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Comments in response to USPTO notice of proposed rulemaking
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I. INTRODUCTION

Unified Patents, LLC ("Unified") submits the following comments for consideration of the United States Patent and Trademark Office (the "Office") relevant to Docket No. PTO– P-2022-0025, the Request for Comments on the Advance Notice of Proposed Rulemaking (the "ANPRM").

Unified seeks to bolster patent quality by deterring the use of invalid patents by non-practicing entities (NPEs) in various technology zones. Unified deters the assertion of invalid patents through many tools, including crowd-sourced prior art contests, marketplace monitoring, NPE information tracking, data aggregation, the creation and use of tools to evaluate patent quality, and advising on policy, as well as by objectively challenging the merits of patents, both in the U.S. and abroad (including through inter partes review proceedings). Unified challenges patents it seeks to demonstrate are objectively invalid, at its sole discretion. Sometimes, those patents are or have been involved in assertion campaigns; often, the patents have not yet been asserted. Unified is not a litigation solution for any entity. It seeks to deter the commodification and misuse of the courts by disinterested NPEs seeking to extort nuisance settlements from hardworking, productive businesses.

For the reasons discussed below, Unified believes that most of the proposals in the ANPRM exceed the USPTO's lawful rulemaking authority, including by contradicting the America Invents Act ("AIA"). By way of example, Unified believes that proposals in the ANPRM overreach in at least the following ways:

- **They create unlawful, discriminatory standing requirements**: The Office should not codify a "substantial relationship test" nor codify rules barring "certain for-profit entities." Such rules explicitly contradict the AIA and were rejected by Congress. These rules go beyond statutory interpretation—they impermissibly contradict a statute by expanding the scope of relationships that would impact a proceeding. Further, these rules will reduce efficiency by inviting burdensome discovery on ancillary matters. Finally, the proposed relationship test will reduce challenge quality by instigating a race to the PTAB.
- **They improperly expand the collateral estoppel doctrine**: Congress established when and how estoppel would apply as it relates to AIA trials. The Office's proposal to trigger denial based on any prior adjudications would impermissibly rewrite the AIA. Further, such rules would prejudice stakeholders and invite gamesmanship by NPEs by incentivizing them to strategically stagger assertions.

- **They mandate party stipulations as a condition for *inter partes* review ("IPR")**: The Office's proposal to require petitioners to stipulate, prior to institution, to higher levels of estoppel than the statute requires is impermissible. Congress decided that the estoppel provisions would only take force after a final written decision and delineated the requirements for such estoppel to take effect. Requiring super-statutory stipulations as an additional requirement is beyond the Office's authority.
- **They interfere with the private right to contract**: The Office's suggestion to unilaterally sign petitioners to covenants not to sue interferes with parties' right to contract on their own behalf.
- **They raise or rewrite statutory burdens of proof**: The "compelling merits" test creates an untenable situation whereby Petitioners are forced to meet a higher standard at institution than they would for trial. The high "compelling merits" standard will also unjustifiably bias future fact finders despite being adjudged on an incomplete record. Applying such a high standard for entire categories of cases and petitioners contradicts the AIA, which sets a low threshold for institution.
- **They rewrite statutory deadlines**: The ANPRM further contradicts Congress by effectively reducing the one-year statutory deadline to file an IPR by six-months or face the "compelling merits" standard. The only aspect of co-pending district court litigation that the Office should consider is the 12-month bar date. The proposed rule would invite gamesmanship by patent owners, who are only required to identify one claim in complaints and can delay service of full infringement contentions. And if the status of district court litigation is considered, it will incentivize forum shopping (as *Fintiv* already has). Additionally, it will reduce challenge quality by forcing petitioners to prioritize speed over substance when filing a petition.

These proposals will cost the U.S. economy, at a minimum, hundreds of millions of dollars, particularly for small and medium-sized businesses.[1] It does so explicitly for unsubstantiated "policy" considerations that are the province of Congress alone.

II. GENERAL COMMENT REGARDING DISCRETIONARY DENIALS

The Office's current practice of discretionary denial has done more harm than good to the integrity of the patent system. It has added cost and burden on all parties and the Office and only reduced certainty and predictability. Additionally, unlawful aspects of the Office's current execution of *Fintiv* are unaddressed by the ANPRM. Termination of meritorious challenges should be rare, and the Office should simply repeal its *Fintiv* policy, not expand it.

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[1] Korok Ray, *The Economic Impact of Codifying Fintiv*, Texas A&M University (Feb. 3, 2023), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4346836; *see also*
The Perryman Group, *The Potential Economic Benefits of Recent Reductions in Discretionary Denial of Inter Partes Review Based on Criteria such as the NHK-Fintiv Rules* (Dec. 2022), available at https://www.perrymangroup.com/publications/report/2023/6/1/the-potential-economic-benefits-of-recent-reductions-in-discretionary-denial-of-inter-partes-review-based-on-criteria-such-as-the-nhkfintiv-rules/;
The Perryman Group, *An Assessment of the Impact of the America Invents Act and the Patent Trial and Appeal Board on the US Economy* (June 2020), available at https://www.perrymangroup.com/publications/report/an-assessment-of-the-impact-of-the-american-invents-act-and-patent-trial-and-appeal-board-on-the-us-economy/.

The rationale underlying *Fintiv* and the discretionary denial proposals in the ANPRM do not appear substantiated by data or objective evidence. Based on the Office's own studies, the vast majority of patents asserted in district court are never challenged.[2] When challenged, the Office's own statistics demonstrate the rarity of repeat challenges. For example, in FY2020, serial petitions were attempted just 2% of the time.[3] Similarly, parallel petitions only occurred 15% of the time, which is appropriate relative to the permissible circumstances noted in the study (*e.g.,* non-overlapping claim sets on the same art and uncertain prior art status).[4] Congress addressed burdens on patent owners by implementing a time bar, estoppel provisions, reasonable review standards, and provisions providing for the consolidation, joinder,[5] and stay of related proceedings. Ever-rising filing fees[6] and costs of pursuing challenges have also provided sufficient practical deterrents against duplicative and non-meritorious challenges.

No study has shown that *Fintiv* or the proposed discretionary denial rules serve the policy objectives outlined in the ANPRM. Indeed, the *Fintiv* case itself exemplifies how wasteful such policies can be. Just this month, nearly five years after the first complaint, and at least three years after the earlier-scheduled trial date, a summary judgment of non-infringement was entered in favor of the defendant/petitioner.[7] By this time, a final written decision not only could have been reached, but even gone through appeal. The PTAB would have been the more expedient forum for all parties.

On the other hand, much data has shown that discretionary denials are harmful to the American economy. One study found that the increase in denials as a result of *Fintiv* (as implemented prior to the Director's 2022 *Fintiv* Memorandum), would cost American businesses more than $283M in direct economic costs.[8] And another study showed that the reduction of discretionary denials following the Director's 2022 Memorandum providing guidance on §314(a) denials will save the U.S. economy over $480 million in gross product.[9]

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[2] David P. Ruschke and William V. Saindon, *An Analysis of Multiple Petitions in AIA Trials*, 10 (Oct. 24, 2017), available at https://www.uspto.gov/sites/default/files/documents/Chat_with_the_Chief_Boardside_Chat_MMultipl_Petition_Study_20171024.pdf (last accessed June 9, 2023).

[3] USPTO, *Analysis of multiple petitions in AIA Proceedings (December 2020 update*), p.7 available at https://www.uspto.gov/sites/default/files/documents/multiple_petition__mta_study_.pdf

[4] *Id*., 12, 14 (noting that "over 2/3" of parallel petitions were to cover non-overlapping claim sets and about 1/3 were to supplement grounds having uncertain prior art status).

[5] Notably, the Office's current policy on joinder runs against what Congress envisioned when it enacted the AIA. The Office requires that parties bring identical petitions to be joined, but Congress envisioned that parties may bring additional challenges with new arguments, and the Office would "either join that party and its new arguments to the existing proceeding, or institute a second proceeding for the patent." 157 Cong. Rec. 3386, 3429 (March 8, 2011) (statement of Sen. Kyl).

[6] The USPTO proposal to increase the default request fee for IPRs to $23,750 and the default post-institution fee to $28,125 means that fees have more than doubled over the course of ten years. https://www.uspto.gov/about-us/performance-and-planning/fee-setting-and-adjusting?MURL=FeeSettingAndAdjusting#patentfee-info; *see also* http://web.archive.org/web/20141111070231/https://www.law.cornell.edu/cfr/text/37/42.15.

[7] *Fintiv, Inc. v. Apple Inc.*, 1:21-cv-00896-ADA, Dkt. 466 (W.D. Tex. Jun. 13, 2023).

[8] Korok Ray, *The Economic Impact of Codifying Fintiv*, Texas A&M University (Feb. 3, 2023), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4346836.

[9] The Perryman Group, *The Potential Economic Benefits of Recent Reductions in Discretionary Denial of Inter Partes Review Based on Criteria such as the NHK-Fintiv Rules*, ii (Mar. 2023), available at https://www.perrymangroup.com/publications/report/2023/6/1/the-potential-economic-benefits-of-recent-reductions-in-discretionary-denial-of-inter-partes-review-based-on-criteria-such-as-the-nhkfintiv-rules/.

Categorical discretionary denial policies, in addition to being beyond the power of the agency to implement, undermine Congress's intent to deter exploitative NPE litigation against productive American businesses. The data bears this out: NPE litigation increased by over 20% when PTAB trials decreased through discretionary denials—the first substantial increase in litigation since the AIA was enacted in 2012.[10] At least a good portion of this NPE litigation was directly driven by gamesmanship encouraged by the *Fintiv* rules; for example, rules regarding trial times, and even median trial times, encouraged forum shopping to take advantage of rocket dockets, such as the Western District of Texas.

Fintiv (and now this ANPRM) also impermissibly ignore mandates and limits written into statute by Congress through the AIA. Initially, *Fintiv* and now the ANPRM overlook Congress's mandate to address the merits of the Petition under the reasonable-likelihood standard regardless of whether trial is instituted. Under 35 U.S.C. § 314(c), the Office "*shall* notify the petitioner and patent owner, in writing, of the Director's determination under subsection (a)." The "determination" in subsection (a) is *not* whether the Office will institute trial, as is the Office's current practice under *Fintiv*; rather, the determination is whether "there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition."[11]

The "shall" language of § 314(c) instructs the Office to judge the merits under Congress's reasonable likelihood standard, even if it does then ultimately discretionarily deny a trial. The Office's current practice of simply addressing the discretionary denial factors and whether the petition meets a compelling merits threshold, without also reaching the merits of the petition under the reasonable-likelihood standard, violates the statute's plain language. Whether they discretionarily deny or not, panels are required by statute to address the merits under the standard set by Congress.

Additionally, the statute does not grant the Office authority to consider the status of district court litigation as an element of institution, much less seek to govern a party's conduct in their district court litigations. Congress considered and rejected tying *inter partes* review to the status of district court litigation based on the unpredictability of courts and fears that a 12-month deadline might be too compressed for some cases.[12] Instead, after careful debate, Congress opted for a fixed 12-month deadline for petitioners who were also sued in district court.[13]

No aspect of the statute otherwise permits the Director to create new rules based on Article III district court litigation. While 35 U.S.C. § 316 permits the director to set forth regulations "governing inter partes review under this chapter and the relationship of such review to *other proceedings under this title*," it does not grant the Director permission to set forth additional regulations governing the relationship of such review *to district court litigation* or govern the petitioner's later conduct in that district court litigation.

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[10] *RPX Corp.*, NPE Litigation Increased by Over 20% in 2019 (Feb. 5, 2020), available at https://www.rpxcorp.com/data-byte/npe-litigation-increased-by-over-20-in-2019/; *see also Bridget Diakun*, *NPE litigation in the US bounces back*, IAM (Sep. 22, 2021), available at https://www.iam-media.com/article/deep-dive-the-bounce-back-in-us-court-npe-activity.

[11] 35 U.S.C. § 314(a).

[12] H.R. 112-98 Part 1, 164-65, 112th Congress (June 1, 2011) (views of Reps. Berman, Watt, and Lofgren).

[13] 35 U.S.C. 315(b).

Unified appreciates that the ANPRM is not a full rulemaking proposal and that the Office has noted that it does not endorse the policies put forth in its notice. But it does bear the imprimatur of the agency and has forced parties across industries to expend substantial time and resources to respond. And it does so against the backdrop of earlier efforts to address *Fintiv.* The Office previously received hundreds of comments explaining why *Fintiv* was, at best, controversial policy that should be abandoned.[14] The ANPRM, however, does not consider those proposals as representative of stakeholder concerns, nor suggest that one widely supported solution within the Office's power would be to withdraw the *NHK/Fintiv* precedential cases altogether. Those comments are still applicable to the ANPRM, particularly as to the proposals that expand upon discretionary denials. Unified again echoes its previous concerns and those of hundreds of others in advocating against the harmful, and likely impermissible, proposed discretionary denial rules.

III. RESPONSES TO SPECIFIC COMMENTS

A. The Office Cannot Deny Institution Based on "Substantial" or "Significant" Relationships Between Otherwise Unrelated Parties and Entities that are not Involved with the Filed Proceeding

First, the Office does not have the authority to categorically deny filings based on a newly created substantial relationship test.[15] Such a test improperly rewrites—and vastly expands—the standing and estoppel laws that Congress wrote into the AIA. Congress dictated that the kinds of non-parties that would be bound by the actions of a petitioner are that petitioner's real parties-in-interest (RPIs) and privies.[16] The ANPRM's proposal to create mandatory bars based on the filer's contractual, business, or other relationships unrelated to the proceeding conflicts with the statute and is beyond the Office's power to implement via administrative rulemaking. Given the cost and persistence of patent litigation campaigns, the question of who may petition the government is fraught with major policy and economic considerations, and the Office may not revisit Congress's answer.[17]

However, even if the Office *could* use their discretion to categorically deny trials, the proposed test would be untenable if implemented. A categorical rule denying petitions based on

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[14] In addition to Unified's own comments, responses advocating against implementation of Fintiv came from stakeholders from various industries and organizations:

- GitHub, Inc. *et al*.: https://www.regulations.gov/comment/PTO-C-2020-0055-0493 (letter to Congress signed by over 50 companies)
- Mylan Pharmaceuticals Inc.: https://www.regulations.gov/comment/PTO-C-2020-0055-0775
- Edwards Lifesciences LLC: https://www.regulations.gov/comment/PTO-C-2020-0055-0814
- Joint comment of transaction associations: https://www.regulations.gov/comment/PTO-C-2020-0055-0747
- Electronic Frontier Foundation: https://www.regulations.gov/comment/PTO-C-2020-0055-0810
- Unified Patents: https://www.regulations.gov/comment/PTO-C-2020-0055-0825

[15] It is unclear if the proposed rule applying the new *Fintiv* rule to "significant" relationships under *Valve I* would be the same as its proposal for a substantial relationship test. Regardless, Unified believes that either policy is unlawful in light of Congress's statutory action on the issue of relationships and respectfully submits that *Valve I* was wrongly decided.

[16] 35 U.S.C. 315(e).

[17] *Utility Air Regulatory Group v. EPA*, 573 US 302, 306 (2014) ("The power to execute the laws does not include a power to revise clear statutory terms that turn out not to work in practice.").

relationships will invite extensive, burdensome pre-proceeding discovery over ancillary matters outside the PTAB's area of expertise. In today's complex economies, substantial relationships arise in myriad, unpredictable contexts, even though the parties, for the purposes of filing petitions, acted wholly independently and did everything they could at the time to comply with the rules as written (*e.g.*, joint defense groups, customer relationships, mutual covenants not to sue). Different companies and industries have countless relationships and contracts with each other and their customers, including cross-licensing, noncompete agreements, customer contracts, and more. The USPTO lacks full subpoena power to deal with such a highly fact-sensitive topic.[18] While the PTAB is an expert organization on technology and patent law, public interest cautions against burdening it with complex contractual, corporate, and business relationship disputes as a precursor to entering into what was meant to be a petitioning process open to the public. To say it would be inefficient would severely understate it. Thus, to the extent any stakeholders wish to have PTAB judges take on this entirely new substantive determination, that must be revisited by Congress.

The word of Congress on this issue is sound policy for at least two reasons. First, using the established legal principles of RPI and privity increases certainty for practitioners and prevents contradictory splits amongst different PTAB judges.[19] Introducing or expanding a new substantial relationship test would lead to uncertainty and inconsistency. Second, these legal doctrines are tethered to the patent-at-issue and proceeding. The inquiry is not based solely on a relationship, but rather case-specific. It is based on whether a third-party exercised direction or control *over the present IPR* and is the subject of legal effect. In contrast, this new, concededly vague substantial relationship test would ensnare and affect parties that have no control, involvement, or even knowledge of a PTAB proceeding, and it would be layered on top of Congress's already-existing legal requirements. Creating a minefield of new caselaw while affecting companies' rights without their involvement would be prejudicial and raise due process concerns.

The substantial relationship test will also invite gamesmanship and lead to a plethora of unintended consequences, thereby destabilizing our patent review system. The proposed rule demands gamesmanship to avoid review, at least in part because they are tied not to the legal conclusion of a pending review, but to the mere filing of one. Patent owners would be motivated to file suits against less sophisticated defendants first to provoke challenges and thus avoid petitions by their real targets*, i.e.*, defendants better equipped to mount an effective challenge. Patent owners would also be motivated to offer nominal settlements to first filers, allowing the patent owner to arbitrarily raise the cost of settlement for later-threatened filers. A patentee/plaintiff who serially sues numerous defendants should not benefit from the staggered nature of its assertions. This would serve to create an expansive new collateral estoppel effect based potentially on the filing of petitions, rather than the conclusion.

The proposed test also fails to appreciate how rare serial challenges are and that relationships, even substantial ones, are almost never the result of identical interests. The proposal appears to be a solution in search of a problem. Data shows that the vast majority of patents that are challenged at the PTAB are challenged by only one petitioner.[20] And as noted above, the vast

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[18] 35 U.S.C. § 24.

[19] 35 U.S.C. § 315(e).

[20] David P. Ruschke and William V. Saindon, APJs, *An Analysis of Multiple Petitions in AIA Trials*, 12 (Oct. 24, 2017), available at https://www.uspto.gov/sites/default/files/documents/Chat_with_the_Chief_Boardside_Chat_MMultipl_Petition_Study_20171024.pdf (last accessed June 9, 2023).

majority of patents asserted in district court are never challenged. When serial challenges are filed, they are typically by competitor co-defendants whose business interests and litigation strategies do not perfectly overlap and, in some cases, may even be opposed.[21]

The proposed substantial relationship test is also poor policy because it undermines many objectives of the AIA. For example, by denying follow-on petitions, the PTAB will often not be able to serve as an efficient and cost-effective alternative to district court. Those threatened with suit, now deprived of their right to a challenge under the AIA, will be more likely to capitulate to higher nuisance settlement demands, given the greater uncertainty and costs of those slower forums. And if they do not settle, the invalidity contentions they raise will become more expansive and more expensive for both parties as they are debated through dispositive motions and a trial. While there is no evidence of added efficiency in light of discretionary denials, there is significant evidence demonstrating that efficient AIA proceedings have saved the U.S. economy and potential claimants substantial amounts of needless litigation waste.[22]

Finally, the ANPRM overlooks that the Office already has more appropriate tools to reduce the impact such proceedings may have on patent owners, including joinder, consolidation, and staying proceedings. These other mechanisms are more accurate tools for addressing actionable harassment of patent owners, to the extent such issues exist.

B. Congress Rejected Standing Requirements

The ANPRM's proposals regarding "certain-for profit entities" unlawfully create a new standing requirement,[23] circumventing Congress's express decision to allow *anyone* other than the patent owner to file challenges. It is beyond the authority of an administrative agency to adopt a rule that directly conflicts with a statute.[24] On this, the AIA is clear. To file an IPR, one must be "a person who is not the owner of a patent."[25] Had Congress wanted to restrict certain petitioners, it would have done so, as it did in the now-sunset covered business method proceedings.[26] Indeed, Congress rejected a proposal to add a standing requirement in earlier versions of the AIA.[27]

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[21] *See, e.g.*, *ZTE USA Inc., & LG Electronics Inc. v. Cywee Group LTD*, IPR2019-00143, Paper 50 (Jul. 17, 2020). In this case, the original petitioner settled by amendment with the patent owner, while its competitor/joinder petitioner wished to oppose the motion to amend. The Board acknowledged that the petitioners' interests in challenging the patent had diverged. *Id*., 4–5.

[22] The Perryman Group, *An Assessment of the Impact of the American Invents Act and Patent Trial and Appeal Board on the US Economy* (June 2020), available at https://www.perrymangroup.com/publications/report/2020/6/25/an-assessment-of-the-impact-of-the-american-invents-act-and-patent-trial-and-appeal-board-on-the-us-economy/.

[23] During testimony to Congress, the Director indicated that the proposed "for-profit" language is meant to be a standing requirement in response to stakeholder feedback. https://judiciary.house.gov/committee-activity/hearings/oversight-us-patent-and-trademark-office ("[T]here is no standing requirement *right now* for people to engage in the PTAB practice. In the ANPRM, we have made some proposals based on feedback we heard from stakeholders.") (emphasis added).

[24] *See, e.g.*, *Utility Air*, 573 US at 306.

[25] 35 U.S.C. § 311(a).

[26] *See* §18(a)(1)(B), 125 Stat. 330.

[27] *Compare* H.R. 1908, 110th Congress (Sept. 2007) (post grant-review provision with no standing requirement); *with* S. 3600, 110th Congress (2008) (post-grant review required petitioner to be "a person who has a substantial economic interest adverse to a patent"); and S. 515, 111th Congress (2009) (post-grant review provision with original language allowing anyone other than the patent owner to file).

Recognizing it would need to come from Congress, such requirements have been introduced and failed in Congress over multiple terms.[28]

A standing requirement would also be contrary to Congressional intent and undermine the important policy objectives that are Congress's ambit. As Senator Leahy, who co-sponsored the AIA, himself said, the reason Congress rejected a standing requirement after thorough debate, "was that each petition should be heard on the merits and decided on the validity of the patent, not based on who filed a petition for review."[29] The ANPRM's proposals run counter to that intent, instead favoring policies that deviate from the merits, both for the standing proposal and the other proposals discussed herein. The Office must reject any variation of a standing requirement in order to stay true to its policy goals favoring the "authoritative testing of patent validity" and the "removal of restrictions on those who would challenge . . . patents" to serve the "public's . . . paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope."[30]

The Office's suggestion that the standing proposal may serve certain policy goals is based on a flawed premise that filings by independent third parties is a categorical problem, or even undesirable. But third-party filers, like any other filer, serve an important purpose in deterring exploitation of overbroad patents. And while rare, they serve an important public good. When the Texas Realtor's Association files a challenge against a patent asserted against many of its members, it serves to provide an objective check on that patent.[31] Not that such filings are endemic or even all that regular—less than 3% of all filings are by third-party filers, and there is no evidence of unaddressed abuse by third-party filers. In deciding to create inter partes review without a standing requirement, a congressional committee observed that "no empirical evidence, even anecdotally, was proffered . . . to demonstrate that such abuses" to harass patent owners occurred in the predecessor to inter partes review.[32] If anything, Congress believed that the high success rates in modifying or nullifying claims in administrative challenges made any "limitations and deterrents against inter partes petitions," beyond what was in the statute, "unnecessary" and "counterproductive."[33] Any proposed rule should be based on clear empirical evidence, not unsupported statements made by interested stakeholders, and this is especially true when, as here, the assumptions underlying such statements contradict Congress's own findings.

The Office already has and uses tools at its disposal to address any abuse by petitioners, including third-party filers. For example, where abuse occurs, the PTAB issues sanctions.[34] One can count on one hand the cases where sanctions were appropriate in over 10,000 petitions over 10 years of the AIA. Notably, one of those circumstances—challenges to VLSI patents by

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[28] STRONGER Patents Act of 2019, S.2082, 116th Cong. (2019) (bill that would have added a standing requirement to AIA trials unable to move forward).

[29] Sen. Patrick Leahy, *Leahy: New USPTO rulemaking should seek to strengthen, not weaken, America Invents Act*, The Hill (May 25, 2023), available at https://thehill.com/opinion/congress-blog/4020170-leahy-new-uspto-rulemaking-should-seek-to-strengthen-not-weaken-the-america-invents-act/.

[30] *Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 344-45 (1971) (internal quotations omitted).

[31] *Texas Ass'n of Realtors v. POI Search Sols. LLC*, IPR2016-00615 (filed Feb. 11, 2016)

[32] H.R. 112-98 Part 1, 164, 112th Congress (June 1, 2011) (views of Reps. Berman, Watt, and Lofgren).

[33] *Id*. (emphasis added).

[34] *See, e.g.*, *OpenSky Indus., LLC v. VLSI Tech. LLC*, IPR2021-01064, Paper 127 (Feb. 2, 2023) (Director decision sanctioning petitioner for abuse of process); *see also Coalition for Affordable Drugs, VI, LLC v. Celgene Corp.*, IPR2015-01092, Paper 19 (Sep. 25, 2015) (decision on motions to sanction party for profit-motive, denying because the motion did not allege that the petitioner presented non-meritorious challenges).

OpenSky and Patent Quality Assurance in "copy-cat" petitions filed after the lone district-court defendant was denied institution—was itself an artifact of the arbitrary *Fintiv* rule. If the Petitioner's original challenge had not been denied under *Fintiv*, the *OpenSky*/*PQA* situation never would have happened. The ANPRM proposals fall into the trap of letting bad facts that are the byproduct of bad law make even worse law.

In the case of Unified, which represents most of such third-party filings (but still just 1.8% of PTAB filings), issuing a rule that precludes it from filing is unjustified, unbalanced, and would unfairly punish a particular company. Unified always acts independently, and its challenges are focused on patents owned by NPEs that assert overbroad patents and nuisance suits. These are the types of patents that "slip[ped] through" prosecution and that the AIA was designed to clean up.[35] And, despite only filing a handful of challenges annually, Unified is often the only filer deterring overbroad patents from being asserted against small- and medium- sized businesses who may lack the expertise or resources to defend themselves against such NPEs.

In this regard, Unified is aligned with the Office's missions under the AIA, such as deterring weak or predatory NPE campaigns and the monetization of bad patents. Such nuisance suits drain business sectors of their resources, thereby stifling innovation, driving up litigation and settlement costs, and avoiding merits review. And Unified, like any other petitioner, cannot force the Office to do anything that the merits of the patents and legal arguments don't dictate. It uses publicly available evidence to question the validity of patents that are often broadly asserted in nuisance suits. Unified's conduct and contractual limitations demonstrate that it is not filing as part of a harassment strategy, but to fulfill its mission of deterring assertions of low-quality patents; any implication that entities like Unified have abused the system is simply untrue. Unfairly targeting Unified or limiting its ability to file beyond what Congress intended, simply serves to preserve patents that never should have been granted.

Consider:

- Unified files challenges independently, without the input, assistance, or approval of any of its members, and it is not a proxy for any entity. Because Unified is not a proxy, it does not help entities circumvent estoppel rules. Unified never communicates with members or potential members regarding which patents it will challenge; it is never paid to challenge specific patents; it does not have an attorney-client relationship with any of its members; and it never files a challenge at any company's behest (indeed, Unified often takes divergent or inconsistent positions from other challengers, including members). It is the only challenger in the majority (nearly 2/3) of its filed cases, it is almost always the first challenger, and in more cases still, it is the only entity to see a challenge through to completion, as it cannot be bought off through monetary settlement.

- Unified's deterrence work seeks to protect technology sectors, called zones, not any individual member or members. For example, it is the number-one challenger of NPE patents targeting small and medium sized businesses in high-tech technology zones, regardless of whether the business is a member. Since 2017, in cases where SMEs (member or nonmember) were sued in one of its technology zones, Unified was the only

[35] *SAS Institute Inc. v. Iancu*, 584 US __, 138 S. Ct. 1348, 1353 (2018).

filer in a vast majority (over 85%) of cases it filed. And in large campaigns where Unified files, those technology zones see over a 50% decrease in assertions by NPEs against SMEs.[36]

- Unified neither pays nor accepts payments from patent owners; instead, to terminate an IPR, a patent owners must grant Unified a broad zero-dollar settlement, essentially an admission that the patent they have asserted is worthless.[37]

- Unified's success confirms that it is carefully targeting weak patents in good faith, consistent with the mission of the AIA. For example, Unified obtained either a zero-dollar walkaway settlement or invalidated patents in 82% of its cases against NPEs from 2017 to 2022. In 2022, Unified filed with an 86% institution rate, which compares favorably to the 67% average for petitioners generally.

Even if standing requirements were legally permissible, the new four-factor analysis in the ANPRM is overly complex, would be challenging to apply, and is unclear as to who or which entities it would apply to. The proposed provision has multiple double negatives and confusing wording based on the undefined substantial relationship test.[38]

To the extent this rule is comprehensible and could be consistently applied by judges, there is a high likelihood of unintended consequences and prejudice to parties that deserve an opportunity to file PTAB proceedings. For example, generic drug manufacturers who have not yet invested in a potential product they may wish to take to market, could be considered nonmarket competitors and would be barred from filing challenges under the rule. This could greatly affect drug prices, preserve unwarranted drug monopolies, and damage start-up and venture-backed pharmaceutical businesses.[39]

The proposal also leaves unclear how the rule would be applied. For example, it is unclear who has the burden of proving so many negatives, such as the fourth element requiring a showing that *no* entity with a substantial relationship with the third party filer is "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." A new test would require new law and new interpretation, and there are many inquiries within that inquiry, each injecting uncertainty into the proceeding and overloading PTAB judges with briefing, discovery, and disputes. Such burdensome tests for an adjudicative body with limited subpoena power, all as part of the *preliminary* proceeding on matters unrelated to the merits of a case, would undermine the efficiency and cost-effectiveness intended by Congress when it created AIA trials.

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[36] A large campaign is one involving five or more SMEs.

[37] It is publicly available information that Unified does not pay for settlements. https://www.unifiedpatents.com/faq.

[38] It is also unclear whether, to meet the fourth factor, a filer must have a substantial relationship with an entity that falls outside the scope of any one of elements (1)-(3) or all of elements (1)-(3).

[39] *See, e.g.*, Association for Accessible Medicine, *Abuse of the patent system is keeping drug prices high for patients* (2019); *available at* https://accessiblemeds.org/campaign/abuse-patent-system-keeping-drug-prices-high-patients; *see also* Veronica Salib, *How Pharmaceutical Patents Contribute to Increased Drug Costs*, Xtelligent Healthcare Media (Aug. 16 2022) (collecting studies), available at https://pharmanewsintel.com/features/how-pharmaceutical-patents-contribute-to-increased-drug-costs.

For at least these reasons, the Office cannot and should not adopt a standing provision targeting "certain for-profit entities," thereby contradicting Congress and undermining both the AIA and the years of bipartisan consideration behind the current statutory requirements.

C. The ANPRM's Proposed Required Stipulations Far Exceed Statutory Requirements and Would Severely Prejudice Stakeholders

The ANPRM's proposal to require stipulations to avoid discretionary denial exceeds the Office's authority.[40] One proposal would require a petitioner to stipulate that that neither the petitioner nor any of their privies or RPIs have filed prior post-grant proceedings (PGRs, IPRs, CBMs or ex parte reexaminations) on the challenged claims; and that if their post-grant proceeding is instituted, neither they nor their privy or real parties in interest will challenge any of the challenged claims in a subsequent post-grant proceeding (including PGRs, IPRs and ex parte reexamination). Another would require Petitioners to prematurely bind themselves to § 315(e) estoppel. Both are impermissible extra-statutory requirements.

First, Congress outlined the non-jurisdictional requirements for petitions under 35 U.S.C. § 312(a). Absent from the statute is a requirement to relinquish rights before the Office or other forums as a condition precedent for institution.

Second, The Office does not have the power to govern a party's actions outside its jurisdiction, and it would be poor public policy for an administrative agency to seek to impose such rules. But implementing such requirements as a matter of course would vastly expand legal collateral estoppel in ways Congress clearly never envisioned. There is simply no need— courts are perfectly capable of applying common laws regarding equitable estoppel and the statutory estoppel provisions set forth by Congress without the proposed stipulations.

Third, and finally, the proposed stipulations are another example of the Office attempting to rewrite Congress' laws which were the result of lengthy bipartisan negotiation. Congress already decided both what kind of estoppel would apply, and that it would only apply *after* entry of a final written decision, by statute.[41] Congress could have, but expressly did not, impose such limitations, likely because of the important and unique nature of the PTAB. Specifically, the PTAB can tackle focused technical disputes in an efficient manner in a way that examiners and district courts cannot. The PTAB would be neglecting its purpose if it required petitioners to stipulate to new extra-statutory estoppel as a condition precedent of institution.

Further, it is unlikely that any petitioner could reasonably make the assurances called for in the proposed stipulation. For example, RPI and privity are highly fact-specific inquiries directed to, among other things, whether a petitioner filed at the behest of another. However, even if such a relationship exists at the time of filing, petitioners cannot possibly control or predict all future legal actions of any other entity that could be found to be related.

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[40] The comments in this section apply to all proposals requiring that a stipulation be filed, including: (1) *Sotera* and *Sand* stipulations, which require Petitioners relinquish district court rights and (2) a new, expansive, "no multiple challenge" stipulation.

[41] 35 U.S.C. § 315(e).

Congress has already decided the scope of estoppel, when it is applied, and how it is applied: to challenges on the same claims, after a final written decision, by the adjudicative body overseeing those later challenges. In a phrase, in the matter where it would bind. Requiring parties to stipulate proactively to promise more than Congress required and more they can reasonably know would be an arbitrary and capricious use of rulemaking authority to legislate new requirements for inter partes review. Thus, these proposals should be rejected.

D. The Office's Ban in Light of Any Prior Adjudication is an Impermissible Expansion of Collateral Estoppel

Unified opposes the proposal to expand the application of discretionary denial in light of any prior adjudications because it presents an unprecedented and prejudicial expansion of collateral estoppel. Congress already considered what kinds of adjudications before the Office would merit discretionary denial: those addressing the same or substantially the same theories of invalidity.[42] The Office cannot now expand this to *any* prior adjudication where there is claim overlap, with exceptions only in limited circumstances.[43]

This is especially so where the prior adjudication was against a different defendant—unrelated defendants will have different strategies, burdens, theories, and purposes for making their arguments before different tribunals, and the different findings against one party should not be binding on another unless they had a full and fair opportunity to be heard.[44] If that were to happen, plaintiffs would be encouraged to bring suit against objectively weak defendants, or even be encouraged to collude with them to insulate themselves from future challenge. This is no made-up concern; Thomas Jefferson himself spoke to it in 1791. In a letter debating our earliest patent laws, he opposed any such preclusive effect from district court litigation, asking rhetorically, "Will you make the first trial against the patentee conclusive against all others who might be interested to contest his patent? If you do, he will always have a collusive suit brought against himself at once."[45] In short, this rule threatens the rights of the public and all would-be future petitioners without their participation or knowledge and could serve to rob future parties of their right the participate and be heard, thereby raising serious due process concerns.

Other issues exist with the underlying proposal. How the Office would define "substantial overlap" is overbroad and is prone to gamesmanship. Denying follow-on petitions as "duplicates" simply because at least one challenged claim was "substantially the same" as an earlier petition, regardless of whether it was filed by the petitioner or another, ignores the reality of district court litigation, staggered infringement contentions, and complex word, financial, and timing limitations. The immunization of just one invalid claim from objective review can lead to millions

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[42] 35 U.S.C. 325(d).

[43] The stated exception would be when the petitioner meets the following three criteria: (1) the petitioner has standing to challenge the validity of the claims in district court or intends to pursue commercialization of a product or service in the field of the invention of a challenged claim; (2) was not an RPI or privy to the party previously challenging one or more of the challenged claims (unless any earlier challenge was resolved for reasons not materially related to the merits of the petition, e.g., a post- grant proceeding that was discretionarily denied or otherwise was not evaluated on the merits); and (3) meets a heightened burden of compelling merits.

[44] *Blonder-Tongue Laboratories, Inc. v. University of Ill. Foundation*, 402 U.S. 313, 329 (1971).

[45] Letter from Thomas Jefferson to Hugh Williamson (Nov. 13, 1971), reproduced at https://founders.archives.gov/documents/Jefferson/01-22-02-0271.

of dollars in unwarranted discovery and liability. Patent plaintiffs are only required to identify one claim in a complaint—and any petitioner would be reasonable to wait for the patent owner to at least provide infringement contentions before filing an IPR. But, particularly in the face of *Fintiv*, petitioners will now be pressured to jump the gun on the known claims to avoid discretionary denial over another's early petition. This will lead to mistakes and cases will proceed not on the merits, but because of procedural snafus introduced by these unnecessary and overly complex new requirements.

Further, the ability for parties to file follow-on petitions that raise new art responsive to a patent owner's arguments are not a bug, but a feature of AIA trials because panels have great flexibility to consolidate and stay related cases. Parties who wait until they understand a patent owner's position are not gaming the system, but simply presenting a more complete analysis for the Office to consider. For example, consider the case where a patent owner employs claim construction to distinguish the claims from the prior art in a first petition, and a follow-on petition is filed aiming to render that claim construction issue moot. Regardless of the identity of the filer, a panel could and should consolidate such related cases or choose one proceeding to stay while it considers the threshold issue in another. Indeed, Congress intended joinder of related cases, even those presenting somewhat different grounds, to be a matter of right to petitioners.[46]

Although, the stated purpose for this rule is to discourage harassment by follow-on petitions, there is no objective data that this is a widespread issue—though there is a fair amount of unsupported lobbying effort to suggest there is one. As noted above, it is very rare that serial petitions are filed, but when they are filed, it is often due to legitimate circumstances (*e.g.,* when patent owners have asserted the same patents against multiple defendants in a staggered fashion). In such situations, each defendant bringing a meritorious challenge deserves the opportunity to be heard by the PTAB.

The ANPRM's proposals to expand prior adjudication denials to include ex parte reexaminations are particularly concerning and inappropriate. Ex parte reexaminations already have their own requirements, are subject to different standards, and simply do not provide the same adversarial process that inter partes review can offer. Ex parte reexaminations can even be filed anonymously. The *ex parte* nature of these proceedings would invite bad actors and further gamesmanship. For example, Patent Owners could induce early, weaker re-examination requests against their own patents (either by themselves, through others, or anonymously), thereby blocking any future challenges by defendants. Indeed, ex parte reexamination, which was created forty years ago, was designed in large part to be a tool for patent owners to amend claims. But the proposed rule would appear to insulate such untested claims from AIA review. The purpose of AIA trial proceedings is to provide a more intensive and fulsome review of *ex parte* records. The proposed rule would have the opposite effect.

Additionally, not only is the proposed rule regarding ex parte filings inappropriate, but it is also unnecessary because Congress already gave the Director direction on how to handle multiple challenge of the same patent. For example, Congress gave the Director the ability to proceed, stay, transfer, or terminate co-pending proceedings. If the previous case has already ended, the Office may terminate the new proceeding if it presents the same or substantially the

[46] 157 Cong. Rec. 3386, 3429 (March 8, 2011) (statement of Sen. Kyl).

same prior art or arguments.[47] These are the tools the Director should be using, not creating new rules blocking review of meritorious challenges potentially by a different party using different art (and possibly against new amended claims).

The proposed rule would effectively give ex parte reexaminations estoppel effect, but the Office should not be adding entirely new estoppel provisions. Congress has demonstrated exactly when it believes a prior adjudication is grounds for estoppel. For nearly half a century, Congress has allowed ex parte reexaminations to proceed concurrently with various other adversarial proceedings, including district court cases and inter partes reexaminations. The office cannot now unilaterally elevate one proceeding over the other. Any such policy decision must be left to Congress.

E. The Office Need Not Re-Codify *Becton Dickinson*/*Advanced Bionics*

Unified questions the need to codify rules regarding petitions involving the same or substantial the same subject matter that was previously before the Office. Congress already codified when cases "may" warrant denial under § 325(d): cases where the same or substantially the same grounds were already considered by the Office. The current *Advanced Bionics* framework adequately applies the statute in a predictable and flexible manner. Further regulatory action would at best be superfluous and at worst, could potentially increase unpredictability.

F. The Office's Proposal Regarding Covenants Not to Sue Is Unenforceable and Would Interfere With the Private Right to Contract

The ANPRM requests feedback on whether it should discretionarily deny trial if the patent owner provides a covenant not to sue a for-profit petitioner and its customers prior to initiating litigation against those entities. First, it is unclear whether such a unilateral contract is binding or would be legally enforceable; if so, it appears that the proposed rule would interfere with the private right to contract. The Office cannot unilaterally bind one party to a contract offered by another. And the Office will have no way of enforcing such an agreement, or analyzing what language might be appropriate. The proposed rule would thus create what amounts to a one-sided contract of adhesion. When parties wish to negotiate a covenant in exchange for settlement of the challenge, that is a bargained-for exchange, which comprises consideration sufficient to form a binding contract. Absent such consideration, the Office's proposed covenants lack binding authority.

Further, this proposal is based on policy that runs counter to the AIA. The AIA was intended to allow anyone to bring invalid patents to the Office's attention to remove them from the system. This should be true regardless of whether they will or won't be asserted in litigation against a particular defendant.

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[47] 35 U.S.C § 325(d).

IV. CONCLUSION

For the reasons provided above, many of the proposals are not within the administrative agency's power to impose via notice-and-comment rulemaking. Regardless, the proposed policies would be damaging to American businesses and the integrity of the patent system and undermine Congress's express statutory language and intent in enacting the AIA. Unified appreciates the opportunity to submit comments on these important issues and respectfully requests the Office reject codifying rules expanding discretionary denials.

Sincerely,

Jonathan Stroud

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