

June 18, 2020

The Honorable Lindsey Graham
United States Senate
290 Russell Senate Office Building
Washington, DC 20510

The Honorable Dianne Feinstein
United States Senate
331 Hart Senate Office Building
Washington, DC 20510

The Honorable Thom Tillis
United States Senate
113 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Christopher Coons
United States Senate
218 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Graham, Ranking Member Feinstein, Chairman Tillis, and Ranking Member Coons:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

⁷ See *supra* note 1.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

Engine Advocacy

Innovation Defense Foundation

United for Patent Reform

Niskanen Center

ACT | The App Association

US*MADE

R Street Institute

Software & Information Industry Association

Internet Association

Electronic Frontier Foundation

Coalition Against Patent Abuse

High Tech Inventors Alliance

Cable Television Laboratories, Inc. ("CableLabs")

National Retail Federation

Computer & Communications Industry Association

cc: The Honorable Members of the Senate Committee on the Judiciary, Subcommittee on Intellectual Property
The Honorable Jerrold Nadler, Chair, House Committee on the Judiciary
The Honorable Jim Jordan, Ranking Member, House Committee on the Judiciary
The Honorable Henry Johnson, Chair, House Committee on the Judiciary Subcommittee on Courts, Intellectual Property, and the Internet
The Honorable Martha Roby, Ranking Member, House Committee on the Judiciary Subcommittee on Courts, Intellectual Property, and the Internet
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