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USPTO Proposes New Rulemaking to Reshape Post-Grant Proceedings at PTAB

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Patent Litigation

By Rob Maier | May 23, 2023

The 2011 passage of the America Invents Act (AIA) resulted in a seismic shift in patent litigation and disputes in the United States. The AIA brought with it new post-grant proceedings, including inter partes review (IPR) and post-grant review (PGR), that could be used to challenge the validity of patents in a quasi-litigation proceeding before the U.S. Patent and Trademark Office's (USPTO's) Patent Trials and Appeals Board (PTAB). Since their inception, over 15,000 such proceedings have been filed, making them an integral part of the process for resolving patent disputes in the United States.

At least in the early years, these proceedings were so fast and efficient in invalidating patents that the PTAB earned the moniker "patent death squad" from critics. See former Federal Circuit Chief Judge Randall Rader, Remarks at the AIPLA Annual Meeting (Oct. 25, 2013).

In more recent years, the PTAB has employed its discretion afforded to it by the statute, to deny institution of otherwise substantively strong petitions based on a variety of factors and approaches that have developed over time. But, some have argued this broad discretion has led to increased uncertainty, and has circumvented Congressional intent. As a result, and after receiving comment from practitioners, the USPTO recently released proposed rulemaking that would address concerns raised by critics, and which are targeted at increasing predictability in PTAB proceedings.

Background of Proposals for New Rulemaking

The implementing statute, 35 U.S.C. 314(a), sets a threshold for institution of PTAB proceedings. In addition to that threshold, the statute grants the USPTO director discretion to determine whether to institute a proceeding. See 35 U.S.C. 316 and 326. However, the PTAB has interpreted and applied that discretion fairly broadly, in ways that, so critics claim, have led to inconsistency and unpredictability.

In June 2022, USPTO Director Katherine Vidal issued a memorandum with interim guidance regarding the PTAB's use of discretionary denials, and further seeking public comments. On April 20, the USPTO announced potential PTAB proceeding reforms in an advanced notice of proposed rulemaking. In the notice, Vidal reiterated that the USPTO's goal is to provide fast, cost-effective proceedings that can be utilized as an alternative to district court litigation to resolve certain patentability issues, and ultimately to give the USPTO an opportunity to have "a second look at an earlier administrative grant of a patent" and "revisit and revise earlier decision."

See Advanced Notice of Proposed Rulemaking at 3 (April 20, 2023) (citing *Cuozzo Speed Technologies v. Lee*, 579 U.S. 261, 279 (2016)).

Highlights From the Advanced Notice of Proposed Rulemaking for PTAB Reforms

The notice of proposed rulemaking has the potential to impact PTAB proceedings in several respects. The changes under consideration in the notice include modified rules of practice for IPR and PGR proceedings, which both codify and add to existing precedent regarding the PTAB's discretion to determine whether to institute an IPR or PGR. The notice includes a range of proposals that relate to discretionary denials of institution of post-grant proceedings, clarification of definitions, procedural enhancements, and additional filing requirements.

Specifically, with regard to parallel litigation, the notice proposes several rules concerning the situations in which discretionary denial may be employed. For example, the notice suggests that discretionary denial would not be available in situations in which there is a pending parallel International Trade Commission investigation involving the patent at issue. Discretionary denial under the proposed changes also would not be exercised for PGR proceedings based on parallel district court litigation; however, the notice expressly states that discretionary denial would remain available to deny institution of an IPR in view of a parallel district court action.

The proposed rulemaking includes changes that would place tighter reins on the PTAB's discretion. For example, one of the proposed rules would require considering the filing date of the parallel district court proceeding, such that the Board would not deny institution of an IPR if a petition for IPR is filed within six months after the date on which the petitioner, a real party in interest, or a privy thereof is served with a complaint alleging infringement of the patent. The notice also contemplates another factor-based test involving a streamlined version of one or more of the other so-called Fintiv factors that are currently part of the PTAB's analysis of discretionary denial. For example, the notice suggests a factor-based test that would omit Fintiv factor 1 (the likelihood of a stay) and factor 5 (whether the petitioner and the defendant in the parallel proceeding are the same party), with the goal of bringing additional predictability.

Furthermore, recognizing that there are certain situations in which the PTAB should not deny institution based on parallel district court litigation, the notice contemplates a safe harbor when the petitioner files a stipulation agreeing not to pursue the grounds that were raised in the petition in the district court under *Sotera*—stipulations that have become commonplace in current PTAB practice. See *Sotera Wireless v. Masimo*, IPR2020-01019, Paper 12 (PTAB Dec. 1, 2020) (precedential).

The notice also proposes changes intended to address serial petitions with greater predictability. In particular, the notice proposes eliminating factors 1-7 of the *General Plastic* test and replacing those with a new test, which incorporates the PTAB's case law on factor 1 of *General Plastic*. See *General Plastic Industrial v. Canon Kabushiki Kaisha*, IPR2016-01357, Paper 19 (PTAB Sept. 6, 2017) (precedential).

Specifically, the notice proposes that the PTAB would deny institution of any serial IPR or PGR petition that is filed by the same petitioner, a real party in interest or privy to that petitioner, a party with a significant relationship to that petitioner, or a party who previously joined an instituted IPR or PGR filed by that petitioner, with only two exceptions—i.e., when the earlier petition was resolved for reasons not materially related to the merits of the petition, or where there are exceptional circumstances, such as situations in which the scope of the claim has been changed through amendment or a proposed claim construction.

The notice also proposes to define a new concept, not found in the AIA, regarding whether a petitioner has a “substantial relationship” with a petitioner in a prior proceeding. Specifically, the notice contemplates a “substantial relationship” definition similar to a concept the board discussed in *Valve I* and *Valve II*, where the board expanded the definition of “related” party to include a co-defendant and a joinder petitioner party. See *Valve v. Electronic Scripting Products*, IPR2019-00062, Paper 11 (PTAB Apr. 2, 2019) (*Valve I*) (precedential); IPR 2019-00064, Paper 10 (PTAB, May 1, 2019) (*Valve II*) (precedential). In addition, the proposal would require a patent owner and petitioner to disclose any party with an ownership interest in the patent owner or petitioner, any government or third-party litigation funding involved, and any stake any party has in the outcome of the PTAB proceeding or any parallel proceedings on the challenged claims.

The notice also considers adopting a “compelling merits” test that would eliminate discretionary denials in certain circumstances. Under this approach, where a petition demonstrates compelling merits such that the “evidence at the institution stage leaves the board with a firm belief or conviction that it is highly likely that the petitioner would prevail with respect to at least one challenged claim,” the PTAB will institute a proceeding even in circumstances in which the petition would otherwise be subject to discretionary denial.

Moreover, the notice includes proposed changes to the use of discretionary denials in cases involving petitioners that are not competitors with or accused of infringement by the patent owner. More specifically, the rulemaking contemplates that the PTAB would discretionarily deny any petition for IPR or PGR filed by an entity that:

is a for-profit entity; has not been sued on the challenged patent or has not been threatened with infringement of the challenged patent in a manner sufficient to give rise to declaratory judgment standing; is not otherwise an entity that is practicing or could be alleged to practice; and does not have a substantial relationship with such an entity.

Advanced Notice at 11-12 (April 20, 2023). This would result in members of defensive IPR entities being unable to file their own petition if the defensive IPR entity had previously filed such a petition. It would also prevent market speculation entities from filing IPRs targeting a company’s patent portfolio with the intent of lowering the patent owner’s market valuation.

The notice also includes proposed rulemaking aimed to protect under-resourced inventors and companies. Specifically, the proposal indicates that, absent compelling merits, the PTO would deny institution of IPR or PGR when the following requirements are satisfied: where the patent owner had claimed micro entity or small entity status during prosecution, the patent owner has not exceeded eight times the micro entity gross income level, and the patent owner was commercializing the subject matter of a challenged claim at the time the petition was filed.

The proposed rulemaking also includes modifications to the procedure for addressing the briefing of discretionary denial issues. Specifically, the proposed changes would include a procedure for separate briefing on discretionary denial issues prior to the deadline for a patent owner's preliminary response. The notice explains that this separate briefing would allow parties to address issues relevant to consideration of discretionary denial without concern about sacrificing the briefing pages they are afforded to address the merits of the petition.

Finally, the notice provides another proposal that would require parties to submit copies of all settlement agreements, including pre-institution agreements. The stated goal of this requirement is to assist the Federal Trade Commission and the Department of Justice in reviewing and considering possible violations of antitrust laws.

Conclusion

Given the significant impact the proposed rulemaking would have on PTAB proceedings, it is not surprising that practitioners and stakeholders have swiftly begun to express their views. Some have expressed the concern that the proposed rulemaking does not go far enough to provide enough certainty and predictability. Others point out that the proposed changes are inconsistent with Congressional intent in the AIA, and expressly alter the balance between patent owners and petitioners embodied in the AIA. It remains to be seen whether any of these proposed changes will be adopted in the final rulemaking, or if they are, whether they will survive judicial scrutiny if the final rules are challenged.

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