

No. 22-298

In the Supreme Court of the United States

JUMP ROPE SYSTEMS, LLC,

Petitioner,

v.

COULTER VENTURES, LLC DBA ROGUE FITNESS,

Respondent.

*On Petition for a Writ of Certiorari to the
to the United States Court of Appeals
for the Federal Circuit*

**MOTION FOR LEAVE AND BRIEF OF AMICI CURIAE
JOSHUA J. MALONE, JODI SCHWENDIMANN, AND
US INVENTOR, INC. SUPPORTING PETITIONER**

J. Carl Cecere
Counsel of Record
CECERE PC
6035 McCommas Blvd.
Dallas, TX 75206
(469) 600-9455
ccecere@cecerepc.com
Counsel for Amici Curiae

December 5, 2022

In the Supreme Court of the United States

No. 22-298

JUMP ROPE SYSTEMS, LLC,
Petitioner,

v.

COULTER VENTURES, LLC DBA ROGUE FITNESS,
Respondent.

*On Petition for a Writ of Certiorari
to the Texas Court of Criminal Appeals*

MOTION FOR LEAVE TO FILE AMICUS BRIEF

Pursuant to Supreme Court Rule 37.2(b), amici curiae Joshua J. Malone, Jodi Schwendimann, and U.S. Inventor, Inc. request leave to file the following brief in support of Petitioner in the above-captioned case. In support of this motion, Amici would respectfully show the following.

1. Amicus **Joshua J. Malone** is an inventor, entrepreneur, and holder of several patents. In 2016, one of his patented inventions, Bunch O Balloons, took the toy world by storm with its simple yet revolutionary mechanism for filling hundreds of water balloons in mere seconds, allowing hours of uninterrupted outdoor play.

Josh experienced immediate success when he began selling Bunch O Balloons through his small company, Tinus Enterprises, LLC. Yet in a saga that has been

documented on the Today Show and in the pages of the Wall Street Journal, he also experienced immediate infringement on his patents from a slew of more powerful imitators. Companies like Walmart, Target, Bed Bath & Beyond, Toys R Us, Walgreens, Kroger, Home Depot—and most notoriously Telebrands, the ubiquitous yet eponymously anonymous company associated with the “As Seen on TV” logo.¹ These infringers forced Josh to spend millions of dollars defending his invention in court. And they required Josh to spend millions more in administrative proceedings before the Patent Trial and Appeal Board—including eight separate post-grant review proceedings.² Josh therefore has an intimate familiarity, gained through hard experience, with the need for strong patent protections to foster entrepreneurship and economic growth, the ways in which powerful companies can destroy those protections by abusing the patent system, and the manner in which those abuses are facilitated through the administrative excesses of the PTAB. And his is a patent *success* story—his patents survived review, and the infringers on his patents were forced to settle.

Others have been less fortunate. **Jodi Schwendimann** helped to develop a transformative method for printing

¹ Ruth Simon, *This Water-Balloon Battle Threatens to Soak Everybody*, Wall St. J. (Nov. 15, 2017), <on.wsj.com/2B0hXX1>; see also *Father-of-Eight Creates Genius Water Balloon Invention*, ABC News (July 24, 2014), <bit.ly/3uhQVXZ>.

² *Telebrands Corp. v. Tinnus Enters.*, No. PGR2015-00018, 2016 WL 270152 (P.T.A.B. Jan. 4, 2016); *Telebrands Corp. v. Tinnus Enters.*, PGR2017-00052, 2018 WL 1636205 (P.T.A.B. Apr. 3, 2018); *Telebrands Corp. v. Tinnus Enters.*, No. PGR2015-00018, 2016 WL 7985419 (P.T.A.B. Dec. 30, 2016), *rev'd*, 733 Fed. App'x 1011 (May 30, 2018); see also Nos. PGR2016-00031; PGR2017-00015, -00024, -00040, -00051, -00052.

designs onto heat-sensitive transfer sheets using ordinary inkjet printers that could then be ironed onto clothing. This opened the door for home hobbyists and entrepreneurs to make custom apparel without the expensive, room-filling equipment required for silk screen printing. She obtained several patents for her ideas, and an Article III district judge affirmed that these patents were not invalid and awarded her damages for a competitor's willful infringement—a ruling that stood on appeal. But that did not stop other infringers from trying to destroy Jodi. They filed a combined *fifteen* inter partes review petition against *eight* of her patents.

And Jodi is still in better stead than many of the 10,000 inventors amicus **US Inventor, Inc.** represents. US Inventor is an inventor-led and inventor-funded non-profit organization that seeks to educate lawmakers, agencies, and courts on matters affecting inventors and the patent process. Many of its members have had their inventions taken, and livelihoods destroyed, by the expensive, wasteful, and biased administrative proceedings before the PTAB.

2. Amici wish to submit a brief in this case to explain how the Federal Circuit's decision in *XY, LLC v. Trans Ova Genetics, L.C.*, 890 F.3d 1282 (Fed. Cir. 2018) and the principle of issue preclusion it represents, fuels the PTAB's excesses, presenting threats to the separation of powers, to American startups and inventors, and to the American economy as a whole. Amici therefore urge the Court to take this opportunity to overturn *XY's* dangerous and the erroneous rule it represents.

3. Counsel for all parties received notice of amici curiae's intent to file this brief 10 days before its due date. Petitioner filed a blanket consent to all amicus briefs.

Respondent has not indicated whether it consents to this brief. No counsel for any party authored this brief in whole or in part, and no person or entity other than the amici, their members, or their counsel made a monetary contribution intended to fund the brief's preparation or submission.

Accordingly, Amici respectfully request leave to file the enclosed amicus brief in support of the Petitioner in this case.

Respectfully submitted,

J. Carl Cecere
Counsel of Record
CECERE PC
6035 McCommas Blvd.
Dallas, TX 75206
(469) 600-9455
ccecere@cecerepc.com
Counsel for Amicus Curiae

December 5, 2022

TABLE OF CONTENTS

Table of authorities.....	II
Interest of amici curiae.....	1
Introduction and summary of argument	4
Argument	7
I. XY's preclusion rule conflicts with this Court and the regional circuits on bedrock collateral estoppel principles.....	7
II. XY's preclusion rule violates the separation of powers.....	10
III. It is imperative for this Court to reverse XY's erroneous rule.....	12
Conclusion	21

TABLE OF AUTHORITIES

Cases:

<i>Artukovic v. INS</i> , 693 F.2d 894 (9th Cir. 1982).....	9
<i>Astoria Fed. Sav. & Loan Assn. v. Solimino</i> , 501 U.S. 104 (1991)	11
<i>B&B Hardware, Inc. v. Hargis Industries, Inc.</i> , 575 U.S. 138 (2015)	7, 11
<i>Blackwelder v. Millman</i> , 522 F.2d 766 (4th Cir. 1975).....	9
<i>Blonder-Tongue Laboratories, Inc. v.</i> <i>University of Illinois Foundation</i> , 402 U.S. 313 (1971)	4
<i>Bulloch v. Pearson</i> , 768 F.2d 1191 (10th Cir. 1985).....	9
<i>Clark v. Bear Stearns & Co., Inc.</i> , 966 F.2d 1318 (9th Cir. 1992).....	9
<i>Ferrell v. Pierce</i> , 785 F.2d 1372 (7th Cir. 1986).....	9
<i>Grogan v. Garner</i> , 498 U.S. 279 (1991).	8, 9
<i>Hammervold v. Blank</i> , 3 F.4th 803 (5th Cir. 2021)	9
<i>Haybern’s Case</i> , 2 U.S. (2 Dall.) 408 (1792)	10
<i>In re Braen</i> , 900 F.2d 621 (3d Cir. 1990)	9
<i>In re Garner</i> , 881 F.3d 579 (8th Cir. 1989)	9

III

Cases—continued:

<i>In re Morsa</i> , 713 F.3d 104 (Fed. Cir. 2013).....	8
<i>Marlene Indus. Corp. v. NLRB</i> , 712 F.2d 1011 (6th Cir. 1983).....	9
<i>Microsoft Corp. v. i4i Ltd. P’ship</i> , 564 U.S. 91 (2011)	8
<i>Pharmacia & Upjohn Co. v. Mylan Pharm., Inc.</i> , 170 F.3d 1373 (Fed. Cir. 1999).....	9
<i>Therasense, Inc. v. Becton, Dickinson & Co.</i> , 649 F.3d 1276, 1285 (Fed. Cir. 2011) (en banc).....	15
<i>XY, LLC v. Trans Ova Genetics, L.C.</i> , 890 F.3d 1282 (Fed. Cir. 2018)	passim

Statutes:

35 U.S.C. § 282(a)	14
35 U.S.C. § 282(b)	15
35 U.S.C. § 315(e)	11
35 U.S.C. § 316(e)	8
Leahy-Smith America Invents Act, Pub. L. 112- 29, 125 Stat. 284 (2011).....	11

Legislative materials:

<i>Climate for Innovation: Hr’g Before H. Select Comm. on Energy Independence and Global Warming</i> , 111th Cong. 31, 33 (2009) (testimony of Robert T. Nelsen, ARCH Venture Partners).....	16
--	----

IV

Legislative materials—continued:

Patent Reform Impact on Small Venture-Backed Companies: Hearing Before the H. Small Bus. Comm., 110th Cong. 98 (2007) (testimony of John Neis, Venture Investors). 18

Other authorities:

Father-of-Eight Creates Genius Water Balloon Invention, ABC News (July 24, 2014), <bit.ly/3uhQVXZ> 2

Steve Brachmann, *Apple, APJ Clements and final written decisions: a lethal cocktail for patents* IPWatchdog Blog (June 22, 2017), <bit.ly/2g63xi8> 14

CQ Press, *First Street Report: Lobbying the America Invents Act 4* (2011), <<http://bit.ly/24fgdjg>> 20

Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. Rev. 881, 924 (2015). 15

Ewing Marion Kauffman Found., *The Importance of Startups in Job Creation and Job Destruction 4* (Jul. 2010), <<http://bit.ly/1eODvIy>>. 20

J. Farre-Mensa *et al.*, USPTO, *Office of the Chief Economist, The Bright Side of Patents* (USPTO Working Paper No. 2015-2, Jan. 2016), <<http://bit.ly/1N34XNk>>. 17, 18, 19

C. Fazio *et al.*, MIT Innovation Initiative, *A New View of the Skew: A Quantitative Assessment of the Quality of American Entrepreneurship* (2016), <<http://bit.ly/1X8MF8r>>. 18

Other authorities—continued:

- Fed. Reserve Bank of Cleveland, Ann. Rep.,
*Altered States: A Perspective on 75 Years of
 State Income Growth* 17-18 & fig. 6 (2005),
 <<http://bit.ly/1RDNkG7>> 21
- Deborah Gage, *The Venture Capital Secret: 3
 Out of 4 Start-ups Fail*, Wall St. J., Sept. 20,
 2012, <<http://on.wsj.com/1FpKaG6>> 18
- J. Haltiwanger *et al.*, Ewing Marion Kauffman
 Found., *Declining Business Dynamism in the
 U.S. High-Technology Sector* (Feb. 2014),
 <<http://bit.ly/1OWNUPp>> 21
- J.D. Harrison, *More businesses are closing than
 starting. Can Congress help turn that
 around?*, Wash. Post, Sept. 17, 2014,
 <<http://wapo.st/1Parrns>> 21
- Robert Litan & Hal Singer, Economists Inc.,
*Unlocking Patents: Costs of Failure, Benefits
 of Success*, <<http://bit.ly/1U6tXY6>> 17
- Paul R. Michel & Chris Israel, Bloomberg,
*Don't Let Big Tech Sabotage U.S. Innovators'
 Protections* (Apr. 22, 2022) <bit.ly/3h2F'twn>. 15
- Nat'l Venture Capital Ass'n, *Venture Impact:
 The Economic Importance of Venture-Backed
 Companies to the U.S. Economy* (5th ed.
 2009), <<http://bit.ly/1X8wBmZ>> 20
- Press Release, Nat'l Venture Capital Ass'n,
*National Venture Capital Association
 Encourages Congress to Support Innovators
 in Patent Reform Legislation* (Oct. 25, 2007)..... 18

VI

Other authorities—continued:

Joe Nocera, *the Patent Troll Smokescreen*, N.Y. Times, Oct. 23, 2015, <<http://nyti.ms/1PJRz7j>> 19

John E. Nowak, Ronald D. Rotunda, J. Nelson Young, *Constitutional Law* (3d ed. 1986) 11

Nam D. Pham, NDP Consulting, *The Impact of Innovation and the Role of Intellectual Property Rights on U.S. Productivity, Competitiveness, Jobs, Wages, and Exports* 5 (2010), <<http://bit.ly/1Z8MGGv>> 21

Peter J. Pitts, ‘Patent Death Squads’ vs. Innovation, Wall St. J., June 10, 2015, <<http://on.wsj.com/1MsqErB>> 13

Gene Quinn, *USPTO admits to staking PTAB panels to achieve desired outcomes*, IPWatchdog Blog (Aug. 23, 2017) <bit.ly/2iE9mnS> 14

Restatement (Second) of Judgments 4, 5, 7, 9

Ruth Simon, *This Water-Balloon Battle Threatens to Soak Everybody*, Wall St. J. (Nov. 15, 2017), <on.wsj.com/2B0hXX1> 2

Tufts Ctr. for the Study of Drug Dev., *Cost to Develop and Win Marketing Approval for a New Drug Is \$2.6 Billion* (Nov. 18, 2014), <<http://bit.ly/1Hfvx6G>> 16

Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* (2d ed. 2006)..... 4

In the Supreme Court of the United States

No. 22-298

JUMP ROPE SYSTEMS, LLC,
Petitioner,

v.

COULTER VENTURES, LLC DBA ROGUE FITNESS,
Respondent.

*On Petition for a Writ of Certiorari
to the Texas Court of Criminal Appeals*

**BRIEF OF AMICI CURIAE JOSHUA J. MALONE,
JODI SCHWENDIMANN, AND US INVENTOR,
INC., IN SUPPORT OF PETITIONER**

INTEREST OF AMICI CURIAE³

Amicus **Joshua J. Malone** is an inventor, entrepreneur, and holder of several patents. In 2016, one of his patented inventions, Bunch O Balloons, took the toy world

³ Counsel for all parties received notice of amici curiae's intent to file this brief 10 days before its due date. Petitioner filed a blanket consent to all amicus briefs. Respondent has not indicated whether it consents to this brief. No counsel for any party authored this brief in whole or in part, and no person or entity other than the amici, their members, or their counsel made a monetary contribution intended to fund the brief's preparation or submission.

by storm with its simple yet revolutionary mechanism for filling hundreds of water balloons in mere seconds, allowing hours of uninterrupted outdoor play.

Josh experienced immediate success when he began selling Bunch O Balloons through his small company, Tinnus Enterprises, LLC. Yet in a saga that has been documented on the Today Show and in the pages of the Wall Street Journal, he also experienced immediate infringement on his patents from a slew of more powerful imitators. Companies like Walmart, Target, Bed Bath & Beyond, Toys R Us, Walgreens, Kroger, Home Depot—and most notoriously Telebrands, the ubiquitous yet eponymously anonymous company associated with the “As Seen on TV” logo.⁴ These infringers forced Josh to spend millions of dollars defending his invention in court. And they required Josh to spend millions more in administrative proceedings before the Patent Trial and Appeal Board—including eight separate post-grant review proceedings.⁵ Josh therefore has an intimate familiarity, gained through hard experience, with the need for strong patent protections to foster entrepreneurship and economic growth, the ways in which powerful companies can destroy those protections by abusing the patent system, and the manner in

⁴ Ruth Simon, *This Water-Balloon Battle Threatens to Soak Everybody*, Wall St. J. (Nov. 15, 2017), <on.wsj.com/2B0hXX1>; see also *Father-of-Eight Creates Genius Water Balloon Invention*, ABC News (July 24, 2014), <bit.ly/3uhQVXZ>.

⁵ *Telebrands Corp. v. Tinnus Enters.*, No. PGR2015-00018, 2016 WL 270152 (P.T.A.B. Jan. 4, 2016); *Telebrands Corp. v. Tinnus Enters.*, PGR2017-00052, 2018 WL 1636205 (P.T.A.B. Apr. 3, 2018); *Telebrands Corp. v. Tinnus Enters.*, No. PGR2015-00018, 2016 WL 7985419 (P.T.A.B. Dec. 30, 2016), *rev'd*, 733 Fed. App'x 1011 (May 30, 2018); see also Nos. PGR2016-00031; PGR2017-00015, -00024, -00040, -00051, -00052.

which those abuses are facilitated through the administrative excesses of the PTAB. And his is a patent *success* story—his patents survived review, and he forced the infringers on his patents to settle.

Others have been less fortunate. **Jodi Schwendimann** helped to develop a transformative method for printing designs onto heat-sensitive transfer sheets using ordinary inkjet printers that could then be ironed onto clothing. This opened the door for home hobbyists and entrepreneurs to make custom apparel without the expensive, room-filling equipment required for silk screen printing. She obtained several patents for her ideas, and an Article III district judge affirmed that these patents were not invalid and awarded her damages for a competitor’s willful infringement—a ruling that stood on appeal. But that did not stop other infringers from trying to destroy Jodi. They filed a combined *fifteen* inter partes review petition against *eight* of her patents.

And Jodi is still in better stead than many of the 10,000 inventors amicus **US Inventor, Inc.** represents. US Inventor is an inventor-led and inventor-funded non-profit organization that seeks to educate lawmakers, agencies, and courts on matters affecting inventors and the patent process. Many of its members have had their inventions taken, and livelihoods destroyed, by the expensive, wasteful, and biased administrative proceedings before the PTAB.

Amici write in this case to explain how the Federal Circuit’s decision in *XY, LLC v. Trans Ova Genetics, L.C.*, 890 F.3d 1282 (Fed. Cir. 2018) and the principle of issue preclusion it represents, fuels the PTAB’s excesses, presenting threats to the separation of powers, to American startups and inventors, and to the American economy as a whole.

Amici therefore urge the Court to take this opportunity to overturn *XY*'s dangerous and the erroneous rule it represents.

INTRODUCTION AND SUMMARY OF ARGUMENT

Since the common law, the doctrine of collateral estoppel has provided that once particular issues are “actually litigated” and finally determined between two parties, “the determination is conclusive in a subsequent action between the parties.” *Restatement (Second) of Judgments* § 27; see also 18A Charles Alan Wright & Arthur R. Miller, *Federal Practice and Procedure* § 4416 (2d ed. 2006). For nearly as long, the doctrine’s application has been subject to certain traditional limitations on its preclusive reach that prevent a party’s success in previous litigation from being “automatically accepted” in subsequent litigation. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 333 (1971). In patent litigation, as in all other litigation, “the patentee-plaintiff must be permitted to demonstrate, if he can, that he did not have a fair opportunity procedurally, substantively and evidentially to pursue his claim the first time.” *Ibid.* So, for example, collateral estoppel will not apply when the patentee-plaintiff lacked “a full and fair chance” to litigate a patent’s validity in a previous proceeding. *Ibid.*

Another, equally important limitation on collateral estoppel’s preclusive reach provides that the doctrine will not apply when the issue was decided under a “significantly heavier” burden of persuasion in one proceeding than the other—on the sound principle that when the variation in those burdens is significant enough, that makes it impossible to tell whether “the losing party in the first action would have lost had a significantly different burden been imposed.” *Restatement (Second) of Judgments*

§ 28(4) & cmt. f. That traditional limitation on collateral estoppel's preclusive reach is accepted everywhere—at every level of the federal judiciary, in every procedural and legal context.

Everywhere, that is, except for the Federal Circuit, in determining the preclusive reach of administrative decisions from the PTAB invalidating a patent claim under inter partes review. In *XY, LLC v. Trans Ova Genetics, L.C.*, 890 F.3d 1282 (Fed. Cir. 2018), the Federal Circuit held that such a decision by the Executive-appointed administrative judges of the PTAB collaterally estops the patent holder “from asserting the patent in any further proceedings,” including in district courts—trumping the authority of Article III federal district judges and “mooting” their determinations regarding the patent's validity. *Id.* at 1294. *XY* reasoned that once the PTAB's determinations have been affirmed on appeal, the patentholder “has had his day in court.” *Ibid.* (internal quotation omitted). No exceptions.

But as Judge Newman explained in her dissent in *XY*, patentholders before the PTAB on inter partes review have not had their “day in court.” They have simply had a hearing before administrative functionaries. And the standards for invalidating patents before the PTAB, and for affirming those invalidity determinations on appeal, are both substantially different from the standards for invalidating patents in federal court. Accordingly, rigidly extending collateral effect to PTAB invalidity determinations does not comport with the traditional standards of collateral estoppel—and its traditional limitations—that have governed everywhere until now.

XY's inflexible rule automatically extending preclusive effect to the PTAB's decisions also threatens the separation of powers along two different fronts. First, it grants

to the judges of the PTAB—even above other administrative officers—complete control over proceedings in Article III courts concerning the proper outcome of cases within the federal courts’ jurisdiction. *XY* therefore demands that Article III judges give total, unquestioning deference to administrative decisions, and bow to an administrative outcome in ongoing district court litigation where those decisions would otherwise have *no* effect. That allows the Executive Branch to intrude onto matters reserved exclusively to the Judiciary.

XY’s absolutist preclusion position also allows the administrative bureaucrats of the PTAB to improperly invade domain reserved to Congress. Because Congress created both the PTAB and inter partes review, Congress alone is empowered to determine the preclusive effect of the decisions from that tribunal. Congress has given no indication that PTAB decisions should be uniquely exempt from traditional collateral estoppel principles—or the traditional limits on those principles. Accordingly, when PTAB decisions claim preclusive force beyond those limits, and insert themselves into district court litigation, they tread where Congress has forbidden their entry.

XY was bad when it was first decided. But experience has only served to highlight why its first detractors like Judge Newman were right. *XY*’s rule has proven unworkable and unbounded in application. It has been a driving factor making the PTAB the ultimate arbiter in any district court infringement action and making inter partes review a forum in which where given enough time and opportunities, the likelihood an infringer will be able to invalidate a patent approaches 100%. That is a threat to the constitutional order. It is a threat to inventors. It is a threat to entrepreneurs and startups. And it is ultimately

a threat to the entire American economy. It is therefore time for this Court to consider whether this rule, applied in a single court, should govern patent litigation all over the country.

The Court should grant the petition for writ of certiorari.

ARGUMENT

I. *XY*'s preclusion rule conflicts with this Court and the regional circuits on bedrock collateral estoppel principles.

A. The Court should grant plenary review in this case because *XY*'s rule is irrevocably at odds with the precedent of this Court and the decisions of the regional circuits, and the Court should take this occasion to correct it. Under the rules of the *Restatement (Second) of Judgments*, which this Court “regularly turns to *** for a statement of the ordinary elements of res judicata,” *B&B Hardware, Inc. v. Hargis Industries, Inc.*, 575 U.S. 138, 148 (2015), courts are not permitted to apply collateral estoppel when the two proceedings at issue were decided under “significantly” different standards—whether the person against whom preclusion is sought *lost* under a “significantly heavier burden” in the initial proceeding, or the person who *won* in one proceeding faces a “significantly heavier” burden in the second. *Restatement (Second) of Judgments* § 28(4).

B. That should prevent PTAB decisions from having preclusive force in district court litigation, because, as Judge Newman explained in her dissent in *XY*, the burdens in an inter parties review proceeding are significantly lower than the burdens applied in district court litigation in virtually every respect. A petitioner on inter

partes review need only prove invalidity by a preponderance of the evidence, 35 U.S.C. § 316(e), rather than the “clear and convincing evidence” standard required to find invalidity in court, *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 111 (2011). And on appeal, the PTAB’s often-dispositive findings made in the course of claim construction are not subject to regular appellate review standards but are granted deferential treatment under the “substantial evidence” standard from the Administrative Procedure Act. *In re Morsa*, 713 F.3d 104, 109 (Fed. Cir. 2013). As Judge Newman reasoned, these “different standards of validity in the PTAB and the district court, the different burdens of proof, and the different standards of appellate review” deprive PTAB decisions of preclusive effect. *XY, LLC*, 890 F.3d at 1300 (Newman, J., dissenting).

C. This Court’s precedent follows Judge Newman’s reasoning. In *Grogan v. Garner*, 498 U.S. 279, 284-285 (1991), the Court held that the difference between the “preponderance of the evidence” burden of persuasion and the “clear-and convincing standard” would be “substantial” enough to prevent collateral estoppel’s application.

This division between the Federal Circuit and this Court over an issue of federal common law is intolerable on its own. But it is made worse by the fact that *XY*’s inflexible and idiosyncratic issue-preclusion principle also conflicts with the holdings of the regional circuits. Every one of those circuits to address the issue (along with the common law decisions on which they are based), agrees that that success in one proceeding under the lower “preponderance” standard should not be preclusive in a later proceeding under the higher “clear and convincing” standard—and failure under the “clear and convincing”

standard will not be controlling in a later proceeding conducted under the lesser preponderance standard.⁶ Those regional circuit decisions are supposed to control on preclusion issues in patent cases. *Pharmacia & Upjohn Co. v. Mylan Pharm., Inc.*, 170 F.3d 1373, 1381 n.4 (Fed. Cir. 1999) (“[B]ecause the application of general collateral estoppel principles, such as finality of judgment, is not a matter within the exclusive jurisdiction of this court, we must apply the law of the circuit in which the district court here sits.”). That means in patent cases, *XY*’s improper

⁶ *In re Braen*, 900 F.2d 621, 624 (3d Cir. 1990) (holding that earlier action decided under a preponderance standard was not preclusive in later action decided under a clear-and-convincing standard), *overruled on other grounds by* Grogan, *supra*; *Blackwelder v. Millman*, 522 F.2d 766, 773 (4th Cir. 1975); *Hammervold v. Blank*, 3 F.4th 803, 811-812 (5th Cir. 2021) (claims in earlier proceeding that failed under clear-and-convincing standard did not preclude claims under preponderance standard in later proceeding); *Marlene Indus. Corp. v. NLRB*, 712 F.2d 1011, 1015–1017 (6th Cir. 1983) (claims that failed under clear-and-convincing standard would not be preclusive in later decision under predominance standard); *Ferrell v. Pierce*, 785 F.2d 1372, 1378 n.2 (7th Cir. 1986) (claims decided under predominance standard in earlier action were not preclusive in later action decided under a clear-and-convincing standard); *In re Garner*, 881 F.3d 579, 582 (8th Cir. 1989) (earlier proceeding decided under a preponderance standard would not be preclusive in later proceeding decided under clear-and-convincing” standard), *overruled on other grounds by* Grogan, *supra*; *Clark v. Bear Stearns & Co., Inc.*, 966 F.2d 1318, 1322 (9th Cir. 1992) (earlier failure to prevail under a clear-and-convincing standard did not preclude claims under a predominance standard); *Artukovic v. INS*, 693 F.2d 894, 898 (9th Cir. 1982) (earlier decision under a predominance standard was not preclusive in second action decided under predominance standard); *Bulloch v. Pearson*, 768 F.2d 1191, 1193 (10th Cir. 1985); *see also Restatement (Second) of Judgments* § 28 cmt. f. ill. 10 (concluding that a clear and convincing standard is sufficiently heavier than a preponderance of the evidence standard to trigger § 28).

resolution of the law of collateral estoppel is trumping the regional circuits' *proper* resolution of the issue, making the law wrong nationwide, and upsetting the legitimate expectations of parties and courts as to the preclusion principles they ought to be applying. These are additional compelling reasons to overturn *XY*.

II. *XY*'s preclusion rule violates the separation of powers.

Plenary review should also be granted because, as Judge Newman explained, *XY*'s preclusion rule "raises critical issues of constitutional balance among the branches of government." 890 F.3d at 1298 (Newman, J., dissenting).

A. When a district court's finding on a patent's validity are "mooted" by the PTAB's invalidity decision," *id.* at 1299, that permits administrative judges working in administrative agencies to trump the final judgments of Presidentially appointed, Senate-confirmed Article III judges—on issues within the exclusive province of the judicial branch that would otherwise remain undisturbed under uniform regional circuit law. But it has been clear since a year after the Constitution's ratification, in *Haybern's Case*, 2 U.S. (2 Dall.) 408 (1792), that the federal judiciary's judgments cannot be made subject to "[r]evision, suspension, modification or other review by the executive or legislative branches." John E. Nowak, Ronald D. Rotunda, J. Nelson Young, *Constitutional Law* 67 (3d ed. 1986). The judges of the PTAB cannot be permitted to disturb the judgments of Article III judges. The *XY* rule therefore permits impermissible intrusion into powers that should be reserved for the judiciary. Judge Newman was entirely correct.

And Judge Newman was underselling things, because *XY*'s rule not only allows agencies to improperly intrude into matters properly belonging to the judiciary, it also allows the PTAB and the courts to intrude on matters properly reserved to Congress. “Courts do not, of course, have free rein to impose rules of preclusion, as a policy, when the interpretation of a statute is at hand.” *Astoria Fed. Sav. & Loan Assn. v. Solimino*, 501 U.S. 104, 108 (1991). They have to follow Congress’s direction. And where “Congress has authorized agencies to resolve disputes,” it is up to Congress—and Congress alone—to determine the preclusive effects of the decisions by the agencies it creates. *B&B Hardware*, 575 U.S. at 148.

Congress “is understood to legislate against a background of common-law adjudicatory principles.” *Astoria*, 501 U.S. at 108. “[C]ourts may therefore take it as given that Congress has legislated with the expectation that the principle [of issue preclusion]”—and that principle’s traditional limits—“will apply except when a statutory purpose to the contrary is evident.” *B&B Hardware*, 575 U.S. at 148 (quoting *Astoria*, 501 U.S. at 108).

No such contrary intent is apparent here. Nothing in the Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011), which created the inter partes review procedure, purports to grant PTAB decisions in those proceedings preclusive effect or disturb traditional collateral estoppel doctrine. The sole AIA provision that deals with preclusion, 35 U.S.C. § 315(e), bars only inter partes review *petitioners* from relitigating issues *they* lost on inter partes review, having no effect on whether *patentee-plaintiffs* would be precluded. And Congress elsewhere exhibited intent that PTAB decisions would not have preclusive effect. It did so by imposing a standard of proof for those

proceedings that was so much lower than required in district court as to guarantee the decisions from those proceedings will be denied preclusive effect under traditional principles and longstanding precedent. Accordingly, rather than disturb traditional preclusion principles, Congress incorporated them into the AIA, and used them to make its intentions known. And that intention is to *deny* extending preclusive effect to PTAB decisions.

Accordingly, the Federal Circuit was not free to decide for itself whether PTAB decisions should have preclusive effect in district court—and the PTAB was not free to assert such power over district court patent litigation through its decisions. Rather, both Judiciary and Executive were bound to follow Congress’s lead. And Congress reached the opposite result from *XY*. That invasion into decision-making belonging to Congress was therefore not merely an incorrect conclusion of law, it was a violation of the separation of powers. And this Court’s intervention is necessary to restore the proper “constitutional balance.” 890 F.3d at 1301 (Newman, J., dissenting).

III. It is imperative for this Court to reverse *XY*’s erroneous rule.

Review is also warranted because *XY*’s erroneous rule creates enormous problems for patent owners. That rule changes how patent litigation is conducted in ways that facilitate abusive litigation tactics by infringers, making the judges of the PTAB “death squads, killing property rights,”⁷ a feature which has attracted infringing petitioners like magnets.

⁷ Peter J. Pitts, ‘*Patent Death Squads*’ vs. *Innovation*, Wall St. J., June 10, 2015, <<http://on.wsj.com/1MsqErB>>.

A. Inter partes review was created as an inexpensive alternative to district court litigation, but the XY rule has made it the inevitable adjunct to any district court patent-infringement lawsuit, and the preferred patent-killing device of infringers, only multiplying the expense and complexity of infringement lawsuits. Because of XY's preclusion rule, any company that is accused to infringement in court will immediately (and often repeatedly) turn to the PTAB, and inter partes review, to attack the patent's validity, because XY ensures that a finding of invalidity in the PTAB will end the district court litigation.

Accordingly, all patent litigation now follows a predictable dual-track path that *amici* know well: The patent holder sues in district court, and the infringer institutes proceedings before the PTAB. The two parallel proceedings then become a race to a final decision, in which defendants delay at every turn—stretching out discovery, filing motions, making repeated requests for stays, and raising interlocutory appeals. The strategy is to do whatever is needed to keep some portion of the case alive as long as possible, no matter how unrelated to patent invalidity—just in case the PTAB invalidates the patent.

B. It is easy to see why infringers run to the PTAB as soon as they are sued in district court. Not only are the standards for invalidating a patent much lower in the PTAB—and a PTAB finding of invalidity is easier to hold up on appeal when coming through the administrative appellate path—there are numerous other advantages that make inter partes review the preferred venue for patent killing.

There is no jury in those proceedings. Nor is there live testimony or cross examination. There is no presumption in favor of a patent's validity—as there would be in district

court. *See* 35 U.S.C. § 282(a). The truncated PTAB hearings cover in hours what takes weeks in district court. And there is no ethical code prohibiting the administrative judges of the PTAB from laboring under conflicts of interest that would be disqualifying for a federal district judge. The political appointees of the PTAB are often pulled from the same industries and companies that most often institute IPR proceedings against competitors. They bring with them a demonstrated tendency to favor the interests of their former employers and clients when they ascend to the bench.⁸ Worse still, USPTO representatives admit to “stacking” PTAB panels with judges known to have views aligned with the Director on particular issues in order to ensure that administration’s favored outcomes are achieved in particular cases.⁹ This is the precise opposite of the fair, unbiased “day in court” that patentholders deserve.

These slanted proceedings have predictable results. The PTAB has invalidated claims in as many as 84 percent of the patents it has fully adjudicated.¹⁰ This is a far higher rate of invalidation than in federal district court, where

⁸ *See, e.g.*, Steve Brachmann, *Apple, APJ Clements and final written decisions: a lethal cocktail for patents* IPWatchdog Blog (June 22, 2017), <bit.ly/2g63xi8> (demonstrating through statistical evidence Administrative Patent Judge Matt Clements’s tendency to favor the interests of Apple, his former client, in IPR proceedings).

⁹ Gene Quinn, *USPTO admits to stacking PTAB panels to achieve desired outcomes*, IPWatchdog Blog (Aug. 23, 2017) <bit.ly/2iE9mnS>.

¹⁰ Paul R. Michel & Chris Israel, Bloomberg, *Don’t Let Big Tech Sabotage U.S. Innovators’ Protections* (Apr. 22, 2022) <bit.ly/3h2FtwN>.

patents are held invalid in only about 46% of cases. Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. Rev. 881, 924 (2015). This disparity is all the more striking because in litigation, unlike IPR, patents can be invalidated on grounds aside from novelty and obviousness, such as inequitable conduct.¹¹

Making matters worse, patents can be challenged multiple times. Indeed, Amicus Josh Malone’s patents were subjected to *eight* different challenges, and Jody Schwendimann’s have been challenged a whopping *fifteen* times—so far. And though the brute force of sheer repetition, the probability of invalidation of any patent, even a high-quality one, approaches 100%.¹²

Because of the XY rule, inter partes review has therefore become the ultimate trump card that infringers play in an attempt to invalidate patent-holders’ livelihoods and hard work, and to make the very expensive process of pursuing district court patent litigation an even more expensive excise in futility.

Indeed, even when infringers are ultimately unsuccessful in proving invalidity, they still succeed in making life more difficult for patent holders. The inevitable PTAB adjunct to district court litigation adds layers of expense to the process of pursuing patent infringers—not only from having to defend patents in satellite PTAB litigation,

¹¹ 35 U.S.C. § 282(b); *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1285 (Fed. Cir. 2011) (en banc) (noting the defense of “[i]nequitable conduct”).

¹² Matteo Sabatini, *PTAB Challenges and Innovation: A Probabilistic Approach* 5 (Aug. 6, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3668216.

but also from having to combat infringers' constant dilatory tactics in district court while waiting on a PTAB result. It also pushes out the timeline before patentholders can obtain any peace.

C. The cloud of uncertainty and expense *XY* casts over a patent, even after the patentholder is victorious in district court, can be crippling to startups. Turning an idea into a product—including developing the idea, patenting it, testing it, debugging it, building prototypes, scaling it into a product, and then building production facilities, distribution channels, and a marketing apparatus to support it—all these steps are costly. The initial investment required to bring innovative ideas to market is particularly high for high-tech products in industries like clean energy and life sciences, frequently reaching into the billions.¹³

Where a start-up company develops such technology, with no revenues to invest and no assets against which to borrow, it would be impossible to attract the investment necessary to develop an innovative product without convincing investors that the enterprise was viable. In many cases, a new company's only chance of success lies in the protection that a patent affords to the company's new technology.

Patents are thus critical to the growth and viability of innovation-oriented start-ups whose inventions might otherwise easily be copied. A patent can be used as leverage

¹³ Tufts Ctr. for the Study of Drug Dev., *Cost to Develop and Win Marketing Approval for a New Drug Is \$2.6 Billion* (Nov. 18, 2014), <bit.ly/1Hfvx6G>; *Climate for Innovation: Hr'g Before H. Select Comm. on Energy Independence and Global Warming*, 111th Cong. 31, 33 (2009) (testimony of Robert T. Nelsen, ARCH Venture Partners).

for financing, either as security for loans or through licensing, because it ensures that the innovative concept embodied in an invention will survive even if the business itself proves unsuccessful. Patents thus set startups on a growth path through which they can expand, create jobs, and generate further innovations.¹⁴ Adding to their durability, patents can be sold and collateralized, further ensuring the availability of stable funding sources, a practice that contributes an estimated \$80 billion in annual growth to the U.S. economy.¹⁵

Patents also help to level the playing field for individual inventors, startups, and small companies, enabling them to compete against more-established companies. These larger companies enjoy all the benefits of incumbency, including better marketing networks, manufacturing facilities, economies of scale and name recognition that creates customer confidence and loyalty, advantages these companies employ against less-established rivals to prevent the “creative destruction” that so benefits the economy but harms their vested interests.¹⁶ These advantages, and the competition-destroying ends to which they can be employed, are often difficult to overcome unless the startup has patents protecting its key innovations. It is thus unsurprising that the likelihood of growth for start-

¹⁴ J. Farre-Mensa *et al.*, USPTO, Office of the Chief Economist, *The Bright Side of Patents* 3, 6 (USPTO Working Paper No. 2015-2, Jan. 2016), <<http://bit.ly/2p4RnIG>>.

¹⁵ Robert Litan & Hal Singer, Economists Inc., *Unlocking Patents: Costs of Failure, Benefits of Success* 18 (2014), <bit.ly/1U6tXY6>.

¹⁶ See *Patent Reform Impact on Small Venture-Backed Companies: Hearing Before the H. Small Bus. Comm.*, 110th Cong. 98 (2007) (testimony of John Neis, Venture Investors).

up firms is 35 times greater for those that avail themselves of the patent system.¹⁷ Patents also more than double the probability that a startup will grow to sufficient size to be listed on a stock exchange. Farre-Mensa *supra* note 21 at 5.

But the value of a patent depends almost entirely on its validity—the “determinative” factor in whether it will attract funding.¹⁸ Providing venture capital for start-ups is inherently risky, because three out of four startups will fail.¹⁹ Thus, the attendant uncertainty as to patent validity introduced by the creation of IPR substantially weakens patents’ value in the eyes of angel investors and venture capitalists, with devastating effects on the availability of capital for startup businesses. This is not speculation. It has been the personal experience of *amici*, who have had businesses destroyed because the mere *existence* of inter partes review made patent rights so uncertain that funding became impossible—even though IPR petitions were never filed against the patents at issue.

A patent under IPR can be held up for years. During that process, it is unlikely to attract investment, and even the threat of such review could cause investors to turn elsewhere. *See* Farre-Mensa *supra* note 21 at 25. Indeed, the institution of an IPR proceeding can disrupt the

¹⁷ C. Fazio *et al.*, MIT Innovation Initiative, *A New View of the Skew: A Quantitative Assessment of the Quality of American Entrepreneurship* 9 (2016), <<http://bit.ly/1X8MF8r>>.

¹⁸ Press Release, Nat’l Venture Capital Ass’n, *National Venture Capital Association Encourages Congress to Support Innovators in Patent Reform Legislation* 1 (Oct. 25, 2007).

¹⁹ Deborah Gage, *The Venture Capital Secret: 3 Out of 4 Start-ups Fail*, Wall St. J., Sept. 20, 2012, <<http://on.wsj.com/1FpKaG6>>.

development of ventures that have already gotten funding, by making it harder to attract the second or third rounds of investment necessary to survive, each of which require greater investments from increasingly risk-adverse investors. *Venture Capital supra* note 9.

Moreover, the potential for IPR review to weaken property rights saps patentholders of their chance to compete on level footing with more-established rivals. Indeed, larger companies, with their greater resources to devote to litigation, will find IPR proceedings to be particularly effective anti-competitive weapons. The ability to weaken patent rights through administrative challenges to competitors' patents makes it easier for them to destroy smaller companies, and leaves them free to copy patented technologies without serious risk of suffering legal consequences.²⁰ It is thus unsurprising that large companies led the push for the AIA's patent reforms and the creation of IPR.²¹

IPR's destabilizing effects on patent rights and the development of small and start-up businesses threaten the economy as a whole, because growth in the American economy depends on advances from small startups supported by strong patent rights.

²⁰ Joe Nocera, *the Patent Troll Smokescreen*, N.Y. Times, Oct. 23, 2015, <<http://nyti.ms/1PJRz7j>> (outlining the business strategy of "efficient infringing").

²¹ E.g., CQ Press, *First Street Report: Lobbying the America Invents Act* 4, 11-12 (2011), <<http://bit.ly/24fgdjg>> (noting that the "Coalition for 21st Century Patent Reforms," comprised of some of America's largest companies, "actively lobbied" for enactment of the AIA).

Patent-driven innovations from startups and individual inventors have nourished much of the creative disruption that has fueled innovation and the American economy, spurring developments in industries as diverse as computer software, semiconductors, online businesses, life sciences, and emerging clean technologies. Nat'l Venture Capital Ass'n, *Venture Impact: The Economic Importance of Venture-Backed Companies to the U.S. Economy* 9–10 (5th ed. 2009), <<http://bit.ly/1X8wBmZ>>. And at present, net job growth in the U.S. is attributable entirely to jobs created by small startup firms, because companies that are more than one year old actually destroy, on average, more jobs than they create.²² Innovative industries also create jobs that pay approximately 60 percent more than non-IP-intensive industries, and their products drive the majority of U.S. exports.²³ Patent-ownership was found to be the leading indicator of regional wealth, more important than education or infrastructure.²⁴

Recently, however, the startup and small-business environment has begun to suffer, in no small part due to the weakening of patent property rights. Since the 1990s, the number of technology-related startups is down nearly

²² Ewing Marion Kauffman Found., *The Importance of Startups in Job Creation and Job Destruction* 4 (Jul. 2010), <<http://bit.ly/1eODvIy>>.

²³ Nam D. Pham, NDP Consulting, *The Impact of Innovation and the Role of Intellectual Property Rights on U.S. Productivity, Competitiveness, Jobs, Wages, and Exports* 5 (2010), <<http://bit.ly/2vKShtG>>.

²⁴ Fed. Reserve Bank of Cleveland, Ann. Rep., *Altered States: A Perspective on 75 Years of State Income Growth* 17-18 & fig. 6 (2005), <<http://bit.ly/1RDNkG7>>.

40%.²⁵ For the first time, more companies are going out of business than starting up.²⁶ Accordingly, the XY-induced PTAB adjunct to district court litigation, and the cloud that it casts over the validity of patents, risks tilting the balance still further, inhibiting startup growth and innovation, and depriving the economy of good, high-paying jobs. For this reason, along with all the others mentioned above, this Court's intervention is necessary to reverse that improper rule.

CONCLUSION

The Court should grant the petition for writ of certiorari.

Respectfully submitted,

J. Carl Cecere
Counsel of Record
CECERE PC
6035 McCommas Blvd.
Dallas, TX 75206
(469) 600-9455
ccecere@cecerepc.com
Counsel for Amicus Curiae

December 5, 2022

²⁵ J. Haltiwanger et al., Ewing Marion Kauffman Found., *Declining Business Dynamism in the U.S. High-Technology Sector* 7 (Feb. 2014), <<http://bit.ly/1OWNUPp>>.

²⁶ J.D. Harrison, *More businesses are closing than starting. Can Congress help turn that around?*, Wash. Post, Sept. 17, 2014, <<http://wapo.st/1Parrns>>.