

Friday, November 20, 2020

Re: National Marine Manufacturers Association’s Comments in Response to “Request for Comments on Discretion To Institute Trials Before the Patent Trial and Appeal Board” (Docket No. PTO-C-2020-0055)

The National Marine Manufacturers Association (“NMMA”) submits these comments on behalf of our 1,300 manufacturer-members who produce over 80 percent of the nation’s recreational boats, trailers, engines and other accessories for watercraft enjoyment. The importance of boating to the U.S. economy is significant, and we urge you to take this into consideration as you examine these new rules. Fully 95 percent of the boats used in the U.S. are made in the U.S. Boating is an overwhelmingly American industry – and many of its innovations rely on patents. The annual economic impact of the recreational boating industry is over \$170 billion, with boating directly employing over a half-million Americans and indirectly creating jobs for nearly 200,000 more. Boat builders are net exporters (\$1.3B annually), exactly the kind of employers the U.S. Patent and Trademark Office (“PTO”) should be seeking means to support, not harm. We urge you to see more about boating’s share of the recreational economy of each state at the Bureau of Economic Analysis web site [here](#) and about the value of the outdoor economy, including boating, [here](#). The importance of the *inter partes* review (“IPR”) to NMMA members cannot be overstated. Eighty-four percent of U.S. boat manufacturers classify as small businesses.

Through the precedential decisions and policies discussed in the Request for Comments, the PTO has frustrated the goals and utility of IPR. The PTO is unraveling Congress’s efforts to reduce the harms caused by low-quality patents and abusive litigation. As the Patent Trial and Appeal Board (“PTAB”) increasingly exercises its discretion to deny IPR petitions, it is leaving many invalid patents unchallenged. And the nation’s boat builders – indeed, all manufacturers – are suffering the consequences of these PTO efforts to shield invalid patents from review. Rates of abusive litigation are steadily rising, and IPR is often no longer a viable, affordable alternative to challenge low-quality patents. Instead of continuing down this path by codifying current policies and practices, the PTO should re-prioritize patent quality and restore the IPR system to its proper focus—resolving the problems of erroneously-granted patents.

The IPR System is Critically Important to Domestic Manufacturers and Had Been Working Well

When Congress passed the America Invents Act (“AIA”), a core motivating goal was “to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.”¹ And Congress succeeded, creating an IPR system that worked—to reduce the high costs of challenging low-quality patents, open up invalidity defenses to those who could not previously afford them, discourage the assertion of low-quality patents, and level the playing field in patent assertion.

The existence of a healthy IPR system generated numerous benefits. It was becoming more difficult to leverage the high costs of district court litigation to coerce manufacturers into settling frivolous cases. As such, it became less profitable to engage in abusive practices. Indeed, we had been seeing fewer abusive

¹ H.R. REP. 112-98, 40.

patent demands since IPR was established.² The AIA led to an estimated \$2.6 billion in direct savings in patent litigation costs over five years. And that savings further translated into a nearly \$3 billion increase in U.S. business activity.³

For NMMA’s members, the mere option of an IPR was also an effective tool to persuade abusive patent assertion entities (“PAEs”) to walk away or settle on more reasonable terms. While our preference would always be to avoid paying to “use” invalid patents, anything that reduces the costs we face from abusive patent assertion still has value. Even before filing an IPR petition, we have been able to explain to those wielding invalid patents why and how their assertions lack merit. With confidence that we could prepare and file a winning IPR, that fact alone helped us avoid costs and risks of abusive litigation.

Recent PTO Policies Have Weakened IPR, Fostering Abuse of the Patent System

Since the PTAB started down the path of exercising its discretion to deny meritorious petitions, the benefits we had seen due to IPR are eroding. By imposing a constellation of imbalanced requirements on IPR petitioners, and going beyond the carefully negotiated requirements in the statute, the PTAB has increased costs on innovators, created uncertainty, and left invalid patents in force to be asserted in district court.

The PTO’s current policies and practices for discretionary denials directly conflict with the AIA’s purpose. On their face, these policies are concerning. When the PTAB becomes aware of an invalid patent that fails to satisfy the statutory criteria, it should act to cancel it. Indeed, the core purpose of the IPR is “to weed out bad patent claims efficiently.”⁴ That purpose is subverted by current PTO policies which impose requirements on IPR petitions that are inconsistent with the statute.⁵

The PTAB’s approach to shielding invalid patents from scrutiny has not gone unnoticed by PAEs. Abusive patent litigation is back on the rise and the problem of forum shopping is rapidly growing. Defending even frivolous litigation is very expensive—it can cost anywhere from \$1.8 to \$4.5 million to take a PAE case to trial, orders of magnitude more than what most startups and small companies can afford, and far greater than an IPR.⁶ But PAE litigation has grown nearly 40 percent this year compared to last, and nearly 50 percent compared to 2018.⁷ And since the *NHK Spring Co. v. Intri-Plex Techs., Inc.* decision was designated as precedential,⁸ there has been more than a 200 percent increase in new PAE cases filed in the Western District of Texas—a jurisdiction where patent owners can effectively IPR-proof

² See also, e.g., *Patent Review is Working for Startups*, Engine, <https://innovatewithoutfear.engine.is/wp-content/uploads/2020/01/IPR-is-working-one-pager.pdf> (showing less NPE litigation since IPR went into effect).

³ *An Assessment of the impact of the America Invents Act and the Patent Trial and Appeal Board on the US Economy*, The Perryman Group ii, 4, 6 (June 2020), available at <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>.

⁴ *Thryv, Inc v. Click-To-Call Techs., LP*, __ U.S. ___, 140 S. Ct. 1367, 1374 (2020).

⁵ E.g., David Jones, Opinion, *USPTO Abuse Of Discretionary IPR Denials Must Be Cabined*, Law360 (Sept. 10, 2020, 2:25 PM), <https://www.law360.com/ip/articles/1307415/uspto-abuse-of-discretionary-ipr-denials-must-be-cabined> (discussing the statutory time bar, which the PTO has supplanted with case-by-case assessment of timing).

⁶ Am. Intellectual Prop. Law Ass’n, 2019 Report of the Economic Survey 51-52 (2019) (reporting costs of litigation and IPR, where the cost to take an IPR through a hearing is approximately \$325,000).

⁷ *Litigation on the Rise: Number of New Cases Filed By Patent Assertion Entities*, Engine (Nov. 9, 2020), <https://www.engine.is/s/Pae-stats-Diagram-Jan-Oct-2020.pdf>.

⁸ IPR2018-00752 (Sept. 12, 2018) (designated precedential May 7, 2019).

their patents by playing local rules off of PTO policies.⁹ This resurgence in the sort of problematic behavior that motivated IPR in the first place should send a strong signal that the PTO's current policies are askew.

Instead of Codifying Rules that Shield Invalid Patents, PTO Should Re-Prioritize Patent Quality

Instead of continuing on its current trajectory, the PTO should return its focus to promoting patent quality, and the PTAB should institute each and every IPR petition that satisfies the statutory threshold by establishing "a reasonable likelihood" that at least one claim in the challenged patent is invalid.¹⁰ We urge the PTO not to codify the policies and practices mentioned in the Request for Comments. Instead, we encourage the Office to unwind its recent efforts, which have weakened IPR and made it harder to challenge invalid patents.

With the PTO correctly focused on patent quality, and IPR available to "weed out" invalid patents that should never have been issued, we can get back to our work of innovation, economic growth, research and development, manufacturing, hiring, and hopefully contributing to the country's recovery from the economic downturn caused by the current pandemic. But to do that, we need to not be bogged down by invalid patents and abusive patent assertions. That is where the PTO can, and hopefully will, come in.

Smaller boat, trailer, engine and accessory makers are not equipped with the ability or resources to afford litigation or paying repeated settlements to PAEs who threaten or sue them. A properly functioning IPR system is critical to our member's survival, and their survival is critical for nearly 700,000 jobs across the country.

Thank you for your consideration.

⁹ *Forum Shopping: A Familiar Tactic in Abusive Patent Litigation, Back on the Rise*, Engine (Nov. 9, 2020), <https://www.engine.is/s/WD-TeX-Diagram-Updated-with-text.pdf>.

¹⁰ 35 U.S.C. § 314(a).