

6-25-2020

## Unfettered Discretion: A Closer Look at the Board's Discretion to Deny Institution

Joel D. Sayres

*Faegre Drinker Biddle & Reath LLP*, [joel.sayres@faegredrinker.com](mailto:joel.sayres@faegredrinker.com)

Reid E. Dodge

*Faegre Drinker Biddle & Reath LLP*, [reid.dodge@faegredrinker.com](mailto:reid.dodge@faegredrinker.com)

Follow this and additional works at: <https://scholarship.kentlaw.iit.edu/ckjip>



Part of the [Intellectual Property Law Commons](#)

---

### Recommended Citation

Joel D. Sayres & Reid E. Dodge, *Unfettered Discretion: A Closer Look at the Board's Discretion to Deny Institution*, 19 Chi.-Kent J. Intell. Prop. 536 (2020).

Available at: <https://scholarship.kentlaw.iit.edu/ckjip/vol19/iss4/5>

This Article is brought to you for free and open access by Scholarly Commons @ IIT Chicago-Kent College of Law. It has been accepted for inclusion in Chicago-Kent Journal of Intellectual Property by an authorized editor of Scholarly Commons @ IIT Chicago-Kent College of Law. For more information, please contact [jwenger@kentlaw.iit.edu](mailto:jwenger@kentlaw.iit.edu), [ebarney@kentlaw.iit.edu](mailto:ebarney@kentlaw.iit.edu).

## UNFETTERED DISCRETION: A CLOSER LOOK AT THE BOARD'S DISCRETION TO DENY INSTITUTION

JOEL D. SAYRES & REID E. DODGE\*

In enacting *inter partes* review (“IPR”) in the America Invents Act (“AIA”), Congress intended to solve a specific problem—the inability of the then-existing administrative alternative to district court litigation (*inter partes* reexamination) to efficiently and effectively address patent validity based on patents and printed publications. Congress thus created IPRs as a complete substitute for litigation on this issue, and provided a procedural framework that would allow and encourage parties to avail themselves of this administrative remedy.

To ensure that the doorway to IPRs was not limitless, Congress delineated a specific threshold before a trial could be instituted. That threshold is set forth in 35 U.S.C. § 314(a), which provides that IPR may not be instituted unless the petition “shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” However, the Board has increasingly identified circumstances in which it will *not* institute IPR, even where a petitioner satisfies this statutory threshold. Indeed, the Board has seemingly adopted the view that it has essentially unfettered discretion to deny institution, separate and apart from the “reasonable likelihood” standard. As explained below, neither the text of Section 314(a) nor the legislative history of the AIA appears to support the Board’s view; moreover, this interpretation may be hindering Congress’ intent to provide an effective administrative alternative to litigation on the issue of patent validity.

\* Joel Sayres is a partner in the Denver office of Faegre Drinker Biddle & Reath LLP. Reid Dodge is an associate in the Indianapolis office of Faegre Drinker Biddle & Reath LLP. The views expressed herein belong solely to the authors and do not necessarily reflect the views of Faegre Drinker Biddle & Reath LLP or its clients.

I. IPRs AS A “COMPLETE SUBSTITUTE” FOR LITIGATION AND A FIX FOR *INTER PARTES* REEXAMINATIONS

Congress created IPRs<sup>1</sup> in response to “a growing sense that questionable patents are too easily obtained and are too difficult to challenge.”<sup>2</sup> Indeed, the “uniform and compelling” legislative record makes clear that IPRs were intended to address the problems of burdensome litigation by providing a “complete alternative and complete substitution” for district court litigation regarding validity based on patents and printed publications under 35 U.S.C. §§ 102 and 103.<sup>3</sup> In Congress’ view, such a substitution would enable the critical validity issue to be decided by patent experts<sup>4</sup> in a relatively short timeframe, thus increasing patent quality and avoiding many of the problems and costs inherent in district court patent litigation.<sup>5</sup>

Importantly, at the time the AIA was enacted, an administrative avenue for challenging patents already existed—*inter partes* reexamination proceedings. This predecessor was also intended to “serve as

1. Although this article focuses on IPRs, the discussion herein is also pertinent to post grant review (“PGR”) and covered business method review (“CBMR”) proceedings, both of which are creations of the AIA.

2. America Invents Act, H.R. 1249, 112th Cong. 1, at 39 (2011) (as reported by the H. Comm. on the Judiciary, June 1, 2011).

3. *SAS Inst., Inc. v. ComplementSoft, LLC.*, 825 F.3d 1341, 1354 (Fed. Cir. 2016) (Newman, J., dissenting) (“The AIA proceeding is structured as a complete alternative to litigation of these issues.”); *see also id.* at 1355–60; 157 CONG. REC. S1376 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (“Ideally, extending could-have-raised estoppel to privies will help ensure that if an *inter partes* review is instituted while litigation is pending, that review will completely substitute for at least the patents-and-printed publications portion of the civil litigation.”); 157 CONG. REC. S5409 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer) (stating that the AIA “streamlines review of patents to ensure that the poor-quality patents can be weeded out through administrative review rather than costly litigation”); H.R. REP. NO. 112-98, pt. 1, at 48 (2011) (stating the purpose of IPRs is to “provid[e] quick and cost effective alternatives to litigation”); *Patent Reform: The Future of American Innovation: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. 13 (2007) (statement of Jon Dudas, Director, USPTO) (stating that “the estoppel needs to be quite strong” and “is intended to allow nothing—a complete alternative to litigation”).

4. *See* 157 CONG. REC. S1352 (daily ed. Mar. 8, 2011) (statement of Sen. Udall) (“[A] panel of experts is more likely to reach the correct decision on a technical question compared to a jury composed of laypeople.”); *Perspective on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, 109th Cong. 77, at 51 (2005) (statement of Q. Todd Dickinson, Vice President and Chief Intellectual Property Counsel, General Electric Co., and former USPTO Director) (The “USPTO is a particularly appropriate venue for making validity determinations in a cost-effective and technically sophisticated environment.”).

5. *See SAS Inst.*, 825 F.3d at 1354 (Newman, J., dissenting) (“In providing a meaningful alternative to district court litigation of these primary issues of patent validity, Congress designed the AIA to achieve expeditious and economical final resolution.”) (citing *Patent Reform Act of 2009: Hearing Before the H. Comm. on the Judiciary*, 111th Cong. 153 (2009) (statement of Rep. Manzullo) (“It is clearly appropriate to have an administrative process for challenging patent validity, but it should exist within a structure that guarantees a quick—and final—determination.”)).

an effective and efficient alternative to often costly and protracted district court litigation.”<sup>6</sup> However, to many in Congress, *inter partes* reexamination had simply “broken down,”<sup>7</sup> plagued by limitations that “proved to make it a less viable alternative to litigation for evaluating patent validity than Congress intended.”<sup>8</sup> Indeed, studies showed that *inter partes* reexaminations were used infrequently.<sup>9</sup> Accordingly, one central purpose of enacting IPRs in the AIA was to remedy the shortcomings of *inter partes* reexamination—and thereby encourage parties to again avail themselves of an agency alternative to district court litigation for determining the crucial issue of patent validity.<sup>10</sup>

## II. SECTION 314(A) AND THE EVOLUTION OF BOARD DISCRETION TO DENY INSTITUTION

Despite Congress’ intent for IPRs to serve as a substitute for district court litigation and an effective fix for *inter partes* reexamination, extra-congressional barriers to IPRs appear to be steadily growing. Specifically, the Board has increasingly identified circumstances in which it will *not* institute IPR, even where a petitioner satisfies the statutory threshold for institution set forth in 35 U.S.C. § 314(a), which provides:

Threshold. The Director may not authorize an inter partes review to be instituted unless the Director determines that the information presented in the petition filed under section 311 and any response filed under section 313 shows that there is a reasonable likelihood that

6. America Invents Act, H.R. 1249, 112th Cong. 1, at 45 (2011) (as reported by the H. Comm. on the Judiciary, June 1, 2011).

7. 157 CONG. REC. S5374 (daily ed. Sept. 7, 2011) (statement of Sen. Whitehouse) (“Administrative processes that should serve as an alternative to litigation also have broken down, resulting in further delay, cost, and confusion.”).

8. H.R. REP. NO. 112-98, pt. 1, at 60–61 (2011).

9. See United States Patent and Trademark Office, Report to Congress on Inter Partes Reexamination (2004), at 5 (documenting only 53 requests for *inter partes* reexamination over a five-year period ending in 2004); see also 157 CONG. REC. S1352 (daily ed. Mar. 8, 2011) (statement of Sen. Udall) (noting that *inter partes* reexamination was “intended to serve as a less-expensive alternative to courtroom litigation and provide additional access to the expertise of the Patent Office on questions of patentability,” but that the process “was not frequently used . . . because of procedural restrictions in the existing law”).

10. See 157 CONG. REC. S5374 (daily ed. Sept. 7, 2011) (statement of Sen. Whitehouse) (“The America Invents Act . . . will improve administrative processes so that disputes over patents can be resolved quickly and cheaply without patents being tied up for years in expensive litigation.”); 157 CONG. REC. S952 (daily ed. Feb. 28, 2011) (statement of Sen. Grassley) (“[T]he bill would improve the current *inter partes* administrative process for challenging the validity of a patent.”); see also *SAS Inst.*, 825 F.3d at 1359 (Newman, J., dissenting) (“[T]he legislative history is clear that the AIA *inter partes* review proceedings were designed to correct inadequacies plaguing [*inter partes* reexamination].”).

the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.<sup>11</sup>

In fact, the Board has seemingly adopted the view that it has essentially unfettered discretion to deny institution<sup>12</sup>—a view that reflects an evolution in the Board’s interpretation of Section 314(a).

#### A. Early Board Decisions Regarding Discretionary Denial

At the onset of the AIA, the Board appeared to view 35 U.S.C. § 314(a) as establishing the threshold standard for institution and nothing more.<sup>13</sup> While the Board recognized that this threshold standard allowed for some level of discretion,<sup>14</sup> there was little indication that the Board viewed this discretion as extending beyond the confines of the “reasonable likelihood” of success standard, let alone that this discretion was essentially without limit.<sup>15</sup>

The Board did, however, recognize its ability to exercise additional discretion based on other statutory authority. Specifically, the Board recognized that 35 U.S.C. § 325(d) allowed it to account for the cumulative or redundant nature of the art and arguments presented in the petition.<sup>16</sup> As the Board initially made clear, the cumulative/redundant

11. 35 U.S.C. § 314(a). The Board institutes trial on behalf of the Director. *See* 37 C.F.R. § 42.4(a).

12. The Board’s decision denying institution is technically limited by the Administrative Procedure Act—*e.g.*, such a decision cannot be arbitrary and capricious. 5 U.S.C. § 706. However, if Section 314(a) gives the Board discretion to identify new rationales for denying institution—*see infra* § ILC—then it is hard to imagine the Federal Circuit finding a discretionary denial to be arbitrary and capricious as long as the Board provides some “modest” notice. *See In re Power Integrations, Inc.*, 899 F.3d 1316, 1320 (Fed. Cir. 2018). Moreover, review of discretionary denials are all the more difficult because such arguments must be made in the rigorous mandamus framework. *See id.* at 1318–21.

13. *See* 77 Fed. Reg. 48755, 48765 (“In instituting the trial, the Board will consider whether or not a party has satisfied the relevant statutory institution standard.”); *see also, e.g.*, *Microsoft Corp. v. ProxyConn, Inc.*, No. IPR2012-00026, Paper 17 at 2 (P.T.A.B. Dec. 12, 2012) (“The standard for instituting an *inter partes* review is set forth in 35 U.S.C. § 314(a).”); *Chimei Innolux Corp. v. Semiconductor Energy Lab. Co., Ltd.*, No. IPR2013-00066, Paper 10 at 2 (P.T.A.B. Apr. 24, 2013) (same).

14. 77 Fed. Reg. 48755, 48765 (“The ‘reasonable likelihood’ standard is a somewhat flexible standard that allows the Board room to exercise judgment.”).

15. During the notice and comment rulemaking process for IPR regulations, the PTO did aver that the Board could decline to institute where the review could not be timely completed, noting egregious examples of where a petition “seeks review of several hundred claims based upon a thousand references,” or where “a patent owner demonstrates that a determination of patentability would require dozens of depositions of non-party controlled witnesses in foreign countries.” 77 Fed. Reg. 48680, 48702 (response to comment 57). However, the PTO did not contend that § 314(a) conferred this discretion, nor cite any other authority to support this position. *See id.* Nor did the PTO identify other situations in which the Board would have such discretion to deny institution of the “reasonable likelihood” standard for institution.

16. 35 U.S.C. § 325(d).

nature of the art and arguments presented was to be “part of its consideration” in determining whether the threshold reasonable likelihood of success standard had been met.<sup>17</sup>

*B. Increasing Reliance on Section 314(a) to Deny Institution*

Within a couple years, the Board began to look to Section 314(a) as a basis to deny petitions, independent of the reasonable likelihood standard. It appears this development may have been spurred by petitions imposing burdens on the Board that it regarded as unreasonable. For example, in the 2014 IPR *Zetec*, the Board was confronted with a petition asserting 127 grounds of unpatentability.<sup>18</sup> While in the 2012 *Liberty Mutual* CBMR the Board ordered the petitioner to choose subsets of 422 obviousness grounds to remain and then went on to institute on a subset of grounds,<sup>19</sup> the Board in *Zetec* instead looked to Section 314(a), noting that “[t]he standard for institution is written in permissive terms—identifying when the [Office] is authorized to institute an inter partes review. Thus, Congress has given the Office discretion whether to institute a review or not institute a review.”<sup>20</sup> The Board went on to deny institution based on this interpretation of Section 314(a).<sup>21</sup>

17. See 77 Fed. Reg. 48755, 48765 (“As part of its consideration, the Board may take into account whether the same or substantially the same prior art or arguments were previously presented to the Office under 35 U.S.C. § 325(d).”); see also *Amneal Pharm., LLC v. Supernus Pharm., Inc.*, No. IPR2013-00371, Paper 11 at 13 (P.T.A.B. Dec. 17, 2013) (“We decline the invitation [to exercise our discretion under § 325(d)], because we determine that Amneal has demonstrated a reasonable likelihood that the challenged claims are unpatentable.”).

18. *Zetec, Inc. v. Westinghouse Electric Co.*, No. IPR2014-00384, Paper 10 at 7–8 (P.T.A.B. July 23, 2014).

19. *Liberty Mutual Insurance Co. v. Progressive Casualty Insurance Co.*, No. CBM2012-00003, Paper 7 (P.T.A.B. Oct. 25, 2012); *Liberty Mutual Insurance Co. v. Progressive Casualty Insurance Co.*, No. CBM2012-00003, Paper 15 (P.T.A.B. Feb. 12, 2013).

20. *Zetec, Inc. v. Westinghouse Electric Co.*, No. IPR2014-00384, Paper 10 at 5 (P.T.A.B. July 23, 2014) (emphasis added).

21. *Id.* at 16. The Board also cited 37 C.F.R. § 42.108, which has three subsections. Subsection (a) provides that “[w]hen instituting inter partes review, the Board may authorize the review to proceed on all or some of the challenged claims and on all or some of the grounds of unpatentability asserted for each claim”; subsection (b) provides that “[a]t any time prior to institution of inter partes review, the Board may deny some or all grounds for unpatentability for some or all of the challenged claims”; and subsection (c) sets forth, *inter alia*, the “reasonable likelihood” standard of Section 314(a) and what the Board must take into account in applying this standard. 37 C.F.R. § 108. Thus, the only two subsections that speak to Board discretion are (a) and (b). However, subsection (a) (partial institution) was effectively struck down by the Supreme Court as not supported by the statutory text. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1354, 1360 (2018). It would seem that even if subsection (b) provided for Board discretion at the time of institution (as opposed to “prior to institution”), it would also necessarily fall if not supported by the text of the AIA. See *infra* n.40 and accompanying text.

As the Board began to increasingly apply discretionary denial unrelated to the “reasonable likelihood” standard for institution,<sup>22</sup> it seemingly found support from the Federal Circuit and the Supreme Court. In *Harmonic*, the Federal Circuit noted that “the PTO is permitted, but never compelled, to institute an IPR proceeding.”<sup>23</sup> Less than four months later, the Supreme Court in *Cuozzo* noted that “the agency’s decision to deny a petition is a matter committed to the Patent Office’s discretion.”<sup>24</sup> Both decisions based their conclusion solely on the text of Section 314(a).<sup>25</sup>

Two years later, the Supreme Court in *SAS* struck down partial institution.<sup>26</sup> In rejecting the Director’s argument that Section 314(a) affords the Board discretion to institute on fewer than all claims, the Court seemingly agreed with prior interpretations of the statute.<sup>27</sup> However, the decision also now meant that if the Board instituted, it would have to institute on all claims.<sup>28</sup> The PTO responded to the new potential for burdens on the Office by making clear that it would exercise its discretion to deny petitions under Section 314(a) in cases involving voluminous or excessive grounds, a low percentage of asserted

22. See, e.g., *HTC Corp. v. E-Watch, Inc.*, No. IPR2014-00987, Paper 10 at 2–3 (P.T.A.B. Jan. 7, 2015) (determining that under Section 314(a), the Board may deny grounds without substantive analysis); *NVIDIA Corp. v. Samsung Elecs. Co.*, No. IPR2016-00134, Paper 9 at 6–7 (P.T.A.B. May 4, 2016) (first setting forth factors for consideration in exercising discretion as to whether to institute).

23. *Harmonic Inc. v. Avid Technology, Inc.*, 815 F.3d 1356, 1367 (Fed. Cir. 2016).

24. *Cuozzo Speed Tech., LLC v. Lee*, 136 S. Ct. 2131, 2140 (2016). Notably, Justice Alito in his dissent questioned this interpretation of Section 314(a). See *infra* note 42.

25. See *Cuozzo*, 136 S. Ct. at 2140; *Harmonic*, 815 F.3d at 1367. The Supreme Court in *Cuozzo* also cited 5 U.S.C. §701(a)(2); however, that provision simply provides that the statutory section governing judicial review applies except to the extent that “agency action is committed to agency discretion by law.”

26. *SAS*, 138 S. Ct. at 1348.

27. *Id.* at 1356 (concluding that “while § 314(a) invests the Director with discretion on the question *whether* to institute review, it doesn’t follow that the statute affords him discretion regarding *what* claims that review will encompass”). Notably, the statements in *Harmonic*, *Cuozzo*, and *SAS* subsequently cited by the Board as supporting its interpretation of Section 314(a) are cursory, without any analysis on this issue other than citation to the text of Section 314(a). See *supra* note 25. Arguably, the Federal Circuit and Supreme Court viewed this discretion as limited to evaluation of the “reasonable likelihood” threshold for institution, or—in the pre-*SAS* cases of *Harmonic* and *Cuozzo*—as directed to discretion to partially institute a proceeding. In any event, because this authority all rests on the text of Section 314(a), it bears questioning whether the text of the statute truly supports this interpretation, as discussed *infra* in Section III.A.

28. *Id.* at 1354, 1360. Shortly after the *SAS* decision, the PTO issued its own guidance, confirming that the Board would thereafter “institute on all challenges raised in the petition or not institute at all (i.e., it will be a binary decision).” USPTO, *SAS Q&As* (June 5, 2018), [https://www.uspto.gov/sites/default/files/documents/sas\\_qas\\_20180605.pdf](https://www.uspto.gov/sites/default/files/documents/sas_qas_20180605.pdf).

claims or grounds that meet the “reasonable likelihood” threshold, or indefinite claims.<sup>29</sup>

### C. Current Landscape of Discretionary Denials

Since *SAS*, the Board has not only followed through on this guidance, but has also identified additional situations in which it may deny a petition under Section 314(a) even where there is a reasonable likelihood of success as to at least one of the challenged claims.<sup>30</sup> For example, in *Biofrontera*, the Board determined that the petitioner had “established a reasonable likelihood of success on only 1 of 8 grounds,” which included the “sole independent claim” and two additional claims.<sup>31</sup> Despite recognizing that the petitioner had “met the statutory threshold for institution under 35 U.S.C. § 314(a),” the Board declined institution.<sup>32</sup> Similarly, in *Deeper*, the petitioner challenged twenty-three claims under four asserted grounds but “demonstrate[d] a reasonable likelihood of prevailing with respect to only two claims on one asserted ground.”<sup>33</sup> For this reason, the Board declined institution, reasoning that it “would not be an efficient use of the Board’s time and resources” to institute IPR.<sup>34</sup>

Other contexts in which the Board has exercised its ability to decline institution include situations in which a petitioner files multiple petitions that do not meet certain criteria,<sup>35</sup> where the petitioner—or even a co-defendant or supplier of the petitioner—has already filed a

29. See *SAS Q&As*, *supra* note 28.

30. *Biofrontera Inc. v. DUSA Pharms.*, No. IPR2018-01585, Paper 10 at 14–15 (P.T.A.B. Feb. 26, 2019); *Deeper, UAB v. Vexilar, Inc.*, No. IPR2018-01310, Paper 7 at 41–43 (P.T.A.B. Jan. 24, 2019) (designated informative); *Chevron Oronite Co. LLC v. Infineum USA L.P.*, No. IPR2018-00923, Paper 9 at 10–11 (P.T.A.B. Nov. 7, 2018); see also USPTO, Consolidated Trial Practice Guide at 58 (Nov. 2019), [https://www.uspto.gov/sites/default/files/documents/tpgnov.pdf?MURL=\(recognizing that there may be reasons that favor “denying a petition even though some claims meet the threshold standards for institution”\) \[hereinafter “2019 Trial Practice Guide”\]](https://www.uspto.gov/sites/default/files/documents/tpgnov.pdf?MURL=(recognizing%20that%20there%20may%20be%20reasons%20that%20favor%20denying%20a%20petition%20even%20though%20some%20claims%20meet%20the%20threshold%20standards%20for%20institution)).

31. *Biofrontera Inc. v. DUSA Pharms.*, No. IPR2018-01585, Paper 10 at 14 (P.T.A.B. Feb. 26, 2019)

32. *Id.*

33. *Deeper, UAB v. Vexilar, Inc.*, No. IPR2018-01310, Paper 7 at 42–43 (P.T.A.B. Jan. 24, 2019).

34. *Id.* at 43; see also *Biofrontera Inc. v. DUSA Pharms.*, No. IPR2018-01585, Paper 10 at 15 (P.T.A.B. Feb. 26, 2019) (“[T]his case presents a clear instance where the benefits of holding a trial to resolve the challenges having a reasonable likelihood would be overwhelmed by the burden of addressing the challenges having no reasonable likelihood.”).

35. See 2019 Trial Practice Guide, *supra* note 30, at 59 (“[O]ne petition should be sufficient to challenge the claims of a patent in most situations.”).



petition,<sup>36</sup> or where a related district court litigation is in an advanced stage relative to the IPR.<sup>37</sup> Thus, the Board has seemingly evolved from exercising discretionary denial where a petition presents voluminous, excessive, or previously considered grounds, to additional areas unrelated to the merits of the petition. Indeed, it appears that the Board considers its discretion to deny institution under Section 314(a) to be virtually limitless.<sup>38</sup>

### III. IS THIS WHAT CONGRESS INTENDED?

The Board's position that Section 314(a) gives it complete discretion to deny institution raises several questions. Is such an expansive view of discretionary denial supported by the plain language of the statute, and is it consistent with other statutes governing IPR? Does it find support in the legislative history? What practical implications does it have for parties and practitioners?

#### A. Statutory Text

It would seem that the Board's expansive view of its discretion to deny institution has, at best, tenuous support in the text of § 314(a). Indeed, nothing in the statute states that the Board has discretion to deny institution where the petition otherwise meets the threshold criteria for institution.<sup>39</sup> Just as the Supreme Court rejected the notion

36. See, e.g., *General Plastic Industrial Co. v. Canon Kabushiki Kaisha*, No. IPR2016-01357, Paper 19 (P.T.A.B. Sept. 6, 2017) (precedential); *Valve Corp. v. Elec. Scripting Prods., Inc.*, No. IPR2019-00062, Paper 11 (P.T.A.B. Apr. 2, 2019) (precedential); *PayPal, Inc. v. IOENGINE, LLC*, No. IPR2019-00884, Paper 22 (P.T.A.B. Oct. 3, 2019).

37. *Thermo Fisher Sci., Inc. v. The Regents of the Univ. of California*, No. IPR2018-01370, Paper 11 at 25–27 (P.T.A.B. Feb. 7, 2019); *NHK Spring Co. v. Intri-Plex*, No. IPR2018-00752, Paper 8 at 19–20 (P.T.A.B. Sept. 12, 2018) (precedential); *NetApp, Inc. v. Realtime Data LLC*, No. IPR2017-01195, Paper 9 at 8–13 (P.T.A.B. Oct. 12, 2017); see also Jasper Tran *et al.*, *Discretionary Denials of IPR Institution*, 19 CHICAGO-KENT J. INTELL. PROP. 253 (2019) (summarizing *NHK* and similar decisions).

38. See, e.g., 2019 Trial Practice Guide, *supra* note 30, at 55 (“In deciding whether to institute the trial, the Board considers *at a minimum* whether or not a party has satisfied the relevant statutory institution standard.”) (emphasis added); *id.* at 58 (“[P]arties may wish to address in their submissions whether *any other such reasons* exist in their case that may give rise to additional factors that may bear on the Board’s discretionary decision to institute or not institute.”) (emphasis added); *General Plastic*, No. IPR2016-01357, Paper 19 at 19 (precedential) (“We also do not agree that the legislative history indicates an intent to limit discretion under § 314(a).”).

39. See *Cuozzo Speed Tech., LLC v. Lee*, 136 S. Ct. 2131, 2140 (2016) (starting with what the statute “expressly states” in its interpretive analysis); *Univ. of Texas Sw. Med. Ctr. v. Nassar*, 570 U.S. 338, 353 (2013) (“Congress’ choice of words is presumed to be deliberate.”); *United States v. Ron Pair Enter., Inc.*, 489 U.S. 235, 240–241 (1989) (“[A]s long as the statutory scheme is coherent and consistent, there generally is no need for a court to inquire beyond the plain language of the statute.”).

that the Board had discretion to partially institute based on lack of a clear statutory mandate, so too would that logic appear to apply here.<sup>40</sup> This is particularly so where the legislative history underscores that Congress wanted to fix the problem of infrequent use of *inter partes* reexaminations.<sup>41</sup> If the goal was to increase the use of an administrative alternative to litigation, it would seem unfettered discretion to deny institution runs counter to this goal, and thus Congress would have been explicit if it intended to confer such unbounded discretion.<sup>42</sup> While the text of Section 314(a) provides room for the Board to exercise judgment, that judgment appears confined to the “reasonable likelihood” of success standard.<sup>43</sup>

Moreover, the Board’s expansive view of its discretion to deny institution under Section 314(a) also seems to render superfluous Section 325(d),<sup>44</sup> which expressly states that the Board “may take into account whether, and reject the petition or request because, the same or substantially the same prior art or arguments previously were presented to the Office.”<sup>45</sup> If Congress intended Section 314(a) to provide the Board with unfettered discretion to deny institution, Section 325(d) would be unnecessary, as the Board could already account for the same prior art/arguments previously presented to the Office through Section 314(a).<sup>46</sup>

40. *Cf. SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 13545 (2018) (“In the Director’s view, he retains discretion to decide which claims make it into an inter partes review and which don’t. The trouble is, nothing in the statute says anything like that. The Director’s claimed ‘partial institution’ power appears nowhere in the text of § 318, or anywhere else in the statute for that matter.”).

41. *Supra* notes 7–10 and accompanying text.

42. *See Cuozzo*, 136 S. Ct. at 2153 (Alito, J., dissenting) (“I agree that one can infer from the statutory scheme that the Patent Office has discretion to deny inter partes review even if a challenger satisfies the threshold requirements for review. But the law does not say so directly and Congress may not have thought the point self-evident.”).

43. 77 Fed. Reg. 48755, 48765 (“The ‘reasonable likelihood’ standard is a somewhat flexible standard that allows the Board room to exercise judgment.”).

44. *See, e.g., Cuozzo*, 136 S. Ct. at 2140 (rejecting a statutory interpretation that rendered § 314(d) “superfluous”); *SAS*, 138 S. Ct. at 1355 (accounting for a “closely related statute” in its statutory interpretation analysis).

45. 35 U.S.C. § 325(d); *see also* 77 Fed. Reg. 48755, 48765.

46. The Board rejected this argument in its *General Plastic* precedential opinion, reasoning that the use of the word “may” in Section 325(d) “manifest[ed] the discretionary nature of application” of that subsection, thus indicating that “§ 325(d) is not intended to be the sole factor in the exercise of discretion under § 314(a).” *General Plastic Industrial Co. v. Canon Kabushiki Kaisha*, No. IPR2016-01357, Paper 19 at 19 (P.T.A.B. Sept. 6, 2017) Again, however, Section 325(d) does not state that it is setting forth criteria to be considered by the Board in exercising some separately conferred discretion. It thus is debatable whether the Board’s analysis fully confronts the issue of why a statute setting forth particular circumstances in which institution may be denied would be necessary if another statute provides unfettered discretion to deny institution.

### B. Legislative Record

As discussed above, the legislative history of the AIA evidences Congress' intent to make IPRs more desirable than *inter partes* reexaminations as an alternative to litigation on questions of validity.<sup>47</sup> As such, it would appear reasonable to interpret Section 314(a) as setting forth the specific threshold for institution, with the presumption that if this threshold is met, trial would be instituted. Nothing in the legislative history reflects an intent that the Board have unfettered discretion to deny institution.

This is not to say that Congress was unaware of the concern that high institution rates may tax the Board's resources. In fact, Congress specifically contemplated that regulations implementing IPRs might include "a safety valve that allows the Office to decline to institute further proceedings if a high volume of pending proceedings threatens the Office's ability to timely complete all proceedings."<sup>48</sup> However, Congress made clear that if the Board were to implement this regulation and reject a petition on this basis, "rather than on the basis of a failure to satisfy the substantive standards of the threshold[] in section 314 . . . , it is expected that the Office will make this fact clear when rejecting the petition" so as not to prejudice the petitioner's ability to bring similar invalidity arguments in other tribunals.<sup>49</sup>

As with Section 325(d), the contemplated "safety valve" evidences that Congress had specific instances in mind of when the Board might have discretion to turn away a petitioner who otherwise satisfies the statutory criteria for institution. Even then, Congress indicated expectations for what the Board would say in exercising this discretion, so as not to deter petitioners from using IPRs.<sup>50</sup> This further suggests that if Congress intended the Board to have unfettered discretion to deny institution, it would have made this known.<sup>51</sup> And in any event, the Board

47. *Supra* notes 7–10 and accompanying text.

48. 157 Cong. Rec. S1377 (daily ed. Mar. 8, 2011).

49. *Id.* Congress also included within the AIA a provision allowing the Director to place a limit on the number of IPRs that would be instituted in the first four years the proceedings were in effect. *Id.* at S1376-77. As with the safety valve, Congress indicated that if the Office were to reject a petition on this basis, it would make this clear. *Id.* at S1377. This was to prevent a "challenger with strong invalidity arguments" from being "deterred from using *inter partes* or post-grant review by fear that his petition might be rejected" on the basis of procedure, yet have that "fact of the rejection . . . be employed by the patent owner in civil litigation to suggest that the experts at the Patent Office found no merit in the challenger's arguments".

50. *Id.* at S1376-77.

51. The Board rejected this argument in *General Plastic*, determining that the legislative history "does not limit the exercise of discretion under 35 U.S.C. § 314(a) to only circumstances in

never enacted a regulation establishing a “safety valve,”<sup>52</sup> and has not denied institution on this basis; rather, the Board has pointed to general concerns regarding efficiency as supporting discretionary denial.<sup>53</sup>

### C. Practical Implications

The Board’s reading of Section 314(a) as providing unfettered discretion has significant practical implications for parties in light of some of the characteristics of IPRs. For example, IPR regulations and case law require a petitioner to set forth its entire invalidity case with respect to patents and printed publications.<sup>54</sup> This encompasses considerable effort and expense.<sup>55</sup> Thus, initiating an IPR comes with high stakes, and if there is a tangible threat of discretionary denial apart from the merits, this may increasingly counsel petitioners against availing themselves of this administrative substitute.<sup>56</sup>

In addition, petitioners subject to discretionary denial have essentially no recourse because the determination of whether to institute an IPR is “final and nonappealable.”<sup>57</sup> While decisions *to institute* that fall outside the Board’s statutory limits, implicate due process concerns, or otherwise involve “shenanigans” may nonetheless be reviewable,<sup>58</sup> no such guardrails exist for discretionary *denials* because the Board could

which there is a high volume of pending proceedings.” *General Plastic*, No. IPR2016-01357, Paper 19 at 19. In support, the Board cited the page of the Congressional Record discussing the safety valve. *Id.* However, the only other discussion of institution denial on that page is in reference to the contemplated potential limits on IPRs within the first four years of the proceeding. See 157 CON. REC., *supra*, note 49, at S1376-77. It is thus questionable whether this part of the Congressional Record supports a reading of Section 314(a) as providing unfettered discretion to deny institution.

52. See 77 Fed. Reg., *supra* note 15, at 48702.

53. See, e.g., *Biofrontera Inc. v. DUSA Pharms.*, No. IPR2018-01585, Paper 10 at 15 (P.T.A.B. Feb. 26, 2019); *Deeper, UAB v. Vexilar, Inc.*, No. IPR2018-01310, Paper 7 at 43 (P.T.A.B. Jan. 24, 2019) (designated informative); *Chevron Oronite Co. LLC v. Infineum USA L.P.*, No. IPR2018-00923, Paper 9 at 10–11 (P.T.A.B. Nov. 7, 2018)

54. See, e.g., 35 U.S.C. § 312(a)(3); *Intelligent Bio-Systems, Inc. v. Illumina Cambridge, Ltd.*, 821 F.3d 1359, 1369 (Fed. Cir. 2016) (“It is of the utmost importance that petitioners in the IPR proceedings adhere to the requirement that the initial petition identify ‘with particularity’ the ‘evidence that supports the grounds for the challenge to each claim.’”) (quoting 35 U.S.C. § 312(a)(3)); *Kingston Tech. Co. v. Imation Corp.*, No. IPR2015-00066, Paper 19 at 27–28 (P.T.A.B. Mar. 24, 2016) (“[T]he Petition must contain the argument and evidence necessary to support Petitioner’s case.”).

55. See *Am. Intellectual Prop. Law Ass’n Law Practice Mgmt. Comm., Report of the Economic Survey*, 52 (2019) (estimating petition preparation costs of approximately \$100,000).

56. It is possible that the downturn in IPR filings in 2019 is in part attributable to concerns over discretionary denial. See *2019 Year in Review*, DOCKET NAVIGATOR, 2 (representing that the number of new filings at the PTAB dropped 23% in 2019).

57. 35 U.S.C. § 314(d).

58. *Cuozzo Speed Tech., LLC v. Lee*, 136 S. Ct. 2131, 2141-42 (2016).

always simply invoke its discretion under Section 314(a).<sup>59</sup> Again, such unfettered discretion may increasingly deter petitioners from pursuing this avenue of challenging patents.

#### CONCLUSION

There are legitimate reasons for affording the Board some level of discretion in determining whether to institute review. If the Board were consistently faced with voluminous challenges, it may become quickly overburdened, and patent owners may be prejudiced by having to defend repeated challenges. Indeed, it appears the Board has been conscientious about balancing these competing interests.<sup>60</sup>

However, the legislative history indicates that Congress was well aware of these concerns, and identified multiple ways of addressing them—including Section 312(a)(3) (requiring petitioners to set forth their grounds and evidence with particularity); Section 325(d) (permitting the Board to deny institution where the same or substantially the same prior art or arguments were presented to the Office); and potential regulations incorporating a safety valve. If additional discretion is warranted, it should come from Congress, not an interpretation of Section 314(a) that provides unfettered discretion to deny institution. Such an interpretation does not appear to be supported by the text of the statute, seems at odds with the legislative history of the AIA, and is threatening to undermine Congress' intent of removing barriers to administrative alternatives to litigation.

59. *See supra* note 12.

60. *See, e.g.*, *Nautilus Hyosung Inc. v. Diebold, Inc.*, No. IPR2017-00426, Paper 17 at 11 [P.T.A.B. June 22, 2017] (“We do not take lightly denying a petition on grounds unrelated to its substantive patentability challenges. Rather, in determining whether to exercise our discretion to deny institution under 35 U.S.C. § 314(a), we seek to balance the equities between the parties, including Petitioner’s desire to be heard against Patent Owner’s interest in avoiding harassment.”).