

*Before the*  
**United States Patent and Trademark Office**  
Alexandria, VA

*In re*

Request for Comments on Discretion To  
Institute Trials Before the Patent Trial and  
Appeal Board

Docket No. PTO–C–2020–0055

**COMMENTS OF  
COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION**

The Computer & Communications Industry (CCIA)<sup>1</sup> submits the following comments in response to the U.S. Patent and Trademark Office’s October 20, 2020, Request for Comments.<sup>2</sup> CCIA is an international nonprofit membership organization representing companies in the computer, Internet, information technology, and telecommunications industries. Together, CCIA’s members employ nearly one million workers and generate more than \$540 billion dollars in annual revenue. CCIA promotes open markets, open systems, open networks, and full, fair, and open competition in the computer, telecommunications, and Internet industries.

CCIA members are also significant participants in the patent system, holding approximately 5% of all active U.S. patents and spending nearly \$100 billion dollars on R&D annually. CCIA members recognize the importance of the patent system in rewarding innovation. At the same time, CCIA members also recognize that patents can be abused to deter innovation. The *inter partes* review (IPR) process is a crucial check on patents that never should have been granted, ensuring that only true inventions are given the reward of a government-granted monopoly. Unfortunately, recent changes to that process have disrupted that Congressionally-mandated role. CCIA’s comments reflect member’s experiences with the patent system and the *inter partes* review process.

The issue underlying this request for comments is the Office’s use of “discretionary denials” to deny institution of America Invents Act (AIA) proceedings. However, if a petition was not meritorious—if it failed to present a reasonable likelihood of showing that at least one of the claims in the patent was invalid—there would be no need for a discretionary denial. The Office could simply deny the petition on the merits.

In other words, any rule permitting discretionary denial of meritorious petitions is intended to describe circumstances in which the Office uses its discretion to leave intact a patent the Office believes is reasonably likely to be proven invalid. The Office proposes to strengthen rules that already leave invalid patents intact.

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<sup>1</sup> A list of CCIA members is available online at <http://www.ccianet.org/about/members>.

<sup>2</sup> Request for Comments on Discretion To Institute Trials Before the Patent Trial and Appeal Board, 85 Fed. Reg. 66502 (Oct. 20, 2020) (hereinafter “Request”).

Congress created AIA trials to “provid[e] quick and cost effective alternatives to litigation”<sup>3</sup> and to “provide a more efficient mechanism to challenge patents that should not have issued and are, therefore, not promoting the purpose of the patent laws.”<sup>4</sup> Rather than do its job of ensuring that the patent system contains only high-quality valid patents, the Office proposes to litter it with low-quality patents that will not stand up in litigation. However, while those patents may ultimately fail in litigation, they still exert a chilling effect on new entrants and innovators who will avoid innovation rather than risk the costs associated with litigation. The Office characterizes the existing rules, which accomplish exactly this—leaving invalid patents intact—as “achiev[ing] the appropriate balance.”<sup>5</sup>

Instead of adopting rules that would allow the Office to further avoid doing its Congressionally-mandated job, the Office should abandon the existing precedential opinions, ensuring that it carries out its duty to evaluate patent validity and correct any errors.

CCIA submits that any rule which is intended to leave invalid patents intact utterly fails to meet these Congressional mandates. Accordingly, the Office should abandon most forms of discretionary denial and adopt bright-line rules in favor of institution of meritorious petitions in any circumstance where Congress has not explicitly provided a specific rationale for discretionary denial. Those circumstances are limited, and include presentation of a petition based upon the same art or arguments as previously presented to the Office and estoppel based upon a prior final written decision.

## **I. Summary of Comments**

CCIA initially notes that the request is styled as a request for comment. CCIA understands this to mean that this is not being treated as a notice of proposed rulemaking (NPRM), particularly as the request did not undergo OMB pre-publication review. Further rules, if any, must go through the full rulemaking process—it would be inappropriate to treat the request for comments as fulfilling the notice requirement that an NPRM fulfills.<sup>6</sup> CCIA understands the present request as analogous to an Advance Notice of Proposed Rulemaking (ANPRM), and would expect an NPRM with details of the proposed rule to follow if rulemaking is to be undertaken.

The changes that the Office has already made via its designation of decisions as precedential have had an actual and negative impact on the efficiency of the patent system. In making rules, the Office should reject those precedential decisions and restore an IPR system that provides the reliable alternative mechanism for challenging patents that Congress envisioned when it passed the AIA.

CCIA also submits that Congress considered many of the issues being discussed and set an appropriate threshold when it passed the AIA. In particular, Congress stated that “any person” would have one year after the service of a complaint charging them with infringement of a patent to file a petition. Nowhere in that grant of authority or any other grant of authority in

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<sup>3</sup> H.R. Rep. No. 112-98, at 48 (2011).

<sup>4</sup> S. Rep. 118-18, at 16 (2009).

<sup>5</sup> Request at 66504.

<sup>6</sup> See *United Church Board for World Ministries v. SEC*, 617 F. Supp. 837, 840 (D.D.C. 1985) (“A general request for comments is not adequate notice of a proposed rule change. Interested parties are unable to participate meaningfully in the rulemaking process without some notice of the direction in which the agency proposes to go.”)

the AIA is the Office permitted to discard petitions because of a previously filed petition or because of parallel district court litigation or ITC proceeding. And while the AIA permits the Office to stay, transfer, consolidate, or terminate parallel proceedings over the same patent, in general the Office should be biased towards ensuring that meritorious petitions are heard and thus favor consolidation over termination. This is particularly critical because, while the patent owner can always appeal an adverse final written decision, the same cannot be said for petitioners who receive a denial of institution.<sup>7</sup>

Finally, CCIA notes that the Office has exhibited no ability to apply a case-by-case decision in a predictable or accurate fashion. The Office regularly relies on trial dates that shift, and has even reached contradictory results on the same set of facts. This is the essence of arbitrary and capricious action and, given that the Office contends that such decisions are unreviewable, should not be enshrined in rule.

In addition, CCIA notes two flaws with the request for comments. First, the Office has only provided a 44-day window to receive comments. Given the complexity of the questions addressed within, a minimum of a 60-day comment period, if not longer, is desirable in order to comply with relevant statute and executive orders.<sup>8</sup> Second, the Office is currently engaged in active litigation regarding whether it even has the power to make rules regarding discretionary denial. It is unclear why the Office is expending resources on this effort when there is a significant likelihood that it lacks the ability to engage in rulemaking on the topic.

## **II. Denial of Institution of a Meritorious Proceeding Creates Negative Economic Effects on Petitioners, Patent Owners, and the Public**

Congress intended for AIA trials to provide “an effective and less expensive alternative to litigation.”<sup>9</sup> And, in general, policy favors approaches that do not impose unnecessary costs on the participants or the public—in fact, the Office is required to consider the impact of regulation on the economy in its AIA rulemakings.<sup>10</sup> In determining whether to conduct rulemaking on this topic, the Office should consider the economic impacts of rules that increase discretionary denial of meritorious petitions, which are likely to be significant. It should also consider the indirect impacts on parties not before the Patent Trial and Appeal Board (PTAB) and the overall procedural cost of errors.

Once these costs are considered, it becomes clear that errors by denial of meritorious petitions are far more costly than errors by institution of petitions on patents ultimately determined to be valid, and thus that rulemaking should strongly disfavor discretionary denials. This complies with the Congressional objective of an effective and inexpensive alternative, as well as providing the most efficient policy that has the most positive economic impact.

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<sup>7</sup> See *Thryv, Inc. v. Click-To-Call Technologies, LP*, 140 S. Ct. 1367 (2020); *In re Cisco Systems, Inc.*, Case No. 2020-148 Dkt. No. 17 (Fed. Cir. Oct. 30, 2020) (barring appeal of a *Fintiv* denial of institution).

<sup>8</sup> It is unclear why the Office chose such a short timeline for this request for comments. In a similar request, issued two weeks prior to the Request, asking for comment on a significantly less complex and far-reaching issue regarding CLE guidelines for practitioners, the Office provided a window of 90 days. See Request for Comments on Proposed Continuing Legal Education Guidelines, 85 Fed. Reg. 64128 (Oct. 7, 2020).

<sup>9</sup> *Markup of H.R. 1249, the “America Invents Act” before the H. Comm. on the Judiciary*, 112<sup>th</sup> Congress (2011), (remarks of Rep. Zoe Lofgren, Member H. Comm. on Judiciary), [https://www.uspto.gov/sites/default/files/aia\\_implementation/20110414-house\\_judiciary\\_markup\\_transcript.pdf](https://www.uspto.gov/sites/default/files/aia_implementation/20110414-house_judiciary_markup_transcript.pdf).

<sup>10</sup> 35 U.S.C. § 316(b).

A. *Economic Impact of IPR Proceedings on Individual Petitioners and Patent Owners*

In a study conducted several years ago, prior to the significant rise in the use of discretionary denial, CCIA concluded that, during the first five years of IPR, petitioners and patent owners had saved approximately \$2.31 billion in deadweight loss.<sup>11</sup> The savings estimated are primarily in the form of avoided legal fees, and do not attempt to capture the value of avoided transfer payments and the multiplier effect that increased spending on R&D and employees may bring. A more recent study by the Perryman Group over the 2014-2019 period found a similar positive economic impact from IPR.<sup>12</sup>

However, recent changes to reduce access to IPR have led to negative economic impacts that are reflected in estimated costs.<sup>13</sup> A median IPR for a patent in the electrical technologies costs approximately \$105,000 through filing of a petition, and \$450,000 through appeal.<sup>14</sup> At the same time, a mid-sized NPE dispute in that same technology area costs approximately \$3,000,000 to defend.<sup>15</sup> Patent owner costs are reported to be approximately equal to petitioner costs.<sup>16</sup> Based upon RPX estimates of litigation cost phasing,<sup>17</sup> a reasonable estimate for costs incurred in litigation prior to an IPR-based stay is approximately 1/5 of total costs, or \$600,000, meaning that an instituted meritorious IPR saves approximately \$2.4 million per party, for a total of \$4.8 million per instituted IPR. Approximately 70% of IPR petitions are related to actively litigated patents,<sup>18</sup> and at least 80% of petitions represented a unique petitioner/patent pairing, meaning that a minimum of 80% of petitions would provide a unique litigation cost benefit. Finally, not all IPRs lead to a stay, but approximately 77% do.<sup>19</sup> This leads to an estimated discount factor of 57% to reflect IPRs with overlapping litigation cost benefits, and an estimated discounted savings of \$2.06 million per petition instituted, with half of that benefit accruing to each party.

If a meritorious petition is instead denied on a discretionary basis, the economics are reversed. The petitioner pays \$105,000 to prepare and file their petition, but avoids no deadweight losses from litigation, and must pay the full cost of defense in order to invalidate the patent in court. The patent owner similarly pays to respond to the petition and to litigate, without any ultimate benefit. Each meritorious petition that is denied institution via a discretionary

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<sup>11</sup> Landau, “Inter Partes Review: Five Years, Over \$2 Billion Saved”, *Patent Progress* (Sep. 14, 2017), <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

<sup>12</sup> Perryman Group, “An Assessment of the Impact of the America Invents Act and the Patent Trial and Appeal Board on the US Economy” (June 2020), <https://www.perrymangroup.com/media/uploads/report/perryman-an-assessment-of-the-impact-of-the-american-invents-act-and-patent-trial-and-appeal-board-on-the-us-economy-06-2020.pdf>.

<sup>13</sup> For example the *NHK Spring* decision, which limited access to IPR based on scheduled trial date appears to be causally related to both increases in estimated cost of IPR and litigation and reduced institution rates.

<sup>14</sup> AIPLA, “Report of the Economic Survey 2019” 52 (2019).

<sup>15</sup> *Id.* at 51.

<sup>16</sup> *Id.* at 62.

<sup>17</sup> RPX, “NPE Litigation: Costs by Key Events” (Mar. 2015), <https://www.rpxcorp.com/wp-content/uploads/2014/12/Final-NPE-Litigation-Costs-by-Key-Events.pdf>.

<sup>18</sup> Vishnubhakat et al., “Strategic Decision Making in Dual PTAB and District Court Proceedings”, 31 *Berkeley Tech. L.J.* 45, 46 (2016), <https://scholarship.law.tamu.edu/cgi/viewcontent.cgi?article=2049&context=facscholar>.

<sup>19</sup> McClellan et al., “How Increased Stays Pending IPR May Affect Venue Choice,” *Law360* (Nov. 15, 2019), <https://www.law360.com/articles/1220066/how-increasedstays-pending-ipr-may-affect-venue-choice>.

denial thus creates a deadweight loss of \$2.06 million over the status quo *ex ante* of institution of meritorious petitions.

Any potential payment from petitioner to patent owner is ignored in this analysis as it is a prototypical transfer payment that simply shifts a resource from one economically productive actor to another, not a deadweight loss. Petitioners are also innovative productive actors and typically avoided transfers will instead be used for innovation by the petitioner, meaning there is no economic loss or foregone innovation.

### *B. Broader Systemic Impacts from Discretionary Denials*

Discretionary denials also create negative indirect impacts on other companies who are chilled from innovating and investing due to the presence of an invalid patent.

#### 1. The potential for discretionary denial disincentivizes use of IPR to combat low quality patent assertions

Prior to the existence of IPR, firms—especially small and medium enterprises (SMEs)—that were faced with a low-quality patent assertion could either pay the entire cost to litigate the patent or settle. Settlements were often priced at a “nuisance cost”—a level below the cost of litigation—to take advantage of this dynamic.

The creation of IPR changed this calculus. Because IPR is an order of magnitude less expensive than litigation, nuisance cost settlements had to be reduced correspondingly. Instead, companies, including SMEs, could challenge the low-quality patents issued by the Office and used for abusive patent litigation. One such example is the MPHJ “scan-to-email” patent. That patent litigation campaign was so notorious that MPHJ was ultimately sued by the state of Vermont and the majority of states adopted laws against bad-faith patent litigation.<sup>20</sup> Even that did not eliminate the threat. Ultimately, this abusive litigation campaign was brought to an end by the use of IPR.<sup>21</sup> If discretionary denials had been prevalent at the time, MPHJ could have entirely avoided IPR by choosing to file its cases in district courts that set aggressive trial schedules.

Further, the presence of discretionary denial would more broadly change the settlement calculus, increasing nuisance cost settlement rates, by permitting plaintiffs to use particular filing strategies to avoid IPR. This, in turn, creates an incentive for firms—particularly SMEs—not to invest in innovation, as such investment increases the risk of facing such nuisance complaints.

#### 2. The potential for discretionary denial disincentivizes use of IPR to “clear the field” for product development

The potential for discretionary denial—the potential for the Office to say that, while the patent appears to be invalid, it still will not hear the case—creates a significant disincentive to challenge poor-quality patents before investing resources in product development. This, in turn, leads to less productive activity overall, rather than to more innovation.

In one recent instance of using IPR to attempt to clear the field, a company sought IPR to ensure that it could legally make a product desired by its customers. Developing such a product would cost hundreds of millions or even billions of dollars.<sup>22</sup> Rather than launching their

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<sup>20</sup> Landau, “IPR Successes: Scan-To-Email Defeated By Scanner Makers”, *Patent Progress* (Oct. 4, 2017).

<sup>21</sup> See IPR2014-00538.

<sup>22</sup> Petition for *Certiorari* in *GE v. Raytheon*, Dkt. No. 19-1012 (Feb. 12, 2020) (cert. denied May 26, 2020).

product at risk of litigation, the company filed a petition for review. If such a petition were to be discretionarily denied, the company would be faced with the choice of investing hundreds of millions of dollars in product development that they might never recoup due to infringement allegations, investing additional dollars in needlessly developing a product that designs around an invalid patent, or else not developing a product in that space.

Again, the potential for discretionary denials increases the chance that a company will choose not to innovate, rather than risk investing in an IPR that is denied and fails to clear the field. This, in turn, leads to reduced innovation and concomitant harms to consumers and other firms who might benefit from the forgone innovative activity.

3. A discretionary denial process that is biased against petitioners leads to reduced willingness to innovate and take risks

Finally, the discretionary denial process itself is inherently biased against petitioners, as it is always used to deny a petition that deserves institution on the merits. (Again, if a petition is not meritorious, there is simply no need for discretionary denial as it can be denied on the merits.) Given this clear bias, innovators who face the potential for patent litigation are less inclined to take risks and innovate. Reduced access to IPR decreases the ability for innovators to defend themselves from meritless patent assertions. This, in turn, becomes part of the risk calculus when deciding where to invest. Similarly, when venture capital considers which startups to invest in, the potential for patent litigation is seen as a strongly negative signal for investment.<sup>23</sup>

By reducing risk and exposure to litigation, IPR increases investment in innovation and risk-taking. The corollary is that reduced access to IPR, especially the unpredictably reduced access to IPR created by discretionary denial rules, decreases investment in innovation and reduces innovative risk-taking.

### *C. The Error Cost and Direct Cost Balance of Denial vs. Institution Requires the Conclusion That Institution Is Generally Procedurally Optimal*

In normal court proceedings, denial of an early motion simply postpones the legal issue to a later date. Even where the issue is considered to be fully adjudicated based on the law, such as with a judgment as a matter of law, the losing party maintains the ability to appeal.

Institution decisions do not operate in this fashion. Once denied, the losing petitioner typically lacks any ability to appeal that denial, then or at any later date. They are fully cut off from access to AIA trial proceedings.<sup>24</sup> In contrast, when a petition is instituted on a patent claim, while there are financial costs to both petitioner and patent owner, patent owners may still win at final written decision and retain the ability to appeal an invalidation they believe to be erroneous.

In general, procedural rules are intended to jointly minimize two costs—“error costs,” costs resulting from mistakes in adjudication, and “direct costs,” the costs involved in reaching

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<sup>23</sup> Feldman, “Patent Demands & Startups: Views from the Venture Capital Community”, 16 Yale J.L. & Tech. 236, 243 (2014) (“100% of venture capitalists indicate that if a company had an existing patent demand against it, they might refrain from investing”).

<sup>24</sup> See *Thryv, Inc. v. Click-To-Call Technologies, LP*, 140 S. Ct. 1367 (2020); *In re Cisco Systems, Inc.*, Case No. 2020-148 Dkt. No. 17 (Fed. Cir. Oct. 30, 2020) (barring appeal of a *Fintiv* denial of institution).

adjudication.<sup>25</sup> Because of the asymmetric severity of an error at the institution phase, where an error is far more harmful to petitioners than it is to patent owners, an error cost minimizing rule would generally lean towards institution. The direct cost of institution, being the cost of an IPR proceeding, is also significantly lower than the direct cost of denial, being the cost of litigation or at least of post-stay litigation.<sup>26</sup> Applying these general biases to Posner’s error-minimizing approach, the optimal approach to a discretionary denial rule is to never deny discretionarily. Failing that, a heavy bias towards institution is necessary to minimize the overall costs to the patent system presented by a discretionary denial rule.

*D. A Proposed Discretionary Denial Rule Would Be Economically Significant Under E.O. 12,866*

Executive Order 12,866 identifies any rule that would “have an annual effect on the economy of \$100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities” as economically significant. Such rules require the proposing agency to provide additional cost-benefit analysis.

As discussed above, a discretionary denial generates a deadweight loss of approximately \$2.06 million.<sup>27</sup> A mere 50 discretionary denials would reach this threshold. *Fintiv*-based denials alone are on track to reach that threshold in 2020, much less discretionary denials based on other precedents.

Beyond legal fees, there are other significant economic impacts in the form of illegitimate transfers of wealth from one firm to another and increased costs to U.S. consumers due to patent-enforced lack of competition. Even a single patent that should have been invalidated that the Office allows to proceed to litigation may lead to significant and undeserved damages. This concern is even more pressing if the patent potentially results in an injunction against a major consumer electronics product or if the patent potentially holds generic competitors to a blockbuster drug off of the market. A delay of as little as a week in the introduction of a generic competitor may be sufficient to reach the economic threshold of \$100 million in impact, as well as potentially implicating public health. And setting aside the potential for delay trials bring, compared to the Office’s strict adherence to its statutory timelines, the ability to invalidate a patent at trial after discretionary denial may be of limited use, as many judges will permit introduction of evidence that the Office chose not to institute review of that patent and jurors are likely to treat that as evidence of the patent’s validity.

Given this, a rule proposing discretionary denials appears to be likely to be economically significant. The Office should ensure it conducts the required cost-benefit analysis prior to promulgating such a rule, and should only promulgate the rule if it would provide an overall benefit.

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<sup>25</sup> See Posner, “An Economic Approach to Legal Procedure and Judicial Administration”, 2 J. Legal Stud. 399, 400 (1973).

<sup>26</sup> See Section II.A, *supra*.

<sup>27</sup> This is the discounted savings rate correcting for cases lacking parallel litigation; an individual denial will in fact have significantly higher cost if it is associated with co-pending litigation.

### E. Conclusion

Because of the negative impacts on the patent system as a whole, both direct and indirect, and because procedural cost minimization requires it, the Office should always operate under a presumption that all meritorious petitions should be instituted. To the extent discretionary denials are contemplated, that discretion should generally be exercised in favor of institution. And while CCIA submits that a rule permitting discretionary denial would generally be inappropriate, any rule codifying and permitting the exercise of discretion to deny institution must have its costs and benefits justified through a rigorous cost-benefit analysis.

### III. The Office Should Create a Bright-Line Rule Disregarding Prior Petitions in Most Circumstances, or Else Not Engage in Rulemaking

The request asks if a rule employing case-specific analysis should be promulgated or if, in the alternative, the Office should disregard previous challenges to the claims or should refuse institution altogether if the claims have been previously challenged in another petition. This question focuses primarily on so-called “serial petitions,” which are exceedingly rare in practice. It also ignores that Congress has legislated on this topic, setting specific limits on when prior petitions are relevant to a later proceeding, limits which the Office may not exceed. Barring petitions based upon prior petitions creates serious concerns regarding the potential for patent owner gamesmanship and violations of due process. And even the existing case-by-case rules, when examined in detail, are at best unsupported by statute where they do not explicitly contradict Congressional intent.

Because of these flaws, the Office should either create a bright-line rule that prior petitions are generally irrelevant to the institution decision, or else de-designate as precedential *General Plastic*, *Valve I*, and *Valve II* and opt against making any rule.

#### A. Serial Petitions Are Not Common Enough to Require Rulemaking

So-called serial petitions are a problem much discussed, but rarely seen. Even before the Office issued opinions that limited access to *inter partes* review for follow-on petitions, the majority of patents faced only one petition. In fact, the Office itself conducted a study that reached this conclusion, a study that the Office has not subsequently refuted or disregarded.<sup>28</sup> Given this, it is unclear that there is even a need for this rulemaking—at a minimum, further study to ensure that serial petitions actually occur at a sufficient frequency to justify restricting access by legitimate petitioners is required.

Even if the Office does review its own findings and reach a different conclusion, the existence of multiple petitions does not equate to the existence of serial petitions. One recent analysis noted that most claims that are referred to as “serial petitions” are not in fact serial.<sup>29</sup> Instead, they are essentially always one of three types of petition: (1) parallel petitions brought due to word limits or excessively large claim sets; (2) parallel petitions brought by other

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<sup>28</sup> USPTO, “An Analysis of Multiple Petitions in AIA Trials” (Oct. 24, 2017), [https://www.uspto.gov/sites/default/files/documents/Chat\\_with\\_the\\_Chief\\_Boardside\\_Chat\\_Multiple\\_Petition\\_Study\\_20171024.pdf](https://www.uspto.gov/sites/default/files/documents/Chat_with_the_Chief_Boardside_Chat_Multiple_Petition_Study_20171024.pdf).

<sup>29</sup> See CCIA Letter to USPTO Director Iancu re: Serial Petitions (Apr. 29, 2019), <http://www.cciagnet.org/wp-content/uploads/2019/04/2019-4-29-FINAL-Letter-to-Director-Iancu-Re-Serial-Petitions.pdf>.



defendants when a patent owner has filed lawsuits against multiple defendants; and (3) identical follow-on petitions required to be filed by other parties as part of a request for joinder.<sup>30</sup>

None of these situations impose any undue burden upon the patent owner or the PTAB. And to the extent that a patent owner faces repeated petitions, it is due to their own actions in asserting patents with a multiplicity of claims or asserting against a large number of defendants. Denying the ability of defendants to file the necessary petitions to address such situations—or the ability to join an existing petition—creates a significant risk of gamesmanship by patent owners against defendants.

#### *B. Disregarding Previous Challenges Complies with Congressional Intent*

The AIA provides clear guidance as to the rationales under which the Office may deny institution of a petition. Specifically, it permits non-institution where “the same or substantially the same prior art or arguments previously were presented”<sup>31</sup> to the Office; when a previous final written decision involving the party, its privy, or a real party in interest exists and the grounds of the petition were raised or reasonably could have been raised; and where a declaratory judgment action has been filed by the petitioner, its privy, or a real party in interest.<sup>32</sup> Congress rejected other institution bars, including specifically eliminating a proposed bar against institution based on previous petitions by the same petitioner.<sup>33</sup> Outside of these statutorily authorized provisions, there should be a strong presumption against rejection of an otherwise meritorious petition. Congress set out appropriate limits in the statute, and creating new limitations that are more restrictive than those which Congress authorized is an inappropriate use of rulemaking authority.

Specifically, if a party was not a privy or real party in interest to an earlier petition, that earlier petition should not impact the later-filing party. Even if the later filer has the benefit of the institution decision when filing its own petition, that does not justify denial of institution. Congress set forth in the statute the restriction it felt to be appropriate—parties in privy or real parties in interest. Nowhere does the statute authorize expansion beyond that; a prior petition by an unrelated party on disparate art should be completely irrelevant to institution. In addition, holding the actions of another against the later filer is a violation of defendant’s due process rights.

Similarly, if a future petition takes advantage of the record of a previous proceeding to provide a better challenge to the patent, that is completely within the intended scope of the statute. By providing the ability for the Office to deny a petition when the “same or substantially the same prior art or arguments previously were presented,”<sup>34</sup> Congress recognized the possibility of follow-on petitions against the same patent that use different art and chose to limit petitions only where the same or similar art was employed. This interpretation of the statutory text is bolstered by the comments of Senator Kyl during consideration, when he stated this provision “allows the Patent Office to reject any request for a proceeding, including a request for ex parte reexamination, if the same or substantially the same prior art or arguments previously

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<sup>30</sup> 35 U.S.C. § 315(c) (“the Director [] may join as a party to that inter partes review any person who properly **files a petition.**”) (emphasis added).

<sup>31</sup> 35 U.S.C. § 325(d).

<sup>32</sup> 35 U.S.C. § 316(e)(1).

<sup>33</sup> See Patent Reform Act, S. 515, 111<sup>th</sup> Cong. § 324 (1) (2009).

<sup>34</sup> 35 U.S.C. 325(d).

were presented to the Office with respect to that patent.”<sup>35</sup> In other words, the provision is intended to identify a single circumstance where rejection based upon prior petitions is permissible, implying under the *expressio unius* canon, that rejection based upon prior petitions is not permissible in other circumstances.

There is one specific—and rare—context which may merit a more detailed case-based analysis. Instances in which petitions were being brought solely to harass a patent owner might justify denial on that basis. However, CCIA is unaware of—and the Office has not identified—any such ‘abusive’ petition, and rulemaking to prevent a situation which does not seem to exist and which could be dealt with using the existing authorities is neither required nor appropriate.

*C. Refusal of Institution Based Upon Prior Petitions Is Inappropriate and Would Lead to Abusive and Collusive Petitions*

CCIA strongly rejects the notion that a blanket refusal to institute based on a prior petition would be appropriate. That proposal suggests that if an *inter partes* review is instituted against a claim, no other review may ever be instituted—even if the petition was filed by a completely different party who has located completely different prior art that clearly invalidates the patent. This incentivizes patent owners to target small and medium-sized enterprises first, in order to trigger a petition from a less well-resourced party, before asserting their patent—now immunized against IPR—against deeper pocketed targets who might have more success in invalidating patents that should not have been issued to begin with. The end result would be a negative impact upon small and medium-sized enterprises as they are targeted for infringement lawsuits, a result Congress did not intend. It also incentivizes a race between defendants to file the first and only petition, depriving defendants of the time needed to draft the best petition possible. The reduction in petition quality such a rule would produce would reduce the value of IPR as a tool for taking a second look at improvidently issued patents.

As discussed above, during debate over the AIA, it was made explicitly clear that prior petitions were not even a reason to deny institution unless both petitions were on the same art or arguments. Earlier drafts of patent reform bills that eventually led to the AIA included provisions that explicitly barred petitions if an earlier petition existed between the same party and patent.<sup>36</sup> Those explicit bars on multiple petitions were eliminated by Congress before enactment and replaced with § 315(d) and § 325(d).

Such a provision would also raise the specter of collusive petitions, in which a party friendly to a patent owner would file a petition against the patent sufficient to achieve institution, then drop the petition after institution, in order to bar future petitions brought by serious challengers. Awareness that the owner of an improperly issued patent might use such tactics dates back to Thomas Jefferson, who noted that if “you make the first trial against the patentee conclusive against all others ... he will always have a collusive suit brought against himself at once.”<sup>37</sup>

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<sup>35</sup> 157 Cong. Rec. S1042 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl).

<sup>36</sup> See, e.g., Patent Reform Act of 2009, H.R. 1260, 111<sup>th</sup> Congress § (h)(1)(§ 324 (1)) (2009); Patent Reform Act of 2009, S. 610, 111<sup>th</sup> Congress § (c)(§ 322 (c)) (2009); cf. 154 Cong. Rec. S9982 (daily ed. Sept. 27, 2008) (statement of Sen. Kyl).

<sup>37</sup> Letter from Thomas Jefferson to Hugh Williamson dated 13 November 1791, *U.S. National Archives* (1791), available at <https://founders.archives.gov/documents/Jefferson/01-22-02-0271>.

Recent experiences confirm that some patent owners would be likely to use tactics such as employing a third party to file “good enough” petitions that would trigger IPR immunity. Recently, patent owners have argued that well-established reexamination procedures are a Constitutional taking.<sup>38</sup> In another recent case, a patent owner argued that estoppel bars a petitioner from telling jurors in district court that the PTAB had invalidated the asserted patent.<sup>39</sup> And it took a denial of *certiorari* by the Supreme Court to put an end to patent owners selling patents to Native American tribes in order to invoke tribal sovereign immunity to avoid *inter partes* review of a patent protecting a highly profitable drug.<sup>40</sup> A statutory mechanism to trigger a bar on IPRs such as those the Request describes would be nearly certain to be abused to the detriment of the patent system and innovation.

#### D. Due Process

A provision which bars institution based upon a previous petition also raises potential due process concerns, particularly if the later petitioner is not the same party as, or in privity with, the previous filer. In general, rules that bar access to legal proceedings require that the party which is to be precluded from access had an opportunity to litigate the issue and that the same issue was before the tribunal. The opportunity to litigate is absent here—the later filer, not involved in the previous petition, cannot be seen to have had a full and fair opportunity to present its position before being barred. And, unless substantially the same art and arguments were used in the later petition, the same issue would not have been before the tribunal. Patents are not held valid over all art—they are held valid over a particular set of prior art and arguments. Where a party presents the same art or arguments, the Office already has authority under § 325(d) to deny that petition. But if different art is presented, there are serious due process concerns in denying a later-filed petition by another petitioner.

To the extent a categorical rule regarding serial petitions is appropriate, it should lie upon the side of categorical institution of all meritorious petitions. The sole potential exception to this bright-line rule should be for a party filing a harassing petition, and even there, the emphasis should be on the specific facts of the case and whether the purpose of filing is to harass a patent owner or whether there are legitimate business reasons for filing. In all other circumstances, institution should not be barred upon the basis of a previously filed petition.

#### E. Existing Case-Based Tests for Serial Petitions

Existing case-based tests focused upon serial petitions include the *General Plastic* and *Valve I/Valve II* rules. All three are significantly flawed and generally lie outside of the agency’s authority to promulgate.<sup>41</sup> They also create an unpredictable test that devalues the AIA trial process, thus permitting invalid patents to remain in force, to the detriment of the patent system and the innovation ecosystem. The Office should, at a minimum, de-designate these decisions as precedential in favor of a bright-line rule in favor of institution of meritorious petitions.

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<sup>38</sup> See *Christy, Inc. v. United States*, Case No. 2019-1738 (Fed. Cir. Aug. 24, 2020).

<sup>39</sup> See *BTG Int’l v. Amneal Corp.*, 352 F. Supp.3d. (patent invalidity upheld on other grounds in *BTG Int’l v. Amneal Corp.*, 923 F.3d 1063 (Fed. Cir. 2019)).

<sup>40</sup> See *Saint Regis Mohawk Tribe v. Mylan*, 896 F.3d 1322 (Fed. Cir. 2018), *cert. denied*, 139 S. Ct. 1547 (2019).

<sup>41</sup> See *Tokyo Kikai Seisakusho, Ltd. v. United States*, 529 F.3d 1352, 1361 (Fed. Cir. 2008) (“An agency cannot ... exercise its inherent authority in a manner that is contrary to a statute.”).

1. *General Plastic*

*General Plastic*<sup>42</sup> identifies a set of seven factors to be used in determining whether to deny a petition. Of these seven factors, only one—the merits of the petition—is expressly weighted in favor of institution.

The first factor addresses whether the same petitioner previously filed a petition directed to the same claims of the same patent. Congress considered, and discarded, a bar on this basis, and the Office should not presume to reverse Congress’s judgment.

The second factor addresses whether, at the time of filing the first petition, the petitioner knew of (or should have known of) the prior art asserted in the second petition. While a petitioner might be aware of art, its decision to select a different argument in an earlier petition may represent an understanding of the patent different from that of the Board. Once informed of what the Board understands the scope of the patent to be, that secondary art may be understood to be the more relevant art. A *Markman* order in parallel litigation might have similar impact. A petitioner should not be penalized simply because interpretation of patents is a complex and unpredictable art.

The third factor addresses whether, at the time of filing the second petition, the petitioner had already received the patent owner’s preliminary response or the Board’s institution decision on whether to institute review. In either circumstance, the petitioner must have diligently filed their first petition at least three months or six months prior to the statutory bar date. In the event the patent owner or Board identifies flaws in the petition, correction of those flaws that remains within the statutory one-year timeframe is to be encouraged in order to ensure that only valid patents remain in force. Denying petitions merely because they were made based upon better information will leave invalid patents in force to the detriment of the U.S. economy and the innovation ecosystem.

The fourth factor addresses the length of time that elapsed between when the petitioner learned of the prior art asserted in the second petition and the filing of the second petition. It is unclear why this factor is anything other than arbitrary—depending upon technology and complexity of the patent, a meritorious petition may take more or less time to prepare, and a petitioner who was diligent in locating additional art early in the one-year review window should not be penalized if they chose to devote more time to ensuring the Board could benefit from better arguments and evidence.

The fifth factor addresses whether the petitioner provides adequate explanation for the time elapsed between multiple petitions directed to the same claims of the same patent. However, as noted above, Congress explicitly chose not to bar petitioners from challenging the same claim more than once.

The sixth and seventh factors address timely completion and efficient administration of the PTAB, discussed in more detail in Section IV, *infra*. However, briefly, these are issues that are better handled by larger Office structural changes, such as fee-setting and hiring practices. No individual decision should turn upon these concerns, and there is no evidence that either concern is one that realistically exists.

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<sup>42</sup> Precedential Decision in *General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha*, IPR2016-01357, Paper 19 (Sept. 6, 2017).

None of the *General Plastic* factors meets with support from the statutory text, nor do any forward the Congressional objective of providing for an efficient proceeding for reviewing the validity of patents. Further, the test is unpredictable and does not lead to consistent outcomes. Accordingly, *General Plastic* should be de-designated in favor of a rule or principle that does not take into account prior filed petitions except where Congress has specifically instructed the Office to take such account.

## 2. *Valve I/Valve II*

The *Valve I*<sup>43</sup> decision extended the inappropriate *General Plastic* factors to include circumstances in which the earlier filed petition was filed by another party. The application of these factors to a secondary party is even further attenuated from any legitimate concern and improperly imputes the actions of a third party to the petitioner.

Congress provided a limitation on petitioners that involves third parties. That limitation requires that the third party be a “privy or real party in interest” and have either filed a civil action challenging the validity of a claim of the patent, have been sued more than one year before filing of the petition, or have been involved in an AIA trial before the Office resulting in a final written decision. Congress’s considered judgment on when to impute third party actions to a petitioner resulted in specific statutory text. Here, again, the Office has substituted its judgment for that of Congress and extended third party bars beyond those Congress authorized.

The *Valve II*<sup>44</sup> decision extended *General Plastic* and *Valve I* by determining that petitions for joinder to another party’s instituted petition trigger application of the *General Plastic* factors. For the reasons set out above with respect to *General Plastic*, those factors should not be part of the institution decision to begin with. Further, there is no reason to require a rule for this instance—the Office already possesses the power to consolidate or stay proceedings regarding the same patent under § 315(d). Where a party has previously filed a petition for joinder, and later files its own separate petition, the Office may consolidate or stay that instituted petition in order to increase efficiency of the proceeding.

Accordingly, *Valve I* and *Valve II* should be de-designated in favor of a rule or principle that the only third-party petitions that are relevant to denial are those that are specifically mentioned in the statutory text.

## F. *Conclusion*

Because of these concerns, CCIA suggests that any rulemaking to be conducted should explicitly eliminate the *General Plastic*, *Valve*, and *Valve II* precedential opinions in favor of a bright-line rule favoring institution. Failing that, no rule should be proposed, allowing the PTAB to reverse these decisions once their negative impacts are appreciated.

## IV. **Timely Completion of Proceedings and Efficient Administration of the PTAB Do Not Justify Rulemaking on Discretionary Denials**

The Office possesses the authority to make rules that ensure timely completion of AIA trials and efficient administration of the PTAB. However, the potential rules discussed in the Request that would limit institution do not bear any relationship to either authority.

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<sup>43</sup> *Valve Corp. v. Electronic Scripting Products, Inc.*, IPR2019-00062, Paper 11 (Apr. 2, 2019).

<sup>44</sup> *Valve Corp. v. Electronic Scripting Products, Inc.*, IPR2019-00064, Paper 11 (May 1, 2019).

CCIA notes that the Office has recently conducted fee-setting to ensure that it has adequate resources to ensure timely completion of proceedings.<sup>45</sup> In that rulemaking, the Office suggested that discretionary denials may actually increase workload for the PTAB and thus increase IPR cost.<sup>46</sup> To the extent the Office believes that discretionary denial may be justified under the timely completion or efficient administration authorities, the Office could instead eliminate discretionary denial to reduce PTAB workload without limiting access to the Congressionally-created AIA trial procedures. Further, because PTAB resources are based upon per-petition fees, the resources available to the agency inherently scale with the number of petitions filed, and so long as those filings remain relatively steady or declining, PTAB resources are likely to remain sufficient to the task.

The Office has also never identified any current or prior inability to achieve timely completion of AIA trials, even before precedential opinions on discretionary denials were created. Given that the number of petitions filed has been steadily falling over the past few years, and was steady for some time before that,<sup>47</sup> there is no evidence that the Office is likely to be unable to achieve timely completion in the future, regardless of whether discretion to deny is enacted or removed. The Office therefore cannot reasonably rely on the “timely completion” and “efficient administration” authorities as a basis for discretionary denial rules.

Accordingly, CCIA submits that the timely completion and efficient administration rationales do not appear to be rationally related to discretionary denial rulemaking. To the extent the Office wishes to justify a rulemaking upon these bases, it would need to provide record evidence regarding why it no longer believes discretionary denial increases IPR cost, a position it took less than four months ago, and identify why it did not denote any shortfall in Office resources during that fee-setting rulemaking.

## **V. The Office Should Have a Bright-Line Rule Disregarding Parallel Petitions at Institution, or Else Completely Remove Word and Page Limits from Petitions**

There is no need for the Office to engage in rulemaking to provide a case-specific or bright-line rule permitting the denial of institution for parallel petitions. Existing authorities are sufficient.

The Request notes both that “[t]wo or more petitions filed against the same patent at or about the same time (e.g., before the first preliminary response by a patent owner) may place a substantial and unnecessary burden on the Board and the patent owner and could raise fairness, timing, and efficiency concerns” and that “circumstances may exist in which more than one petition may be necessary, including, for example, when a patent owner has asserted a large number of claims in litigation or when there is a dispute about priority date, thereby requiring unpatentability challenges under multiple prior art references.”<sup>48</sup> In other words, the Office acknowledges that a single petition rule would be inappropriate as it would act to eliminate petitioners’ abilities to effectively access IPR. And the sort of patents and situations which

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<sup>45</sup> 85 Fed. Reg. 46932 (Aug. 3, 2020).

<sup>46</sup> *Id.* at 46945.

<sup>47</sup> *See, e.g.*, AIA Trial Statistics Sept. 2020 at 6 (Sept. 30, 2020) (illustrating steady annual petition rate from FY2015 through FY2017, declining annually from FY2017 through FY2020),

[https://www.uspto.gov/sites/default/files/documents/trial\\_statistics\\_20200930.pdf](https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200930.pdf).

<sup>48</sup> Request at 66505.

contain high claim counts, complex technologies, or are likely to give rise to disputes over priority or similar issues are also more likely to be complex disputes, meaning that denial is even more likely to have a significant negative impact on the innovation economy and the patent system.

Creation of a single petition rule would be even more concerning because the Office has, through its own rules, effectively required petitioners to file multiple parallel petitions in order to adequately address patents with a multiplicity of claims, high claim complexity, or where multiple grounds may be required. In particular, the Office's choice to adopt a petition word limit and to remove any ability for the petitioner to rely on argument or evidence not at least referenced in the petition creates a finite minimum size for adequately addressing a given patent claim. Beyond this, the creation of multi-factor discretionary denial tests such as *General Plastic*, *Valve*, and *Fintiv* has forced petitioners to spend some of that word limit on addressing discretionary denial, reducing the space available to argue the merits of the petition. This reduction may also have led to the use of multiple petitions in order to adequately address the merits. The need for parallel petitions is a problem the Office created for itself by adopting word limits, not a problem induced by petitioner action.

Contrasting the approach taken in the PTAB context with the strongly distinct approach the Office has taken to patent applications also illustrates the incoherence of this artificial limit. In the application context, an applicant can file a patent application of any length, with as many claims as they wish, as long as they pay a scaling fee per claim to address the increased cost of examination. In the PTAB context, the only option a petitioner has to deal with a patent with hundreds of claims is to file additional petitions. As a matter of basic fairness, it is inappropriate for the Office to permit patent owners to obtain patents of effectively infinite length, but limit petitioners' ability to challenge those patents by limiting them to a single petition of no more than 14,000 words. A scaling fee for additional words would obviate much of the need for parallel petitions, and the Office's choice not to discuss such a scaling fee is illustrative of the imbalance of the Office's approach.

Further, the Office already has sufficient statutory case management powers to address parallel petitions. In particular, 35 U.S.C. § 315(d) permits the Office to consolidate or stay proceedings on the same patent, a power that more than adequately enables the Office to handle any impact on Office resources from parallel petitions.

Creating a new rule that would limit petitioners to only a single petition would harm petitioners' ability to adequately explain validity issues with a number of patents. It would completely frustrate the Congressional desire to permit petitioners to invalidate claims that should not have issued by ensuring that certain classes of patents—especially those with large numbers of claims or complex claims, or patents in complex technological areas—are effectively impossible to invalidate through *inter partes* review.

To the extent the Office wishes to engage in rulemaking that would address parallel petitions, it should explicitly rule that parallel petitions are not relevant to the institution decision. To the extent the Office wishes to bar parallel petitions, it must also eliminate word and page limits in order to ensure that effective access to *inter partes* review is maintained.

## VI. The Office Should Make a Bright-Line Rule Disregarding Proceedings in Other Tribunals at Institution

The Office lacks any authority to deny petitions based on proceedings in other tribunals. 35 U.S.C. §§ 315 and 325 set out Congress's limits on consideration of other tribunals. Having considered, and rejected, other rules, Congress enacted a limited set of circumstances in which proceedings in other tribunals could be considered as part of institution. The Office should not now supplant Congress's judgment with its own.

Beyond the fact that the Office does not have the power to go beyond the circumstances Congress permitted, the existing precedential opinions that account for proceedings in other tribunals are applied inconsistently and incoherently. Extending these tests would simply result in less certainty and continued decrease in the use of the IPR procedure.

### A. *The Existing Case-by-Case Test Is Inconsistent With Congressional Intent*

Congress carefully considered the concerns expressed by stakeholders relating to parallel proceedings, extensively debated them during the six-year legislative process that resulted in enactment of the AIA, and expressly addressed those that were determined to warrant a legislative solution in multiple provisions found in 35 U.S.C. §§ 315 and 325. Concerns regarding duplication of effort between the PTAB and other tribunals were brought forward and were balanced by concerns that blocking PTAB review when a proceeding was active in another tribunal would effectively eliminate the utility of PTAB review as a complement to litigation. A number of solutions were proposed and rejected in favor of a simple, bright-line one-year bar.<sup>49</sup>

Reflecting Congress's intent, for the first six years of the PTAB's operation, the PTAB did not consider proceedings in other venues to be relevant to the institution decision. Then, on the six-year anniversary of the IPR proceeding, the Office first applied this issue as a factor in *NHK Spring*.<sup>50</sup> Subsequently, the Office expanded this analysis in *Fintiv*.<sup>51</sup> In the time since *NHK Spring* and particularly since *Fintiv*, the use of discretionary denials has exploded.

Having carefully considered the problem of proceedings in other venues and clearly chosen what limits to set upon them, Congress did not leave open the door for the Office to reject that considered balance in favor of its own views. Yet, that is precisely what the agency has done in adopting rules that examine trial dates in other venues.

Congress gave petitioners one year from the service of a complaint to file a petition. The Office lacks the authority to replace the judgment of Congress with its own.

### B. *The Fintiv Factors Relating to Other Proceedings Are Not Permissible*

The *Fintiv* test incorporates six factors. These factors ignore relevant Congressional intent, are constructed in a fashion that is biased against institution, and are applied incoherently. They are also structured in a way that encourages forum shopping, to the detriment of the patent system as a whole.

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<sup>49</sup> See, e.g., Amendment #7 to the Manager's Amendment to H.R. 1249, offered by Rep. Lofgren (Apr. 14, 2011) (proposing tying the commencement of *inter partes* reviews to *Markman* hearings; amendment failed 14-17).

<sup>50</sup> Decision Denying Institution in *NHK Spring Co., Ltd. v. Intri-Plex Technologies, Inc.*, IPR2018-00752 (Sept. 12, 2018).

<sup>51</sup> Order Denying Institution in *Apple Inc. v. Fintiv, Inc.*, IPR2020-0019 (Mar. 20, 2020).



1. The First *Fintiv* Factor: grant or denial of stay of litigation

The first *Fintiv* factor asks whether the court granted a stay or indicated one may be granted if a proceeding is instituted. If the court has granted a stay or indicated a stay may be granted, the factor is treated as in favor of institution. If the court has denied a stay or has not indicated a stay would be granted, this factor is weighed against institution. However, this factor is biased against institution—often, courts wait for institution to stay the case, and under this factor, the PTAB waits for a stay to institute. Because institution is itself the trigger for many stays, basing institution on the presence of a stay is illogical and inherently biased against institution of meritorious petitions.

2. The Second *Fintiv* Factor: trial date proximity

The second *Fintiv* factor reviews the proximity of the trial date in the other tribunal to the predicted final written decision date.

At the outset, it is a matter of common knowledge that trial dates often change. In the two busiest venues, the District of Delaware and the Western District of Texas, initial trial dates are delayed 100% and 70% of the time, respectively.<sup>52</sup> The PTAB does not acknowledge this and will not consider it when applying the second *Fintiv* factor. Further, a trial date, unlike a final written decision date, is not a date of final judgment—even after trial, motions for judgment as a matter of law and motions for a new trial, as well as other post-trial issues, must be handled before any final judgment can issue. A non-appealable termination of an IPR petition based on a possible non-final judgment on a date that is not just subject to change but is changed in the vast majority of cases would be inappropriate even if Congress had not spoken.

But Congress *has* spoken. Congress rejected attempts to align bars on petitions to various phases of trials.<sup>53</sup> Instead of a period tied to trial activity, Congress provided a single tie to co-pending litigation—barring petitions filed one year after the service of a complaint. It even acted to extend the originally proposed six-month bar to that full year, suggesting that Congress viewed a six-month bar as insufficient time for petitioners to act.<sup>54</sup> In this factor, the Office has directly and impermissibly substituted its judgment for that of Congress.

And in application, the Office has applied this factor effectively to the exclusion of all other factors. For example, the Office has denied a petition filed one month after the party was sued, in which the petitioner had stipulated that it would not assert the IPR art in court to avoid duplication, where the court had not invested significant time, and in which the Office acknowledged the strength of the petition on the merits, solely because of the trial date factor.<sup>55</sup>

Accordingly, the Office lacks any power to set a rule on the basis of the second *Fintiv* factor, nor is such a factor desirable as in practice it has proven to be incapable of consistent application.

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<sup>52</sup> McKeown, “District Court Trial Dates Tend To Slip After PTAB Discretionary Denials”, Patents Post Grant (July 24, 2020), <https://www.patentspostgrant.com/district-court-trial-dates-tend-to-slip-after-ptab-discretionary-denials>.

<sup>53</sup> See n. 49, *supra*.

<sup>54</sup> Sayres & Wahlstrand, “To Stay or Not To Stay Pending IPR?”, 17 Chicago-Kent J. Intell. Prop. 52, n. 21 (2018), <https://scholarship.kentlaw.iit.edu/cgi/viewcontent.cgi?article=1214&context=ckjip/>.

<sup>55</sup> See *Philip Morris Products v. RAI Strategic Holdings*, IPR2020-00921, Paper No. 9 (Nov. 16, 2020).

### 3. The Third *Fintiv* Factor: investment in the parallel proceeding

The third *Fintiv* factor addresses whether the parties and courts have invested significant resources in the parallel proceeding.

Again, Congress considered—and rejected—exactly such an approach. For example, one amendment would have tied institution decisions to the *Markman* hearing, a substantial milestone in litigation.<sup>56</sup> This amendment was defeated.

Instead, Congress chose to set a bright-line limit of one year, rather than a case-by-case factual analysis of investment into the case. This represents Congress’s judgment that such a bright-line rule, while it may result in some duplication of efforts between courts, and may in some courts lead to a petition later in a case’s life, is more administrable and certain than a factual analysis like that of the *Fintiv* rule and that discussed in the Request. Having balanced the competing interests of court efficiency, fairness to patent owners, and fairness to petitioners, Congress chose to give petitioners a year from service of the complaint. The Office cannot substitute its own judgment for that of Congress.

Further, the use of this factor is economically inefficient. Courts, knowing that the agency will proceed regardless of what the court does, are incentivized to stay cases in favor of the more efficient IPR process. By taking into account court investment, this factor actually discourages stays and increases costs to petitioners and patent owners alike, reducing the efficiency of the overall patent system.

Accordingly, the Office lacks any power to set a rule on the basis of the third *Fintiv* factor, and any such rule would be disfavored on grounds of inefficiency.

### 4. The Fourth *Fintiv* Factor: overlap of issues

The fourth *Fintiv* factor addresses the overlap in issues between the petition and the proceeding in the other tribunal. Where there is overlap, this factor is treated as in favor of denial.

Congress considered this issue as well, and reached a different conclusion. Congress barred petitioners from asserting invalidity in district court actions when the Office has reached a final written decision on the validity of a patent on any ground raised or that could reasonably have been raised.<sup>57</sup> However, they placed no bar on petitioners maintaining those arguments until the final written decision is reached. Again, the Office has impermissibly substituted its judgment for that of Congress.

This factor places petitioners in a no-win situation. Because of the unpredictable nature of the discretionary test, petitioners cannot afford to drop issues from court proceedings. Once dropped, those arguments cannot be restored in the event the PTAB denies on other bases. But if they retain those arguments in their district court case, then the PTAB is likely to deny their petition. While petitioners can stipulate that they will drop any overlapping issues, and the PTAB appears to credit such stipulations, they rarely credit them sufficiently to overcome other issues like a pending trial date. Given this, petitioners will typically choose to maintain their arguments in both forums.

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<sup>56</sup> See n. 49, *supra*.

<sup>57</sup> 35 U.S.C. § 315(e)(2).

This rule thus also fails to benefit patent owners. Instead of being able to remove validity issues to a more efficient, more expert process in the form of IPR, they are forced to litigate validity in the more expensive district court. An early determination of the merits of validity via IPR might lead to a settlement and the avoidance of expensive and relatively uncertain district court litigation. By penalizing overlapping issues, this rule actually decreases system efficiency as a whole by redirecting validity inquiries into more expensive forums.

5. The Fifth *Fintiv* Factor: whether petitioner and defendant are the same party

The fifth *Fintiv* factor penalizes defendants in litigation who choose to file an IPR petition. This factor is also completely contrary to Congress's expressed intent. Throughout the development of the AIA, Congress envisioned the post grant proceedings as "an inexpensive substitute for district court litigation,"<sup>58</sup> a "a cost-effective alternative,"<sup>59</sup> and "an effective and less expensive alternative to litigation."<sup>60</sup> They also clearly envisioned that petitioners would frequently also be defendants in litigation by tying the petition bar date to the date of service of a complaint and also eliminating that bar in the case of joinder petitions.<sup>61</sup>

Congress explicitly considered and approved of defendants filing petitions for *inter partes* review. Here, again, the Office has impermissibly rejected Congress's judgment in favor of its own ill-considered test.

Fundamentally, this factor punishes defendants for daring to avail themselves of the benefits of *inter partes* review. Despite the clear intent of Congress to permit exactly this, the Office sets itself up as superior to statute and applies this factor in a fashion that denies meritorious petitions.

6. The Sixth *Fintiv* Factor: other circumstances

The sixth *Fintiv* factor is a nebulous factor permitting consideration of any other circumstances of relevance. This includes the merits of the challenge. However, as noted above, when the merits are weak, there is no need for discretionary denial. But when the merits are strong, the Office balances that against a variety of other factors to determine whether to allow a likely invalid patent to persist. However, the merits are treated as only one factor, of no more importance than the myriad of procedural factors described above. This leads to the bizarre outcome in which the PTAB stating that the patent is reasonably likely to be invalid, it will not institute an IPR proceeding.<sup>62</sup>

In so doing, the Office has effectively devalued the merits of IPR to no more than a minor factor in whether to institute. Instead of instituting when a petitioner has shown that at least one claim is reasonably likely to be proven invalid, as Congress intended, the *Fintiv* test has

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<sup>58</sup> 157 Cong. Rec. S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

<sup>59</sup> 157 Cong. Rec. S951 (daily ed. Feb. 28, 2011) (statement of Sen. Hatch).

<sup>60</sup> *Markup of H.R. 1249, the "America Invents Act" before the H. Comm. on the Judiciary*, 112<sup>th</sup> Congress (2011), (remarks of Rep. Zoe Lofgren, Member H. Comm. on Judiciary), [https://www.uspto.gov/sites/default/files/aia\\_implementation/20110414-house\\_judiciary\\_mark-up\\_transcript.pdf](https://www.uspto.gov/sites/default/files/aia_implementation/20110414-house_judiciary_mark-up_transcript.pdf).

<sup>61</sup> 35 U.S.C. §§ 315(b)-(c).

<sup>62</sup> *See, e.g., Philip Morris Products v. RAI Strategic Holdings*, IPR2020-00921, Paper No. 9 (Nov. 16, 2020) (denying institution even though "[t]he merits of Petitioner's three grounds are particularly strong")

converted the inquiry into an obstacle course for petitioners to run, where having a strong case on the merits is only one small obstacle among many.

The obstacle course does not even present consistent obstacles, but slides out from under a petitioner's feet without any warning.

7. The Office has utterly failed to coherently apply the *Fintiv* test

Existing precedential opinions that address proceedings in other tribunals include the *Fintiv* test. These tests have been applied in a nonsensical and unpredictable fashion.

In one recent, and egregious, example, the Office addressed three petitions filed against three patents, all of which were asserted in the same case. The petitions were filed within a month of service of a complaint, well within the statutory one-year bar. And the Office explicitly acknowledged that the petitions presented a strong case for invalidity. In two of the petitions, the petition was discretionarily denied based on the trial date. In the third petition, the petition was instituted without discussion of discretionary denial, even though it featured the exact same trial date as the other two.<sup>63</sup>

The PTAB also applies the factors inconsistently between panels. As just one recent example, in two recent proceedings, a reasonable likelihood of invalidity on the merits was found in both cases. However, one panel treated this as neutral regarding institution, while the other treated it as favoring institution.<sup>64</sup> This inconsistent and arbitrary application of the factors is a further signal that the *Fintiv* rule is unlikely to be applied in a coherent and predictable fashion.

These types of arbitrary and capricious application of the *Fintiv* test are typical, not unusual. Faced with a complete inability to predict what any given panel of PTAB judges will do, petitioners cannot have any certainty that they can predict whether their petition will be accepted or denied for reasons having nothing to do with the merits of their arguments.

C. *The Fintiv Test Exacerbates Forum Shopping Gamesmanship and Primarily Benefits NPEs*

Beyond the complete failure to comply with Congressional intent, the *Fintiv* test also encourages forum shopping and litigation gamesmanship, while primarily benefiting non-practicing entities (NPEs).

Because so much of the *Fintiv* test, in practice, rests on co-pending trial dates, there is a tremendous advantage in filing in a forum that provides an early initial trial date, even if that trial date is not actually accomplished in practice.<sup>65</sup> In one of those forums, the Western District of Texas, a single judge is now handling more than 20% of all patent litigation in the United States,<sup>66</sup> seriously calling into question his ability to meet projected trial dates. Nonetheless, because the *Fintiv* analysis in practice strongly disfavors IPRs where a proposed trial date

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<sup>63</sup> See *Philip Morris Products v. RAI Strategic Holdings*, IPR2020-00921, Paper No. 9 (Nov. 16, 2020); *Philip Morris Products v. RAI Strategic Holdings*, IPR2020-00919, Paper No. 9 (Nov. 16, 2020) (institution denied); cf. *Philip Morris Products v. RAI Strategic Holdings*, IPR2020-00920, Paper No. 6 (Nov. 16, 2020) (institution granted).

<sup>64</sup> Compare *Google et al. v. AGIS*, IPR2020-00872 Paper No. 16 at 15-16 (Nov. 25, 2020) with *Philip Morris Products*, IPR2020-00921, Paper No. 9 at 27 (Nov. 16, 2020).

<sup>65</sup> See Section VI.B.2, *supra*.

<sup>66</sup> Gugliuzza & Anderson, "How the West Became the East: The Patent Litigation Explosion in the Western District of Texas," *Patently-O* (Sept. 15, 2020), <https://patentlyo.com/patent/2020/09/litigation-explosion-district.html>.

precedes a predicted final written decision date, by filing in the Western District an entity can effectively immunize itself against IPR.

And in practice, that is exactly what non-practicing entities have done. More than 85% of lawsuits filed in the Western District of Texas were filed by NPEs.<sup>67</sup> And the majority of *Fintiv* denials stem from just such litigation.

Congress created the *inter partes* review process in no small part due to concerns regarding NPE abuses of the patent system.<sup>68</sup> The *Fintiv* rule recreates the conditions that permitted NPEs to abuse the system by allowing them to entirely avoid IPR simply via choice of venue.

#### D. Conclusion

The Office has utterly failed to create a test that provides petitioners with any certainty regarding proceedings in other tribunals. And any test that permits discretionary denials on this basis is contrary to Congress's considered judgment. The only solution available to the Office is to eliminate the *Fintiv* and related precedential opinions and to create a bright-line rule that, excluding the specific instances preserved in 35 U.S.C. §§ 315 and 325, proceedings in other tribunals are completely irrelevant to the institution decision.

### VII. Conclusion

The Office has requested comment on a number of possible approaches to discretionary denial. However, it appears to have failed to consider that it may lack the power to take any action with discretionary denials. It has moved forward in this process despite the issue currently being under active litigation. And it ignores the significant negative impacts on the economy, innovation, and the patent system that are likely to occur if it continues or enhances its current practices with regard to discretionary denial.

To the extent any rule is issued, the Office must issue a bright-line rule that factors related to other petitions and other proceedings that are not present in the statutory text will not be considered as part of the institution decision process. The Office could also achieve this goal by not engaging in rulemaking and instead eliminating the precedential status of the discretionary denial decisions—*General Plastic*, *Valve I* and *II*, *NHK Spring*, and *Fintiv* as well as their progeny. CCIA would support either approach.

To the extent that the Office engages in rulemaking that would codify or enhance discretionary denials, CCIA would not favor such rulemaking. Also, given the existing litigation on this precise topic, CCIA believes that the Office risks drawing new litigation in addition to expansion of the existing litigation.

Respectfully submitted,

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<sup>67</sup> Anderson & Gugliuzza, "Federal Judge Seeks Patent Cases", Temple University Beasley School of Law Legal Studies Research Paper No. 2020-25 (working paper version dated Sept. 18, 2020), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3668514&download=yes](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3668514&download=yes).

<sup>68</sup> See Matal,

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