



June 26, 2020

Michael Tierney
Vice Chief Administrative Patent Judge
United States Patent and Trademark Office
P.O. Box 1450
Alexandria, VA 22313-1450

VIA EMAIL

Re: Comments of Engine Advocacy in Response to PTAB Rules of Practice for Instituting on All Challenged Patent Claims and All Grounds and Eliminating the Presumption at Institution Favoring Petitioner as to Testimonial Evidence, Docket No. PTO-P-2019-0024

Dear Judge Tierney:

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. We appreciate the opportunity to comment on the United States Patent and Trademark Office's ("USPTO") notice of proposed rulemaking concerning the conduct of *inter partes* review ("IPR"). IPR is an important element for promoting patent quality in the U.S., and a valuable component of the domestic innovation ecosystem.

Two of three proposed changes in the USPTO's notice appear unobjectionable, but the Patent Trial and Appeal Board ("PTAB") should be sure to implement them in ways that do not weaken IPR and reduce patent quality. However, the USPTO's third proposal to eliminate the current rule regarding treatment of genuine issues of material fact is highly problematic and should be rejected. The proposal to change the current structure of 37 C.F.R. §§ 42.108(c) & 42.208(c) is unjustified, counter to prior and well-reasoned USPTO analysis, deviates from common-sense legal standards, and would create unfairness and invite mischief. As such, we encourage the USPTO to reject this proposed change.

I. Introduction

Patent quality is essential for domestic startups and the U.S. innovation ecosystem. After almost a decade of careful consideration, Congress created *inter partes* review ("IPR") to enhance patent quality and offer a more affordable and efficient means for innovators to challenge the questionable patents that stand in

their way. By reducing the high costs of challenging questionable patents, IPR levels the playing field in litigation, helps to curb abusive behaviors that leverage steep legal costs to coerce startups to settle frivolous cases, and contributes to the overall growth and health of the startup ecosystem.

Startups are unfortunately familiar with abusive patent litigation and the problems questionable patents cause—through threats from patent assertion entities (“PAEs”) looking for quick nuisance value settlements or incumbents using the mere existence of litigation to slow or shut down new market entrants. These abusive patent demands can force startups to spend money defending frivolous cases or taking licenses to (at best) questionable patents, make it harder for startups to attract customers and investors, reduce valuations, and can ultimately be the death knell for an early-stage company.¹ Before IPR, startups had to choose either to settle (if that was even an option) or fight back in court (if they could afford it—and many could not). Now startups have the option of responding to an abusive patent demand with an IPR. This cheaper alternative puts patent validity challenges within reach for many that could not otherwise afford it. Indeed, startups have used IPR to challenge questionable patents that should not have issued in the first place.² And since IPR was established, startups began to see fewer abusive patent demands.³

Startups who have benefited from the IPR system speak to its value. For example:

- Mapbox makes customizable maps and provides associated services, such as location, directions, and traffic search. And it has been accused of infringement by multiple PAEs. As Mapbox’s policy lead has explained, that entire industry “is based around this asymmetry of costs and charging [] targets slightly less than it costs” to defend a patent lawsuit. “IPR is a great tool,” as “it offers people who are being targeted . . . another tool for invalidating bad patents.”⁴
- Bitmovin develops technology for improving the quality of video delivered over the Internet. As its general counsel described, Bitmovin has faced assertion of dubious patents that it does not infringe. And it has been able to respond to such demands without even having to file IPR petitions. The mere threat of being able to defend against a questionable patent assertion quickly,

¹ See, e.g., Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. Rev. 1571, 1587-89 (2009) (describing “strategic use of patent litigation by established companies to impose distress on their financially disadvantaged rivals,” and how such litigation can damage, e.g. defendants credit, relationships with customers and investors); Robin Feldman, *Patent Demands & Startup Companies: The View From the Venture Capital Community*, 16 Yale J.L. & Tech. 236, 280 (2014) (investors report that an existing patent demand against a startup as a deterrent in deciding whether to invest); Ted Sichelman, *The Vonage Trilogy: A Case Study in “Patent Bullying,”* 90 Notre Dame L. Rev. 543, (2014) (describing practice of some entities “assert[ing] their patents against entrants to prevent innovative, disruptive companies from competing”); Colleen Chien, *Startups and Patent Trolls*, 17 Stan. Tech. L. Rev. 461, 461-62 (2014) (in survey of startups, majority had received a demand and large percentage reported significant operational impact).

² E.g., *Distinctive Developments, Ltd. v. Uniloc USA, Inc.*, IPR2013-00391, Paper 38 (PTAB Dec. 3, 2014); *Cloudflare, Inc. v. Blackbird Tech LLC*, IPR2018-00804, Paper 19 (PTAB June 5, 2019).

³ *Infra* note 6 (indicating lower number of patent demands since the IPR process was implemented); *Patent Review is Working for Startups*, Engine, <https://innovatewithoutfear.engine.is/wp-content/uploads/2020/01/IPR-is-working-one-pager.pdf> (last visited June 25, 2020) (showing general decrease in NPE litigation since IPR went into effect).

⁴ *Protecting Big Ideas - Mapbox*, YouTube (Nov. 9, 2018), https://www.youtube.com/watch?time_continue=2&v=jt4Z_KPI7eo.

effectively, and inexpensively can make PAEs walk away. “To a startup, not having to spend those monies is essential.” IPR “level[s] the playing field and . . . make[s] it easier for us to defend ourselves against low-quality patents.”⁵

- Patreon is a popular platform where artists and creators can get paid by their fans. Since the IPR process was instituted, Patreon has seen a decrease in patent demands from PAEs. Patreon’s head of legal has noted: “Having the IPR process available to us as a means of defending our innovation is critical. The number one thing the patent office could do to protect patent quality is not do anything. The current process with IPR . . . has been hugely beneficial to the tech industry.”⁶

In large part, IPR has been a success and works as intended. Until just recently, the rates of abusive patent litigation had been on the decline and the overall health of the startup ecosystem had reached new highs.⁷ And the health of the IPR system depends on petitioners having meaningful access to the proceedings. Unfortunately, recent efforts have restricted access to IPR.⁸ As a result, abusive patent litigation is back on the rise.⁹ The agency should not now adopt rules that further cabin access to IPR, because that would only make current problems worse.

Changes which restrict access to IPR operate to the detriment of patent quality. Such changes also mean more startups facing abusive patent demands, being forced to pay nuisance value settlements, and having the existence of frivolous patent litigation put them at risk of closing up shop.

Instead of adopting the portions of this proposed rule which will reduce patent quality, the USPTO should keep patent quality front and center—and in so doing, make sure it does not adopt lopsided policies which weaken IPR and hurt the startups and innovators who rely on it.

II. Instituting Review on All Grounds

We have no comments on whether the USPTO should adopt the proposed amendments to 37 C.F.R. §§ 42.108(a), (b) & 42.208(a), (b), in light of *SAS Institute Inc. v. Iancu*.¹⁰ However, if these changes are

⁵ *Patents Spur Innovation. Weak Patents Have the Opposite Effect.*, YouTube (Dec. 13, 2018), https://www.youtube.com/watch?time_continue=1&v=MvTAE5He9Cg&feature=emb_logo.

⁶ *Innovation Toolkit for Startups - Patreon*, YouTube (Dec. 18, 2018), https://www.youtube.com/watch?time_continue=1&v=JjFcZl_Ftpc.

⁷ Engine, *supra* note 3; *Bloomberg U.S. Startups Barometer*, Bloomberg, <https://www.bloomberg.com/graphics/startup-barometer/> (last visited June 25, 2020) (showing steady increase in health of startup ecosystem between 2011 and mid-2019).

⁸ *See, e.g.*, Gary Shapiro, Opinion, *Why the Best Patent System in the World is Now Under Attack*, Morning Consult (Sept. 5, 2018), <https://morningconsult.com/opinions/why-the-best-patent-system-in-the-world-is-now-under-attack/>.

⁹ *E.g.*, *Litigation on the Rise: Number of New Cases Filed By Patent Assertion Entities*, Engine (May 4, 2020), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5eb03467c0e81e79e64c5bb0/1588606056624/Pae+stats+Diagram_Jan++Apr.pdf; *Forum Shopping: A Familiar Tactic in Abusive Patent Litigation Returns*, Engine, engine.is/s/Forum-Shopping-one-pager.pdf (last visited June 25, 2020).

¹⁰584 U.S. ___, 138 S. Ct. 1348 (2018).

adopted, they should not be used as an excuse to deny meritorious IPR petitions. Denying meritorious petitions merely because some grounds are stronger than others undercuts the purpose of IPR to promote patent quality,¹¹ and would allow questionable patent claims to remain in-force even though there is a reasonable likelihood the claims are obvious or anticipated.¹²

III. Replies and Sur-Replies

While we have no comments on whether the USPTO should adopt the proposed amendments to 37 C.F.R. §§ 42.23, 42.24, 42.120, and 42.220, if these changes are adopted they should not provide a basis for parties to re-litigate IPR institution decisions. Once the PTAB has decided to institute an IPR, that decision should not be unraveled during a trial on the merits of the patent's validity.

IV. Resolving Genuine Issues of Material Fact On An Incomplete and Imbalanced Record

The USPTO should not eliminate the current rule that factual disputes created by a patent owner's testimonial evidence will be resolved in favor of the petitioner solely for the purposes of determining whether to institute. The proposed amendments to 37 C.F.R. §§ 42.108(c) & 42.208(c) should be rejected. This proposed change constitutes a remarkable and unjustified reversal of existing policy and runs counter to long-standing, common-sense legal standards. This portion of the proposed rule would not only decrease patent quality by limiting access to IPR, but it would be unfair, increase costs, and invite gamesmanship.

The USPTO has already carefully considered the presumption at issue here, and articulated its well-reasoned analysis in 2016:

[B]ecause denial of institution is a final, non-appealable decision, deciding disputed factual issues in favor of the patent owner when a petitioner has not had the opportunity to cross-examine patent owner's declarant is inappropriate and contrary to the statutory framework for AIA review. . . . A presumption in favor of petitioner for disputed facts, which may be fully vetted during a trial when cross-examination of declarants is available, is appropriate given the effect of denial of a petition.¹³

Nothing has changed, and the PTAB's reasoning from 2016 still remains relevant and sound. The USPTO should retain the current rule that "a genuine issue of material fact created by [patent owner] testimonial evidence will be viewed in the light most favorable to the petitioner solely for purposes of deciding whether to institute an *inter partes* review."¹⁴

¹¹ See, e.g., H.R. REP. 112-98, 40 ("The legislation is designed to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.").

¹² 35 U.S.C. § 314(a).

¹³ 81 Fed. Reg. at 18756.

¹⁴ 37 C.F.R. §§ 42.108(c), 42.208(c).

A. The USPTO has failed to justify the proposed change

Far from offering the requisite justification,¹⁵ the USPTO fails to adequately explain a basis for this portion of the proposed rule. This failure is especially evident since the USPTO proposes disregarding a current rule that was well analyzed and justified.

The USPTO's notice, at best, asserts that the current rule "has caused some confusion at the institution stage," identifying a single (irrelevant) example of purported confusion, and then hypothesizes that some patent owners may be discouraged from filing testimonial evidence.¹⁶ Neither of these assertions is a compelling reason to eliminate the current rule.

First, if the current rule were causing confusion, then the solution would be to craft a new rule that is less confusing—not jettison the rule altogether. Moreover, the USPTO points to seven party and amicus briefs that allegedly indicated confusion with the current rule. But none of those briefs articulate confusion connected to the proposed rule.¹⁷ As the sole example of the purported confusion, the USPTO suggests a lack of clarity over whether the current rule "creates a presumption in favor of the petitioner for questions relating to whether a document is a printed publication."¹⁸ That question has been resolved, and there can be no confusion: "[t]here is no presumption in favor of finding that a reference is a 'printed publication.'"¹⁹ This portion of the USPTO's attempted justification fails.

¹⁵ 5 U.S.C. § 706; see also, e.g., *Motor Vehicles Mfrs. Ass'n of U.S., Inc. v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29, 42-43 (1983) (interpreting APA and finding agency failed to supply reasoned analysis for action); *Comite' De Apoyo A Los Trabajadores Agricolas v. Perez*, 774 F.3d 173, (3d Cir. 2014) (applying arbitrary and capricious standard to review and vacate agency action).

¹⁶ 85 Fed. Reg. at 31729-30.

¹⁷ Only some of the party and amicus briefs filed in *Hulu* mention anything related to the presumption at issue here. And none of the briefs indicate confusion with how the rule applies. Instead, the only briefs to address the presumption support it and/or take positions consistent with preserving the current rule. *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 19, at 7 (PTAB May 2, 2019) (amicus AIPLA expresses no confusion regarding general application of the presumption and indicates support for a broader presumption); *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 20, at 3-4, 12 (PTAB May 2, 2019) (amicus Canon, similar); *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 21, at 13-15 (PTAB May 2, 2019) (amici Google *et al.*, similar); *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 22, at 12 (PTAB May 2, 2019) (amicus Unified Patents, noting that "[d]enying institution over a material factual dispute frustrates the purpose and intent of AIA trials, increases costs for parties who cannot appeal them, and then must return to litigate the validity of patents in district court, if they can still afford to," and arguing that the "Board should permit [] parties to develop the evidentiary record in instituted proceeding, rather than deny institution without the benefit of a full record"); *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 25, at 3-4 (PTAB May 15, 2019) (patent owner arguing that presumption applies when the genuine issue of material fact was created by patent owner's testimonial evidence). Relatedly, it is far from apparent these few briefs would justify any regulatory change, even had the USPTO's characterization of them been accurate.

¹⁸ 85 Fed. Reg. at 31729.

¹⁹ *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 29, at 16 (PTAB Dec. 20, 2019) (designated precedential Dec. 20, 2019).

Second, while the USPTO has not identified any evidence that patent owners are discouraged from filing testimonial evidence,²⁰ it is far from apparent that the agency should change regulations to create such an incentive. For example, it is unclear why incentivizing patent owner testimonial evidence at the pre-institution stage is an important consideration for the agency implementing Congress’s goals of “improving patent quality and providing a more efficient system for challenging patents that should not have issued; and reducing unwarranted litigation costs”²¹

Finally, the USPTO’s failure to justify this proposed change is particularly stark in comparison to the 2016 rulemaking for enactment of the current rule. It is well-settled that “an agency changing its course by rescinding a rule is obligated to supply a reasoned analysis for the change.”²² Moreover, “a reasoned explanation is needed for disregarding facts and circumstances that underlay . . . the prior policy.”²³ The facts and analysis that motivated the current rule are just as relevant today as they were in 2016. And the USPTO has not (and likely cannot) explain why it is proper to disregard those still-relevant facts and still-sound analysis now.

B. The proposed change runs counter to standard, common-sense legal principles

The fundamental problem with the proposed change is that the USPTO is endorsing resolution of IPR on an incomplete factual record. Because proposed change concerns resolution of disputes at the institution stage, and those institution decisions are not subject to judicial review, it compounds the problem.

When the USPTO first allowed patent owners to submit pre-institution testimonial evidence, it adopted the common-sense and well-supported position that any genuine issues of material fact should be resolved in favor of the petitioner. The agency correctly noted that “a petition should not be denied based on testimony that supports a finding of fact in favor of the patent owner when the petitioner has not had an opportunity to cross-examine the declarant.”²⁴ Indeed, the adoption of the current rule is rife with similar explanations of how a presumption in favor of the petitioner makes sense at this stage of a proceeding and “given the effect of denial of a petition.”²⁵

Rooted in basic notions of fairness, the current rule is entirely consistent with familiar and longstanding rules governing resolution of civil litigation on incomplete factual records. For example, with Fed. R. Civ. P. 12 motions to dismiss, “all factual inferences must be drawn in favor of the non-moving party”²⁶—in

²⁰ 85 Fed. Reg. at 31729-30 (asserting merely that the presumption “may be viewed as discouraging patent owners from filing testimonial evidence”).

²¹ H.R. REP. 112-98, 39-40.

²² *Motor Vehicles Mfrs. Ass’n*, 463 U.S. at 42.

²³ *F.C.C. v. Fox Television Stations, Inc.*, 556 U.S. 502, 516 (2009).

²⁴ 81 Fed. Reg. at 18756.

²⁵ 81 Fed. Reg. at 18756.

²⁶ *Visual Memory LLC v. NVIDIA Corp.*, 867 F.3d 1253, 1261 (Fed. Cir. 2017); *see also, e.g., James v. J2 Cloud Servs. LLC*, 887 F.3d 1362, 1372 (Fed. Cir. 2018) (same); *Ryan v. Ryan*, 889 F.3d 499, 505 (8th Cir. 2018) (same); *Gray v. Evercore Restructuring L.L.C.*, 544 F.3d 320, 324 (1st Cir. 2008) (same).

this context, the analogy would be drawing factual inferences in favor of the petitioner. Likewise, when a party opposing summary judgment cannot do so without additional discovery, under Fed. R. Civ. P. 56(d), courts grant continuances and allow further discovery “almost as a matter of course.”²⁷ These rules are designed to protect parties against premature judgment when the facts they need (here, for example, the opportunity to cross-examine a witness) are not available to them.²⁸

As the USPTO correctly noted during the 2016 rulemaking—entirely consistent with the common-sense approach courts take to resolving cases on incomplete records—the current rule “preserve[s] the petitioner’s right to challenge statements made by the patent owner declarant, which may be done as of right during a trial.”²⁹ When there is an incomplete record, as is the case when the patent owner submits testimonial evidence pre-institution, any disputes of material fact must be resolved in favor of the petitioner, who has not had an opportunity to complete their record.

C. The proposed change would not only reduce patent quality, but it would drive-up costs and invite gamesmanship

Because this portion of the proposed rule would limit access to IPR, it operates to the detriment of patent quality in the U.S. This proposed change would also create unfairness in the IPR system, unnecessarily increase costs, and invite gamesmanship.

As above, under the proposed change, petitioners would not have an opportunity to cross-examine or respond to patent owner’s testimonial evidence. As the agency has explained, “the time frame for the preliminary phase of an AIA proceeding does not allow generally for cross-examination of a declarant before institution as of right, nor for the petitioner to file a reply brief as of right.”³⁰

That said, petitioners may seek leave to file replies to the patent owner’s testimonial evidence, and they would have to do so much more often under the proposed change.³¹ Although “the Board does not expect that such a reply will be granted in many cases due to the short time period the Board has to reach a decision on institution.”³² Even still, for petitioners facing an unappealable institution decision being made on an incomplete record, they are very likely to try to respond to the patent owner’s new evidence. That motions practice (which the PTAB expects to deny often) will needlessly drive up the costs of IPR and open doors to multiplication of the proceedings. The (fairer) alternative would be to allow full

²⁷ *Banks v. City of Philadelphia*, 309 F.R.D. 287, 292 (E.D. Pa. 2015)

²⁸ See, e.g., *Heap v. Carter*, 112 F. Supp. 3d 402, 427 (E.D. Va. 2015) (Rule 56(d) motions “are broadly favored and should be liberally granted in order to protect non-moving parties from premature summary judgment”) (quotations omitted); *U.S. v. Newbury Mfg. Co.*, 1 F.R.D. 718, 719 (D. Mass. 1941) (“[t]he rule does not compel a party to try his case on affidavits with no opportunity to cross-examine affiants”).

²⁹ 81 Fed. Reg. at 18755.

³⁰ 81 Fed. Reg. at 18755.

³¹ *Trial Practice Guide*, USPTO 20-21 (July 2019), available at <https://www.uspto.gov/sites/default/files/documents/trial-practice-guide-update3.pdf>.

³² *Trial Practice Guide*, USPTO 20-21 (July 2019), available at <https://www.uspto.gov/sites/default/files/documents/trial-practice-guide-update3.pdf>.

discovery of the patent owner's testimonial evidence, including cross-examination, and offer petitioners a reply as of right. But this creation of a trial-before-a-trial scenario also makes no sense in the context of the IPR's intentionally-designed, efficient timeframes.

In addition, patent owners are allowed to withdraw their pre-institution testimonial evidence, which compounds problems with the proposed change and invites mischief. A patent owner can submit testimonial evidence at the pre-institution stage that will never be subject to scrutiny or cross. If the PTAB denies institution, the petitioner's opportunity to challenge the testimonial evidence would be moot, because the proceeding is over. If the PTAB grants institution, then the patent owner can merely withdraw the testimonial evidence it submitted.³³ It should go without saying: this opens the door to patent owners seeking to introduce over-reaching testimonial evidence that would not hold-up under cross, in an attempt to avoid institution, because there is no downside. As such, the proposed change invites gamesmanship at the institution stage.

Finally, this portion of the proposed rule would have broader, negative economic consequences on startups and innovation. On its face, eliminating the current rule for resolving factual disputes created by a patent owner's testimonial evidence at institution will impose significant barriers to petitioners and result in more denials of meritorious IPR petitions. There is ample evidence that abusive patent litigation is economically harmful. As noted above, startups facing patent demands suffer in financial and operational terms.³⁴ And abusive patent litigants are estimated to cost innovators tens of billions of dollars each year.³⁵ The biggest impacts are on small startups.³⁶ But there is also ample evidence of the value of IPR in reducing those harms. Thanks to IPR, companies report fewer frivolous patent demands and estimates suggest that innovators saved over \$2 billion in the first five years after implementation of IPR.³⁷ More recent studies show that the America Invents Act led to an increase of \$3 billion in U.S. business activity and 13,000 job-years of employment since 2014.³⁸

Were the USPTO to adopt proposed amendments to 37 C.F.R. §§ 42.108(c) & 42.208(c), it would further limit access to IPR and start to erase these substantial benefits the U.S. economy has enjoyed.

³³ *Trial Practice Guide*, USPTO 20-21 (July 2019), available at <https://www.uspto.gov/sites/default/files/documents/trial-practice-guide-update3.pdf> (“[A] patent owner may choose not to rely on testimony submitted with the preliminary response. . . . If a patent owner withdraws a declaration submitted with its preliminary response, that declarant will usually not be subject to deposition on the withdrawn declaration.”)

³⁴ *Supra* note 1.

³⁵ James Bessen, *The Evidence is In: Patent Trolls Do Hurt Innovation*, Harv. Bus. Rev. (Nov. 2014), <https://hbr.org/2014/07/the-evidence-is-in-patent-trolls-do-hurt-innovation>.

³⁶ *Id.*

³⁷ *Supra* note 3; Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, Patent Progress (Sept. 14, 2017), <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

³⁸ *Unified's Patent Quality Initiative (PQI) Releases Economic Report Showing the AIA Led to Over 13,000 Jobs and Grew the U.S. Economy by \$3 Billion Since 2014*, Unified Patents (June 24, 2020), <https://www.unifiedpatents.com/insights/2020/6/23/the-perryman-group-releases-economic-report-an-assessment-of-the-impact-of-the-america-invents-act-and-the-patent-trial-and-appeal-board-on-the-us-economy>.

* * *

Thank you again for the opportunity to provide these comments. We hope the USPTO will continue to prioritize patent quality and ensure access to the IPR system is not overly-restricted. As part of this, the USPTO should not adopt the proposal of eliminating the current presumptions in 37 C.F.R. §§ 42.108(c) & 42.208(c). And Engine remains committed to engaging with the agency on proposed changes to the patent system and how they would affect the startup community.