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Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board

Advance notice of proposed rulemaking

Centripetal was founded in a basement in Vienna, Virginia in 2009. Its founders include former U.S. military cryptology experts, intelligence officers who served at the NSA and CIA and the former head of communications security for the National Military Command Center and Air Force One.

The company is committed to solving one of the enduring failures of traditional network security. Each of Centripetal’s patented innovations delivers a new paradigm of predictive, intelligence-based security and has been deployed to protect U.S. hospital systems, banks, insurance firms, power plants, retailers, universities, federal and local government agencies and commercial enterprises of all types.

Centripetal has invested nearly \$200 million in research and development and now holds approximately 100 U.S. patents. We have offices in Reston, VA and Portsmouth, NH.

Centripetal has also been the victim of extensive patent infringement by large, incumbent technology companies that have also used the USPTO *Inter Partes* Review (IPR) process to attempt to destroy our innovative American cyber security startup.

As perhaps the most targeted U.S. startup before the Patent Trial and Appeal Board (PTAB) we feel particularly well-equipped to comment on the Advanced Notice of Proposed Rulemaking (ANPRM) regarding *Discretionary Institution Practices, Petition Word-Count Limits, and*

Settlement Practices for America Invents Act Trial Proceedings before the Patent Trial and Appeal Board.

We appreciate the USPTO's direct and concerted attention to the need to reform a process that has grown far beyond its intended function to provide "quick and cost-effective alternatives to litigation" for challenging issued patents¹ and has become an expensive, duplicative, and abusive process almost exclusively used by large distribution stage companies who can no longer innovate, their anti-patent proxies, and Chinese competitors².



There are a number of correct observations in the ANPRM regarding the current status of the PTAB process and its impact on U.S. inventors, entrepreneurs and investors that we recognize.

These observations fall into several categories:

- I. Recognition of the harm to disruptive innovators facing repeated validity challenges to patent claims, "potentially resulting in conflicting outcomes and overburdening patent owners."

¹ H.R. Rep. No. 112–98, part 1, at 48 (2011), 2011 U.S.C.C.A.N. 67, 69; *see* S. Rep. No. 110–259, at 20 (2008).

² <https://savetheinventor.com/get-the-facts/>

- II. Recognition of the need to align the PTAB process to the original intent of Congress, ensuring that it provides “quick and cost-effective alternatives to litigation” for challenging issued patents, rather than “tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent.”
- III. A concern that “certain for-profit entities” are using the IPR and PGR process not to promote innovation or to improve patent quality, but to introduce unnecessary and counterproductive litigation costs.
- IV. A realization that individual inventors, startups and under-resourced innovators are particularly vulnerable to attacks on their patents by much larger distribution stage competitors. This is particularly relevant given the overwhelming number of IPRs filed by large, multinational corporations and their proxies against smaller competitors.

As Centripetal’s co-founder and COO Jonathan Rogers testified before the House Judiciary Committee in June 2022, “the PTAB has become an extra tool for abuse which multiplies the cost and opens repeated validity challenges at the PTAB, the district court, and the federal circuit at a minimum. We have faced over 30 IPRs from very large competitors – our patents are targeted not because they are bad, but because they are valuable – and defending each IPR can cost over \$1,000,000 dollars.” This experience has been felt by countless other innovative startups, and it is hard evidence that the PTAB is currently not fulfilling Congress’ intent. Instead, the fears that it would become a “tool for harassment” and a “means to prevent market entry” have proven valid.

We support the USPTO for recognizing the negative impact that many current abuses of the PTAB process are having, but the USPTO has an obligation to do much more to address them.

In addition to providing comments on the proposals that would be most impactful for disruptive startups such as Centripetal, we highlight a significant missing element in the ANPRM – the need to clarify and enforce financial conflict of interest policies for the PTAB consistent with the code of conduct for Article III judges.

1. Petitions filed by certain for-profit entities

We believe that eliminating the access of entities who have not been sued for infringement would strengthen the PTAB process, better focus the consideration of APJs on patents in dispute between market competitors, and eliminate a significant amount of proven and potentially abusive behavior.

Multiple entities have been established purely to monetize the PTAB process by forming third-party protection rackets for large corporations to target the valid patents of smaller competitors, or worse to target patents found valid and infringed by a court as part of an extortion attempt. Unified Patents, for example, is a for-profit entity that targets patents held by the competitors of its “members” and even offers bounties for assistance in invalidating patents. Another well publicized example involves entities such as OpenSky and Patent Quality Assurance (PQA),

which were formed for the sole purpose of extortion by filing IPRs against patents that were found valid and infringed during a jury trial in Texas. The USPTO is correct to observe in its ANPRM that these entities do not “advance the mission and vision of the Office to promote innovation or the intent behind the AIA to provide a less-expensive alternative to district court litigation, but instead ... advance other interests.”

These organizations raise large sums to challenge patents purely as an attempt to eliminate risk for their members or to extort ill-gotten gains from innocent patent owners. They do not strengthen the patent system or altruistically seek to improve patent quality. They also place a huge burden on the PTAB process. Unified Patents, for example, has filed nearly 300 IPR petitions over the past decade and is one of the top 10 overall petitioners. They invent nothing, invest in no R&D, make no products and only clog the system. Likewise, organizations such as OpenSky and PQA have imposed huge financial costs on the system and have taken valuable time away from the USPTO that could be focused on improving the overall functions of the Office.

The most direct and complete solution to concerns regarding the negative impacts of third parties increasingly attacking patent owners would be a standing requirement. We support the criteria proposed in the ANPRM as a step in the right direction, but would suggest one necessary improvement. The first element of the criteria, which limits the discretionary denial to “for-profit” entities should be eliminated. There is no reason to limit the presumption of a discretionary denial solely to “for-profit” entities, as such entities may coordinate with non-profit entities or even re-organize as a non-profit entity to pursue many of the same abusive tactics. The profit status of the entity does nothing to limit harassment, but standing does. Where a party lacks clear standing, their petition should be discretionarily denied.

2. Petitions challenging under-resourced patent owner patents where the patentee has brought or is attempting to bring products to market

This is a valuable potential improvement. Defending a patent in an IPR can cost inventors and startups upwards of \$1 million, and the formal recognition by the USPTO that innovative and disruptive small companies should not be subject to attacks by late stage distribution competitors while they are in such a vulnerable state of growth is very powerful. This observation recognizes that we need to protect and nurture innovative and disruptive startups, which were never the intended target of Congress when it passed the AIA. In fact, Congress expressed concern about the potential for large companies of this type to harass smaller competitors using the PTAB.

However, the definition of “under-resourced” patent owner is absurdly constrained. Limiting the application of this provision to inventors who do not exceed 8X the micro entity income level under 37 CFR 1.29(a)(3) (which is currently about \$212,000) means that this provision would only apply to inventors/companies with less than \$1.6 million in annual revenue. To put this in context, it is hard to imagine that even the smallest USPTO intra-agency initiative could be completed for \$1.6 million. Even in the private sector, this level of revenue/budget would support less than 8 full-time equivalents in a relevant technology field. This is hardly the cutoff level that should apply to deep tech business models, which are the ones that desperately need to rely on IP rights for market entry. This would leave out countless extremely innovative startups

in critical sectors (such as cybersecurity) that remain several orders of magnitude smaller than the established incumbents who may seek to invalidate the patents simply to extinguish a market challenge. We would suggest the following modification to this proposed provision:

A petition for PGR or IPR brought against an individual patent owner who meets the requirements of 12 CFR § 1071.103, or a firm with revenues under \$20 million and less than 500 employees shall be denied, provided: the individual or firm is actively pursuing commercialization or has commercialized the patented invention either directly or through a licensee.

We also would strongly urge USPTO not to prejudice or deter startups, small businesses, and independent inventors from seeking third-party litigation financing to support their patent enforcement efforts. The costs of maintaining R&D investment are enormous, as are legal defense costs, and innovative companies should not be forced to lay off their staff to maintain their IP rights. As the ANPRM clearly recognizes, because most startups, small businesses, and independent inventors are almost by definition “under-resourced,” the goal should be to better protect them from the expensive, time-consuming, and abusive tactics of larger competitors, not to create an internal bias against them at the PTAB based on their financial support or investors.

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

This is perhaps the most critical and important potential improvement that can be made to benefit disruptive U.S. startups and return the PTAB to its congressional intent. Any patent that has overcome a validity challenge in an Article III court, the ITC, or the PTAB itself is by definition clearly not a “bad patent” and should receive the quiet title it deserves.

As former Representative Lamar Smith, an original author of the America Invents Act, recently observed in calling on Congress to codify the *Fintiv* framework, “The purpose of our law was to provide an alternative to court proceedings to handle patent disputes — not to add another set of proceedings causing duplicative challenges. Small-patent holders should not have to defend their patents in multiple venues.”³

The fulfillment of this proposed rule should be clear, universally enforced, and not subject to conditions. In our view, there is no condition under which a patent that has previously been upheld as valid should be subject to additional post-grant proceedings at the USPTO. At that point, the patent in question has survived a thorough initial patent examination and either a full review by a district court or the ITC, or a thorough review by the PTAB, and sometimes both. As a more egregious example, efficient infringers currently can serially file multiple PGRs of their own on a single patent, if they lose pursue different invalidity theories in separate IPRs, and pursue yet additional theories in district court. And if they lose those challenges, they can argue invalidity again on appeal to the Federal Circuit. And if they lose all of these challenges, they can still recruit other industry partners to file third-party IPRs without standing of their own. We

³ <https://www.expressnews.com/opinion/commentary/article/smith-stop-big-tech-s-patent-abuse-18151847.php>

have experienced this exact scenario of five or more invalidity challenges by a single party. When another forum has acted, a petition challenging the same claims should simply be denied.

4. Addressing serial petitions

The ANPRM indicates that the USPTO is considering replacing the current seven-factor *General Plastic* test for discretionary denial of serial IPRs with a presumption of denial – subject to two exceptions. As perhaps the leading recipient of serial IPRs, we have consistently suggested to the USPTO and to Congress that there should be a clear and consistent rule that leads to the denial of serial post-grant challenges, regardless of who files them. To fully implement this principle, the USPTO should put a final rule in place that ensures the Board will deny institution of an IPR, PGR, or *ex parte* reexamination on the same patent unless the petitioner both:

- relies on new art that could not have been raised in the prior IPR petition, PGR petition, or reexamination request;
- demonstrates unpatentability by clear and convincing evidence based on that art; and
- demonstrates the petitioner’s clear and convincing need for intervention by the USPTO.

5. Parallel petitions

We agree with the USPTO’s observation in the ANPRM that it is, “unlikely that circumstances will arise in which three or more petitions filed by a petitioner with respect to a particular patent will be appropriate.” The ANPRM further notes that, “two or more petitions filed against the same patent at or about the same time may place a substantial and unnecessary burden on the patent owner and could raise fairness, timing, and efficiency concerns.” This is also clearly true. We support the USPTO’s efforts to eliminate parallel petitions and to limit a petitioner to a single petition, but do not support the potential proposal to permit petitioners to “purchase” higher word-count limits, which would undermine those efforts.

6. Petitions challenging patents subject to ongoing parallel litigation

IPR and PGR petitions that raise overlapping issues and duplicate the matters being considered in a district court or the ITC impose a tremendous burden on both patent owners and the USPTO. This also creates an unfair gaming of the system where accused infringers can play the two forums off one another. Accused infringers certainly have every right to defend themselves and challenge the validity of the patents they are accused of infringing. They should not, however, be guaranteed multiple forums to simultaneously challenge the same patent. We therefore support a potential proposal 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.” We would also extend such a rule to PGR petitions, which present similar policy concerns.

In our view, the existing *Fintiv* precedential decision already provides the basis for this clear and predictable rule that permits the discretionary denial of IPR or PGR petitions where the same patent is subject to co-pending district court or ITC litigation. The *Fintiv* framework has

survived multiple legal challenges and is well understood by the PTAB and stakeholders. While we strongly support the inclusion of a mandatory *Sotera* stipulation in all IPR and PGR petitions, we do not see why it should provide a “safe harbor” for petitioners as a mechanism to avoid discretionary denial. The ANPRM seems to recognize this as well and proposes that a mandatory *Sotera* stipulation could be “a necessary but not sufficient basis for institution.” We agree with this approach.

As part of the mandatory *Sotera* stipulation requirement, all petitioners should be required to stipulate that if the Board institutes an IPR or PGR, they will not raise or maintain in district court or the ITC any art or argument that they raised or reasonably could have raised in the IPR or PGR petition. Such a stipulation must be made as a matter of course in any IPR or PGR petition, and the failure to so stipulate should provide grounds for immediate dismissal with prejudice. And a breach of that stipulation in the parallel proceeding during the course of an IPR or PGR should provide grounds for immediate dismissal as well as a review for sanctions against the breaching petitioner.

The ANPRM further asks if a mandatory *Sotera* stipulation requirement would sufficiently replace the entire *Fintiv* framework. A mandatory *Sotera* stipulation would be a tremendous deterrent to serial and abusive IPRs. However, it is unclear that this alone would be sufficient. A mandatory *Sotera* stipulation will work best within the clear and predictable framework for discretionary denials laid out by the *Fintiv* decision and subsequent PTAB precedent. One primary reason is that the USPTO has limited ability to enforce a *Sotera* stipulation in parallel proceedings, and many courts have already demonstrated that they will not enforce them consistently.

In addition we agree with the proposal in the ANPRM that, absent exceptional circumstances, petitioners should be required to file a stipulation that neither they nor their privies or real parties in interest have filed prior post-grant proceedings (PGRs, IPRs, CBMs, or reexaminations) on the challenged claims; and that if their post-grant proceeding is instituted, neither they nor their privies 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 the PTAB to better evaluate a supposed need for parallel petitions.

7. The “compelling merits” loophole

The ANPRM also contemplates allowing challenges that would otherwise be candidates for discretionary denial to proceed when they present “compelling merits” at the institution stage. The “compelling merits” standard was introduced in a June 2022 Director’s Memo, but the Memo (and subsequent attempts at clarification by the USPTO) have failed to fully define this new standard. It is not found in the AIA but has been used to institute a number of questionable IPRs, including those brought by parties such as OpenSky and PQA, both of which have been accused of abuse of the PTAB process by Director Vidal. The early evidence suggests that the unnecessary introduction of an ill-defined “compelling merits” test has led to the institution of questionable petitions and confusion regarding the *Fintiv* factors. Our fear is that the expansive

and undefined “compelling merits” loophole will negate the good work done by other provisions in the ANPRM.

Addressing Financial Conflicts of Interest and Restoring Confidence in the PTAB

Finally, there is one omission in the ANPRM that we recommend including in any final rulemaking process to restore confidence and credibility to the PTAB process. The USPTO should clarify and enforce the financial conflict policy for APJs. Director Vidal has testified before Congress that, when engaged in Director Review of post-grant review proceedings, she applies the same ethical standards as Article III judges. The USPTO should clarify and enforce that same standard for all APJs. An APJ should be required to recuse from any matter that implicates any financial holding by the APJ or any other direct financial conflict of interest.