



Regulatory Comment

In re: Discretion to Institute Trials Before the Patent Trial and Appeal Board

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85 Fed. Reg. 66502

The Niskanen Center is grateful for the opportunity to respond to this request for comment submitted by the USPTO. The Niskanen Center is a nonprofit, nonpartisan 501(c)3 public policy think tank working to protect private property rights, economic liberty, well-functioning markets, and to roll back regressive regulations that restrict freedom of exchange and increase inequality.

Niskanen writes to express its concerns about the recent developments related to discretionary denials in the *inter partes* review process (IPR).¹ In the creation of the Patent Trial and Appeal Board (PTAB) and IPR, Congress, in the words of the U.S. Supreme Court, “sought to weed out bad patent claims efficiently.”² Such bad patent claims are not only unnecessary to “promote the Progress of...the useful Arts” but also hinder the rights of other private actors to innovate, manufacture, and exchange. Prior to the recent discretionary denial decisions, there was simply no evidence that the PTAB or *inter partes* review had any negative effects on innovation or the patent system more broadly. To the contrary, from its creation to 2017, IPR has saved an estimated \$2.3 billion alone in litigation costs, never mind the significant benefits associated with removing unnecessary hindrances to economic activity by “weed[ing] out bad patents.”³ Considering the benefits associated with the IPR as it existed

¹ The concerns raised in this comment are echoed in a letter Niskanen signed in June of this year sent to the House and Senate Judiciary Committees, attached at the end of this comment.

² *Thryv, Inc. v. Click-to-Call Technologies*, 590 (U.S. 2020).

³ Josh Landau, “[Inter Partes Review: Five Years, Over \\$2 Billion Saved](#),” Patent Progress, September 14, 2017.

prior to these discretionary denials and the lack of costs associated, there was no need to fix what wasn't broken.

Aside from the more general structure of IPR, it is worth discussing in more detail the concerns expressed by the USPTO with respect to the factors considered when determining whether or not an IPR petition should be denied. As written in the request for comment:⁴

The *General Plastic* nonexclusive factors include:

- (1) Whether the same petitioner previously filed a petition directed to the same claims of the same patent;
- (2) whether, at the time of filing of the first petition, the petitioner knew of the prior art asserted in the second petition or should have known of it;
- (3) whether, at the time of filing of the second petition, the petitioner had already received a patent owner's preliminary response to the first petition or received the Board's decision on whether to institute review in the first petition;
- (4) the length of time that elapsed between the time the petitioner learned of the prior art asserted in the second petition and the filing of the second petition;
- (5) whether the petitioner provides an adequate explanation for the time elapsed between the filings of multiple petitions directed to the same claims of the same patent;
- (6) the finite resources of the Board; and
- (7) the requirement under 35 U.S.C. 316(a)(11) to issue a final determination not later than one year after the date on which the Director notices institution of review.

Niskanen wishes to specifically address factors (1) and (2), as they directly relate to questions of fairness to the patent holder. On its face, it is not unreasonable to limit the ability of petitioners to challenge patent claims if they are taking "another bite at the apple." However, considering these two factors as weighing against the *petitioner's* request for the institution of an IPR ignores how in the patent application process a patent *holder* benefits from the ability to file a patent application as many times as they wish, even after rejection, and the lack of a clear requirement to properly cite prior art. Both of these factors in the patent application process, which are not unreasonable rules on their face, stack the deck in favor of patent holders if similar benefits are not given to IPR petitioners. In other words, as long as the USPTO allows a patent applicant to file an application as many times as they please, there should be no limit against a party petitioning for an IPR. Similarly, if there

⁴ Department of Commerce, Patent and Trademark Office, "[Discretion in Deciding Whether To Institute AIA Trials](#)," 85 *Federal Register* 66,504 (October 20, 2020).

are no firm requirements on a patent applicant as it relates to prior art, there should be no firm requirement on IPR petitioners on similar grounds.

The Niskanen Center appreciates general concerns that “serial petitions” at the PTAB could be “used as tools for harassment or a means to prevent market entry through repeated litigation and administrative attacks on the validity of a patent.”⁵ However, there is no evidence to indicate that such practices are widespread to the detriment of American innovation more broadly. Additionally, many such “serial petitions” are necessary to address the procedural constraints associated with per-petition word limits.⁶ This was the case in *Mylan Pharmaceuticals v. Sanofi-Aventis*, IPR2019-01658, and *Nalox-1 Pharmaceuticals v. Opiant Pharmaceuticals*, IPR2019-00695, -00696.

Finally, it is wholly unreasonable to deny the institution of IPR due to litigation in district court or at the ITC, as made precedential in *NHK-Fintiv* decisions.⁷ This rule not only contradicts the language of the America Invents Act; it undermines the purpose of the IPR process. The IPR was designed as an efficient alternative to traditional district court litigation, and denying the petition of an IPR in cases of ongoing litigation in other jurisdictions contradicts the purpose of the AIA and the PTAB.

⁵ [H.R. Rep. No. 112-98](#), at 48 (2011).

⁶ [August 2018 Update](#) to Department of Commerce, Patent and Trademark Office, “Office Patent Trial Practice Guide,” 77 *Federal Register* 48,756 (August 14, 2012).

⁷ See [IPR2018-00752](#) (Sept. 12, 2018) (designated precedential May 7, 2019) and [IPR2020-00019](#) (March 20, 2020) (designated precedential May 5, 2020).

June 18, 2020

The Honorable Jerrold Nadler
U.S. House of Representatives
2132 Rayburn House Office Building
Washington, DC 20515

The Honorable Jim Jordan
U.S. House of Representatives
2056 Rayburn House Office Building
Washington, DC 20515

The Honorable Henry C. “Hank” Johnson
U.S. House of Representatives
2240 Rayburn House Office Building
Washington, DC 20515

The Honorable Martha Roby
U.S. House of Representatives
504 Cannon House Office Building
Washington, DC 20515

Dear Chairman Nadler, Ranking Member Jordan, Chairman Johnson, and Ranking Member Roby:

We write to express concern that Congress’s efforts to mitigate the harm of low-quality patents and abusive litigation are being unraveled, and to ask that Congress investigate policy directives implemented and actions taken by the Patent Trial and Appeal Board (“PTAB”) which have significantly weakened *inter partes* review (“IPR”). The PTAB is increasingly refusing to institute otherwise-meritorious IPR petitions for purely procedural reasons. And it is doing so through self-declared precedential decisions that promulgate new PTAB policies without notice-and-comment rulemaking or the possibility of judicial review. We are concerned that the current trend—and its problematic consequences—will continue unchecked unless Congress intervenes.

After almost a decade of careful consideration, Congress passed the America Invents Act (“AIA”) by an overwhelming and bipartisan majority, and created IPR to enhance patent quality and offer a cheaper, more efficient means to challenge questionable patents.¹ By reducing the high costs of challenging low-quality patents, IPR helps to level the playing field in litigation and to curb abusive behaviors that leverage steep legal costs to coerce companies to settle frivolous cases. IPR has worked as intended and has been a success. In recent years, in part thanks to IPR, the rate of abusive patent litigation had been on the decline.²

However, a series of recent institution decisions is starting to choke-off access to IPR, as the PTAB is increasingly denying meritorious petitions, placing a thumb on the scales in favor of denial and leaving suspect patent claims in force. Those institution decisions are the gateway to IPR, and should be based on the considerations specifically defined by Congress in the AIA.³ But instead the PTAB is increasingly defaulting to purely procedural grounds for denial without regard to the merits.⁴ Specifically, the now-

¹ See generally *Comprehensive Legislative History of the Leahy-Smith America Invents Act* (Patrick Doody, ed.) (2012), <https://www.pillsburylaw.com/images/content/4/0/v2/4067/AIA-LegislativeHistory-final.pdf> (portions of legislative history referring to patent quality as a goal underpinning America Invents Act).

² *Patent Review is Working for Startups*, Engine, <https://innovatewithoutfear.engine.is/wp-content/uploads/2020/01/IPR-is-working-one-pager.pdf>.

³ E.g., 35 U.S.C. § 314(a) (setting “reasonable likelihood that the petitioner would prevail” standard); § 315(b) (setting time-bar).

⁴ The PTAB’s exercise of discretion is variously rooted in 35 U.S.C. §§ 314(a) and/or 325(d).

precedential *NHK Spring Co. v. Intri-Plex Techs., Inc.*⁵ decision led to a flood of patent owners trying to avoid IPR by pointing to the proposed schedule in a parallel district court case. This means that questionable patents are going un-reviewed because, for example, a district court has not *yet* stayed a case pending IPR (which they generally do after institution) or *may* go to trial sometime in the next 12 months, contradicting the statute’s one-year time bar for filing petitions.

Nothing in the statute suggests that an IPR should not be instituted based on the status of co-pending infringement litigation, and there is no affirmative grant of discretion to deny institution based on the possibility of duplicative proceedings. Indeed, a significant majority of IPRs arise out of litigation,⁶ and Congress intended IPR to be a complement to the patent litigation system—a place for parties to take their validity disputes for a quick and low-cost adjudication by a panel of experts.⁷ The PTAB’s policy of favoring IPR only when there is no co-pending litigation, or the patents are being litigated in slow courts, is badly misguided and substantially undermines the intent of IPR.

This problem of shrinking access to PTAB review is already borne out in numbers. It is again becoming easier for bad actors to assert low-quality patents in court and leverage discovery costs to earn nuisance value settlements—as evidenced by patent assertion entities filing 20% more cases by April of this year than they did in the first four months of 2019.⁸ And because the PTAB is increasingly denying petitions for procedural reasons, the institution rate is expected to fall further. Indeed, over the past four years, the annual number of discretionary denials has more than doubled.⁹

This is even more concerning because the misguided policy regarding discretionary denials was adopted without any formal rulemaking process or opportunity for public comment. Instead, a panel of three PTO officials can simply decide to make a decision binding on all PTAB judges.¹⁰ Moreover, the resulting decisions, which disproportionately favor denying IPR,¹¹ have been found by courts not to be reviewable. As a result, PTAB policies governing discretionary denials bear none of the hallmarks of public engagement or judicial oversight we expect when agencies engage in statutory interpretation or rulemaking.

Increasing discretionary denials at the PTAB have led to a resurgence in forum shopping and gamesmanship in patent assertion, as some patent owners have found ways to shield questionable patents from IPR. By strategically timing patent assertions and lawsuits, delaying certain stages of litigation, or

⁵ IPR2018-00752 (Sept. 12, 2018) (designated precedential May 7, 2019).

⁶ See, e.g., David Ruschke & Scott R. Boalick, *PTAB Update* (Nov. 9, 2019), https://www.uspto.gov/sites/default/files/documents/20171109_PPAC_PTAB_Update.pdf (approximately 85% of IPRs in FY2017 involved co-pending district court case).

⁷ See *supra* note 1.

⁸ *Litigation on the Rise: Number of New Cases Filed By Patent Assertion Entities*, Engine (May 4, 2020), https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5eb03467c0e81e79e64c5bb0/1588606056624/Pae+stats+Diagram_Jan++Apr.pdf.

⁹ *PTAB Procedural Denials and the Rise of § 314*, Unified Patents (May 13, 2020), <https://www.unifiedpatents.com/insights/2020/5/13/ptab-procedural-denial-and-the-rise-of-314>.

¹⁰ Patent Trial and Appeal Board Standard Operating Procedure 2 (Rev. 10), <https://www.uspto.gov/sites/default/files/documents/SOP2%20R10%20FINAL.pdf>.

¹¹ In the twenty precedential and informative decisions addressing institution under §§ 314(a) and/or 325(d), the PTAB denied institution seventeen times, only granted review twice, and one institution decision is still pending.

expediting others, a patent owner can largely avoid the possibility of IPR. And the PTAB will rarely look at a patent owner-plaintiff's repeated assertions or strategic gamesmanship when deciding whether to institute IPR.¹²

Of note, since the *NHK Spring* decision, district court scheduling orders are playing an outsized role in IPR. Patent owners are pushing aggressive trial schedules and then arguing that, because a parallel court case would be at an advanced stage when the IPR is wrapping up, the PTAB should forego review altogether. But those schedules, which district courts automatically enter early in a lawsuit and are frequently amended during a case, should not be a basis for evading PTAB review.¹³

We have seen increased litigation and forum shopping as a result. Some courts will almost always enter tight schedules at the outset and modify as a case proceeds, meaning that patent owners who sue there can evade IPR by pointing to the expedited timeline initially contemplated in district court. This has contributed to an uptick in lawsuits filed in so-called “rocket docket” like Western District of Texas and Eastern District of Texas. Importantly, non-practicing entities (“NPEs”) frequently file in these districts—an estimated 45% of NPE cases are there—which will immunize their notoriously low-quality patents from IPR.¹⁴ And the problem will only get worse, as NPE lawsuits, including those against startups and small businesses, are on the rise. For example, NPEs have already filed over 200 patent cases in the Western District of Texas this year, more than a 300% increase over last year.¹⁵ Projections show that one district will likely end up with over 600 new patent suits in 2020.¹⁶

In light of this significant and rapidly growing problem, we urge the Committee to fulfill its oversight responsibilities by investigating the PTAB's use of discretionary denials. Better data from the U.S. Patent and Trademark Office would shed valuable light on how the PTABs' behavior is cabin access to IPR. The PTO should be required to provide Congress and the public relevant statistics on the number of discretionary denials and how often it denies petitions without considering the merits. Congress could also encourage the PTAB to engage in traditional rulemaking when setting new policy for how and when to exercise its discretion, as the Federal Circuit and commenters have also indicated they should.¹⁷ Instead of adopting a rigid, outcome-driven, and unilateral approach that favors denial of IPRs, the PTAB should discourage (not enable) gamesmanship by patent owners—especially repeat players. This will help ensure

¹² *Intel Corp. v. VLSI Tech. LLC*, IPR2020-00106, Paper 17, at 12-13 (May 5, 2020) (denying institution) (petitioner extensively addressed plaintiff's prolific litigation history, and PTAB did not consider it as relevant to institution).

¹³ Of note, in the parallel district court case to *NHK Spring*, the court postponed the trial, multiple times, by more than 8 months, before the parties ultimately settled. *Intri-Plex Techs., Inc. v. NHK Int'l Corp.*, No. 3:17-cv-01097 (N.D. Cal.).

¹⁴ In 2020, 29% of NPE matters were filed in W.D. Tex. and 14.3% in E.D. Tex. Source: Unified Patents Portal, [https://portal.unifiedpatents.com/litigation/analytics?entity_type=NPE+\(Patent+Assertion+Entity\)&filed_date=2020-01-01--2020-06-30&flag=DC&sort=-filed_date](https://portal.unifiedpatents.com/litigation/analytics?entity_type=NPE+(Patent+Assertion+Entity)&filed_date=2020-01-01--2020-06-30&flag=DC&sort=-filed_date).

¹⁵ *Forum Shopping: A Familiar Tactic in Abusive Patent Litigation Returns*, Engine, engine.is/s/Forum-Shopping-one-pager.pdf (last visited June 12, 2020).

¹⁶ *2020 Q1 Patent Dispute Report*, Unified Patents, (Mar. 31, 2020), <https://www.unifiedpatents.com/insights/2020/18/q1-2020-patent-dispute-report?rq=Q1%20dispute%20report> (projecting roughly 600 filings, 80% of which will likely be NPE cases based on Q1 filings).

¹⁷ *Facebook v. Windy City*, 953 F.3d 1313 at 1338 (Fed. Cir. 2020) (additional views of panel); Andrew Schneider & Jonathan Stroud, *The Eleventh Auer, The Effect of Kisor v. Wilkie on Rulemaking Procedures at the U.S. Patent and Trademark Office* (forthcoming June 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3555561 (counselling using notice-and-comment rulemaking in adopting PTAB-specific rules in light of recent court cases).

that IPR can live up to Congress's intent of providing a meaningful, low-cost alternative to litigation and promoting patent quality.

Sincerely,

Engine Advocacy

Innovation Defense Foundation

United for Patent Reform

Niskanen Center

ACT | The App Association

US*MADE

R Street Institute

Software & Information Industry Association

Internet Association

Electronic Frontier Foundation

Coalition Against Patent Abuse

High Tech Inventors Alliance

Cable Television Laboratories, Inc. ("CableLabs")

National Retail Federation

Computer & Communications Industry Association

cc: The Honorable Members of the House Committee on the Judiciary Subcommittee on Courts,
Intellectual Property, and the Internet
The Honorable Lindsey Graham, Chair, Senate Committee on the Judiciary
The Honorable Dianne Feinstein, Ranking Member, Senate Committee on the Judiciary
The Honorable Thom Tillis, Chair, Senate Committee on the Judiciary Subcommittee on
Intellectual Property
The Honorable Christopher Coons, Ranking Member, Senate Committee on the Judiciary
Subcommittee on Intellectual Property
The Honorable Members of the Senate Committee on the Judiciary, Subcommittee on Intellectual
Property