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Are conflicts of interest at the PTAB leading to preferential decisions for Apple?

By **Steve Brachmann**
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Print Art

On May 26th, 2016, a panel of administrative patent judges (APJs) at the Patent Trial and Appeal Board (PTAB) entered a final written decision ending the proceedings of a covered business method (CBM) review of U.S. Patent No. 8336772, titled *Data Storage and Access Systems*. The final decision declared that four of the patent's claims, including claim 1, were directed to subject matter that was invalid under 35 U.S.C. Section 101. The patent, owned by tech licensing firm Smartflash, covers data storage and access systems, which enable downloading and paying for many types of data, including audio, video, software, games and text.

The petition for the CBM review was originally filed on November 25th, 2014, by Cupertino, CA-based tech giant Apple Inc. (NASDAQ:AAPL) The '772 patent is one of six patents asserted by Smartflash in a patent infringement action filed against multiple defendants, including Apple, on May 29th, 2013, a year and a half before Apple's CBM petition on the '772 patent at PTAB.

The Code of Conduct for United States Judges sets the rules judges presiding over federal courtrooms must adhere. In rules regarding the fair, impartial and diligent performance of a judge's duties, the code of conduct outlines the circumstances under which a federal judge must disqualify himself or herself from a case because of reasonable questions of impartiality. These circumstances include when a judge has a personal bias concerning a party or the proceeding; when the judge served as a lawyer in the matter in controversy; or a judge has a financial interest in either the subject matter or a party in the case.

The lead APJ serving on the panel of multiple CBM reviews petitioned by Apple, who also wrote the final written decision on at least one CBM review petitioned by Apple and invalidated claims of the '772 patent, was Administrative Patent Judge Matt Clements. According to Clements' LinkedIn profile, he has served as an administrative patent judge at PTAB since March 2013; up until that time he served as a patent attorney at international law firm Ropes & Gray going as far back to September 2006. While at Ropes & Gray, Clements was part of a legal team that represented Apple in patent infringement cases. According to legal party data made available by *Law360*, Clements served as counsel for Apple up to December 2012 and served on a team with fellow Ropes & Gray lawyer James Batchelder as well as Eric Albritton of the Albritton Law Firm. Both Batchelder and Albritton were counsel of record representing Apple in the Smartflash infringement case where the '772 patent was asserted against Apple. Batchelder and Clements both worked at Ropes & Gray's East Palo Alto offices, where Batchelder served as managing partner, so there's a distinct likelihood that Clements reported directly to Batchelder in his work with Ropes & Gray. The November 2014 petition by Apple for CBM review of the '772 patent was also filed by counsel from Ropes & Gray including Ching-Lee Fukuda, another one of the lawyers representing Apple in the Smartflash action. These types of relationships would have led to the recusal of a federal judge on a matter, but obviously did not affect the participation and decision making of APJ Clements.

When reached for comment on what appears to be a very troubling, actual and direct conflict of interest involving APJ Clements, a USPTO spokesperson declined to comment, saying: "The USPTO does not comment on cases."

In recent years, Smartflash has been the victim of a corporate drubbing at PTAB and has faced a total of 46 petitions for CBM review filed against the patents it has asserted in its infringement case against Apple, including 10 CBMs targeting the '772 patent alone. Most of the petitions have been filed by Apple, although Korean consumer tech conglomerate Samsung Electronics (KRX:005930) and Mountain View, CA-

based Internet services giant Google, now held by Alphabet Inc. (NASDAQ:AAPL), have also filed petitions against patents asserted by Smartflash in other patent infringement actions against those companies.

Given the fact that a potential conflict of interest exists with at least one of the APJs sitting on the PTAB panel deciding the validity of Smartflash's claims, counsel representing Smartflash submitted a Freedom of Information Act (FOIA) request to the U.S. Patent and Trademark Office (USPTO) for the disclosure of documents and information held by the federal government pertaining to two items: the applications for APJ positions at the PTAB of all current APJs including job applications, submitted resumes, submitted references and records of contacting references; and records pertaining to PTAB procedures for assigning APJs to panels for CBM or *inter partes* review (IPR) proceedings including standard operating procedures, prior versions of standard operating procedures and records indicating why changes were made to standard operating procedures.

On March 17th, 2017, the USPTO sent an interim response to the FOIA request, which included documents pertaining to standard operating procedures for assigning APJs to reviews; the agency was still reviewing documents related to applications for all current APJs. Of the 57 pages of documents identified by USPTO as responsive to Smartflash's request for operating procedure documentation, a total of 52 pages have been withheld, two pages have been partially redacted and only three pages related to the distribution of cases by trial type and technology are released in full. The two partially redacted pages include e-mails from a sender whose identity remains confidential, including a July 2014 e-mail distributed to America Invents Act (AIA) trial judges which asked those judges to return data on cases in which they were responsible for drafting a decision to institute or a final written decision.

In Smartflash's case against Apple in the Eastern District of Texas (E.D. Tex.), Smartflash prevailed on all of the Section 101 invalidity challenges put forward by Apple in the case. A report and recommendation issued by an E.D. Tex. magistrate judge on January 21st, 2015, in response to Apple and Samsung motions for summary judgment for invalid subject matter under Section 101 found that the asserted claims of the Smartflash patents satisfied step two of the *Alice*/*Mayo* framework and thus were directed to patent-eligible subject matter. The magistrate judge's rejected Apple's argument that the Smartflash patents were similar to the claims invalidated in 2014's *Ultramercial Inc. v. Hulu LLC*, a case in which patents which covered methods for viewing copyrighted content at no cost in return for viewing an advertisement were invalidated. E.D. Tex. officially adopted the magistrate judge's findings and denied the motions for summary judgment on February 13th, 2015. Apple tried to reopen the Section 101 validity challenge by filing a renewed motion for judgment as a matter of law (JMOL) under Federal Rule of Civil Procedure 50(b). In a court order filed July 8th, 2015, the court declined to revise its summary judgment, stating that "The § 101 issue has already received full and fair treatment."

Smartflash also prevailed on patent validity challenges raised under 35 U.S.C. Section 102 (novelty) and 35 U.S.C. 103 (non-obviousness) in Apple's CBM petitions on the '772 patent. As the petition for CBM review filed by Apple notes, PTAB had previously denied institution to Apple's petitions challenging validity under §102 and §103 because the Board concluded that Apple had not shown that it was likely it would prevail in demonstrating that cited combinations of prior art rendered obvious limitations of the Smartflash claims. In switching to its challenges of the '772 patent under §101, Apple argued that claims directed to "a data access terminal" essentially comprised a "general purpose computer." Of course, it doesn't take a computer expert to understand that general purpose computers in October 1999, the priority date of the application for the '772 patent, were not capable of the kind of data access technology covered by the '772 patent. It's also important to note here that the '772 claims are directed to a handheld multimedia terminal. If those claims are directed to a "general purpose computer," then what does that say about the patents Apple continues to obtain which are directed at computer-implemented methods?

On February 21st, 2017, Smartflash filed an opening brief with the U.S. Court of Appeals for the Federal Circuit in which Smartflash asks the Federal Circuit to consider whether the PTAB erred in determining that its patents were subject to CBM reviews and whether claims directed to a specific network architecture and distribution of functionalities, which enable convenient purchases of digital content while preventing piracy and allowing only permitted uses of proprietary content, are patent-eligible under 35 U.S.C. Section 101. Smartflash's brief argues that while payment is an aspect of the claims, the inventions themselves are not used in any financial product or service. Further, the claims that have been deemed ineligible by the PTAB as "abstract ideas" actually describe novel distributions of functions among devices in a computer network, teaching specific solutions to technological problems associated with the distribution of content over the Internet. Smartflash's brief cites numerous cases as a basis for this argument, including Federal Circuit decisions in 2014's *DDR Holdings, LLC v. Hotels.com, L.P., et. al.* and 2016's *BASCOM Global Internet Services, Inc. v. AT&T Mobility LLC, et. al.* Further, Smartflash argues that the conclusions of the PTAB were legally erroneous by dismissing individual claim elements as conventional without considering the claims as an ordered combination in violation of the standard set by the Federal Circuit in 2016's *Enfish, LLC v. Microsoft Corporation, et. al.*

The current incarnation of the U.S. patent system is a nightmare for smaller players fighting legitimate claims of infringement against large, entrenched corporate interests, and every branch of the federal government has been complicit in the destruction of Constitutionally-protected property rights. The PTAB was created by Congress through passage and enactment of the AIA in 2011. The executive branch, which is ultimately responsible for the activities of the USPTO and PTAB, has failed to create a code of conduct which requires recusal and therefore cannot provide any reasonable assurance that justice is actually being served in the face of conflicts of interest. The swell of invalidity challenges under §101 are the direct result of the Supreme Court's controversial decisions in *Alice Corp. v. CLS Bank International* and *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* Normally one dead canary is enough to realize that it's time to get out of the mine. The

floors of PTAB are littered with an entire flock's worth of dead claims that have been declared invalid, and it appears that those claims might be invalidated more at the behest of Apple and other tech giants than any cohesive rule of law.

Readers who are piqued by this story should stay tuned; this is not the last report we'll have on the legal issues raised by the proceedings in *Smartflash v. Apple*.

Tags: Apple, CBM, Covered Business, covered business method review, covered business methods, patent, patent office, Patent Trial and Appeal Board, patents, PTAB, Smartflash, Transitional Program for Covered Business Method Patents, USPTO
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There are currently **42 Comments** comments.

Brian Edmond April 28, 2017 11:43 am

Well researched article. The conflict issue seems real and is very troubling.

Scott Benning April 28, 2017 4:32 pm

So the question it seems boils down to this: Will anyone within the Trump administration care about what is happening here? Are they glad it's happening? Or perhaps are they unhappy but are too ignorant or lazy to do anything about it? I recall Peter Thiel was an 'inside man' with Trump on tech issues; perhaps a little lobbying of Peter might pay some benefits here. My last question is: do small inventors have a voice anywhere within the 3 branches of government? I am completely discouraged that America has lost her way in this too-important area that has in the past made America great.

Scott McQuarrie April 28, 2017 6:35 pm

Public confidence in the integrity of the judicial system is part of the necessary foundation of democracy. Without it, the judicial branch loses it legitimacy in the eyes of the public. That PTAB is a tribunal, and not part of our judicial branch, does not excuse it from this necessity. To discharge its quasi judicial function effectively requires the same public confidence in its competence and impartiality.

Unfortunately, and for legitimate reason, there is no confidence in either. Many parties are complicit, most of all the large corporations (some mentioned in this article) who pushed for AIA knowing they would be able to "efficiently infringe" successfully most of the time and by doing so increase their bottom line.

What has been happening at PTAB is appalling, disgraceful and certainly has the appearance of impropriety, if not more. It is harming not only many patent holders, but also, and more importantly, the country as a whole.

It is past time for this nightmare to end. Until it does, how much harm (and deprivation of property without due process of law) must occur before our government takes the action necessary to reform USPTO?

Paul Morinville April 28, 2017 7:35 pm

This is what happens in third world property right systems like the USPTO has become. It's happening in Venezuela and dozens of African nations. When one person has full control of the creation and destruction of a property right, corruption seeps in. It is not possible to stop it. The only way to fix the PTAB is to eliminate it.

Troy April 28, 2017 8:28 pm

More melodramatic nonsense from the TMZ of patent law. And the usual cackling hens just eat it up. LOL

Bp April 28, 2017 11:58 pm

8. A data access terminal for controlling access to one or more
content data items stored on a data carrier, the data access
terminal comprising:
a user interface;

a data carrier interface;
a program store storing code implementable by a processor; and
a processor coupled to the user interface, to the data carrier
interface and to the program store for implementing the stored code the code comprising:
code to request identifier data identifying one or more
content data items stored on the data carrier;
code to receive said identifier data;
code to present to a user via said user interface said
identified one or more content data items available from the data
carrier;
code to receive a user selection selecting at least one of
said one or more of said stored content data items;
code responsive to said user selection of said selected
content data item to transmit payment data relating to payment
for said selected content item for validation by a payment
validation system;
code to receive payment validation data defining if said
payment validation system has validated payment for said
content data item; and
code to control access to said selected content data item
responsive to the payment validation data.

Why didn't the author of this article actually quote the claims involved in this case?

Paul Antonio April 29, 2017 6:20 am

What About USPTO Director who served Google for 10 years?

anonymous April 29, 2017 9:23 am

@4 because this website does not want to have an opportunity to attack the PTAB wasted by something as irrelevant as facts. They prefer a guilt by association story about a judge who has done some work for real world companies before he became he a judge.

If you want to recruit judges who know what they are talking about,you cannot (and should not) avoid that they have some history with part of the companies he will see in court. It is only a conflict of interest if he is still payed by Apple and it is only a problem if his decisions are not in line with the facts and the law.

This claim is obviously not describing an invention of any sorts. A user selects data items and pays for it. The software validates the payment and allows the user to access the content data item. That's all. Nothing more. This has been done on computers at least since Musk started Paypal in 1998, and in the real world since at least 10,000 BC.

Paul Morinville April 29, 2017 9:36 am

Bp @4. The article is about a conflict of interest, which looks pretty obvious to me. The claims have nothing to do with the decision if the kangaroo court is corrupt. The integrity of the court comes first.

Anon April 29, 2017 10:15 am

Bp,

I echo Mr. Morinville's reply in that you seek to "kick up dust" and switch the focus to some type of "defend the claim" game.

To then provide a short and direct answer to your question of "why,": because the answer you seek (inclusion of claims) is not pertinent to the legal issue being discussed.

Gene Quinn April 29, 2017 10:56 am

Troy @5-

Clearly, this 1 year period is laughably ridiculous and absolutely must be changed. Patent owners fighting for their patents don't deserve to have judges who formerly defended the petitioner in patent infringement matters.

All these represent, among other things, an obvious failure of USPTO leadership. An organization's culture is the responsibility of its leaders. Rules are one important, but not the only, tool. Active communication, and enforcement, of cultural expectations is another.

It is shocking that nobody knew any better. Or, did they? This is, at best, a dereliction that should trouble every ethical lawyer, regardless of what side of the bar they practice for. At worst, we are left to wonder. The impact on public confidence on USPTO integrity is unarguable.

In the jurisdictions (state and federal) in which I have practiced for 30+ years, none of these would have happened (and I saw sua sponte recusals with regularity). It is stunning that in 2017 this could be happening in any agency of the federal government.

Those having oversight responsibility for USPTO surely understand the importance of the public's confidence in government, particularly where that agency wields so much power over people's livelihood. Ignoring festering problems such as this, which erode public confidence in the integrity of the judicial process, and thereby infect the lifeblood of democracy, will only increase the temperature in the pot.

Action is way overdue.

... inquiry, would conclude that the judge's honesty, integrity, impartiality, temperament, or fitness to serve as a judge is impaired. Public confidence in the judiciary is eroded by irresponsible or improper conduct by judges. A judge must avoid all impropriety and appearance of impropriety. This prohibition applies to both professional and personal conduct. A judge must expect to be the subject of constant public scrutiny and accept freely and willingly restrictions that might be viewed as burdensome by the ordinary citizen. Because it is not practicable to list all prohibited acts, the prohibition is necessarily cast in general terms that extend to conduct by judges that is harmful although not specifically mentioned in the Code. Actual improprieties under this standard include violations of law, court rules, or other specific provisions of this Code.

Canon 3: A Judge Should Perform the Duties of the Office Fairly, Impartially and Diligently

The duties of judicial office take precedence over all other activities. In performing the duties prescribed by law, the judge should adhere to the following standards:

(C) Disqualification.

(1) A judge shall disqualify himself or herself in a proceeding in which the judge's impartiality might reasonably be questioned, including but not limited to instances in which:

[(a)-(e) list circumstances that would, by example, fall within this category]"

Now, assume you are litigating a case, and the judge to which the case is assigned worked in recent years at the firm of your opposing counsel, with your actual opposing counsel, and was supervised there by one of your opposing counsel, and, while at that firm, represented your adversary party, and did so in the same, substantive (and evolving) legal field as that which is involved in your case.

If a "reasonable mind" (not necessarily all minds) could conclude that the judge's impartiality, under those circumstances, would be impaired, "an appearance of impropriety" exists. "Public confidence in the judiciary is eroded by irresponsible or improper conduct by judges. A judge must avoid all impropriety and appearance of impropriety."

What should happen is pretty straight-forward.

The judge should either recuse himself or, if he thinks his impartiality would not be impaired, disclose to all counsel all relevant facts, allow them to confer outside his hearing as to whether all parties waive the potential conflict, and then proceed only if all agree in writing that he may continue (see Canon 3D).

If these, or similar, rules do not apply to APJs, why not?

But anonymous and pseudonymous posting is not to be confused with the point that Gene made regarding **false** data in order to "post." To that extent, your reply misses the mark, as there is NO "retribution fear" that accompanies such provisions of false data.

One should not confuse the tight leash given to spurious or downright incorrect views with any notion that a "echo chamber" is a desired result.

The plain fact of the matter is that not all views are indeed equal. Anyone can have an opinion, but if you insist on having an **uninformed** opinion and you want to post material that is simply not in accord with facts or law, you **should not expect** to be able to do so when those around you have attempted to inform you.

Gene dutifully provides notice to those truly new to posting here. But by attempting to bypass the proper safeguards and falsifying information ***that is not posted anyway***, people – and I know several in particular – seek to avoid the requirement of NOT spreading mere uninformed propaganda.

That is not a bug, but a feature of this blog. I too would be indignant as to those who would lecture on "ethics" and simply get the facts wrong on the very controls in place that govern and help to ensure ethics here.

I truly do not mind strong emotions or even strong writings. I DO mind those who employ such and who are also unwilling to employ critical thinking on counter points presented. I DO mind those who employ such and who are unwilling to understand the actual facts and law involved in discussion points. I DO mind those who **only** want to get up on a soapbox, give their opinion, and then do not want to take in any replies to that opinion. I do mind – and mind very much – the difference between monologues and dialogues.

I have no use whatsoever of monologues from people who cannot be bothered with understanding the topic upon which they want to monologue about. I am perfectly willing to hear out people in the first instance and gather new viewpoints. But if the person espousing that viewpoint is not going to bother engaging – and I do mean engaging in an inte11ectually honest manner – then I have very little use for that person, and that person **deserves** a very short leash.

As I have noted, this blog has seen quite the amount of evidence of being targeted by "hit-and-run" posters who attempt to abuse the ability to post anonymously and pseudonymously. I will continue to defend the ability to post thusly, no matter the content of the postings, but make no mistake as to why the attempts to post **falsely**, and do not mistake what those differences really mean.

If you truly want to engage, then by all means stick around. if you only wanted to monologue, then your absence will be cherished.