



June 20, 2023

## **USIJ RESPONSE TO ANPRM**

The Alliance of U.S. Startups and Inventors for Jobs (“USIJ”) responds herein to Advance Notice of Proposed Rulemaking, dated April 21, 2023 (88 FR 24503) (“ANPRM”), which identifies potential factors that the USPTO considers as relevant to the exercise of statutory discretion to deny institution of post-grant procedures pursuant to 35 U.S.C. §§314 and 324. The ANPRM seeks comments and guidance from various segments of the patent stakeholder community seeking to balance competing interests regarding institution decisions.

**The Alliance of U.S. Startups and Inventors for Jobs (“USIJ”) Was Created to Advocate for Intellectual Property Rights.** USIJ is a coalition of 23 companies – startups, entrepreneurs, inventors and investors – all of which depend on stable and reliable patent protection as a foundational prerequisite for making long term investments of capital and time commitments to high-risk businesses developing new technologies. USIJ was formed in 2012 and is committed to promoting a strong intellectual property system that supports innovation, investment, and breakthrough technologies that change our world. Our mission is to ensure this system continues to thrive for the benefit of American startups and inventors, and most importantly, American leadership in science and technology. USIJ collaborates with several other associations that are similarly concerned with the declining availability of U.S. patents essential to protect our country’s most important inventions that will define the future of technology.

## **OVERVIEW**

**Preliminary Statement.** The ANPRM sets forth a number of possible approaches under consideration by the USPTO to implement more fully the congressional intent “to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs” and to provide “guidance on Director’s discretion to determine whether to institute an IPR or PGR.” (p. 2). One of the underlying motivations for proposing guidance at this time appears to be recognition of “the important role the USPTO plays in encouraging and protecting innovation by individual inventors, startups, and under-resourced innovators who are working to bring their ideas to market . . . [by] limiting the impact of AIA post-grant proceedings on such entities by denying institution when certain conditions are met.” (p. 3). Implied by the foregoing is that post-grant proceedings – IPRs in particular – are being used

by large defendants as useful tools for harassing “individual inventors, startups and under-resourced innovators.” USIJ is pleased to see these important concerns expressed so clearly and thoughtfully by the agency.

There is no question that abuse of the rights of small companies began with implementation of the AIA and continues to this day to be one of the most salient features of post-grant reviews – particularly IPRs – from the viewpoint of entrepreneurs, startups and their investors, to the point that many have simply withdrawn from trying to invent anything that requires reliable U.S. patents to justify the risky expenditure of time and money for development. Harassment, opportunistic petitions, and refusals to respect the property rights of inventors and small companies were clearly not what Congress had in mind when it enacted the 2011 America Invents Act (“AIA”).<sup>1</sup> Unfortunately, however, a few very large companies over the 12 years since enactment of the AIA have developed highly sophisticated tactics for using IPRs to squelch competition and to beat down innovation by smaller companies. Despite the congressional intent to reduce the cost of litigation, many IPR petitions are filed by the world’s wealthiest and most profitable digital technology companies, both domestic and Asian, for the specific purpose of increasing the cost of litigation to small companies with limited resources. Restoring balance to this procedure is essential if the objectives intended by Congress are ever to be realized.

USIJ strongly encourages the implementation of several of the suggested approaches set forth in the ANPRM, including (i) efforts to determine the real parties in interest in cases involving surreptitious deals between large companies and surrogates that perform as “stalking horses,” (ii) limiting or eliminating altogether challenges to the patents of small companies brought by companies orders of magnitude larger, (iii) refusals to entertain petitions that rely on prior art the PTO has previously considered, (iv) making better use of the concepts of *res judicata* and collateral estoppel to achieve finality, and (v) addressing the issues raised by serial and parallel petitions and proceedings.

USIJ’s comments reflect three fundamental truths we believe to be incontrovertible. First, individual inventors, startups and the investors who fund them have for decades been primarily responsible for breakthrough innovation in many of our country’s most important strategic technologies. This is the cohort of stakeholders that relies most heavily on a functional and reliable regime of intellectual property protection, particularly patents. It is also the cohort that has been most severely damaged by abusive practices that have been a prominent feature of post-grant procedures since the outset. We do not deny that large, well-established and successful companies can contribute to innovation in their own way, but R&D in that environment is much more likely to be low-risk work focused on improving already established products and services rather than disruptive new technologies that make old products obsolete and move an

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<sup>1</sup> See, e.g., USIJ Research Paper, “How One Bite at the Apple Became Serial Attacks on High Quality Patents,” <https://www.usij.org/research/2018/serial-attacks>.

entire technology forward.<sup>2</sup> Further, when large companies do add innovative products and features to their existing lines, careful examination often reveals that these were conceived and proven by entrepreneurs, startups and individual inventors and either purchased or copied by the larger company. For a variety of reasons, few large companies can actually create genuinely disruptive innovation on their own.

Second, without reliably enforceable patents few if any startups can survive in head-to-head competition with large incumbents that copy their new technology. Once a new technology is proven to be feasible, incumbents enjoy tremendous advantages of scale and the benefit of established engineering, distribution and marketing infrastructure already in place, whereas most smaller companies need to build these things from scratch or form joint ventures and partnerships to advance their technology from a proof-of-concept stage to a deliverable product. Only patents that are respected by the community prevent incumbents from running roughshod over a startup. Even the negotiations essential to forming joint arrangements become far more precarious and riskier without enforceable patents, and this inhibits the most effective way for a small company to bring products to market.

More troublesome than the inherent economic disparity that startups suffer is an intentional effort by some of the largest digital technology companies to neutralize their patents altogether, a business strategy euphemistically called “efficient infringement,” a strategy that is effective in major part because the PTAB procedures encourage it. This strategy comes in several flavors, one being to invite a startup to engage in potential licensing discussions, get a good look at its new technology, then simply copy the technology. Another is to copy new technology without regard to whether or not it is patented and refuse to take a license. Still another is to entice away the most knowledgeable technical people from an innovative startup using salaries and stock options that startups cannot match. Most of the time there is no reprisal in these situations, but even if sued for infringement, the infringer predictably will hire the very best lawyers and litigate aggressively until the case goes away or can be settled for a tiny fraction of its value. The PTAB provides opportunities for driving up litigation costs and delaying final resolution of almost any case. These strategies are a direct outgrowth of the declining enforceability of U.S. patents, particularly the loss of injunctive relief, the propensity of the Federal Circuit to cut back or reverse large damage awards, and the undeniable vulnerability of critical patents to IPRs. This type of predation has become an all too frequent phenomena, as can be seen in Apple’s misappropriation of the medical device technologies of Masimo and AliveCor,<sup>3</sup> Google’s misappropriation of Sonos’

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<sup>2</sup> Numerous academic studies link a strong patent system with widely diversified innovation by inventors and entrepreneurs. *E.g.*, Barnett, *INNOVATION, FIRMS AND MARKETS: THE ORGANIZATIONAL LOGIC OF INTELLECTUAL PROPERTY* (Oxford University Press 2021); Stephen Haber, “Patents and the Wealth of Nations,” *Geo. Mason L. Rev.*, 23:4, pp. 811 *et. seq.*

<sup>3</sup> <https://www.medtechdive.com/news/apple-masimo-itc-patent-vote-AAPL-MASI/650511>

internet audio technology,<sup>4</sup> Samsung's misappropriation of Netlist's memory technology,<sup>5</sup> Cisco's misappropriation of Centripetal's network security technology<sup>6</sup> . . . and the beat goes on!!

Third, patent litigation has become prohibitively expensive for most startups and small companies. The cash reserves available to large infringers allows them intentionally to make litigation so expensive that few startups can even consider litigation to stop infringement of their patents, let alone obtain the resources needed to initiate litigation or even licensing discussions. A patent infringement case from start to finish can cost the plaintiff tens of millions of dollars and can tie up most of the management team of a small company for years, as the case works its way through the courts. Startups funded by venture capital may be able to raise large amounts of capital, but typically are not allocated more than they need for hiring people and conducting the R&D needed to get a product to market and achieve profitability. Few investors are willing to support litigation by increasing their investments, because the outcomes are extremely unpredictable and returns are seldom worth the risk. The creation of post-grant procedures may have been envisioned by Congress as a way to reduce these costs of litigation for all parties, but in reality, these may have made litigation less costly for large corporate entities that comprise the primary users of IPR procedures, but they have made it **vastly more expensive**, risky and difficult for startups and small companies. For reasons discussed more specifically below, the extraordinary rate of cancellation of the patents that the same agency examined and issued a few months or years earlier, the absence of a standing requirement for an IPR petition, the emergence of bounty hunters such as Unified Patents, the gamesmanship involved when both an IPR proceeding and district court litigation exist, the lack of finality as to patent validity – all of these factors have created a nightmarish scenario for the startup cohort that is going to be difficult to overcome.

Patents only perform their intended purpose of incentivizing innovation when they are **perceived** by those who must commit time, money and other resources to the task of developing new technologies and products as providing genuine protection from infringers, predatory or otherwise. This perception arises in major part from “outcomes,” *i.e.*, whether patent owners win or lose, not the minutia as to how that came about. The regular and frequent cancellation of patents that play a central role in the business model of a small company echoes loudly throughout the entire cohort and is a major factor in the growing irrelevance of patents to this community. From the earliest days of the PTAB, startups and their investors have paid close attention to the cancellation statistics, which have been extremely troublesome. At the moment,

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<sup>4</sup> <https://www.reuters.com/legal/us-jury-says-google-owes-sonos-325-million-smart-speaker-patent-case-2023-05-26>

<sup>5</sup> <https://www.reuters.com/legal/samsung-hit-with-303-mln-jury-verdict-computer-memory-patent-lawsuit-2023-04-21>

<sup>6</sup> <https://money.usnews.com/investing/news/articles/2022-12-05/u-s-supreme-court-rejects-centripetal-appeal-in-cisco-patent-fight>

U.S. patents are not perceived as a reliable way to protect new technology by a strong and growing majority of this community.

Faced with the foregoing, many entrepreneurs and investors have stopped considering their patents as a key part of their business strategy, which in many cases means that fewer and fewer of our most talented scientists and inventors are pursuing the types of innovation that America needs most, as investment dollars move to other countries or to enterprises that do not need patents – such as fashion, social platform apps, recreation and the like. There also has been a shift toward technologies and business models that rely on trade secrets and subscription models to defeat the public disclosure incentive of patents, precisely the opposite effect of why Congress wants patents in the first place. Put succinctly, U.S. patents are increasingly irrelevant to the investment of time and resources in new and unproven technologies, and that is a long-term disaster for this country.<sup>7</sup> The U.S. has led the world for more than two centuries in the development of science and technology. Allowing patent protection to become irrelevant to innovation has enormous and ominous implications for this country and should be a grave concern to everyone.

**The Director Does Not Need New Rules to Govern Discretionary Denials.** Whether or not the ANPRM actually matures into formal rules, USPTO should not lose sight of the fact that the Director was given discretionary authority to deny the institution of post-grant proceedings, perhaps because Congress recognized that large infringers might try to harass and abuse the inventors and entrepreneurs who are the backbone of this country’s scientific and technological innovation.<sup>8</sup> Unfortunately, abuse of process and harassment of small patent owners have been the defining features of the Patent Trial and Appeals Board (“PTAB”), as actually implemented, since the AIA was initially enacted.<sup>9</sup> The Director’s discretion to deny institution has not been used nearly as often or in nearly as many situations as we believe it should have been. USIJ would like to see much greater use of the Director’s power to refuse institution, whether or not covered by “rules” contemplated by the ANPRM. The statute is clear that the Director does not need

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<sup>7</sup> See, Mark Schultz, “The Importance of an Effective and Reliable Patent System to Investment in Critical Technologies,” USIJ Research Paper (2020) <https://www.usij.org/research/2020/8/3/usij-releases-report-on-the-importance-of-an-effective-and-reliable-patent-system-to-critical-technologies>. Professor Schultz demonstrates the shift in venture capital away from patent essential technologies and toward less risky investments such as fashion, smartphone apps, hotels and the like.

<sup>8</sup> The legislative history of the AIA is analyzed in the USIJ Research White Paper entitled “How “One Bite at the Apple” Became Serial Attacks on High Quality Patents at the PTAB,” October 17, 2018, pp. 2-8. <https://static1.squarespace.com/static/5746149f86db43995675b6bb/t/5bd3757af9619a5ed812cb69/1540584826664/FINAL+USIJ+Serial+IPR+White+Paper+---+Oct+17+20181.pdf>

<sup>9</sup> Phil Johnson, “A Look Back at the Legislative Origins of IPRs,” IPWatchdog 11.1.2018. (“[I]t was neither Congress’s intent nor that of most of AIA’s supporters to create an unfair IPR patent ‘killing field.’”).

formal rules to deny institution in any case where a petition reflects an abusive use of the PTAB and exercise of that discretion is normally not reviewable.<sup>10</sup>

**Key Proposals Advanced by ANPRM.** The ANPRM sets forth a number of the general areas in which the Director is considering rulemaking (p. 6) for guidance to the parties and the PTAB itself. USIJ strongly supports the Director in focusing on all of these areas. We do not plan to address each and every suggestion or proposal in the ANPRM, but instead to focus on those of greatest interest and/or concern to our community of investors, inventors and entrepreneurs having a large appetite for risk and whose efforts depend existentially on patent protection for survival.

- “1. Petitions filed by certain for-profit entities;
- “2. Petitions challenging under-resourced patent owner patents where the patentee has or is attempting to bring products to market;
- “3. Petitions challenging patent claims previously subject to a final adjudication upholding the patent claims against patentability challenges in district court or in post-grant proceedings before the USPTO;
- “4. Serial petitions;
- “5. Petitions raising previously addressed prior art or arguments (subject to the 35 U.S.C. 325(d) framework);
- “6. Parallel petitions; and
- “7. Petitions challenging patents subject to ongoing parallel litigation in district court.

“The changes under consideration also provide for several threshold definitions that apply to one or more of these categories of petitions subject to discretionary denials. Those definitions set forth the criteria used to determine: (1) what constitutes a ‘substantial relationship’ between entities sufficient to trigger or avoid discretionary denial, (2) when claim sets are deemed to have ‘substantial overlap’ with challenged claims, and (3) what constitutes ‘compelling merits’ sufficient to trigger an exception to discretionary denial.

“Finally, five additional changes are being considered: (1) absent exceptional circumstances, requiring petitioners to file a stipulation that neither they nor their privy or real parties have filed prior post-grant proceedings (PGRs, IPRs, CBMs or ex parte reexaminations) on the challenged claims; and that if their post-grant proceeding is instituted, neither they nor their privy or real parties in interest, will challenge any of the challenged claims in a subsequent post-grant proceeding (including PGRs, IPRs and ex parte reexamination); (2) requiring petitioners to file a separate paper justifying multiple parallel petitions; (3) allowing a potential payment of a fee to enhance the word-count

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<sup>10</sup> *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261, 273 (2016) (“[T]he agency's decision to deny a petition is a matter committed to the Patent Office's discretion.”).

limits for a petition to avoid multiple parallel petitions; (4) providing for separate briefing on discretionary denial issues; and (5) requiring filing of all settlement papers when the dismissal of AIA proceedings is sought, whether pre- or post-institution.” (ANPRM, p. 6)

### **COMMENTS ON CHANGES UNDER DISCUSSION**

**Item 1. “For Profit” Entities.** The section of ANPRM entitled “Limitations on Nonmarket Competitors—Petitions Filed by Certain For-Profit Entities” reflects the unfairness that can arise when companies with no interest in particular patents create profitable businesses by acting as surrogates or stalking horses for other companies that do have an interest in the challenged patents but want to avoid being estopped from asserting the same challenge directly in case the surrogate petition is unsuccessful. Large companies in the digital technology space have used this technique since the earliest days of the PTAB to pursue multiple challenges to the same patent when only one is permitted by a fair reading of the AIA.

USIJ believes the Director should require every IPR petitioner to (i) identify a current business interest that is threatened or otherwise likely to be affected by the challenged patent, (ii) demonstrate concrete plans to enter into such a business in the near future, (iii) identify the interest of every third party on whose behalf it is petitioning to cancel the challenged patent, and who therefore is another real party in interest, or (iv) identify some other credible reason for seeking to cancel an issued patent. Failure to satisfy one of the foregoing conditions should normally be the basis for a discretionary denial of the petition.

In the case of subscription-based surrogate petitioners, such as Unified Patents and RPX, who hold themselves out to infringers and accused infringers as something akin to “patent bounty hunters,”<sup>11</sup> their subscribers hope that the combined group will provide a sufficiently different entity from any individual subscriber so as to avoid being treated as a real party in interest in the IPR. Discretionary denial of IPR petitions at the institution stage can reduce significantly the abuse of IPR procedures by these tag teams. Denials also will promote integrity in the patent system and also benefit the efficient administration of the Office, and the ability of the Office to complete proceedings in a timely manner. We recognize the bounty hunters will argue vigorously that they perform a public service by deterring bad NPE conduct and pursuing patent trolls, but these are not eleemosynary entities. An objective examination of their efforts would reveal no other substantial purpose for their formation but to challenge patents for the benefit of their subscribers and shield them from estoppel.

Denial of institution is also the appropriate response to opportunistic and predatory filings by companies seeking to take unfair advantage of litigation situations at particularly vulnerable times for the patent owner, such as occurred in the *Open Sky* and *Patent Quality Assurance* matters.

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<sup>11</sup> <https://patroll.unifiedpatents.com/contests>



The *Open Sky* matter was particularly troublesome, because the Director allowed an unsuccessful infringer to ride the coattails of what clearly was a fraudulent filing by a group of opportunistic lawyers, thereby allowing a large digital technology company to attack, by way of joinder, a patent that it had been found to infringe. The infringer had chosen, presumably for strategic reasons, not to pursue an IPR on its own until after it lost at trial. Few recent events have had a greater impact on inventor and investor decisions to abandon their reliance on patents than the outcome of that transaction. Worse, the message to all losing defendant seems to be that they can avoid the one-time bar on IPR petitions if some “uninterested” third party files an IPR proceeding that it can simply join. This type of reverse incentive exemplifies why inventors and investors have grown increasingly disgusted with the U.S. patent system; too many believe the system is not working for anyone except large corporations and their dutiful agents.

USIJ also submits that use of the term “for profit” to describe the bounty hunters may be unduly restrictive. First, the term “for profit entities” is not a particularly useful distinction, since the vast majority of entities that file petitions to challenge patents on their own behalf falls into this category. The focus should be on the legitimacy of the interests of the petitioner, not on its form of doing business. Moreover, exempting nonprofits from a rule designed to address abusive practices by entities with no particular interest in a patent would be a mistake. It will not be difficult for an existing bounty hunter whose present business is to challenge patents at the PTAB at the request of “subscribers” to reconstitute itself as a “nonprofit” (under a different name of course) and dub its subscription receipts “tax deductible contributions.” Exemplary is the Electronic Freedom Foundation, which receives substantial contributions from the digital technology industry, and touts itself as both a non-profit and a “patent busting” entity (<https://www.eff.org/press/archives/2009/06/16>).

The ANPRM suggests the possibility of denying institution where a petitioner could not satisfy declaratory judgment standing requirements in district court or where petitioner could not show a reasonable apprehension of being sued on the challenged patent. (p. 11). We do not believe that Article III standing, in and of itself, should be used as a test for discretionary denial. Although the Supreme Court and Federal Circuit have made it relatively easy for a potential infringement defendant to initiate a declaratory relief action when confronted with a patent, there still is required some affirmative action by the patent owner to suggest that litigation may follow, and this raises a panoply of factual inquiries that would be time consuming for both the PTAB and the parties to an IPR petition to address.<sup>12</sup> Beyond that, however, we must assume that Congress, by allowing for the filing of a petition by any “person who is not the patent owner,” intended to make it possible for a potential defendant faced with what it believes to be an invalid patent to test that

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<sup>12</sup> The Supreme Court in *Medimmune, Inc. v Genentech, Inc.*, 127 S.Ct. 764 (2007), rejected the Federal Circuits “reasonable apprehension” test for Article III jurisdiction, replacing it with the following a far more permissive test (“the dispute be ‘definite and concrete, touching the legal relations of the parties ... [and must] be ‘real and substantial’ and ‘admit of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical state of facts.’”) *Id.* at 771.



validity before investing the money necessary to put a new service or product on the market. Many if not most declaratory judgment cases arise in the context of efforts to negotiate licenses or covenants not to sue. A potential new entrant, however, may not want a possible competitor to know that it is contemplating a future market move. USIJ believes that the tests set forth above should control, irrespective of whether or not the same petitioner could satisfy the legal foundation for a declaratory relief action in an Article III court.

**Item 2. A Compelling Merits Exception Is a Bad Idea.** USIJ disagrees strongly that a “compelling merits” test should be used by the Director as an alternative basis for instituting a petition that otherwise fails to meet one of the foregoing tests, as suggested in the ANPRM (pp. 3, 6, 9 and *passim*). If a petition has no apparent purpose that can be justified by the direct interest of the petitioner, there is no basis for the USPTO reach out on its own to make a *sua sponte* determination of the merits of the petition. Section 314(a) provides:

“The Director may not authorize an inter partes review to be instituted unless ... there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”

Under current rules, the burden of proof is on the petitioner to demonstrate a “reasonable likelihood” that it would prevail.<sup>13</sup> Where the petitioner has no basis to have filed in the first instance, to then put the burden on the respondent to demonstrate the lack of a reasonable likelihood makes little or no sense. If a petition should not be instituted for procedural reasons, any inquiry into the merits is misguided. Moreover, it is likely to be difficult to differentiate a “compelling merits” test from a reasonable likelihood test. Either the prior art cited in a petition makes it reasonably likely that the petitioner will prevail or it does not. A “compelling merits” test cannot add much of real value to that determination and will simply undermine the perceptible impact that can be achieved from the use of discretionary denials to discourage bounty hunters and predatory entities, such as *Open Sky*, from trying to take hostages. Further, one of the primary concerns of many patent owner has been the use of the same PTAB panel to determine institution of an IPR (*i.e.*, whether the threshold showing under Section 314(a) has been met) as makes the final determination. There is an inherent sense of unfairness in this process whenever a patent is cancelled, and the use of a “compelling merits” test will exacerbate that discontent.

We reiterate, however, that the Director’s power to refuse to institute a petition is, and should remain, discretionary. There may be one-off situations in which an entity can state a proper reason for cancelling a patent that it does not own, and clearly the USPTO needs to retain the flexibility to institute a proper review when one is warranted.

### **Item 3 – What Constitutes a Substantial Relationship?**

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<sup>13</sup> See, 35 U.S.C. §312 requires the petitioner to adduce evidence sufficient to support the assertion of invalidity.

As noted above, “the USPTO is considering adopting a ‘substantial relationship’ test to evaluate whether certain entities are sufficiently related to a party in an AIA proceeding such that discretionary denial is warranted under the criteria set forth in the changes under consideration.” (p. 6, *et al*). The ANPRM posits a number of situations in which a substantial relationship between separate entities might affect discretionary denial. We note, initially, that 35 U.S.C. § 312(2) already requires that a petitioner identify “all real parties in interest.” Thus, there is no need for a discretionary denial of institution to address situations in which discovery reveals that the petitioner has failed to identify a real party in interest. The petition itself is defective and can be rejected on that basis. That said, however, it is apparent that the analysis becomes more murky when the petitioner is one of the subscriber-based bounty hunters whose petition seeks to carry out the wishes of another entity, especially when the true nature of the relationship evades discovery. To the extent the Director does not already have the statutory obligation to reject a petition for failure to identify real parties in interest, USIJ supports the use of a “substantial relationship” test to cover situations in which the evidence on that issue is unclear. Stated differently, we think the Director has the discretion to define real-party-in-interest more broadly for purposes of institution than it might have for other purposes.

The ANPRM suggests the possibility of “requir[ing] identification of anyone having an ownership interest in the patent owner or petitioner.” (p.3, see also p. 8). For a publicly traded company, it is essentially impossible to identify all the shareholders. Even for smaller companies, many investors who have no control over a company in which they have invested, perhaps through a fund or some other financial arrangement, are often unwilling to be identified. In short, we think this is an unworkable suggestion. Ownership interests by passive investors are qualitatively different than subscribers that expect services surreptitiously benefitting the subscriber.

The ANPRM also suggests an identification of any government funding that may have been provided to patent owner for research. This seems irrelevant to the ability of a small company to enforce its patents against a much larger one. It is already a requirement that a patent identify any governmental entity that has “march in rights,” as that term is defined in the Bayh-Dole Act. (35 U.S.C. § 203). We are aware of no situation in which public funds were used to finance litigation by a small patent owner.

**Item 4 – Protection of Under-Resourced Patent Owners.** The ANPRM appears to acknowledge the special importance of patents to the entrepreneur, inventor, startup and investor cohort and the palpable injustice resulting from forcing these entities to spend large sums defending the patents that protect their innovations from large and profitable incumbents that infringe their patents. The Director’s concern is reiterated at several points in the ANPRM, but the following general statement captures the point as well as any:

“Recognizing the important role the USPTO plays in encouraging and protecting innovation by individual inventors, startups, and under-resourced innovators who are working to bring their ideas to market, the Office is considering limiting the impact of AIA post-grant proceedings on such entities by denying institution when certain conditions are

met. The Office is seeking input on how it can protect those working to bring their ideas to market either directly or indirectly, while not emboldening or supporting economic business models that do not advance innovation.” (p. 3).

USIJ welcomes the stated objective here, because it does address, at least in part, one of the most serious problems facing the invention cohort, the prohibitive cost of trying to enforce a patent. This is particularly a problem when the small company is pitted against one of the corporate giants that advocate “efficient infringement” as a business strategy and show up among the largest users of IPR procedures to challenge the patents of smaller companies. A single IPR can cost upwards of \$500,000, but IPRs filed by some of the large digital technology companies often are filed against multiple patents owned by the same respondent, even though they are not asserted. This is a pernicious practice that increases the cost of IPR accordingly. And of course, these costs must be added to the cost of the litigation itself which can run into the tens of millions of dollars.

We do anticipate difficulty in trying to define the entities and circumstances that should qualify for a discretionary denial of post-grant review. We are concerned that the amount suggested in the ANPRM for identifying an “under-resourced innovator” is far too small. Eight times the existing Micro Entity measure of gross income, as defined in 37 CFR 1.29(a)(3), is well below \$2M. Many early-stage startups and small companies will have revenues above that amount by the time their patents begin to issue and become available to enforce, but these companies still may be a long way from profitability. Moreover, “gross income”, *i.e.*, revenue, is not the same as net profit, which is the amount of income that remains after accounting for all expenses, debts, additional income streams and operating costs.<sup>14</sup> In a typical startup, revenues are used to pay employees and improve product offerings long before a company achieves profitability and positive cash flow. Numerous small companies remain unprofitable for years, while their revenues climb to many multiples of \$2M. A company that is using all of its available capital and revenue to build a self-sustaining business cannot afford to respond to challenges to its patents much more comfortably than one with no revenue at all. In short, the proposal in the ANPRM, despite its positive motivation and best of intentions, will really bypass many if not most of the startups and small companies it is trying to foster.<sup>15</sup>

In lieu of gross income, USIJ suggests that the Director use discretion to refuse IPRs filed against an individual inventor or startup if the latter can show (i) that it is actively engaged in or diligent in pursuing the commercialization of technology (including licensing) covered by one or more claims of one or more of its patents (not necessarily the same one(s) being asserted), (ii) it has

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<sup>14</sup> <https://www.investopedia.com/ask/answers/122214/what-difference-between-revenue-and-profit.asp>

<sup>15</sup> Nor is profit a good measure to use as a dividing line, because profit numbers can be controlled and manipulated by the company being measured, and in any event are subject to considerable dispute.

negative cash flow, or if not, the company's fair market valuation for purposes of IRS Rule 409A<sup>16</sup> is less than 10% of the fair market value of the petitioner, which in the case of a publicly held company will be its total market capitalization, and (iii) that it has not asserted patent claims against more than four companies in the past 36 months. For small companies that are publicly held, market capitalization could also be used as an alternative to valuation.<sup>17</sup>

As noted in the Overview, the current system allows large companies, many of which have essentially unlimited resources, to make patent enforcement litigation prohibitively expensive for the inventor cohort, which in turn has been largely responsible for the significant shift by many investors and entrepreneurs away from strategically important technologies that require patents to justify the risks associated with long development cycles and toward activities requiring less risk and with shorter times to liquidity. Correction of this imbalance is essential if confidence in the integrity and reliability of U.S. patents is to be restored.

**5. USIJ Urges the Director to Reject Petitions Challenging Patents Previously Subject to a Final Adjudication.** One of the most damaging of all the practices currently used by the PTAB is allowing a losing defendant in an Article III court to seek IPR review of the same patent claim(s) on which it lost and in which it either raised or could have raised the same art on which it later relies to support its petition. The *Open Sky*, *Palo Alto Networks* and *Patent Quality Assurance* matters, discussed above, are exemplary. For patents to be taken seriously by anyone – inventors, investors, infringers, potential collaborators and licensees – this continuing exposure to the PTAB must end. If not, patent owners will continue to reject out of hand any belief that their patents mean anything of importance. This issue is critical. However else the Director chooses to sort out the pros and cons of exercising discretion to deny institution, it is imperative that the Director recognize and honor the fundamental aspects of judicial finality, at least as between the same parties to a prior case.

USIJ supports the suggestion that where a district court has reached a final decision upholding patentability of a claim before a final decision can be reached in a parallel IPR proceeding, any benefits from the IPR process are lost and the IPR should be dismissed. We also agree with the suggestion that in instances where a patent claim has already been put through an adjudication upholding the validity of the claim, either in a contested matter in district court or in a Final Written Decision by the PTAB, that should be grounds for denial of institution of any future petition challenging the same claim by any other petitioner. The ANPRM appears to recognize this point, but posits several situations in which it would proceed nevertheless – where the petitioner (i) had no substantial relationship with the losing party in the earlier adjudication, (ii)

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<sup>16</sup> Valuations that satisfy IRS Code, Section 409A are used in the startup world to establish the value of company that issues stock options to employees and also to assess taxes when such options are exercised and converted to stock. Many independent third-party appraisers are available to provide a proper evaluation.

<sup>17</sup> Many startups with promising technology are able to sell shares on public markets long before they are cash flow positive. These companies are just as badly affected by attacks on their patents as non-public companies are and equally in need of relief from large companies seeking to copy their technology.

can show an intent to commercialize a product covered by the claim, and (iii) would have Article III standing in district court. We do not agree that these exceptions would be proper in most instances. If a patent claim has been finally adjudicated on the merits and found to be valid, anyone wishing to commercialize a product covered by such claim should treat it with respect and either seek a license or design around it.<sup>18</sup> That was how our patent system worked before the AIA, and we need to get back to an environment in which **both** patent owners and third-parties can make reasonable business decisions based on fundamental concepts of private property. If this hypothetical entity genuinely believes the patent to be invalid, they can make that argument in district court or when negotiating with the patent owner.

For all the reasons set forth above, we are not in favor of a “compelling merits” test for any sort of decision that must be made by the PTAB or the Director.

**6. Serial Petitions Impose an Unnecessary Burden on the Patent Owner.** USIJ is pleased to note that the Director understands the deleterious impact that serial petitions have on patent owners. The ANPRM raises the point most directly:

“Office also welcomes thoughts on whether the Office should discretionarily deny any serial petition, regardless of the relationship to the first petitioner, unless the petition meets the compelling merits test. The Office also welcomes comments on how the Office should define exceptional circumstances.”

USIJ believe that most if not all serial petitions should be denied as unnecessary for a proper functioning of the patent system, and we are troubled by the idea of exceptions, whether couched as “exceptional circumstances” or having “compelling merits.” We start our analysis of this issue with the observation that anyone sued for patent infringement has a statutory right under 35 U.S.C. § 282(b)(2) to adjudicate all aspects of the validity of the patent before a district court. The AIA also created an alternative avenue of challenge, but nothing in the legislative history suggests that Congress intended for every patent to be subjected to such challenges every time a petitioner came up with a different argument or every time it was infringed by a different petitioner. There is ample evidence from countless patent owners that the burdens of dealing with continuing and/or multiple challenges in the PTAB are largely responsible for the loss of interest in pursuing technologies that require patent coverage.<sup>19</sup> Once a patent has survived one run through the PTAB gauntlet, that patent can no longer be treated as a “bad patent” that was the primary focus of the legislation. Forcing it through multiple reviews may be cheaper for large defendants, but

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<sup>18</sup> Where the prior adjudication was not on the merits, we agree that the petition should be given a further look by the Director, but only for the benefit of a petition that met the foregoing criteria.

<sup>19</sup> Lamar Smith, “Stop Big Tech’s patent abuse,” San Antonio Express (June 14, 2023) <https://www.expressnews.com/opinion/commentary/article/smith-stop-big-tech-s-patent-abuse-18151847.php>. Mr. Smith was the co-sponsor of the Leahy-Smith America Invents Act.

it is prohibitively expensive for many patent owners and enormously consumptive of judicial resources for the USPTO.

The ANPRM refers to situations involving “compelling merits” and “exceptional circumstances” as possible exceptions. It is difficult to imagine in advance how these terms are likely to surface in future proceedings, but if preserving the patent system to make room for individual inventors, startups and entrepreneurs is the objective, we should not be creating another entire category of procedures for harassing this community. If “exceptional circumstances” refers to situations where the first petition was not or will not be resolved on the merits, USIJ would support that exception. As to “compelling merits,” if a PTAB panel can look at the prior art presented and conclude that patent invalidity is readily established, a district judge can do so as well.

Also worth noting is the practice of petitioners to add one or two references to some primary prior art and claim that the addition creates new prior art for the purposes of Section 103. This practice essentially guts the notion of finality, but nevertheless has been allowed by the PTAB on numerous occasions. When two petitions rely on the same single prior art reference, that should be treated as the same prior art. Stated differently, unless there is complete diversity between the list of prior art that the second challenger relies on and the list from the first challenge, the second challenger should be relegated to its rights in district court. The looseness with which Section 103 is applied by the PTAB may be a subject for another day, but at the very least the Director should recognize it as abuse when considering multiple challenges to the same claim.

**7. Parallel Litigation is Burdensome on Patent Owners and a Waste of Judicial Resources.** The ability of accused infringers to engage in strategic gamesmanship arising from the simultaneous pendency of both IPRs and district court infringement actions has been a prominent feature of PTAB matters from the outset. Parallel proceedings are but one of many factors that have made litigation prohibitively expensive for patent owners. The ANPRM brings this issue into sharper focus in its treatment of parallel proceedings and stipulations minimizing conflicts. (pp. 21 - 28).

USIJ strongly endorsed the Director’s decision in *Apple Inc. v. Fintiv, Inc.*, IPR2020–00019, Paper 11, 2020 WL 2126495 (PTAB Mar. 20, 2020) to deny institution, where it appeared that defenses in a patent infringement action pending in district court addressed the same validity issues as those in an IPR petition and would likely be resolved before the PTAB would issue a final written decision on the same patent claim. This decision benefited patent owners – particularly inventors, startups, entrepreneurs and their investors – in that it made gamesmanship and strategic posturing of the dispute by large companies more difficult. The mere fact that Apple, Cisco, Intel and Google tried vigorously, albeit unsuccessfully, to get a judicial ruling stripping the Director of the statutory discretion given by Congress speaks for itself on both the effect and the wisdom of the ruling.<sup>20</sup>

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<sup>20</sup> See, e.g., *Apple, Inc., et. al. v. Andrei Iancu*, Case No. 5:20-cv-06128-EJD (N.D.Cal. 2021) Order Granting Motion to Dismiss; Terminating Motion for Summary Judgment.

Unfortunately, we are less enthusiastic about the application of the *Fintiv* rule in the aftermath of the June 2022 Guidance Memorandum, which created a number of exceptions to the relatively straightforward holding in *Fintiv*, with the result that the institution rate went back up to where it was before *Fintiv*. We recognize, however, that some of the cases in which institution is granted involved uncertainty as to when the district court is likely to reach trial. From the standpoint of startups and small companies, however, the burden of fighting on two fronts is the same regardless of which proceeding will be resolved first. For this reason, we like the suggestion that:

“... the Board would apply a clear, predictable rule and deny institution of an IPR in view of pending parallel district court litigation involving at least one of the challenged claims if the Board determines a trial in the district court action is likely to occur before the projected statutory deadline for a final written decision.” (p.23)

It is appropriate for the PTAB to make a fact-based inquiry as to when a district court case is actually likely to go to trial rather than rely on some perfunctory date set forth in an early pretrial conference. Some district judges frequently set unrealistically early trial dates to force the parties to settle or incur substantial extra expense (such as the preparation of expert reports and testimony), often with no serious expectation that such dates will hold if there is a trial.

We also think that any safe harbors or exceptions to the “clear, predictable rule” should be limited to truly unique circumstances that are not part of a pattern – as, for example, where the district court is unable to resolve the issue of validity of the challenged claim because of a recusal, hung jury or similarly unpredictable event. All other denials should be governed by an important principle: the USPTO must avoid forcing the patent owner to fight on two fronts simultaneously and also to avoid multiple attacks on the same patent claim, the latter outcome implicit in the estoppel provisions of 35 U.S.C. 315 §(e).

One of the possible exceptions referred to in the ANPRM (p. 22) (and also included in the Guidance Memorandum) harkens back to the “compelling merits” discussion we have already discussed. USIJ urges the abandonment of this concept. If a district court case presents the relevant factual requirements for a *Fintiv* denial of institution in the interest of fairness and judicial economy, it is difficult to see a public benefit from having the PTAB proceed nevertheless if the panel thinks that the merits may be “compelling.” If the merits are “highly likely” to invalidate a patent claim, a district court can do so as readily as the PTAB. Petitioners may argue that they are entitled to a ruling under the preponderance of evidence standard set forth in the AIA, but the higher standard contemplated by the ANPRM for determining the presence of “compelling merits” seems to make the two underlying burdens of proof similar if not identical.

We are not arguing that accused infringers should not be permitted to challenge the validity of patents they are accused of infringing, but this does not suggest that they are entitled to multiple shots on goal until the patent is cancelled, which has been the practice for too long. Defendants should not be given multiple venues in which to simultaneously challenge the same patent owner any more than they should have multiple opportunities to invalidate the same claim in just one



venue. We therefore reiterate our support for the stated goal of the ANPRM to, “apply a clear, predictable rule and deny institution of an IPR in view of pending parallel district court litigation involving at least one of the challenged claims if the Board determines a trial in the district court action is likely to occur before the projected statutory deadline for a final written decision.”

The ANPRM asks whether a stipulation similar to that in *Sotera Wireless, Inc. v. Masimo Corp.*, IPR2020–01019, 2020 WL 7049373, at \*7 (PTAB Dec. 1, 2020) should allow the petitioner to avoid a *Fintiv* denial and whether other, lesser commitments might serve as well:

“The Office would appreciate public comments regarding whether other, narrower types of stipulations should be sufficient to permit a petitioner to avoid discretionary denial of institution, such as a *Sotera* stipulation that is limited to the specific patent claims challenged in the petition, or a *Sand Revolution* stipulation. The Office would also appreciate comments on whether the *Sotera* stipulation can and should be limited to the claims asserted at the time the stipulation is filed. (p. 25).

Again, going back to first principles, USIJ suggests that any rule adopted by the USPTO regarding stipulations be crafted to avoid forcing the patent owner to fight on two fronts simultaneously and also to avoid multiple attacks on the same patent claim, an outcome implicit in the estoppel provisions of 35 U.S.C. 315 §(e). We respectfully submit that a *Sotera* type stipulation should be required automatically as part of filing any petition challenging a claim that already is being challenged as part of a pending district court case involving the same petitioner (or privy or real party interest). The stipulation should be clear and unequivocal covering fully any Section 102 or 103 issues that reasonably could be raised in the IPR matter with respect to the claims raised by the petition. The ANPRM asks if *Fintiv* should be replaced by a *Sotera* stipulation. (p.25). In our view, it should not. A *Sotera* type stipulation by itself is not a sufficient basis for allowing an IPR that duplicates district court proceedings to move forward. The patent owner has no ability to enforce such a stipulation in district court, and at least some courts are likely to allow an accused infringer to argue its way out of one. Moreover, the IPR petition may challenge only one of several patents in the underlying litigation, many with Section 102 and 103 issues that are similar to those raised by the petition, thus reserving the right to avoid the binding effect of an adverse outcome and casting doubt on the applicability of the estoppel provision requirement as to all issues that could have been raised be included in a final decision. In addition, if the patent owner finds it necessary to assert additional claims from those in the initial complaint, an instituted IPR proceeding may make the first one a waste of time. In short, we think that a *Sotera* stipulation should not be used to replace a proper *Fintiv* analysis or even be treated as part of one.

With respect to parallel proceedings where the initial proceeding is in the International Trade Commission, USIJ does not disagree with this exception to the *Fintiv* rule, because an ITC finding is not binding on a district court as to the issue of patent validity.

Similarly, USIJ does not think that discretionary stays in district court should be taken into account, because such stays can be lifted, thereby forcing the patent owner into a two-front battle that the defendant can afford but the patent owner cannot.

The ANPRM raises questions regarding various alternatives to the *Sotera* type stipulation (e.g., *Sand Revolution, II, LLC v. Cont'l Intermodal Grp. Trucking LLC*, IPR2019–01393, 2020 WL 3273334, at \*5 (PTAB June 16, 2020). As with the discussion above, we urge rejection of any proposed stipulation seeking to avoid denial of institution. In our view, the existing *Fintiv* precedential decision already provides the basis for a clear and predictable rule that directs the discretionary denial of IPRs where the same patent is part of current or pending district court litigation. The *Fintiv* framework has survived multiple legal challenges, is well understood by PTAB and stakeholders.

There are a number of additional provisions that the ANPRM suggests that we believe also have the potential to improve the PTAB process for many patent owners. We agree that absent exceptional circumstances, petitioners should be required to file a stipulation that (i) neither they nor their privy or real parties have filed prior post-grant proceedings (PGRs, IPRs, CBMs or *ex parte* reexaminations) on the challenged claims; and (ii) if their post-grant proceeding is instituted, neither they nor their privy or real parties in interest will challenge any of the challenged claims in a subsequent post-grant proceeding (including PGRs, IPRs and *ex parte* reexamination). In addition, requiring petitioners to file a separate paper justifying multiple parallel petitions would provide additional clarity and allow PTAB to apply more discretion to parallel petitions.

### **CONCLUSION**

Restoration of inventor and investor confidence in the U.S. patent system is likely to be a slow process, in part because lack of confidence has developed slowly over a period of over 15 years and for many of those disaffected, there may be no looking back. Moreover, the PTAB is not the only factor at work in creating the perception that U.S. patents are not reliable, although it is certainly a highly visible and major contributor to such decline. We urge the PTO to do all that it can to restore the integrity of the patent system and respect for patents for the benefit of the economy. We recognize that limiting all IPRs to a single petition (including any joinders) might not be feasible, even though entirely consistent with the legislative history of the AIA. Even so, some measure of finality would be achievable by imposing special requirements that must be met before instituting any further IPRs on a patent claim that had survived a first IPR or a district court challenge. More specifically, a later filed petition should be based on prior art that was neither identified as such during original prosecution nor cited as the basis for an earlier IPR or PGR petition. Further, a later filed petitioner should be required to demonstrate that changed circumstances subsequent to the joinder period of the initial petition have given it an interest in the patent that did not previously exist.

Respectfully submitted,

/s/ Robert P. Taylor for USIJ

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Alliance of U.S. Startups and Inventors for Jobs (“USIJ”)

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cc: Chris Israel  
Eb Bright