTO’s rulemaking actions purporting to comply with its obligations under 35  
4 U.S.C. §§ 316 and 326 have omitted required lawful procedures. In particular, they have omitted  
5 discretionary considerations entirely, or relegated them to rulemaking that is procedurally unlawful. No  
6 “agency action” that is lawful has ever occurred on this topic, despite the legislative mandate.  
7

8 65. Rulemaking on “sufficient grounds” began with promulgation of 37 CFR § 42.108(c) (for  
9 inter partes review) and 37 CFR §§ 42.208(c) and (d) (for post grant review). These rules do not include  
10 any content addressing how the Director (or his designee, panels of the Patent Trial and Appeal Board)  
11 will make institution decisions under any discretionary factors. On May 27, 2020, the USPTO published  
12 a Notice of Proposed Rulemaking that would amend these rules, but those proposed amendments still  
13 omit discretionary factors. 85 FR 31728.  
14

15 66. Rulemaking on “sufficient grounds” discretionary considerations occurred in  
16 procedurally unlawful ways. Rather than through publication, notice and comment, the USPTO has  
17 communicated substantive “rules” about how the Director and his designees will apply their discretion  
18 through ad hoc adjudicative processes.  
19

20 67. In particular, the USPTO created a process for designating adjudicated decisions  
21 “precedential” within the USPTO, such that future panels purportedly are obligated to follow such  
22 decisions. *See* Patent Trial and Appeal Board, Standard Operating Procedure 2 (Rev. 10) (“SOP-2”), at  
23 1-2, 8-12. Under this procedure, the Director decides whether to designate a Board decision as  
24 precedential. Such “precedential” decisions are effectively rules / regulations, whether labeled so or not.  
25

26 68. Although members of the public (or the Board) may nominate a Board decision for  
27 designation as precedential, the procedure otherwise does not allow for public notice and comment.  
28

69. Continued unlawful rulemaking on the discretionary factor topic occurred through such  
adjudicative decisions. The Director made precedential the decision in *General Plastic Industrial Co.*,

1 *Ltd. v. Canon Kabushiki Kaisha*, IPR2016-01357 (Paper 19) (P.T.A.B. Sept. 6, 2017), to govern Board  
2 discretion under 35 U.S.C. §§ 314(a) and 324(b-c) in deciding whether the relationship of a petition to  
3 other petitions should lead to discretionary denial. The Director made precedential the decisions in *NHK*  
4 *Spring Co. v. Intri-Plex Techs., Inc.*, IPR2018-00752, Paper 8, at 20 (P.T.A.B. Sept. 12, 2018), and  
5 *Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte GmbH*, IPR2019-01469, Paper 6  
6 (P.T.A.B. Feb. 13, 2020), to govern Board discretion under 35 U.S.C. §§ 315(d) and 325(d) in deciding  
7 whether the relationship of a petition to prior art and arguments considered during earlier patent  
8 examination, reexamination, or AIA reviews should lead to discretionary denial. The Director made  
9 precedential the decision in *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11, at 5 (P.T.A.B. Mar. 20,  
10 2020), to govern Board discretion under 35 U.S.C. §§ 314(a) and 324(b) and (c) in deciding whether the  
11 relationship to parallel court proceedings should lead to discretionary denial.  
12  
13

14 70. Precedential decisions such as *General Plastic*, *Advanced Bionics*, *NHK* and *Fintiv* are  
15 shortcuts that circumvent lawful rulemaking, and have not translated into predictability. These four  
16 decisions provide “non-exclusive” factors that are to be “weighed” as a part of a “balanced assessment.”  
17 These decisions, though, do not guide how a factor should be scored, how much weight each gets, or  
18 what score will assure or prevent denial of institution. A sample of recent institution decisions illustrates  
19 the problem.  
20

- 21 • On September 12, 2019 institution was **denied** in IPR2018-00752. A district court trial between  
22 the same parties was scheduled 6 months ahead of the PTAB final decision. The judge had not  
23 ordered a stay or issued any order contingent on the PTAB. There were 134 docket entries  
24 including a Markman order.
- 25 • On May 13, 2020 institution was **denied** in IPR2020-00019. A district court trial between the  
26 same parties was scheduled 2 months ahead of the PTAB final decision. The judge had not  
27

1 ordered a stay or issued any order contingent on the PTAB. There were 89 docket entries  
2 including a Markman order.

3 • On June 16, 2020 institution was **granted** in IPR2019-01393. A district court trial between the  
4 same parties was scheduled 4 months ahead of the PTAB final decision. The judge had not  
5 ordered a stay or issued any order contingent on the PTAB. There were 101 docket entries  
6 including a Markman order.

7  
8 • On July 28, 2020 institution was **granted** in IPR2020-00235. A district court trial between the  
9 same parties was scheduled 9 months ahead of the PTAB final decision. The judge had not  
10 ordered a stay or issued any order contingent on the PTAB. There were 192 docket entries  
11 including a Markman order.

12  
13 71. The USPTO “unlawfully withheld” the “agency action” of promulgating such rules  
14 governing “sufficient grounds” as actual lawful “regulations,” as Congress mandated they must. 35  
15 U.S.C. §§ 316 and 326.

16  
17 72. Had the Director promulgated regulations in a lawful manner on the topic of  
18 discretionary considerations that make up “sufficient grounds” for institution, the notice and comment  
19 process would have led to better-crafted regulations factoring in public comment. This, in turn, would  
20 have contributed to better predictability of the institution decision.

21  
22 73. Making rules lawfully would also have led to proper incorporation of the Congressionally  
23 mandated considerations, particularly “the effect of any such regulation on the economy, the integrity of  
24 the patent system, [and] the efficient administration of the [USPTO].” Adjudicative rulemaking is  
25 particularly unsuited for incorporation of such considerations, as the parties to a patent validity dispute  
26 are unlikely to be in a position to create an adequate policy-based or economy-based record, and  
27 administrative patent judges are not likely to be trained or equipped to make policy-based on economic-  
28 oriented decisions in the heat of a deadline-constrained institution decision.

1           74. The rulemaking Intervenor's accusation here of being unlawful has already been declared  
2 unlawful. The Court of Appeals for the Federal Circuit, reissued a panel decision (after panel rehearing)  
3 in *Facebook, Inc. v. Windy City Innovations, LLC*, No. 18-1400 (slip op. Sept. 4, 2020) (precedential). In  
4 Additional Views joined by all members of the panel, the Court issued an alternative holding addressing  
5 the unlawfulness of the Director's use of "Precedential Opinion Panels" under its SOP 2. The panel  
6 noted that SOP 2 "precedential" designations may not lawfully substitute for notice and comment  
7 rulemaking: "There is no indication in the statute that Congress either intended to delegate broad  
8 substantive rulemaking authority to the Director to interpret statutory provisions through POP opinions  
9 or intended him to engage in any rulemaking other than through the mechanism of prescribing  
10 regulations." The Court went on to observe that Congress empowered the "Director" to establish  
11 regulations, not the Board, such that "Congress's delegation in the AIA for the adjudication of  
12 patentability in IPRs is not a delegation of authority to issue adjudicative decisions interpreting statutory  
13 provisions of the AIA." The Court concluded, "in agencies where Congress has not expressly delegated  
14 both rulemaking and adjudicative authority to a single delegee, as in the PTO, adjudication may not  
15 operate as an appropriate mechanism for the exercise of rulemaking."  
16  
17

18  
19           75. Therefore, the Director's attempt to use his SOP 2 authority to designate decisions on  
20 how to apply discretionary considerations as "precedential" constitutes an invalid and unlawful attempt  
21 at notice and comment rulemaking. The Director will be issue-precluded from arguing otherwise in this  
22 litigation, because of the *Facebook v. Windy City* decision discussed above, in which he participated as  
23 Intervenor.  
24

25                           **COUNT I – Agency Inaction in Violation of 5 U.S.C. § 706(1)**

26           76. Under the APA, the Court shall "compel agency action unlawfully withheld or  
27 unreasonably delayed."  
28

29           77. The USPTO Director's rulemaking on discretionary factors that guide whether a  
petitioner has raised "sufficient grounds" for institution has occurred without publication, notice or

1 comment that agency rulemaking requires. “Agency action” in the form of rulemaking mandated under  
2 the AIA has thus been “unlawfully withheld.”

3 78. The USPTO Director could not lawfully adopt such guidance concerning the  
4 discretionary factors implicit in “sufficient grounds” for institution without notice-and-comment  
5 rulemaking. *See* 5 U.S.C. § 553; 35 U.S.C. §§ 2(b)(2), 316(a), 326(a-b).  
6

7 79. The USPTO Director propounded discretionary consideration rules for the “sufficient  
8 grounds” decision as binding substantive rules without notice and comment in violation of the APA.

9 **COUNT II – Agency Action in Violation of 5 U.S.C. § 706(2)**

10 80. Under the APA, the Court shall “hold unlawful and set aside agency action” that is  
11 “without observance of procedure required by law.”  
12

13 81. The USPTO Director’s rulemaking on discretionary factors that guide whether a  
14 petitioner has raised “sufficient grounds” for institution has occurred without publication, notice or  
15 comment that agency rulemaking requires. Rulemaking under the AIA through adjudicative decisions is  
16 (and has been held) unlawful. The Director’s rulemaking on discretionary factors has unlawfully  
17 occurred through adjudicative decisions. “Agency action” in the form of rulemaking mandated under the  
18 AIA has thus been “without observance of procedure required by law.”  
19

20 82. The USPTO Director could not lawfully adopt such guidance concerning the  
21 discretionary factors implicit in “sufficient grounds” for institution without notice-and-comment  
22 rulemaking. *See* 5 U.S.C. § 553; 35 U.S.C. §§ 2(b)(2), 316(a), 326(a-b).  
23

24 83. The USPTO Director propounded discretionary consideration rules for the “sufficient  
25 grounds” decision as binding substantive rules without notice and comment in violation of the APA.

26 **RELIEF REQUESTED**

27 WHEREFORE, Intervenors respectfully request that the Court enter judgment in their favor and:

28 1. Declare adjudicative rulemaking on discretionary considerations for the “sufficient  
grounds” decision to be unlawful;

1           2.     Compel notice-and-comment rulemaking on discretionary considerations for the  
2 “sufficient grounds” decision, as Congress has mandated;

3           3.     Preliminarily and permanently enjoin the Director from granting institution in any AIA  
4 patent trial pending completion of compelled rulemaking (at which point properly promulgated rules  
5 will govern Board panel institutions and adjudications);

6           4.     Preliminarily and permanently enjoin the Director from requiring Board panels to treat  
7 any prior adjudicated Board decision analyzing discretionary considerations as “precedential” in any  
8 upcoming decision, pending completion of compelled rulemaking (at which point properly promulgated  
9 rules will govern Board panel institutions and adjudications);

10           5.     Award Intervenors their costs and attorney’s fees and expenses as allowed by law; and

11           6.     Provide such other and further relief as the Court deems appropriate.

12           Dated: September 14, 2020

13           Respectfully submitted,

14           /s/ Lewis E. Hudnell, III

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