USIJ Response to USPTO Request for Comments on Discretion to Institute PTAB Trials
PTO-C-2020-0055

December 2, 2020

The Honorable Andrei Iancu
Under-Secretary of Commerce for Intellectual Property and
Director, United States Patent and Trademark Office
600 Dulany Street
Alexandria, VA 22314

Dear Director Iancu:

The Alliance of U.S. Startups and Inventors for Jobs ('USIJ") responds herein to "Request for Comments on Discretion to Institute Trials Before the Patent Trial and Appeal Board," published 10/20/20 at 85 F.R. 66502–506, Document Number: 2020-22946 ("PTO Request").[1] USIJ supports the initiatives undertaken by the current leadership of the PTO, including the current initiative to which the PTO Request is addressed.

Before addressing the specific focus of the PTO Request, however, we want to emphasize the critical importance of patents to entrepreneurs, inventors and their investors and financial backers that throughout our history have been disproportionately responsible for many of the "breakthrough" inventions that have allowed the U.S. to dominate the "progress of science and the useful arts," as specifically called out in Article I, Section 8, Clause 8 of the U.S. Constitution.[2] In discussing the role played

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[1] USIJ is an association of inventors, startups, venture capital investors and entrepreneurs whose efforts to bring new companies and new technologies into being are entirely dependent upon a reliable system of patent protection. USIJ was formed in 2014 to help foster the need for strong and enforceable patents and to promote investment and innovation in patent-intensive industries that are critical to U.S. economic leadership. A list of the USIJ members is attached as Exhibit A to this letter.

[2] Examples abound, but perhaps the late Ray Dolby illustrates the point as well as any other. Mr. Dolby spent years thinking about how to remove the high frequency hiss from a music recording but was told by many knowledgeable people that it was simply impossible. Setting out on a path of his own, and with a high risk of failure, Dolby finally managed to create a noise reduction system that worked well enough to license to recording companies and others; Dolby Laboratories today is the result of his persistent belief that he had calculated the mathematics correctly and that the system would work. Without that persistence, the world might still have heard a high-pitched hiss during soft and quiet passages in recorded music for many more years. https://www.bing.com/videos/search?q=Full+interview+of+Ray+Dolby+at+http%3a%2f%2fwww.emmytvlege And without enforceable and reliable patents to protect years of work from the copyists that emerge once such an invention is proven to be economically feasible, the incentive to undertake such work in the first instance is severely diminished or lost entirely.

by patents in this nation's enormously productive economy, it is important to bear in mind the economic reality of what is meant by that language as to the "useful arts." Scientific research and experimentation have been ubiquitous throughout history, not just in this nation but the entire world; what has made America unique is our creative ability to translate scientific learning into new products and services, which no other nation has ever matched. For more than 200 years, patents provided one of the fundamental building blocks of our industrial policy, precisely because reliable and enforceable patents established a fertile climate that encourages risk taking and investment in the implementation of new ideas and the creation of new products.

Prior to the confirmation of the current Director of the PTO, a large and growing segment of the inventor community and its investors no longer considered patent protection as a sufficiently reliable foundation upon which to justify the inherent risks associated with moving a visionary but unproven idea or a laboratory scale experiment to widespread production. The current leadership of the PTO, under the guidance of Director Iancu, has made substantial progress in correcting that perception, most importantly by calling public attention to the need for reliability and predictability of patents and recognizing that clarity and balanced procedures for managing Post Grant Reviews ("PGRs") and Inter Partes Reviews ("IPRs") are essential.

As will be apparent from this response to the PTO Request, USIJ applauds the effort by the PTO to erect a more rational legal structure around the unbridled discretion to invalidate patents that previously was exercised by individual panels of the Patent Trial & Appeal Board ("PTAB"). The introductory portion of the PTO Request describes in considerable detail many of the circumstances in which precedential opinions related to the institution and trial of IPRs have been used to make the process more transparent and predictable and more likely to result in fairness to both patent owners and petitioners. USIJ welcomes and supports those efforts. We also recognize the need, however, to reduce this prodigious effort to formal rulemaking, thereby providing at least some measure of assurance to those inventors, companies and investors that are entirely dependent on their patents to justify the expenditure of time and resources in risky new projects.[3]

I. Serial Petitions

USIJ supports Option 1 of the PTO Request, *i.e.*, the case-specific approach taken by the agency in *General Plastics, Valve I and Valve II* with respect to the handling of petitions to institute an IPR. Such an approach is fully consistent with the broad discretion conferred on the Director by 35 U.S.C. §§ 311 – 317, and more specifically by § 316 (a) which provides general guidelines for promulgating regulations to govern the

[3] The Federal Circuit, in *Facebook v. Windy City*, 953 F.3d 1313, 1338 (Fed. Cir. 2020) (additional statement of panel) noted that the precedential opinions of the PTO were not the equivalent of formal rulemaking and encouraged the agency to formalize those opinions, a process for which we understand the PTO request to be an initial step.

management of IPRs within the PTO,[4] and § 314(d) which provides that "The determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable."[5]

Option 2(a) is not acceptable, because failing to consider prior IPR challenges to any given patent, particularly when multiple petitions are implemented by the same petitioner or its surrogates, would restore fully the ability of predominantly large, incumbent companies to abuse the IPR process by filing serial and pile-on petitions. Since enactment of the Leahy-Smith America Invents Act ("AIA") in 2011, we have seen these abusive practices emerge to the detriment of startups and the smaller competitors of these large corporations. As discussed more fully below, "efficient infringement" has become a business model for many large companies that regard the intentional and deliberate infringement of patents owned by individual inventors, startups and small companies as more economically attractive than taking a license or modifying their products.

USIJ prefers Option 1 to Option 2(b), because we think it would be unwise to bar the Director and PTAB of all flexibility and discretion to deal with the potential situations that might arise and that cannot be predicted in advance. Option 1, properly administered, would give the Director the flexibility to address circumstances in which the Office has a strong interest in reviewing a patent or that would result in a faster, less expensive outcome for the involved parties without encouraging the abuse and harassment of patent owners that has taken place in the past. Even so, and in light of the prior history of abuse of IPR procedures and the devastating impact that serial IPRs have had on the integrity and reliability of patents, USIJ does not believe that any patent that has been vetted in an earlier IPR proceeding should be subject to a further IPR except in the rare and narrow circumstance in which new prior art clearly would, on its face, invalidate the patent.[6] Otherwise, we believe that a valid argument can be made for a rule rejecting

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[4] Section 316(a)(4) requires the Director to prescribe regulations to include "establishing and governing inter partes review ...." Section 316(b) further provides that "In prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted under this chapter."

[5] In *Cisco Systems, Inc. v. Ramot at Tel Aviv University Ltd* (Fed. Cir. October 30, 2020) Doc. No. 2020-148, the Federal Circuit rejected an effort by Cisco to appeal from the denial of institution of its petition for IPR in IPR2020-00122 and IPR2020-00123, noting that the explicit language of Section 314(d) precludes it:

> "Section 314(d) of title 35 of the U.S. Code specifically provides that '[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.' That language indicates that when 'the Director decides not to institute, for whatever reason, there is no review,'" citing *St. Regis Mohawk Tribe v. Mylan Pharms. Inc.*, 896 F.3d 1322, 1327 (Fed. Cir. 2018).

The court also denied Cisco's petition for Writ of Mandamus to the PTO, noting the court's lack of jurisdiction to review an institution decision. In addition, the court rejected Cisco's argument that the court's reading of Section 314(d) is at variance with three Supreme Court decisions, all of which dealt only with appeals after a final decision on the merits and not from the PTAB's initial decision to initiate a trial.

[6] One way for the Director to control the use of follow-on IPRs would be to confine such challenges to those in which invalidity is based upon anticipation addressed under Section 102 and not on suggestions cobbled together by an "expert" to the effect that, when viewed in light of 2 or 3 references showing specific features of an invention, the claim is suddenly obvious under Section 103. This, in fact, is one of the key aspects of IPRs that contributes to the widespread perception that patents have become irrelevant to innovation and investment. Although Supreme Court *dicta* in *KSR Int'l v. Teleflex, Inc.*, 127 S.Ct 1727, 1742 (2007) might seem to encourage the use of hindsight analysis in combining unrelated and irrelevant prior art references to assemble the elements of a

categorically any new petition for IPR on a patent that already has been reviewed in an earlier IPR proceeding or by an Article III court.

Before the current Director began to limit the use of IPRs to harass and to force smaller companies to incur unnecessary expenses, the abuses of the IPR system by some of the largest companies in the world were rampant (and to some extent remain so). USIJ recently sent letters to the Judiciary Committees of both houses of Congress responding to a letter sent to those same committees and signed by a number of groups that are funded by and reflect the wishes of the largest corporations in the consumer electronics and related industries. The USIJ letter can be found at www.usij.org/research/news and addresses complaints from Intel, Cisco and others that are premised on the contention that the PTAB is **required** to institute an IPR trial if the Director is unable to state that the petitioner is not likely to prevail on the merits. This reading of Sections 314 and 315 stands the statutory scheme on its ear; the argument rests solely on the threshold language in Section 314(a) that **precludes** institution of a trial if the Director **fails** to make such a finding and does not address the remainder of the statutory provisions confirming the Director's ample discretion to deny institution for a variety of reasons. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2140 ("[T]he agency's decision to deny a petition is a matter committed to the Patent Office's discretion."). A recent Federal Circuit opinion in *Cisco v. Ramot* (cited in fn. 5) notes further that no litigant has an unqualified right to use IPR procedures to establish the invalidity of a patent:

> "We note that Cisco ... clearly has a readily available alternative legal channel to raise its arguments concerning the validity of the asserted patents. While Cisco prefers to raise those arguments before the Board, it has no clear and indisputable right to do so."

From the standpoint of individual inventors, entrepreneurs and startups, serial IPRs have proven to be extremely pernicious. Abuse of IPR procedures by large companies and their surrogates became apparent early in the existence of the PTAB and were largely predictable because Congress had made it extremely easy for anyone to challenge the validity of an issued patent without significant risk to the challenger but with existential risk to the patent property.[7] This asymmetry in the risk profiles for bringing IPRs has led to a culture of disrespect for intellectual property and has allowed infringers to implement, often collectively, a strategy they call "efficient infringement." This term is used to describe a business stratagem resting on the theory that it is economically more beneficial to infringe patents owned by smaller companies than to take licenses, because few if any of those companies have the resources to pursue patent litigation against a determined infringer with resources that are orders of magnitude larger than those of the patent owner.

One aspect of this stratagem has been coordinated attacks that involve multiple petitioners and have the calculated effect of stringing out the process and making it extremely costly and time-consuming to

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claim, (*e.g.*, "a person of ordinary skill will be able to fit the teachings of multiple patents together like pieces of a puzzle"), that is certainly not the approach that the PTAB should be taking to follow-on IPRs.

[7] Dolin, "Dubious Patent Reform," University of Baltimore, Legal Studies Research Paper No. 2015-34 (2014) https://ssrn.com/abstract=2488220. Professor Dolin documents the direct correlation between the ease of challenging patent validity and the incidence of abuse. His paper concludes with the following admonition:

> "Creating additional and ever-more expansive procedures to eradicate [invalid] patents is a dubious approach because it may end up imposing unnecessary and exceedingly high costs on legitimate patents and patentees. It is a lesson that Congress would be well-advised to heed as it proceeds to debate yet another round of patent reform."

enforce intellectual property rights. In a white paper published in 2018, USIJ called attention to the legislative history of the AIA in which proponents of the IPR process gave empty assurances to Congress that inventors and startups would not be subjected to multiple rounds of challenges by large infringers. The USIJ study, entitled "How 'One Bite at the Apple' Became Serial Attacks on High Quality Patents at the PTAB," demonstrates that large technology companies frequently sponsor multiple attacks on the same patent. The very existence of duplicative attacks is compelling evidence that the patent in question is not one of the "bad patents" that Congress thought it was addressing. A truly "bad patent" should be easily invalidated based on filing of a single strong petition. To the contrary, many patents challenged in IPRs are known to be high quality that an infringer, or multiple infringers simply do not want to pay the inventor to use. The white paper shows that Microsoft, Apple, Google, and Samsung are highest among the primary offenders, using multiple IPR petitions 59%, 56%, 38% and 38% percent of the time, respectively. In addition, the white paper showed that many petitioners hide behind surrogates to avoid the estoppel provision built into the AIA to prevent duplicative attacks. The USIJ white paper can be found at https://www.usij.org/research/2018/serial-attacks.

Serial attacks on the same patent are particularly insidious, because even the most innovative and valuable patent can be destroyed if it is challenged a sufficient number of times. Anyone who reflects on the probabilistic nature of all litigation and the exponential impact of having to fend off repeated attacks, each with a significant chance of losing, can understand the devastating prospect facing a patent owner for even the best of patents. A recently published scholarly analysis of the statistical impact of multiple challenges on any patent confirms what we all know intuitively, *viz*. that the probability of invalidation begins to approach 100% when a patent is repeatedly subjected to challenges.[8] From the standpoint of a small company, this renders the patent system illusory, at best, and cruel deception by our government at worst.

In summary, USIJ acknowledges and supports the objectives of the PTAB to achieve "balance" in the management of IPRs, as long as fundamental fairness to **both** sides of an IPR proceeding is maintained. Significant cost savings may be achievable by both parties in allowing the PTAB to review the validity of a patent where the initial examiner has missed key prior art at the time of the original examination. Once a patent has been subjected to this process, however, it becomes grossly unfair to conduct trials based on further petitions brought in hopes of finally killing the same patent. Any "cost-saving" to the later petitioners must be balanced against the increased cost to the patent owner, which currently is enormous, and by the damage that serial petitions cause to the willingness of inventors and investors to rely on their patents as foundations for developing new technologies.

II. Parallel Petitions

For reasons set forth above with respect to serial petitions, USIJ believes that parallel petitions should normally be accorded the same analysis. The statutory scheme of post-grant review of issued patents under 35 U.S.C. 324 – 329 and inter partes review under 35 U.S.C. §§ 311 – 316 did not contemplate the use of multiple proceedings involving the same patent, irrespective of when the follow-on petitions are filed.

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[8] Sabatini, "PTAB challenges and innovation: a probabilistic approach," SSRN 3668216 (2020). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3668216

III. Proceedings in Other Tribunals

Responding to paragraphs 5 and 6, USIJ supports in general the case-specific approach taken in the *Fintiv* matter with respect to institution decisions as to patents that are being or have been reviewed by other tribunals, such as a U.S district court or the International Trade Commission. Section 315 clearly contemplates that such situations may arise after the filing of a complaint or petition alleging infringement of a patent, and there are many diverse situations that present the need for careful balancing by the PTAB between the rights of a patent owner and the desires of petitioner(s). The interplay between proceedings before the PTAB and those in other tribunals can be extremely complex, making it impossible to articulate specific rules addressing each and every such case. USIJ generally supports the analytical factors set forth in the *Fintiv* decision with one exception – the suggestion that the "merits" be considered in making the decision to institute an IPR. This serves only to emphasize the inherent bias that is presented by the use of the same panel to decide institution as will rule on the merits. From the very inception of the IPR and PGR procedures, the patent user community has been concerned with the appearance of prejudice and unfairness when a PTAB panel passes on institution and then the same panel ultimately becomes the panel for trial. Indeed, Section 104 of the bipartisan STRONGER Patents Act, which is pending in both houses of Congress, would specifically address this point by separating these two parts of the process. Since Section 314(a) of the AIA conditions institution of an IPR proceeding upon a PTAB finding that "there is reasonable likelihood that the petitioner would prevail with respect to at least one claim," it is impossible for the PTAB to address IPRs fairly using same panel for institution as will determine the outcome of a trial. The easiest way to end this appearance of prejudging the outcome of a trial is to use separate panels. With specific reference to factor 6 in the *Fintiv* list of considerations, we respectfully suggest that emphasizing "the merits" as one factor to be considered in an institution decision serves only to aggravate the perception of built-in prejudice already present in the minds of patent owners.

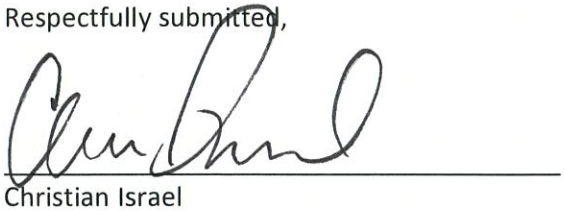
If the PTO regards it as critical to avoid the cost and duplicative effort of using separate panels for these separate functions, the rule should at the least require that the institution panel **not get committed to a point of view** as to the merits, which once formed is often difficult to overcome. In addition, we call attention to fn. 6, *supra*, of the important distinction between clear invalidity under §102 and most PTAB findings of invalidity based on obviousness under §103. When the many factual issues that underlie a finding that a claim is obvious are in play, it becomes all too easy for the institution panel to assume away such issues for purposes of a trial.

IV. Additional Considerations

In addition to the foregoing, USIJ believes that the following principles should guide decisions by the PTAB as to institution of all petitions, irrespective of whether they are included specifically in the rules being promulgated. First, the PTAB should keep in mind the ease with which petitions for IPR can be filed and the potential for abuse by large companies, particularly with respect to the repeated assertion of the same or nearly identical prior art. Prior to revisions to the Consolidated Trial Practice Guide last November, many of the outcomes were egregiously unfair to the patent owners. Second, as noted in Section I, *supra*, petitioners do not have an indisputable "right" to a favorable institution decision, and there is nothing unjust in leaving challengers to raise validity arguments in the district court or ITC where doing so is essential to preserve fundamental fairness to the patent owner. Third, USIJ submits that once the validity of a patent claim has been ruled on by an Article III tribunal, principles of stare decisis should almost always preclude the PTAB from reaching a different result using the same prior art and arguments that previously were before the court. Indeed, after a district court has ruled in favor of the patent owner on the validity of a patent, there should be no reason to institute a discretionary IPR with respect to the same

claims.[9] Finally, the PTAB should determine whether a petitioner has some demonstrable interest in the actual outcome of a validity challenge and should look skeptically on any petitioner without standing. Although the AIA does not establish a standing requirement for bringing an IPR petition, the Director clearly has the authority to reject the wasteful use of PTO resources or to flush out the abusive use of IPRs by entities with **no real vested interest in the outcome other than to serve as a surrogate for large infringers.**

Respectfully submitted,



Christian Israel
Executive Director
December 2, 2020

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[9] The high-water mark with respect to this practice may have been reached in *SSL Services LLC v. Cisco Systems Inc.*, Rule 36 affirmance of PTAB Decision in No. IPR2015-01754, Doc. No. 2017-1951 (Fed. Cir. 2017), *cert. denied*, 202 L. Ed. 2d 405, 405 (2018), wherein the PTAB was allowed to invalidate a patent that had survived nine previous challenges before the PTO and had been the subject of a district court trial with a favorable outcome that was affirmed by the Federal Circuit. Cisco, which was not a party to the prior determinations, was allowed to assert essentially the same prior art with a couple of cumulative add-ons to make its obviousness case under Section 103 as if it had the right to still another shot at showing invalidity. The outcome is most troubling.

Exhibit A – USIJ Members

- Aegea Medical
- Array Photonics
- BioCardia
- DivX, LLC
- EarLens Corporation
- ExploraMed
- Fogarty Institute for Innovation
- Headwater Research
- Lauder Partners, LLC
- Materna Medical
- MedicalCue
- Moximed
- Original Ventures
- Pavey Investments
- Precision Biopsy
- Prescient Surgical
- Puracath Medical
- Rearden Studios
- Siesta Medical
- Soraa
- Tallwood Venture Capital
- The Foundry