

EXHIBIT 1

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16 US INVENTOR, 360 HEROS, INC.,

17 LARRY GOLDEN, WORLD SOURCE ENTERPRISES, LLC,

18 DARELTECH LLC, TINNUS ENTERPRISES, LLC,

19 CLEARPLAY, INC., E-WATCH, INC.

20 UNITED STATES DISTRICT COURT

21 NORTHERN DISTRICT OF CALIFORNIA

22 SAN JOSE DIVISION

23 APPLE, INC., et al.

24 Plaintiffs,

25 v.

26 ANDREI IANCU, in his official capacity as
27 Under Secretary of Commerce for Intellectual
28 Property and Director, United States Patent and
Trademark Office,

29 Defendant.

30 Case No. 5:20-CV-06128-EJD

31 **COMPLAINT IN INTERVENTION FOR
32 DECLARATIVE AND INJUNCTIVE
33 RELIEF**

34 Under Federal Rule of Civil Procedure 24, Intervenors US Inventor, 360 Heros, Inc., Larry
35 Golden, World Source Enterprises, LLC, Dareltech LLC, Tinnus Enterprises, LLC, Clearplay, Inc., and
36 E-Watch, Inc., allege for their Complaint in Intervention as follows:

NATURE OF SUIT

1. This is a suit under 5 U.S.C. § 706(1) of the Administrative Procedure Act (“APA”) to compel “agency action unlawfully withheld” by the United States Patent and Trademark Office (“USPTO”). This is also a suit under 5 U.S.C. § 706(2)(D) of the APA to “hold unlawful and set aside agency action” that is “without observance of procedure required by law.”

2. The text of the APA provides distinct remedies for judicial review of both agency inaction and action. This suit addresses USPTO unlawful inaction in the form of incomplete and/or procedurally unlawful rulemaking to govern how the USPTO Director (and his designees) exercise discretion whether to grant or deny institution of patentability trials. This suit addresses USPTO unlawful action in the form of attempts at rulemaking that unlawfully circumvent proper publication, notice and comment.

3. Intervention is proper under Fed. R. Civ. P. 24, as described in the accompanying motion to intervene.

JURISDICTION AND VENUE

4. This case arises under the APA, 5 U.S.C. § 701 *et seq.*. This Court has subject matter jurisdiction under 28 U.S.C. § 1331.

5. Under 5 U.S.C. § 702, Defendant has waived sovereign immunity for purposes of this suit.

6. Intervenors' claim for declaratory and injunctive relief is authorized under 28 U.S.C. §§ 2201 and 2202, by 5 U.S.C. §§ 702-706, by Federal Rules of Civil Procedure 57 and 65, and by the inherent equitable powers of this Court.

7. Venue is proper in this District under 28 U.S.C. § 1391(e) and 5 U.S.C. § 703 because venue is proper in the underlying suit into which Intervenors hereby intervene. Venue is also proper because each of the original plaintiffs to the underlying suit reside in this judicial district.

8. The agency actions unlawfully withheld (discussed below) are deemed under the APA to be final agency actions subject to judicial review under 5 U.S.C. § 704. The agency actions unlawfully undertaken (discussed below) are deemed under the APA to be final agency actions subject to judicial review under 5 U.S.C. § 704.

PARTIES

9. Intervenor US Inventor is an Indiana nonprofit corporation with its principal office in Clearwater, Florida. US Inventor fosters innovation through advocacy, education and public outreach on matters of importance to individual inventors and small innovative businesses. US Inventor frequently works with policymakers in government to advocate for more certain patent rights. US Inventor also frequently files amicus briefs in pending court proceedings to advance the point of view of its inventor-membership. In August 2020, US Inventor filed with the United States Patent and Trademark Office its Petition for Rulemaking Pursuant to 5 U.S.C. § 553(e) for Specific Criteria for Deciding Institution of AIA Trials. No action has occurred on that petition. US Inventor as a public interest nonprofit group has a strong interest in the relief sought in this civil action: rulemaking that would bring certainty to its membership about how discretionary considerations factor into the decision whether to grant institution of USPTO patentability trials.

10. As part of its educational mission, US Inventor provides information to its membership to help them deal with potential AIA trial reviews of their issued patents. One of the primary ways in which US Inventor accomplishes its mission is to educate the public by providing information about the factors that will lead to a grant, versus a denial, of institution of AIA trials, particularly on discretionary factors. To do so, US Inventor relies (or would rely) on issued regulations published in the Federal Register for notice and comment, ultimately appearing in the Code of Federal Regulations. But the USPTO and its past and current Directors never promulgated any such notice-and-comment regulations on the topic of how discretionary considerations impact “sufficient grounds” for institution decisions. Because the Director’s and the USPTO’s inaction denied US Inventor access to authoritative and clear

1 key information it wishes to use in its routine information dispensing activities and to fulfill its mission,
2 the USPTO and the Director have inhibited its daily operations.

3 11. 360Heros, Inc. is a patent owner harmed by the unlawful agency action and withholding
4 of agency action described below. 360Heros is a Delaware corporation with its principal place of
5 business at 518 Queen Street, Olean, New York 14760. 360Heros manufactures accessories for camera
6 equipment. 360Heros has been forced to respond to at least one AIA trial petition that was ultimately
7 denied (IPR2018-00853), but that would not have been brought in the first place had the USPTO issued
8 lawful regulations governing discretionary denial prior to the bringing of that petition. As a patent owner
9 facing a likelihood of future infringers making future challenges through future AIA trial petitions,
10 360Heros' injury is likely to recur.

12 13. Intervenor Larry Golden is a patent owner harmed by the unlawful agency action and
14 withholding of agency action described below. Mr. Golden is an individual residing in Greenville, South
15 Carolina. Mr. Golden has been forced to respond to at least one AIA trial petition that was ultimately
16 granted without Mr. Golden having made arguments for discretionary denial (IPR2014-00714), but that
17 would have been denied had the USPTO issued lawful regulations governing discretionary denial prior
18 to the bringing of that petition. As a patent owner facing a likelihood of future infringers making future
19 challenges through future AIA trial petitions, Mr. Golden's injury is likely to recur.

21 13. Intervenor World Source Enterprises, LLC ("WSE") is a patent owner harmed by the
22 unlawful agency action and withholding of agency action described below. WSE is a Nevis company
23 having a principal place of business in High Point, North Carolina. WSE has been forced to respond to
24 at least one AIA trial petition that is still pending an institution decision, where WSE has presented
25 arguments for discretionary denial (IPR2020-00768). The pending petition would be more clearly
26 deniable had the USPTO issued lawful regulations governing discretionary denial prior to the bringing
27 of that petition. As a patent owner facing a likelihood of future infringers making future challenges
28 through future AIA trial petitions, WSE's injury is likely to recur.

1 14. Intervenor Dareltech LLC (“Dareltech”) is a patent owner harmed by the unlawful
 2 agency action and withholding of agency action described below. Dareltech is a Delaware company
 3 having a principal place of business in Bethesda, Maryland. Dareltech has been forced to respond to at
 4 least one AIA trial petition that is still pending an institution decision, where Dareltech has presented
 5 arguments for discretionary denial (IPR2020-00483). The pending petition would be more clearly
 6 deniable had the USPTO issued lawful regulations governing discretionary denial prior to the bringing
 7 of that petition. As a patent owner facing a likelihood of future infringers making future challenges
 8 through future AIA trial petitions, Dareltech’s injury is likely to recur.

10 15. Intervenor Tinnus Enterprises, LLC (“Tinnus”) is a patent owner harmed by the unlawful
 11 agency action and withholding of agency action described below. Tinnus is a Texas company having a
 12 principal place of business a 3429 18th St, Plano, Texas 75074. Tinnus has been forced to respond to
 13 eight AIA trial petitions, of which half were instituted (PGR2015-00018, PGR2016-00030, PGR2016-
 14 00031, and PGR2017-00015) and half were denied (PGR2017-00024, PGR2017-00040, PGR2017-
 15 00051, and PGR2017-00052). PGR2017-00015 is an example petition where the Director granted
 16 institution after disagreeing with Tinnus’s arguments for discretionary denial. PGR2017-00024 is an
 17 example petition where the Director denied institution after agreeing with Tinnus’s arguments for
 18 discretionary denial. These petitions would, respectively, have been denied or not have been brought had
 19 the USPTO issued lawful regulations governing discretionary denial prior to the bringing of those
 20 petitions. As a patent owner facing a likelihood of future infringers making future challenges through
 21 future AIA trial petitions, Tinnus’s injury is likely to recur.

22 16. Intervenor Clearplay, Inc. (“Clearplay”) is a patent owner harmed by the unlawful agency
 23 action and withholding of agency action described below. Clearplay is a Delaware company having a
 24 principal place of business in Murray, Utah. Clearplay has been forced to respond to five AIA trial
 25 petitions, of which four were instituted (IPR2014-00430, IPR2014-00383, IPR2014-00339, IPR2013-
 26 000484) and one was denied, on discretionary grounds (IPR2014-00783). These petitions would,
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1 respectively, have been denied or not have been brought had the USPTO issued lawful regulations
 2 governing discretionary denial prior to the bringing of those petitions. For example, IPR2013-00484
 3 involved a grant of institution even after Clearplay requested denial because the same prior art and
 4 arguments had been rejected by the USPTO in a prior request for inter partes reexamination. As a patent
 5 owner facing a likelihood of future infringers making future challenges through future AIA trial
 6 petitions, Clearplay's injury is likely to recur.

7 17. Intervenor E-Watch, Inc. ("E-Watch") is a patent owner harmed by the unlawful agency
 8 action and withholding of agency action described below. E-Watch is a Nevada company having a
 9 principal place of business in San Antonio, Texas. E-Watch has been forced to respond to over 20 AIA
 10 trial petitions. IPR2015-00412 is an example of a petition filed against E-Watch where the Director
 11 granted institution after disagreeing with E-Watch's arguments for discretionary denial. IPR2015-00610
 12 is another example of a petition filed against E-Watch where the Director granted institution after
 13 disagreeing with E-Watch's arguments for discretionary denial. These petitions, and others filed against
 14 E-Watch, would, respectively, have been denied or not have been brought had the USPTO issued lawful
 15 regulations governing discretionary denial prior to the bringing of those petitions. As a patent owner
 16 with a large portfolio of patents, E-Watch faces a likelihood of future infringers making future
 17 challenges through future AIA trial petitions, E-Watch's injury is likely to recur.

18 18. Defendant Andre Iancu is the Under Secretary of Commerce for Intellectual Property and
 19 Director of the USPTO. The Director oversees the operations of the USPTO and is statutorily vested
 20 with the authority both to decide whether to institute IPR of a patent claim, 35 U.S.C. § 314, and to issue
 21 regulations governing such institution decisions, 35 U.S.C. § 316. Defendant Iancu is being sued in his
 22 official capacity. His principal places of business are in Alexandria, Virginia and Washington, D.C.

23 19. Though Director Iancu is named as defendant in his official capacity, the unlawful
 24 activities alleged here originate with actions and inactions committed by his predecessors: Joe Matal
 25 (officer who for a time was "Performing the Functions and Duties of" the Director position), Michele
 26

1 Lee (former Director), Theresa Stanek Rea (former Acting Director) and David Kappos (former
 2 Director). Director Iancu has attempted during his tenure to make AIA trials more fair for patent owners.
 3 This Complaint seeks that outcome through processes that are lawful under the APA.

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FACTUAL ALLEGATIONS

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6 20. The USPTO administers patentability trials under the America Invents Act of 2011
 7 (“AIA trials”). Such AIA trials include IPR (“inter partes review”) and PGR (“post grant review”). The
 8 administration of such trials occurs in two phases: an institution phase, and (if there is institution) a trial
 9 phase. The decision whether to institute includes legal and factual determinations (*i.e.*, the level of merit
 10 of a petitioner’s unpatentability argument), but also includes discretionary factors (*e.g.*, the impact of
 11 numerous factors relating to other court or other USPTO proceedings). *See, e.g.*, 35 U.S.C. §§ 314(a),
 12 315(d); Patent Trial and Appeal Board Consolidated Trial Practice Guide (November 2019), available at
 13 www.uspto.gov/sites/default/files/documents/tpgnov.pdf; *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019,
 14 Paper 11 (P.T.A.B. Mar. 20, 2020); *Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte*
 15 *GmbH*, IPR2019-01469, Paper 6 (P.T.A.B Feb. 13, 2020); *Gen. Plastic Indus. Co. v. Canon Kabushiki*
 16 *Kaisha*, IPR2016-01357, Paper 19 (P.T.A.B Sep. 6, 2017).

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Effects of Incomplete and Withheld Rulemaking

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20 21. AIA trials are expensive and often ruinous to defend. In costs and legal fees, patent
 21 owners can expect to spend on average \$451,000 per patent, just to maintain the status quo of keeping a
 22 patent that the law already presumed to be valid. 35 U.S.C. § 282. Patent owners who are dragged into
 23 an AIA trial have no upside—the USPTO cannot adjudicate infringement and cannot award damages.
 24 This is on top of the costs and fees already expended just to obtain the patent right, which can be
 25 considerable, sometimes more than \$100,000 per patent. Government fees spent on filing, issuing and
 26 maintaining each such patent often exceed \$10,000, but (under current law) a declaration of invalidity in
 27 an AIA trial does not entitle the patent owner to any refund of such fees for the “mistaken” work by the
 28 government during original examination.

1 22. AIA trials, once instituted, impose an 80% likelihood of invalidation. Accounting for
 2 multiple petitions, 85% of patents reviewed result in invalidation of one or more claims. This is at least
 3 2-3 times higher than in district court proceedings, which afford more procedural protections, a
 4 presumption of validity (including deference due a qualified government agency official presumed to
 5 have performed his or her job), and a clear and convincing burden of proof of invalidity. Thus, the
 6 institution decision effectively determines the fate of the business of the patent owner, implicating 35
 7 U.S.C. § 316(b).

8 23. The AIA requires that “The Director shall prescribe regulations...setting forth the
 9 standards for the showing of sufficient grounds to institute a review [and] shall consider the effect of any
 10 such regulation on the economy, the integrity of the patent system, the efficient administration of the
 11 Office.” 35 U.S.C. 316(a)(2) and (b).

12 24. Ad hoc decision-making of AIA trial institution decisions has resulted in harm to the U.S.
 13 economy including: the U.S. falling from its perennial number one position in international patent
 14 rankings; reducing access to capital for cutting edge technology ventures; and shielding trillion-dollar
 15 corporations from would-be competitors with disruptive inventions.

16 25. Ad hoc decision-making of AIA trial institution decisions has resulted in substantial loss
 17 of confidence in the integrity of the patent system, leaving entrepreneurs without any reliable path to
 18 “securing...the exclusive Right to their...Discoveries”. U.S. Const. art. I, § 8, para. 8. Regardless of how
 19 carefully an inventor and examiner follow the laws and procedures, and how thoroughly familiar they
 20 are with the prior art, and how flawlessly they perfect an application that is granted by the Director, it is
 21 impossible to predict whether the PTAB will institute an AIA trial of the issued patent. It is likewise
 22 uncertain even after a patent has been reexamined by the USPTO or declared not invalid by the final
 23 judgment of an Article III court – such patents are still likely to be instituted for review by the PTAB.

24 26. Ad hoc decision-making of AIA trial institution decisions has harmed the efficient
 25 administration of the USPTO and the judicial system. Such decisions often conflict with and nullify

1 prior determinations of the USPTO, including when the USPTO has previously considered the same or
 2 substantially the same prior art or arguments. Such decisions often conflict with determinations of
 3 Article III courts, in many instances nullifying final judgments incorporating years of adjudication and
 4 jury verdicts.

5 27. Dareltech's plight of being dragged into ruinous proceedings with an uncertain outcome
 6 is exemplary of the burden on the economy from the Director's unlawful withholding of rulemaking,
 7 and fully explained in its Preliminary Response to the IPR filed against one of its patents by Microsoft,
 8 Inc., a trillion dollar company.

9 28. The entire Dareltech operation is self-financed by the inventors, with zero debts,
 10 encumbrances, VC, or other debt financing. The Dareltech inventors developed a commercial
 11 embodiment of an invention called the HandlePa. The HandlePa is a selfie stick with control buttons to
 12 communicate wirelessly with the smartphone and to control and operate at least the camera function
 13 using just one finger. The apparatus yields clearer and steadier pictures than the prior art, while allowing
 14 the user to take more difficult angle shots using only one hand to securely grasp the stick and operate the
 15 systems safely and comfortably.

16 29. The Dareltech inventors engineered, designed, tested, and manufactured the HandlePa
 17 product, producing 11,500 units at a cost of \$322,000. Before Dareltech could get a foothold in the
 18 market, cheap similar products flooded the market. It quickly became impossible for a Dareltech to
 19 compete against established brands, so Dareltech focused on securing the patent rights to the invention
 20 at the USPTO.

21 30. After thorough examinations, the USPTO issued four patents for the invention each titled
 22 HANDLE FOR HANDHELD TERMINAL. The Dareltech inventors invested from personal funds
 23 approximately \$650,000 in the development and commercialization of the claimed invention, without
 24 any significant revenue to date. Furthermore, the inventors stretched their credit to the limit including
 25 borrowing against at least one of their homes. As a result, Dareltech has no funding to defend the
 26 COMPLAINT IN INTERVENTION FOR DECLARATIVE AND INJUNCTIVE RELIEF
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1 currently-attacked patent should a trial be instituted. The average cost of an IPR defense is \$451,000 and
 2 the cost for top tier representation is \$750,000.

3 31. From 2012 to 2017 Dareltech prosecuted its family of patents, following all relevant laws
 4 and procedures. Dareltech budgeted and paid approximately \$16,000 in fees to the USPTO and
 5 approximately \$150,000 in attorney fees to obtain these patents. Dareltech did not budget and has no
 6 means to pay an additional \$450,000 to \$750,000 in order to defend one of them should Microsoft's IPR
 7 be instituted.

8 32. In related proceedings filed by a different attacker, Dareltech was forced to disclaim
 9 approximately half of the patent claims in hopes of avoiding a trial it could not afford. When trial was
 10 instituted, Dareltech was forced to settle with the other attacker and allow them to infringe the remaining
 11 claims because Dareltech could not pay the cost or countenance the risk of a full trial.

12 33. The Dareltech inventors complied with their end of the patent bargain, invested all
 13 available funds to obtain the portfolio, and were already forced to surrender substantial rights due to
 14 filing and institution of the prior petitions by the time Microsoft filed its IPR.

15 34. Microsoft petitioned for IPR against Dareltech even though there is no legal dispute
 16 between them, and even though the USPTO had already considered the same or substantially the same
 17 prior art. Microsoft does not, to Dareltech's knowledge, infringe any of the claims of the attacked patent
 18 and stands to gain no benefit from its cancellation. There can be no district court suit since Microsoft
 19 and Dareltech lack standing to sue one another.

20 35. The relative cost to the parties is dramatic. For Dareltech the cost of a trial far exceeds its
 21 total available cash, whereas for Microsoft the cost of a trial (based on an average of \$451,000) is about
 22 0.000032% of their \$1.4 trillion value and 0.00034% of the \$133 billion cash and short term deposits.

23 36. Dareltech awaits decision on its arguments for discretionary denial that it had to make
 24 without the benefit of guidance through rulemaking. Had clear rulemaking on discretionary
 25 considerations by the Director occurred, Microsoft would have had clear guidance that its petition
 26

1 against Dareltech was futile, and would not have filed it; or, alternatively, the cost to prove Dareltech's
 2 immediate right to denial of the petition would have been negligible (unlike what has in fact transpired).

3 37. Intervenor Tinnus represents another example of the burden on the economy from the
 4 Director's unlawful withholding of rulemaking. Tinnus was founded and is owned by Josh Malone, a
 5 father of 8 who quit his corporate job in 2006 to become a full-time inventor. After 8 years of struggling
 6 to make ends meet, he solved a 63-year-old problem of filling and sealing water balloons and
 7 immediately applied for a patent for his Bunch O Balloons invention. Launched on Kickstarter, it went
 8 viral and quickly ascended to become the number one selling summer toy.

9 38. A major As Seen on TV company posing as a backer of the Kickstarter campaign
 10 purchased a first edition Bunch O Balloons product, reverse engineered it, and raced their copy of the
 11 product to market, selling millions of units at major retailers such as Walmart, Target, Bed Bath &
 12 Beyond, Kroger, Toys-R-Us, Walgreens, and Home Depot.

13 39. Tinnus sought to enforce its patent rights, leading to 4 district court actions, 8 petitions
 14 for PTAB review, and 14 appeals to the Court of Appeals for the Federal Circuit, spanning about 4
 15 years.

16 40. The district court preliminarily enjoined the copied product, in a decision affirmed by the
 17 Federal Circuit which held that the term "substantially filled" was not indefinite.

18 41. Subsequent to the district court injunction and a week prior to the appellate affirmance,
 19 the PTAB ruled in PGR2015-00018 that the term "substantially filled" was indefinite and all the patent
 20 claims were therefor invalid. That decision was reversed on appeal a year and a half later.

21 42. After being enjoined, the infringer introduced additional infringing products with slight
 22 alterations of the version previously enjoined. In total, the infringer produced three variations, each of
 23 which was enjoined by the district court while holding that the validity challenges did not present a
 24 likelihood of success.

1 43. The PTAB instituted review in a total of 4 petitions, all relying on the same prior art
 2 considered by the examiner and overruled by the district court in granting preliminary injunctions of the
 3 various infringing products.

4 44. Over one million dollars in additional litigation costs were incurred due to the PTAB
 5 petitions and trials.

6 45. PGR2015-00018 was pending for 3 years and 10 months, causing the infringement trial
 7 to be delayed by more than 2 years, ultimately forcing Tinnus to settle with the infringer for a fraction of
 8 the damages caused by the infringement.

9 46. The PTAB administrative patent judges had no particular expertise in water balloons and
 10 in fact no professional technical experience of any kind. During the one hour trial, one of the APJs
 11 mused (via remote connection) “I don’t understand why with the first few drops it’s already not
 12 expanding, given that the material is elastic.” The district court never sought expertise from the PTAB,
 13 and the PTAB only confounded, confused, and delayed the resolution of the invalidity dispute.

14 47. Had clear rulemaking on discretionary considerations by the Director occurred, the
 15 petitions against Tinnus’ patents would have been denied resulting in a faster and less expensive
 16 resolution to the dispute with the infringer. The economy and integrity of the patent system would be
 17 improved. Mr. Malone and other inventors would have increased confidence that patents will effectively
 18 protect their investment in developing and commercializing their inventions from brazen copycats.

19 48. E-Watch suffered the harmful effect on the economy from the Director’s unlawful
 20 withholding of rulemaking. The abuses endured by E-Watch due to serial IPRs being filed against its
 21 patents were significant. E-Watch is a small company owned by David Monroe, a prolific inventor who
 22 spent millions of dollars developing an invention for digital pictures to be captured, converted and
 23 transmitted digitally. Mr. Monroe and E-Watch’s invention can be best described as the camera phone.
 24 At great expense, E-Watch patented its ground-breaking camera phone invention, which culminated in
 25 two patents: United States Patent No. 7,365,871 (the “’871 Patent”), issued April 29, 2008, for
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1 “Apparatus for Capturing, Converting and Transmitting a Visual Image Signal Via a Digital
 2 Transmission System”; United States Patent No. 7,643,168 (the “’168 Patent”), issued January 5, 2010,
 3 for “Apparatus for Capturing, Converting and Transmitting a Visual Image Signal Via a Digital
 4 Transmission System” (collectively, the “Camera Phone Patents”).
 5

6 49. On December 9, 2013, E-Watch, Inc. filed suit against camera phone manufacturers,
 7 including Apple, Blackberry, HTC, Huawei, Kyocera, LG Electronics, Nokia, Samsung, Sharp, Sony
 8 Mobile and ZTE, asserting infringement of the ’871 Patent and the ’168 Patent.

9 50. The IPRs filed against E-Watch included one filed by Iron Dome LLC, a third-party that
 10 had not been sued by E-Watch and did not manufacture or sell infringing products. Iron Dome
 11 previously threatened to file an IPR against E-Watch’s ’871 Patent unless E-Watch agreed to give Iron
 12 Dome a portion of its licensing enforcement proceeds. E-Watch refused and, on February 18, 2014, Iron
 13 Dome filed IPR2014-00439 (the “Iron Dome IPR”). E-Watch implored the Board to exercise its
 14 discretion not to institute the Iron Dome IPR. The Board refused and instituted the Iron Dome IPR
 15 against E-Watch.
 16

17 51. But the attacks on E-Watch’s Camera Phone Patents did not stop there. In response to
 18 the lawsuit, the defendants launched a campaign of serial and cumulative IPR filings to invalidate E-
 19 Watch’s Camera Phone Patents. In its preliminary response to certain of these IPRs, E-Watch requested
 20 that institution be denied because of the cumulative nature of the prior art and arguments across the
 21 various IPRs and that that these were serial filings. For example, in IPR2015-00412, E-Watch stated to
 22 the Board:
 23

24 As a result, many of these petitions, including this petition (i.e., IPR2015-00412), are redundant
 25 and present cumulative prior art and substantially the same arguments as other earlier-filed IPR
 26 petitions, concurrently-filed IPR petitions, and/or later-filed IPR petitions. The Patent Trial and
 27 Appeals Board (“PTAB”) should exercise its discretion under 35 U.S.C. 325(d) to deny
 28 institution of this petition for this reason alone.

1 E-Watch urged the Board to exercise its discretion to decline to institute the inter partes review. The
 2 Board refused and instituted the IPR on May 11, 2015. By the end of the punitive IPR campaign, the
 3 number of IPR petitions filed against E-Watch's Camera Phone Patents was staggering. The '871 Patent
 4 had 12 IPRs filed against it: IPR2014-00439, IPR2014-00987, IPR2014-00402, IPR2014-00404,
 5 IPR2014-00406, IPR2014-00411, IPR2014-00412, IPR2014-00413, IPR2014-00541, IPR2014-00610,
 6 IPR2014-00612 and IPR2014-01366. The '168 Patent had eight IPRs filed against it: IPR2014-00989,
 7 IPR2014-00401, IPR2014-00407, IPR2014-00408, IPR2014-00414, IPR2014-00543, IPR2014-00607
 8 and IPR2014-00611. Ultimately, E-Watch was forced to defend against 20 IPRs across its two Camera
 9 Phone Patents, spent hundreds of thousands of dollars defending against all of these IPRs and had its
 10 district court case irreparably damaged as a result.

12 52. Had clear rulemaking on discretionary considerations by the Director occurred, at least
 13 some of the petitions against E-Watch's Camera Phone Patents would have been denied resulting in a
 14 faster and less expensive resolution to the dispute with the infringer. The economy and integrity of the
 15 patent system would be improved. Mr. Monroe, E-Watch and other inventors would have increased
 16 confidence that patents will effectively protect their investment in developing and commercializing their
 17 inventions from brazen copycats.

19 53. Each of the other patentee Intervenors experienced severe disruption to their business
 20 and their legal interests because of institution of AIA trials that occurred without rulemaking on
 21 discretionary factors.

23 54. Larry Golden ended up having to prosecute his IPR *pro se* against a government agency
 24 petitioner after losing the assistance of his counsel after the PTAB instituted trial. A later Supreme Court
 25 ruling in a different case held that the government had no statutory right to petition for IPRs in the first
 26 place.

55. 360Heros originally faced a grant of institution, until the PTAB (in a specially-convened panel different from the original panel, and including the Director) granted reconsideration and denied review because the petitioner violated the time bar of 35 U.S.C. § 315(b).

56. WSE develops, markets and sells fertilizer additive products that lessen the environmental impact of nitrogen in waterways and in the atmosphere. Success of WSE's environmentally friendly solutions would be an existential threat to nitrogen / fertilizer manufacturers, causing them to lose up to 50% of existing sales. A competitor of WSE who WSE believes infringes its patents has filed multiple petitions at the PTAB to try to invalidate them, while filing multiple patent applications for essentially the same technology. WSE has sought discretionary denial in at least one pending petition not yet decided, which would have been much less costly to do had the USPTO already issued lawful and clear rulemaking on discretionary factors for the "sufficient grounds" decision.

57. Clearplay had to go through IPRs that should have been discretionarily denied if clear and legal rulemaking had occurred, including at least one in which the USPTO contradicted a prior federal judge decision by issuing a broader claim interpretations for a material claim limitation than the judge did, leading to an invalidation decision that a federal court would never make.

58. Intervenors have therefore suffered concrete economic injury from the absence of “discretionary consideration” rulemaking. In a like manner, the absence of complete rulemaking on “sufficient grounds” for the institution decision runs afoul of the requirement that rulemaking must take into account the effect on the economy. 35 U.S.C. § 316(b).

The Director's Clear (and Ignored) Statutory Mandate for Rulemaking

59. Congress did not intend either IPR or PGR to be an easier process for accused infringers to invalidate so-called “weak” patents. Instead, Congress intended IPR and PGR to be an accurate and less costly alternative to district court litigation of particular patentability issues, one that would be “objective, transparent, clear, and fair to all parties.” 157 Cong. Rec. 3433 (Mar. 8, 2011) (Sen. Kyl). The measure of a “fair” system is one in which rates for final determinations on patent validity at the

1 PTAB roughly match rates for final determinations on validity in U.S. District Courts. That has not been
 2 the case. In federal court final determinations, only 25-30% of patents are invalidated, whereas in PTAB
 3 final determinations, that number is 80-85%.

4 60. AIA trials have been heavily used by large corporations, who can easily have afforded to
 5 litigate their invalidity challenges in district court, where a small business might obtain contingency
 6 representation and an opportunity to plead its case to a jury. AIA trials impose asymmetric burdens,
 7 since, aside from a hypothetical right to seek sanctions for egregious conduct, a patent owner has no
 8 basis to obtain a monetary recovery against a petitioner. The majority of AIA trial cases involve a
 9 corporation with orders of magnitude greater resources than the patent owner.

10 61. All AIA trial stakeholders have an interest in predictability of the institution decision.
 11 Patent owners especially do. Congress intended to further the goal of predictability through legislative
 12 mandates requiring the USPTO to promulgate regulations. In promulgating such regulations, the
 13 Director is required to “consider the effect of any such regulation on the economy, the integrity of the
 14 patent system, the efficient administration of the [USPTO], and the ability of the [USPTO] to timely
 15 complete proceedings instituted under [the AIA].” 35 U.S.C. §§ 316(b) and 326(b).

16 62. The USPTO has and had a clear legislative mandate under 35 U.S.C. § 316(a)(2) to
 17 “prescribe regulations . . . setting forth the standards for the showing of sufficient grounds to institute a
 18 review under section 314(a)” for IPRs. The USPTO also has and had a clear legislative mandate under
 19 35 U.S.C. § 326(a)(2) to “prescribe regulations . . . setting forth the standards for the showing of
 20 sufficient grounds to institute a review under subsections (a) and (b) of section 324” for PGRs.

21 63. “Sufficient grounds” under the respective statutes include not only the legal and factual
 22 merits related to patentability as presented by the petitioner. “Sufficient grounds” also include why the
 23 Director should not apply discretionary factors to deny review. The USPTO has plenary authority,
 24 unreviewable on appeal or mandamus, to deny review of any AIA trial petition for any reason.

1 *Harmonic Inc. v. Avid Tech., Inc.*, 815 F.3d 1356, 1367 (Fed. Cir. 2016) (“the PTO is permitted, but
 2 never compelled, to institute an IPR proceeding”).

3 64. The USPTO’s rulemaking actions purporting to comply with its obligations under 35
 4 U.S.C. §§ 316 and 326 have omitted required lawful procedures. In particular, they have omitted
 5 discretionary considerations entirely, or relegated them to rulemaking that is procedurally unlawful. No
 6 “agency action” that is lawful has ever occurred on this topic, despite the legislative mandate.

7 65. Rulemaking on “sufficient grounds” began with promulgation of 37 CFR § 42.108(c) (for
 8 inter partes review) and 37 CFR §§ 42.208(c) and (d) (for post grant review). These rules do not include
 9 any content addressing how the Director (or his designee, panels of the Patent Trial and Appeal Board)
 10 will make institution decisions under any discretionary factors. On May 27, 2020, the USPTO published
 11 a Notice of Proposed Rulemaking that would amend these rules, but those proposed amendments still
 12 omit discretionary factors. 85 FR 31728.

13 66. Rulemaking on “sufficient grounds” discretionary considerations occurred in
 14 procedurally unlawful ways. Rather than through publication, notice and comment, the USPTO has
 15 communicated substantive “rules” about how the Director and his designees will apply their discretion
 16 through ad hoc adjudicative processes.

17 67. In particular, the USPTO created a process for designating adjudicated decisions
 18 “precedential” within the USPTO, such that future panels purportedly are obligated to follow such
 19 decisions. *See* Patent Trial and Appeal Board, Standard Operating Procedure 2 (Rev. 10) (“SOP-2”), at
 20 1-2, 8-12. Under this procedure, the Director decides whether to designate a Board decision as
 21 precedential. Such “precedential” decisions are effectively rules / regulations, whether labeled so or not.

22 68. Although members of the public (or the Board) may nominate a Board decision for
 23 designation as precedential, the procedure otherwise does not allow for public notice and comment.

24 69. Continued unlawful rulemaking on the discretionary factor topic occurred through such
 25 adjudicative decisions. The Director made precedential the decision in *General Plastic Industrial Co.*,

1 *Ltd. v. Canon Kabushiki Kaisha*, IPR2016-01357 (Paper 19) (P.T.A.B. Sept. 6, 2017), to govern Board
 2 discretion under 35 U.S.C. §§ 314(a) and 324(b-c) in deciding whether the relationship of a petition to
 3 other petitions should lead to discretionary denial. The Director made precedential the decisions in *NHK*
 4 *Spring Co. v. Intri-Plex Techs., Inc.*, IPR2018-00752, Paper 8, at 20 (P.T.A.B. Sept. 12, 2018), and
 5 *Advanced Bionics, LLC v. MED-EL Elektromedizinische Geräte GmbH*, IPR2019-01469, Paper 6
 6 (P.T.A.B Feb. 13, 2020), to govern Board discretion under 35 U.S.C. §§ 315(d) and 325(d) in deciding
 7 whether the relationship of a petition to prior art and arguments considered during earlier patent
 8 examination, reexamination, or AIA reviews should lead to discretionary denial. The Director made
 9 precedential the decision in *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11, at 5 (P.T.A.B. Mar. 20,
 10 2020), to govern Board discretion under 35 U.S.C. §§ 314(a) and 324(b) and (c) in deciding whether the
 11 relationship to parallel court proceedings should lead to discretionary denial.

14 70. Precedential decisions such as *General Plastic*, *Advanced Bionics*, *NHK* and *Fintiv* are
 15 shortcuts that circumvent lawful rulemaking, and have not translated into predictability. These four
 16 decisions provide “non-exclusive” factors that are to be “weighed” as a part of a “balanced assessment.”
 17 These decisions, though, do not guide how a factor should be scored, how much weight each gets, or
 18 what score will assure or prevent denial of institution. A sample of recent institution decisions illustrates
 19 the problem.

- 21 • On September 12, 2019 institution was **denied** in IPR2018-00752. A district court trial between
 22 the same parties was scheduled 6 months ahead of the PTAB final decision. The judge had not
 23 ordered a stay or issued any order contingent on the PTAB. There were 134 docket entries
 24 including a Markman order.
- 26 • On May 13, 2020 institution was **denied** in IPR2020-00019. A district court trial between the
 27 same parties was scheduled 2 months ahead of the PTAB final decision. The judge had not

1 ordered a stay or issued any order contingent on the PTAB. There were 89 docket entries
 2 including a Markman order.

3

- 4 On June 16, 2020 institution was **granted** in IPR2019-01393. A district court trial between the
 5 same parties was scheduled 4 months ahead of the PTAB final decision. The judge had not
 6 ordered a stay or issued any order contingent on the PTAB. There were 101 docket entries
 7 including a Markman order.
- 8 On July 28, 2020 institution was **granted** in IPR2020-00235. A district court trial between the
 9 same parties was scheduled 9 months ahead of the PTAB final decision. The judge had not
 10 ordered a stay or issued any order contingent on the PTAB. There were 192 docket entries
 11 including a Markman order.

12

13 71. The USPTO “unlawfully withheld” the “agency action” of promulgating such rules
 14 governing “sufficient grounds” as actual lawful “regulations,” as Congress mandated they must. 35
 15 U.S.C. §§ 316 and 326.

16

17 72. Had the Director promulgated regulations in a lawful manner on the topic of
 18 discretionary considerations that make up “sufficient grounds” for institution, the notice and comment
 19 process would have led to better-crafted regulations factoring in public comment. This, in turn, would
 20 have contributed to better predictability of the institution decision.

21

22 73. Making rules lawfully would also have led to proper incorporation of the Congressionally
 23 mandated considerations, particularly “the effect of any such regulation on the economy, the integrity of
 24 the patent system, [and] the efficient administration of the [USPTO].” Adjudicative rulemaking is
 25 particularly unsuited for incorporation of such considerations, as the parties to a patent validity dispute
 26 are unlikely to be in a position to create an adequate policy-based or economy-based record, and
 27 administrative patent judges are not likely to be trained or equipped to make policy-based on economic-
 28 oriented decisions in the heat of a deadline-constrained institution decision.

74. The rulemaking Intervenors accuse here of being unlawful has already been declared unlawful. The Court of Appeals for the Federal Circuit, reissued a panel decision (after panel rehearing) in *Facebook, Inc. v. Windy City Innovations, LLC*, No. 18-1400 (slip op. Sept. 4, 2020) (precedential). In Additional Views joined by all members of the panel, the Court issued an alternative holding addressing the unlawfulness of the Director’s use of “Precedential Opinion Panels” under its SOP 2. The panel noted that SOP 2 “precedential” designations may not lawfully substitute for notice and comment rulemaking: “There is no indication in the statute that Congress either intended to delegate broad substantive rulemaking authority to the Director to interpret statutory provisions through POP opinions or intended him to engage in any rulemaking other than through the mechanism of prescribing regulations.” The Court went on to observe that Congress empowered the “Director” to establish regulations, not the Board, such that “Congress’s delegation in the AIA for the adjudication of patentability in IPRs is not a delegation of authority to issue adjudicative decisions interpreting statutory provisions of the AIA.” The Court concluded, “in agencies where Congress has not expressly delegated both rulemaking and adjudicative authority to a single delegee, as in the PTO, adjudication may not operate as an appropriate mechanism for the exercise of rulemaking.”

75. Therefore, the Director's attempt to use his SOP 2 authority to designate decisions on how to apply discretionary considerations as "precedential" constitutes an invalid and unlawful attempt at notice and comment rulemaking. The Director will be issue-precluded from arguing otherwise in this litigation, because of the *Facebook v. Windy City* decision discussed above, in which he participated as Intervenor.

COUNT I – Agency Inaction in Violation of 5 U.S.C. § 706(1)

76. Under the APA, the Court shall “compel agency action unlawfully withheld or unreasonably delayed.”

77. The USPTO Director's rulemaking on discretionary factors that guide whether a petitioner has raised "sufficient grounds" for institution has occurred without publication, notice or

comment that agency rulemaking requires. “Agency action” in the form of rulemaking mandated under the AIA has thus been “unlawfully withheld.”

78. The USPTO Director could not lawfully adopt such guidance concerning the discretionary factors implicit in “sufficient grounds” for institution without notice-and-comment rulemaking. *See* 5 U.S.C. § 553; 35 U.S.C. §§ 2(b)(2), 316(a), 326(a-b).

79. The USPTO Director propounded discretionary consideration rules for the “sufficient grounds” decision as binding substantive rules without notice and comment in violation of the APA.

COUNT II – Agency Action in Violation of 5 U.S.C. § 706(2)

80. Under the APA, the Court shall “hold unlawful and set aside agency action” that is “without observance of procedure required by law.”

81. The USPTO Director’s rulemaking on discretionary factors that guide whether a petitioner has raised “sufficient grounds” for institution has occurred without publication, notice or comment that agency rulemaking requires. Rulemaking under the AIA through adjudicative decisions is (and has been held) unlawful. The Director’s rulemaking on discretionary factors has unlawfully occurred through adjudicative decisions. “Agency action” in the form of rulemaking mandated under the AIA has thus been “without observance of procedure required by law.”

82. The USPTO Director could not lawfully adopt such guidance concerning the discretionary factors implicit in “sufficient grounds” for institution without notice-and-comment rulemaking. *See* 5 U.S.C. § 553; 35 U.S.C. §§ 2(b)(2), 316(a), 326(a-b).

83. The USPTO Director propounded discretionary consideration rules for the “sufficient grounds” decision as binding substantive rules without notice and comment in violation of the APA.

RELIEF REQUESTED

WHEREFORE, Intervenors respectfully request that the Court enter judgment in their favor and:

1. Declare adjudicative rulemaking on discretionary considerations for the “sufficient grounds” decision to be unlawful;

1 2. Compel notice-and-comment rulemaking on discretionary considerations for the
2 “sufficient grounds” decision, as Congress has mandated;

3 3. Preliminarily and permanently enjoin the Director from granting institution in any AIA
4 patent trial pending completion of compelled rulemaking (at which point properly promulgated rules
5 will govern Board panel institutions and adjudications);

6 4. Preliminarily and permanently enjoin the Director from requiring Board panels to treat
7 any prior adjudicated Board decision analyzing discretionary considerations as “precedential” in any
8 upcoming decision, pending completion of compelled rulemaking (at which point properly promulgated
9 rules will govern Board panel institutions and adjudications);

10 5. Award Intervenors their costs and attorney’s fees and expenses as allowed by law; and

11 6. Provide such other and further relief as the Court deems appropriate.

14 Dated: September 14, 2020

15 Respectfully submitted,

16 /s/ Lewis E. Hudnell, III

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