



July 6, 2018

Via E-Mail (PTABNPR2018@uspto.gov)

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

**Re: Fallbrook Technologies Inc. Comments in Response to 83 FR 21221 –
“Changes to the Claim Construction Standard for Interpreting Claims...”,
Federal Register Volume 83, Issue 90 (May 9, 2018), Docket No. PTO-P-
2018-0036**

Dear Undersecretary Iancu:

Company Background:

Fallbrook Technologies Inc. ("Fallbrook") appreciates the opportunity to comment on the proposed change to the claim construction standard for inter partes review ("IPR") and other post-grant proceedings before the Patent Trial and Appeal Board ("PTAB") by the U.S. Patent and Trademark Office ("USPTO") to change. Fallbrook strongly supports this proposed change as being necessary to restore predictability and equity, while increasing efficiency, in our patent system, which is needed to stimulate investment in innovation.

Fallbrook is the developer of the NuVinci® transmission technology embodied in its advanced bicycle groupsets sold under the enviolo brand. Fallbrook also licenses its NuVinci technology to other companies in the automotive, off-road, heavy truck and tractor, and mobility sectors for development of next generation transmissions. Fallbrook has spent nearly 20 years and over a hundred million dollars developing its technology, which provides functionality and packaging needed for next generation drivetrains. To protect its investment and that of its licensees, Fallbrook depends on a predictable patent system.

Fallbrook strongly supports the USPTO's proposed rule change. Under the new rule, the PTAB would apply the Phillips claim construction standard, which federal district courts and the U.S. International Trade Commission ("ITC") have long since used to assess patent validity, and would no longer apply the broadest reasonable interpretation ("BRI") claim construction standard, which the USPTO assesses patentability (pre-grant).

Authority:

The Office’s proposed rule change is within its discretionary authority. See *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2146 (2016) (“Cuozzo and its supporting amici offer various policy arguments in favor of the ordinary meaning standard. The Patent Office is legally free to accept or reject such policy arguments on the basis of its own reasoned analysis. ... [W]e do not decide whether there is a better alternative as a policy matter. That is a question that Congress left to the particular expertise of the Patent Office.”).

Fairness, Efficiency, and Predictability:

The rule change is necessary to establish predictability and fairness in post-grant proceedings and to increase efficiency in the patent system. In the notice of proposed rulemaking, the USPTO acknowledges that “86.8% of patents at issue in AIA trial proceedings also have been the subject of litigation in the federal courts.” (citing Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 *Berkeley Tech. L.J.* 45 (2016), <https://ssrn.com/abstract=2731002>). Despite the substantial overlap in patents being tested before these two tribunals, the manner in which the patents themselves are construed differs in a significant and substantive manner.

As noted, the USPTO assesses patentability, pre-grant, by resort to the BRI standard; whereas Article III courts and the ITC assess validity according to the Phillips standard. As a result the worst elements of our economy, those who would steal innovation hard earned through the toil of inventors, are encouraged to forum shop to the court or post-grant process that provides them the best chance of winning – and worse, pursue both. Large, well-funded entities are advantaged because they can pursue a case in court and if they don’t get the claim construction they are looking for, they take “another bite at the apple” by instituting IPR in the USPTO. With different standards applied by the two processes these technology pirates are able to increase their chances of getting away with their theft by revamping their arguments, overpowering small companies with multiple processes, and taking advantage of a different claim construction standard. On several occasions, a determination of validity at a district court has been undermined by a later decision by the PTAB using a different standard that determines the claims of the patent to be invalid. In 2013, *InterDigital Communications, Inc.* won an infringement verdict in a civil action in a district court for certain cellular networking technology patents, under the Phillips standard. *InterDigital Commc’ns Inc. v. ZTE Corp.*, No. 1:13-cv-00009-RGA (D. Del.). In parallel, the accused infringer filed an IPR petition in the PTAB challenging the ‘244 patent to be invalid over the same prior art. See *ZTE Corp. v. IPR Licensing, Inc.*, IPR2014-00525, Paper No. 1 (P.T.A.B. Mar. 21, 2014). The PTAB instituted review, *Id.*, Paper No. 19 (P.T.A.B. Sept. 17, 2014), and, on September 14, 2015—nearly a year after the jury verdict for *InterDigital*—the PTAB found the claims invalid on the very same grounds that the jury rejected. *Id.*, Paper No. 48 (P.T.A.B. Sept. 14, 2015). In doing so, the PTAB applied the “broadest reasonable interpretation” of the claims, expressly acknowledged that the district court had applied a different standard, and rejected the district court’s narrower construction (under which the jury had found the ‘244 patent was not obvious in light of the same prior art). *Id.* at 10-13 & n.4.

There are numerous other instances of the PTAB cancelling a patent that a court or jury has found valid. See *Smartflash LLC v. Apple Inc.*, 621 F. App’x 995, 1006 (Fed. Cir. 2015);

Versata Software, Inc. v. SAP Am., Inc., No. 2:07cv153-RSP, 2014 WL 1600327, at *2 (E.D. Tex. Apr. 21, 2014), *aff'd sub nom. Versata Computer Indus. Solutions, Inc. v. SAP AG*, 564 F. App'x 600, 600-01 (Fed. Cir. 2014); Steve Brachman & Gene Quinn, 58 Patents Upheld in District Court Invalidated by PTAB on Same Grounds, IPWatchdog (Jan. 8, 2018), <http://www.ipwatchdog.com/2018/01/08/58-patents-upheld-district-court-invalidated-ptab/> (finding that there have been at least 58 cases where the PTAB invalidated a patent on the same statutory ground the district court held valid); Steve Brachman, Gene Quinn, & Paul Morinville, PTAB Facts: An Ugly Picture of a Tribunal Run Amok, IPWatchdog (Jan. 8, 2018), http://www.ipwatchdog.com/2018/01/08/ptab-facts-ugly-picture-tribunal-run-amok (“there have been 220 patents that were found to be valid in various Federal District Courts that were also reviewed by the PTAB. Of those, 52 patents were determined to have valid claims by the PTAB whereas 168 patents had claims, which were determined invalid by the PTAB. This means that 76.4% of those 220 patents found valid in Federal District Court were found defective by the PTAB”); Kurt Orzeck, Paice Wins \$29M In Hybrid Tech Spat With Hyundai, Kia, Law360 (Oct. 5, 2015), <https://www.law360.com/articles/711064/paice-wins-29m-in-hybrid-tech-spat-with-hyundai-kia> (noting that the PTAB found unpatentable two hybrid vehicle technology patents that a jury found valid and infringed just days later).

In order to increase confidence in U.S. patents, we need a system that gives appropriate deference to the work of the USPTO pre-grant; and employs a common standard of claim construction, post-grant, regardless of tribunal.

The doubled tracked process that currently exists is a huge drain on resources of small inventive companies, like Fallbrook, is a massive distraction from the already daunting and perilous task of disrupting a market, and is a fertile field for misconduct and gamesmanship by technology pirates who believe it is cheaper to infringe and try to get away with it then it is to do the research and development that is necessary to evolve. Entire technology sectors are built on the strength and dependability of the U.S. patent system. The unpredictability established by the current state of affairs has already diminished investment and new business formation.

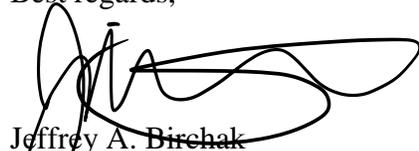
Proponents of the BRI standard play the shell game arguing post-grant review “improves patent quality” by weeding out bad patents, though they make no suggestion or argument about improvement of examination quality during the grant of the patent. However, those same proponents would never leave quality to end of line or post-sale testing of their own products. They build quality into the manufacturing process that is then verified by end-of-line testing. The process is used for their products but does not serve their interests in the patent system where their true intention, the theft through efficient infringement of the inventions of others, is made clear by their arguments and actions. Therefore, the change to the Phillips standard will add predictability and fairness to the system that rewards hard work and investment while also adding administrative efficiency by avoiding duplicative processes, and disincentivizing the gamesmanship we have seen since the implementation of the current process.

Congress intended IPR proceedings as an efficient and less expensive alternative to district court litigation. See H.R. Rep. No. 112-98 (2011), at 48, 2011 U.S.C.C.A.N. 67, 78 (Committee Report stating that PTAB post-grant petitions were “not to be used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent” and that such would “frustrate the purpose of the section as providing quick and cost effective alternatives to litigation.”). Unfortunately, that vision is not the reality that is

playing out before the PTAB today where innovator/patent holders are subjected to repetitive processes and unpredictable results.

We appreciate the opportunity to provide comment and your consideration of our comments. We look forward to further efforts by USPTO to continue to improve the U.S. patent system by, among other things, ironing out the unintended consequences of the America Invents Act (AIA), and other perturbations to the system. We believe that the USPTO's proposed rule change is an important step forward in improving predictability, fairness, and efficiency in the U.S. patent system. We strongly encourage you to promptly implement this rule change.

Best regards,

A handwritten signature in black ink, appearing to read "Jeffrey A. Birchak", written over a horizontal line.

Jeffrey A. Birchak
Vice President Intellectual Property, General Counsel, and Secretary
Fairbrook Technologies Inc.