

June 18, 2024

The Honorable Katherine Vidal
Under Secretary of Commerce for Intellectual Property
and Director of the U.S. Patent and Trademark Office
600 Dulany Street
Alexandria, Virginia 22314

RE: Comments of ACT | The App Association on the U.S. Patent and Trademark Office’s Patent Trial and Appeal Board Rules of Practice for Briefing Discretionary Denial Issues, and Rules for 325(d) Considerations, Instituting Parallel and Serial Petitions, and Termination Due to Settlement Agreement¹

I. Statement of Interest

The App Association is a global policy trade association for the small business technology developer community. Our members are entrepreneurs, innovators, and independent developers within the global app ecosystem that engage with verticals across every industry. We work with and for our members to promote a policy environment that rewards and inspires innovation while providing resources that help them raise capital, create jobs, and continue to build incredible technology. App Association members both hold and license patented technologies, rely on a fair and consistent patent ecosystem, and are directly affected by the approach to patent rights and litigation by the United States Patent and Trade Office (USPTO). The value of the ecosystem the App Association represents—which we call the app economy—is approximately \$1.8 trillion and is responsible for 6.1 million American jobs, while serving as a key driver of the \$8 trillion internet of things (IoT) revolution.²

The app ecosystem’s success, reliant on continued innovation and investment in connected devices and interfaces, hinges on the sufficiency of key legal frameworks that underlie them. Patents allow small business innovators to protect their investments in innovation, attract venture capital, and establish and maintain a competitive position in the marketplace. As more devices throughout the consumer and enterprise spheres become connected to the internet—often referred to as the internet of things—App Association members’ innovations will remain the interface for communicating with these devices. Small business viability is directly correlated to fairness and predictability in the patent system.

We appreciate the opportunity to provide further comments that reflect our detailed position submitted in response to the USPTO’s October 2020 request for comment (RFC)³ and April 2023 Advanced Notice of Proposed Rulemaking (ANPRM)⁴, which the agency has considered in holding this consultation.

¹ 89 FR 28693.

² ACT | The App Association, State of the App Economy (2022), <https://actonline.org/wp-content/uploads/APP-Economy-Report-FINAL.pdf>.

³ See <https://www.federalregister.gov/documents/2020/10/20/2020-22946/request-for-comments-on-discretion-to-institute-trials-before-the-patent-trial-and-appeal-board>; see <https://www.regulations.gov/comment/PTO-C-2020-0055-0812>.

⁴ See <https://www.regulations.gov/document/PTO-P-2020-0022-0001>; see <https://www.regulations.gov/comment/PTO-P-2020-0022-0787>.

II. The PTAB Is an Important Mechanism for App Association Members

The Patent Trial and Appeal Board (PTAB) process is important to U.S. innovation because it ensures that weak and invalid patents are purged from the U.S. patent system. The United States Patent Office (USPTO or the Office) issues well over 300,000 patents a year, with 388,900 patents issued in 2020.⁵ Almost 90 percent of the patents that are challenged at the PTAB are found to be invalid, while those that escape PTAB review are unreasonably and frivolously enforced against good faith innovators, including small and medium-sized businesses (SMBs) that cannot afford the costs of litigation.⁶ In previous comments, we identified for the USPTO how low-quality patents of questionable validity impede our community's ability to innovate and compete.⁷ In response to a claim of infringement, even when small developers have well founded and appropriate cases for invalidation, they often cannot afford to go through the legal process to defend themselves in a federal district court. Judges of federal district courts often do not have the specific expertise of a PTAB judge, forcing litigating parties to invest greater resources in order to plead their case. The proposed rules, if implemented, would dramatically reduce the ability for American businesses to seek invalidity proceedings at the PTAB when they are unfairly sued in an Article III court by a potentially invalid patent holder. For SMBs this event results in a large financial setback or an end-of-life scenario. Further, investors are wary of providing funding to startup SMBs with an increased possibility of future litigation.

The current landscape of the U.S. patent system creates unique difficulties for SMBs accused of patent infringement. For example, today's patent system has enabled non-practicing entities (NPEs) that focus solely on monetizing patents through litigation: in 2019, NPE assertions accounted for 55 percent of all patent litigation,⁸ and patent litigation enforcement initiated by NPEs has increased by 9.5 percent from 2020 to 2021.⁹ While the high costs of federal district court litigation are often prohibitive for small entities, low damages provide NPEs with the ability to assert weak claims against multiple small entities at a faster rate, counting on accused infringers to settle, effectively incenting an increase in the volume of abusive NPE tactics. In addition, the App Association notes our growing concern with third-party litigation funding (TPLF) used as a mechanism to abuse the patent process in the United States and internationally against U.S. companies. While this issue is faced globally, we focus on its impact to the U.S. market. NPEs initiate a majority of the abusive and frivolous patent infringement suits in the United States,¹⁰ and it has recently been revealed that many NPE suits are financially backed by unnamed investors hidden through shell corporations or wealth funds that may have a real interest in the outcome of litigation.¹¹ TPLF has affected critical U.S. technology industries, including telecommunication, automotives, and semiconductors. Funders may be individual entities seeking economic gain or competing countries strategically undermining essential U.S. industries and U.S. national security. The serious harms to the U.S. market evidenced by TPLF will undermine equity for U.S. businesses, workers, and consumers. The availability of anonymous investment sources enables bad actors to flood adjudicating bodies

⁵ See U.S. Patent Statistics Chart Calendar Years 1963 – 2020 available at https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.

⁶ See <https://usinventor.org/assessing-ptab-invalidity-rates/>

⁷ See <https://www.regulations.gov/comment/PTO-P-2022-0026-0032>.

⁸ *The Great Recession Resulted in an Explosion of NPE Assertions*, UnifiedPatents, (April 23, 2020), <https://www.unifiedpatents.com/insights/2020/great-recession-explosion-of-npe-assertions>.

⁹ *NPE Patent Litigation Up by 10% in 2021*, Rational Patent, (January 12, 2022), <https://www.rpxcorp.com/data-byte/npe-patent-litigation-up-by-10-in-2021/>.

¹⁰ Love, Brian J. and Lefouili, Yassine and Helmers, Christian, *Do Standard-Essential Patent Owners Behave Opportunistically? Evidence from U.S. District Court Dockets* (November 8, 2020), 17, https://www.tse-fr.eu/sites/default/files/TSE/documents/doc/wp/2020/wp_tse_1160.pdf.

¹¹ See *In re Nimitz Technologies LLC*, No. 23-103 (Fed. Cir. 2022).

with potentially illegitimate claims. The USPTO must be cognizant of TPLF and its interference with an equitable PTAB process.

The USPTO has identified that foreign abuse is prevalent in the U.S. patent system and a large concern for stakeholders.¹² Foreign entities that are issued U.S. patents use venues like the International Trade Commission (ITC), and the federal courts to assert infringement claims against innovators, including SMB. The ITC is particularly attractive to abusers because parties are not required to follow certain procedures and the agency can only award exclusion orders.¹³ Foreign companies have enforced invalid and overbroad patents and, in some cases, have taken the form of NPEs backed by TPLF. The USPTO's proposed changes to PTAB proceedings stand to make the United States a favorable jurisdiction for such foreign abuse.

The economic significance and high risk of frivolous litigation without mechanisms to protect a business's innovation will result in reduced commercialization and publication of inventions. Limiting the ability to petition at the PTAB would allow for weak and invalid patents to fill the U.S. patent system, discourage American innovation, and shift inflationary costs on American consumers. Congress has addressed the concern of creating a more efficient and less costly means of addressing patent validity by establishing the PTAB. While we believe that continued PTAB reform is necessary to make further tangible improvements, the USPTO is in no position to modify provisions of the America Invents Act (AIA). Rather, the Office should provide guidance where the provisions lack sufficient clarity. The USPTO is also able to and should make recommendations to Congress to improve upon the PTAB system based on their experience and stakeholder concerns.

III. USPTO Proposed Changes to the Patent Trial and Appeal Board Rules of Practice Must Align with its Congressional Mandate

The USPTO published for comment proposed changes to the rules of practice for PTAB post-grant proceedings in April 2023 that went beyond the Office's authority. When enacting the AIA in 2011, Congress sought "to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs."¹⁴ Congress also recognized "a growing sense that questionable patents [were] too easily obtained and are too difficult to challenge."¹⁵ The USPTO, through its director, is tasked with prescribing and governing regulations for certain aspects of the AIA that support Congress's intent to limit the inefficiencies and clear abuses of the U.S. patent system.¹⁶

Small businesses, the main drivers of the U.S. economy, were at the core of Congress' decision to enact the AIA, especially the *inter partes* review (IPR) process. IPR provides a more affordable and efficient recourse for businesses of all sizes to exercise their rights – whether defending the validity of their granted patent or challenging a granted patent. Since its creation, IPR, administered by the PTAB, has largely worked as intended and has reduced unnecessary

¹² **Statement of Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office Kathi Vidal before the United States House of Representatives, (April 27, 2023), <https://www.uspto.gov/about-us/news-updates/statement-under-secretary-commerce-intellectual-property-and-director-united>.**

¹³ See Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, p. 113, (Cornell Law Rev. 2012, Stanford Law Working Paper No. 2022168), available

at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2022168. ("As a result, the ITC neither hears counterclaims nor recognizes certain defenses to infringement, and it can't award damages").

¹⁴ H. R. Rep. No. 112-98, pt. 1, p. 40 (2011).

¹⁵ *Id.* at p. 39 (2011).

¹⁶ See 35 U.S.C. 316(a) and 326(a).

litigation, saving \$2.3 billion over its first five years.¹⁷ The IPR process allows App Association members to have a fair and dispassionate tribunal to first assess whether the patent used against them was properly reviewed and issued. Our members have limited resources for litigation, and the IPR process successfully provides a much-needed alternative for these small businesses that do not have the ability to withstand years of expensive federal court patent litigation that can easily cost millions of dollars. Patent litigants often rely on the fact that many of these small businesses do not have the capital to fight a case and use that to their advantage to force them into licensing arrangements accompanied with terms greatly benefiting the litigant. IPRs protect our members from some of the financial and temporal burdens associated with proceedings in front of Article III tribunals. This system is a work in progress: In 2022, USPTO Director Vidal issued clarifications for the IPR process, limiting the PTAB's *NHK-Fintiv* rule that allowed patent owners to avoid the IPR process by engaging in parallel district court litigation.¹⁸ Director Vidal's interim guidance on discretionary denials fell within the USPTO's authority to clarify the law. By contrast, the currently proposed modifications to PTAB proceedings do not because they seek to change law.

The proposals provided by the USPTO in the Advanced Notice of Proposed Rulemaking (ANPRM) are an overstep of statutory mandate and counter the goals of both Congress and the agency to protect U.S. businesses from foreign abuse and economic business models that diminish innovation.

A. *The USPTO Must Ensure That Factors Incorporated In PTAB Institution Decisions Do Not Hinder Meritorious Petitions From Being Heard*

We re-iterate our detailed perspective provided during the USPTO's April 2023 ANPRM consultation period as it pertains to proposed factors that the Board may use to determine institution of a petition for post-grant proceedings.

1. Compelling Merits Standard

The USPTO proposal to replace the standard of review in PTAB proceedings in certain circumstances with a "compelling merits" standard goes beyond the Office's statutory authority. The AIA clearly provides for a "reasonable likelihood" standard for IPR, a "more likely than not" standard for post grant review (PGR), and a "preponderance of the evidence" standard for final determinations of patentability.¹⁹ Not only is this standard higher than the standards provided in the statute, which the Office recognizes, but it will make it more difficult for innovators, including SMBs, to seek PTAB review. As stated previously, even when small innovators, like App Association members, have a good case to invalidate a patent, they often cannot afford the legal costs necessary to take action in an Article III court. Small innovators, therefore, rely on the PTAB as a protective mechanism for their inventions.

Applying a "compelling merits" standard would go against the intent of the AIA to support small businesses through efficient and cost-effective post-grant proceedings. Under a "compelling merits" test, the petitioner has a heightened burden to prove that they would prevail with respect to at least one challenged claim. Under this test, the potential for further pre-institution discovery

¹⁷ See, e.g., Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, PATENT PROGRESS (Sept. 14, 2017).

¹⁸ See https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621_.pdf.

¹⁹ See 35 U.S.C. 314(a), 35 U.S.C. 324(a).

would be costly for innovators that operate with minimal resources. Congress contemplated the heightened costs of litigation as an issue the AIA would relieve, and this test would override this solution. The PTAB is composed of expert administrative law judges (ALJs) that are meant to take the burden off of the petitioner that would have otherwise been necessary at a federal district court of general jurisdiction. The USPTO must remember that certain patent owners have and continue to use the PTAB for gaming tactics, as we will explain in our comments below on discretionary denials. A “compelling merits” test will, thus, make it harder for SMBs to challenge the validity of a patent when they are being, often unreasonably and frivolously, accused of infringement by an entity that potentially holds and invalid or overbroad patent.

2. Substantial Relationship Test

The USPTO proposal to replace the “real party in interest” and “privity” analysis with a “substantial relationship” test goes beyond the scope of the AIA and introduces an overly broad and undefined scope of analysis. The AIA clearly states two scenarios where petitions should be denied post-grant review based on the relationship of the parties: (1) when the petitioner or its real party in interest previously filed a civil action challenging the validity of a claim of a patent²⁰ and (2) if the petition was filed more than one year after the date on which the petitioner, real party in interest, or privity of the petitioner was served with a complaint alleging infringement of the patent.²¹ The AIA does not consider a “substantial relationship” test in this analysis. The USPTO cannot, now, write this test into law for purposes of determining when to invoke discretionary denials.

The ANPRM states that the substantial relationship test would be “broadly construed and encompass, but not be limited to, real parties in interest or privies of the party to the AIA proceeding and would also include others that are significantly related to that party, including at least those entities as discussed in *Valve I* and *Valve II*.”²² This definition is overly broad, unclear, and restricts separate petitions from parties that may be related but have no interest in each other’s proceedings. For example, patent owners can sue multiple entities within a supply chain for infringement, and each entity should have a right to seek IPR proceedings to challenge its validity. Under *Valve I*, the Board held that being “co-defendants” for accused infringement of the same product (that incorporated licensed technology) made the customer and supplier have a “substantial relationship.”²³ Specifically in the context of standard-essential patents (SEPs), certain SEP holders have been known to maliciously sue licensees for infringement in order to coerce them into licensing agreements that encompass unfair and unreasonable terms, including excessive licensing fees. Often, these SEP holders will refuse to license to entities higher in the supply chain, such as original equipment manufacturers (OEMs). Instead, they might license to end-product manufacturers, where they can extract the most value for their SEP. The ability for a SEP holder to refuse to license to some entities and not others causes uncertainty on indemnification in the supply chain. Therefore, each entity should have the ability to challenge the validity of a patent as intended by the AIA.

The current analysis of “real party in interest” and “privity” encompass relationships where a party may have ownership interest or be a third-party litigation funder. Under the current common law analysis, the relationships that are considered include corporate structure,

²⁰ (35 U.S.C. §§ 315(a), 325(a)),

²¹ (35 U.S.C. §§ 315(b), 325(b)).

²² See <https://public-inspection.federalregister.gov/2023-08239.pdf>.

²³ *Valve Corp. v. Electronic Scripting Products, Inc.*, IPR2019-00062, -00063, -00084, 2019 WL 1490575 (PTAB Apr. 2, 2019) (precedential) (*Valve I*).

contract, or financial interest. Further, the USPTO designated part of the *General Plastic Co. v. Canon Kabushiki Kaisham* decision precedential to further examine the relationship between parties.²⁴ We agree that USPTO should have disclosure requirements for the parties to disclose parties interested in or having a stake in the outcome of an AIA proceeding or any parallel proceedings on the challenged claims to the extent that they do not excessively burden petitioners that operate with minimal resources. Unless and until Congress decides to modify the language in the AIA regarding the relationship between parties, the USPTO should maintain the current framework with updated guidance from time to time.

3. Substantial Overlap

The Office proposed to indicate that claim sets “substantially overlap” when at least one challenged claim is “substantially the same.” This is a sound test as long as it provides exceptions where the scope of one claim might be broader than another. The Office currently proposed that “substantially the same” means when differences between the claims are not material to patentability. This rule should also include that where the claims are similar but the scope of one claim is materially broader as to patentability, the claim sets would not “substantially overlap.”

B. Discretionary Denials

The USPTO’s authority to revise previously granted patents is limited to the extent that their discretion would advance patent quality and “restore confidence in the presumption of validity” for issued patents.²⁵ Therefore, discretionary denials of PTAB petitions should be largely based on the merits of a petition and not solely based on a procedural matter that would completely bar a challenge to a potentially weak or invalid patent. The USPTO further reminds us in the ANPRM that PTAB proceedings are not intended to work like district court decisions.²⁶ PTAB proceedings rather allow the USPTO to take a second look at patents that the Office issued through expert ALJs. Further, the AIA intends for any third party to be able to initiate PTAB review regardless of constitutional standing requirements.²⁷ The primary purpose of PTAB review is to protect the public from abuses to the patent system through patents that were mistakenly issued. That a petitioner may be alleviated from a potential infringement claim is a benefit of the system.

1. Petitions Filed by For-Profit Entities

The USPTO proposal to allow discretionary denial of IPR and PGR petitions from for-profit entities under certain circumstances creates a *de facto* standing requirement contrary to the intent of the AIA. The AIA allows any third party to institute IPR or PGR regardless of a direct conflict with the challenged patent.²⁸ Congress had considered a standing requirement when drafting the AIA and decided against it.²⁹ Therefore, it is clear the AIA is not intended to have a

²⁴ IPR2016-01357, Paper 19 (PTAB Sept. 6, 2017) (precedential) (General Plastic).

²⁵ See *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. 261, 272 (2016).

²⁶ See <https://public-inspection.federalregister.gov/2023-08239.pdf> (“In considering possible changes, it important to keep in mind that, as the Supreme Court explained in *Cuozzo*, “the purpose of the proceeding is not quite the same as the purpose of district court litigation.”).

²⁷ *Supra* note 22 (*Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. at 268, 278)

²⁸ See 35 U.S.C. § 311(a) (“Subject to the provisions of this chapter, a person who is not the owner of a patent may file with the Office a petition to institute an inter partes review of the patent.”); § 321(a) (similar wording for PGRs).

²⁹ See S.3600 (2007-2008), § 321(a) (“Subject to the provisions of this chapter, **a person who has a substantial economic interest adverse to a patent** may file with the Office a petition to institute a post-grant review proceeding for that patent.”).

standing requirement. Further, since Congress intend for the PTAB to be operate differently than an Article III court, mechanisms such as a “covenant not to sue” cannot apply to the institution of IPR or PGR. PTAB review is done in the interest of strengthening the U.S. patent system, and, therefore, must be able to bypass limitations of an Article III court.

The broad test for allowing discretionary denial for for-profit entities effectively omits important petitioners from instituting IPR or PGR. Under this proposal, the USPTO would allow the PTAB to discretionarily deny IPR or PGR petitions when an entity: (1) is a for-profit entity; (2) has not been sued on the challenged patent or has not been threatened with infringement of the challenged patent in a manner sufficient to give rise to declaratory judgment standing; (3) is not otherwise an entity that is practicing, or could be alleged to practice, in the field of the challenged patent with a product or service on the market or with a product or service in which the party has invested to bring to market; and (4) does not have a substantial relationship with an entity that falls outside the scope of elements (1)-(3).³⁰ Whether a petitioner is a for-profit or not-for-profit should not be material to their interest in challenging a patent for its scope or validity. Even where an entity has not directly been sued or threatened with potential suit, they may have a reason to challenge a patent for a class of innovators or for the public good in general. Under circumstances where NPEs are filing frivolous infringement claims against multiple entities, it may be more cost-efficient for these entities to rely on an organization that represents a class of members, such as the App Association, to institute PTAB proceedings on behalf of its membership. For SMBs that face the same threat of or claim of infringement, utilizing member-based organizations as a resource is imperative to survival because of their experience and the ability to limit the exhaustion of essential resources.

The USPTO’s proposal also allows for discretionary denial where a for-profit entity may not participate in the market that the patent holder impacts. As technologies become for versatile, this factor becomes more arbitrary. Patent holders, including SEP holders, apply their technologies across various markets and can directly target competitors across a spectrum of technology-based injuries. Not only is this factor nearly moot, but it would impose a burden on petitioners to prove that they hold a product or service that is impacted by the challenged patent holder. Not only would this factor omit member-based organizations, but also SMBs that cannot endure additional barriers on top of their minimal resources to challenge a patent at the PTAB while potentially allocating resources to a parallel proceeding in federal district court. As to the final factor of the proposed test and stated in comments above, the “substantial relationship” test goes beyond AIA intent and lacks the definition necessary to be applied to rules of practice for PTAB review.

The USPTO proposal to allow discretionary denial for for-profit entities does not approach the goal of restricting abusive filings to enter PTAB proceedings. Instead, this proposal limits the ability for good faith innovators to use the PTAB system to fight bad actors that are using Article III courts and the ITC to assert weak or invalid patents. The Office must approach abusive filings on a case-by-case basis and should refrain from overbroad tests that would harm the ability for intended innovators to seek PTAB review.

2. Micro and Small Entities: Protecting Under-Resourced Inventors and Petitioners

The Office’s proposal to limit PTAB review of patents owned by under-resourced entities is harmful to the U.S. patent system and is contrary to the purpose of the AIA. The PTAB system was implemented so that the Office could review previously and potentially wrongfully issued

³⁰ See <https://public-inspection.federalregister.gov/2023-08239.pdf>.

patents. While we support the notion that small entities must be provided with fair mechanisms to innovate and compete in the market, limiting review of their patents would do a disservice to U.S. innovation. Instead, the Office, through the Director, should ensure that it provides small entities with sufficient assistance and fee concessions in order to ensure a fair PTAB proceeding.

3. Prior Adjudications Upholding Validity

The Office’s proposal to allow final adjudications of validity by a district court to bar proceedings at the PTAB would unlawfully modify statutory estoppel. Congress expressly repealed pre-AIA rules that bar IPR of a patent by a final district court decision.³¹ Congress designed the AIA to allow the PTAB to institute final review of patents issued under their agency as is most efficient for the U.S. patent system. The USPTO is comprised of subject matter experts that are in a better position than district court judges of general jurisdiction to make patent-specific determinations. Further, 35 U.S.C. § 315(e) states that once the PTAB reaches a final written decision under section 318(a), a petitioner can no longer raise invalidity claims in other fora, including the ITC, on any grounds raised or that reasonably could have been raised in a previous IPR instituted by the petitioner. If the Office’s proposed rule is implemented, it would override Congress’ clear intent to give deference to PTAB determinations.

4. Serial Petitions

The USPTO modification to approaching serial petitions should ensure that ambiguous thresholds to determine institution should be denied based on serial petitions does not restrict the ability for good faith third parties to seek PTAB review. We recommend that the USPTO maintain the *General Plastics* factors to evaluate the discretionary denial of serial petitions on a case-by-case basis.³² The USPTO proposed to replace *General Plastics* factors 1-7 with a new proposed test: unless the petitioner meets two exceptions, the PTAB will discretionarily deny any serial IPR or PGR petition—with at least one challenged claim that is the same as a challenged claim in a previously filed petition—filed by the same petitioner, a real party in interest or privy to that petitioner, a party with a significant relationship to that petitioner, or a party who previously joined an instituted IPR or PGR filed by that petitioner. The two exceptions to this rule are proposed to be when: (1) the earlier petition was resolved for reasons not materially related to the merits of the petition; or (2) exceptional circumstances are shown. The proposed test, with an omission of the “substantial relationship” factor, should be incorporated in the current *General Plastics* framework, rather than replacing it. Specifically, if this test is implemented, the Office should not consider a party with a significant relationship to that petitioner. The term “significant relationship” is too broad and can disadvantage small entities who seek PTAB review but lack the experience and resources to prove their good faith intent the challenge a patent against a potentially more sophisticated patent holder. Entities that attempt to abuse the U.S. patent system will attempt to exploit rules of practice at the PTAB where terms and provisions lack clarity and definition. Therefore, the *General Plastics* factors remains the best test to evaluate bad faith serial petitioning but should incorporate the proposed exceptions. The second exception of the test should have sufficient examples to define what constitutes as an exceptional circumstance. If the previous and subsequent petitioners are different, the PTAB should examine if the petitioners would be real parties-in-interest or in privy

³¹ See [https://www.bitlaw.com/source/35usc/317_\(pre%E2%80%91AIA\).html](https://www.bitlaw.com/source/35usc/317_(pre%E2%80%91AIA).html).

³² *General Plastic Co. v. Canon Kabushiki Kaisha*, IPR2016-01357, Paper 19 (PTAB Sept. 6, 2017) (precedential) (General Plastic).

with each other, which might include ownership interest or control of some form. However, an analysis of serial petitions should avoid broad and ill-defined tests.

5. 35 U.S.C. 325(d) Framework

The Office's proposal to limit the application of 35 U.S.C. 325(d) to situations in which the Office previously addressed the prior art or arguments will ensure that discretion to deny institution in this instance is not too broad. This proposal aligns with the goals of the AIA.

6. Parallel Petitions

The USPTO proposal to deny institution of parallel IPR or PGR petitions unless the petitioner has made a showing of good cause as to why parallel petitions are necessary is broad and may restrict meritorious petitions from receiving PTAB review. The Office should determine if parallel petitions should be denied on a case-by-case basis and should allow parallel petitions that are both meritorious and necessary to prove invalidity to receive PTAB review. It is possible that parallel petitions might signify abuse of process, but if they are compelling on the merits, they should not be dismissed. The U.S. patent system would be damaged if the Office did not separate sanctions for abuse of process and the evaluation of meritorious petitions.

The USPTO is also considering replacing the ability to file multiple petitions with additional fees for a higher word-count limit. While small innovators are less likely to file multiple petitions, it is conceivable that they might file one or two depending on the case. If the Office is considering additional fees for a higher word count, it should extend the word count allowed for the initial petition equivalent to two average petitions before it requires additional fees. Small and medium-sized businesses are largely disadvantaged in legal processes because of their limited resources and expertise. While the PTAB alleviates this stress, additional fees counteract the goal of the AIA. Therefore, the USPTO must provide sufficient concessions and considerations for small businesses if they implement additional fees into the IPR and PGR process.

7. Parallel Proceedings

We are concerned with the USPTO's proposal to make discretionary denials available in scenarios that would invoke the *NHK-Fintiv* rule and override statutory timelines for IPR proceedings. These proposed rules are inconsistent with the intent of the AIA and the Office would greatly exceed their authority in implementing them.

The *NHK-Fintiv* rule evades statutory timelines, conflicts with the purpose of IPR, and allows for gamesmanship between the PTAB and federal district courts. The App Association has publicly opposed the decision to declare *NHK-Fintiv* precedential and has identified that it places small business innovators in an inequitable position.³³ Specifically, we argued as amicus curiae in *Apple Inc. v. Optis Cellular Technology, LLC* that the *NHK-Fintiv* rule was arbitrary and capricious and was established without undergoing a notice-and-comment procedure required under the Administrative Procedures Act (APA).³⁴ As stated in our brief, §706(2)(A) of the APA states that a reviewing court finds an agency action to be arbitrary and capricious if it is an abuse of discretion or contrary to law.³⁵ The *NHK-Fintiv* rule allows the PTAB to make institution decisions based on speculation about the course and timing of parallel infringement litigation

³³ See Brief for ACT | The App Association in Support of Petitioner, *Apple Inc. v. Optis Cellular Technology, LLC*, No. 21-118.

³⁴ Supra note 28 at 15-7.

³⁵ Supra note 28 at 15.

rather than substantial evidence. One factor that the *NHK-Fintiv* analysis heavily relies on is how close the parallel infringement trial dates are to the IPR proceeding even though they are often rescheduled after a PTAB discretionary denial has been made.³⁶ That the PTAB does not exercise discretion based on substantial evidence when applying the *NHK-Fintiv* rule makes it arbitrary and capricious under the APA. We also noted that *NHK-Fintiv* was developed without undergoing a notice-and-comment period required through §553 of the APA.³⁷ We appreciate the opportunity to comment on this rule now, and do not believe that it serves to support a successful PTAB process. Therefore, the *NHK-Fintiv* rule must be overturned or replaced with a rule that provides a merit-based discretionary denial analysis.

In an attempt to set a clear, predictable rule for discretionary denials in the case of parallel proceedings, the Office proposed to re-solidify the damaging *NHK-Fintiv*³⁸ rule. Specifically, the Office proposed to establish factor two of the *Apple Inc. v. Fintiv, Inc. (Fintiv)* list of non-exclusive factors as a rule.³⁹ Factor two of the *Fintiv* factors allows PTAB judges to deny institution of IPR petitions when they determine that a pending parallel district court action that involves at least one of the challenged claims will occur before the IPR final written decision. This factor of the *NHK-Fintiv* rule violates 35 U.S.C § 315(b), which gives an IPR petitioner one year to file its petition after being served with a complaint. Congress explicitly provided petitioners with a one-year deadline to allow them sufficient time to consider the scope of the case and prior art before filing an IPR petition.⁴⁰ An *NHK-Fintiv* rule allows the PTAB to use discretion to diminish this statutory deadline with one that is predicated on a speculative trial date set by a federal judge. This action exceeds the Office's authority to interpret and implement the AIA.

As an alternative to determining if a trial in the district court action is likely to occur before the projected statutory deadline for a final written decision, the Office is proposing that the PTAB will not invoke its discretion to deny an IPR petition based on a parallel district court proceeding if the IPR petition is filed within six months after the date on which the petitioner, a real party in interest, or other party in privity is served with a complaint alleging infringement of the patent, provided that they did not first file a civil action seeking declaratory judgment of noninfringement of any claim of the patent before the date on which such complaint alleging infringement was filed. Congress contemplated the filing timelines for PTAB proceedings and determined that a one-year filing period would be necessary to effectively carry out the goals of the PTAB. The Office's proposal to shorten this statutory timeline exceeds its authority. A shortened filing period would mean that many small innovators that face frivolous infringement suits in district courts will have no recourse at the PTAB. This rule would arbitrarily stop meritorious petitions from receiving PTAB review and allow the proliferation of invalid and weak patents in the U.S. patent system.

IPR provides small and medium-sized businesses, such as App Association members, with an important mechanism to protect their operations and innovations from nuisance patent holders who use weak or invalid patents to profit off and disrupt the U.S. patent system. As we have noted, the purpose of AIA proceedings is to provide a more efficient and streamlined patent system that improves patent quality and serves as a cost-efficient venue. On December 3,

³⁶ Supra note 28 at 15.

³⁷ Supra note 28 at 16.

³⁸ See *NHK Spring Co., Ltd. v. Intri-Plex Techs., Inc.*, Case IPR2018-00752, Paper 8 (Sept. 12, 2018) (designated precedential May 7, 2019); see *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 (PTAB Mar. 20, 2020) (designated precedential May 5, 2020).

³⁹ See *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019.

⁴⁰ Supra note 30.

2020, the App Association provided detailed comments to the USPTO “Request for Comments on Discretion to Institute Trials Before the Patent Trial and Appeal Board,” noting that PTAB denials of legitimate and proper IPR petitions have undermined progress made through the IPR system and enabled the exploitation of the U.S. patent system, namely by patent assertion entities (PAEs) or NPEs.⁴¹ For example, the Western District of Texas saw an increase in PAE cases when *NHK Spring Co. v. Intri-Plex Techs., Inc. (NHK)* was designated precedential.⁴² When the *NHK-Fintiv* rule was established, there were a large number of petitions for IPR proceedings that were denied based on a *NHK-Fintiv* ruling. In 2021 alone, *NHK-Fintiv* rulings were considered in 45 percent of IPR institution decisions.⁴³ Discretionary denials purely based on procedure increased from 45 cases in 2018 to 123 cases in 2021.⁴⁴ By contrast, in 2021, discretionary denials based on the merits of a claim were only exercised in 10 out of 310 cases.⁴⁵ Discretionary denials based on *NHK-Fintiv* have allowed for gamesmanship of the PTAB process and restricted actual merit-based review of an IPR petitions. Therefore, we also disagree with the Office’s proposal to develop an additional and definitive factor-based test based on current *Fintiv* factors.

We supported the USPTO in its effort to limit discretionary denials of meritorious petitions based on procedural *NHK-Fintiv* non-exclusive factors when Director Kathi Vidal enacted Interim Procedures defining three scenarios in which the PTAB could no longer exercise discretionarily denial under *NHK-Fintiv* factors in light of parallel district court litigation: 1) when a petition presents compelling evidence of unpatentability; 2) when a request for denial under *NHK-Fintiv* is based on a parallel ITC proceeding; and 3) where a petitioner stipulates not to pursue the same grounds raised or that could have reasonably been raised at the PTAB in a parallel district court proceeding. The Office’s ability to limit *NHK-Fintiv*’s impact on the U.S. patent system allowed the Office to regain its authority to provide expert review on challenged patents.⁴⁶ While not completely eradicated, after the implementation of the Interim Procedure, discretionary denials based on the *NHK-Fintiv* rule went down from 123 in 2021 to 34 in 2022.⁴⁷ In the same year, procedural denials in general decreased by over 61 percent, while the rate of institution increased over 68 percent.⁴⁸ The result of the Interim Procedure is a more balanced PTAB process that better aligns agency practices with congressional intent. We support the USPTO proposal to make discretionary denials unavailable under two circumstances in accordance with Director Kathi Vidal’s Interim Procedures: In the case of a PGR proceeding or an ITC proceeding.

We support the Office’s proposed safe harbor exceptions but believe that they should be the rule rather than the exception. The Office proposed that the institution will not be denied in light of parallel litigation when the petitioner stipulates not to pursue overlapping grounds in district court. The PTAB has properly followed *Sotera Wireless, Inc. v. Masimo Corp.*⁴⁹ and *Sand*

⁴¹ See <https://www.regulations.gov/comment/PTO-C-2020-0055-0812>. See <https://actonline.org/2022/07/20/what-uspto-limits-on-ptab-discretionary-denials-mean-for-small-businesses/>.

⁴² *Supra* note 29.

⁴³ *Discretion Dominant: 45% of all 2021 Institutions analyzed Fintiv*, Unified Patents, (March 21, 2022), <https://www.unifiedpatents.com/insights/discretion-dominant-45-of-all-2021-institutions-analyzed-fintiv>.

⁴⁴ *Supra* note 32.

⁴⁵ *Supra* note 32.

⁴⁶ See

https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621.pdf.

⁴⁷ See <https://www.unifiedpatents.com/insights/2022/10/27/q3-ptab-discretionary-denial-report-use-of-fintiv-drops-to-near-zero>

⁴⁸ *Supra* note 38.

⁴⁹ IPR2020-01019, Paper 12 (PTAB Dec. 1, 2020) (precedential as to § II.A)

*Revolution II, LLC v. Cont'l Intermodal Group-Trucking LLC*⁵⁰ when applying stipulations in the past and should follow their guidance in developing this rule. In fact, the Office implemented the *Sotera* stipulation as a limiting factor to *NHK-Fintiv* rulings through the Interim Procedures.⁵¹ We support the Office's alternative proposal for the *Sotera* stipulation requirement to replace an *NHK-Fintiv* rule as a bright line test. The *Sotera* stipulation would provide more procedural certainty and limit that ability for gamesmanship between the district courts and the PTAB. The second safe harbor exception that the Office is considering is an analysis of the merits of a petition when circumstances favor discretionary denial. We support this proposal as the Office should always ensure that discretionary denial of a petition does not restrict PTAB review of meritorious petitions.

8. Stipulations to No Multiple Challenges, Separate Briefings for Discretionary Denials, and Settlements Agreements

The USPTO's proposed procedural requirements for petitioners to stipulate to no multiple challenges, to have separate briefings for discretionary denials, and to require petitioners to file true copies of all settlement agreements must consider any undue burdens that might be imposed on small innovators. When imposing any additional steps in the PTAB process, the Office should consider how those steps might have cost and time impacts on small petitioners. To the extent that procedures allow the USPTO to obtain more disclosure that would improve the operations of the PTAB without harming small innovators, we encourage them.

IV. The USPTO Proposed Changes to the PTAB Rules of Practice Have Serious Implications on U.S. Innovation

The U.S. Small Business Association (SBA) states that small businesses make up 99.9 percent of all U.S. businesses and, in 2019, small businesses were responsible for 44 percent of the U.S. economic activity.⁵² The USPTO's proposed changes to the PTAB rules of practice strain the already limited resources of small businesses, which will no longer make the PTAB a viable protection mechanism for innovators against bad actors. Small businesses may not only forgo PTAB review, but also forgo commercialized innovation. The result will be less invention pursued in critical markets by a significant portion of the U.S. economy. The economic significance of small businesses leaving important sectors of the U.S. economy will be detrimental to consumer welfare and societal advancement.

V. New Proposed Changes

⁵⁰ IPR2019-01393, Paper 24 at 12 (PTAB June 16, 2020).

⁵¹ *Supra* not 37.

⁵² See Small Businesses Generate 44 Percent Of U.S. Economic Activity available at <https://advocacy.sba.gov/2019/01/30/small-businesses-generate-44-percent-of-u-s-economic-activity/>; see Frequently Asked Questions About Small Business 2023 available at <https://advocacy.sba.gov/2023/03/07/frequently-asked-questions-about-small-business-2023/#:~:text=Most%20businesses%20are%20small%2D%2099.9,46.4%25%20of%20private%20sector%20employees.>

While we do not have specific concerns with the USPTO's new proposed changes as they relate to the procedure to request a discretionary denial of a petition's institution or the termination of proceeding in view of settlement, we implore the USPTO to ensure that such changes consider the above comments.

VI. Conclusion

The App Association appreciates the USPTO's consideration of our comments on the proposed changes to PTAB rules of practice. We continue to be concerned with the majority of proposals outlined in the April 2023 ANPRM that seek to overturn the explicit language in the AIA and that go against its intent to ensure that the U.S. patent system includes checks and balances for patent quality and combats abuse from opportunistic individuals and entities that assert weak or invalid patents. The USPTO should not move forward with the proposed rules and should work with stakeholders to develop regulation that is balanced and proper under the USPTO's authority.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brian Scarpelli'.

Brian Scarpelli
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