



November 10, 2020

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Patent Trial and Appeal Board
US Patent and Trademark Office
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Re: Request for Comments on Discretion to Institute Trials Before the Patent Trial and Appeal Board. Docket No. PTO-C-2020-0055.

Dear Judge Weidenfeller,

The Small Business Technology Council (SBTC) is pleased to submit comments on the above-captioned Request for Comments published in 85 Fed. Reg. 66502 (October 20, 2020), (“RFC”). SBTC is the nation’s largest association of small, technology-based companies in diverse fields. We are a council of the National Small Business Association (www.NSBA.biz) which is the nation’s first small-business advocacy organization. NSBA is a staunchly nonpartisan organization with 65,000 members in every state and every industry in the U.S. SBTC advocates on behalf of the 6000 firms who participate in the Small Business Innovation Research (SBIR) program.

SBIR/STTR firms have created over 20 percent of America’s major innovations, despite receiving less than 5% percent of Federal R&D funding.¹ SBIR/STTR firms generate as many patents as all universities combined, and they produce 16 times more patents per employee than large patenting firms. Small business innovation has a substantial positive impact on employment and American prosperity. The Federal Reserve found that patents are the number one indicator of regional wealth.² Being a high patenting community means the difference of \$8,600 in household income.³

Technology-focused small businesses contribute new technology, competitive strength and high-quality job vitality to the American economy. Such businesses depend on strong and predictable patent rights to survive. Patent regulations that increase uncertainty and add unnecessary costs stifle innovation and add anti-competitive barriers to entry against such high-tech small businesses and their new technologies, while protecting the market share and power of large companies and incumbent technologies. These innovative companies take substantial risk to power the American economy. Without the foundation of stable, accessible, and defensible patent rights, small business simply cannot obtain the return-on-investment necessary to justify those risks and secure capital.

The American Invents Act (AIA) has had devastating effects on American innovation. Following the 2012 implementation of the AIA, the United States fell from its long-standing position as number one to number nine in Innovation and number twelve in



Patent Strength,⁴ behind countries such as France, Sweden, Japan, Great Britain, and Singapore.⁵

Much of this deleterious effect has been the result of procedural rules for post-grant trials (e.g., IPRs) that were manifestly biased against patent owners. As originally implemented, IPRs were governed by the following rules:

- Patent challengers were entitled to construe patent claims more broadly to prove invalidity than the claims could be construed when analyzing infringement;
- There was no meaningful opportunity to amend claims;
- The briefing schedule gave patent challengers the first and final words in the proceeding;
- Prior to institution, factual disputes were, by policy, uniformly resolved in favor of the patent challenger;
- A patent challenger could file an unlimited number of IPR petitions, thus straining the ability of a small business patent owner to respond effectively to myriad grounds of challenge in an environment where the patent owner must prevail on every single ground to preserve its patent rights;
- Patent challengers were permitted to preview a patent owner's argument in its preliminary response, and then file a new IPR petition improving their grounds and arguments;
- IPRs were instituted without considering the status of parallel district court proceedings, thus creating duplicative proceedings that wasted party resources and provided patent challengers a second bite at the apple to invalidate the subject patent.

Largely as a result of unjust rules, a substantial majority of the patents challenged in IPRs have been invalidated. Every one of these invalidated patents had been examined and allowed by the USPTO and would have been presumed valid had it been challenged in a federal district court.

Under Director Andrei Iancu's leadership, the USPTO has in recent years taken significant steps to level the playing field in post-grant trials. While IPRs remain far from perfect, each of the unfair rules listed above has been meaningfully reformed. We commend the USPTO for implementing these important improvements, and we urge the USPTO to undertake formal rulemaking to—at a minimum—codify the more balanced rules that it currently applies through precedential opinions.



We also believe that the USPTO can and should clarify its rules to ensure that IPRs are conducted in a more predictable manner, and also to ensure that innovative small business are not burdened with duplicative and unwieldy proceedings that serve no purpose other than providing patent challengers a second bite at the apple.

Serial Petitions and Parallel Petitions

From the perspective of small businesses, it would be far better for the USPTO to promulgate a rule with case-specific analysis, such as that generally outlined in *General Plastic* and its progeny, than to take no action at all. SBTC would therefore support a rulemaking along these lines.

SBTC further urges the USPTO to promulgate rules that will enhance clarity so that parties will know, *ex ante*, whether a given petition will or will not be denied on this basis. Specifically, the USPTO should adopt the following framework:

1. A petitioner, real party in interest, or privy of the petitioner should be jointly limited to one petition per patent.
2. The Patent Office should make clear that follow-on petitions are disfavored and will be denied except in the following circumstances:
 - a. The challenged patent was first asserted against the follow-on petitioner after the date on which the earlier petition was filed; or
 - b. The follow-on petition was filed within 90 days of the earlier petition.

This framework would achieve a result that is highly similar to that which is currently achieved through the case-specific analysis outlined in the Consolidated Trial Practice Guide and *General Plastic*. Specifically, petitioners are already generally limited to a single IPR petition, and follow-on petitions are already generally denied where the petitioner or its co-defendant filed an IPR petition more than 90 days prior to the date on which follow-on petition was filed.¹

These revised rules would thus achieve a similar result to the status quo, but would substantially improve clarity and predictability. This improved clarity would beneficially prevent wasteful spending by both petitioners and patent owners.

Proceedings in Other Tribunals

¹ Patent Owner Preliminary Responses are generally due approximately 90 days after a petition is filed. Accordingly, a follow-on petition filed more than 90 days after the initial petition will generally benefit unfairly from previewing the Patent Owner Preliminary Response, and the PTAB has often denied follow-on petitions on this basis.



From the perspective of small businesses, it would be far better for the USPTO to promulgate a rule with case-specific analysis, such as that generally outlined in *Fintiv* and its progeny, than to take no action at all. SBTC would therefore support a rulemaking along these lines.

SBTC further urges the USPTO to promulgate rules that will enhance clarity so that parties will know, *ex ante*, whether a given petition will or will not be denied on this basis. Specifically, the USPTO should adopt the following framework:

1. A petition shall be denied where the challenged patent is concurrently asserted in a district court or the International Trade Commission against the petitioner, real party in interest, or privy of the petitioner, and either:
 - a. the district court or International Trade Commission is scheduled to adjudicate the validity of the challenged patent prior to the anticipated deadline for a final written decision if the post-grant trial were instituted; or
 - b. the district court has not expressly indicated that it will stay its proceedings if review is instituted.

This framework will ensure that the PTAB does not institute post-grant trials that duplicate validity proceedings ongoing in other tribunals. IPRs were intended by Congress to be a faster, cheaper alternative to district court litigation. In cases where the district court is far ahead of the PTAB, the PTAB will not be faster because it is scheduled to finish after the district court, it is not cheaper because it adds to—and does not stand in place of—the expenses of the district court proceeding, and it is certainly not an alternative. In these circumstances, the purpose of instituting an IPR system is entirely defeated, and the only thing that is left is a second bite at the apple for the accused infringer. The USPTO should promulgate rules making clear that IPRs will be uniformly denied in such circumstances.

Other Considerations

Small businesses often lack sufficient resources to effectively litigate simultaneously in two or more tribunals. In the interest of promoting the health of the American economy, the Innovation Ecosystem, and the patent system as a whole (*see* 35 U.S.C. § 326 (authorizing the USPTO to prescribe regulations in consideration of these factors)), the USPTO should promulgate rules recognizing the financial constraints of small businesses, and it should consider these constraints as a factor in the institution decision. For example, where a small business seeks or consents to institution as a means to more efficiently resolve a validity dispute, this factor should weigh in favor of institution. Conversely, where a small business opposes institution because the post-grant trial would duplicate ongoing proceedings in a district court, this factor should weigh against institution.



Because there is no requirement for an IPR petitioner to have standing, a cottage industry has arisen in which large companies pay subscription fees to entities that, in return, file IPR petitions to advance the litigation objectives of their subscribers. These arrangements have the effect of providing large companies two or more bites at the apple to invalidate a patent, and they are almost exclusively detrimental to small businesses. Small business patent owners are forced to defend simultaneous attacks from multiple parties, while small business defendants generally lack the litigation volume to justify hiring these special interest entities. The USPTO should promulgate rules making clear that privity extends between these subscription-based patent challenging entities and their subscribers. Such a rule would appropriately recognize the relationship between these IPR-filing entities and their subscribers, and would substantially alleviate the need for small business patent owners to simultaneously defend against two or more entities.

Conclusion

SBTC is pleased to continue its support of the USPTO and the strengthening of patent rights, particularly for small businesses and individual inventors. Please feel free to contact me with any questions at rschmidt@CleveMed.com or on my cell phone at 216-374-7237.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert N. Schmidt", is written over a light gray, semi-transparent signature strip.

Robert N. Schmidt
Co-Chair
Small Business Technology Council
Patent Attorney (USPTO #30,889)
Professional Engineer (Ohio, #40,821)

References:

¹ Testimony before the Senate Small Business and Entrepreneurship Committee, May 15, 2019, Small Business Technology Council (SBTC), Jere Glover, Executive Director Robert N. Schmidt, Kevin Burns, & Alec Orban, <https://sbtc.org/wp-content/uploads/2019/05/Jere-Glover-Testimony-5-24-Revised.pdf>

² Federal Reserve Bank of Cleveland, "Altered States: A Perspective on 75 Years of State Income Growth," *Annual Report 2005*. For more detail, see Paul Bauer, Mark Schweitzer, Scott Shane, *State Growth Empirics: The Long-Term Determinants of State Income Growth*, Working Paper 06-06, Federal Reserve Bank of Cleveland, May 2006, <https://www.clevelandfed.org/newsroom-and-events/publications/annual-reports/ar-2005-perspective-on-75-years-of-state-income-growth/ar-200502-altered-states-essay.aspx> by Bauer *et. al.*

³ Patenting Prosperity: Invention and Economic Performance in the United States and its Metropolitan Areas Jonathan Rothwell, José Lobo, Deborah Strumsky, and Mark Muro. At \$4,300 per worker, that is \$8,600/year for a two worker household. <https://www.brookings.edu/wp-content/uploads/2016/06/patenting-prosperity-rothwell.pdf> page 15.



⁴ Germany Breaks Korea's Six-Year Streak as Most Innovative Nation, Michelle Jamrisko and Wei Lu, January 18, 2020, <https://www.bloomberg.com/news/articles/2020-01-18/germany-breaks-korea-s-six-year-streak-as-most-innovative-nation>.

⁵ US Chamber International IP Index, Sixth Edition, February 2018, Figure XI: Scores, Category 1: Patents, Related Rights, and Limitations. https://www.uschamber.com/sites/default/files/023331_gipc_ip_index_2018_opt.pdf.