

USPTO Rulemaking on Precedential Opinions Deserves Public Support

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The U.S. Patent and Trademark Office (USPTO) has submitted [proposed rulemaking](#) for review by the White House’s Office of Management and Budget (OMB). Although the details are not public, the proposed rule is anticipated to formalize prudential doctrines on trial institution that the Patent Trial and Appeal Board (PTAB) currently applies through precedential opinions such as *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, Paper 11 (PTAB March 20, 2020); *General Plastic Industries Co. Ltd. v. Canon Kabushiki Kaisha*, IPR2016-01357, Paper 19 (PTAB Sept. 6, 2017); and *Becton, Dickinson & Co. v. B. Braun Melsungen AG*, Case IPR2017-01586, Paper 8 (PTAB Dec. 15, 2017).

These doctrines provide legal frameworks under which the PTAB may deny institution of an *inter partes* review (IPR) based on fairness—rather than on merits alone. Because the doctrines reduce the odds that certain categories of IPRs will be instituted, they are subjects of fierce dispute among patent lobbyists and, most recently, [a lawsuit filed under the Administrative Procedure Act](#) (APA) in the Northern District of California.

As the two sides fight for their respective interests, the public—and policymakers—should not lose sight of the big picture: these doctrines protect basic tenets of fairness and they are, on balance, good policy. Stakeholders and OMB should therefore support the USPTO in its rulemaking effort.

The Fintiv Rule

Fintiv is by far the most controversial of the three prudential doctrines. *Fintiv* provides a six-factor test that asks whether an IPR trial, if instituted, would duplicate a parallel district court case. Specifically, the factors the PTAB considers are:

- (1) whether the court granted a stay or evidence exists that one may be granted if a proceeding is instituted;
- (2) the proximity of the court’s trial date to the Board’s projected statutory deadline for a final written decision;
- (3) investment in the parallel proceeding by the court and the parties;
- (4) the overlap between issues raised in the petition and in the parallel proceeding;
- (5) whether the petitioner and the defendant in the parallel proceeding are the same party; and

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(6) other circumstances that impact the Board’s exercise of discretion, including the merits.

Where the district court will decide a patent’s validity before or near the time that the PTAB would reach the same decision, *Fintiv* gives the PTAB discretion to defer to the district court proceedings. *Fintiv* thus advances one of the core objectives of the America Invents Act (AIA) by ensuring that PTAB trials are an alternative—not an addition—to district court litigation.

Fintiv does not merely conserve judicial and party resources. It also spares the patent system from the credibility-diminishing spectacle of contradictory outcomes. Although thankfully rare, it is possible for a jury and a PTAB panel to reach opposite conclusions as to the validity of the same patent as litigated by the same parties. These cases raise constitutional questions under the 7th Amendment, and they are counterproductive to the health of the patent system as a whole.

Critics argue that *Fintiv* is unlawful because the [AIA provides](#) that a defendant may not file an IPR petition more than one year after it was sued in a parallel district court proceeding. Thus, the argument goes, the PTAB may not consider the relative timing between an IPR proceeding and a district court proceeding, provided that this one-year threshold is met. But this argument conflates a necessary condition for one that is sufficient. There is no statutory provision that prevents the USPTO from considering the advanced stage of a parallel district court proceeding in deciding whether to institute IPR. Indeed, the AIA’s preference for avoiding duplicate proceedings—and its commitment of the institution decision to USPTO discretion—confirms that the USPTO can exercise its discretion to avoid counterproductive duplication and contradictory outcomes.

Companies that frequently defend patent infringement claims oppose *Fintiv* in part due to its strategic implications. *Fintiv* can, of course, deny defendants a second bite at the apple from which they might otherwise have benefited. But defendants were never intended to have two shots to prove a patent invalid. *Fintiv* can also force defendants to file IPR petitions early in a case—sometimes, well before the one-year statutory deadline expires. The timing and cost of an IPR petition are real challenges to defendants who, for many reasons, may prefer to delay committing resources to an IPR. There are reforms that could be taken to provide relief to these defendants—such as by shifting IPR filing fees to the post-institution phase, or by passing legislation to deter the assertion of facially invalid patents. But allowing defendants to bide their time and then duplicate proceedings ultimately exacerbates—and does not alleviate—the issue of cost.

As USPTO Director Andrei Iancu [recently explained](#) in an interview with the Hudson Institute, IPRs were intended by Congress to be a faster, cheaper alternative to district court litigation. In cases where the district court is far ahead of the PTAB, “we’re not

going to be faster because we're going to finish afterwards, we're not going to be cheaper because the expenses are done ... , and we're certainly not an alternative." In these circumstances, "the complete purpose of the IPR system is defeated, and the only thing that is left is a second bite at the apple" for the accused infringer. Director Iancu's analysis is precisely correct, and *Fintiv* deserves stakeholder support.

The *General Plastic* and *Becton Dickinson* Rules

General Plastic and *Becton Dickinson* apply to IPR proceedings basic principles of fairness that have long applied in district court litigation.

General Plastic principally stands for the proposition that a litigant must present its best case, the first time. Prior to the 2017 decision, it was possible for a patent challenger to file a first IPR petition, wait to review the patent owner's arguments opposing the petition, and then file a new petition fixing any errors that the patent owner identified. *General Plastic* holds that, in these circumstances, the follow-on petition should generally be denied.

Although gray area exists around its application to petitions filed by new parties, in general, *General Plastic* provides necessary balance to PTAB proceedings. In a district court trial, a plaintiff cannot present its case-in-chief and then, upon hearing the defendant's response, request a new trial so that it can present better arguments. Such a rule would be manifestly unfair to defendants. Similarly, there is no reason that an IPR petitioner should be entitled to a do-over should it learn after filing that its arguments require improvement.

Becton Dickinson, meanwhile, holds that a patent challenger generally cannot obtain institution merely by presenting the same arguments that were considered and rejected by the USPTO during examination. And, if the challenger's arguments are similar to but not identical to those that were considered by the patent examiner, the challenger must explain why the new arguments are sufficient to justify a different result.

The same principle has been applied for decades without serious opposition in district court litigation. Juries are [routinely instructed](#) that patents enjoy a presumption of validity and that references considered by the examiner prior to the patent's issuance may be weighted less heavily in the validity analysis.

Further, petitioners can often work around *Becton Dickinson* without major disruption to their case strategy. Petitioners who are alert to the issue can generally either find better prior art than was considered during examination or persuasively explain why the examiner's analysis was wrong. Where neither is possible, one might reasonably question whether the IPR deserves to be instituted.

The rules set forth in *General Plastic* and *Becton Dickinson* are good policy. Indeed, the fact that these pro-patentee rules have not garnered significant opposition suggests that even companies that do not benefit from the rules recognize their fundamental fairness.

What Comes Next?

OMB is now reviewing the USPTO's proposed rule and will decide whether it may proceed to the public notice-and-comment phase.

Central to OMB's analysis will be: (1) whether the USPTO has authority to promulgate the proposed rule; and (2) whether the proposed rule is "significant," as defined under Executive Order 12866. If the proposed rule is deemed significant, its publication and adoption may be substantially delayed.

The Supreme Court held in [*Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 \(2016\)](#) that the decision to deny an IPR petition "is a matter committed to the Patent Office's discretion," and Congress granted the USPTO broad [statutory authority](#) to prescribe regulations based on its consideration of factors such as "the integrity of the patent system," "the efficient administration of the Office," and "the ability of the Office to timely complete proceedings." Although companies challenging *Fintiv* are surely arguing to OMB that the USPTO lacks authority to enact its proposed rule, it seems unlikely that the USPTO would lack power to promulgate rules explaining how it exercises its own discretion.

And, provided that the USPTO's proposed rule merely consolidates doctrines that the PTAB already applies, OMB should have a straightforward basis to conclude that the proposed rule is not significant.

OMB should approve the USPTO's proposed rule, and the public should be provided an opportunity to weigh in.