

UNITED *for* PATENT REFORM

Re: USPTO Advance Notice of Proposed Rulemaking: Changes Under Consideration to Discretionary Institution Practices, Petition Word-Count Limits, and Settlement Practices for America Invents Act Trial Proceedings Before the Patent Trial and Appeal Board

Docket No. PTO-P-2020-0022

Dear Under Secretary Vidal:

United for Patent Reform (UFPR) is a broad coalition of diverse American businesses advocating for a patent system that enhances patent quality, advances meaningful innovation, and protects legitimate American businesses from abusive patent litigation. Our members are small and large – they range from Main Street retail shops, REALTORS®, hotels, grocers, convenience stores, and restaurants to national construction companies, automobile manufacturers, and technology businesses. Collectively, our members represent over 90 million U.S. employees, a figure that accounts for nearly two-thirds of private sector jobs in the United States.

UFPR appreciates the opportunity to submit feedback in response to the Advance Notice of Proposed Rulemaking (ANPRM) on potential changes to the post-grant review proceedings created by the America Invents Act (AIA). While many of UFPR's members are patent holders, a greater percentage hold no patents at all, and their only interaction with the patent system is getting sued or threatened with suit by a patent holder, typically a non-practicing entity (NPE). More often than not, the suits assert vague, over-broad patents that should not have issued in the first place, and accuse a product that the targeted business simply purchased as an end user without any involvement in its creation or detailed knowledge of its incorporated technology. This is why UFPR cares deeply about the patent system and ensuring that it works to support innovation to the benefit of all Americans by deterring the harms of abusive litigation that drain resources from investment and job creation.

Introduction

Congress's intent in enacting the AIA was to create post-grant review procedures that provide an [efficient, expert, and cost-effective alternative to patent litigation](#) that is accessible to the public. As intended, the AIA procedures have given the PTO the opportunity to correct its mistakes in issuing an invalid patent with helpful input from the public, [saving considerable resources that went for job creation](#) and lessening the significant drain that invalid patents place on innovation and the economy. UFPR members have [avoided some of the high costs of abusive litigation thanks to IPR](#). It is also true, however, that the weakening of IPR that

began in 2018 led to direct and significant increases in NPE litigation that lessened the economic benefits that IPR could have achieved. The proposals in the ANPRM will worsen that trend.

The proposals derail the purposes of IPR in multiple ways and conflict with the AIA, placing them outside the PTO's regulatory authority. For instance, several proposals limit who can file an IPR, even though Congress designed it to be broadly accessible to the public as the best way to improve patent quality. The proposed rules reject petitions from those with an ill-defined relationship with a prior petitioner, from those who lack standing, and from those challenging a patent held by a purported small business. The proposals go farther to limit access to IPR to those petitioners that can demonstrate "compelling merits" in many situations, rather than the statutory standard of a "reasonable likelihood" of invalidity. Congress rejected such limitations on IPR and the PTO cannot enact them now.

The PTO's *NHK-Fintiv* policies denying IPR petitions based on parallel litigation and their codification and expansion through the proposed rules eliminate the ability of IPR to function as an alternative to litigation. Decisions by the PTAB provide an alternative in multiple ways. They can eliminate the need for trial, narrow the issues at trial, and promote litigation settlements. If the parties or district court have concerns about duplicative proceedings, they have ample tools to address the problem through stays and case management that are more flexible and more in line with Congress's intent for AIA proceedings than the PTAB's sledgehammer of refusing to consider the merits of a petition. Such a restricted alternative to litigation is no real alternative at all.

UFPR urges the PTO to abandon the proposed rules and to restore IPR to reflect Congress's intent that the AIA proceedings be a robust alternative to litigation and tool for improving patent quality. As an alternative to address perceived concerns with duplicative proceedings, UFPR suggests that the PTAB issue a final written decision for an instituted IPR in six months when one of the parties has contested a stay of the parallel litigation.

IPR is an Important Tool in Fighting Abusive Litigation

Abusive patent litigation brought by NPEs has been a significant problem for years, with UFPR members routinely targeted by these lawsuits. Many NPEs look for targets that do not have the resources to fight a full patent litigation in the hopes of getting an easy "hold-up" settlement regardless of the validity of their patent and the merits of their claims. There have been many, many wide-ranging NPE campaigns of this type.

IPR has been an important tool to UFPR members in fighting abusive litigation. Our website tells several of these stories and asks policy makers to [Stand With Main Street](#) to make IPR a strong process and robust alternative to litigation for weeding out bad patents.

Even when UFPR's members do not initiate an IPR themselves, they often benefit from patent reviews initiated by their suppliers and service providers challenging patents that are asserted directly against those businesses. This is particularly the case for those Main Street businesses such as retailers, restaurants, and small service providers. In one example, [an NPE sued 74 businesses across 23 states](#) for using technology that allowed them to print over a network. Many of those targeted were small, family-owned commercial printing shops. Several commercial printer companies used the post-grant review process to have the USPTO review the patent in question and it was found to be invalid.¹ In another example, thousands of small businesses were [threatened with litigation over scan-to-email](#) technology. The scanner manufacturers used the IPR process to invalidate the patent, allowing these businesses to restore their customers' access to this technology.² The [Stand With Main Street](#) site includes more examples.

Weakening IPR Will Have Significant Consequences and a Negative Impact on the Economy

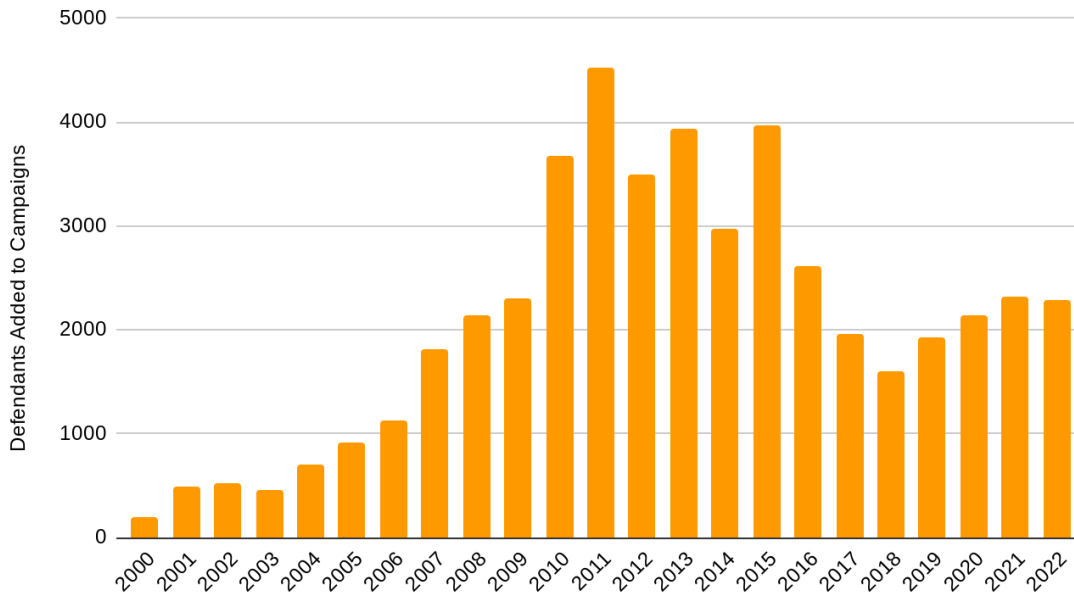
Despite these successes, the data shows that the weakening of IPR that occurred during the previous administration significantly limited the ability of IPR to provide a cost-effective alternative to litigation and triggered a resurgence in NPE litigation. As the chart below illustrates, NPE litigation peaked in 2011, and generally trended downward after that, especially after PTAB decisions began issuing in 2014 and 2015 on the earliest-filed IPR petitions.³ That trend continued until 2018 when the previous administration weakened IPR in multiple ways, including by making it harder to obtain PTAB review of an invalid patent through its harsh policies on discretionary denials (the *NHK-Fintiv* policy), by eliminating the long-standing policy of giving claims their broadest reasonable interpretation, and by restricting the agency's own review of newly-amended claims. The number of IPR petitions filed and the rates of institution dropped precipitously. By 2021, NPE litigation had increased by more than 40% over its 2018 level, a trend that persisted into 2022.

¹ [Eastman Kodak Co. et al v. CTP Innovations, LLC](#), IPR2014-00788 (Jan. 13, 2017).

² [Ricoh Americas Corp. et al. v. MJH Technology Investments](#), IPR2014-00538 (Aug. 12, 2015).

³ The Supreme Court's 2014 explanation of the law of patent eligibility in *Alice* also likely contributed to the temporary drop of NPE litigation by curtailing the availability of patents covering abstract ideas like methods of conducting business for suits against Main Street companies. While *Alice* and Section 101 are not the subject of this comment, UFPR recently submitted [comments](#) to the USPTO in response to the request for comment on the patent subject matter eligibility guidance.

NPE Litigation Over Time



The link between restrictions on access to the faster, cheaper litigation alternative of IPR and the increase in NPE litigation is clear. Unfortunately, many of the proposals in the ANPRM will only further limit access to IPR, further drive up abusive NPE litigation, and further harm UFPR’s members, especially those without the resources to fight full patent litigation.

The ANPRM proposals will have a significant negative impact on the economy. A recent study shows that IPR has saved litigants [\\$3 billion in legal fees](#) through 2019. The same study estimates that the benefit to the U.S. economy averaged over \$292,900 per case and that IPR has created nearly 13,500 job-years of employment. These benefits mostly occurred before recent restrictions on IPR and the corresponding increase in NPE litigation, however. If IPR is made weaker and less accessible, the economic benefits will also decrease. Companies of all sizes will face more litigation and pay more unjustified settlements, leaving them with fewer resources to create new products, new services, and new jobs.

Many of the Proposed Rules Significantly Weaken IPR and Restrict Access to AIA Proceedings, Which Would Increase Abusive Litigation

For these reasons, UFPR urges the PTO to reject every proposed rule that weakens IPR and restricts access to AIA proceedings. Below we highlight some of the most dangerous proposals in this regard.

- **The “substantial relationship” test will prevent meritorious challenges to invalid patents and harm Main Street companies.** The proposed rules block a party from seeking review if a different party with which it has a “substantial relationship” was sued and brought an earlier unsuccessful challenge. “Substantial relationship” is an

ambiguous term with no defined legal meaning except that the proposal notes it should be “broadly construed.” Disputes over whether a relevant “substantial relationship” exists will consume resources and create uncertainty for petitioners that is unrelated to the important question of patent validity and, therefore, discourage meritorious challenges.

The proposal is especially problematic for UFPR members who face a complex litigation environment. NPEs often bring suits against Main Street companies as part of a sweeping campaign against end users of a product. The substantial relationship test raises the question of whether an IPR loss by one preempts challenges by others or by the manufacturer of the accused product, whose greater knowledge of the relevant technology supports a stronger validity challenge. This outcome would encourage NPEs to target the smallest companies first with the hope that an early IPR immunizes it against a later, stronger petition. The substantial relationship test will prevent meritorious challenges to likely invalid patents, against the interest of Main Street companies and the public.

- **The restriction on IPR challenges by nonmarket competitors will eliminate an important pathway for invalidating patents asserted against Main Street companies in NPE hold-up campaigns.** Despite Congress’s considered decision that patent quality and integrity would be best served by allowing any member of the public to file an IPR, the proposed rules seek to limit who can file a petition. This will be especially injurious to UFPR’s Main Street members and companies like them who have benefited greatly from IPRs brought by others, including trade associations,⁴ patent-challenge organizations,⁵ and public interest groups.⁶ There are many examples of sweeping campaigns by NPEs seeking hold-up nuisance settlements based on invalid patents being stopped by IPR challenges brought by the types of organizations this proposal seeks to derail.
- **The proposal exempting patents held by “small businesses” from PTAB review will be gamed to increase litigation brought by NPEs, especially attacks on Main Street companies.** The requirement that the patent owner or its licensee

⁴ [Texas Association of Realtors, Inc v. POI Search Solutions LLC](#), IPR2016-00615 (Aug 4, 2017) (invalidating patent asserted against real estate companies).

⁵ See, e.g., [Unified Patents v. Oceana Innovations LLC](#), IPR2020-01463 (Feb. 14, 2022) (invalidating patent on USB plug shape after patentee filed 19 suits); [Unified Patents v. SportBrain Holdings LLC](#), IPR2016-01464 (Feb. 6, 2018) (invalidating patent claiming idea of using an electronic device to track a person’s health data after patentee filed 148 suits); [Unified Patents v. Rothschild Connected Devices Innovations, LLC](#), IPR2016-00535 (Feb. 3, 2016) (invalidating patent that claimed concept of using a computer to keep track of consumer’s product preferences after patentee filed 67 suits).

⁶ [Electronic Frontier Foundation v. Personal Audio, LLC](#), IPR2014-00070 (July 17, 2015) (invalidating patent asserted against [many small podcasters](#)).

commercialize the invention is easily manipulated. NPEs often partner with small-entity patentees and then [operate through shell companies](#) in order to hide the monied interest behind the suit. In the experience of UFPR members, it is common for a shell company to [portray itself](#) as a start-up attempting to sell a product or service, which is easy to do with little more than a website because the majority of NPE-asserted patents claim software. Discovery is necessary to show the true nature of the NPE funding relationship and the “commercialization,” which will be particularly difficult and costly in an IPR proceeding, and certainly too costly for Main Street companies fending off nuisance suits. Shielding patents asserted by shell companies claiming fake commercialization attempts from PTAB review will make this the NPE strategy of choice and dramatically increase litigation.

- **The proposal that petitions be denied if a district court’s median time to trial is faster than the PTAB’s statutory schedule has been demonstrated to increase forum shopping, decrease IPR institutions, and increase abusive litigation.** The PTAB has been operating under some version of this proposal since the previous administration’s *NHK-Fintiv* rule, and the consequences are clear and harmful. A single district court judge was able to [intentionally attract more patent litigation](#) to his court than any other in a span of just two years by giving plaintiffs a safe haven from PTAB review. This was accomplished by refusing to stay litigation and pushing cases to trial quickly, while at the same time the PTAB allowed those strategies to block IPR institution, creating a destructive synergy between the court and the PTAB. In 2019 and after, [IPR institutions decreased](#), litigation filings increased, and NPEs flocked to the Western District of Texas. Last year that district was [the busiest patent court in the United States](#), with NPE cases comprising [86%](#) of its filings. Another court could create a similar outcome using similar policies. The PTO should disrupt that destructive synergy by abandoning the proposal and implementing IPR to make it a robust pathway for the PTO to correct its own mistakes and an alternative to parallel litigation, as Congress intended.
- **The proposal that petitions be filed six months after suit is filed or suffer a discretionary denial will discourage many defendants from using IPR and leave invalid patents standing.** Congress set the deadline for filing an IPR petition at one year after the filing date of a suit based on the correct understanding that petitioners need to know which claims a patentee is asserting and how it construes those claims in order to file a high-quality petition that can eliminate or narrow the issues for litigation. The proposal that a six-month filing deadline be the only predictable way to avoid a discretionary denial where there is parallel litigation would force petitioners to file without this information, which is often withheld by the patentee in litigation for as long as possible. That result would discourage petitioners from filing IPR petitions

and make those that are filed less useful for narrowing the issues in litigation or avoiding trial entirely.

- **The proposal that allows IPR institution based only on “compelling merits” in multiple situations dramatically weakens IPR and drives increases in litigation.** Although “compelling merits” is a new and ill-defined standard, the PTO clearly intends that it be significantly higher than the AIA’s “reasonable likelihood” standard for IPR institution. The proposal that all inferences be drawn in favor of the patentee exacerbates the difference. This policy of applying a higher standard at institution than than the preponderance of the evidence standard required by the AIA to invalidate a patent will, by design, leave invalid patents protected from PTAB scrutiny and available for assertion in litigation, fueling the broad hold-up campaigns that NPEs wage against Main Street companies.
- **The proposal that a *Sotera* stipulation be required for institution when there is parallel litigation undermines IPR’s Congressionally-mandated role as an alternative to litigation.** IPR works best as an alternative to litigation when the PTO addresses patent validity issues that can eliminate the need for trial or narrow the issues for trial. By requiring a *Sotera* stipulation and artificially narrowing the validity issues that can be brought to the PTAB, the proposal undermines IPR as an alternative to litigation. Concerns about duplicative proceedings are best addressed by the parties and the district court who can stay the litigation or use other flexible case management tools.

Many of the Proposals Are Contrary to the AIA and Exceed the PTO’s Rulemaking Authority

The negative economic impact and increases in litigation created by restrictions on IPR is sufficient reason for the PTO to drop every proposal that would weaken IPR and restrict access to the proceedings. However, many of the proposals face another insurmountable problem: the PTO lacks the authority to implement them because they violate the mandate of the governing statute, the America Invents Act, and go beyond the agency’s authority to regulate PTAB proceedings.

Importantly, Congress structured the AIA to create post-grant review procedures at the PTAB that are liberally accessible to the public as an important tool for addressing the serious problems of invalid patents and abusive litigation. The PTO now proposes rules that do the opposite by limiting who can access these critical procedures and raising the bar for institution beyond the already high standard that is in place, thereby placing them in conflict with the AIA and making them illegal.

These are just a few examples of how the proposed rules contradict the mandates of the AIA.

- The proposed rules block a party from seeking review if a different party with which it has a “substantial relationship” was sued and brought an earlier unsuccessful challenge. The statute, however, binds a party to the outcome of another party’s IPR only when the parties are in “privity” or the second party was the “real party in interest” in the IPR. 35 U.S.C. § 315(e). Disallowing petitions from a party not in privity or a real party in interest to an earlier filing effectively binds it to the earlier outcome and contradicts the statute.
- The proposed rules place limitations on nonmarket competitors’ ability to file a petition even though Congress rejected calls to create a standing requirement for petitioners. Instead, Congress decided that the need to eliminate invalid patents is best served by allowing the public to file petitions. 35 U.S.C. § 311(a). The proposed rules directly violate that principle.
- The proposed rules exempt patents from PTAB review that are nominally owned by a small business seeking to commercialize the invention, a change that would undoubtedly increase gaming and NPE litigation. The AIA allows no carve outs based on the characteristics of the patent owner – such an exemption was [explicitly rejected](#) based on concerns that it would serve to benefit patent trolls. Moreover, Congress’s intent was that IPR would serve to weed out bad patents and decrease litigation, not increase it.
- The proposed rules create a “compelling merits” test for institution of a petition in many common situations. The AIA, however, sets the standard for institution as a “reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition,” and makes no distinction for particular situations. 35 U.S.C. § 315(a). The proposed rules violate Congress’s judgment on the appropriate institution standard.
- The proposed rules effectively block review when the patent holder files a parallel litigation in a district court where the median time to trial is faster than the PTAB’s review, or otherwise shorten the deadline for filing a petition to six months after a complaint is filed or suffer a discretionary denial in many situations. These proposals are contrary to the statutory deadline of one year. 35 U.S.C. § 315(b). Congress carefully selected the one-year timeframe and the PTO has no authority to second-guess that decision.

The PTO's Policy Promoting Discretionary Denials Based on Parallel Litigation Undermines the Integrity of the Patent System and Should be Dropped

The PTO and proponents of the proposed regulations justify them as supporting the “integrity of the patent system.” Steps taken to weaken IPR during the previous administration were justified the same way, in particular the highly problematic policy announced in *NHK-Fintiv* of discretionarily denying IPR petitions based on parallel litigation.

It is difficult to imagine, however, an outcome worse for the integrity of the patent system than the PTO complicitly fueling rampant forum shopping intended to circumvent an important Congressional policy meant to improve patent quality, with the result that NPEs increase nuisance litigation against Main Street companies. And yet, as discussed above, that is exactly what happened with the *NHK-Fintiv* discretionary denial policy and its ongoing modifications, as the Western District of Texas refused to stay litigation based on IPR institution. The proposed rules will only exacerbate the problem by locking in a fundamentally flawed policy.

The most dangerous threat to the integrity of the patent system is the issuance of invalid patents, especially when those patents burden productive companies through expensive, wasteful litigation and unwarranted settlement payments. Congress intended that IPR be an alternative to litigation on questions of patent validity, and in many courts it operates that way. It is common for [district courts to stay litigation upon institution of an IPR](#) when the validity questions overlap those in litigation. This outcome serves Congress's intent that IPR be an alternative to litigation, avoids duplicative proceedings, promotes settlement, and simplifies issues for those trials that do move forward. The [PTO's decision to apply](#) the *Phillips* standard to claim construction in IPR rather than the broadest reasonable interpretation was justified as bringing greater consistency and harmonization between AIA proceedings and district court litigation. The PTAB's adoption of the *Phillips* standard provided [a strong argument](#) in support of litigation stays in district court.

UFPR urges the PTO to end the *NHK-Fintiv* policy and retract all guidance and proposed rules related to discretionary denials based on parallel litigation, including any requirement that a petitioner file *Sotera* stipulations. The PTAB should be allowed to make IPR institution decisions based on the reasonable likelihood that a challenged claim is invalid. Congress's mandate to the PTO is to effectively implement IPR as a litigation alternative, not to contort its decision making in response to the forum choices of individual patent owners and the case management policies of the many different district courts. As the litigation filing data amply illustrates, doing so effectively eliminates IPR as a litigation alternative and allows individual plaintiffs and judges to vitiate the judgment of Congress.

An Alternative Proposal Related to Parallel Litigation

UFPR suggests an alternative rule to address the perceived concern about duplicative proceedings in courts that are hesitant to grant contested stays of litigation. If one party to the litigation requests a stay based on a patent for which the PTAB has instituted an IPR and the other party opposes that stay, the PTAB should expedite review and reach a Final Written Decision in six months rather than a year. The expedited review will, in most cases, ensure that the district court will have the value of the PTAB's validity assessment prior to trial or other final ruling, avoiding duplication and simplifying issues. It may also encourage the court to grant a contested stay. The proposal leaves the timing of the IPR procedure within the control of the non-moving party, who can keep the typical one year schedule by stipulating to the stay or comply with an expedited schedule and oppose the stay.

Conclusion

We share the PTO's goals of improving both patent quality and the efficient administration of the IPR system that Congress designed. Unfortunately, the proposals advanced through the ANPRM accomplish neither of those goals, directly flying in the face of Congress's express intent. The ANPRM's lengthy list of harmful proposals will only serve to bring about more abusive patent litigation and inflict further dead-weight loss on innovators, Main Street businesses, and the economy at large. If the PTO wants to address perceived concerns with duplicative proceedings, then incentivizing a stay of any parallel patent litigation while allowing the efficient, expert, and cost-effective IPR proceeding to run its course is a prudent alternative.

Sincerely,

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