

July 20, 2022

The Honorable Henry C. “Hank” Johnson  
Chairman  
United States House Judiciary Committee  
Subcommittee on Courts, Intellectual Property,  
and the Internet  
Washington, District of Columbia 20515

The Honorable Darrell Issa  
Ranking Member  
United States House Judiciary Committee  
Subcommittee on Courts, Intellectual Property,  
and the Internet  
Washington, District of Columbia 20515

**RE: The Patent Trial and Appeal Board After 10 Years, Part II: Implications of Adjudicating in an Agency Setting**

Dear Chairman Johnson and Ranking Member Issa:

We applaud your leadership on intellectual property (IP) issues, including your efforts to eliminate weak patents to protect the strength of legitimately issued patents via the America Invents Act (AIA). We welcome your review of the Patent Trial and Appeal Board after 10 years. Your letter to the Government Accountability Office (GAO) on June 2, 2021, is a well-timed examination of the United States Patent and Trademark Office’s (USPTO’s) oversight of the Patent Trial and Appeal Board (PTAB).<sup>1</sup> We agree that GAO should independently review (among other things) the mechanisms available to the director of USPTO to “influence [Administrative Patent Judge (APJ)] . . . decisions in AIA cases, such as . . . formal review of a decision such as through Precedential Opinion Panel (POP), personnel actions taken or threatened against APJs, or similar actions.” Our recent experience with USPTO suggests that GAO’s review of these aspects will reveal that USPTO director oversight has led to denials of PTAB reviews that should have been instituted, which undermines the strength of the patent system by leaving patents in force that are most likely invalid.

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

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<sup>1</sup> Letter from Hon. Henry C. “Hank” Johnson, Chairman, U.S. House Committee on the Judiciary, Subcommittee on Courts, Intellectual Property, and the Internet, and Hon. Darrell Issa, Ranking Member, U.S. House Committee on the Judiciary, Subcommittee on Courts, Intellectual Property, and the Internet, to Hon. Gene L. Dodaro, Comptroller General of the United States, Re: USPTO Director Oversight and Control of PTAB Decisions (Jun. 2, 2021), *available at* <https://hankjohnson.house.gov/sites/hankjohnson.house.gov/files/documents/GAO%20Investigation%20Request%20Final.pdf>.

litigation costs.”<sup>2</sup> Congress also recognized “a growing sense that questionable patents [were] too easily obtained and are too difficult to challenge.”<sup>3</sup> 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 Patent Trial and Appeal Board, has worked as intended and has reduced unnecessary litigation, saving \$2.3 billion over just five years.<sup>4</sup>

The IPR process allows ACT | The 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.

Unfortunately, over the last few years the USPTO has taken a series of actions that impose requirements rejected by Congress in the AIA and that serve to reduce IPR’s effectiveness. For example, USPTO implemented changes to the rules of practice for instituting review on all challenged claims or none in IPR, post-grant review (PGR), and the transitional program for covered business method patents (CBM) proceedings before the PTAB in accordance with *SAS Institute Inc. v. Iancu*. As part of this change, USPTO amended the rules to eliminate the presumption in favor of the petitioner for a genuine issue of material fact created by testimonial evidence submitted with a patent owner’s preliminary response when deciding whether to institute an IPR, PGR, or CBM review. This rule change shifts the PTAB’s process to unduly favor patent owners, significantly reducing due process for PTAB petitioners. Further, it appears that USPTO has failed to meet the requirements of the Administrative Procedure Act in proposing this rule change.

Equally worrisome is the rapidly growing string of “discretionary denials” from the PTAB in which the USPTO has chosen to ignore the statutory deadline allowing an IPR to be brought within one year after service of the complaint upon a petitioner. In conflict with congressional intent, the USPTO has substituted its own policy preference and directed the “discretionary denial” of timely-filed IPR petitions if the district court docketed an early trial date in a parallel infringement suit. This practice results in meritorious petitions being denied on extra-statutory grounds and adds cost, complexity, and uncertainty that Congress specifically sought to avoid by adopting a simple, clear one-year time bar. These discretionary denials under Section 314(a) have grown precipitously over the past three years and are on track to double yet again this year, and routinely deny timely-filed IPR petitions, leaving invalid patents in force to be litigated. Such policy changes most negatively impact minority-founded and -operated small businesses that demonstrably experience more difficulties in launching and growing new businesses in the digital economy.

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<sup>2</sup> H. R. Rep. No. 112-98, pt. 1, p. 40 (2011).

<sup>3</sup> *Id.* at p. 39 (2011).

<sup>4</sup> See, e.g., Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, Patent Progress (Sept. 14, 2017).

Two precedential opinions expanded the ability of PTAB judges to deny proceedings at their discretion based on non-exclusive and procedural factors. The first decision, *NHK Spring Co., Ltd. v. Intri-Plex Techs., Inc. (NHK)* determined that PTAB judges could deny institution of IPR based on how close a parallel district court proceeding was to completion.<sup>5</sup> *Apple Inc. v. Fintiv, Inc. (Fintiv)* took a leap further by providing a non-exclusive list of factors for the PTAB to consider when determining whether to deny institution of IPR proceedings in light of parallel district court litigation.<sup>6</sup> The App Association publicly opposed the decision to declare *NHK* and *Fintiv* (*NHK-Fintiv*) as precedential and recognized that these decisions placed small businesses in an inequitable position. In 2021 alone, *NHK-Fintiv* rulings were considered in 45 percent of IPR institution decisions.<sup>7</sup> Discretionary denials purely based on procedure increased from 45 cases in 2018 to 123 cases in 2021.<sup>8</sup> By contrast, in 2021, discretionary denials based on the merits of a claim were only exercised in 10 out of 310 cases.<sup>9</sup>

*NHK-Fintiv* even enabled some federal judges to intentionally early-schedule district court cases in patent disputes (only to push trial dates back) to initiate a discretionary denial of the PTAB challenge to the validity of the same patents at issue. As a result, parties looking to avoid a PTAB examination of the validity of their patent(s) were incented to use those courts. Judge Alan Albright of the U.S. District Court for the Western District of Texas is widely recognized for this practice.

Defending against frivolous litigation is prohibitively expensive and more costly than an IPR.<sup>10</sup> The resurgence of behavior that necessitated the creation of IPR in the first place should send a strong signal that the USPTO's policy changes over the last four years have been ineffective and stray from Congress' envisioned role.

We welcome the opportunity to work with you as you examine USPTO's management of PTAB and to realize the vision of the AIA, in creating jobs and growing the American economy.

Sincerely,



Morgan W. Reed  
President

ACT | The App Association

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<sup>5</sup> *NHK Spring Co., Ltd. v. Intri-Plex Techs., Inc.*, Case IPR2018-00752, Paper 8 (Sept. 12, 2018) (designated precedential May 7, 2019).

<sup>6</sup> *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 (PTAB Mar. 20, 2020) (designated precedential May 5, 2020).

<sup>7</sup> *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>.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> Britain Eakin, *PTAB Discretionary Denials Harming Patent System, Atty Says*, LAW360, (Dec. 1, 2020), <https://www.law360.com/articles/1332942/ptab-discretionary-denials-harming-patent-system-atty-says>.