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Will The Real Patent Challengers Please Stand Up?

By **Dani Kass**

Law360 (April 25, 2023, 10:44 PM EDT) -- The U.S. Patent and Trademark Office's expansive reform proposal package aims to curb petitioner abuse and support small patent owners by calling for the controversial step of creating what amounts to a standing requirement for petitioners at the Patent Trial and Appeal Board, attorneys say.

The agency's proposals, released on April 20 as part of a massive advance notice of proposed rulemaking and call for feedback, reveal its thoughts on how to change policy related to a wide range of issues, including discretionary denials and limits to when parties can file PTAB petitions. The latter proposal would make it difficult for profit-driven entities that don't compete in the market to challenge patent owners.

The USPTO's proposals would block petitions from for-profit entities whose challenges the office says don't help the innovation system, given that the entities can't be reasonably accused of infringement and are not attempting to compete commercially. The agency is also looking to let smaller entities dodge most patent challenges.

But some attorneys questioned whether those requirements would be legal, since Congress did not include any standing requirement in the America Invents Act.

The proposal to exclude such profit-driven entities is at least a partial reaction to OpenSky Industries LLC's sanction-worthy challenge to a VLSI Technology LLC patent, said Crowell & Moring LLP counsel Joshua James.

There, USPTO Director Kathi Vidal in October concluded that newly formed OpenSky abused the inter partes review system in an attempt to extort a settlement out of the other parties. In particular, she said OpenSky knew VLSI would be concerned about its patent being jeopardized, since it was crucial to protect billions of dollars from an infringement verdict VLSI had won against Intel in federal litigation.

Another company, Patent Quality Assurance LLC, had followed in OpenSky's footsteps by challenging a different VLSI patent from that district court trial, and was likewise sanctioned.

"[The USPTO is] making it really hard for someone to do what OpenSky did," said Robins Kaplan LLP partner Cyrus Morton. "Really, really hard, if not impossible."

That the agency is trying to prevent abusive challenges is echoed by Neal Gerber & Eisenberg

LLP partner Olivia Bedi, who says the proposed changes may protect patent owners from facing multiple patent challenges from closely connected parties.

There have been questions throughout the PTAB's nearly 11 years of existence regarding whether there should be limits on who can file a challenge, Morton said, claiming that the high cost of IPRs may lead some patent owners to settle when they could have won. There also have been attempts to manipulate the stock market through challenges, he added.

The most notable of those came from hedge fund manager Kyle Bass, who was able to invalidate a small portion of the many drug patents he had challenged, allegedly as part of a short-selling strategy aimed at driving down the price of drug company stocks.

The challengers addressed in the USPTO's proposals could still get an IPR instituted if they are facing litigation or if their petition has "compelling merits," a standard higher than usual for institution, which the USPTO is trying to define through the same rulemaking process.

The USPTO's attempt to cut down on for-profit companies challenging patents for reasons other than competition has caught the attention of Unified Patents, an organization whose entire purpose is to challenge patents from nonpracticing entities, when it believes those patents are weak. The organization's general counsel, Jonathan Stroud, said the language "particularly targets us" with how it's written.

"I think it's clear that we're the only for-profit, third-party entity that files any significant amount [of petitions]," he said, adding that lobbyists who dislike the PTAB have put significant efforts into fighting organizations that regularly file validity challenges.

While Stroud said OpenSky is one instance of petitioner abuse, at the end of the day it is just one instance. Instead, he said Unified Patents is being targeted despite never "paying for a settlement" or otherwise paying an NPE.

RPX Corp., which labels itself a "defensive patent organization," buys patents it believes would be asserted against its members, shielding them from infringement litigation. The organization's chief intellectual property officer, Steve Chiang, said Congress purposefully left a standing requirement out of IPRs, as shown by the active inclusion of standing in post-grant reviews and covered business method reviews.

Congress provided more leeway in IPRs based on the "the benefits of allowing members of the public to challenge facially invalid patents," he said in an email. "Restricting the activities of for-profit filers can significantly undermine that intent."

The USPTO's proposals also address small and micro entities that may not have the resources to defend their patents. These proposals call for significant public feedback and allows small and micro entities to escape challenges, with a few exceptions, like a petition having "compelling merits."

"If you have a startup, a larger, more established company could decide, 'We're going to kill their patents before they can get out of the gates,'" Morton said. "The idea [in the USPTO's proposals] is that you'd be given some leeway to at least get a little more established before you have to face an IPR attack on your fledgling patent portfolio."

How to define the eligibility of those entities is up for debate. The USPTO said it may request information from the entity regarding litigation funding or government funds.

Entities declare small or micro status at the time of their patent being issued, and the UPSTO says it would judge whether that status still applies by multiplying the agency's gross income requirement for micro entities by 8. The proposals ask for input on whether the 8-times multiplier is appropriate.

The current maximum gross income requirement is $212,352, which when multiplied by 8 is just under $1.7 million. Smaller companies will likely want to increase that multiplier so micro or small entity status can apply to more of them, Morton said.

"If I'm a small company, I'm going to say $1.7 million in sales is hardly anything," he said. "Even one IPR is several hundred thousand dollars — way beyond my legal budget. Anyone who is a particular fan of this rule is going to be arguing for a higher limit."

Having those protections for small companies would be a positive thing, Bedi said. Confirming that small companies are still lacking in resources would ensure the specialized protections work as planned, she added.

For both types of companies being addressed by the USPTO, James wants to know if the agency would allow pre-institution discovery to show whether a company meets requirements for either the small or micro entities, and the for-profit ones.

"I imagine if there's a discretionary denial, then discovery would be important to see if a party satisfies a checklist," he said.

Comments are open through June 20.

--Additional reporting by Bryan Koenig. Editing by Adam LoBelia.
